AVERTING DIFFICULTIES

2021 ANNUAL REPORT

LT GROUP, INC.

LT Group, Inc. Logo
Strength and solidarity. This is the essence of the LT Group, Inc. (LTG) logo. The clean balanced lines and curves are central elements – a mystical symmetrical tree. Drawn in an Eastern-Oriental style, it gives hint to the Company's Chinese heritage.

Tree is life. Life is growth. Like a tree, a company with firm roots, properly nurtured, will continuously grow and give value.

The tree's trunk is upright, and the branches spread out – a symbolic consolidation of the subsidiaries and stakeholders within two circles, one for continuity, the other one for solidarity.

VISION

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

MISSION

Anchored to its Vision, the LT Group commits:

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

(The Vision and Mission Statements are reviewed and approved annually by the Board of Directors. The latest reviews were on February 7, 2021 and February 8, 2022.)

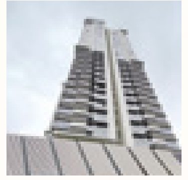
CONTENTS

OUR COVER

2021 was a hazy and rocky path for the LT Group. It left them with bumps and bruises, but never discouraged to continue on with their business and take forward steps despite the uncertainties.

AVERTING DIFFICULTIES

2021 ANNUAL REPORT LT GROUP, INC.



FINANCIAL SUMMARY

REVENUES
in Php Millions

2021	91,173
2020	94,428
2019	94,151

TOTAL ASSETS
in Php Millions

2021	1,311,836
2020	1,353,122
2019	1,265,831

NET INCOME
in Php Millions

2021	20,861
2020	22,326
2019	27,566

TOTAL LIABILITIES
in Php Millions

2021	1,048,300
2020	1,097,584
2019	1,011,823

EBITDA
in Php Millions

2021	33,368
2020	27,606
2019	36,830

TOTAL EQUITY
in Php Millions

2021	263,536
2020	255,538
2019	254,008

PER SHARE DATA
in Php, except Pay-out Rate

	2021	2020	2019
Earnings per Share	1.87	1.94	2.14
Book Value per Share (at year-end)	17.56	17.13	17.27
Cash Dividend	1.08	0.81	0.30
Pay-out Rate	55.59%	37.91%	20.04%

RATIO

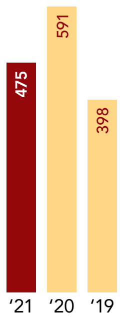
	2021	2020	2019
Current Ratio	0.70	0.72	0.60
Current Ratio (w/o PNB)	3.28	2.82	2.36
Debt to Equity Ratio	3.98	4.30	3.98
Debt to Equity Ratio (w/o PNB)	0.15	0.16	0.17
Return on Average Assets	1.5%	1.6%	1.6%
Return on Average Equity	10.8%	11.3%	10.1%

OUR BUSINESSES AT A GLANCE

ASIA BREWERY INCORPORATED

99.9%
OWNERSHIP

Asia Brewery, Inc.
started as a brewery in 1982. It also offers non-alcoholic beverages as well as packaging materials. It is a market leader in the energy drinks and soymilk categories. It is ranked second in the bottled water segment.

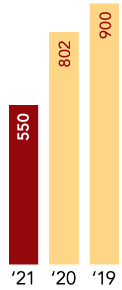


Net Income
in Php Millions

ETON
Eton Properties Philippines, Inc.

99.6%
OWNERSHIP

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

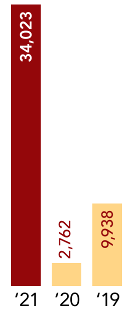


Net Income
in Php Millions

PNB

56.47%
OWNERSHIP

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

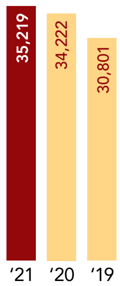


Net Income
in Php Millions

pmftc

49.6%
OWNERSHIP

PMFTC Inc.
is the business combination of Philip Morris Philippines Manufacturing Inc. and Fortune Tobacco, Inc.
It is the leading cigarette manufacturer in the Philippines.

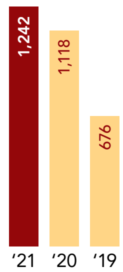


Net Income
in Php Millions

TANDUAY Distillers, Inc.

100%
OWNERSHIP

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



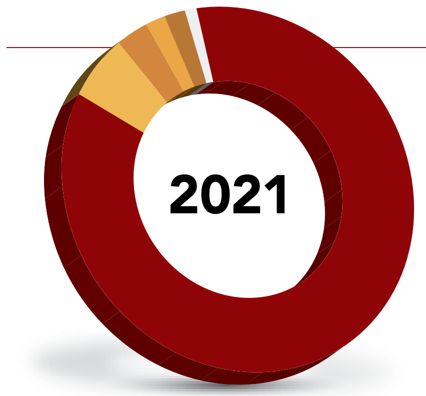
Net Income
in Php Millions

30.9%
OWNERSHIP

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

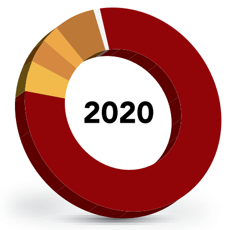
Net Income
in Php Millions
Note: For crop years September to August

Attributable Net Income Contribution to LTG
in Php Millions

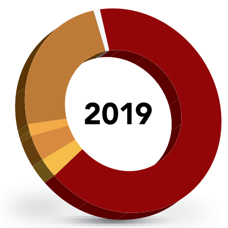


		% to total
TOBACCO	17,433	86%
DISTILLED SPIRITS	1,238	6%
PROPERTY DEVELOPMENT	548	3%
BEVERAGE	475	2%
BANKING	308	2%
VMC	258	1%
OTHERS	(14)	0%
TOTAL	**20,246**	**100%**

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



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



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

Our Partnerships

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

Currently, the Company imports yogurt from Spain and distributes it in the Philippine market under the Pascual brand. Different variants cater to a wide array of customers, from Original, Non-fat, Thick and Creamy to Greek Style. Pascual Yogurt reported a value growth of 6% in 2021, with a nationwide market share of 34%. It is the leader in convenience stores with an 83% market share and has a 50% share in the Mindanao region.

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

The year 2021 proved to be the start for AB Pascual's transformation into a robust JV company with a dairy portfolio that offers high-quality, healthy, and affordable products for all Filipinos.

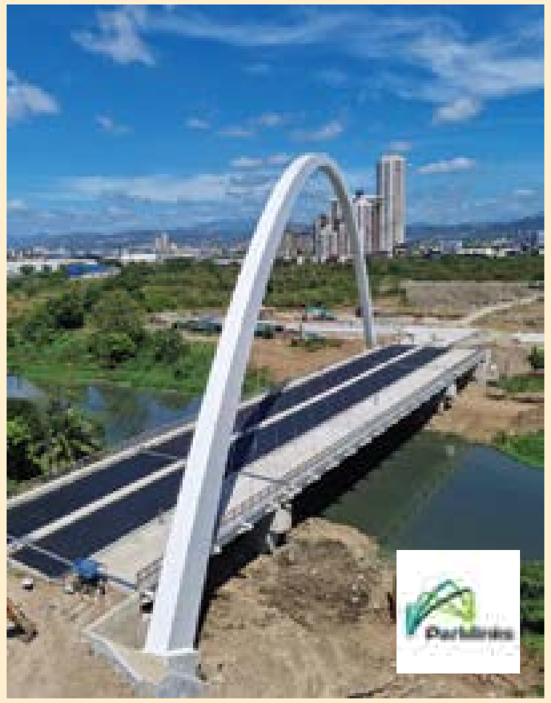
ALI-Eton
Property Development Corporation

In 2018, a 50-50 joint venture between Ayala Land, Inc. and the LT Group, Inc. was formed to develop Parklinks, a 35-hectare mixed-use estate along the C-5 corridor. Parklinks is envisioned to be the greenest urban estate in Metro Manila, with 50% of the area devoted to open spaces.

Straddling Pasig City and Quezon City, Parklinks will feature an iconic bridge that will connect the two cities over the Marikina River, offering a new route for motorists and easing vehicular traffic in the eastern and northeastern portions of Metro Manila. The new bridge is set to be completed in the second quarter of 2022.

Also underway is the construction of three residential buildings, Parklinks North and South Towers and The Lattice.

Parklinks will soon feature parks that allow for outdoor activities by the riverside, making it the new lifestyle destination in the area.



Allianz PNB
LIFE INSURANCE

Allianz PNB Life Insurance, Inc. is a joint venture between global insurance leader Allianz SE, and local banking giant, the Philippine National Bank (PNB). Back in 2016, Allianz SE acquired 51% of PNB Life, the life insurance arm of Filipino banking giant PNB. As a joint venture between local and global industry leaders, Allianz PNB Life Insurance, Inc. shares its parent companies' reputation of authenticity, stellar-quality standards, and values.

In 2021, Allianz was recognized as the world's #1 insurance brand for its third consecutive year, in Interbrand's prestigious Best Global Brands ranking. It was also named the world's leading sustainable insurer, earning 93 points on the Dow Jones Sustainability Index, more than doubling the average sector score of 40.

Allianz PNB Life's wide range of products addresses the varying needs of its customers, from securing their health to protecting their future. Among these are Allianz Well!, a health plan that supplements insurance features with value-added wellness and lifestyle services and benefits, and Allianz Shield, a combined insurance and investment plan that provides life insurance protection while giving policy owners the chance to grow their funds and the flexibility as they take charge of their future.

Allianz PNB Life products are primarily distributed through PNB's over 700 branches and Allianz agency partners nationwide, with a total of more than 2,000 agents and financial advisors, collectively known as Life Changers. They responded to the pandemic by fast-tracking and by strengthening their digital capabilities, to provide better customer and distributor experience, through e-applications, e-policies, e-notices, and e-learning. This continuing digitalization aims to streamline the processes as they pursue their commitment to sustainability.

In terms of community improvement and environmental protection, its Allianz Ride Safe program paved the way for the country's first solar-powered, fully equipped bicycle pit stop in San Juan, and the open-air BikeYard park in Bonifacio Global City—which were both patterned after the Allianz Formula 1 pit stops. Allianz PNB Life also launched four history-inspired art installations that also function as bike racks namely Alon, Kalesa, Maya, and Tabak, all placed in strategic locations within the City of Manila. To further address the protection gap in the country, Allianz PNB Life provided free insurance policies to frontline workers of the city.

pmftc

PMFTC Inc. (PMFTC) is the business combination between Philip Morris Philippines Manufacturing Inc. and Fortune Tobacco Corporation, a 99.6%-owned subsidiary of LT Group, Inc. It continues to be the leading cigarette manufacturer in the Philippines, with a market share of 62.0% in 2021. PMFTC manufactures 6 out of the top 10 brands available in the market today led by Marlboro, the world's number one cigarette brand, and Fortune, one of the largest heritage home-grown brands in the Philippines.

MESSAGE FROM THE CHAIRMAN

"Despite the emergence of more contagious COVID-19 variants and further lockdowns, your Company still performed beyond expectations."

— LUCIO C. TAN

Dear Shareholders,

An organization's success cannot be measured by financial performance alone. In a crisis or difficult business environment like in the past two years, a company's success is also measured by its ability to adapt and avert difficulties.

Using this yardstick, 2021 was still remarkable for LT Group, Inc. Despite the emergence of more contagious COVID-19 variants and further lockdowns, your Company still performed beyond expectations.

While we wish we could have done better, our Group faced some unprecedented challenges, but effectively managed them. Thus, by the end of the fiscal year 2021, our net income was only slightly lower than the previous year.

I'm confident that years of experience and learnings will help us steer the Company better moving forward. However, continuing threats like the illicit tobacco trade are still serious challenges we must overcome—with the help of the government and our partners.

Prospects for the coming quarters are strong as we see business slowly returning to pre-pandemic levels. Overall, we expect business to improve in the short-to-medium term, driven by the economic reopening and resurgence of business activities after two years of slowdown.

With the continuing trust and support of our shareholders, a strong balance sheet, and thousands of employees eager to return to work, we remain excited for the Company's future in an improving global and local business environment.

To our board of directors, stockholders, management, and staff, I thank you most sincerely for your hard work and dedication. With your help, I'm confident we can recover lost ground while continuing our mission to improve lives and make a difference in our communities and, hopefully, the world.

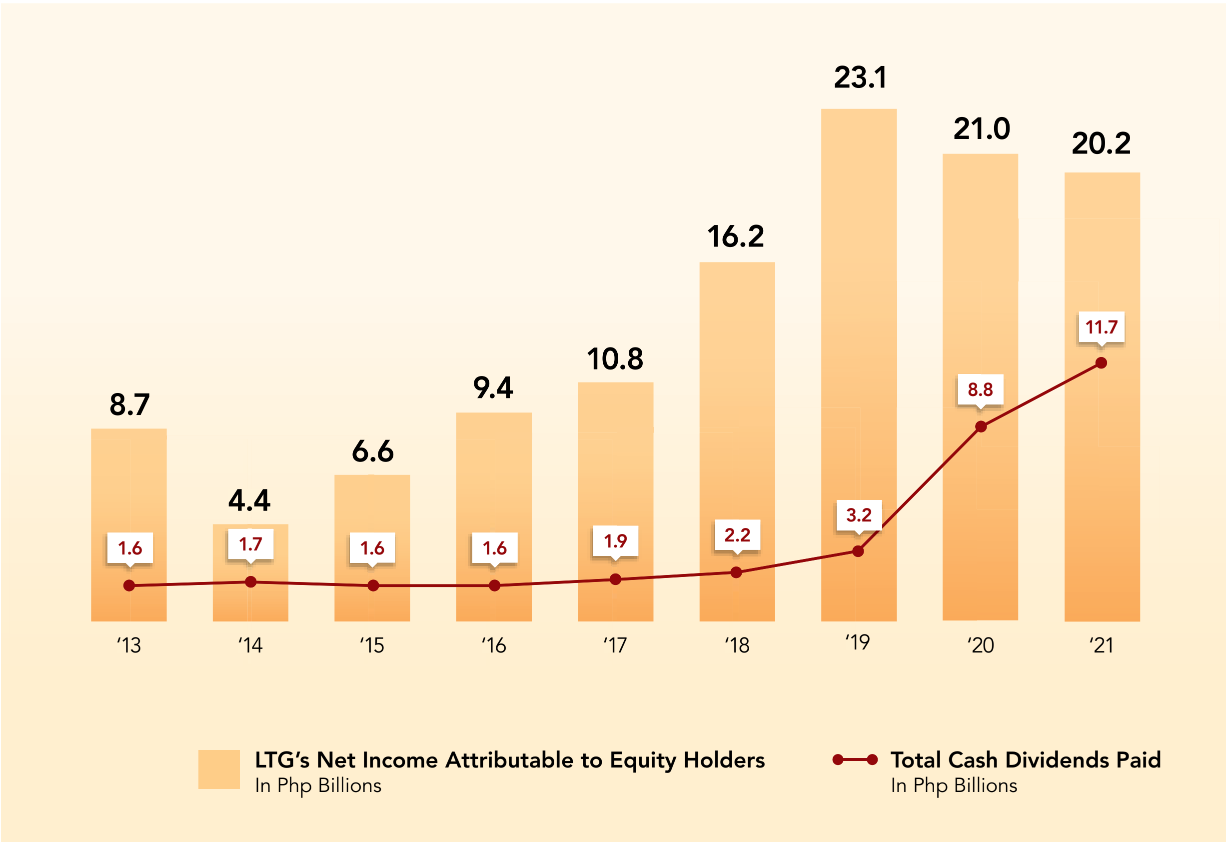
Dr. Lucio C. Tan
Chairman

Message from the President

The year 2021 was difficult as the COVID-19 pandemic entered its second year. Although Gross Domestic Product (GDP) grew by 5.7% in 2021, a reversal from the 9.5% contraction in 2020, and due to the low base, Filipinos still had to contend with some forms of lockdowns and businesses still suffered—as most of the people's movements remained restricted.

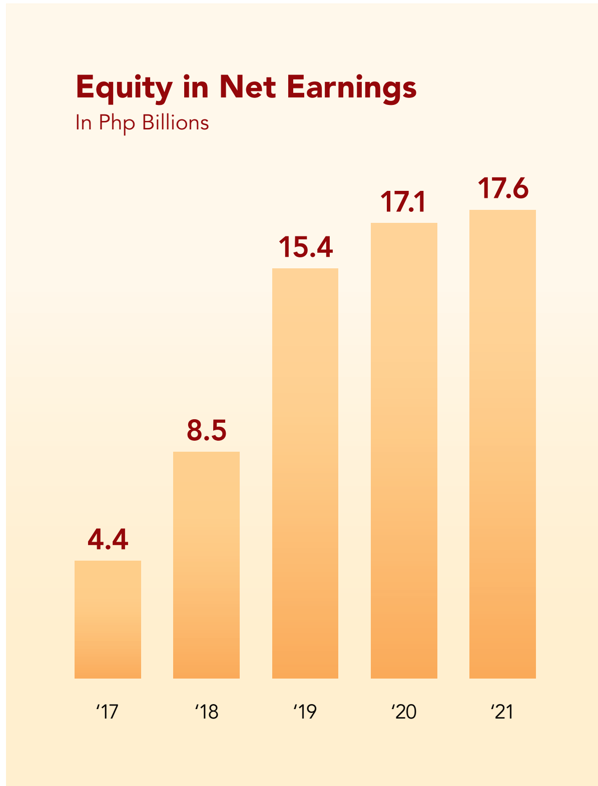
When the vaccines procured by the private sector, your Company included, started arriving in mid-July, this brought hope that our economy could open up faster as this would speed up the vaccination of the working population. The private sector's purchases were meant to augment the supply of vaccines donated through the World Health Organization's (WHO) COVID-19 Vaccines Global Access (COVAX) Facility and those ordered by the Philippine Government as the priority were medical frontliners and senior citizens.

Since our Initial Public Offering in 2013, the largest at that time, raising a net of Php37.7 billion, the Company has been through ups and downs over the past nine years. To date, the biggest challenge was the illicit trade in tobacco from 2014 up to 2016, and the COVID-19 pandemic follows closely. It was through hard work, cooperation, and a strong financial position built through the years that your Company was successful in **Averting Difficulties** in 2021. We did not emerge unscathed, but overall, we managed to end 2021 with a net income attributable to equity holders of Php20.2 billion, 3.7% lower than 2020 and 12.4% lower than 2019.



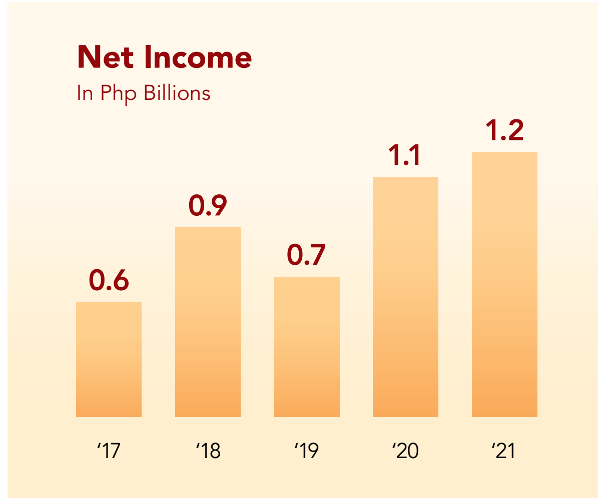
Dividends declared in 2021 were at an all-time high. Through a series of special cash dividends, LTG paid out Php1.08 per share or Php11.7 billion, equivalent to a 56% pay-out rate. With the recovery of the tobacco business over the past years, which is the primary source of LTG's cash flow, the Company has been able to declare more and more dividends. From Php0.15 per share or a total of Php1.6 billion in 2013, the IPO year, this has steadily increased to the Php1.08 per share in 2021. Since 2013, LTG has paid out dividends of Php3.38 per share or a total of Php36.6 billion.

PMFTC Inc. continues to account for the bulk of earnings at 86%, the source of cash flow



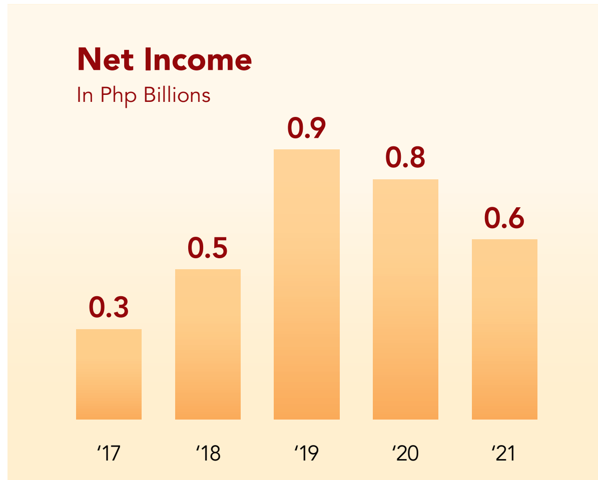
The pandemic which affected the purchasing power of consumers also affected the demand for tobacco products. This caused customers of mid-priced tobacco products to trade down to cheaper brands, to continue paying the same price after the recommended retail price was raised by Php1.00 per stick in the fourth quarter of 2020. As the competitor's low-end brand was more popular than ours, the customers' shift resulted in the decline in our market share to 62.0% from 67.2% the previous year. The industry's volume declined by 10.8% in 2021, while we experienced a higher decrease in our volume by 17.6%. On the brighter side, however, some customers of mid-priced *Fortune* traded up to premium *Marlboro* and increased the brand's share to 70% of our volume from 62% in 2020, enabling us to report a 3% increase in our equity in net earnings.

Tanduay Distillers, Inc.'s (TDI) liquor volume was slightly down, but price increase and lower marketing expenses resulted in higher earnings



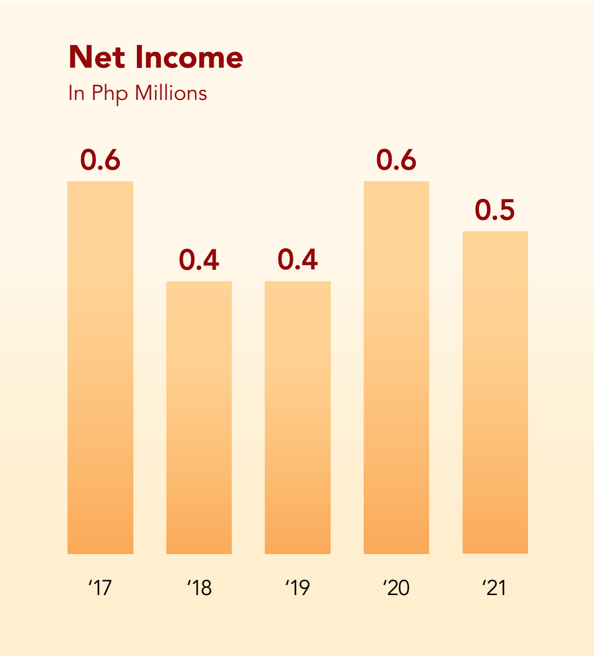
TDI reported earnings that were 11.1% higher year-on-year (y-o-y) despite the slight decline in liquor volume. While bioethanol volume was almost double, lower selling prices translated into lower margins. However, lower marketing expenses enabled TDI to post a growth in earnings, contributing Php1.24 billion to LTG's attributable net income or 6% of the total.

Eton Properties Philippines, Inc. (Eton) affected by lower occupancy rates for both office and retail portfolio



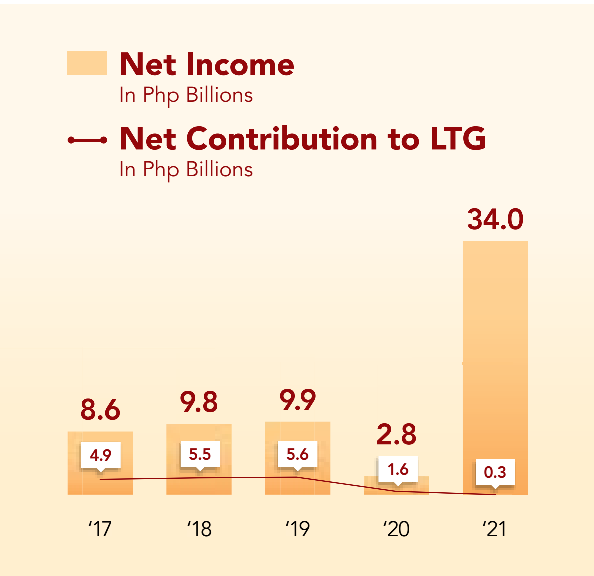
Eton reported a 31% drop in net income in 2021, due to lower occupancy rates for its leasing portfolio. As of the end of 2021, the average occupancy of office buildings was 70% while the average for retail spaces was 58%. Eton was hit by work-from-home arrangements of employees, the closure of some businesses and the shift of consumers to more online shopping. Eton accounted for Php548 million or 3% of LTG's attributable net income.

Asia Brewery, Inc. (ABI) sales volumes continued to be affected by fewer people reporting for work in offices due to the pandemic



While Cobra energy drink sales volume has recovered to pre-pandemic levels, sales of Absolute and Summit bottled water and Vitamilk soymilk continued to be affected especially in convenience stores, as fewer people still reported for work in their offices and most continued to work from home. As a result, ABI's net income was 19.6% lower y-o-y, and contributed Php475 million or 2% to LTG attributable net income.

Philippine National Bank's (PNB) contribution to LTG was pulled down by lower interest income, trading and forex gains



PNB reported a record income of Php34.0 billion in 2021 under the pooling method, largely due to a Php33.4 billion gain from the transfer of real estate assets into PNB Holdings Corporation wherein 51% was subsequently declared as a property dividend. However, as that gain was eliminated at the LTG consolidated level, this brought PNB's net income contribution to LTG to Php308 million in 2021 or 2% of LTG's total attributable net income.

The Bank's net interest income was 3% lower than the previous year, and trading and foreign exchange gains were also lower by 65%. Net service fees and commission income were 43% higher. Operating expenses were 18% lower as the Bank booked lower provisions for credit losses at Php10.7 billion in 2021, compared to Php16.9 billion in 2020.

In 2021, the Bank continued to operate in a difficult environment with the pandemic—necessitating the bank to be more selective with its lending business.

Better outlook for 2022, although Typhoon Odette and the war in Ukraine threw stumbling blocks early on

Typhoon Odette in late December 2021 devastated parts of the Visayas and Mindanao and left many areas without power and water for weeks. The full impact of the destruction wrought by the typhoon on the economy will be felt in 2022.

Moreover, the war in Ukraine that started on February 24 has caused oil prices, already on the upswing given higher global demand, to surge even more. This has brought about higher manufacturing, distribution, and transportation costs, with inflation expected to breach the government's original target of 2% to 4% for 2022.

The May 9, 2022 elections and the expected smooth transition of power by June 30 should be a cause for further optimism moving forward.

Overall, 2022 should be a better year than 2021 with the economy opening up as more and more people get vaccinated. Go Negosyo estimated in early April 2022 that 72.6% of the entire Philippines had been vaccinated, with over 104.3% for the National Capital Region (NCR). The over 100% vaccination rate is due to residents from other areas opting to get vaccinated in NCR. However, the number of people opting to get boosters remains low at only 12.9% for the national average.

The opening up of the economy means that the purchasing power for consumers will improve which bodes well for our different businesses, as demand should recover. PMFTC's price increase in late March 2022 may translate to higher profits as long as volumes hold or increase. Demand for TDI's liquor should also be better, although rising alcohol costs may not enable the Company to improve margins despite the price increases implemented in the first quarter. Eton should hopefully see higher occupancy rates, but it will take a while for new tenants to complete fit-outs, so the full impact of a return for demand for office and retail spaces would be seen in 2023. With people going back to the office, demand for ABI's on-the-go products should recover, especially for the smaller sizes of bottled water and soymilk. Lastly, for PNB, an improving overall economy should mean less non-performing loans (NPLs) and higher net interest margins for the Bank's core business.

I would like to close this message by thanking our stakeholders for the continued support and trust in your Company and our Board of Directors, management team, and all our employees for their dedication and hard work through these challenging times. We have been through another tough year and together we will see our Company come out of this stronger and better.

Michael G. Tan
President and Chief Operating Officer

Message from the CFO

For the year 2021, LT Group, Inc.'s (LTG) total revenues amounted to Php91.17 billion, a decrease of Php3.26 billion or 3.5% below 2020's Php94.43 billion revenues. The distilled spirits and beverage segments reported an increase in revenues over the previous year, while banking and property development segments reported lower revenues year-on-year (y-o-y).

The attributable net income of LTG reached Php20.24 billion, Php776 million or 3.7% lower than 2020's Php21.02 billion. In 2021, the distilled spirit and tobacco segments posted higher net income versus the previous year, while the property development, banking, and beverage segments netted lower y-o-y.

On a per-segment contribution to LTG's attributable income for 2021, 86% was from the tobacco business, 6% from Tanduay Distillers, Inc. (TDI), 3% from Eton Properties Philippines, Inc. (Eton), and 2% from Asia Brewery, Inc. (ABI). Given LTG's 30.9% ownership of Victorias Milling Company, Inc. (VMC), 1% of total attributable income, or Php258 million, was booked as equity in net earnings from this investment. Philippine National Bank (PNB) had a net contribution of 2% after eliminating the gain on sale of the bank's real estate assets.

The contribution of the tobacco business reached Php17.43 billion, a Php608 million or 3.6% improvement over 2020's Php16.83 billion. The tobacco business' income is primarily from the equity in net earnings of LTG's 49.6% stake in PMFTC Inc. (PMFTC), which amounted to Php17.60 billion in 2021, a Php494 million or 2.9% increase versus 2020's Php17.11 billion. The tobacco segment's contribution increased on change in product mix despite lower sales volume in 2021. The most recent excise tax law on tobacco, Republic Act (RA) 11346, was passed on July 25, 2019. The tax program first imposed a Php10 increase from Php35 per pack to Php45 per pack in January 2020, after which an annual step-up of Php5 per pack from 2021 to 2023 becomes effective, then starting 2024 levies a 5% annual increase.

PNB's 2021 contribution net of the gain on sale of real estate assets amounted to Php308 million, 80.1% lower y-o-y. The bank's performance over the year was on lower treasury income, offset partially by higher service fee income.

TDI's contribution was Php1.24 billion, an increase of Php134 million or 12.1% higher than 2020's Php1.10 billion. Improved margins in the liquor business and lower loss provisions boosted the distilled spirits' 2021 performance—despite a slight drop in volume. Meanwhile, TDI's alcohol business also improved albeit slightly, on the back of higher bioethanol volume slightly offset by lower margins.

Eton's contribution amounted to Php548 million, Php251 million or 31.4% lower than the previous year's Php799 million on weaker 2021 sales and lower leasing revenues.

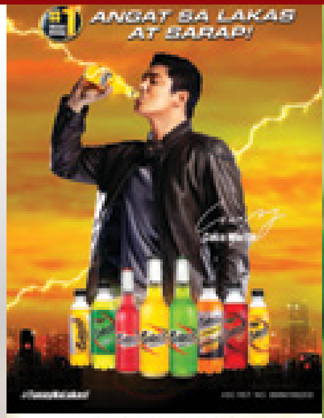
ABI's contribution was Php475 million, Php108 million or 18.5% lower than 2020. Sales volumes of various ABI brands were down during the year, except for Cobra energy drink. ABI's production costs and selling, general, and administrative expenses were higher in 2021.

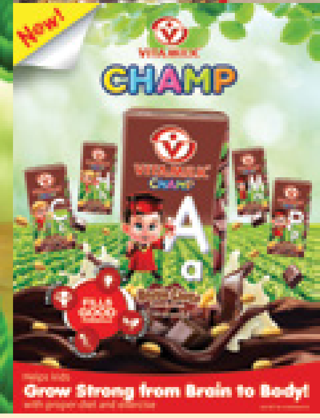
On April 13, 2021, LTG paid a regular cash dividend of Php0.15 per share and a special cash dividend of Php0.09 per share. Thereafter the Company paid out special cash dividends two times: Php0.24 in July, and another Php0.60 in December. These dividend issuances totaled Php11.69 billion, or 55.59% of LTG's 2020 attributable income of Php21.02 billion. The Company's dividend payout policy is 20%.

Total capital expenditure was Php8.99 billion in 2020. PNB invested Php5.00 billion for mainly IT projects. Eton invested Php711 million for the ongoing construction of its projects. TDI spent Php 1.44 billion primarily on upgrades in its plants. ABI spent Php1.00 billion on plant improvements. LTG also invested Php833 million in its joint venture with Ayala Land, Inc. for the 35-hectare Parklinks project.

LTG's balance sheet remains strong, with the parent company's cash balance at Php420 million as of end-2021. Debt-to-Equity Ratio was at 3.98:1 with the Bank, and at 0.15:1 without the Bank.

Jose Gabriel D. Olives
Chief Financial Officer





Asia Brewery, Inc.

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

ABI continues to maintain its leading positions in various beverage categories with its top-selling non-alcoholic brands, namely: Cobra (#1 energy drink), Vitamilk (#1 soymilk), Absolute (#2 distilled drinking water), and Summit (#3 mineral water). It is also one of the major players in the industrial packaging industry, producing glass container requirements for major beverage and condiments manufacturers in the country.

The year 2021 saw the height of COVID-19 infections as threats from the severe Delta variant saw the continuation of government-imposed lockdowns, peaking in April, July, and September. However, amidst the vaccine rollout, a more geographical and nuanced approach to restrictions provided higher mobility in residential areas and a gradual re-opening of businesses. Coupled with easing restrictions in industry and transport, this fueled the gradual recovery as 2021 Philippine Household Consumption grew by 4.2%—a strong turnaround from the 7.9% decline in the previous year. This development provided a more favorable environment for the non-alcoholic beverage portfolio of the Company.

Cobra's strong brand equity saw the product regain pre-pandemic volumes, maintaining its #1 position in the energy drinks market. On the other hand, the shift in consumer preference towards healthier food and drink offerings helped sustain Vitamilk's leading position in the soymilk segment, while the growth in multi-serve packs of Absolute and Summit helped curb the decline in volumes of bottled water.

Backed by strong brands, a wide portfolio across the different categories in the beverage industry, and its ability to quickly adapt to new consumer preferences, ABI was able to generate revenues of Php13.92 billion in 2021, a 5% increase from the Php13.28 billion generated in 2020.

The gross profit margin was 24%—down by 2% from the 26% achieved in 2020 as increasing prices of some strategic inputs and taking over the production of alcoholic beverages put pressure on margins.

Operating expenses were 4% higher year-on-year, mainly from increased depreciation on containers and alcohol assets. Due to these increases, ABI's net income amounted to Php475 million in 2021—20% lower than Php597 million in 2020.

Cobra upheld its market leadership—commanding 64% of the energy drinks market. Functionality improvements, involving the addition of vitamins and minerals said to enhance immunity against COVID-19 (Immuniplus +) and changes in the route to market systems, contributed to volume growth despite aggressive promotional and price-off programs of competition. With its sustained revenue base, Cobra remained as the Company's flagship product, accounting for over a third of revenues.

Bottled water remained as ABI's second-biggest contributor to revenues. The growth in multi-serve packs for in-home consumption helped curb the decline in single-serve packs as the "on-the-go" market continues to face challenges from mobility restrictions in schools and business districts. Absolute and Summit bottled water brands ranked third with a 22% market share—banking on the strength of its brand image as the preferred bottled water by the Filipino family.

The success of Summit brand ambassador, Hidilyn Diaz, in the Tokyo Summer Olympics also served to enhance the brand's image as the bottled water for an active lifestyle.

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

Vitamilk continued to dominate the soymilk market with a 69% market share due to its strong position as a healthy drink for young adults. To compensate for the absence of the "to go" adult market due to mobility restrictions, the brand refocused marketing efforts to penetrate the home market with multi and single-serve products in tetra packaging.

To further expand the market, Vitamilk also introduced a premium line of soymilk under the V-Soy brand—made from all-natural, plant-based ingredients that deliver a richer taste and aroma for more sophisticated adult consumers.


Aerial shot of Eton City Square

Tower along Malugay St., Makati City


Centris Cyberpod Five


Aerial shot of Centris Cyberpods One, Two, Three, and Five

Eton Properties Philippines, Inc.

As the economy starts to pick up, Eton Properties Philippines, Inc. (Eton) was able to attain total revenues of Php2 billion and achieve a net income of Php550 million—as a result of continuous active management of its investment properties and implementation of various cost-saving measures and initiatives made during the year. By the end of 2021, the Company's total assets increased by 2% to Php32.4 billion and its equity was up by 3% to Php19.2 billion.

2021 continued to be a challenging year for Eton as the world remained plagued by the COVID-19 pandemic. Despite this, the debt-to-equity ratio improved from 0.71x to 0.69x due to the improvement in Shareholders' Equity, resulting from the reported net income during the year.

Leasing income finished at Php1.6 billion, contributing 92% to the Company's total revenues. The office leasing business continued to deliver the lion's share of the entire leasing income with 77% contribution; commercial and retail added 11%; while residential and the rest of the leasing portfolio delivered a 12% share. Though it remained to be a difficult year for the real estate market, Centris Cyberpod One and Three continued to be 100% fully leased out for the year, while Centris Cyberpod Five reported a growth in its occupancy by 118% at the end of 2021. The Company expects that occupancy for 2022 will improve as BPO and POGO operators are mandated by the government to return to the office by the second quarter of 2022.

With the reopening of the economy, Eton is well-positioned to capture existing business opportunities in the retail and office sectors, as well as new markets. By the end of 2021, Eton's commercial leasing portfolio increased by 11,500 square meters or 7% from the previous year to approximately 237,000 square meters—as a result of the completion of Blakes Tower, a 36-storey office and residential building in Makati City. Through the launching of Eton City Square by the second quarter of 2022, an additional 5,824 square meters of net leasable area will be added to the current leasing portfolio.

Residential leasing occupancy improved from 36% to 77%—or an improvement of 114% in 2021, due to a shift in the target market from ex-pats and students to locals who need affordable accommodations near Central Business Districts (CBDs) and key areas—along with the management's commitment to focus on maintaining healthy renewals and healthy occupancy. With the completion of the residential component of Blakes Tower, the residential leasable area will increase by 13,900 square meters or 67%—for a total of 34,400 square meters.

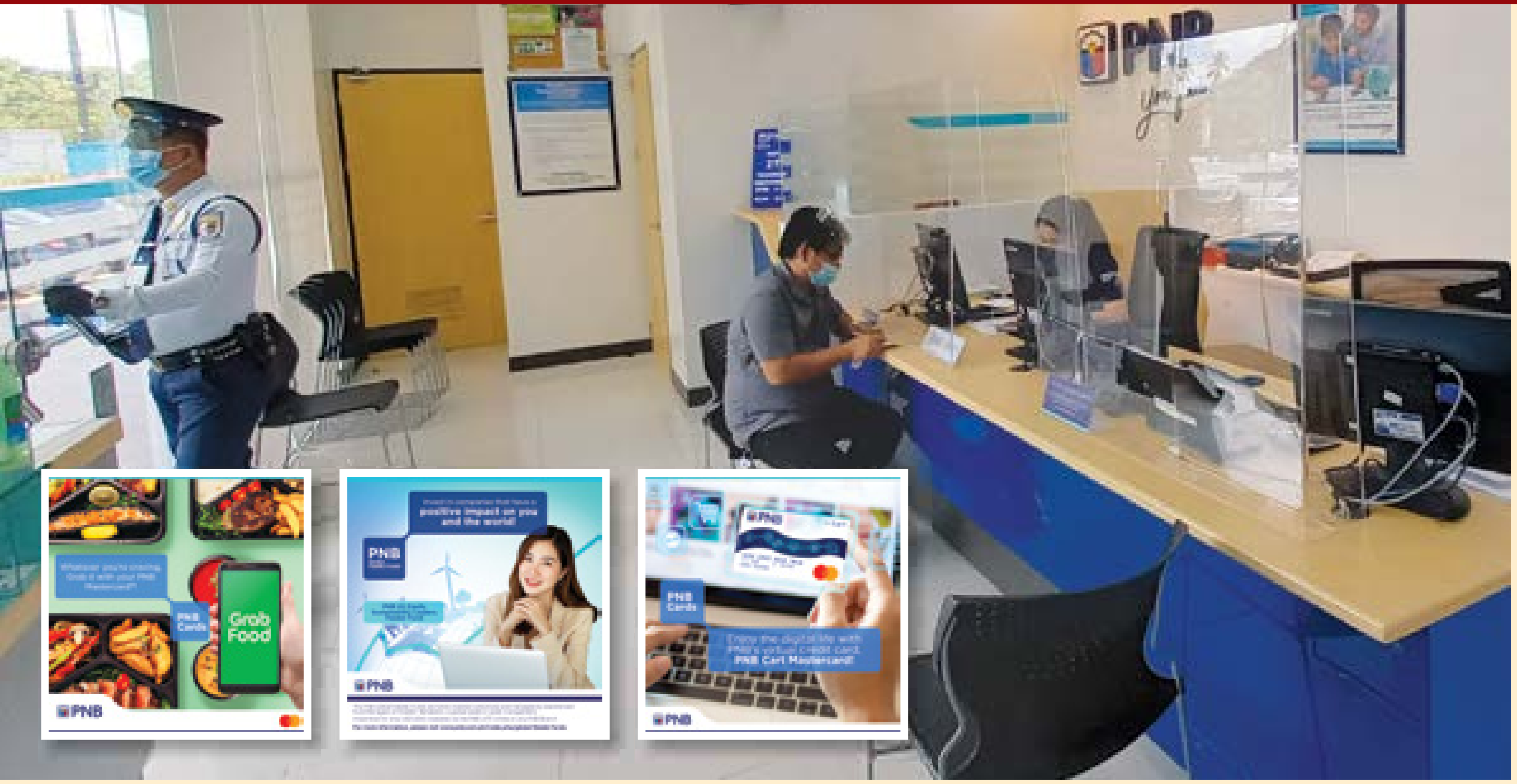
The Mini Suites' rooms revenue continued to deliver a solid performance this year with revenues up by 7% to Php220 million, as it seized the quarantine accommodation market in 2021—posting an 85.9% occupancy rate by the end of the year. For 2022, Eton aims to adapt a multi-use strategy to capture both the quarantine accommodation market as well as the travel and leisure and staycation markets.

During the year, as part of Eton's efforts to expand its revenue sources, the Company, together with its wholly-owned subsidiary, Eton Properties Management Corporation (EPMC), entered into a management agreement with PNB Holdings Corporation (PHC) to manage and operate its 135,000 square meters of leasable commercial space.

The pandemic gave Eton the opportunity to adapt to emerging trends in the market. While demand for retail and office took a dip in 2021, Eton's retail and office spaces still attracted a significant market due to the developments' wide open-space layouts and strict health and safety standards in place. Eton Centris in Quezon City welcomed a good number of commercial tenants including renowned brands such as Coco Fresh, Zark's Burgers, MotoMarket, Growl, and Maxicare, among others. While Centris Cyberpod Five, situated in the same BPO-IT lifestyle hub, attracted BPO companies and traditional offices to locate there.

Eton continued to innovate the products it offers to the market with the planned introduction of its dormitory and co-living concept, Mini Dwellings, which will be launched at Blakes Tower. Along with this, an exclusive organization called the Dwellers Club will also be launched, which will allow members to have premium access to the development's lifestyle amenities. Mini Dwellings is envisioned to expand into Eton's township projects to provide a full complement to the communities that are currently under development.

In conclusion, Eton prevailed to be well-positioned as a stable and resilient company that sustains a well-balanced portfolio of office, residential, and commercial projects that remain attractive to investors and capture new business opportunities—in the midst of economic recovery.



Philippine National Bank

Financial Performance
Philippine National Bank (PNB) booked higher net earnings reaching Php34.0 billion in 2021, more than 11 times the Php2.8 billion recorded in 2020. The Bank's core net income is better than pre-pandemic 2019 levels, as PNB posted robust performance fueled by continued growth in lending and fee-based income.

Net service fees and commissions grew by 43%, driven by higher loan-related and deposit-related transactions, as well as significant bancassurance and underwriting deals completed during the year. This was supplemented by the upward traction on fees from the increasing use of the Bank's digital platform.

The Bank reported a net interest income of Php34.8 billion in 2021, which is relatively flat year-on-year (y-o-y), and managed to maintain its net interest margin at 3.2%. The y-o-y Bank's gross loans grew by 2% to reach Php632 billion as of end-2021, while total deposits increased y-o-y by Php4.6 billion, closing at Php894.9 billion as of end-2021.

The Bank's core operating income was complemented by a Php33.4-billion gain from the properties-for-share swap completed during the year with PNB Holdings Corporation. This is part of a series of transactions that aims to monetize the value of the Bank's low-earnings assets.

The Bank recorded trading and foreign exchange gains of Php1.5 billion in 2021. This was lower by 65% y-o-y, because in 2020 the Bank took advantage of the decline in benchmark interest rates to off-load a significant amount of its trading portfolio.

While the Bank continued to build its loss reserves on loans of borrowers that were directly hit by the pandemic, it recorded much lower impairment and credit provisions by 37%. As part of its continuing strategy to trim down its non-performing loans (NPL), the Bank sold certain NPLs in 2021 with gross carrying amounts prior to sale of Php5.5 billion, resulting in gain on sale of Php767 million.

Operating expenses, excluding provisions, are also lower by 6% compared to the previous year as the Bank focused on more essential expenditures, especially during these challenging times. Productivity showed steady improvement as hiring was fully focused on critical positions for the businesses and functions, particularly customer-facing personnel who are responsible for growing the Bank's businesses.

The Bank's Capital Adequacy Ratio of 13.66% and Common Equity Tier 1 Ratio of 12.96% remained above the minimum regulatory requirement of 10%.

Operational Highlights
As PNB continues to adapt its business to the "new normal", the Bank refocused its new lending activities on essential sectors and industries that have critical functions as the economy is recovering. These are the businesses that can thrive in the "new normal" or are essential to the recovery of the economy. These include projects covered by the ongoing infrastructure program of the government, which is focused on supporting economic recovery efforts.

PNB has come up with a system that allows the Bank to determine how it can best serve its loan clients, based on their financial resiliency and industry vulnerability to the COVID-19 situation. This includes industries such as telecommunications; human health and social work activities; private general hospital activities; retail selling in supermarkets; and manufacturing of food products with an undisrupted supply chain, among others.

During the pandemic, PNB also relied on a service that was launched close to five decades ago. To enable Filipinos to safely and conveniently conduct transactions, PNB continued to deploy its Bank On Wheels–a vehicle built to be a roving ATM–to allow customers to withdraw cash, pay bills, and transfer funds. In 2021, Bank On Wheels was able to serve 1,700 sites and communities.

2021 saw an increase in customer preference for online banking amidst today's health and safety concerns and quarantine restrictions. Clients preferred services that allowed them to be more independent, mobile, and free to do their transactions anytime they want and anywhere they may be—such as account opening, credit card applications, and other banking services. With this in mind, PNB accelerated digital transformation in terms of offering enhanced digital banking products and services for clients and improving its way of doing business.

To enhance its digital platform and be able to better compete in the market, PNB formally launched to the public its web-based online account opening platform in June 2021. With the launch of this online account opening service, customers can go to the PNB website, submit the necessary identification and information required, and allow the PNB Branch of Account to facilitate the know-your-customer (KYC) process via video-conferencing. As of end-2021, the Bank has processed over 50,000 applications for new accounts.

In line with its strengthened digital banking thrust, the Bank also re-launched its PNB Digital App during the first half of 2021. The new app answers the need for better digital solutions and enhanced online security. The PNB Digital App boasts of a fresh new look and intuitive design, promising a better user experience with 20% to 50% less clicks when doing transactions.

Moreover, PNB has selected Adobe Sign as the Bank's electronic signature solution to improve digital document workflows and the customer experience. Starting with its institutional banking business, PNB is adopting paperless processes while reducing its reliance on wet signatures. Through the new partnership with Adobe Sign, PNB makes end-to-end change process easier and more efficient across the organization.

In the credit card business, the Bank launched the PNB Cart Mastercard, a virtual credit card made specifically for online transactions. With this new product, credit card credentials will be in digital form and a physical plastic card will no longer be issued as card details are emailed to the cardholder via a password-protected PDF file. Virtual cards are exclusively used for online purchases where credit card information can be keyed-in. To keep the cards relevant to customers during the pandemic, PNB partnered with merchants that are essential to cardholders such as food delivery, groceries, and shopping platforms. PNB also offered credit card services on the PNB Digital App for on-boarding, viewing of balances, bills payment, and access to electronic Statement of Account (e-SOA).

Furthermore, PNB offered two global feeder funds–the World Perspectives Equity Feeder Fund and the US Equity Sustainability Feeder Fund–which allow Filipino investors to diversify their investments to include US and other globally-traded shares of stocks. These funds are for Filipino investors who are looking to achieve long-term capital growth by investing at least 90% of their assets in a target fund.

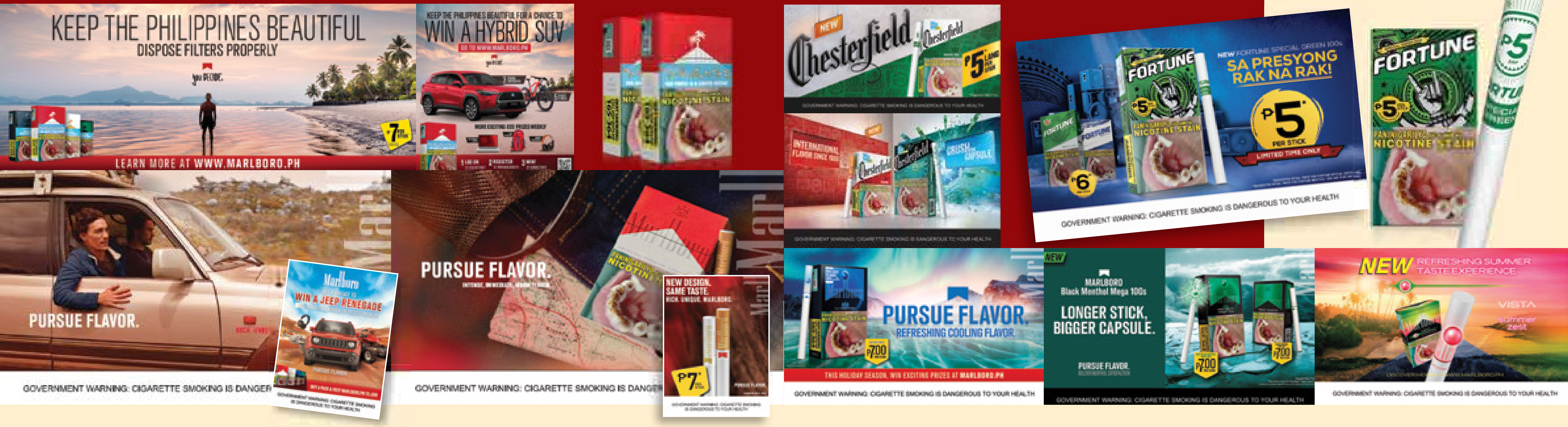
In 2021, PNB was awarded as "Best Bank for Investment Research" during Asiamoney's Private Banking Awards. This is a testament to how the Bank supports clients through research capabilities.

PNB was likewise recognized by the Bangko Sentral ng Pilipinas (BSP) as "Outstanding Regional Partners" in the 2021 BSP Stakeholders Appreciation Ceremony. Receiving distinctions were PNB (National Capital Region), PNB Laoag Cash and Clearing Unit (Region I), PNB Cebu Cash Center (Region VII), and PNB Butuan-Montilla Branch (Region XIII).

Furthermore, PNB received the Green Leadership Award in the 2021 Asia Responsible Enterprise Awards (AREA) for its Project P.L.A.N.E.T. (Protect, Love, and Nurture the Environment Together). Project P.L.A.N.E.T. is the Bank's banner environmental and sustainability program that was developed to raise awareness among employees; encouraging them to reduce their environmental footprint at work and in their own homes; while providing them with eco-friendly, healthy, and sustainable alternatives.

Finally, PNB was honored by a joint program of the European Union and UN Women as Champion for Transparency and Reporting in the UN Women 2021 Philippines Women's Empowerment Principles (WEPs) Awards. The Bank was cited for its commitment to transparency and reporting that reflects gender data and indicators.

Moving forward, PNB will continue to serve its customers and work together with the national government with the goal of supporting the Philippine economy on the road to recovery.



PMFTC Inc.

Overview

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

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

In 2021, the excise tax on cigarettes was increased in accordance with Republic Act No. 11346. The new excise rates increased from Php45.00 to Php50.00 per pack from January 2021 until December 2021—with an increase of Php5.00 every year until 2023, and an increase of 5 percent (5%) annually from January 2024 onwards.

PMFTC volume went down by 17.6%—equivalent to 34.4 billion sticks. This mainly reflected market contraction, coupled with a decrease in PMFTC market share to 62.0%*—which is down by 5.2 share points compared to last year driven by the economic impact of COVID-19.

PMFTC employs around 3,695 employees and sources tobacco from around 12,700 9 farmers through its supplier, Universal Leaf Philippines and Trans Manila Inc. The Company relies on its competent and diverse workforce supported by individual development and a merit-based career management program that recognizes potential and rewards achievements. PMFTC is continually shaping its people and culture in order to continue to thrive in the coming years and beyond.

As a responsible corporate citizen, PMFTC is strongly committed to the development and growth of local communities. Through its Corporate Social Responsibility program, Embrace, the Company partners with various governmental institutions, NGOs, and local stakeholders to support programs based on needs assessment and aimed at contributing to the realization of the United Nations Sustainable Development Goals. The charitable giving, social contributions, and community investments are focused on access to education, women empowerment, economic opportunity, and especially disaster preparedness and relief efforts.

Sales and Marketing

Marlboro's solid performance continued in 2021 as the #1 cigarette brand in the Philippines'. To strengthen brand loyalty among Legal Age Smokers (LAS, 18 years old and above) and to further drive differentiation versus competitors, the brand launched its first-ever environmental advocacy effort in March 2021—the Keep the Philippines Beautiful campaign. This aims to inspire LAS to dispose of their cigarette filters properly. The campaign was communicated through limited edition packs in digital trade and consumer platforms and via on-ground promoters & point-of-sale materials (POSM).

Because communication on flavor is key in driving long-term brand loyalty, The Marlboro Pursue Flavor campaign and the tipping upgrade for both Marlboro Red and Gold were launched in July 2021. Pursue Flavor aims to reinforce Marlboro's superior flavor & taste to improve brand equity and to make the brand more meaningful to LAS. Campaign initiatives were further supported with visibility materials at trade and end-to-end programs for both retailers and LAS.

Seizing the opportunity in the growing menthol space, Marlboro launched three initiatives to further increase the brand's footprint in the country's menthol segment. Marlboro Vista was first introduced in top convenience stores, offering a new differentiated menthol flavor that appeals to Filipino menthol LAS. Marlboro Black Menthol Mega 100s was launched in Batangas and National Capital Region to provide menthol LAS with a value-for-money offer—the quality and taste of Marlboro in a longer stick format with a mega capsule.

Lastly, to leverage on the holiday season in the fourth quarter, Marlboro continued its campaign on flavor and highlighted Marlboro Fresh and menthol products (e.g. Marlboro Ice Blast Mega). These initiatives were supported with on-ground visibility materials and digital LAS promotions on the brand website, Marlboro.ph.

With sustained support and visibility throughout the year, Marlboro closed 2021 with increased market share versus the previous year, maintaining its #1 position in the combustible cigarette market.

In PMFTC's ambition to win in the low-price segment, Chesterfield was launched in January 2021, led by Chesterfield Menthol 100s and followed by Chesterfield Remix Cool 100s in the Visayas Region in March. The successful launch and expansion of our menthol SKUs were then followed by the launch of Chesterfield Original non-menthol in October in strategic areas. With a focused and continuous support plan in 2021, Chesterfield achieved one of the highest levels of market share to date, for a new product in the category.

Finally, to invigorate the Fortune brand, Fortune Special Green 100s was launched strategically in the Luzon region—which contributed to the majority of the Fortune business in May. The strategic launch, coupled with the Chesterfield new brand launch, had paved the groundwork for PMFTC—winning in the low-price segment.

'Source: Based on PMFTC in-market sales and Nielsen Retail Trade Audit Share of Market (Dec'21)

*Source: Based on PMFTC in-market sales and Nielsen Retail Trade Audit Share of Market (Dec'21)

Operations
The Integrated Operating System (IOS) journey of PMFTC Operations continues its progression with Marikina and Batangas factories—with Marikina passing Phase 0 last November 2021, now at the same level as Batangas in Phase 1. This drove the organization to implement the IOS standards that are crucial in having a highly capable organization that delivers best-in-class products at optimal and to move towards the Company's Manufacturing of the Future vision.

Illicit Trade
"The effect of another round of tax increases imposed by the government on 'sin products' this year could have been much, much worse if not for the great work performed by the agencies of the Department of Finance, Bureau of Customs, and Bureau of Internal Revenue—which has recorded a highest on record interceptions of smuggled goods as well as domestically produced illegal cigarette."

"So they have done a fabulous work. That is why we've seen a relatively small uptick of smuggled cigarettes in 2021." *-Denis Gorkun, President during an interview on Market Edge at ANC on January 6, 2022.*

Illicit activity continued during the second year of the pandemic as illicit traders became more sophisticated in evading detection and took advantage of the government's preoccupation with managing COVID-19 and reopening the economy. The legislated excise tax increase in January 2021 from Php45.00 per pack to Php50.00 per pack—coupled with the high unemployment rate that negatively impacted income—not only made legal cigarettes less affordable but also widened the price gap, thus making illicit cigarettes more attractive as cheaper alternatives compared even to low-priced legitimate brands.

Despite the challenges in manpower and mobility, the various government enforcement agencies such as the Bureau of Internal Revenue (BIR), Bureau of Customs (BOC), National Bureau of Investigation (NBI), and the Philippine National Police (PNP) were reported to have conducted at least 185 enforcement actions—an 8% increase versus 171 in 2020. This resulted in the seizure of more than 430 million sticks and 21 cigarette-making machines, and the shutdown of 2 illicit manufacturing facilities.

According to an illicit incidence study conducted in the second quarter of 2021, almost 70% of sampled illicit products comprised of cheap contraband brands such as Two Moon, Bravo, Fort, Astro, and D&B. While the remaining 30% were counterfeit versions of JTI and PMI/PMFTC brands. Mindanao accounts for the highest incidence of illicit packs (19.0%), with Luzon (4.9%) and Visayas (1.3%) as distant second and third respectively.

In response to the prevalence of illicit products in the market, the BIR issued regulations publishing penalties for selling cigarettes below the mandated minimum price, selling non-BIR-registered brands, making fake tax stamps, transporting counterfeit tobacco products, and possession of cigarette-making machines without a permit.

Further to the passage of Republic Act No. 11534, or the Corporate Recovery and Tax Incentives for Enterprises Act (CREATE) which clarified the registration requirements for locators at freeports involved in tobacco trading and manufacturing, the BIR and BOC conducted raids and padlocked several free trade zone locators. Freeport administrations likewise conducted audits on their respective locators to ensure compliance with facility and brand registration requirements.

The BIR issued Revenue Memorandum Circular No. 118-2021, listing registered manufacturers and brands of cigarettes, heated tobacco products, and vapor products. Any product excluded in the list shall be considered unauthorized and subject to seizure;—making it easier for law enforcement officers to identify illicit products. The BIR also launched the 3rd generation tax stamps sporting the Vinta design as of October 29, 2021, which contains additional security features to thwart attempts at counterfeiting internal revenue stamps.

Capacity-building and collaboration with law enforcement agencies
PMFTC had actively engaged with various law enforcement agencies to conduct virtual and face-to-face training sessions on relevant laws relating to illicit cigarette trade; and basic authentication techniques for combustible and reduced-risk products—including devices. Fourteen sessions involving at least 558 enforcement agents were facilitated by the Company to raise awareness on the illicit trade issue, help identify illegal versus legal tobacco products, and share information concerning the modus operandi of illicit traders and the main routes used for smuggling.

Public awareness campaigns
PMFTC also partnered with other private entities to embark on an education and information campaign entitled Fight IT Fight Illicit Trade, directed at retailers and legal age smokers. The campaign—done through below-the-line activities at retailers, government offices, police precincts, public markets, and even in social media—seeks to abnormalize illicit trade in the minds of consumers and retailers. Consumption and patronage of illicit products not only deprive the government of much-needed revenues but also exposes retailers and legal age smokers to unnecessary risk of fine and imprisonment. In addition, the Fight IT social media page provides an avenue for the public to report illicit trading that is observed in the market.

Supply chain controls
The Company continually reviews its internal policies for both combustible and reduced-risk products to prevent diversion and ensure that products are sold legally in the markets—for which they are intended. Disposal of returned devices is closely monitored and recorded to ensure diversion and unauthorized recycling are being mitigated.

People and Culture
As the country continued to battle COVID-19, the year 2021 provided numerous opportunities to learn and adapt to the significant changes in the Company's work-life balance.

PMFTC remained focused and adamant to its mission of creating a workplace inspired by curiosity and innovation, empowered by inclusion and diversity, and driven and shaped by its people. In fact, PMFTC was given a seal of approval as a TOP Employer in the Philippines and in the Asia Pacific region;—a recognition the Company received two years straight. It was awarded by the distinguished TOP Employer Institute based in the Netherlands, which affirmed that the organization is a workplace that empowers and inspires people to do their best, promotes learning and progression, and celebrates diversity.

Harnessing the Power of Digital Engagement
The future is digital. PMFTC continued to leverage digital solutions and innovative ideas to further talent attraction and onboarding, and hype employee engagement.

Under the flagship of the Company's employer brand, #MakeHistory, its increased presence on social media through employee features, testimonials, and launching the Changemaker campaign helped deepen social media engagement and amplify the brand within the local talent market.

In 2021, the Company opened its doors to 36 interns from distinguished universities across the country through the all-digital INKOMPASS Internship Program. All interns worked on real business challenges and helped to create an impact on the organization through their innovative ideas—truly, an internship experience like no other.

As PMFTC welcomed new talents, it also made sure that technology was maximized in integrating new hires through online onboarding experience and virtual plant tours.

One Philippines Yammer fueled the Company's digital internal employee engagement and communications. Not just another digital platform—it became a venue to form a strong community sharing optimism and celebrating achievements, a safe space to learn and keep being updated, a sandbox to test ideas and seek feedback, a virtual community where employees feel connected, despite being miles apart. As an ultimate recognition, One Philippines Yammer was awarded a BRONZE Stevie in the 2021 International Business Awards by a distinguished panel of public relations and corporate communications professionals from all over the world.

Building the Talent of the Future
As a Company that builds leaders of the future, to complement our already existing strong talent pool, two high-profile talent acceleration programs were deployed during 2021—RISE and LEAP.

In the first quarter of 2021, the Company welcomed and integrated highly curious and driven young professionals as part of the RISE program, to add future leaders in Sales, Marketing, and RRP to the pipeline. The program formed an intensive, fast-paced, and immersive 18-month journey packed with learning and opportunities for RISERS to manage key commercial projects.

And in the third quarter of 2021, the Company launched LEAP, a graduate traineeship program, where 20 fresh talents were welcomed and onboarded to broaden their skills and capabilities in various commercial positions across the country. The LEAP graduate trainees started an 18-month development journey that not only honed their skills on the job but also integrated them in the field to understand real market dynamics and learn customer experience.

As the cornerstone of career development, PMFTC continued to further strengthen their employees' capabilities and foster a stronger learning culture. The Company hosted learning sessions via the LearnX virtual learning series. The sessions were facilitated by external subject-matter experts, with topics that are highly relevant to the employees such as Sacred Schedules, Unleashing the Power of Inclusive Leadership, How to Think Like an Intrapreneur, Neuroscience of Creativity, and Innovation and Allyship & Inclusion, among others.

Championing Inclusion and Diversity

PMFTC continued to be an Equal-Salary certified company for the third consecutive year, and remained to be the only company in the Philippines to receive such formal recognition. Awarded by the distinguished Equal-Salary Foundation based in Switzerland, the certification affirmed how the Company's commitment to providing equal pay for equal work—regardless of gender—translates to its practices.

EQUAL-SALARY CERTIFIED

PMFTC also became a strong voice in the society to share its best practices and showcase how it created a nurturing and inclusive workplace where people—regardless of gender preference, race, age—can make meaningful careers and be the best in their field. In March, People & Culture Director Andreea Chiriac joined Vice President Leni Robredo and other women stalwarts from different industries in a forum organized by the American Chamber of Commerce of the Philippines.

The Company also hosted a series of external leadership webinars entitled Women Rising To the Challenge, where three of its very own female trailblazers and innovators discussed their experiences, challenges, and bold approaches to leadership and career development.

Cementing its position as one of the I&D leaders in the industry, PMFTC became a member of the distinguished Philippine Financial & Inter-Industry Pride (PFIP). PFIP represents a growing coalition of employers of choice in the Philippines—proudly LGBT+ inclusive business organizations.

True to its belief that women uplift and empower each other, the Company created a support group for female new hires through Women@PMFTC quarterly luncheon—which served as an avenue to network with fellow female leaders and peers across the organization.

Fostering a Supportive Community

Just a few days before Christmas, category 5 Typhoon Rai, locally named "Odette," barreled through the Philippines affecting Northern Mindanao, Palawan, and parts of Visayas. Odette left the said regions devastated, out of power and communication lines, left with no potable drinking water, and collapsed roads and bridges. PMFTC was quick to account for all its employees and send immediate help in the affected areas.

PMFTC quickly launched **RISE UP Pilipinas – Support as One**, an employee donation drive that leveraged the Filipino value of "bayanihan" or community, where the Company double-matched the funds donated by the employees. The campaign closed with a total of Php3.5M representing employee cash donations and company matching—which greatly benefited the 175 employees affected by Typhoon Odette and helped them and their families rebuild their homes and start anew.

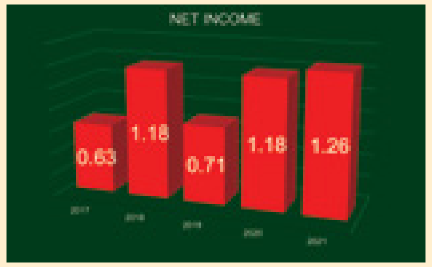
Tanduay Bar at Target Center, Minneapolis Mn, Homecourt of the Minnesota Timberwolves

Tanduay Distillers, Inc.

Private consumption accelerated towards the end of the year as the sharp decline in COVID-19 cases resulted in lesser restrictions and better mobility. This enabled the Philippine economy to grow by 5.6% in 2021 as compared to the 9.6% decline in 2020.

The Philippine liquor industry, riding on the country's positive economic performance, grew by 10% in 2021 to reverse the double-digit contraction in 2020. Liquor volumes, however, were still 8% short of pre-pandemic levels as consumer spending still has to regain momentum following the recession in 2020. Demand for bioethanol also increased with the easing of transport restrictions.

Tanduay's consolidated revenues for the year ended at Php26.7 billion, an increase of 7% from 2020, on the back of higher selling prices. Consolidated cost of sales grew at a higher rate of 8% to Php23.5 billion due to higher excise taxes resulting in a flat gross profit that ended at Php3.2 billion for the year.



Consolidated net income after tax ended at Php1.24 billion which was a 7% improvement compared to the previous year's Php1.12 billion. This was primarily due to lower loss provisioning which offset the increase in selling expenses. Liquor sales volumes were flat in 2021 after growing by 16% in 2020 as the reopening of the economy and moderate lifting of restrictions on on-premise sales resulted in a more competitive alcoholic beverages market.

Higher average selling prices of liquor boosted revenues which improved by 4.8% from Php21.4 billion to Php22.3 billion—negating the impact of the slight decline in liquor volumes. The cost of liquor sales increased by 5.4% to Php19.5 billion from Php18.5 billion in 2020.

The increase in cost was primarily a result of higher excise taxes which went up by 11% while product costs were flat.

Revenues from bioethanol increased by 84% due to higher volumes, as another distillery subsidiary started its bioethanol operations in mid-2021. Margins declined, however, due to lower average selling prices and higher energy costs which offset the lowering of molasses costs.

Tanduay's share of the Philippine liquor market improved to 27% from 26% in 2021, resulting from its favorable performance in the Visayas and Mindanao areas—where its market share grew from 69% to 73% in 2021.

Tanduay market share in Visayas and Mindanao

On its export business, Tanduay tripled its sales volume in 2021, as it benefitted from adding more distribution points in the USA, Asia-Pacific, and Europe. Tanduay expanded its sponsorship deals with NBA teams by adding the Milwaukee Bucks, Phoenix Suns, and Minnesota Timberwolves to its existing deal with the Golden State Warriors. This pioneering act by a Filipino brand provides strong traction for Tanduay to attain high brand awareness among consumers in a highly competitive market like the USA.

Tanduay Asian Rum, Tanduay Double Rum, and Boracay Rum garnered 23 awards in 2021 from international spirits competitions in the USA and achieved gold ratings from renowned tasting bodies like the Beverage Testing Institute of Chicago and the International Taste Institute of Belgium. Tanduay also won its seventh consecutive "Brand of the Year" award from the UK's World Branding Forum.

The international rum market reversed two years of volume decline as leading brands benefitted from at-home consumption in large package sizes. Craft producers are expanding offerings in the high-end rum segment, causing consumers to get used to seeing rum at higher price points. In tune with this trend, Tanduay has developed a 5-year plan of launching premium rums with different finishes and ages. The first product offering under this plan is the Tanduay Especia Spiced Rum, a blend of rums up to 7 years of age, laced with various exotic spices.

The country has started its economic recovery, but it still faces strong headwinds from possible new COVID-19 variants and supply chain disruptions from looming external pressures. Faced with these challenges, Tanduay will have to continually strengthen its brand equity, defend existing market strongholds, timely adapt to emerging market trends, and persistently seek better ways of doing things in order to operate profitably, maintain financial viability, and deliver more value to the organization.

Corporate Governance Report

Keep moving forward. The year 2021 carried with it a lot of uncertainties and hardships for all businesses, big or small. But, with the undying support of our stockholders and stakeholders, together with the dedication and competent leadership of the Board of Directors and Management, the Company was able to withstand the trials brought about by the pandemic.

BOARD COMPOSITION

The Company's board is composed of eleven (11) members, six (6) women and five (5) men, four (4) of whom serve as Independent Directors (ID). 63% are Non-Executive Directors (NED) and 37% are Executive Directors (ED). This diverse composition is in furtherance of the Company's objective of achieving good corporate governance, consistent with the recommendations of the Securities and Exchange Commission (SEC).

None of the Independent Directors own more than 2% of the Company's outstanding capital stock; have no ties to the Management; and are free from any business or other relationships which could, or could possibly be perceived to materially interfere with their exercise of independent judgment in carrying out their responsibility as Independent Directors of the Company.

Over the years, and more so during the pandemic, not only has the diversity in the composition of the Board positively brought out a variety of different perspectives resulting in better decision making, this has likewise resulted in a better company reputation.

Composing the Company's Board of Directors are the following:

Dr. Lucio C. Tan, 87, Chairman and CEO
Dr. Tan is the Chairman of Absolut Distillers, Inc., Alliedbankers Insurance Corporation, Allianz PNB Life Insurance, Air Philippines Corporation, Asia Brewery, Inc., Asian Alcohol Corporation, Basic Holdings Corporation, Buona Sorte Holdings, Inc., Eton Properties Philippines, Inc., Fortune Tobacco Corporation, Foremost Farms, Inc., Grandspan Development Corporation, Himmel Industries, Inc., Mabuhay Maritime Express Transport, Inc., **MacroAsia Corporation**, Philippine Airlines, Inc., **PMFTC Inc.**, Progressive Farms, Inc., **PAL Holdings, Inc.**, Tanduay Distillers, Inc., Tanduay Brands International, Inc., Tangent Holdings Corporation, The Charter House, Inc., Trustmark Holdings Corporation, University of the East, Zuma Holdings and Management Corporation. He is also a Director of **Philippine National Bank**. He holds a Bachelor of Science degree in Chemical Engineering from Far Eastern University. He was awarded the degree of Doctor of Philosophy, major in Commerce, by the University of Santo Tomas in 2003 and is an awardee of several other honorary Doctorate degrees.

Board Attendance: 100%: 15 of 15 Board Meetings
Date of First Appointment: July 2, 1999
No. of Years on the Board: 22 Years
Other Information: No conflict of interest transactions in the past one (1) year.

Carmen K. Tan, 81, Vice Chairman
Ms. Tan is the Vice Chairman of Philippine Airlines, Inc. and Director of Air Philippines Corporation, Asia Brewery, Inc., Buona Sorte Holdings, Inc., Foremost Farms, Inc., Dynamic Holdings, Ltd, Eton City, Inc., Fortune Tobacco Corporation, Himmel Industries, Inc., **MacroAsia Corporation**, **PAL Holdings, Inc.**, **Philippine National Bank**, PMFTC Inc., Progressive Farms, Inc., Tanduay Distillers, Inc., Manufacturing Services and Trade Corporation, Sipalay Trading Corporation, Saturn Holdings, Inc., Tangent Holdings Corporation, Trustmark Holdings Corporation, and Zuma Holdings and Management Corporation.

Board Attendance: 100%: 15 of 15 Board Meetings
Date of First Appointment: May 5, 2010; October 23, 2020 as Vice Chairman
No. of Years on the Board: 11 Years
Other Information: No conflict of interest transactions in the past one (1) year.

Karlu T. Say, 52, Director
Ms. Say is Founder and Director of Dong-A Pharma Phils., Inc., Director and Chief Operating Officer of Eton Properties Philippines, Inc., PNB Holdings Corporation, Director of Alliedbankers Insurance Corporation.

Board Attendance: 100%: 9 of 9 Board Meetings
Date of First Appointment: May 5, 2021
No. of Years on the Board: 1 Year
Other Information: No conflict of interest transactions in the past one (1) year.

Michael G. Tan, 56, President and COO
Mr. Tan is a Director, President and Chief Operating Officer of Asia Brewery, Inc.; Director of Tangent Holdings Corp., **MacroAsia Corporation**, **Philippine National Bank**, Eton Properties Philippines, Inc., PMFTC Inc., Tanduay Distillers, Inc., **Victorias Milling Company, Inc.**, Maranaw Hotel (Century Park Hotel), and Pan-Asia Securities Corp. Mr. Tan holds a Bachelor of Science degree in Applied Science in Civil Engineering, major in Structural Engineering, from the University of British Columbia, Canada, where he graduated at the top of his class. He started working for the group in 1991 at Asia Brewery. Mr. Tan is a Vice President of the Federation of Filipino Chinese Chambers of Commerce & Industry, Inc. He is a member of the ASEAN Business Advisory Council representing the Philippines. Mr. Tan served as an Honorary Advisor of the sixth edition of the Belt and Road Summit held in September 2021 in Hong Kong. In 2021, Mr. Tan was an awardee in the Stargate People Asia "People of the Year" and also in the 4th Mansmith Masters Awards, a mentoring recognition for senior marketers based on mentoring of Mansmith Young Market Masters Awards winners.

Board Attendance: 100%: 15 of 15 Board Meetings
Date of First Appointment: February 21, 2003
No. of Years on the Board: 18 Years
Other Information: No conflict of interest transactions in the past one (1) year.

Lucio C. Tan III, 29, Director
Mr. Tan is a Director, President and Chief Operating Officer of Tanduay Distillers, Inc. and Director of PMFTC, Inc., Fortune Landequities and Resources, Inc., **MacroAsia Corporation**, **PAL Holdings, Inc.**, Philippine Airlines, Inc., Air Philippines Corporation, and **Philippine National Bank**. He earned his Bachelor's Degree in Electrical Engineering from Stanford University in 2015 and his Master's Degree in Computer Science from Stanford University in 2017.

Board Attendance: 100%: 15 of 15 Board Meeting
Date of First Appointment: December 17, 2019
No. of Years on the Board: 2 years
Other Information: No conflict of interest transactions in the past one (1) year.

Vivienne K. Tan, 54, Director
Ms. Tan is a Director of **Philippine National Bank** and Air Philippines Corporation, Member of the Board of Trustees of University of the East and University of the East Ramon Magsaysay Memorial Medical Center, Founding Chairperson of Entrepreneurs School of Asia and Founding Trustee of Philippine Center for Entrepreneurship (Go Negosyo).

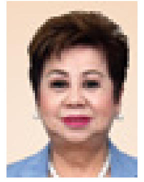
Board Attendance: 100%: 15 of 15 Board Meetings
Date of First Appointment: May 7, 2019
No. of Years on the Board: 3 Years
Other Information: No conflict of interest transactions in the past one (1) year.

Juanita T. Tan Lee, 79, Director and Treasurer
Ms. Tan Lee is Director of Asia Brewery, Inc., Eton Properties Philippines, Inc., and Tanduay Distillers, Inc.; Director and Corporate Secretary of Fortune Tobacco Corporation, Corporate Secretary of Absolut Distillers, Inc., Asian Alcohol Corporation, The Charter House, Inc., Foremost Farms, Inc., Grandspan Development Corporation, Himmel Industries, Inc., Landcom Realty Corporation, PMFTC Inc., Progressive Farms, Inc., and Total Bulk Corporation; Assistant Corporate Secretary of Basic Holdings Corporation; Treasurer of **PAL Holdings, Inc.** and Philippine Airlines, Inc., and a member of the Board of Trustees of the University of the East. She holds a Bachelor of Science degree in Business Administration major in Accounting from the University of the East.

Board Attendance: 100%: 15 of 15 Board Meetings
Date of First Appointment: May 2, 2012
No. of Years on the Board: 9 Years
Other Information: No conflict of interest transactions in the past one (1) year.

Johnip G. Cua, 65, Independent Director
Mr. Cua is a Former President of Procter & Gamble Philippines, Inc., currently the Chairman of the Board of Trustees of the P&Gers Fund, Inc. and Xavier School, Inc., and the Chairman & President of Taibrews Corporation. He is an Independent Director of First Aviation Academy, Century Pacific Food, Inc., PhilPlans First, Inc., Eton Properties Philippines, Inc., ALI-Eton Property Development Corporation, Asia Brewery, Inc., Tanduay Distillers, Inc., **MacroAsia Corporation**, Macroasia Properties Development Corporation, MacroAsia Catering Services, Inc., MacroAsia Airport Services Corporation, Macroasia SATS Food Industries Corporation, PAL Holdings, Inc., and Philippine Airlines, Inc. He is also a member of the Board of Directors of Interbake Marketing Corporation, Teambake Marketing Corporation, Bakerson Corporation, Lartizan Corporation, Allied Botanical Corporation, and Zenori Corporation. He is also a member of the Board of Trustees of MGCC Foundation and Xavier School Educational & Trust Fund. He was formerly the Chairman of the Board of Trustees of the Advertising Foundation of the Philippines.

Board Attendance: 100%: 15 of 15 Board Meetings
Date of First Appointment: May 8, 2018
No. of Years on the Board: 4 Years
Other Information: No conflict of interest transactions in the past one (1) year.



Mary G. Ng, 69, Independent Director.
Ms. Ng is the Chief Executive Officer of H&E Group of Companies; an Independent Director of Alliedbankers Insurance Corporation and Eton Properties Philippines, Inc.; Honorary President of the Packaging Institute of the Philippines, the Philippine Plastics Industry Association, Inc., and the Association of Volunteer Fire Chiefs and Firefighters of the Philippines; the First woman Chairman of the ASEAN Federation of Plastic Industries (AFPI); Executive Vice President of Federation of Filipino-Chinese Chamber of Commerce and Industries; Tripartite Board member of the Department of Labor and Employment; Board member of Technical Educational and Skills Development Authority (TESDA); Vice President of the Philippine Piak O Eng Chamber of Commerce and Philippine Piak O Eng Uy's Association; and Director of Philippine Dongshi Townmate Association, Inc.

Board Attendance: 100%: 15 of 15 Board Meetings
Date of First Appointment: May 7, 2019
No. of Years on the Board: 3 Years
Other Information: No conflict of interest transactions in the past one (1) year.

Wilfrido E. Sanchez, 85, Independent Director
Mr. Sanchez is the Tax Counsel of Quiason Makalintal Barot Torres Ibarra Sison & Damaso Law Offices; Independent Director of **EEI Corporation, House of Investments, Inc.**, JVR Foundation, Inc., Kawasaki Motor Corporation, Magellan Capital Holdings Corporation, Transnational Financial Services, Inc., Eton Properties Philippines, Inc., Asia Brewery, Inc., Philippine National Bank, and Tanduay Distillers, Inc.; Director of Asiabest Group International, Inc. (ABG), Asian Institute of Management (AIM), EMCOR, Inc., Gokongwei Brothers Foundation, J-DEL Investments and Management Corporation, K-Servico, Inc. He holds a Bachelor of Arts degree from the Ateneo de Manila University and has a Postgraduate degree in Bachelor of Laws from the Ateneo De Manila University and Masters of Law from Yale Law School.

Board Attendance: 100%: 15 of 15 Board Meetings
Date of First Appointment: July 31, 2012
No. of Years on the Board: 9 Years
Other Information: No conflict of interest transactions in the past one (1) year.

Florencia G. Tarriela, 75, Independent Director
Ms. Tarriela is an Independent Director of PNB Capital and Investment Corporation, PNB International Investments Corporation, and Eton Properties Philippines, Inc.; Director/Vice President of Tarriela Management Company and Director/ Vice President/Assistant Treasurer of Gozon Development Corporation; Board of Advisor of **Philippine National Bank**; Member of the Board of Trustees of Financial Executives of the Philippines (FINEX), Tulay sa Pag-unlad, Inc. (TSPI) Development Corporation, TSPI MBA, Philippine Bible Society, and Makati Garden Club; and a former Undersecretary of Finance.

Board Attendance: 100%: 15 of 15 Board Meetings
Date of First Appointment: August 9, 2012
No. of Years on the Board: 9 Years
Other Information: No conflict of interest transactions in the past one (1) year.

BOARD RESPONSIBILITIES

The Company's By-Laws provide that the regular Board of Directors meeting shall be held every second Tuesday of the month. During the regular monthly meetings, the respective Chief Financial Officers (CFOs) of the different subsidiaries under the conglomerate report on the operational results of their respective divisions and likewise brief the Board on other developments and target plans for the year. On the other hand, for quarterly meetings, the subsidiaries' CFOs are joined by their respective Presidents/Chief Executive Officer (CEO) or Chief Operating Officers (COOs).

In 2021, to ensure the proper and effective management of the Company's operations, the Board of Directors conducted 15 meetings via remote communication, which were religiously attended by all its members as shown in the table below:

Board	Name	Date of Election	No. of Meetings Held during the year (2021)	No. of Meetings Attended	%
Chairman	Dr. Lucio C. Tan	05/05/2021	15	15	100
Member	Carmen K. Tan	05/05/2021	15	15	100
Member	Karlu T. Say	05/05/2021	9	9*	100
Member	Michael G. Tan	05/05/2021	15	15	100
Member	Lucio C. Tan III	05/05/2021	15	15	100
Member	Vivienne K. Tan	05/05/2021	15	15	100
Member	Juanita T. Tan Lee	05/05/2021	15	15	100
Independent	Johnip G. Cua	05/05/2021	15	15	100
Independent	Mary G. Ng	05/05/2021	15	15	100
Independent	Wilfrido E. Sanchez	05/05/2021	15	15	100
Independent	Florencia G. Tarriela	05/05/2021	15	15	100

**Ms. Karlu T. Say was elected as a member of the Board of Directors last May 5, 2021.*

BOARD COMMITTEES

Last October 12, 2021, in its pursuit of good corporate governance, and in compliance with the recommendations of the SEC, the Company resolved to create a separate Audit Committee and a Risk Management Committee that are tasked to handle the respective audit and risk issues.

Accordingly, the Company is now composed of five (5) committees, namely: (i) Audit Committee, (ii) Risk Management Committee, (iii) Executive Committee, (iv) Nomination and Compensation Committee, and (v) Corporate Governance Committee, to oversee the proper operations of the Company and its subsidiaries, as well as to conduct the oversight function to ensure that transactions are entered into with fairness and transparency.

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

AUDIT COMMITTEE (AC)

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

Prior to his appointment as Chairman of the Committee, Mr. Cua served as a member of the Board of Advisors since August 2014 and thereafter became a Director in May 2018. He is also a Director and Officer of other companies within and outside the Company.

In 2021, the Committee conducted five (5) meetings, as provided in the table below:

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee (years)
Chairman (ID)	Johnip G. Cua	05/05/2021	5	5	100	4
Member (ID)	Wilfrido E. Sanchez	05/05/2021	5	5	100	8
Member (ID)	Florencia G. Tarriela	05/05/2021	5	5	100	8
Member (ID)	Mary G. Ng	05/05/2021	5	5	100	2
Member (ED)	Juanita T. Tan Lee	05/05/2021	5	5	100	8

For the calendar year 2021, the Committee:

- Reviewed and approved the Audit Report and the Audited Consolidated Financial Statements as of and for the period ended December 31, 2020, as examined and presented by Sycip Gorres Velayo & Co. ("SGV & Co.") and endorsed them to the Board of Directors for approval
- Approved the selection and reappointment of SGV & Co. as the Company's External Auditor for the year 2021 and endorsed the same to the Board of Directors for approval
- Reviewed and approved the Unaudited Consolidated Financial Statements for the First to Third Quarter of 2021 and endorsed the same for notation of the Board and submission to the appropriate government regulatory agencies
- Approved the Internal Audit Reports as presented by the Internal Auditors
- Reviewed and approved the non-audit engagement proposals of SGV & Co.
- Reviewed the scope of work and fees of the external auditors, assessed their independence and effectiveness, and endorsed them to the Board of Directors

RISK MANAGEMENT COMMITTEE (RMC)

In compliance with its Charter and the recommendations of good corporate governance, the Committee is composed of five (5) Directors with Ms. Mary G. Ng as Chairman, and Mr. Johnip G. Cua, Ms. Juanita T. Tan Lee, Ms. Florencia G. Tarriela, and Mr. Wilfrido E. Sanchez as its members. Four (4) are Independent Directors, including the Chairman.

The RMC Charter provides that the Committee shall have Risk Oversight and Related Party Transactions (RPTs) Functions. As such, said Committee has the duty and responsibility of monitoring the risk environment of the Company and providing direction for the activities to mitigate, to an acceptable level, the risks that may adversely affect the Company's ability to achieve its goals. Moreover, said Committee likewise has the responsibility to review and ensure that RPTs entered into are not undertaken on more favorable economic terms with such related parties than similar transactions with non-Related Parties under similar circumstances.

EXECUTIVE COMMITTEE (EXCOM)

The EXCOM is composed of seven (7) directors with Dr. Lucio C. Tan as Chairman and Ms. Karlu T, Say, Mr. Michael G. Tan, Ms. Vivienne K. Tan, Ms. Juanita T. Tan Lee, Mr. Johnip G. Cua, and Ms. Florencia G. Tarriela as members.

Based on its Charter, it is the Committee's duty and responsibility to ensure that the Board properly manages the businesses and affairs of the Company. Its authority, however, is limited to functions not expressly reserved to be exercised by the Board of Directors under the laws of the Philippines, the corporate By-Laws, and the Company's Revised Corporate Governance Manual.

For the year 2021, in accordance with its Charter requiring the EXCOM to hold meetings only on an as-needed basis, no EXCOM meetings were conducted since no urgent matters arose requiring its approval.

NOMINATION AND COMPENSATION COMMITTEE (NCC)

The NCC is composed of six (6) directors with Dr. Lucio C. Tan as Chairman and Ms. Karlu T. Say, Mr. Michael G. Tan, Ms. Juanita T. Tan Lee, Ms. Mary G. Ng, and Mr. Wilfrido E. Sanchez as members.

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

On February 24, 2021, the Committee convened and passed upon the qualifications of candidates who were nominated for election at the Annual Stockholders' Meeting (ASM) held last May 5, 2021. This Committee meeting was attended by all members of the Committee, as shown below:

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee
Chairman (ED)	Dr. Lucio C. Tan	05/05/2021	1	1	100	7 years
Member (NED)	Karlu T. Say*	05/05/2021	-	-	-	1 year
Member (ED)	Michael G. Tan	05/05/2021	1	1	100	7 years
Member (ED)	Juanita T. Tan Lee	05/05/2021	1	1	100	9 years
Member (ID)	Mary G. Ng*	05/05/2021	-	-	-	1 year
Member (ID)	Wilfrido E. Sanchez	05/05/2021	1	1	100	7 years

**Ms. Karlu T. Say and Ms. Mary G. Ng were appointed as members of the Committee last May 5, 2021.*

CORPORATE GOVERNANCE COMMITTEE (CGC)

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

Based on its Charter, it is the Committee's primary responsibility to ensure the Company's compliance with the Philippine laws, rules and regulations, the SEC recommendations on good corporate governance for publicly-listed companies, and the Company's Manual on Good Corporate Governance.

In its pursuit of good corporate governance, the Committee held three (3) meetings in 2021 to review and discuss the Company's Integrated Annual Corporate Governance Report (I-ACGR), including the improvements necessary to be implemented by the Company, and the Sustainability Report, as required by the SEC.

Lastly, the Company likewise conducted a performance evaluation last November 19, 2021 to make sure that the Company's Directors and Committee members are capable of fulfilling and have been adequately carrying out their duties and responsibilities as such.

The table below shows the attendance of the members of the CGC during the 2021 meetings:

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee*
Chairman (ID)	Florencia G. Tarriela	05/05/2021	3	3	100	8 years
Member (ED)	Michael G. Tan	05/05/2021	3	3	100	8 years
Member (ED)	Juanita T, Tan Lee	05/05/2021	3	2	67	8 years
Member (ID)	Johnip G. Cua	05/05/2021	3	3	100	4 years
Member (ID)	Wilfrido E. Sanchez	05/05/2021	3	3	100	8 years

MANAGEMENT

In the year 2021, the Management, through the able and experienced leadership of its Chairman and CEO, Dr. Lucio C. Tan, and its President and COO, Mr. Michael G. Tan, were united with the Board of Directors in ensuring that the Company emerges stronger despite the ongoing COVID-19 pandemic.

The close coordination between the Management and the Board allowed the Company to be able to deal with the highly critical and sensitive issues efficiently and effectively.

Moreover, the ASM held last May 5, 2021 was attended to by all 11 Directors, as shown in the table below:

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

TRAINING OF DIRECTORS

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

In accordance thereto, the Company conducted a Group-wide Corporate Governance Webinar for all companies under the Lucio Tan Group on August 26, 2021, with SGV & Co. as its service provider. The webinar was attended by all Directors, Officers, and essential employees of the Group. Among the attendees were the following:

Board of Directors:

Dr. Lucio C. Tan Juanita T. Tan Lee
Carmen K. Tan Johnip G. Cua
Karlu T. Say Mary G. Ng
Michael G. Tan Wilfrido E. Sanchez
Lucio C. Tan III Florencia G. Tarriela
Vivienne K. Tan

Board Advisor:

Peter Y. Ong

Officers:

Ma. Cecilia L. Pesayco – Corporate Secretary
Marivic T. Moya – Assistant Corporate Secretary and Compliance Officer
Jose Gabriel D. Olives – Chief Financial Officer and Chief Risk Officer
Nestor C. Mendones – Deputy Chief Financial Officer
Dioscoro Teodorico L. Lim – Chief Audit Executive
Erwin C. Go – Chief Legal Counsel

DISCLOSURE AND TRANSPARENCY

UNSTRUCTURED DISCLOSURES

In 2021, the Company made the following disclosures to the SEC and the Philippine Stock Exchange (PSE) which disclosures were subsequently uploaded in its website for proper and efficient dissemination of information to its Stockholders:

Date of Report	Subject Matter Disclosed
January 22, 2021	Material Information: PMFTC Inc. merged with Philip Morris Manufacturing Philippines Inc.
February 9, 2021	Calling of the Annual Stockholders' Meeting
March 15, 2021	Approval of the Audited Consolidated Financial Statements for the Year 2020
(Forward)	

Date of Report	Subject Matter Disclosed
March 17, 2021	Declaration of Regular Cash Dividend of Php0.15 per share and Special Cash Dividend of Php0.09 per share to all its Stockholders as of March 31, 2021
March 19, 2021	Press Release: LTG Reports 2020 Unaudited Attributable Net Income of Php21.0 billion, 9% lower than 2019's Php23.1 billion.
May 5, 2021	Result of Annual Stockholders' Meeting and Organizational Meeting of the Board of Directors
May 5, 2021	Press Release: Outlook for 2021
May 11, 2021	Press Release: LTG Reports First Quarter 2021 Attributable Net Income of Php6.49 billion, 4% Higher than 1Q20's Php6.21 Billion.
May 28, 2021	Integrated Annual Corporate Governance Report
June 11, 2021	Declaration of Special cash dividend of Php0.24 per share to all stockholders of record as of June 25, 2021
August 11, 2021	Press Release: LTG Reports First Half 2021 Attributable Net Income of Php3.73 billion, 63% Lower than 1H20's Php10.03 billion
September 13, 2021	Change in Shareholdings of Director Karlu T. Say
October 12, 2021	Appointment of Mr. Wilfrido E. Sanchez as Lead Independent Director of the Company
October 12, 2021	Creation of Risk Management Committee
November 12, 2021	Press Release: LTG Reports an Attributable Net Income of Php9.95 billion for the First Nine Months of 2021, 38% Lower than 9M20's Php16.10 billion
November 19, 2021	Declaration of Special cash dividend of Php0.60 per share to all stockholders of record as of December 6, 2021

DISCLOSURE AND TIMING

As a publicly listed corporation, it is the Company's responsibility to ensure compliance with the rules and regulations of the SEC and the PSE and provide the investing public immediate information of any material information relating to or affecting the Company.

Relative thereto and further to its aim of achieving good corporate governance, the Company files and submits with the SEC any and all documents necessary to be filed, immediately after approval, or confirmation by the Board of any material information, actions, or decisions, which may affect the Company or the trading community. These submissions are subsequently disclosed to the PSE and uploaded on the Company website at www.ltg.com.ph for immediate dissemination of information to its Stockholders and the investing public.

Additionally, as part of the Company's practice, the Minutes of the ASM are uploaded in the Company's website within five (5) days from the date of the ASM, and the Audited Financial Statements (SEC Form 17-A) for the year are submitted to the SEC and PSE before the deadline set by the SEC.

The Company's Audited Financial Statements for the year 2021 were submitted to the SEC and the PSE on March 21, 2022, at least 44 days before the ASM.

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

OWNERSHIP STRUCTURE

The Company's outstanding common shares held by record owners of more than 5% are as follows:

Title of Class	Name of Record Owner	Citizenship	No. of Shares	Percent of Class
Common	Tangent Holdings Corporation	Filipino	8,046,318,193	74.36%
Common	PCD Nominee Corporation	Filipino	1,204,562,438	11.13%
Common	PCD Nominee Corporation	Non-Filipino	1,006,558,363	9.30%

BOARD REMUNERATION
COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS

The Company's Directors receive an allowance of Php30,000.00 a month and a per diem of Php25,000.00 for every Board meeting attended, and Php15,000.00 for every Committee meeting attended.

Other than those mentioned above, no other standard arrangements are received by the Directors of the Company as compensation, directly or indirectly, for any services rendered as such, including any additional amounts payable for Committee participation or special assignments, for the last completed fiscal year and the ensuing year.

SUMMARY COMPENSATIONS TABLE: ANNUAL COMPENSATION

	Year	Salary	Bonus	Others*
Four (4) most highly compensated executive officers (see below)	2022 (Estimate)	8,844,000	737,000	3,179,000
	2021	8,040,000	670,000	2,890,000
	2020	8,040,000	670,000	2,830,000
All other officers and directors as a group unnamed	2022 (Estimate)	440,000	36,666	7,480,000
	2021	400,000	33,333	6,800,000
	2020	1,200,000	100,000	6,670,000

**Others – Includes per diem of directors*

The following constitutes LTG's four (4) most highly compensated executive officers (on a consolidated basis):
1. Dr. Lucio C. Tan is the Chairman of the Board of Directors and CEO.
2. Mr. Michael G. Tan is the President and COO.
3. Atty. Ma. Cecilia L. Pesayco is the Corporate Secretary.
4. Ms. Juanita T. Tan Lee is the Treasurer.

EXTERNAL AUDITOR

Over the years, the Company has retained the services of the auditing firm of SGV & Co., with Ms. Aileen Saringan as the partner-in-charge.

The Audit Committee (previously the Audit and Risk Management Committee), regularly reviews and evaluates the performance of the External Auditor. It then makes the necessary recommendation to the Board for approval.

Accordingly, SGV & Co. has consistently and efficiently provided the Company with updates on the latest circulars, rulings, or revenue regulations from the Bureau of Internal Revenue, as well as updates on Philippine Financial Reporting Standards for the entire group of companies.

AUDIT and OTHER FEES:
For the year 2021, the Company incurred audit fees of Php1,320,000.00, exclusive of Out-of-Pocket Expenses, and non-audit fees of Php1,916,500.

DEALINGS IN SECURITIES

The Company adopts and strictly enforces a policy against insider trading. On stock transactions by any director or major officer of the Company, the same is reported to the SEC and the PSE, within three (3) trading days, of such acquisition or disposal of the Company shares, or any change in the shareholdings therein, of its directors and principal officers.

As provided in the table below, the following are the current shares held by its Directors and officers:

Name of Director/ Officer	Direct shares As of end-2020	Direct shares As of end-2021	Indirect shares / Through (name of record owner)	% of Capital Stock
Dr. Lucio C. Tan	2,200	2,200	NIL	-
Carmen K. Tan	2,200	2,200	NIL	-
Harry C. Tan	3,300	0	NIL	-
Karlu T. Say	0	1,000	530,000	-
Michael G. Tan	1,151,996	1,151,996	NIL	-
Lucio C. Tan III	1,100	1,100	NIL	-
Vivienne K. Tan	1,000	1,000	NIL	-
Juanita T. Tan Lee	1,100	1,100	NIL	-
Johnip G. Cua	1,000	1,000	NIL	-
Mary G. Ng	1,000	1,000	NIL	-
Wilfrido E. Sanchez	1,000	1,000	NIL	-
Florencia G. Tarriela	1,000	1,000	NIL	-
Ma. Cecilia L. Pesayco	52,200	2,200	NIL	-
TOTAL	**1,219,096**	**1,166,796**	**530,000**	**-**

Trading Blackouts

The Company, in carrying out its Insider Trading Policy, adopts and strictly implements a Blackout Period where directors, officers, advisers, consultants, and employees who may have direct knowledge of the financial results of operation, are prohibited from trading on the Company's shares within the specified period. To ensure compliance, the Office of the Corporate Secretary makes timely and constant reminders during Board meetings and via electronic mail.

Under the Company policy, Blackout Periods are observed during the following: (1) for quarterly reports, two weeks before disclosure; and (2) for the year-end financials, one month or 30 days before disclosure.

In 2021, with the consistent and timely reminder of the Corporate Secretary and the cooperation of the Directors, officers, and all covered employees within the Group, no instance of any insider trading has been reported within the Company.

RIGHTS OF STOCKHOLDERS

To encourage its Stockholders to participate in its business endeavors within and outside the Stockholders' Meeting, the Company takes due notice of and respects the legal rights of its Stockholders which are as follows:

Right to Participate
Stockholders holding at least one-third (1/3) of the subscribed and paid-up capital stock of the Company shall have (1) the right to call for a Special Stockholders' Meeting by submitting a written notice to the Corporate Secretary; and (2) the right to propose items in the agenda of the Stockholders' Meeting, provided the items are for legitimate business purposes. In either case, the written notice must be sent to the Office of the Corporate Secretary at least 90 days before the suggested date of the meeting, in compliance with the Company's Revised Manual on Corporate Governance.

For purposes of encouraging its Stockholders to attend the Annual and Special Stockholders' Meeting, whether in person or by proxy, Notice thereto which includes sufficient and relevant information, are sent to them at least 30 days before the meeting/s. Stockholders who choose to appoint a proxy to attend on their behalf are informed of the proper and necessary procedures on how to appoint one.

However, in compliance with the Notice from the SEC dated March 16, 2021, Notices to the ASM held last May 5, 2021 were published in print and online format at least twenty-one (21) days prior to the scheduled date of the Meeting.

Right to Vote
The Revised Corporation Code grants, and the Company respects, the stockholders' right to vote on corporate acts of fundamental importance, such as, but not limited to, the election, removal and replacement of Directors and the changes or amendments made to the Company's Articles of Incorporation and By-Laws.

Be that as it may, except for the election of Directors and such other matters where the law requires a different threshold for approval, all matters submitted for voting in the ASM shall require the affirmative vote of at least a majority of the Stockholders present in person or by proxy during the said meeting.

Right to Inspect or Examine Corporate Records
Stockholders who have not improperly used any information secured through any previous examination of Company records have the right to inspect corporate books and records, including minutes of Board meetings, stock registries, annual reports, and financial statements by submitting to the Corporate Secretary a written notice for such purpose.

Right to Information
As a publicly-listed corporation, the Company grants its Stockholders and the investing public immediate access to material information via its website at www.ltg.com.ph, and timely disclosures done through the PSE. Minority Stockholders are likewise furnished, on a timely and regular basis, relevant information as may be required by law.

Right to Dividends
The Company declares and the Stockholders receive dividends out of the Unrestricted Retained Earnings of the Company when its earnings become in excess of 100% of its Paid-in Capital Stock, except:

(a) When justified by definite corporate expansion projects or programs approved by the Board;
(b) When the Company is prohibited under any loan agreement with any financial institution or creditor, whether local or foreign, from declaring dividends without its consent, and such consent has not been secured; or
(c) When it can be clearly shown that such retention is necessary under special circumstances obtaining in the Company, such as when there is a need for special reserve for probable contingencies.

Appraisal Right
The Company's stockholders may exercise their right to dissent and demand payment of the fair value of his shares in instances when: (1) an amendment to the Articles of Incorporation will change or restrict the rights of such stockholder or otherwise extend or shorten the term of corporate existence; (2) there is a sale, lease, exchange, transfer, mortgage, pledge, or other disposition of all or substantially all of the corporate property and assets; (3) there is

merger or consolidation; and (4) the Company decides to invest its funds in another corporation or business or any purpose other than its primary purpose.

STOCKHOLDERS RELATIONS

The Company believes that one of its greatest assets is the continued faith and confidence its Stockholders have invested in it. As such, the Company ensures that all decisions and transactions entered into are meticulously reviewed and approved by the Board, and such other matters necessary to be approved by the Stockholders are presented for their approval during the Stockholders' Meeting.

STOCKHOLDERS' MEETING AND VOTING PROCEDURES

In compliance with the Notice from the SEC dated March 16, 2021, Notice to the ASM held last May 5, 2021 were published in print and online format for two (2) consecutive days. The last day of publication, which was April 14, 2021, is at least twenty-one (21) days prior to the scheduled date of the Meeting.

These publications include the Agenda for the meeting, the access link to all ASM documents, the process for proxy application in case a Stockholder may not be able to personally attend the Meeting, and the procedures on how to register and vote at the virtual meeting.

DIVIDENDS

In 2021, the Company thrice declared and distributed the following regular/special cash dividends:

Date	Dividends	Payment
March 17, 2021	Regular Cash Dividend of Php0.15 per share and Special Cash Dividend of Php0.09 per share to all its Stockholders as of March 31, 2021	April 12, 2021
June 11, 2021	Special cash dividend of Php0.24 per share to all stockholders of record as of June 25, 2021	July 7, 2021
November 19, 2021	Special cash dividend of Php0.60 per share to all stockholders of record as of December 6, 2021	December 13, 2021

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

EMPLOYEE RELATIONS

In 2021, to guarantee that the employees and their loved ones are not unnecessarily exposed to the virus and thus ensure the continued and efficient operations of all departments, the Company has retained the work-from-home scheme, and physical presence in the office is done only when absolutely necessary.

Moreover, the Company, in coordination with the government, implemented a Groupwide vaccination program for all its employees and their household. The employees were requested to register via the online application created by the Company's IT Department. Once completed, the respective vaccination schedules were sent to the employees via text message to ensure efficient inoculations. The administering of vaccines and boosters were held in various sites, taking into consideration the location of the employees.

The Company, in addressing possible mental health issues caused to its employees by the pandemic, has also implemented various online activities coupled with regular physical and mental health assessments. These activities aimed to keep the high spirits and zeal of its employees.

CORPORATE GOVERNANCE MANUAL AND POLICIES

The Company's Corporate Governance Manual (the "Manual") embodies the principles of good governance implemented by the Company. To ensure that it is up-to-date with the latest issuances of the different regulatory agencies and, most importantly, the Code of Corporate Governance for Publicly Listed Companies, the Corporate Governance Committee conducts regular reviews and evaluations of the Manual and other Company policies.

The Manual prescribes the duties and responsibilities of the Board and its respective committees and governs the relationship between the Company and its Stockholders. It likewise defines corporate practices which must continuously be implemented to the benefit of the Company.

Corporate Governance Confirmation Statement

Based on the recommendations provided in the SEC-mandated submission of the Integrated Annual Corporate Governance Report (I-ACGR), the Company adheres to fully comply with the Code of Corporate Governance.

To ensure substantial compliance with the Code of Corporate Governance for Publicly Listed Companies, recommended committees, and their corresponding charters were established; a lead independent director was appointed; the Company's Manual on the Corporate Governance and the Code of Business Conduct and Ethics were amended; and Company Policies such as the Employee Development Policy and Cyber Security policies were enacted. Notwithstanding the foregoing, the Company has yet to comply with the following items:

i. The positions of Chairman of the Board and Chief Executive Officer are held by separate individuals; and
ii. The Company has at least thirty percent (30%) public float to increase liquidity in the market.

The I-ACGR contains a statement/explanation for the above-mentioned items.

INVESTOR RELATIONS

The Company maintains an open communication with the investing community to promote a greater understanding of the Company. Reports to the SEC and PSE are disclosed on time and are available for viewing and downloading on the Company's website, www.ltg.com.ph. A dedicated Investor Relations Officer may also be contacted, whose details are available on the website.

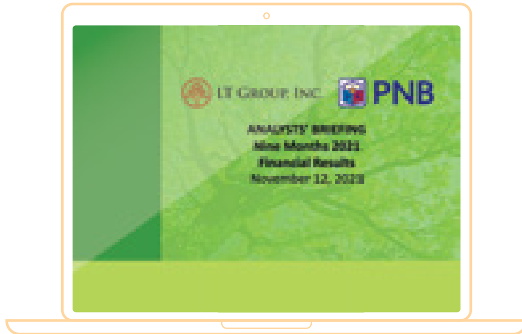
LTG conducts meetings regularly with investors and analysts to keep them updated on developments with the Company and its subsidiaries. LTG arranges conference calls and participates in investor conferences organized by several stock brokerages. However, since the start of the COVID-19 pandemic, there have been no plant visits as there were no face-to-face interactions with analysts and portfolio managers. LTG also communicates through emails, telephone calls, WhatsApp, and Viber.

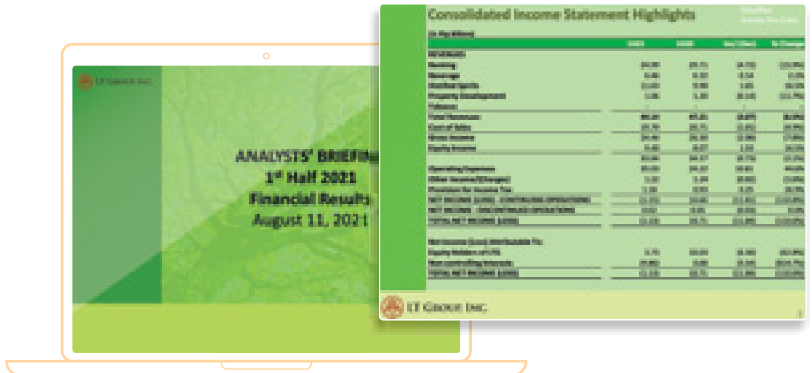
In 2021, all of LTG's quarterly analysts' briefings, conducted with PNB, were all virtual. Close to 60 buy-side and sell-side analysts, both local and foreign, attended each of the briefings. LTG discloses the schedule of briefings to the PSE at least a week before the briefing date.

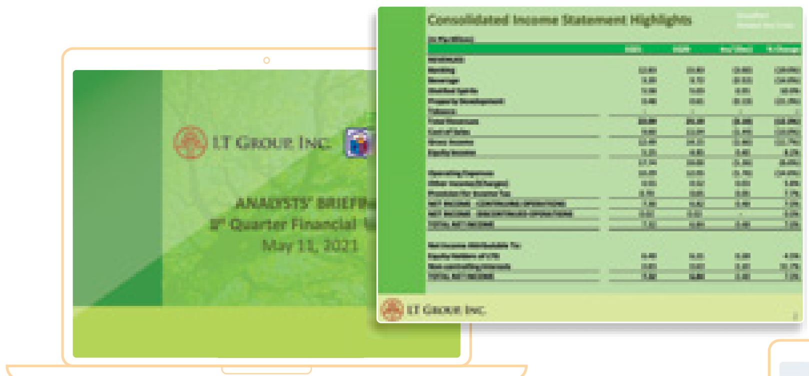
- Full Year 2020 Results on March 19, 2021
- First Quarter 2021 Results on May 11, 2021
- First Half 2021 Results on August 11, 2021
- Nine Months 2021 Results on November 12, 2021

Regular press releases are disclosed to the PSE and SEC and distributed to the media, on quarterly earnings results as well as events that may have a significant impact on the operations of the Company and its subsidiaries.

Before the pandemic and after the Annual Stockholders' Meeting, a press briefing was conducted, where members of the media had access to the President and Chief Operating Officer, as well as the Chief Financial Officer. While in 2021, reporters were allowed to send in their questions—which were answered. A Press Release on the outlook for 2021 was also disclosed to the PSE and distributed to the press.







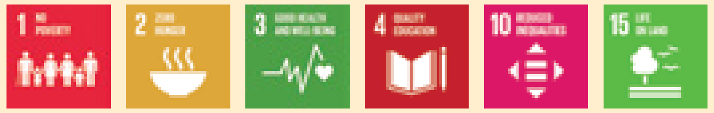
Tan Yan Kee Foundation, Inc.

On July 15, TYKFI was awarded by the Asian Leadership Awards for Social Sustainability and Community Development.

The companies under LT Group, Inc. and other companies that are majority-owned by the Tan family conduct some of their Corporate Social Responsibility (CSR) activities under the Tan Yan Kee Foundation, Inc. (TYKFI).

Dr. Lucio C. Tan and his siblings established TYKFI in 1986. The Foundation is named in honor of the late Tan patriarch and is governed by a 15-member Board.

The Foundation and its partners pursue projects that focus on four advocacies: Education, Health Services, Social Welfare and the Environment.



EDUCATION

Foundation for Upgrading the Standard of Education (FUSE) Update

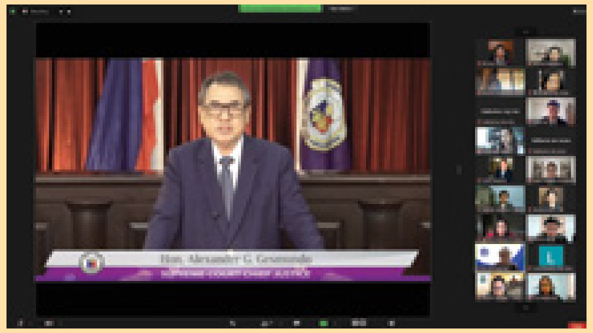
FUSE continued to reach out to educators by conducting several online activities and learning sessions. These include:

- Integrating Social-Emotional Learning in the Classroom (March 23)
- Enhancing Science Instruction (March 30)
- Usage of Visible Thinking Strategies
- Managing Cross-Generational Teams: Adult Development to Build Resilient Teams (April 13)
- Science Journalism Amid the Infodemic (April 27)
- Creating Learning Action Cells in Schools (May 4)

FUSE also collaborated with the Filipino Science Hub (FilSciHub) and Philippine Normal University (PNU) and conducted a series of webinars for Science, Technology, Engineering, and Mathematics strand (STEM) teachers. The first webinar, *Focus on Effective STEM*, was held on May 22 with 327 participants. While the second webinar, *Practical and Innovative STEM Teaching*, was attended by 294 participants.

Printing Materials and Equipment for Schools in Ilocos Sur and Nueva Vizcaya

In Santa Cruz, Ilocos Sur, the recipients were Babayoan Elementary School, Nagtenga Elementary School, and Sidaoen Elementary School. While in Nueva Vizcaya, the recipients were Macdu Elementary School and Tan Yan Kee Elementary School.

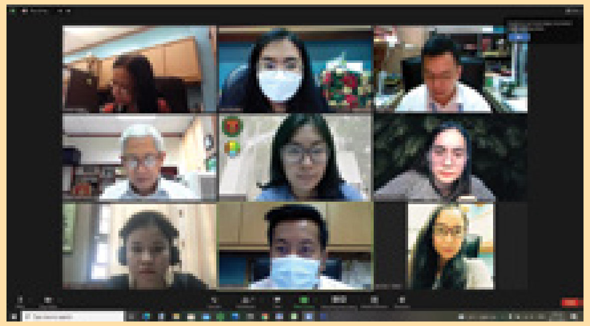


Update on the TYKFI-Foundation for Liberty and Prosperity (FLP) Scholars

The joint program, in cooperation with the Philippine Association of Law Schools, welcomed 10 third-year and 11 fourth-year law students for the Academic Year 2020-2021.

TYK-ABI Medical Specialty Scholarship Program Update

In September, Kimmie Xander T. Chua returned from her 2-year clinical fellowship training on Hepato-Pancreato-Biliary (HPB) Surgery and Liver Transplantation training in Taiwan.



College Scholarships for Agriculture and Forestry

In November, three third-year and two fourth-year BS Forestry students from the University of the Philippines – Los Banos (UPLB) were given scholarships for the School Year 2021 -2022. The foundation also supported six fourth-year scholars taking up Agriculture and Agricultural Engineering at the Nueva Vizcaya State University.

HEALTH SERVICES

COVID-19 Response

TYKFI's Response included the following:

- Face shields, face masks, ethyl alcohol, thermometers, medical gloves, and food supplement syrup to Sta. Ana Hospital and Ospital ng Maynila on January 5
- Isopropyl alcohol and food supplement syrup to San Jose ng Tagapagtanggol Parish in Quezon City on May 26

SOCIAL WELFARE

Rice for School Children and Teachers (page 4)

On January 31, 2021, sacks of premium white rice were distributed to 260 students and teachers of Macdu Elementary School in Kayapa, Nueva Vizcaya.

Meanwhile, through the local government unit of Santa Fe, Nueva Vizcaya, students in far-flung elementary schools were each given 10 kilograms of rice. The recipients were 131 students in Lawed Elementary School, 74 students in Buyasyas Elementary School, and 44 students in Cauco Elementary School.

In December, the recipients were 133 pupils and teachers of Tan Yan Kee Elementary School and 144 scholars under the TYKFI-Saint Teresita's Academy scholarship program for farmers' children.

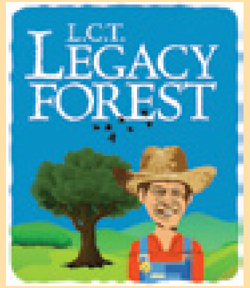
Rice Donation for those affected by COVID-19

In October, 150 sacks of 25-kilograms of rice were donated in Santa Fe, Nueva Vizcaya for families undergoing quarantine.

Vegetables for Hospicio de San Jose

TYKFI and Eton donated vegetables to residents of Hospicio de San Jose in San Miguel, Manila and San Jose Ang Tagapagtangol Parish in Holy Spirit, Quezon City.

ENVIRONMENT



Dr. Lucio C. Tan Legacy Forest Project

The forest project, now in its seventh year, covers 930 hectares and 56 hectares in Carangian, Nueva Ecija. Species planted include Alibangbang, Narra, Sampaloc, and Falcata. A new planting site is located in Tanay, Rizal. In 2021, 31 hectares were planted with 77,748 seedlings.

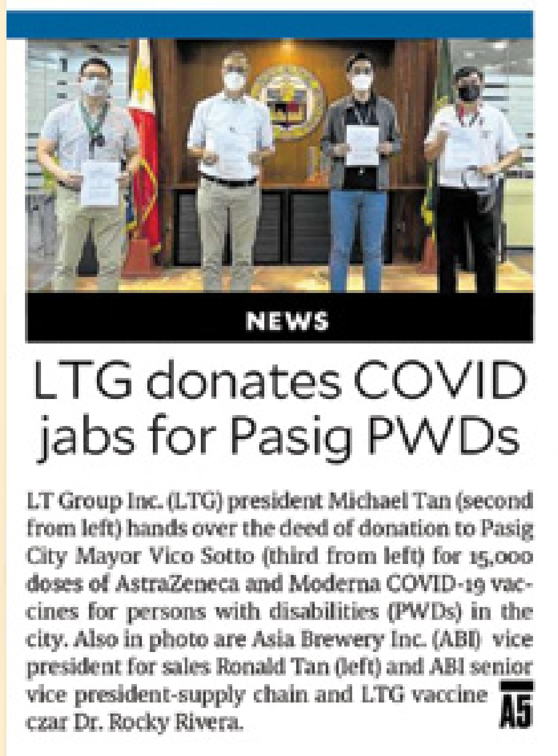
Meanwhile, at the Fortune farm in Barangay Digdig, Carangian, Nueva Ecija, the growing of vegetables and fruits continued. In 2021, an estimate of 15,000 kilos were produced and were sold to various markets, including employees of several Lucio Tan companies.

Update on the Las-Ud Mangrove Project

Launched on August 14, 2014, TYKFI provided more than 3,700 Bakawan seedlings and propagules, known as Rhizophora Mangle or Red Mangrove for planting in the Buwaya River in Ilocos Sur. The trees are now 12 feet tall and enable the community to catch three to ten kilos of fish, shellfish, and crabs daily.

COVID-19 Response for 2021

LT Group, Inc. (LTG) and its subsidiaries continued to be one with the country in its efforts as the COVID-19 pandemic entered its second year. The group continued to donate and help national and local government units, as well as non-government organizations (NGOs).



NEWS

LTG donates COVID jabs for Pasig PWDs

LT Group Inc. (LTG) president Michael Tan (second from left) hands over the deed of donation to Pasig City Mayor Vico Sotto (third from left) for 15,000 doses of AstraZeneca and Moderna COVID-19 vaccines for persons with disabilities (PWDs) in the city. Also in photo are Asia Brewery Inc. (ABI) vice president for sales Ronald Tan (left) and ABI senior vice president-supply chain and LTG vaccine czar Dr. Rocky Rivera.

A5

LT GROUP RECEIVES MMDA RECOGNITION: Metropolitan Manila Development Authority Chairman Benhur Abalos Jr. (left) confers a plaque of appreciation to LT Group Inc. led by its president Michael Tan in recognition of the conglomerate's valuable contributions to the agency's pandemic response in the National Capital Region. Chaired by tycoon Lucio Tan, LT Group Inc. joins eight other private sector awardees who donated vaccines, food, water, alcohol and personal protective gear to frontliners and various local government units in Metro Manila and key areas in the country. The awarding rites were held at the SMX Convention Center during the launch of MMDA's 'I Love Metro Manila' urban renewal campaign.

Vaccination at Centris Elements

Eton Centris Used by Quezon City as Vaccination Site

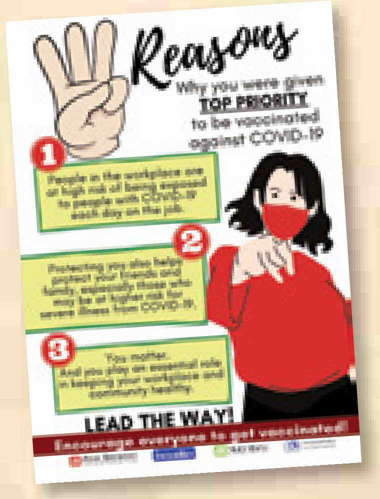
The Local Government Unit (LGU) of Quezon City used the Centris Elements in Eton Centris as a COVID-19 vaccination site. It was used from May to December 2021 and 19,745 individuals were inoculated there, from adults to kids aged 12 to 15 years old.

Vaccines for Myanmar

In August, LTG sent 1,200 doses of AstraZeneca vaccines to Myanmar, in 2 batches. These were used to vaccinate 600 people, from the Asia Brewery plant there, and the Filipino community. The vaccination was done at the Philippine Embassy grounds in Yangon. The second dose was administered in September.

Taking Care of Our Employees

Each Company under LTG had its own COVID-19 response program to protect employees and prevent or lessen the spread of COVID-19 in the workplace. LTG also spearheaded a vaccination program for the whole Lucio Tan Group of Companies, with over 60 companies, including subsidiaries and affiliates.



PMFTC's COVID-19 response program

Some of Asia Brewery's posters on their COVID-19 response program

COVID-19 Vaccination Program

LT Group, Inc. (LTG) spearheaded the vaccination program for the Lucio Tan Group of Companies (LTGC).

On July 3, 2021, LTG formally started its vaccination program at the PNB Financial Center in Pasay City. Attended the opening of the vaccination site were LTG President Michael G. Tan (second from left), then from left to right, Dr. Alberto Rivera (LTG Covid Czar), Office of Civil Defense Assistant Secretary Hernando Caraig, Labor Secretary Silvestre Bello III, PNB President Wick Veloso, Jopin Romero (Project Lead Advisor: A Dose of Hope Initiative, Go Negosyo), Pasay City Health Officer III Malou San Juan, and Eva Pasagui (from Go Negosyo).

LTG purchased the AstraZeneca and Moderna vaccines and paid for the administration services of Zuellig Pharma Corporation (Zuellig) and its subsidiary, Interpharma Solutions Philippines, Inc. (Interpharma). Exclusive sites for the Group's employees and service providers were opened in areas where there were at least 400 people, also as a precaution to prevent mingling with the public and further spread of the virus. Various companies under the Group hosted the sites. The site hosts were companies who had the most number of employees in a given area. All the sites vaccinated the hosts' employees, as well as other LTGC employees that were either residing or working in the area.

LTGC had 20 exclusive sites:

Site #	Site	Location	Host Company
	National Capital Region		
1	PNB Financial Center	Pasay City	Philippine National Bank
2	PAL Nichols Sports Center	Pasay City	Philippine Airlines
3	UE Gymnasium	Caloocan City	University of the East
4	Grains Handlers Philippines, Inc. Warehouse	Pasig City	Fortune Tobacco Corporation
5	Marikina Plant	Marikina City	PMFTC Inc.
	Luzon		
6	"Ultra" Covered Court	Cabuyao, Laguna	Asia Brewery, Inc.
7	PMFTC Plant	Tanuan, Batangas	PMFTC Inc.
8	Motorpool Area	Binangonan, Rizal	Grandspan Development Corporation
9	Sales Office	Cauayan, Isabela	PMFTC Inc.
10	Sales Office	Naga, Camarines Sur	PMFTC Inc.
11	Old Helipad Area	San Fernando, Pampanga	Asia Brewery, Inc.
12	Basketball Court	Caranglan, Nueva Ecija	Tan Yan Kee Foundation, Inc.
	Visayas		
13	Covered Basketball Court	Victorias City, Negros Occidental	Victorias Milling Company, Inc.
14	Po Hang Gymnasium, Tay Tung High School	Bacolod City	Asia Brewery, Inc., Philippine National Bank
15	Old PNB Building	Iloilo City	Philippine National Bank, Asia Brewery, Inc.
16	Airport Terminal 1, Domestic Arrival Area	Mactan, Cebu	Philippine Airlines
17	Mandaue City Sports & Cultural Complex	Mandaue, Cebu	PMFTC
	Mindanao		
18	Malt Receiving Area	El Salvador City, Misamis Oriental	Asia Brewery, Inc.
19	Sales Office	Davao City	PMFTC Inc.
20	Warehouse	Cagayan de Oro City, Misamis Oriental	PMFTC Inc.

In Zamboanga City

In Tangub, Misamis Occidental

In Calapan City, Oriental Mindoro

In areas where there were less than 400 employees, arrangements were made through Interpharma for shared sites with other companies that were organized by Zuellig. The arrangement was that LTG sent the vaccines for the employees while the administration was handled by Interpharma. There were nine (9) such shared sites in Tarlac, Baguio, Lucena, San Pablo, Butuan, General Santos City, Davao, and Cebu. Other employees were vaccinated at the Zuellig office in Paranaque City.

Arrangements were also made with 16 Local Government Units (LGUs) to make vaccines available for LTGC employees at the soonest possible time. Vaccines were sent to these LGUs who administered the vaccines to LTGC employees and service providers. These LGUs were:

- Vigan City, Ilocos Sur
- San Fernando City, La Union
- Puerto Princesa City, Palawan
- Calapan City, Oriental Mindoro
- Kalibo Municipality, Aklan
- Boracay, Aklan
- Dumaguete, Negros Oriental
- Tagbilaran City, Bohol
- Tacloban City, Leyte
- Masbate City, Masbate
- Surigao City, Surigao del Norte
- General Santos City, Soccsksargen
- Tangub, Misamis Occidental
- Zamboanga City, Zamboanga
- Libungan Municipality, Cotabato
- Tupi Municipality, South Cotabato

The LTGC has over 31,000 employees and over 15,000 service providers. For the first two doses of vaccines, 12,768 employees and 7,420 service providers were vaccinated under the LTGC vaccination program. Together with those who were vaccinated through local government units (LGUs), 98.6% of LTGC employees and 93.8% of service providers were vaccinated.

The vaccine program also allowed employees to access vaccines for their families and households.

They reimbursed LTG for the cost of the vaccines and the administration cost charged by Interpharma and benefited from the use of the exclusive sites of LTGC with no extra cost. Around 5,790 household members availed of this service.

LTG's program for the two primary vaccine doses ended on December 18, 2021, with the last vaccinees receiving their second dose at the Zuellig office in Parañaque City, Metro Manila.

At the Philippine Arlines' Nichols Sports Center


Screening area at the PNB Financial Center in Pasay City

At UE Caloocan's gymnasium


At the Grains Handlers warehouse in Pasig


At Victorias Milling Company, Inc.


At the Po Hang Gymnasium of Tay Tung High School in Bacolod City

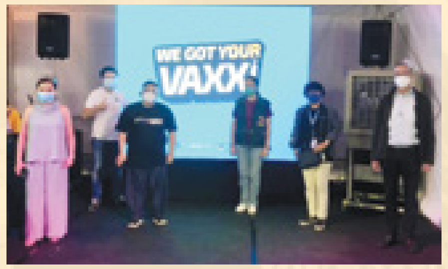
Grandspan Development Corporation's registration area in Binangonan, Rizal


A nonagenarian household member of a PMFTC employee received her vaccine

At the PMFTC Marikina plant


At Asia Brewery's plant in El Salvador, Misamis Oriental


At TYKFI in Nueva Ecija



At the PMFTC's plant in Tanauan, Batangas


Left: Bacolod City's Bakuna Bus providing booster shots for employees at the PNB Lacson Branch parking lot


Bottom: TDI employees waiting for their booster shots at the Murcia City LGU

Booster Shots

On November 27, 2021, LTG started the booster run for its employees. A total of 12,855 employees and third-party providers were given booster shots either in nine (9) of the LTGC exclusive sites, shared sites (usually in SM malls, through Interpharma), or at the Zuellig office in Paranaque City.

Another 1,539 employees and third-party service providers were given boosters through arrangements with different LGUs wherein LTG donated the vaccines enough for employees and at least the equivalent number for residents of the LGUs. A total of ten sites had such arrangements.

LGUs where vaccines were donated for LTGC employees' booster shots:

- Binangonan Municipality, Rizal
- Carranglan Municipality, Nueva Ecija
- Cauayan City, Isabela
- Bacolod City, Negros Occidental, in the PMFTC Complex and PNB Lascon Branch using the Bakuna Bus
- Murcia City, Negros Occidental
- Pulupandan Municipality, Negros Occidental
- Iloilo City, Iloilo
- Lapu-Lapu City, Cebu
- Tupi Municipality, South Cotabato

LTG had its last day of the booster run on March 25, 2022 in the municipality of Tupi in South Cotabato.

A number of employees and service providers opted to get their booster shots earlier from their LGUs due to the delay in the granting of the Emergency Use Authorization (EUA) of Moderna vaccines. Based on the reports of the individual companies of the LTGC, 47% of employees and 45% of service providers received booster shots.

Help Flows for Victims of Super Typhoon Odette

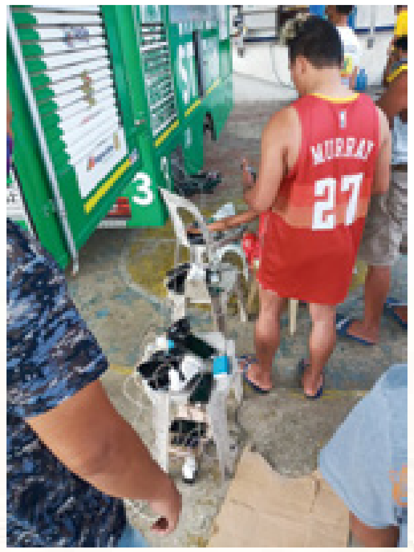
Super Typhoon Odette (international name: Rai) made landfall in the Philippines on December 16, 2021. It had winds as strong as 260 kilometers per hour and affected many areas in Visayas and Mindanao.

Absolute bottled water with the *White Label*

Through its program ***Help Flows***, Asia Brewery, Inc. (ABI) sent bottled water and mobile water stations to affected areas, in coordination with local and national government units.

LTG companies were not spared from the typhoon. Sales offices and warehouses were damaged and the group's employees themselves were victims of Odette.

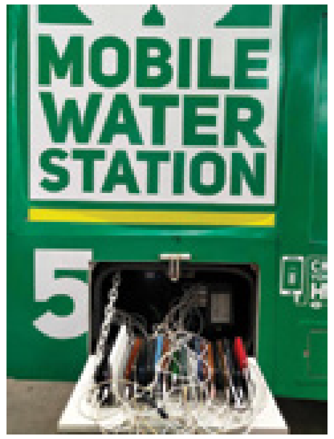
Three mobile water stations were sent, each with a capacity of filtering 3,000 gallons of water per day, on a 24-hour shift. In areas where there were no adequate supply of water to be filtered, the local government unit (LGU) sent a firetruck with the mobile water station.



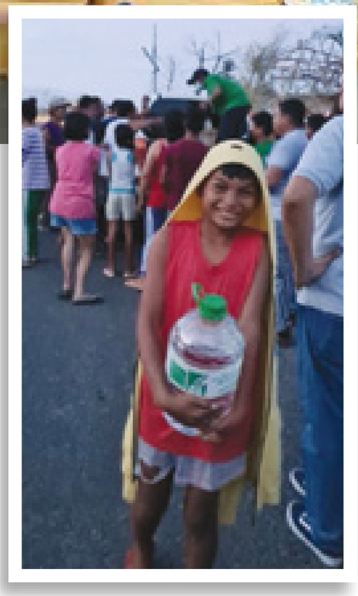
Unit #3
Deployed in the island province of Bohol, from January 3 to February 17, 2022

Unit #4
Deployed in the province of Cebu from December 24, 2021 to February 8, 2022

Unit #5
Deployed in the province of Cebu from December 27, 2021 to January 8, 2022, then to Surigao City from January 17 to February 5, 2022



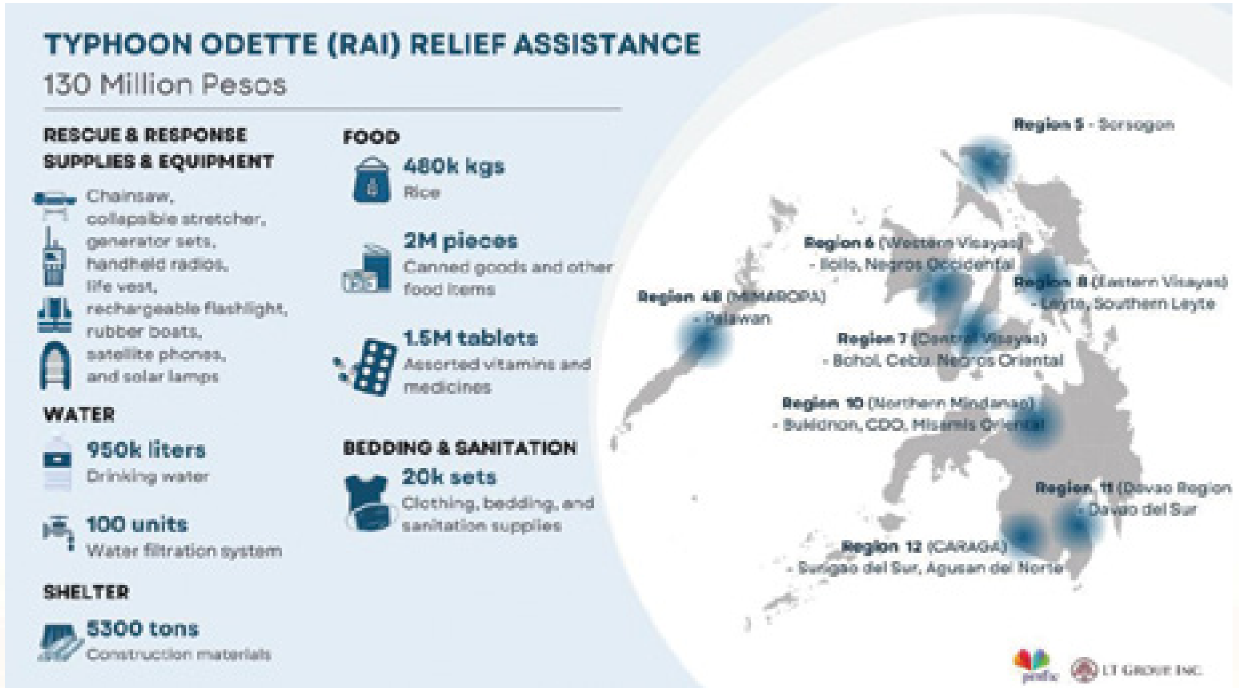
Summit water for Cebu weightlifters, led by Olympic gold medalist, Hidilyn Diaz.



Aside from the Absolute water with the white labels, the group also distributed regular stocks of Summit and Absolute.

AB Pascual Holdings Pte. Ltd., the joint venture with Corporacion Empresarial Pascual of Spain, distributed its Creamy Delight yogurt and chocolate pudding in some areas.

PMFTC Inc. likewise extended help to those affected by Typhoon Odette in eight regions, by donating much-needed rescue and response supplies and equipment, as well as food and water. Construction materials were also donated to help victims rebuild their homes.



ASIA BREWERY, INC.

Balik Eskwela (Return to School)
A printer and school supplies were donated to the Kalabaylabay Elementary School in El Salvador City.

ABI in El Salvador, Misamis Oriental donated bottled water and canned goods for the community pantries in the city. Beneficiaries include the Philippine National Police and the 1st Special Forces Company of the military,

ABI Cares: Donation Drive for Typhoon Odette Victims
ABI and its subsidiaries encouraged employees to voluntarily give cash donations for victims of Typhoon Odette. The total amount raised of Php226,144.06 was matched by the Company.

ETON PROPERTIES PHILIPPINES, INC.

Eton Centris Used by Quezon City as Vaccination Site
The Local Government Unit (LGU) of Quezon City used the Centris Elements in Eton Centris, Quezon City as a COVID-19 vaccination site. It was used from May to December 2021 and 19,745 individuals were inoculated there, from adults to kids aged 12 to 15 years old.

Parol (Christmas Lantern) Making Contest
In December, Eton partnered with the Quezon City LGU and had a parol-making contest among different barangays (villages).

Masaganang Palayan Project (Prosperous Ricefields)
Started in 2019, the project aims to sustain the livelihood of farmers. In 2021, there were 21 farmer-beneficiaries—eight for rice and 13 for vegetables. Close to 140 kilograms of palay and seeds were given.

Painting Exhibit of Inmates
Eton partnered with the Bureau of Correction and Puesto Manila, an art gallery and curio shop, and had a two-leg exhibit from November 17 to 30 at the PNB Financial Center in Pasay City and from December 1 to 17 at the Eton WestEnd Square in Makati City. Fourteen (14) inmates displayed 20 paintings.

Rice for Hospicio de San Jose
Rice from the Masaganang Palayan Project and vegetables from The Legacy Project of TYKFI were donated to the Hospicio de San Jose, a homeless shelter in the City of Manila.

PHILIPPINE NATIONAL BANK

PNB CommuniTree
In celebration of PNB's 105th anniversary, bank employees were encouraged to plant seedlings in their own backyards or communities. From June 22 to July 17, 800 forest and fruit-bearing trees were planted by 315 volunteers.

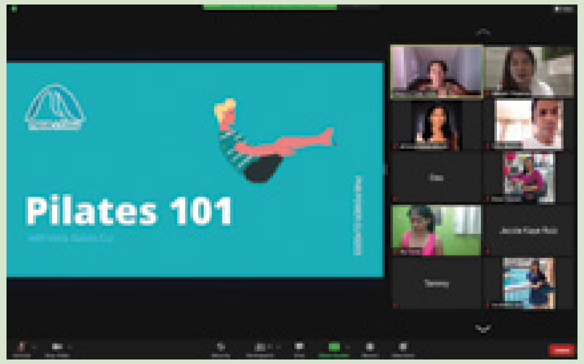
Bigay Tulong for Outsourced Personnel 2
Employees donated to provide a one-time group accident insurance for the bank's outsourced personnel. The campaign generated Php567,773.73 which benefited 2,913 outsourced personnel.

Project PLANET (Protect, Love, And Nurture the Environment Together)

This is an internal environmental awareness and carbon footprint reduction campaign among bank employees focusing on energy efficiency, water conservation, banning single-use plastic, and proper waste management that was formally launched in July 2019.

Pagtutulungan ng Bayan (Cooperation) for Philnabankers Affected by Typhoon Odette

The bank's employees had a donation campaign for over 100 co-employees in the Visayas and Mindanao areas affected by Typhoon Odette and generated Php624,516.68.



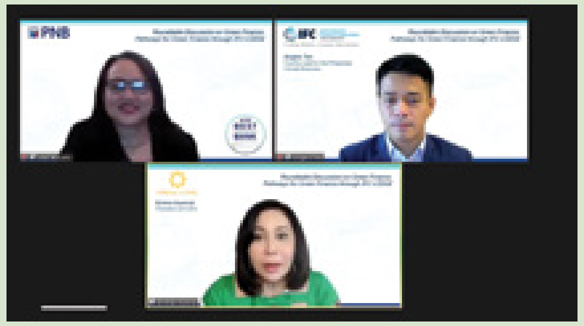
Digital Wellness and Sustainability Fair & Wellness Webinars

From November 15 to 19, the bank held its second fair with the theme, "Prioritizing Well-Being In and Out of the Office." The Human Resources Group also delivered 90 mental-health-related webinars attended by 2,230 employees throughout the year.

Employee Voluntarism

In 2021, 1,137 employees rendered an estimated 2,855 volunteer manhours in their respective communities. An estimate of 32,604 individuals benefited from these activities, which include:

- Packing and distributing relief goods
- Coastal clean-ups
- Bloodletting
- Editing and promoting books for students
- Visiting a children's center
- Feeding program
- Donating supplies such as oximeter, masks, and alcohol for medical frontliners
- Contributing cash or in-kind for victims of natural disasters



Financial Literacy, Wellness and Sustainable Financing Learning Sessions for Existing and Potential Clients

An estimate of 56,499 participants from existing and potential clients, as well as employees, participated in this year-round program. Participants included borrowers/ lenders, OFWs along with their dependents, police officers, professionals, blue-collared workers, and entrepreneurs.

Donation of Decommissioned Computers

PNB donated 40 decommissioned desktop computers and a laptop to the San Miguel National High School in San Miguel, Bulacan on August 5.

PMFTC INC.

Rebuilding Lives and Livelihoods

PMFTC provided livelihood assistance to communities in Misamis Oriental, Batangas, Bulacan and the National Capital Region from June to December. PMFTC gave away Nego Carts and live ducks.

Gearing Up Educational Facilities for the New Normal

In Camarines Sur, PMFTC assisted in the construction of a five-classroom building. The rooms were equipped with armchairs, tables, ceiling fans, chalkboards and other electrical fixtures to ensure a comfortable learning environment.

Basic Healthcare Services for Children and the Elderly

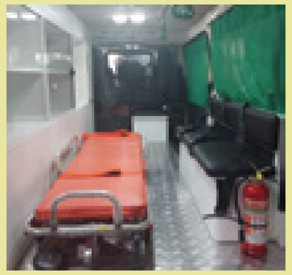
As basic healthcare services were hampered by the pandemic, PMFTC helped mitigate the insufficient resources and workforce by providing basic health check-ups including medicines and vitamins to communities nationwide, particularly serving the elderly and children.

Adaptive and Innovative Tools for Distance Learning

PMFTC provided equipment and support for about 19,000 students nationwide as they adapt to distance learning. PMFTC gave away tablets, printers, air purifiers and other items needed by students.

Re-Fleeting Public Rescue and Response Teams

Several Local Government Units (LGUs) and National Government Units were given fully equipped ambulances to improve rescue and response.



World Clean-Up Day

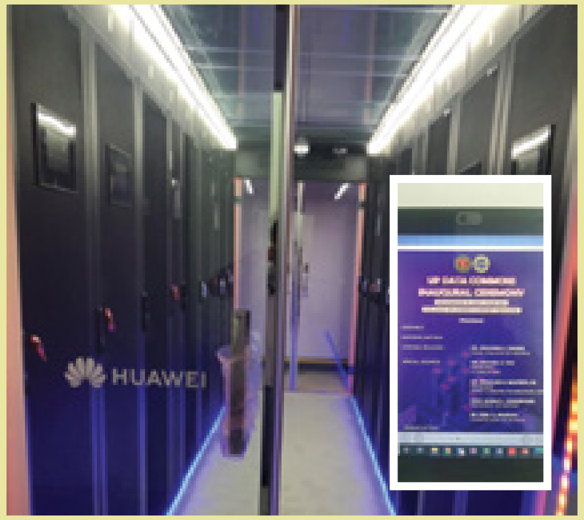
In partnership with various JCI (Junior Chamber International) chapters in the Philippines, led by its oldest and biggest chapter JCI Manila and Hapinoy, a membership organization of sari-sari store owners, PMFTC co-organized and activated 1,700 volunteers for World Clean-Up Day 2021 in 23 sites across the country—covering 109,224 meters of clean-up space. The profile of participants proved that a clean-up collaboration among consumers, producers and retailers can have a powerful impact on the communities where they take place. As a responsible producer, PMFTC will continue to raise awareness on the issue of littering with its anti-litter initiatives in cooperation with members of the community and stress the importance of properly disposing of other wastes—including cigarette butts.

Dentalcare Equipment

In Metro Manila and Sibugay, Zambales, PMFTC donated dental care equipment for the military.

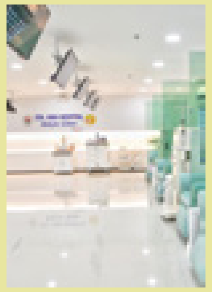
Computing and Storage Infrastructure for Research & Development

Called the UP-Data Commons, the infrastructure at the ground floor of the College of Science in the University of the Philippines Diliman Library was upgraded into a data center and storage facility of world-class computing environment, as well as hardware and software resources for innovative computing and storage.



Harnessing the Power of the Sun

In Bukidnon, Batangas, and Batanes, PMFTC helped in installing 2,200 solar street lights.



Dialysis Center and Dental Equipment

A dialysis center in Sta. Ana Hospital, Manila was constructed and equipped with state-of-the-art hemodialysis machines, high-end HD equipment, HEFA filter and portable reverse osmosis, television sets with wireless Bluetooth headsets, ECG machines, defibrillator, and suction machines. A negative pressure room was also made specifically for COVID-19 patients.

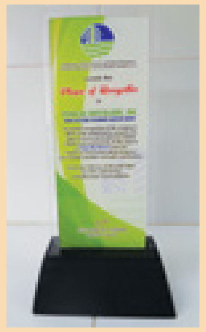
TANDUAY DISTILLERS, INC.

Tilapia Fingerlings

The Company does a quarterly dispersal of tilapia fingerlings in the Palico-Lian River near the Absolut Distillers plant.

Donation to Fire Station in Cainta, Rizal

On September 21, Tanduay donated five 2.5-inch diameter firehouses and five 1.5-inch diameter firehouses, each with a length of 50 feet to Barangay San Andres fire station in Cainta, Rizal.



Adopt-an-Estero-Project

The Department of Environment and Natural Resources (DENR) awarded TDI's El Salvador plant a plaque for its efforts in the improvement of the Bolobolo Creek through clean-up drives under the Adopt-an-Estero program. This took place during the entire 2021.

Cabungan-an Creek Clean-Up

On November 6, employees of TDI's plant in Murcia, Negros Occidental conducted a clean-up of the Cabungan-an Creek.

PNP Sub-Station in El Salvador City, Misamis Oriental

TDI donated paint, ply boards and manpower from October to December for the construction of the Philippine National Police (PNP) sub-station in Molugan, El Salvador City.

Bloodletting Activity

On December 20, employees of TDI-Murcia and the Labor Union of Tanduay Employees-Murcia and the Coast Guard Auxillary District Southern Visayas conducted a bloodletting activity where the blood collected was donated to the Philippine Red Cross.

Adopted Five Hectares under the National Greening Program

This was an upland plantation in Barangay Puting-Kahoy, Lian, Batangas under the "Tayo ang Kalikasan" (We Are Nature) platform of the Department of Environment and Natural Resources for restoration, rehabilitation, and development.

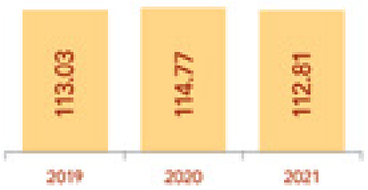
"Our theme for this year's sustainability report, 'Averting Difficulties', captures our commitment to perseverance and resiliency, creating shared value and stability despite shared crises."

-Dr. Lucio C. Tan
Chairman and CEO

2021 Highlights

ECONOMICS AND GOVERNANCE

Direct economic value generated
in billion Pesos



Gender balance
LTG Board of Directors

45% Male

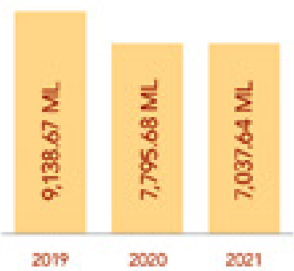
55% Female

100%

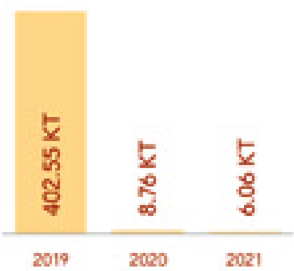
of our employees, business partners and governance body members know of our anti-corruption policies

ENVIRONMENT

Water withdrawal
in megaliters (ML)



Waste generated and disposed
in kilotons (KT)

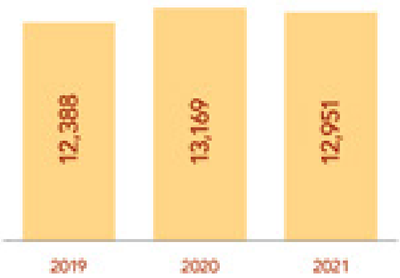


Overall energy consumptiom
in gigajoules (GJ)

86,748
tree seedlings planted

EMPLOYEES

Total employee workforce



Gender balance
Total employee workforce

48% Male

52% Female

38%
of our employees are covered by a Collective Bargaining Agreement

"Now in the third year of our sustainability journey, our commitment to embedding sustainability remains strong as we create shared value and shared successes for our stakeholders."

- Michael G. Tan
President and COO

SOCIETY
ANTI COVID-19 CAMPAIGN

42,000 doses of COVID-19 Vaccines donated

15,000 pieces of disposable face masks donated

3,500 pairs of examination gloves donated

30 gallons of rubbing alcohol donated

30 thermometers donated

20 boxes of Food Supplement Syrup donated

150 sacks of rice were donated to quarantined families and residents of Sta. Fe, Nueva Vizcaya

13,000 liters of bottled water and beverages donated to frontliners and parties across seven hospitals

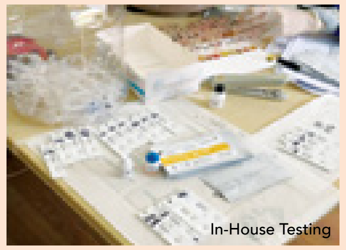
30,000 relief food packs distributed

LT GROUP, INC.
SUSTAINABILITY REPORT

The 2021 LTG Sustainability Report has been prepared in accordance with the GRI Standards: Core option, and the sustainability reporting guide provided by the Philippine SEC in Memorandum Circular No. 4, Series of 2019. This report is also aligned with the 17 United Nations (UN) Sustainable Development Goals (SDGs) to further our commitment in contributing to the global sustainable development agenda.

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

ASIA BREWERY, INC.


In-House Testing


In-House Medical Team

Health of Employees

Asia Brewery provided its employees with the following to ensure their health during the COVID-19 pandemic:

- Since April 2020, ABI has been regularly testing the employees, contractors and visitors who are suspected of having or have been exposed to COVID-19 with Food and Drug Administration-approved rapid test kits. The internal medical team also formulated protocols that are aligned with the Department of Health (DOH) and the Inter-Agency Task Force for the Management of Emerging Infectious Diseases (IATF)
- From August 2020 to November 2021, ABI provided Soom Lab Masks (N95) to all employees. The nano-fiber filter allows for easier breathing as well as high filtration and prevention of airborne particles.
- Vitamin C was distributed to employees on a quarterly basis

Empowering Employees through Learning and Development

The COVID-19 pandemic created an environment where employees had to learn and adapt fast to the changing times, especially for those who kept the supply chains flowing. The right soft skills are important for crisis management and emergency situations.

Job Competency Profiling for Power (Soft) Skills

An independent internal survey and analysis were done in the head office and Pasig Sales Office and all the factories. This is the first comprehensive behavioral-based assessment done for the whole organization and 91% of the target population participated.

Safety Seals

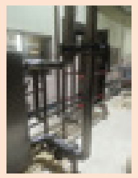
The Department of Labor and Employment (DOLE) awarded in November the Safety Seals to the ABI plants in Cabuyao, Laguna, including subsidiaries Interbev Philippines Incorporated (IPI), AB Nutribev, and Packageworld, Inc. The ABI plant in Cagayan de Oro, the IPI plants in Davao and Pampanga have also been awarded Safety Seals.

The Safety Seal Certification is voluntary and affirms that an establishment is compliant with the minimum public health standards set by the government and uses or integrates its contact tracing with StaySafe.ph.

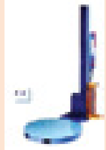
Improving the Efficiency of Machines and Equipment

In April, in the plant in El Salvador, a variable frequency drive was installed in the air compressor 2 to reduce electricity consumption. An estimated Php725,000 in electricity is to be saved annually.

In October, in the El Salvador plant at the carbonated soft drink line, a new plate heat exchanger was installed between the filter press and the existing plate heat exchanger to recover heat from the simple syrup during its transfer from start to finish. This lowered steam and energy consumption. An estimated Php1 million is expected to be saved annually.

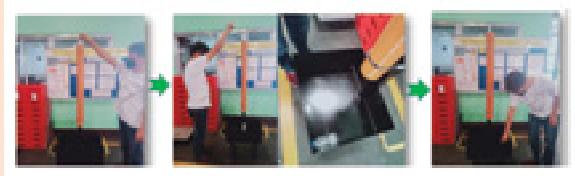


At the glass plant in Laguna, the stand-alone off-line stretch wrapping machine was replaced by a stretch wrapping machine that stretches plastic film by 200%. This improves pallet stability compared to manual wrapping while decreasing the packing cost of the glass bottles for a large softdrink manufacturer.

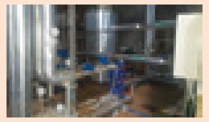


Also at the glass plant, the worn-out cullet crusher hammer and impact plates were reused in the discharge chute. This improved abrasion resistance and extended the life of the discharge chutes.

Scrap and excess materials were used to make equipment to be used for a drop test of metal caps of glass beverage bottles. This is to determine the maximum height that the caps may be dropped to lessen the ergonomic risk factor.



The chilled water system in the PET bottle-blowing machines in Laguna was centralized. This resulted in Php2.88 million savings on electricity per month.



A bypass of the back-up chillers of the mold injection machine in Laguna resulted in electricity savings of Php832,000 in 2021.

At the plastic plant in Laguna, the volumetric dozer used to automatically transfer the mixed resin into the injection moulding machine was replaced with a gravity transfer platform that did not require electricity. This resulted in electricity savings of Php1.8 million.

Replacing Carton Pads with Plastic Pallets

At the glass plant, the carton pads used for the bottles of affiliates were replaced with reusable plastic pallets to reduce waste. This also resulted in savings of Php2.57 million for 2021.

Action Plans		
Plans and Programs	**Current Update/Status of Participants**	**Timeline**
Forklift Safety Training	100 %	January
Solid Waste Management	100 %	February
HAIRADC	100 %	March
Fire Safety Training	100 %	April
Accident / Incident Investigation	100%	May
WEM	100 %	June
Office and Ergonomic	91%	July
Chemical Safety and Handling	99%	August
Contractor Safety Management	100%	September
Personal Protective Equipment (PPE)	96%	October
LOTO	100%	November
OSH Refresher Course	100%	December

Webinars on Environment, Health, and Safety

ABI conducted year-round webinars to motivate employees to protect the environment.

Recycling Coal Ash

Coal ash from the El Salvador plant is brought to the HOLCIM cement plant in Lugiat for recycling. This prevents the ash from being disposed in a landfill.

First In First Out (FIFO) Coal Management

For the coal-fired boiler in Pampanga, FIFO was implemented for coal usage. This enabled the company to monitor coal deliveries more efficiently as coal is delivered twice per week. Deliveries with high moisture content were only used 4 to 5 days after delivery. This resulted in an 8% reduction in coal consumption and a 4% increase in boiler efficiency.

ETON PROPERTIES PHILIPPINES, INC.

Safety Seal for Eton Centris, BPO Office Buildings

Eton Centris in Quezon City received its certification in August 2021. The Eton Centris Cyberpod 1 and 2 buildings also got safety seals.

Flexible Lease Terms for Tenants at Eton Centris During the Pandemic

Eton supported micro retailers by offering smaller and flexible commercial spaces to complement tenants' e-commerce strategies. The Company also gave regular tenants a 25% discount on their leases.

PHILIPPINE NATIONAL BANK

Green Loans

PNB has been financing sustainable businesses and projects such as affordable housing (economic condominiums and subdivisions), agricultural production (swine and poultry farming), food manufacturing, energy generation and distribution, renewable energy (hydro), water distribution and supply, wastewater management system, construction of infrastructure projects that increase climate change resilience, construction and operation of toll roads and bridges, telecommunications infrastructure, responsible packaging, microfinance especially for women, construction of green buildings, and health facilities.

As of the end of 2021, the outstanding balance of such loans amounted to Php229 billion.

Efficient Energy and Water Use

The bank ensures that the areas it occupies in the PNB Financial Center in Pasay City and Makati Center efficiently use electricity and water. All conventional light fixtures and defective lights and bulbs are replaced with LED lights, air conditioning chillers and bank vehicles are well-maintained, and defective bathroom fixtures are repaired or replaced.

Service Excellence Awards

Called "Puong ng Bayan", individuals and teams in the bank were recognized for their exemplary achievements in the following areas:

- Transformation
- Revenue generation
- Commitment to CSR and sustainability
- Customer service
- Innovation

PMFTC INC.

Top Employer Certification

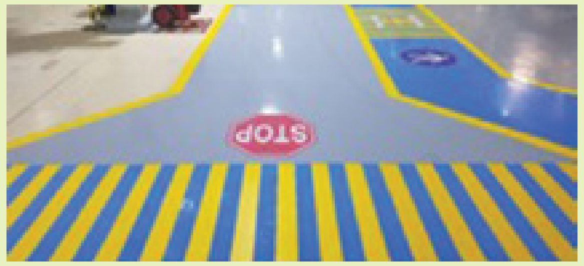
PMFTC got certified by the Top Employers Institute, the global authority that recognizes excellence in people practices.

LinkedIn 4th Top Company to Work For

PMFTC was named the top 4 company in the Philippines as it is considered one of the best places for professionals to grow their careers.

One of the Top Employers for Graduates

PMFTC was ranked 88th among the best top employers for graduates in the Philippines.



Pedestrian and Mobile Equipment Circulation Improvement

The Company continuously improves and standardizes pedestrian and mobile equipment pathways to provide a safer work environment. There were no adverse incidents reported.

Equal Salary Certified

The certification from the Equal-Salary Foundation ensures that male and female employees are paid equally for equal work.

Leader Empowerment Accelerator Program (LEAP)

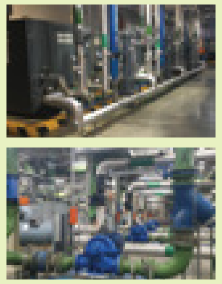
This program is structured on Philip Morris International talent development model. It is designed to develop new graduate talent and accelerate their career progression within PMFTC to become future leaders.

RISE Program

This is an 18-month Management Development Program that exposes the next generation of leaders with 5 to 6 years' experience in sales, marketing, and digital to an immersive and fast-paced learning environment. This is aimed to create a pipeline for future commercial leaders.

Mission Zero Level Up

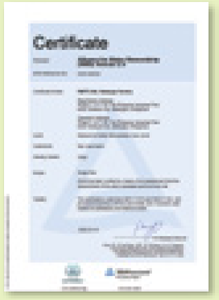
This is a program that aims to achieve a culture of safety within the company. No adverse incidents were recorded for the year.



Equipment Efficiency

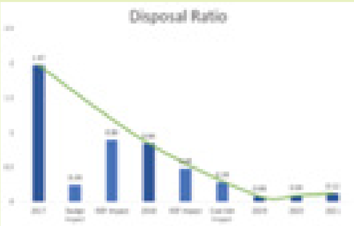
In the Batangas plant, production equipment was optimized by reducing the supply of compressed air pressure. This reduced carbon dioxide emissions by 303,256 kilograms in 2021.

Also in Batangas, a motorized chilled water valve was installed—which automatically cascades the chiller equipment based on the actual demand and climate condition. This was started in February and reduced carbon dioxide emission by 664,400 kilograms.



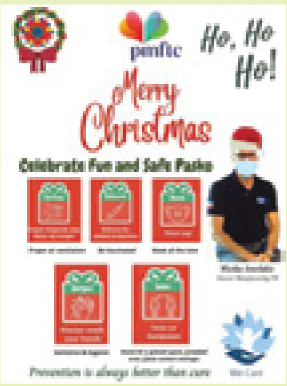
Alliance for Water Stewardship (AWS) Certification

The Batangas factory got its certification on November 15, 2021.



Reduction of Waste to Landfill

The Marikina and Batangas plants further reduced their waste to landfills with the proper disposal of waste, composting and waste-to-energy facilities. This is in line with PMFTC's goal to eventually have zero non-mandated waste to landfills.

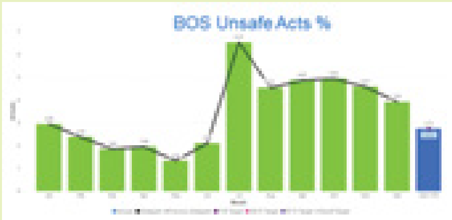


COVID-19 Prevention Measures

The program ensures that the factories have control measures to prevent the spread of COVID-19 in the workplace. This includes regular antigen testing for both regular and in-house contractors, provision of PPEs, regular disinfection, facilities that enable social distancing, and communication campaigns.

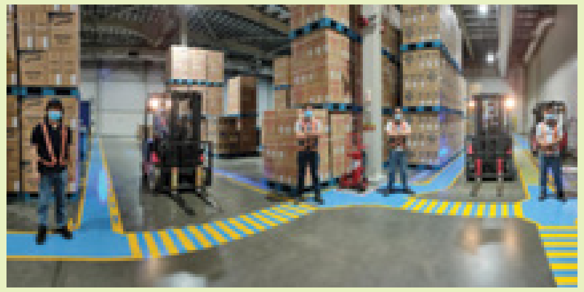
Safety Champions

This program develops the capability of select individuals to become qualified, through step-up cards, as full-fledged safety champions.



Behavior Observation Program

This enables all employees to develop a mindset of care for others' safety, reinforcing safe behaviors, and doing intervention for unsafe behaviors by providing feedback.



100+1 Small Interventions

Simple yet impactful—as the program encourages employees to be safe at all times.

INKOMPASS Internship Program

The program enables students to discover themselves through challenges and cultural diversity, learn portable skills from real business projects, and experience opportunities for building a unique business network. This was completed in August 2021.

Flu Shots

PMFTC had a voluntary roll-out in all of the sites in the Philippines, which included factories and sales offices.

TANDUAY DISTILLERS, INC.

Solar Power Plant

The 2-megawatt solar power plant in the Absolut Distillers plant in Lian, Batangas generated 2,457,173 kilowatt-hours in 2021.

Solar Panels in Administrative Building

The solar panels in the Absolut Distillers administrative building generated 110,736 kilowatt-hours of electricity from October to December 2021.

Accredited as Manufacturer of Bioethanol

Absolut Distillers operates a 100 Kilo Liters per Day (KLPD) bioethanol plant in Lian, Batangas. It is accredited as a manufacturer of bioethanol which is used in blending with gasoline under the Biofuels Act of 2006, where a 10% blend of ethanol from agricultural crops is required.

Carbon Dioxide Recovery Plant

The recovery system is designed to produce pure food-grade liquid carbon dioxide from the collected carbon dioxide raw gas which comes from the fermentation of molasses. A portion of the liquid carbon dioxide is solidified and sold as dry ice. In 2021, the plant produced 6,392,400 kilograms of liquid carbon dioxide.

Biogas Generation

The digester tanks in Lian, Batangas generated 9,032,260 cubic meters of biogas in 2021.

Less Effluent

The 1,000-cubic meter biomethanated spent wash evaporation plant in Batangas lessens the volume of distillery effluent by as much as 80%, while the 20% product condensate can be reused in the fermentation process.

Organic Liquid Fertilizer Donated to Farmers

The Company hauls and donates fertilizer from distillery effluent to farmers in the Batangas area.

ISO and Halal Certifications

Absolut Distillers got its ISO 9001 Quality Management System certification. It has also been Halal Certified.

LT GROUP, INC.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **LT Group, Inc.** is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for each of the three years ended December 31, 2021, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

Signed under oath by the following:

Lucio C. Tan Chairman and Chief Executive Officer	**Michael G. Tan** President	**Jose Gabriel D. Olives** Chief Financial Officer

Signed this 15th day of March 2022

INDEPENDENT AUDITOR'S REPORT

SGV
Building a better working world

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City Philippines
Tel: (632) 8891 0307
Fax: (632) 8819 0872
ey.com/ph

The Stockholders and the Board of Directors
LT Group, Inc.
11th Floor, Unit 3 Bench Tower
30th St. corner Rizal Drive Crescent Park West 5,
Bonifacio Global City, Taguig City

Opinion

We have audited the consolidated financial statements of LT Group, Inc. and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2021 and 2020, 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, 2021, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2021 and 2020, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2021 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

Key Audit Matters

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

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

Adequacy of Allowance for Credit Losses on Finance Receivables

Philippine National Bank's (PNB, a subsidiary) application of the expected credit losses (ECL) model in calculating the allowance for credit losses on finance receivables (shown as part of "Loans and receivables") is significant to our audit as it involves the exercise of significant management judgment. Key areas of judgment include: segmenting PNB's credit risk exposures; determining the method to estimate ECL; defining default; identifying exposures with significant deterioration in credit quality; determining assumptions to be used in the ECL model such as the counterparty credit risk rating, the expected life of the financial asset, expected recoveries from defaulted accounts, and impact of any financial support and credit enhancements extended by any party; and incorporating forward-looking information, including the impact of the coronavirus pandemic, in calculating ECL.

Allowance for credit losses on finance receivables as of December 31, 2021 and the provision for credit losses in 2021 amounted to P39.3 billion and P11.0 billion, respectively.

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

Audit Response

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

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

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

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

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

Recognition of Deferred Tax Assets

As of December 31, 2021, the deferred tax assets of PNB amounted to P5.8 billion. The recognition of deferred tax assets is significant to our audit because the assessment process is complex and involves judgment and is based on assumptions that are affected by expected future market or economic conditions and the expected performance of PNB. The estimation uncertainty on PNB's expected performance has increased as a result of uncertainties brought about by the coronavirus pandemic.

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

Audit response

We evaluated the management's assessment on the availability of future taxable income in reference to financial forecast and tax strategies. We evaluated management's forecast by comparing the loan portfolio and deposit growth rates to the historical performance of PNB and the industry, including future market circumstances and taking into consideration the impact associated with the coronavirus pandemic. We also reviewed the timing of the reversal of future taxable and deductible temporary differences.

Accounting for Investment in PMFTC, Inc.

The Group has an investment in PMFTC. Inc. (PMFTC, an associate) that is accounted for under the equity method. For the year ended December 31, 2021, the Group's share in the net income of PMFTC amounted to P17.6 billion and accounts for 84% of the Group's consolidated net income. This matter is significant to our audit because of the materiality of the amount being equitized to the Group.

The disclosures in relation to the Group's investment in PMFTC are included in Note 11 to the consolidated financial statements.

Audit Response

We sent instructions to the statutory auditor of PMFTC to perform an audit of the relevant financial information of PMFTC for the purpose of the Group's consolidated financial statements. These audit instructions cover their scope of work, risk assessment procedures, audit strategy and reporting responsibilities. We discussed with the statutory auditor of PMFTC about their key audit areas, planning and execution of audit procedures, significant areas of estimation and judgment, and results of their work for the year ended December 31, 2021. We reviewed the working papers of the statutory auditor of PMFTC, focusing on the procedures performed on key audit areas. We discussed with PMFTC's statutory auditor the results of their audit. We also obtained the financial information of PMFTC as of and for the year ended December 31, 2021 and recomputed the Group's share in net income for the year then ended.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2021, 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, 2021 are expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Aileen L. Saringan.

SYCIP GORRES VELAYO & CO.

Aileen L. Saringan

Aileen L. Saringan
Partner
CPA Certificate No. 72557
Tax Identification No. 102-089-397
BOA/PRC Reg. No. 0001, August 25, 2021, valid until April 15, 2024
SEC Partner Accreditation No. 0096-AR-5 (Group A)
July 25, 2019, valid until July 24, 2022
SEC Firm Accreditation No. 0001-SEC (Group A)
Valid to cover audit of 2021 to 2025 financial statements
of SEC covered institutions
BIR Accreditation No. 08-001998-058-2020, December 3, 2020, valid
until December 2, 2023
PTR No. 8854363, January 3, 2022, Makati City

March 15, 2022

LT GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Amounts in Thousands)

	December 31	
	2021	2020
ASSETS		
Current Assets		
Cash and cash equivalents (Note 5)	**P265,139,174**	P304,061,222
Financial assets at fair value through profit or loss (FVTPL) [Notes 6 and 21]	**11,205,269**	23,858,324
Financial assets at fair value through other comprehensive income (FVTOCI) [Notes 7 and 17]	**75,800,753**	59,680,618
Financial assets at amortized cost (Notes 7 and 17)	**45,931,953**	40,216,142
Loans and receivables (Notes 8 and 17)	**216,143,944**	223,006,163
Inventories (Note 9)	**14,286,523**	13,175,605
Due from related parties (Note 22)	**7,685,534**	1,954,502
Other current assets (Note 10)	**10,298,762**	10,908,904
	646,491,912	676,861,480
Assets of disposal group classified as held for sale (Note 37)	**–**	7,945,945
Total Current Assets	**646,491,912**	684,807,425
Noncurrent Assets		
Loans and receivables - net of current portion (Notes 8 and 17)	**407,515,357**	393,592,324
Financial assets at FVTOCI (Notes 7 and 17)	**71,468,657**	76,644,306
Financial assets at amortized cost (Notes 7 and 17)	**43,523,890**	55,019,851
Investments in associates and joint ventures (Note 11)	**22,208,309**	23,777,783
Property, plant and equipment (Note 12):		
At appraised values	**60,468,871**	59,918,473
At cost	**13,642,782**	11,586,799
Investment properties (Note 13)	**34,447,353**	32,837,375
Deferred income tax assets - net (Note 29)	**6,291,847**	8,889,031
Other noncurrent assets (Notes 14, 23 and 37)	**5,777,386**	6,049,087
Total Noncurrent Assets	**665,344,452**	668,315,029
TOTAL ASSETS	**P1,311,836,364**	P1,353,122,454
LIABILITIES AND EQUITY		
Current Liabilities		
Deposit liabilities (Note 15)	**P842,061,358**	P822,131,355
Financial liabilities at FVTPL (Notes 16 and 21)	**891,531**	701,239
Bills and acceptances payable (Note 17)	**49,780,354**	72,978,082
Accounts payable and accrued expenses (Note 18)	**18,115,661**	20,849,044
Short-term debts (Note 19)	**3,940,000**	4,740,000
Current portion of long-term debts (Note 19)	**3,597,299**	14,527,082
Income tax payable	**381,539**	1,008,067
Due to related parties (Note 22)	**65,325**	65,325
Other current liabilities (Notes 20 and 37)	**9,381,064**	10,180,106
	928,214,131	947,180,300
Liabilities of disposal group classified as held for sale (Note 37)	**–**	6,353,964
Total Current Liabilities (Carried Forward)	**928,214,131**	953,534,264

	December 31	
	2021	2020
Total Current Liabilities (Brought Forward)	**P928,214,131**	P953,534,264
Noncurrent Liabilities		
Deposit liabilities - net of current portion (Note 15)	**38,508,755**	58,380,208
Bills and acceptances payable (Note 17)	**3,173,443**	14,181,368
Long-term debts - net of current portion (Note 19)	**59,046,035**	55,215,562
Net retirement benefits liability (Note 23)	**1,817,657**	2,418,637
Deferred income tax liabilities - net (Note 29)	**8,499,173**	8,327,412
Other noncurrent liabilities (Note 20)	**9,040,491**	5,526,724
Total Noncurrent Liabilities	**120,085,554**	144,049,911
Total Liabilities	**1,048,299,685**	1,097,584,175
Equity		
Attributable to equity holders of the Company (Notes 1, 7, 12, 23, 24, 30 and 36):		
Capital stock	**10,821,389**	10,821,389
Capital in excess of par	**35,906,231**	35,906,231
Other comprehensive income, net of deferred income tax effect	**14,410,914**	15,056,237
Other equity reserves	**(5,959,881)**	(2,058,370)
Reserves of disposal group classified as held for sale (Note 37)	**–**	88,616
Retained earnings	**134,905,274**	125,612,353
Shares of stock of the Company held by subsidiaries	**(12,519)**	(12,519)
	190,071,408	185,413,937
Non-controlling interests (Notes 1, 7, 12 and 30)	**73,465,271**	70,124,342
Total Equity	**263,536,679**	255,538,279
TOTAL LIABILITIES AND EQUITY	**P1,311,836,364**	P1,353,122,454

See accompanying Notes to Consolidated Financial Statements.

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

	Year Ended December 31		
	2021	2020	2019
REVENUE (Note 24)			
Banking	**P49,319,441**	P54,800,902	P56,522,642
Distilled spirits	**26,648,772**	25,000,110	19,261,735
Beverage	**13,173,729**	12,227,532	15,234,051
Property development	**2,031,373**	2,399,390	3,132,431
	91,173,315	94,427,934	94,150,859
COST OF GOODS SOLD AND SERVICES (Note 24)	**42,957,014**	42,858,864	46,802,440
GROSS INCOME	**48,216,301**	51,569,070	47,348,419
EQUITY IN NET EARNINGS OF ASSOCIATES AND JOINT VENTURES (Note 11)	**18,021,180**	17,614,907	14,813,251
	66,237,481	69,183,977	62,161,670
OPERATING EXPENSES			
Selling expenses (Note 25)	**1,905,020**	2,051,114	3,011,424
General and administrative expenses (Note 26)	**40,321,877**	47,897,268	31,596,421
	42,226,897	49,948,382	34,607,845
OPERATING INCOME	**24,010,584**	19,235,595	27,553,825
OTHER INCOME (CHARGES)			
Foreign exchange gains - net	**816,015**	747,095	1,049,965
Finance costs (Note 27)	**(364,873)**	(341,467)	(450,841)
Finance income (Note 27)	**41,663**	42,421	146,253
Others - net (Note 28)	**2,758,831**	1,902,969	2,843,597
	3,251,636	2,351,018	3,588,974
INCOME BEFORE INCOME TAX	**27,262,220**	21,586,613	31,142,799
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 29)			
Current	**4,112,063**	5,976,621	4,192,172
Deferred	**2,309,683**	(6,648,541)	(513,537)
	6,421,746	(671,920)	3,678,635
NET INCOME FROM CONTINUING OPERATIONS	**20,840,474**	22,258,533	27,464,164
NET INCOME FROM DISCONTINUED OPERATIONS (Note 37)	**20,615**	67,583	101,593
NET INCOME	**P20,861,089**	P22,326,116	P27,565,757
NET INCOME ATTRIBUTABLE TO:			
Equity holders of the Company	**P20,246,467**	P21,021,996	P23,117,524
Non-controlling interests	**614,622**	1,304,120	4,448,233
	P20,861,089	P22,326,116	P27,565,757
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Company (Note 31)	**P1.87**	P1.94	P2.14
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Company from Continuing Operations (Note 31)	**P1.87**	P1.94	P2.13

See accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31		
	2021	2020	2019
NET INCOME	**P20,861,089**	P22,326,116	P27,565,757
OTHER COMPREHENSIVE INCOME (LOSS)			
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:			
Net changes in fair value of financial assets at FVTOCI, net of tax (Note 7)	**(3,178,301)**	(734,748)	2,260,682
Translation adjustments	**684,700**	(275,320)	(916,208)
Net other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods	**(2,493,601)**	(1,010,068)	1,344,474
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:			
Share in aggregate gains (losses) on life insurance policies	**412,444**	(1,051,118)	–
Net changes in fair value of financial assets at FVTOCI (Note 7)	**(971,776)**	(1,616,606)	4,974,003
Income tax effect	**242,944**	484,982	(1,492,201)
	(728,832)	(1,131,624)	3,481,802
Remeasurement gains (losses) on defined benefit plans (Note 23)	**573,756**	(1,516,399)	(1,448,458)
Income tax effect	**(143,439)**	454,920	276,868
	430,317	(1,061,479)	(1,171,590)
Share in remeasurement gain on defined benefit plans of associates (Note 11)	**290,433**	203,269	1,001,641
Net revaluation increase on property, plant and equipment (Note 12)	**1,569,183**	39,444	858,633
Income tax effect	**(392,296)**	(11,833)	(257,590)
	1,176,887	27,611	601,043
Net other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods	**1,581,249**	(3,013,341)	3,912,896
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	**(912,352)**	(4,023,409)	5,257,370
TOTAL COMPREHENSIVE INCOME	**P19,948,737**	P18,302,707	P32,823,127
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Equity holders of the Company	**P20,618,903**	P18,286,014	P26,501,864
Non-controlling interests	**(670,166)**	16,693	6,321,263
	P19,948,737	P18,302,707	P32,823,127

See accompanying Notes to Consolidated Financial Statements.

LT GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2021, 2020 AND 2019

(Amounts in Thousands)

	Attributable to Equity Holders of the Company (Notes 1, 7, 12, 23, 24, 30 and 36)															
						Other Comprehensive Income (Loss)										
	Capital Stock	Capital in Excess of Par	Preferred Shares of Subsidiaries Issued to Parent Company	Other Equity Reserves	Reserves of Disposal Group Classified as Held for Sale	Cumulative Translation Adjustments	Net Changes in Financial Assets at FVTOCI (Note 7)	Remeasurement Gains (Losses) on Defined Benefit Plans (Note 23)	Revaluation Increment on Property, Plant and Equipment (Note 12)	Remeasurement Gains on Defined Benefit Plans of an Associate (Note 11)	Total Other Comprehensive Income (Loss), Net of Deferred Income Tax Effect	Retained Earnings	Shares of Stock of the Company Held by Subsidiaries	Total	Non-controlling Interests (Notes 2, 7, 12 and 30)	Total
BALANCES AT JANUARY 1, 2019	**P10,821,389**	**P35,906,231**	**P18,060,000**	**P804,095**	**P–**	**P1,152,659**	**P1,682,196**	**(P337,998)**	**P12,689,666**	**P202,066**	**P15,388,589**	**P91,998,914**	**(P12,519)**	**P172,966,699**	**P58,223,689**	**P231,190,388**
Net income for the year	–	–	–	–	–	–	–	–	–	–	–	23,117,524	–	23,117,524	4,448,233	27,565,757
Other comprehensive income (loss)	–	–	–	–	–	(460,107)	2,937,249	(865,709)	771,266	1,001,641	3,384,340	–	–	3,384,340	1,873,030	5,257,370
Total comprehensive income (loss) for the year	–	–	–	–	–	(460,107)	2,937,249	(865,709)	771,266	1,001,641	3,384,340	23,117,524	–	26,501,864	6,321,263	32,823,127
Cash dividends declared	–	–	–	–	–	–	–	–	–	–	–	(3,326,908)	–	(3,326,908)	(3,372)	(3,330,280)
Early redemption of preferred shares	–	–	(9,521,163)	–	–	–	–	–	–	–	–	–	–	(9,521,163)	–	(9,521,163)
Increase in noncontrolling interest without loss of control	–	–	–	–	–	–	–	–	–	–	–	–	–	–	2,539,185	2,539,185
Other equity reserve	–	–	–	220,558	–	–	–	–	–	–	–	215,915	–	436,473	5,265	441,738
Effect of change in accounting policy on borrowing costs (Note 2)	–	–	–	–	–	–	–	–	–	–	–	(135,424)	–	(135,424)	–	(135,424)
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	–	–	–	–	–	–	–	–	(734,614)	–	(734,614)	734,614	–	–	–	–
BALANCES AT DECEMBER 31, 2019	**10,821,389**	**35,906,231**	**8,538,837**	**1,024,653**	**–**	**692,552**	**4,619,445**	**(1,203,707)**	**12,726,318**	**1,203,707**	**18,038,315**	**112,604,635**	**(12,519)**	**186,921,541**	**67,086,030**	**254,007,571**
Net income for the year	–	–	–	–	–	–	–	–	–	–	–	21,021,996	–	21,021,996	1,304,120	22,326,116
Other comprehensive income (loss)	–	–	–	(593,566)	–	(147,788)	(1,780,973)	(718,599)	301,675	203,269	(2,142,416)	–	–	(2,735,982)	(1,287,427)	(4,023,409)
Total comprehensive income (loss) for the year	–	–	–	(593,566)	–	(147,788)	(1,780,973)	(718,599)	301,675	203,269	(2,142,416)	21,021,996	–	18,286,014	16,693	18,302,707
Cash dividends declared	–	–	–	–	–	–	–	–	–	–	–	(8,765,324)	–	(8,765,324)	(85,645)	(8,850,969)
Early redemption of preferred shares	–	–	(8,538,837)	–	–	–	–	–	–	–	–	–	–	(8,538,837)	–	(8,538,837)
Increase in noncontrolling interest without loss of control	–	–	–	–	–	–	–	–	–	–	–	–	–	–	2,376,784	2,376,784
Other equity reserve	–	–	–	(2,489,457)	–	–	–	–	–	–	–	–	–	(2,489,457)	336,283	(2,153,174)
Effect of disposal group classified as held for sale	–	–	–	–	88,616	–	(29,209)	(59,407)	–	–	(88,616)	–	–	–	394,197	394,197
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	–	–	–	–	–	–	–	–	(751,046)	–	(751,046)	751,046	–	–	–	–
BALANCES AT DECEMBER 31, 2020	**10,821,389**	**35,906,231**	**–**	**(2,058,370)**	**88,616**	**544,764**	**2,809,263**	**(1,981,713)**	**12,276,947**	**1,406,976**	**15,056,237**	**125,612,353**	**(12,519)**	**185,413,937**	**70,124,342**	**255,538,279**
Net income for the year	–	–	–	–	–	–	–	–	–	–	–	20,246,467	–	20,246,467	614,622	20,861,089
Other comprehensive income (loss)	–	–	–	284,205	–	342,761	(2,271,272)	305,525	1,420,784	290,433	88,231	–	–	372,436	(1,284,788)	(912,352)
Total comprehensive income (loss) for the year	–	–	–	284,205	–	342,761	(2,271,272)	305,525	1,420,784	290,433	88,231	20,246,467	–	20,618,903	(670,166)	19,948,737
Cash dividends declared	–	–	–	–	–	–	–	–	–	–	–	(11,687,100)	–	(11,687,100)	–	(11,687,100)
Increase in noncontrolling interest without loss of control	–	–	–	–	–	–	–	–	–	–	–	–	–	–	441,157	441,157
Other equity reserve	–	–	–	(4,185,716)	–	–	–	–	–	–	–	–	–	(4,185,716)	3,569,938	(615,778)
Reversal of reserves of disposal group classified as held for sale	–	–	–	–	(88,616)									(88,616)	–	(88,616)
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	–	–	–	–	–	–	–	–	(733,554)	–	(733,554)	733,554	–	–	–	–
BALANCES AT DECEMBER 31, 2021	P10,821,389	P35,906,231	P–	(P5,959,881)	P–	P887,525	P537,991	(P1,676,188)	P12,964,177	P1,697,409	P14,410,914	P134,905,274	(P12,519)	P190,071,408	P73,465,271	P263,536,679

See accompanying Notes to Consolidated Financial Statements.

LT GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

	Years Ended December 31		
	2021	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax from continuing operations	**P27,262,220**	P21,586,613	P31,142,799
Income before income tax from discontinued operations (Note 37)	**20,615**	88,001	120,272
Income before income tax	**27,282,835**	21,674,614	31,263,071
Adjustments for:			
Equity in net earnings of associates (Note 11)	**(18,021,180)**	(17,614,907)	(14,857,739)
Provision for losses (Notes 8 and 26)	**10,816,497**	16,883,793	2,862,442
Depreciation and amortization (Notes 12, 13 and 14)	**5,741,054**	5,677,820	5,235,817
Movement in accrued retirement benefits (Note 23)	**492,593**	(583,714)	(1,153,690)
Finance costs (Note 27)	**364,873**	341,467	450,841
Gain on disposal of other noncurrent assets (Notes 12, 13 and 28)	**–**	(196,019)	(829,758)
Finance income (Note 27)	**(41,663)**	(42,421)	(146,253)
Dividend income (Note 28)	**(5,679)**	(5,679)	(145,704)
Share in losses of joint venture (Notes 11 and 28)	**–**	–	44,488
Mark-to-market gain on financial assets at FVTPL (Note 28)	**–**	–	(10,018)
Operating income before changes in working capital	**26,629,330**	26,134,954	22,713,497
Decrease (increase) in:			
Financial assets at FVTPL	**12,653,055**	(10,388,944)	(2,675,012)
Receivables	**(17,880,364)**	38,698,806	(76,418,419)
Inventories	**(1,110,918)**	(978,734)	628,416
Other current assets	**8,556,087**	(7,081,387)	(899,998)
Increase (decrease) in:			
Deposit liabilities	**58,550**	62,272,608	92,702,273
Financial liabilities at FVTPL	**190,292**	455,620	(225,029)
Accounts payable and accrued expenses	**(1,935,196)**	(4,554,291)	3,878,633
Other current and noncurrent liabilities	**(3,043,155)**	(204,012)	17,638,100
Cash generated from operations	**24,117,681**	104,354,620	57,342,461
Income taxes paid, including creditable withholding and final taxes	**(4,738,591)**	(5,679,490)	(4,016,112)
Interest paid	**(619,856)**	(1,241,781)	(348,849)
Interest received	**44,716**	41,683	183,812
Dividends received (Notes 11, 22 and 28)	**5,679**	5,679	201,880
Net cash from operating activities	**18,809,629**	97,480,711	53,363,192
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of:			
Financial assets at FVTOCI (Note 7)	**(P224,263,439)**	(P169,859,472)	(P100,926,015)
Financial assets at amortized cost	**(34,009,921)**	(56,130,885)	(81,024,195)
Property, plant and equipment (Note 12)	**(7,136,148)**	(4,879,544)	(7,324,348)
Software (Note 14)	**(283,472)**	(283,472)	(659,818)
Investment properties (Note 13)	**(1,609,978)**	(205,934)	(2,557,645)
Investment in joint venture and associates (Note 11)	**20,003,098**	20,707,865	8,818,578
Proceeds from sale of:			
Financial assets at FVTOCI (Note 7)	**249,268,857**	220,296,251	33,742,338
Other assets (Notes 12 and 13)	**652,329**	1,299,817	(810,809)
Advances (extended to) received from affiliates	**(5,731,032)**	74,934	(804)
Net cash from (used in) investing activities	**(3,109,706)**	11,019,560	(150,742,718)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from availment of:			
Bill and acceptance payable (Note 17)	**237,327,616**	168,973,402	1,465,130,227
Short-term debts (Note 19)	**–**	1,850,000	3,100,000
Long-term debts (Note 19)	**–**	–	51,899,720
Proceeds from issuance of stocks	**–**	–	11,850,316
Payments of:			
Bill and acceptance payable (Note 17)	**(271,058,488)**	(145,443,067)	(1,422,555,288)
Dividends (Note 30)	**(11,687,100)**	(8,850,969)	(3,330,741)
Long-term debts (Note 19)	**(7,099,310)**	(2,826,812)	–
Short-term debts (Note 19)	**(800,000)**	(2,260,000)	–
Principal portion of lease liabilities	**(1,304,689)**	(794,735)	(775,341)
Net cash from (used in) financing activities	**(54,621,971)**	10,647,819	105,318,893
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(38,922,048)**	119,148,090	7,939,367
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**304,061,222**	184,913,132	176,973,765
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	**P265,139,174**	P304,061,222	P184,913,132

See accompanying Notes to Consolidated Financial Statements.

LT GROUP, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Thousands, Except for Par Value Per Share and Basic/Diluted Earnings Per Share)

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

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

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

As of December 31, 2021 and 2020, LTG is 74.36%-owned by its ultimate parent company, Tangent, which is also incorporated in the Philippines.

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

Authorization for Issue of the Consolidated Financial Statements
The consolidated financial statements as at December 31, 2021 and 2020 and for each of the three years in the period ended December 31, 2021 were authorized for issue by the Board of Directors (BOD) on March 15, 2022.

2. Summary of Significant Accounting and Financial Reporting Policies

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

The accompanying consolidated financial statements have been prepared under the going concern assumption. The Group believes that its businesses would remain relevant despite challenges posed by the COVID-19 pandemic. Despite the adverse impact of the COVID-19 pandemic on short-term business results, long-term prospects remain attractive.

Statement of Compliance
The consolidated financial statements of the Group have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs). PFRSs include statements named PFRSs, Philippine Accounting Standards (PAS) and Philippine Interpretations of International Financial Reporting Interpretations Committee (IFRIC) issued by Financial Reporting Standards Council (FRSC).

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

	Percentage of Ownership						
	2021		2020		2019		Country of
	Direct	**Indirect**	Direct	Indirect	Direct	Indirect	Incorporation
Distilled Spirits							
Tanduay Distillers, Inc. (TDI) and subsidiaries	**100.0**	**–**	100.0	–	100.0	–	Philippines
Absolut Distillers, Inc. (ADI)	**–**	**96.0**	–	96.0	–	96.0	Philippines
Asian Alcohol Corporation (AAC)	**–**	**95.0**	–	95.0	–	95.0	Philippines
Tanduay Brands International, Inc. (TBI)(1)	**–**	**100.0**	–	100.0	–	100.0	Philippines
Beverages							
Asia Brewery, Incorporated (ABI) and subsidiaries	**99.9**	**–**	99.9	–	99.9	–	Philippines
Agua Vida Systems, Inc.	**–**	**99.9**	–	99.9	–	99.9	Philippines
Interbev Philippines, Inc.	**–**	**99.9**	–	99.9	–	99.9	Philippines
Waterich Resources Corp.	**–**	**99.9**	–	99.9	–	99.9	Philippines
Packageworld, Inc.	**–**	**99.9**	–	99.9	–	99.9	Philippines
AB Nutribev Corp.	**–**	**99.9**	–	99.9	–	99.9	Philippines
Asia Pacific Beverage Pte. Ltd. (APB Singapore)	**–**	**99.9**	–	99.9	–	99.9	Singapore
Asia Pacific Beverages Myanmar Company Limited (APB Myanmar) (2)	**–**	**90.0**	–	90.0	–	90.0	Myanmar
Tobacco							
Shareholdings, Inc. (Shareholdings)	**97.7**	**–**	97.7	–	97.7	–	Philippines
Fortune Tobacco Corporation (FTC)	**82.7**	**16.9**	82.7	16.9	82.7	16.9	Philippines
Property Development							
Saturn Holdings, Inc.	**100.0**	**–**	100.0	–	100.0	–	Philippines
Paramount Landequities, Inc. (PLI) and Subsidiaries	**100.0**	**–**	100.0	–	100.0	–	Philippines
Eton Properties Philippines, Inc. (Eton)	**–**	**99.6**	–	99.6	–	99.6	Philippines
Belton Communities, Inc. (BCI)	**–**	**99.6**	–	99.6	–	99.6	Philippines
Eton City, Inc. (ECI)	**–**	**99.6**	–	99.6	–	99.6	Philippines
FirstHomes, Inc. (FHI)	**–**	**99.6**	–	99.6	–	99.6	Philippines
Eton Properties Management Corporation (EPMC)	**–**	**99.6**	–	99.6	–	99.6	Philippines

(Forward)

	Percentage of Ownership						
	2021		2020		2019		Country of
	Direct	**Indirect**	Direct	Indirect	Direct	Indirect	Incorporation
Banking							
Bank Holding Companies (Note 22) (3)	**80-100**	**–**	80-100	–	80-100	–	Various
Philippine National Bank (PNB) and Subsidiaries(4)	**–**	**56.5**	–	56.5	–	56.5	Philippines
PNB Capital and Investment Corporation (PNB Capital)	**–**	**56.5**	–	56.5	–	56.5	Philippines
PNB Securities, Inc. (PNB Securities)	**–**	**56.5**	–	56.5	–	56.5	Philippines
PNB Forex, Inc.	**–**	**56.5**	–	56.5	–	56.5	Philippines
PNB Holdings Corporation (PNB Holdings) (5)	**–**	**56.5**	–	56.5	–	56.5	Philippines
PNB General Insurers, Inc. (PNB Gen)	**–**	**56.5**	–	56.5	–	56.5	Philippines
PNB Corporation - Guam (PNB Guam)	**–**	**56.5**	–	56.5	–	56.5	United States of America (USA)
PNB International Investments Corporation (PNB IIC)	**–**	**56.5**	–	56.5	–	56.5	USA
PNB Remittance Centers, Inc. (PNB RCI)	**–**	**56.5**	–	56.5	–	56.5	USA
PNB RCI Holding Co. Ltd.	**–**	**56.5**	–	56.5	–	56.5	USA
PNB Remittance Co. (Canada)	**–**	**56.5**	–	56.5	–	56.5	Canada
PNB Europe PLC	**–**	**56.5**	–	56.5	–	56.5	United Kingdom
PNB Global Remittance & Financial Co. (HK) Ltd. (PNB GRF)	**–**	**56.5**	–	56.5	–	56.5	Hong Kong
Japan-PNB Leasing and Finance Corporation (Japan-PNB Leasing)	**–**	**50.8**	–	50.8	–	50.8	Philippines
Japan - PNB Equipment Rentals Corporation	**–**	**50.8**	–	50.8	–	50.8	Philippines
PNB Savings Bank	**–**	**56.5**	–	56.5	–	56.5	Philippines
Allied Bank Philippines (UK) Plc (ABUK)	**–**	**56.5**	–	56.5	–	56.5	United Kingdom
Allied Commercial Bank (ACB)	**–**	**55.9**	–	55.9	–	55.9	Republic of China
Allianz-PNB Life Insurance, Inc. (APLII) (formerly PNB LII)	**–**	**44.0**	–	44.0	–	44.0	Philippines
Allied Leasing and Finance Corporation (ALFC)	**–**	**57.2**	–	57.2	–	57.2	Philippines
Allied Banking Corporation (Hongkong) Limited (ABCHKL)	**–**	**51.0**	–	51.0	–	51.0	Hong Kong
ACR Nominees Limited	**–**	**51.0**	–	51.0	–	51.0	Hong Kong
Oceanic Holdings (BVI) Ltd. (OHBVI)	**–**	**27.8**	–	27.8	–	27.8	USA
Mabuhay Global Holding Company Pte. Ltd. (MGHCPL) (6)	**–**	**–**	100.0	–	100.0	–	Singapore
Mabuhay Digital Technologies, Inc. (MDTI)	**100.0**	**–**	–	100.0	–	100.0	Philippines
Mabuhay Digital Philippines, Inc. (MDPI)	**100.0**	**–**	–	100.0	–	100.0	Philippines
Asia's Emerging Dragon Corporation	**60.0**	**40.0**	60.0	40.0	60.0	40.0	Philippines

(1) Incorporated on May 6, 2003 to handle the marketing of TDI's products in the export market, TBI started its commercial operations in October 2017. On December 20, 2016, the Company sold its 100% ownership interest in TBI to TDI through an execution of a Deed of Sale of Shares of Stocks.
(2) On March 16, 2015, the Joint Venture Agreement was entered into by Asia Pacific Beverages Pte. Ltd., a subsidiary of ABI, and Aung Maw Thein (NICK), a citizen of the Union of Myanmar, to establish a private company limited by shares which will manufacture, market, sell and distribute non-alcoholic ready-to-drink or powdered mix beverage products in Myanmar. On March 26, 2016, APB Singapore and NICK incorporated APB Myanmar under the laws of Myanmar, owning 90% and 10% of the shares, respectively. Its commercial operations formally commenced on April 1, 2017.
(3) As of December 31, 2021, 2020 and 2019, the Bank Holding Companies consist of 27 entities with aggregate direct ownership interest of 59.83% in PNB, of which 20 companies are incorporated in the Philippines and seven (7) companies are incorporated in the British Virgin Islands (see Note 22).
(4) Represents the effective ownership interest of LTG through the collective ownership of the Bank Holding Companies in the merged PNB.
(5) In 2021, PNB declared its 51% ownership interest in PNB Holdings as property dividends to its stockholders. Effective ownership of the Group after the declaration of property dividends is stil at 56.5% (i.e., 28.8% indirect ownership through the Bank Holding Companies and 27.7% indirect ownership through PNB).
(6) Incorporated on May 17, 2018, MGHCPL holds direct ownership interest in MDTI, incorporated on September 28, 2018, to offer shared services for technology infrastructure across the Group, and MDPI, incorporated on November 7, 2018 to engage business of electronic money, including payment and remittance services. In 2021, the Company acquired the 100% ownership interest in MDTI and MDPI from MGHCPL.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the amendments to existing standards effective as at January 1, 2021. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective. Unless otherwise indicated, adoption of these amendments to existing standards did not have an impact on the consolidated financial statements of the Group.

- Amendment to PFRS 16, *COVID-19-related Rent Concessions beyond 30 June 2021*

  The amendment provides relief to lessees from applying the PFRS 16 requirement on lease modifications to rent concessions arising as a direct consequence of the COVID-19 pandemic. A lessee may elect not to assess whether a rent concession from a lessor is a lease modification if it meets all of the following criteria:
  - The rent concession is a direct consequence of COVID-19;
  - The change in lease payments results in a revised lease consideration that is substantially the same as, or less than, the lease consideration immediately preceding the change;
  - Any reduction in lease payments affects only payments originally due on or before June 30, 2022; and
  - There is no substantive change to other terms and conditions of the lease.

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

  The amendment is effective for annual reporting periods beginning on or after April 1, 2021. Early adoption is permitted.

  The Group adopted the amendment beginning April 1, 2021. The Group adopted the amendments beginning January 1, 2020. The amendments did not have a material impact on the Group.

- Amendments to PFRS 9, PAS 39, PFRS 7, PFRS 4 and PFRS 16, *Interest Rate Benchmark Reform - Phase 2*

  The amendments provide the following temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR):
  - Practical expedient for changes in the basis for determining the contractual cash flows as a result of IBOR reform
  - Relief from discontinuing hedging relationships
  - Relief from the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

  The Group shall also disclose information about:
  - The nature and extent of risks to which the entity is exposed arising from financial instruments subject to IBOR reform, and how the entity manages those risks; and
  - Their progress in completing the transition to alternative benchmark rates, and how the entity is managing that transition

  The Group adopted the amendments beginning January 1, 2021. The amendments did not have a material impact on the Group.

- Adoption of PIC Q&A 2018-12-H, PFRS 15, *Accounting for Common Usage Service (CUSA) Charges*

  On February 14, 2018, PIC Q&A 2018-12-H was issued providing guidance on accounting for common usage service which concludes that real estate developers are generally acting as principal for CUSA charges. Under SEC MC No. 3-2019, the adoption of PIC Q&A No. 2018-12-H was deferred until December 31, 2020. After the deferral period, real estate companies will adopt PIC Q&A No. 2018-12-H and any subsequent amendments thereto retrospectively or as the SEC will later prescribe.

  The property development segment previously availed of the reliefs provided by the SEC and have accounted for the related revenue net of costs and expenses. The property development segment assessed itself as principal for CUSA and air-conditioning charges, and as an agent for electricity and water usage. Accordingly, the property development segment presented the revenue from provision of CUSA and air conditioning services and its related costs on a gross basis as part of "Other income - net" and "Cost of rental income", respectively.

  As at January 1, 2021, the Group adopted PIC Q&A 2018-12-H prospectively. Based on the group's evaluation, the effect in the 2020 and 2019 consolidated statements of income is not significant. Accordingly, the effect of the adoption were not reflected in those years. The adoption did not impact the consolidated statements of financial position and consolidated statements of cash flows.

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

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

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

  The adoption of this PIC Q&A did not impact the consolidated financial statements of the Group since its property development segment records the repossessed inventory at cost and the fair market value less cost to repossess approximates the amount of the cost of repossessed inventory at the date of repossession. As the Group has been reporting repossessed inventories as allowed under approach 1, there is no change in accounting upon adoption of the PIC Q&A.

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 the

consolidated financial statements. The Group intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2022

- Amendments to PFRS 3, *Reference to the Conceptual Framework*

  The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The amendments added an exception to the recognition principle of PFRS 3, *Business Combinations* to avoid the issue of potential 'day 2'gains or losses arising for liabilities and contingent liabilities that would be within the scope of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets* or Philippine-IFRIC 21, *Levies*, if incurred separately. At the same time, the amendments add a new paragraph to PFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2022 and apply prospectively. The amendments are not expected to have a material impact on the Group.

- Amendments to PAS 16, *Plant and Equipment: Proceeds before Intended Use*

  The amendments prohibit entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

  The amendment is effective for annual reporting periods beginning on or after January 1, 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

  The amendments are not expected to have a material impact on the Group.

- Amendments to PAS 37, *Onerous Contracts - Costs of Fulfilling a Contract*

  The amendments specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2022. The Group will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. The amendments are not expected to have a material impact on the Group.

- *Annual Improvements to PFRSs* 2018-2020 Cycle

  - Amendments to PFRS 1, *First-time Adoption of Philippines Financial Reporting Standards, Subsidiary as a first-time adopter*

    The amendment permits a subsidiary that elects to apply paragraph D16(a) of PFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to PFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of PFRS 1.

    The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The amendments are not expected to have a material impact on the Group.

  - Amendments to PFRS 9, *Financial Instruments, Fees in the '10 per cent' test for derecognition of financial liabilities*

    The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

    The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The Group will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendments are not expected to have a material impact on the Group.

  - Amendments to PAS 41, *Agriculture, Taxation in fair value measurements*

    The amendment removes the requirement in paragraph 22 of PAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of PAS 41.

    An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after January 1, 2022 with earlier adoption permitted. The amendments are not expected to have a material impact on the Group.

Effective beginning on or after January 1, 2023

- Amendments to PAS 12, *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

  The amendments narrow the scope of the initial recognition exception under PAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

  The amendments also clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognized in the financial statements (and interest expense) or to the related asset component (and interest expense).

  An entity applies the amendments to transactions that occur on or after the beginning of the earliest comparative period presented for annual reporting periods on or after January 1, 2023. The amendments are not expected to have a material impact on the Group.

- Amendments to PAS 8, *Definition of Accounting Estimates*

  The amendments introduce a new definition of accounting estimates and clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, the amendments clarify that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors.

  An entity applies the amendments to changes in accounting policies and changes in accounting estimates that occur on or after January 1, 2023 with earlier adoption permitted. The amendments are not expected to have a material impact on the Group.

- Amendments to PAS 1 and PFRS Practice Statement 2, *Disclosure of Accounting Policies*

  The amendments provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by:

  - Replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies, and
  - Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures

  The amendments to the Practice Statement provide non-mandatory guidance. Meanwhile, the amendments to PAS 1 are effective for annual periods beginning on or after January 1, 2023. Early application is permitted as long as this fact is disclosed. The amendments are not expected to have a material impact on the Group.

Effective beginning on or after January 1, 2024

- Adoption of the Deferred of Certain Provisions of PIC Q&A 2018-12, *PFRS 15 Implementation Issues Affecting the Real Estate Industry (as amended by PIC Q&As 2020-04*

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

  A summary of the PIC Q&A provisions covered by the SEC deferral follows:

	Deferral Period
Assessing if the transaction price includes a significant financing component as discussed in PIC Q&A 2018-12-D (as amended by PIC Q&A 2020-04)	Until December 31, 2023
Treatment of land in the determination of the POC discussed in PIC Q&A 2018-12-E	Until December 31, 2023

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

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

  On July 8, 2021, the SEC issued SEC MC No. 8, series of 2021 amending the transition provision of the above PIC Q&A providing real estate companies the accounting policy option of applying either the full retrospective approach or modified retrospective approach. With this, real estate companies are finally able to fully comply with PFRS 15 and revert to full PFRS financial reporting for the calendar year 2021.

  After the deferral period, real estate companies have an accounting policy option of applying either the full retrospective approach or modified retrospective approach as provided under SEC MC No. 8-2021.

  The property development segment availed of the SEC relief to defer the above specific provision of PIC Q&A No. 2018-12-D (as amended by PIC Q&A 2020-04) in determining whether the transaction price includes a significant financing component. Had this provision been adopted, the mismatch between the POC of the real estate projects and right to an amount of consideration based on the schedule of payments provided for in the contract to sell might constitute a significant financing component. In case of the presence of significant financing component, the guidance should have been applied retrospectively and would have resulted in restatement of prior year financial statements in case a full retrospective approach is applied. Depending on the approach of adoption, the adoption of this guidance would have impacted interest income, interest expense, revenue from real estate sales, contract assets, provision for deferred income tax, deferred tax asset or liability for all years presented (full retrospective approach), and the opening balance of retained earnings (full retrospective approach and modified retrospective approach).

  Based on the Group's evaluation, the effect of the SEC relief to the consolidated financial statements is not significant.

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

  The amendments clarify paragraphs 69 to 76 of PAS 1, *Presentation of Financial Statements*, to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

  - What is meant by a right to defer settlement
  - That a right to defer must exist at the end of the reporting period
  - That classification is unaffected by the likelihood that an entity will exercise its deferral right
  - That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

  The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and must be applied retrospectively. However, in November 2021, the International Accounting Standards Board (IASB) tentatively decided to defer the effective date to no earlier than January 1, 2024.

Effective beginning on or after January 1, 2025

- 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

  On December 15, 2021, the FRSC amended the mandatory effective date of PFRS 17 from January 1, 2023 to January 1, 2025. This is consistent with Circular Letter No. 2020-62 issued by the Insurance Commission which deferred the implementation of PFRS 17 by two (2) years after its effective date as decided by the IASB.

  PFRS 17 is effective for reporting periods beginning on or after January 1, 2025, with comparative figures required. Early application is permitted. The adoption will not materially affect the Group.

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 FRSC deferred the original effective date of January 1, 2016 of the said amendments until the IASB completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

The Group continues to assess the impact of the above new and amended accounting standards and Interpretations effective subsequent to 2021 on the Group's financial statements in the period of initial application. Additional disclosures required by these amendments will be included in the consolidated financial statements when these amendments are adopted.

Significant Accounting Policies Applicable to the Group

Current versus Noncurrent Classification
The Group presents assets and liabilities in the consolidated statement of financial position based on current/noncurrent classification. An asset is current when it is:

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

All other assets are classified as noncurrent.

A liability is current when:

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

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

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

Fair value is the price that the Group would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., an exit price). The fair value measurement is based on the presumption that these transactions take place either:

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

The principal or the most advantageous market must be accessible to the Group. The Group measures the fair value of an asset or a liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. If an asset or a liability measured at fair value has both bid and ask prices, the Group uses the price within the bid-ask spread, which is the most representative of fair value in the circumstances.

For nonfinancial assets, the Group measures their fair value considering a market participant's ability to generate economic benefits by using an asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

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

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

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

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

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

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

For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items (COCI), amounts due from BSP and other banks, interbank loans receivable and securities held under agreements to resell that are convertible to known amounts of cash, with original maturities of three months or less from dates of placements and that are subject to an insignificant risk of changes in fair value. Due from BSP includes statutory reserves required by the BSP, which the Group considers as cash equivalents wherein drawings can be made to meet cash requirements.

Financial Instruments - Initial Recognition
Date of recognition
The Group recognizes purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace on settlement date (i.e., the date that an asset is delivered to or by the Group), while derivatives are recognized on trade date (i.e., the date that the Group commits to purchase or sell). The Group recognizes deposits, amounts due to banks and customers and loans when cash is received by the Group or advanced to the borrowers.

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

Financial Instruments - Classification and Subsequent Measurement
The Group classifies and measures financial assets at FVTPL unless these are measured at FVTOCI or at amortized cost. The classification of financial assets depends on the contractual terms and the business model for managing those financial assets.

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

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

For financial liabilities, the Group classifies them as either financial liabilities at FVTPL or financial liabilities at amortized cost.

Financial assets at FVTPL
Financial assets at FVTPL include the following:

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

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

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

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

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

The Group reports the effective yield component of debt securities at FVTOCI, as well as the impact of restatement on foreign currency-denominated debt securities at FVTOCI, in the consolidated statement of income. When the debt securities at FVTOCI are disposed of, the cumulative gain or loss previously recognized in OCI is recognized as 'Trading and securities gain (loss) - net' in the consolidated statement of income. The Group recognizes the expected credit losses (ECL) arising from impairment of such financial assets in OCI with a corresponding charge to 'Provision for impairment, credit and other losses' in the consolidated statement of income.

Equity securities designated at FVTOCI are those that the Group made an irrevocable election at initial recognition to present in OCI the subsequent changes in fair value. The Group recognizes the dividends earned on holding the equity securities at FVTOCI in the consolidated statement of income when the right to payment has been established. Gains and losses on disposal of these equity securities at FVTOCI are never recycled to profit or loss, but the cumulative gain or loss previously recognized in the OCI is reclassified to 'Retained earnings' or any other appropriate equity account upon disposal. The Group does not subject equity securities at FVTOCI to impairment assessment.

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

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

This accounting policy relates to the statement of financial position captions 'Due from Bangko Sentral ng Pilipinas (BSP)', 'Due from other banks', 'Interbank loans receivable', 'Securities held under agreements to resell', 'Investment securities at amortized cost', and 'Loans and receivables'.

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

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

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

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

Conversely, the Group does not recognize securities purchased under agreements to resell at a specified future date ('reverse repos'). The Group is not permitted to sell or repledge the securities in the absence of default by the owner of the collateral. The Group recognizes the corresponding cash paid, including accrued interest, as a loan to the counterparty. The difference between the purchase price and resale price is treated as interest income and is accrued over the life of the agreement using the effective interest method.

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

Derecognition of Financial Assets and Liabilities
Financial assets
The Group derecognizes a financial asset (or, where applicable, a part of a financial asset or part of a group of financial assets) when:

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

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

Financial assets are written off either partially or in their entirety only when the Group has stopped pursuing recovery. If a write-off is later recovered, any amounts formerly charged are credited to 'Recoveries' under 'Miscellaneous Income' in the consolidated statements of income.

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

Impairment of Financial Assets
ECL methodology
The Group's loss impairment method on financial instruments applies a forward-looking ECL approach, which covers all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts. The ECL allowance is based on the credit losses expected to arise on a 12-month duration if there has been no significant increase in credit risk (SICR) of the financial instrument since origination (12-month ECL). Otherwise, if an SICR is observed, then the Group extends its ECL estimation until the end of the life of the financial instrument (Lifetime ECL). Both Lifetime ECLs and 12-month ECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

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

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

Definition of "default" and "cure"
The Group considers default to have occurred when:

- the obligor is past due for more than 90 days on any material credit obligation to the Group; or
- the obligor is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing collateral, as applicable.

The Group no longer considers an instrument to be in default when it no longer meets any of the default criteria and has exhibited satisfactory and acceptable track record for six consecutive payment periods, subject to applicable rules and regulations of the BSP.

Determining SICR
At each reporting date, the Group assesses whether the credit risk on a loan or credit exposure has increased significantly since initial recognition. The Group's assessment of SICR involves looking at both the qualitative and quantitative elements, as well as if the loan or credit exposure is unpaid for at least 30 days ("backstop").

The Group assesses SICR on loans or credit exposures having potential credit weaknesses based on current and/or forward-looking information that warrant management's close attention. Such weaknesses, if left uncorrected, may affect the repayment of these exposures. The loan or credit exposure also exhibits SICR if there are adverse or foreseen adverse economic or market conditions that may affect the counterparty's ability to meet the scheduled repayments in the future.

The Group looks at the quantitative element through statistical models or credit ratings process or scoring process that captures certain information, which the Group considers as relevant in assessing changes in credit risk. The Group also looks at the number of notches downgrade of credit risk rating (CRR) or certain thresholds for the probabilities of default being generated from statistical models to determine whether SICR has occurred subsequent to initial recognition date.

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

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

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

Generally, the Group considers that full collection is probable when payments of interest and/or principal are received for at least six months.

Modified or restructured loans and other credit exposures
In certain circumstances, the Group modifies the original terms and conditions of a credit exposure to form a new loan agreement or payment schedule, which may be provided depending on the borrower's current or expected financial difficulties. Modifications may include, but are not limited to, change in interest rate and terms, principal amount, maturity date and schedule of periodic payments.

If modifications are considered by the Group as substantial based on qualitative factors, the loan is derecognized as discussed under *Financial Instruments - Derecognition.*

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

Purchased or originated credit-impaired loans
The Group considers a loan as credit-impaired on purchase or origination if there is evidence of impairment at the time of initial recognition (i.e., acquired/purchased at a deep discounted price). The Group recognizes the cumulative changes in Lifetime ECL since initial recognition as a loss allowance for purchased or originated credit-impaired loan.

Measurement of ECL
ECLs are generally measured based on the risk of default over one of two different time horizons, depending on whether there has been SICR since initial recognition. ECL calculations are based on the following components:

- Probability of default (PD) - an estimate of the likelihood that a borrower will default on its obligations over the next 12 months for Stage 1 or over the remaining life of the credit exposure for Stages 2 and 3.
- Loss-given-default (LGD) - an estimate of the loss arising in case where default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the Group would expect to receive, including from any collateral.
- Exposure-at-default (EAD) - an estimate of the exposure at a future/ default date taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, expected drawdown on committed facilities and accrued interest from missed payments.
- Discount rate - represents the rate to be used to discount an expected loss to present value at the reporting date using the original EIR determined at initial recognition.

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

- factors that may affect the general economic or market conditions in which the Group operates, such as gross domestic product growth rates, foreign exchange rates, inflation rate, among others;
- changes in government policies, rules and regulations, such as adjustments to policy rates;
- other factors pertinent to the Group, including the proper identification and mitigation of risks such as incidences of loan defaults or losses.

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

The Group applies a simplified ECL approach for its other loans and receivables wherein the Group uses a provisioning matrix that considers historical changes in the behavior of the portfolio to product conditions over the span of a given observation period.

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

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

Under the equity method, the investments in associates and joint ventures are carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of the net assets of the associates and joint ventures. The Group's share in the associates' and joint ventures' post-acquisition profits or losses is recognized in the consolidated statement of income, and its share of post-acquisition movements in the associates' and joint ventures' equity reserves is recognized directly in other comprehensive income. When the Group's share of losses in the associate and joint venture equals or exceeds its interest in the associate and joint venture, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate and joint venture. Profits and losses resulting from transactions between the Group and the associates and joint ventures are eliminated to the extent of the interest in the associates and joint ventures.

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

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

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

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

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

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

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

Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of property, plant and equipment as a replacement if the recognition criteria are satisfied.

All other repair and maintenance costs are expensed in the consolidated statement of income as incurred. Borrowing costs incurred during the construction of a qualifying asset is likewise included in the initial cost of property, plant and equipment.

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

Any resulting decrease is directly charged against any related revaluation increment to the extent that the decrease does not exceed the amount of the revaluation increment in respect of the same asset. Further, the revaluation increment of depreciable property, plant and equipment is transferred to retained earnings as the asset is used by the Group. The amount of the revaluation increment transferred would be the difference between the depreciation and amortization based on the revalued carrying amount of the asset and depreciation and amortization based on the asset's original cost. In case the asset is retired or disposed of, the related remaining revaluation increment is transferred directly to retained earnings. Transfers from revaluation increment to retained earnings are not made through profit or loss.

Construction in progress consists of properties in the course of construction for production or administrative purposes, which are carried at cost less any recognized impairment loss. This includes cost of construction and equipment, and other direct costs. Construction in progress is not depreciated until such time that the relevant assets are completed and put into operational use.

Returnable containers (i.e., returnable bottles and crates) are stated at cost less accumulated depreciation and any impairment in value. Cost of manufactured containers comprises materials used and applicable allocation of fixed and variable labor and overhead cost. Amortization of returnable containers is included under "Selling expenses" account in the consolidated statement of comprehensive income.

Deposit value for the containers loaned to customer is included as part of "Trade payable" under "Accounts payable and accrued expenses" account in the consolidated statement of financial position.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

Depreciation and amortization are computed using the straight-line method over the following estimated useful lives of the assets:

	Number of Years
At appraisal values:	
Land improvements	5 - 15
Plant buildings and building improvements	8 - 50
Machineries and equipment	5 - 30
Office and administration buildings	20 - 40
Leasehold improvements	3 - 30 or lease term, whichever is shorter
Transportation equipment	2 - 5
Returnable containers	5 - 7
Furniture, fixtures and other equipment	3 - 20

The estimated useful lives and depreciation and amortization method are reviewed periodically to ensure that the periods and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

Depreciation or amortization of an item of property, plant and equipment begins when it becomes available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation or amortization ceases at the earlier of the date that the item is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with PFRS 5 and the date the item is derecognized.

When assets are sold or retired, their cost and accumulated depreciation and amortization and any impairment in value are removed from the accounts, and any gain or loss resulting from their disposal is recognized in the consolidated statement of income.

Fully depreciated property, plant and equipment are retained in the accounts until they are no longer in use and no further depreciation and amortization is charged to current operations.

The Group recognizes ROU assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). ROU assets are initially measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The initial cost of ROU assets includes the amount of lease liabilities recognized, initial direct costs incurred, lease payments made at or before the commencement date less any lease incentives received and estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized ROU assets are depreciated on a straight-line basis over the shorter of their estimated useful life and lease term, as follows:

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

ROU assets are subject to impairment.

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

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

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

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

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

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

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

Investment properties also include ROU assets involving real properties that are subleased to other entities.

For those ROU assets that qualify as investment properties, i.e., those land and buildings that are subleased by the Company, these are classified under investment properties in accordance with paragraph 48 of PFRS 16. Consistent with the Group's policy regarding the measurement of investment properties, these assets are subsequently measured at cost less amortization and impairment in value.

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

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

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

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

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

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

Customer relationship intangibles (CRI) and core deposits intangibles (CDI) are the intangible assets acquired by the Group through business combination. The Group initially measures these intangible assets at their fair values at the date of acquisition. The fair value of these intangible assets reflects expectations about the probability that the expected future economic benefits embodied in the asset will flow to the Group.

Following initial recognition, intangibles with finite lives are measured at cost less accumulated amortization and any accumulated impairment losses.

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

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

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

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

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

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

Revenue
Revenue is recognized upon transfer of services to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those services.

Refer to the significant accounting policies generally applicable to the consumer products, banking and property development for the specific recognition criteria that must also be met before revenue is recognized.

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

Selling and general and administrative expenses
Selling expenses are costs incurred to sell or distribute merchandise, it includes advertising and promotions and freight and handling, among others. General and administrative expenses constitute costs of administering the business. Selling and general and administrative expenses are expensed as incurred.

Taxes and licenses
Taxes and licenses include all other taxes, local and national, including gross receipts taxes (GRT), documentary stamp taxes, real estate taxes, licenses and permit fees and are recognized as costs and expenses when incurred.

Retirement Benefits
The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

- service cost
- net interest on the net defined benefit liability or asset
- remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in consolidated statement of income. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

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

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations).

If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refund from the plan or reduction in future contribution to the plan.

The Group's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Employee leave entitlement
Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled wholly before twelve months after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period.

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

Borrowing Costs
Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalization of borrowing costs commences when the activities necessary to prepare the asset for intended use are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the asset is available for their intended use. Capitalization ceases when pre-selling of real estate inventories under construction commences. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognized. Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, as well as exchange differences arising from foreign currency borrowings used to finance these projects, to the extent that they are regarded as an adjustment to interest costs. All other borrowing costs are expensed as incurred.

The interest capitalized is calculated using the Group's weighted average cost of borrowings after adjusting for borrowings associated with specific developments. Where borrowings are associated with specific developments, the amounts capitalized is the gross interest incurred on those borrowings less any investment income arising on their temporary investment.

The capitalization of finance costs is suspended if there are prolonged periods when development activity is interrupted. Interest is also capitalized on the purchase cost of a site of property acquired specifically for redevelopment but only where activities necessary to prepare the asset for redevelopment are in progress.

Debt Issue Costs
Issuance, underwriting and other related expenses incurred in connection with the issuance of debt instruments (other than debt instruments designated at FVTPL) are deferred and amortized over the terms of the instruments using the effective interest method. Unamortized debt issuance costs are included in the measurement of the related carrying value of the debt instruments in the consolidated statement of financial position.

Leases
The Group determines at contract inception whether a contract is, or contains, a lease by assessing whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

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

- Right-of-use assets

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

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

- Lease liabilities

  At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term discounted using the Group's incremental borrowing rate, which is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The lease payments include fixed payments, any variable lease payments that depend on an index or a rate, and any amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expenses in the period in which the event or condition that triggers the payment occurs.

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

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

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

The residual value of leased assets, which approximates the amount of guaranty deposit paid by the lessee at the inception of the lease, is the estimated proceeds from the sale of the leased asset at the end of the lease term. At the end of the lease term, the residual value of the leased asset is generally applied against the guaranty deposit of the lessee when the lessee decides to buy the leased asset.

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

Foreign Currency-denominated Transaction and Translation
The Group's consolidated financial statements are presented in Philippine peso, which is also LTG's functional currency. Each of the subsidiaries determines its own functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded by the individual entities in the Group in their respective functional currencies at the foreign exchange rates prevailing at the dates of the transactions. Outstanding monetary assets and liabilities denominated in foreign currencies are translated using the closing foreign exchange rate prevailing at the reporting date. All differences are charged to profit or loss in the consolidated statement of income.

Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the dates of initial transactions. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Foreign Currency Deposit Unit (FCDU) and Overseas Subsidiaries
As of reporting date, the assets and liabilities of foreign subsidiaries, with functional currencies other than the functional currency of the Group, are translated into the presentation currency of the Group using the closing foreign exchange rate prevailing at the reporting date, and their respective income and expenses are translated at the monthly weighted average exchange rates for the year. The exchange differences arising on the translation are recognized in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation shall be recognized in consolidated statement of income.

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

Deferred income tax
Deferred income tax is recognized on all temporary differences at the end of reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

Deferred income tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or loss nor taxable profit or loss.

Deferred income tax liabilities are not provided on non-taxable temporary differences associated with investments in domestic subsidiaries, associates and interest in joint ventures. With respect to investments in other subsidiaries, associates and interests in joint ventures, deferred income tax liabilities are recognized except when the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting period and are recognized to the extent that it has become probable that sufficient future taxable profits will allow the deferred income tax assets to be recovered. It is probable that sufficient future taxable profits will be available against which a deductible temporary difference can be utilized when there are sufficient taxable temporary difference relating to the same taxation authority and the same taxable entity which are expected to reverse in the same period as the expected reversal of the deductible temporary difference. In such circumstances, the deferred income tax asset is recognized in the period in which the deductible temporary difference arises.

Deferred income taxes relating to items recognized directly in OCI are also recognized in OCI and not in the consolidated statement of income.

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

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in consolidated statement of income. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Value-added Tax (VAT)

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

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

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of "Other current assets" or "Accounts payable and accrued expenses" in the consolidated statement of financial position.

Provisions and Contingencies

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. When the Group expects a provision or loss to be reimbursed, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain and its amount is estimable. The expense relating to any provision is presented in the consolidated statement of income, net of any reimbursement.

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the consolidated financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the consolidated financial statements.

Equity

Capital stock is measured at par value for all shares issued by the Group. When the Group issue more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax.

Capital in excess of par is the portion of the paid-in capital representing excess over the par or stated value.

Preferred shares of subsidiaries issued to Parent Company are own-equity instruments by the Bank Holding Companies that are issued to Tangent (see Note 30).

Other equity reserves include effect of transactions with non-controlling interest and equity adjustments arising from business combination under common control and other group restructuring transactions.

Other comprehensive income (loss) comprises items of income and expense (including items previously presented under the consolidated statement of changes in equity) that are not recognized in the consolidated statement of income for the year in accordance with PFRSs. Other comprehensive income (loss) of the Group includes cumulative translation adjustments, net changes in fair values of financial assets at FVTOCI, remeasurement gains (losses) on defined benefit plans, revaluation increment in property, plant and equipment and share in other comprehensive income of associates.

Retained earnings represent the cumulative balance of net income or loss, dividend distributions, prior period adjustments, effects of the changes in accounting policies and other capital adjustments. Unappropriated retained earnings represent that portion which can be declared as dividends to stockholders after adjustments for any unrealized items which are considered not available for dividend declaration. Appropriated retained earnings represent that portion which has been restricted and therefore is not available for any dividend declaration.

Treasury shares are owned equity instruments that are reacquired. Where any member of the Group purchases the Company's capital stock (presented as "Shares of stock of the Company held by subsidiaries"), the consideration paid, including any directly attributable incremental costs (net of related taxes), is deducted from equity until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transactions costs and the related income tax effect, is included in equity attributable to the equity holders of the Company.

Earnings Per Share

Basic earnings per share (EPS) is computed by dividing net income for the period attributable to common shareholders by the weighted average number of common shares outstanding during the period after giving retroactive effect to stock dividends declared and stock rights exercised during the period, if any.

Diluted EPS is calculated by dividing the aggregate of net income attributable to common shareholders by the weighted average number of common shares outstanding during the period adjusted for the effects of any dilutive shares.

Dividends on Common Shares

Cash dividends on common shares are recognized as a liability and deducted from equity when approved by the BOD of the Company. Stock dividends are treated as transfers from retained earnings to capital stock. Dividends for the year that are approved after the end of reporting period are dealt with as a non-adjusting event after the end of reporting period.

Events After the Reporting Period

Events after the end of reporting period that provides additional information about the Group's position at the end of reporting period (adjusting event) are reflected in the consolidated financial statements. Events after the end of reporting period that are not adjusting events, if any, are disclosed when material to the consolidated financial statements.

Segment Reporting

The Group's operating segments are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on operating segments is presented in Note 4 to the consolidated financial statements.

Significant Accounting Policies Generally Applicable to Banking

Banking Revenue

Revenue from contracts with customers is recognized upon transfer of services to the customer at an amount that reflects the consideration to which the banking segment expects to be entitled in exchange for those services.

The banking segment assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The banking segment has concluded that it is acting as a principal in all of its revenue arrangements except for brokerage transactions. The following specific recognition criteria must also be met before revenue is recognized within the scope of PFRS 15:

Service fees and commission income

The banking segment earns fee and commission income from diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

a) *Fee income earned from services that are provided over a certain period of time* The banking segment accrues fees earned for the provision of services over a period of time. These fees include investment fund fees, custodian fees, fiduciary fees, credit-related fees, trust fees, portfolio and other management fees, and advisory fees.

b) *Bancassurance fees*
The banking segment recognizes non-refundable access fees on a straight-line basis over the term of the period of the provision of the access. Milestone fees or variable and fixed earn-out fees are recognized in reference to the stage of achievement of the milestones.

c) *Fee income from providing transaction services*
The banking segment recognizes the fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, only upon completion of the underlying transaction. For fees or components of fees that are linked to a certain performance, the banking segment recognizes revenue after fulfilling the corresponding criteria. These fees include underwriting fees, corporate finance fees, remittance fees, brokerage fees, commissions, deposit-related and other credit-related fees.

The banking segment recognizes loan syndication fees as revenue when the syndication has been completed and the banking segment retains no part of the loans for itself or retains part at the same EIR as the other participants.

Interchange fee and revenue from rewards redeemed

The banking segment takes up as income the interchange fees under 'Service fees and commission income' upon receipt from member establishments of charges arising from credit availments by the banking segment's cardholders. These discounts are computed based on certain agreed rates and are deducted from amounts remitted to the member establishments.

The banking segment operates a loyalty points program which allows customers to accumulate points when they purchase from member establishments using the issued card of the banking segment. The points can then be redeemed for free products subject to a minimum number of points being redeemed.

The banking segment allocates a portion of the consideration received from discounts earned and interchange fees from credit cards to the reward points based on the estimated stand-alone selling prices. The banking segment defers the amount allocated to the loyalty program and recognizes revenue only when the loyalty points are redeemed or the likelihood of the credit cardholder redeeming the loyalty points becomes remote. The banking segment includes the deferred balance under 'Other liabilities' in the consolidated statement of financial position.

Commissions on credit cards

The banking segment recognizes commissions earned as revenue upon receipt from member establishments of charges arising from credit availments by credit cardholders. These commissions are computed based on certain agreed rates and are deducted from amounts remittable to member establishments.

Other income

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

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

Interest income

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

The banking segment records interest income using the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. In calculating EIR, the banking segment considers all contractual terms of the financial instrument (for example, prepayment options), and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses. The banking segment adjusts the carrying amount of the financial instrument through 'Interest income' in the consolidated statement of income based on the original EIR.

When a financial asset becomes credit-impaired and is, therefore, regarded as Stage 3, the banking segment calculates interest income by applying the EIR to the net amortized cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the banking segment reverts to calculating interest income on a gross basis.

Commitment fees

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

Commissions on installment credit sales

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

Insurance premiums and commissions on reinsurance

Gross insurance written premiums comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the accounting period. Premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior periods. The banking segment recognizes premiums from short-duration insurance contracts and reinsurance commissions as revenue over the period of the contracts using the 24th method, except for marine cargo where the provision for unearned premiums pertain to the premiums for the last two months of the year. The banking segment recognizes in the consolidated statement of income for the period the net changes in provisions for unearned premiums and deferred reinsurance premiums.

Dividend income

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

Trading and investment securities gains - net

The banking segment recognizes in 'Trading and investment securities gains - net' the results arising from trading activities, all gains and losses from changes in fair value of financial assets and financial liabilities at FVTPL, and gains and losses from disposal of debt securities at FVTOCI.

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

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

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

- transaction and finance fees on finance leases and loans and receivables financed with long-term maturities; and
- excess of the aggregate lease rentals plus the estimated residual value of the leased equipment over its cost.

Financial Guarantees and Undrawn Loan Commitments
The Group gives loan commitments and financial guarantees consisting of letters of credit, letters of guarantees, and acceptances.

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

Subsequent to initial recognition, the Group measures these financial guarantees at the higher of:

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

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

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

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

Fiduciary Activities
The Group excludes from these financial statements the assets and income arising from fiduciary activities, together with related undertakings to return such assets to customers, where the Group acts in a fiduciary capacity such as nominee, trustee or agent.

Significant Accounting Policies Generally Applicable to Consumer Products

Sale of Consumer Goods
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements.

The Group enters into a marketing and distributorship agreement in which the Group undertakes to sell the products specified including its quantity indicated in an approved purchased order exclusively to the marketing distributors. No other promised goods or services was specified in the contract or provided based on the customary business practice. This is considered as one performance obligation; hence, no allocation of transaction price is needed. The Group recognizes revenue at a point in time, once the goods are delivered.

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

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

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

Cost of Consumer Goods Sold
Cost of consumer goods sold is recognized as expense where the related goods are sold.

Consumer Goods Inventories
Inventories are valued at the lower of cost and net realizable value (NRV). Costs incurred in bringing the inventory to its present location and condition are accounted for as follows:

Finished goods and work in process include direct materials, direct labor, and manufacturing overhead costs. Raw materials include purchase cost. The cost of these inventories is determined using the following:

	Distilled Spirits	Beverage
Finished goods	Moving-average	Weighted-average
Work in process	Moving-average	Weighted-average
Raw materials and materials and supplies	Moving-average	Moving-average

NRV of finished goods is the estimated selling price less the estimated costs of marketing and distribution. NRV of work in process is the estimated selling price less estimated costs of completion and the estimated costs necessary to make the sale. For raw materials and materials and supplies, NRV is current replacement cost.

Significant Accounting Policies Generally Applicable to Property Development

Property Development Revenue and Cost Recognition
Real estate sales
The Group derives its real estate sales from sale of residential lots and condominium units. Revenue from the sale of these real estate projects under pre-completion stage are recognized over time during the construction period (or percentage of completion) since based on the terms and conditions of its contract with the buyers, the Group's performance does not create an asset with an alternative use and the Group has an enforceable right to payment for performance completed to date.

In measuring the progress of its performance obligation over time, the Group uses the output method. This method measures progress based on the physical proportion of work done on the real estate project which requires technical determination by the Group's project engineers. Based on the monthly project accomplishment report approved by the site project manager which integrates the surveys of performance to date of the construction activities.

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

Charges and expenses recoverable from tenants
Income arising from expenses recharged to tenants in "Other income" account is recognized in the period in which the compensation becomes receivable.

Cost of real estate sales
Cost of real estate sales is recognized consistent with the revenue recognition method applied. Cost of subdivision land and condominium units sold before the completion of the development is determined on the basis of the acquisition cost of the land plus its full development costs, which include estimated costs for future development works, as determined by the Group's in-house technical staff.

The cost of real estate sales recognized in the consolidated statement of income on disposal is determined with reference to the specific costs incurred on the property, allocated to saleable area based on relative size and takes into account the percentage-of-completion used for revenue recognition purposes.

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

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

Cost of rental income
Cost of rental income is recognized in relation to the leasing activities of the Group. This includes general, administrative and selling expenses allocated to the leasing activities, rental expense on the property leased to tenants and depreciation of the investment properties.

Rooms and other operated departments
Revenue from room rentals and other ancillary services are recognized at point in time or when the services are rendered. Revenue from other ancillary services include, among others, business center related services and car rentals, food packages, laundry service, telephone service, and spa/gym services.

Costs of services
Costs of services include expenses incurred by the Group for the generation of revenue from room rentals and other ancillary services. Costs of services are expensed as incurred.

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

Cost includes: (a) acquisition cost of subdivision land; (b) amounts paid to contractors for construction and development of subdivision land, residential houses and lots and condominium units; (c) planning and design costs, cost of site preparation, professional fees for legal services, property transfer taxes, construction overheads and other related costs; and (d) borrowing costs capitalized prior to start of pre-selling activities for the real estate project.

NRV is the estimated selling price in the ordinary course of the business, based on market prices at the reporting date, less estimated costs of completion and the estimated costs of sale. The carrying amount of inventories is reduced through the use of allowance account and the amount of loss is charged to profit or loss.

The cost of inventory recognized in profit or loss on disposal is determined with reference to the specific costs incurred on the property sold and an allocation of any non-specific costs. The total costs are allocated pro-rata based on the relative size of the property sold.

Customers' Deposits including Excess of Collections over Recognized Receivables
Customers' deposits represent payments from buyers of property development segment which will be applied against the related contracts receivables. This account also includes the excess of collections over the recognized contracts receivables, which is based on the revenue recognition policy of the Group.

Security Deposits
Security deposits, included in the "Other current liabilities" and "Other noncurrent liabilities" accounts in the liabilities section of the consolidated statement of financial position, are measured initially at fair value and are subsequently measured at amortized cost using the effective interest method.

3. Significant Judgments, Accounting Estimates and Assumptions

The preparation of the consolidated financial statements requires the Group to exercise judgments, make accounting estimates and use assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the accounting estimates to change. The effects of any change in accounting estimates are reflected in the consolidated financial statements as they become reasonably determinable.

Accounting estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments
In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effects on amounts recognized in the consolidated financial statements:

Classification of financial assets
The Group classifies its financial assets depending on the results of the SPPI tests and on the business model used for managing those financial assets.

When performing the SPPI test, the Group applies judgment and evaluates relevant factors and characteristics such as the behavior and nature of contractual cash flows, its original currency denomination, the timing and frequency of interest rate repricing, contingent events that would alter the amount and/or timing of cash flows, leverage features, prepayment or extension options and other features that may modify the consideration for the time value of money.

As a second step, the Group performs business model assessment to reflect how financial assets are managed in order to generate net cash inflows based on the following factors:

- Business objectives and strategies for holding financial assets
- Performance measures and benchmarks being used to evaluate the Group's key management personnel accountable to the financial assets
- Attendant risks and the tools applied in managing them
- Compensation structure, including whether based on fair value changes of the investments managed or on the generated cash flows from transactions
- Frequency and timing of disposals

In applying judgment, the Group also considers the circumstances surrounding the transaction as well as the prudential requirements of the BSP.

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

In making this judgment, the Group considers the following:

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

Revenue recognition on real estate sales
Revenue recognition under PFRS 15 involves the application of significant judgment and estimation in the: (a) identification of the contract for sale of real estate property that would meet the requirements of PFRS 15; (b) assessment of the probability that the entity will collect the consideration from the buyer; (c) determination of the transaction price; (d) application of the output/input method as the measure of progress in determining real estate revenue; (e) determination of the actual costs incurred as cost of goods sold; and (f) recognition of cost to obtain a contract.

(a) Existence of a contract
The Group's primary document for a contract with a customer is a signed contract to sell. In addition, part of the assessment process of the Group before revenue recognition is to assess the probability that the Group will collect the consideration to which it will be entitled in exchange for the real estate property that will be transferred to the customer. In evaluating whether collectability of an amount of consideration is probable, an entity considers the significance of the customer's initial payments in relation to the total contract price. Collectability is also assessed by considering factors such as past history customer, age and pricing of the property. Management regularly evaluates the historical cancellations and back-outs if it would still support its current threshold of customers' equity before commencing revenue recognition.

(b) Revenue recognition method and measure of progress
The Group concluded that revenue for real estate sales is to be recognized over time because (a) the Group's performance does not create an asset with an alternative use and; (b) the Group has an enforceable right for performance completed to date. The promised property is specifically identified in the contract and the contractual restriction on the Group's ability to direct the promised property for another use is substantive. This is because the property promised to the customer is not interchangeable with other properties without breaching the contract and without incurring significant costs that otherwise would not have been incurred in relation to that contract. In addition, under the current legal framework, the customer is contractually obliged to make payments to the developer up to the performance completed to date.

The Group has determined that the output method used in measuring the progress of the performance obligation faithfully depicts the Group's performance in transferring control of real estate development to the customer.

(c) Identifying performance obligation
The Group has various contracts to sell covering residential lots and condominium units. The Group concluded that there is one performance obligation in each of these contracts because: (i) for residential lots, the developer integrates the plots it sells with the associated infrastructure to be able to transfer the serviced land promised in the contract; (ii) for the contract covering condominium units, the developer has the obligation to deliver the house or condominium unit duly constructed on a specific lot and fully integrated into the serviced land in accordance with the approved plan. Included also in this performance obligation is the Group's service to transfer the title of the real estate unit to the customer.

Revenue recognition on sale of consumer goods
Revenue recognition under PFRS 15 involves the application of significant judgment and estimation in the: (a) identification of the contract for sale of goods that would meet the requirements of PFRS 15; (b) assessment of performance obligation and the probability that the entity will collect the consideration from the buyer; (c) determining method to estimate variable consideration and assessing the constraint. (d) recognition of revenue as the Group satisfies the performance obligation.

a) Existence of a contract
The Group's primary document for a contract with a customer for each type of revenue stream is:

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

- *Sale of commercial bottles.* The Group determined that an approved purchase order with terms clearly identified including the product specification and payment terms qualifies as a contract.

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

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

Factors such as the following are considered:

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

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

c) Recognition of revenue as the Group satisfies the performance obligation
The Group recognizes its revenue for all revenue streams at a point in time, where the goods are sold and delivered and when services were already rendered.

Operating lease commitments - the Group as lessor
The Group has entered into commercial property leases on its investment properties and certain motor vehicles and items of machinery. The Group has determined, based on an evaluation of the terms and conditions of the lease agreements (i.e., the lease does not transfer ownership of the asset to the lessee by the end of the lease term, the lessee has no option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option is exercisable and the lease term is not for the major part of the asset's economic life), that it retains all the significant risks and rewards of ownership of these properties and so accounts for these leases as operating leases (see Note 37).

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

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

Determination of taxable profit, tax bases, unused tax losses, unused tax credits and tax rates
Upon adoption of the Philippine Interpretation IFRIC 23, the Group has assessed whether it has any uncertain tax position. The Group applies significant judgement in identifying uncertainties over its income tax treatments. Since the Group operates in a complex multinational environment, it assessed whether the Interpretation had an impact on its consolidated financial statements. The Group determined, based on its tax assessment, in consultation with its tax counsel, that it is probable that its uncertain tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. Accordingly, the interpretation did not have significant impact on the consolidated financial statements of the Group.

Classification of properties
The Group determines whether a property is classified as real estate inventory, investment property or owner-occupied property. In making its judgment, the Group considers whether the property generates cash flow largely independent of the other assets held by an entity.

Real estate inventory comprises of property that is held for sale in the ordinary course of business. Principally, this is residential property that the Group develops and intends to sell before or on completion of construction. Investment property comprises land and buildings (principally offices, commercial and retail property) which are not occupied substantially for use by, or in the operations of the Group, nor for sale in the ordinary course of business, but are held primarily to earn rental income and for capital appreciation. Owner-occupied properties classified and presented as property, plant and equipment, generate cash flows that are attributable not only to property but also to the other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions cannot be sold separately as of the financial reporting date, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgment.

Determination of fair value of financial instruments
When the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, the Group uses valuation techniques and mathematical models. The Group derives the inputs to these models from observable markets where possible, otherwise, a degree of judgment is required in establishing fair values. The judgments include considerations of liquidity and model inputs such as correlation and volatility for longer-dated derivatives.

Contingencies
The Group is currently involved in legal proceedings. The estimate of the probable cost for the resolution of claims has been developed in consultation with the aid of the outside legal counsels handling the Group's defense in these matters and is based upon an analysis of potential results. Management does not believe that the outcome of these matters will affect the results of operations. It is probable, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to the proceedings (Note 37).

Estimates and Assumptions
The key assumptions concerning the future and other key sources of estimation uncertainties at the end of reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

Provision for expected credit losses of financial assets
For banking segment, the Group's ECL calculations are mainly derived from outputs of complex statistical models and expert judgment, with a number of underlying assumptions regarding the choice of variable inputs as well as their independencies. The Group considers the following elements of the ECL models, among others, as significant accounting judgments and estimates:

- Segmentation of the portfolio, where the appropriate ECL approach and/or model is used, including whether assessments should be done individually or collectively.
- Quantitative and qualitative criteria for determining whether there has been SICR as at a given reporting date and the corresponding transfers between stages.
- Determination of expected life of the financial asset and expected recoveries from defaulted accounts.
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of correlations and interdependencies between risk factors, macroeconomic scenarios and economic inputs, such as inflation, policy rates and collateral values, and the resulting impact to PDs, LGDs and EADs.
- Selection of forward-looking information and determination of probability weightings to derive the ECL.

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

For the other segments, provision matrix was used to calculate ECLs. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, property collaterals and coverage by letters of credit and other forms of credit insurance).

The assessment of the correlation between historical observed default rates, forecast economic conditions (i.e., gross domestic product and inflation rate) and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of the customer's actual default in the future.

Refer to Notes 8 and 14 for the carrying values of loans and receivables and receivables from Special Purpose Vehicle (SPV), respectively.

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

Details of the Group's recognized and unrecognized deferred income tax assets is disclosed in Note 29.

Present value of lease liabilities
The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate to measure lease

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

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

The carrying amount of lease liabilities as of December 31, 2021 and 2020 is disclosed in Note 37.

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

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

The fair value of plan assets is based on market price information. When no market price is available, the Group estimates the fair value of plan assets by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets.

The present value of retirement obligation and fair value of plan assets are disclosed in Note 23.

Revenue and cost recognition on real estate sales
The Group's revenue and cost recognition policies on real estate sales require management to make use of estimates and assumptions that may affect the reported amounts of revenue and costs. The Group's revenue and cost of real estate sales are recognized based on the percentage of completion which is measured principally on the basis of the estimated completion of a physical proportion of the contract work.

The Group recognized revenue from real estate sales amounting to P0.1 billion, P0.6 billion and P1.4 billion and cost of real estate sales amounting to P0.05 billion, P0.2 billion and P0.6 billion in 2021, 2020 and 2019, respectively (see Note 24).

Measurement of NRV of inventories
The Group's estimates of the NRV of its consumer goods inventories and materials and supplies are based on the most reliable evidence available at the time the estimates are made, of the amount that the inventories are expected to be realized. These estimates consider the fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period. A new assessment is made of NRV in each subsequent period. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is a clear evidence of an increase in NRV because of change in economic circumstances, the amount of the write-down is reversed so that the new carrying amount is the lower of the cost and the revised NRV.

With respect to the Group's real estate inventories, the Group adjusts the cost of its real estate inventories to NRV based on its assessment of the recoverability of cost of the inventories. NRV for completed real estate inventories is assessed with reference to market conditions and prices existing at the reporting date and is determined by the Group in the light of recent market transactions. NRV in respect of real estate inventories under construction is assessed with reference to market prices at the reporting date for similar completed property, less estimated costs to complete construction and less estimated costs to sell. The amount and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized.

The Group's inventories carried at cost as of December 31, 2021 and 2020 amounted to P13.1 billion and P11.9 billion, respectively. Certain materials and supplies amounting to P1.2 billion and P1.3 billion as of December 31, 2021 and 2020, respectively, are carried at NRV (see Note 9).

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

Property, plant and equipment at appraised values amounted to P60.5 billion and P59.9 billion as of December 31, 2021 and 2020, respectively (see Note 12).

Estimation of useful lives of property, plant and equipment and investment properties
The Group estimates the useful lives and residual values of property, plant and equipment and investment properties based on internal technical evaluation and experience with similar assets. Estimated useful lives and residual values of property, plant and equipment and investment properties are reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical and commercial obsolescence and other limits on the use of the assets. It is possible, however, that future results of operations could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. A reduction in the estimated useful life of any item of property, plant and equipment and investment properties would increase the recorded depreciation expenses and decrease the carrying value of property, plant and equipment and investment properties. In 2021 and 2020, there were no significant changes made in the useful lives and residual values of the property, plant and equipment and investment properties (see Notes 12 and 13).

The total carrying amount of depreciable property, plant and equipment as of December 31, 2021 and 2020 amounted to P25.0 billion and P29.7 billion, respectively (see Note 12). The carrying amount of depreciable investment properties as of December 31, 2021 and 2020 amounted to P14.1 billion and P9.9 billion, respectively (see Note 13).

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

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

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

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

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

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

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

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

4. Segment Information

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

The Group's identified operating segments classified as business groups, which are consistent with the segments reported to LTG's BOD, its Chief Operating Decision Maker (CODM), are as follows:

- Banking, provides full range of banking and other financial services to corporate, middle-market and retail customers, the National Government (NG), local government units (LGUs) and government-owned and controlled corporations (GOCCs) and various government agencies, including deposit-taking, lending, bills discounting, foreign exchange dealing, investment banking, fund transfers or remittance servicing and full range of retail banking and trust services and other insurance services. The Group conducts its banking business through PNB and its subsidiaries.

- Distilled Spirits, which is involved in manufacturing, compounding, bottling, importing, buying and selling of rum, spirit beverages, liquor and bioethanol products. The Group conducts its distilled spirits business through TDI and its subsidiaries.

- Beverage, which is engaged in brewing and soft drinks and bottled water manufacturing in the Philippines. It also operates other plants, which includes commercial glass division and corrugated cartons and metal closures production facility, to support the requirements of its brewing, bottled water, non-beer products operations and to act as a service contractor and enter into service agreements for the supply of services. The Group conducts its beverage business through ABI and its subsidiaries, associate and joint venture.

- Tobacco, which is a supplier and manufacturer of cigarettes, casings, tobacco, packaging, labels and filters. The Group conducts its tobacco business through FTC's interest in PMFTC, Inc. (PMFTC).

- Property Development, which is engaged in ownership, development, leasing and management of residential properties, including but not limited to, all kinds of housing projects, commercial, industrial, urban or other kinds of real property; acquisition, purchasing, development and selling of subdivision lots. The Group conducts its property development business through Eton and its subsidiaries.

- Others, consist of various holding companies (LTG, AEDC, Paramount, Saturn, Shareholdings, and Bank Holding Companies) that provide financing for working capital and capital expenditure requirements of the operating businesses of the Group.

The BOD of LTG reviews the operating results of the business units to make decisions on resource allocation and assesses performance. Segment revenue and segment expenses are measured in accordance with PFRSs. The presentation and classification of segment revenues and segment expenses are consistent with the consolidated statements of income. Finance costs (including interest expense) and income taxes are managed per business segment.

The Group's assets are located mainly in the Philippines. The Group operates and derives principally all of its revenue from domestic operations. The Group's banking segment operates in key cities in the USA, Canada, Western Europe, Middle East and Asia. The distribution of assets and revenues of the banking segment outside the Philippines constitute 0.2% and 2.8% as of December 31, 2021, respectively, and 17.4% and 2.5% as of December 31, 2020 of the Group's consolidated assets and revenues, respectively.

Further, the measurement of the segments is the same as those described in the summary of significant accounting and financial reporting policies. TDI's investment property is adjusted at the consolidated level to carry it at cost in accordance with the Group's policy. Certain assets and liabilities of PNB are also adjusted at the consolidated level of LTG to reflect the original carrying values prior to the merger of PNB and ABC.

Segment assets are resources owned and segment liabilities are obligations incurred by each of the operating segments excluding intersegment balances which are eliminated.

Segment revenue and expenses are those directly attributable to the segment except that intersegment revenue and expense are eliminated only at the consolidated level. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

The components of capital expenditures reported to the CODM are the acquisitions of property, plant and equipment during the period.

The Group's distilled spirits segment derives revenue from two major distributors which averaged 92%, 99% and 79% of the segment's total revenue in 2021, 2020 and 2019, respectively. The other segments of the Group have no significant customer that contributes 10% or more of their segment revenues.

The following tables present the information about the Group's operating segments:

For the year ended December 31, 2021:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
				(In Thousands)			
Segment revenue:							
External customers	P49,319,441	P26,648,772	P13,173,729	P–	P888,536	P1,142,837	P91,173,315
Inter-segment	154,880	65,018	748,650	–	863,347	(1,831,895)	–
	49,474,321	26,713,790	13,922,379	–	1,751,883	(689,058)	91,173,315
Cost of goods sold and services	8,608,926	23,465,492	10,652,572	–	779,198	(549,174)	42,957,014
Gross profit	40,865,395	3,248,298	3,269,807	–	972,685	(139,884)	48,216,301
Equity in net earnings of associates and joint ventures	50,789	–	46,781	17,600,810	–	322,800	18,021,180
	40,916,184	3,248,298	3,316,588	17,600,810	972,685	182,916	66,237,481
Selling expenses	–	842,796	1,036,698	–	25,526	–	1,905,020
General and administrative expenses	36,693,181	682,797	1,388,128	168,043	837,843	551,885	40,321,877
Operating income	4,223,003	1,722,705	891,762	17,432,767	109,316	(368,969)	24,010,584
Foreign exchange gains - net	743,549	37,257	6,064	14,616	4,150	10,379	816,015
Finance income	–	10,538	7,518	42,808	8,235	(27,436)	41,663
Finance costs	–	(94,714)	(201,616)	–	(257,231)	188,688	(364,873)
Others - net	35,336,752	(67,018)	(18,196)	5,532	798,561	(33,296,800)	2,758,831
Income before income tax	40,303,304	1,608,768	685,532	17,495,723	663,031	(33,494,138)	27,262,220
Provision for (benefit from) income tax	5,545,194	366,508	210,358	(7,227)	112,849	194,064	6,421,746
Segment profit from:							
Continuing operations	34,758,110	1,242,260	475,174	17,502,950	550,182	(33,688,202)	20,840,474
Discontinued operations	(735,365)	–	–	–	–	755,980	20,615
	P34,022,745	P1,242,260	P475,174	P17,502,950	P550,182	(P32,932,222)	P20,861,089
Segment profit attributable to:							
Equity holders of the Company	P33,963,333	P1,237,830	P469,268	P17,502,950	P550,182	(P33,477,096)	P20,246,467
Non-controlling interests	59,412	4,430	5,906	–	–	544,874	614,622
Depreciation and amortization expense	2,673,644	624,415	1,796,937	46,925	412,243	186,890	5,741,054

Other financial information of the operating segments as of December 31, 2021 is as follows:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
				(In Thousands)			
Assets:							
Current assets	P599,353,375	P16,754,953	P17,796,934	P14,286,955	P9,744,300	(P11,444,605)	P646,491,912
Noncurrent assets	586,057,462	10,778,690	15,785,928	14,945,127	22,702,015	15,075,230	665,344,452
	P1,185,410,837	P27,533,643	P33,582,862	P29,232,082	P32,446,315	P3,630,625	P1,311,836,364
Liabilities:							
Current liabilities	P925,534,374	P5,406,099	P8,058,760	P307,572	P6,542,370	(P17,635,044)	P928,214,131
Noncurrent liabilities	105,783,546	1,024,560	1,314,949	88,735	6,680,286	5,193,478	120,085,554
	P1,031,317,920	P6,430,659	P9,373,709	P396,307	P13,222,656	(P12,441,566)	P1,048,299,685
Investments in associates and joint ventures	P2,468,107	P–	P103,527	P11,729,777	P–	P7,906,898	P22,208,309
Equity attributable to:							
Equity holders of the Company	150,873,774	20,893,287	24,171,404	28,835,775	19,223,659	(53,926,491)	190,071,408
Non-controlling interests	3,219,143	209,697	37,749	–	–	69,998,682	73,465,271
Additions to noncurrent assets:							
Property, plant and equipment	21,231,002	9,413,571	14,528,673	85,530	1,008,420	27,844,457	74,111,653
Investment properties	9,633,839	245,728	14,002	2,108,595	21,291,373	1,153,816	34,447,353
Short-term debts	–	895,000	3,940,000	–	–	(895,000)	3,940,000
Long-term debts	57,148,812	390,497	584,163	–	6,644,964	(2,125,102)	62,643,334

For the year ended December 31, 2020:

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

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

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
				(In Thousands)			
Assets:							
Current assets	P644,182,968	P15,205,078	P17,743,633	P5,627,322	P8,832,453	(P6,784,029)	P684,807,425
Noncurrent assets	599,009,724	9,263,659	16,304,213	18,062,891	22,989,484	2,685,058	668,315,029
	P1,243,192,692	P24,468,737	P34,047,846	P23,690,213	P31,821,937	(P4,098,971)	P1,353,122,454
Liabilities:							
Current liabilities	P946,187,119	P5,042,772	P8,894,934	P296,163	P5,555,961	(P12,442,685)	P953,534,264
Noncurrent liabilities	136,649,515	769,034	1,669,777	89,023	7,624,513	(2,751,951)	144,049,911
	P1,082,836,634	P5,811,806	P10,564,711	P385,186	P13,180,474	(P15,194,636)	P1,097,584,175
Investments in associates and joint ventures	P2,310,410	P–	P56,746	P14,558,923	P–	P6,851,704	P23,777,783
Equity attributable to:							
Equity holders of the Company	157,154,782	18,463,080	23,440,873	23,305,027	18,641,464	(55,591,289)	185,413,937
Non-controlling interests	3,201,276	193,849	42,262	–	–	66,686,955	70,124,342
Additions to noncurrent assets:							
Property, plant and equipment	2,545,427	768,244	2,557,243	35,937	56,933	5,342	5,969,126
Investment properties	86,693	–	–	–	906,080	–	992,773
Short-term debts	–	400,000	4,740,000	–	–	(400,000)	4,740,000
Long-term debts	65,422,351	383,404	591,373	–	6,585,776	(3,240,260)	69,742,644

For the year ended December 31, 2019:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
				(In Thousands)			
Segment revenue:							
External customers	P56,522,642	P19,261,735	P15,234,051	P–	P3,132,431	P–	P94,150,859
Inter-segment	249,877	17,460	696,240	–	–	(963,577)	–
	56,772,519	19,279,195	15,930,291	–	3,132,431	(963,577)	94,150,859
Cost of goods sold and services	19,143,478	16,068,978	11,643,204	–	1,107,876	(1,161,096)	46,802,440
Gross profit	37,629,041	3,210,217	4,287,087	–	2,024,555	197,519	47,348,419
Equity in net earnings (loss) of associates and joint ventures	(97,608)	–	(725,985)	15,396,194	–	240,650	14,813,251
	37,531,433	3,210,217	3,561,102	15,396,194	2,024,555	438,169	62,161,670
Selling expenses	–	1,561,758	1,338,050	–	111,616	–	3,011,424
General and administrative expenses	28,503,520	661,940	1,248,334	205,045	807,684	169,898	31,596,421
Operating income	9,027,913	986,519	974,718	15,191,149	1,105,255	268,271	27,553,825
Foreign exchange gains (losses) - net	1,105,903	1,599	6,064	(51,889)	(2,228)	(9,484)	1,049,965

(Forward)

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
				(In Thousands)			
Finance income	–	1,060	27,006	369,459	105,948	(357,220)	146,253
Finance costs	–	(98,948)	(166,018)	–	(364,340)	178,465	(450,841)
Others - net	2,155,167	(9,900)	96,036	150,900	434,107	17,287	2,843,597
Income before income tax	12,288,983	880,330	937,806	15,659,619	1,278,742	97,319	31,142,799
Provision for income tax	2,452,307	204,549	539,567	98,530	378,358	5,324	3,678,635
Segment profit							
Continuing operations	9,836,676	675,781	398,239	15,561,089	900,384	91,995	27,464,164
Discontinued operations	101,593	–	–	–	–	–	101,593
	P9,938,269	P675,781	P398,239	P15,561,089	P900,384	P91,995	P27,565,757
Segment profit attributable to:							
Equity holders of the Company	P9,858,543	P666,507	P399,380	P15,561,089	P900,384	(P4,268,379)	P23,117,524
Non-controlling interests	79,726	9,274	(1,141)	–	–	4,360,374	4,448,233
Depreciation and amortization expense	2,660,409	575,294	1,546,624	38,220	386,300	28,971	5,235,818

Other financial information of the operating segments as of December 31, 2019 is as follows:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
				(In Thousands)			
Assets:							
Current assets	P488,857,140	P12,923,043	P16,840,868	P5,180,278	P9,237,156	(P5,902,547)	P527,135,938
Noncurrent assets	665,367,850	9,193,536	15,700,574	22,718,539	22,590,537	3,123,579	738,694,615
	P1,154,224,990	P22,116,579	P32,541,442	P27,898,817	P31,827,693	(P2,778,968)	P1,265,830,553
Liabilities:							
Current liabilities	P865,580,704	P3,719,389	P7,764,522	P1,317,834	P7,743,432	(P9,464,258)	P876,661,623
Noncurrent liabilities	129,363,371	875,491	1,606,108	103,082	6,248,863	(3,035,556)	135,161,359
	P994,944,075	P4,594,880	P9,370,630	P1,420,916	P13,992,295	(P12,499,814)	P1,011,822,982
Investments in associates and joint ventures	P2,605,473	P–	P21,171	P19,193,993	P–	P5,433,641	P27,254,278
Equity attributable to:							
Equity holders of the Company	156,398,876	17,341,825	23,133,222	26,477,901	17,835,398	(54,265,681)	186,921,541
Non-controlling interests	2,882,039	179,874	37,590	–	–	63,986,527	67,086,030
Additions to noncurrent assets:							
Property, plant and equipment	2,761,203	2,878,969	794,790	80,689	20,526	(32,479)	6,503,698
Investment properties	967,611	5,814	–	–	1,651,591	2,111	2,627,127
Short-term debts	–	200,000	2,850,000	–	–	2,100,000	5,150,000
Long-term debts	68,421,487	433,209	596,589	–	6,764,380	(3,646,209)	72,569,456

5. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	2021	2020
	(In Thousands)	
Cash and other cash items	**P29,012,418**	P26,678,312
Cash equivalents:		
Due from BSP	**161,001,912**	202,129,356
Interbank loans receivables*	**32,106,088**	39,700,981
Due from other banks	**27,222,083**	19,733,300
Securities held under agreements to resell	**15,796,673**	15,819,273
	P265,139,174	P304,061,222

**net of allowance for ECL*

a. Cash and other cash items consist of cash on hand and in banks and short-term investments. Cash in banks earn interest at bank deposit rates. Cash equivalents represent money market placements made for varying periods depending on the immediate cash requirements of the Group.

b. Due from BSP is composed of interest-bearing short-term placements with BSP and a demand deposit account to support the regular operations of PNB, which consists of:

	2021	2020
	(In Thousands)	
Demand deposit	**P1,273,307**	P80,029,356
Term deposit facility (TDF)	**79,728,605**	122,100,000
	P161,001,912	P202,129,356

TDFs bear annual interest rates ranging from 1.50% to 1.88% in 2021 and 1.62% to 3.80% in 2020.

c. Interbank loans receivables bear annual interest ranging from 1.0% to 2.0% in 2021 for peso-denominated interbank loans receivables and from 0.0% to 1.5% and from 0.0% to 2.2% in 2021 and 2020, respectively, for foreign currency-denominated interbank loans receivables.

d. Securities held under agreements to resell bear interest ranging from 1.50% to 2.50%, from and 2.00% to 3.25% in 2021 and 2020, respectively.

The fair value of the treasury bills pledged under these agreements as of December 31, 2021 and 2020 amounted to P15.8 billion and P16.5 billion, respectively, for the Group (Note 33).

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

6. Financial Assets at FVTPL

Financial assets at FVTPL consist of:

	2021	2020
	(In Thousands)	
Government securities	**P7,956,013**	P18,136,391
Private debt securities	**1,841,548**	4,296,100
Derivative assets (Notes 21 and 33)	**1,365,051**	370,653
Unit investment trust fund (UITF)	**37,612**	35,554
Equity securities	**5,045**	1,019,626
	P11,205,269	P23,858,324

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

	2021	2020
Government securities	**1.4% - 9.5%**	2.6% - 8.0%
Private debt securities	**4.9% - 6.9%**	4.9% - 7.0%

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

Financial Assets at FVTOCI

This account consists of:

	2021	2020
	(in thousands)	
Government securities (Note 17)	**P120,764,925**	P111,351,402
Other debt securities	**23,115,480**	21,418,534
Equity securities:		
Quoted	**2,052,667**	2,352,669
Unquoted	**1,336,338**	1,202,319
	147,269,410	136,324,924
Noncurrent portion	**(71,468,657)**	(76,644,306)
	P75,800,753	P59,680,618

a. For the years ended December 31, 2021, 2020 and 2019, the nominal interest rates of government securities range from 0.1% to 18.3%, 0.2% to 18.3% and 0.2% to 18.3%, respectively.

b. For the years ended December 31, 2021, 2020 and 2019, the nominal interest rates of private debt securities range from 0.4% to 6.9%, 2.0% to 6.9% and 3.5% to 6.9%, respectively.

c. As of December 31, 2021 and 2020, the fair value of financial assets at FVTOCI in the form of government and private bonds pledged to fulfill its collateral requirements with securities sold under repurchase agreement transactions with foreign banks amounted to P32.8 billion and P44.6 billion, respectively (see Note 17). The counterparties have an obligation to return the securities to PNB once the obligations have been settled. In case of default, the foreign banks have the right to hold the securities and sell them as settlement of the repurchase agreement.

d. Other debt securities consist of notes issued by private entities. As of December 31, 2021 and 2020, the ECL on debt securities at FVOCI (included in 'Net unrealized gain (loss) on financial assets at FVOCI') amounted to P131.5 million and P67.4 million, respectively. Movements in ECL on debt securities at FVOCI are mostly driven by movements in the corresponding gross figures.

The net unrealized gains on financial assets at FVTOCI amounted to P3.1 billion for the Group, net of deferred income tax effect amounting to P413.1 million and P412.9 million in 2021 and 2020, respectively.

Financial Assets at Amortized Cost

This account consists of:

	2021	2020
Private debt securities	**P59,144,715**	P56,504,757
Government securities	**34,133,294**	42,713,634
	93,278,009	99,218,391
Less allowance for expected credit losses	**(3,822,166)**	(3,982,398)
	89,455,843	95,235,993
Noncurrent portion	**(43,523,890)**	(55,019,851)
	P45,931,953	P40,216,142

In 2021 and 2020, movements in allowance for expected credit losses on investment securities at amortized cost are mostly driven by newly originated assets which remained in Stage 1.

As of December 31, 2021 and 2020, the carrying value of investment securities at amortized cost in the form of government bonds pledged to fulfill its collateral requirements with securities sold under repurchase agreements transactions amounted to P5.3 billion and P26.1 billion, respectively (see Note 17).

8. Loans and Receivables

Loans and receivables consist of:

	2021	2020
	(In Thousands)	
Finance receivables (Notes 17 and 22)	**P644,557,364**	P630,805,715
Trade receivables	**15,651,207**	17,097,546
Other receivables	**3,312,442**	3,421,422
	663,521,013	651,324,683
Allowance for credit losses	**(39,861,712)**	(34,726,196)
	623,659,301	616,598,487
Noncurrent portion	**(407,515,357)**	(393,592,324)
	P216,143,944	P223,006,163

Finance Receivables

	2021	2020
	(In Thousands)	
Receivables from customers:		
Loans and discounts	**P597,979,601**	P585,526,367
Customers' liabilities on acceptances, letters of credit and trust receipts	**15,425,196**	11,235,946
Credit card receivables	**11,407,608**	12,530,569
Bills purchased (Note 20)	**1,364,543**	1,832,423
Lease contract receivable	**2,628,289**	3,014,003
	628,805,237	614,139,308
Other receivables:		
Accrued interest receivable	**6,053,656**	6,812,491
Sales contract receivables	**6,029,384**	6,548,301
Accounts receivable	**4,191,402**	4,338,698
Miscellaneous	**595,929**	431,704
	16,870,371	18,131,194
	645,675,608	632,270,502
Unearned and other deferred income	**(1,118,244)**	(1,464,787)
	644,557,364	630,805,715
Allowance for credit losses	**(39,340,761)**	(34,411,405)
	605,216,603	596,394,310
Noncurrent portion	**(407,515,357)**	(392,960,220)
	P197,701,246	P203,434,090

a. Lease contract receivable

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

	2021	2020
	(In Thousands)	
Gross investment in lease contract receivable		
Due within one year	**P1,245,258**	P1,377,666
Due beyond one year but not over five years	**643,821**	906,513
Due beyond five years	**14,344**	31,845
	1,903,423	2,316,024
Residual value of leased equipment		
Due within one year	**P505,784**	P374,959
Due beyond one year but not over five years	**219,082**	323,020
	724,866	697,979
Total lease contract receivable	**P2,628,289**	P3,014,003

b. Interest income on loans and receivables amounted to P4.2 billion, P37.2 billion and P39.6 billion in 2021, 2020 and 2019, respectively.

As of December 31, 2021 and 2020, 69.4% and 68.8%, respectively, of the total receivable from customers of PNB were subject to interest repricing. As of December 31, 2021 and 2020, 68.3% and 68.7%, respectively, of the total receivables from customers of PNB were subject to interest repricing. Remaining receivables carry annual fixed interest rates ranging from 1.0% to 9.0% in 2021, from 1.1% to 9.0% in 2020 and from 1.0% to 9.0% in 2019 for foreign currency-denominated receivables, and from 1.1% to 31.5% in 2021, from 1.1% to 21.0% in 2020 and from 1.5% to 19.4% in 2019 for peso-denominated receivables.

Sales contract receivables bear fixed interest rate per annum ranging from 3.3% to 21.0% in 2021, 2020 and 2019.

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

	2021				2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	Stage 1	Stage 2	Stage 3	Total
Corporate Loans								
Beginning Balance	**P437,633**	**P690,482**	**P18,092,141**	**P19,220,256**	P1,351,699	P862,403	P5,838,830	P8,052,932
Newly originated assets which remained in Stage 1 at yearend	**535,724**	**–**	**–**	**535,724**	248,412	–	–	248,412
Newly originated assets which moved to Stages 2 and 3 at yearend	**–**	**1,295,838**	**5,541,119**	**6,836,957**	–	311,136	255,094	566,230
Transfers to Stage 1	**1,416,274**	**(92,256)**	**(1,324,018)**	**–**	127,422	(104,193)	(23,229)	–
Transfers to Stage 2	**(21,414)**	**977,643**	**(956,229)**	**–**	(49,891)	74,188	(24,297)	–
Transfers to Stage 3	**(39,357)**	**(97,569)**	**136,926**	**–**	(201,545)	(65,790)	267,335	–
Accounts charged off	**–**	**–**	**(1,100)**	**(1,100)**	–	–	–	–
Provisions (reversals)	**1,485,158**	**1,699,323**	**6,332,823**	**9,517,304**	(741,893)	(77,013)	12,041,160	11,222,254
Effect of collections and other movements	**(3,001,267)**	**(1,506,392)**	**(5,989,454)**	**(10,497,113)**	(296,571)	(310,249)	(262,752)	(869,572)
Ending Balance	**812,751**	**2,967,069**	**21,832,208**	**25,612,028**	437,633	690,482	18,092,141	19,220,256
LGU								
Beginning Balance	**24,040**	**1,737**	**24,916**	**50,693**	30,089	11,092	26,469	67,650
Newly originated assets which remained in Stage 1 at yearend	**7**	**–**	**–**	**7**	2,399	–	–	2,399
Reversals	**22,642**	**3,902**	**2,296**	**28,840**	(1,196)	(1,226)	–	(2,422)
Effect of collections and other movements	**(46,424)**	**4,993**	**40,586**	**(845)**	(7,252)	(8,129)	(1,553)	(16,934)
Ending Balance	**265**	**10,632**	**67,798**	**78,695**	24,040	1,737	24,916	50,693
Credit Cards								
Beginning Balance	**38,224**	**26,246**	**2,523,198**	**2,587,668**	37,867	41,397	1,526,487	1,605,751
Newly originated assets which remained in Stage 1 at yearend	**3,159**	**–**	**–**	**3,159**	4,272	–	–	4,272
Newly originated assets which moved to Stages 2 and 3 at yearend	**–**	**2,430**	**18,756**	**21,186**	–	3,017	33,363	36,380
Transfers to Stage 1	**39,251**	**(6,432)**	**(32,819)**	**–**	14,459	(8,245)	(6,214)	–
Transfers to Stage 2	**(2,254)**	**5,721**	**(3,467)**	**–**	(631)	701	(70)	–
Transfers to Stage 3	**(9,135)**	**(9,282)**	**18,417**	**–**	(5,473)	(28,914)	34,387	–
Accounts charged off	**–**	**–**	**(1,399,465)**	**(1,399,465)**	(1,077)	(4,023)	(603,693)	(608,793)
Provisions	**(98,840)**	**17,705**	**1,085,746**	**1,004,611**	61,271	21,095	1,495,684	1,578,050
Effect of collections and other movements	**91,067**	**(9,702)**	**109,403**	**190,768**	(72,464)	1,218	43,254	(27,992)
Ending Balance	**61,472**	**26,686**	**2,319,769**	**2,407,927**	38,224	26,246	2,523,198	2,587,668
Retail SMEs								
Beginning Balance	**361,274**	**20,786**	**1,426,132**	**1,808,192**	377,435	73,581	1,031,436	1,482,452
Newly originated assets which remained in Stage 1 at yearend	**91,610**	**–**	**–**	**91,610**	2,609	–	–	2,609
Newly originated assets which moved to Stages 2 and 3 at yearend	**–**	**2,308**	**37,201**	**39,509**	–	1,482	171	1,653
Transfers to Stage 1	**7,502**	**(1,634)**	**(5,868)**	**–**	13,826	(706)	(13,120)	–
Transfers to Stage 2	**(351)**	**2,151**	**(1,800)**	**–**	(20,257)	31,634	(11,377)	–
Transfers to Stage 3	**(5,680)**	**(6,204)**	**11,884**	**–**	(3,530)	(3,036)	6,566	–
Accounts charged off	**–**	**–**	**–**	**–**	–	–	(2,477)	(2,477)
Provisions (reversals)	**13,693**	**(1,617)**	**42,831**	**54,907**	249,043	(7,814)	305,381	546,610
Effect of collections and other movements	**(292,980)**	**212**	**132,875**	**(159,893)**	(257,852)	(74,355)	109,552	(222,655)
Ending Balance	**175,068**	**16,002**	**1,643,255**	**1,834,325**	361,274	20,786	1,426,132	1,808,192
Housing Loans								
Beginning Balance	**P99,896**	**P107,786**	**P2,166,204**	**P2,373,886**	P889,425	P547,589	P114,407	P1,551,421
Newly originated assets which remained in Stage 1 at yearend	**11,385**	**–**	**–**	**11,385**	1,048	–	–	1,048
Newly originated assets which moved to Stages 2 and 3 at yearend	**–**	**6,605**	**8,083**	**14,688**	–	7,586	42,555	50,141
Transfers to Stage 1	**395,713**	**(45,005)**	**(350,708)**	**–**	24,929	(6,896)	(18,033)	–
Transfers to Stage 2	**(2,061)**	**35,012**	**(32,951)**	**–**	(1,780)	5,252	(3,472)	–
Transfers to Stage 3	**(11,394)**	**(53,478)**	**64,872**	**–**	(5,524)	(12,767)	18,291	–
Accounts charged off	**–**	**–**	**–**	**–**	–	–	–	–
Provisions (reversals)	**391,794**	**(7,381)**	**(888,382)**	**(503,969)**	(66,831)	83,538	1,109,858	1,126,565
Effect of collections and other movements	**(628,380)**	**10,828**	**2,154,328**	**1,536,776**	(741,371)	(516,516)	2,899,354	1,641,467
Ending Balance	**256,953**	**54,367**	**3,121,446**	**3,432,766**	99,896	107,786	4,162,960	4,370,642
Auto Loans								
Beginning Balance	**146,165**	**43,152**	**843,487**	**1,032,804**	154,130	45,312	44,401	243,843
Newly originated assets which remained in Stage 1 at yearend	**1,466**	**–**	**–**	**1,466**	540	–	–	540
Newly originated assets which moved to Stages 2 and 3 at yearend	**–**	**182**	**4,029**	**4,211**	–	872	13,885	14,757
Transfers to Stage 1	**58,625**	**(2,965)**	**(55,660)**	**–**	4,234	(800)	(3,434)	–
Transfers to Stage 2	**(113)**	**8,396**	**(8,283)**	**–**	(1,876)	2,199	(323)	–
Transfers to Stage 3	**(615)**	**(3,229)**	**3,844**	**–**	(4,139)	(3,506)	7,645	–
Accounts charged off	**–**	**–**	**(9,133)**	**(9,133)**	–	–	(1,488)	(1,488)
Provisions (reversals)	**73,402**	**6,628**	**(708,378)**	**(628,348)**	(6,271)	2,916	770,300	766,945
Effect of collections and other movements	**(269,934)**	**(49,998)**	**1,397,678**	**1,077,746**	(453)	(3,841)	12,501	8,207
Ending Balance	**8,996**	**2,166**	**1,467,584**	**1,478,746**	146,165	43,152	843,487	1,032,804
Other Loans								
Beginning Balance	**72,427**	**59,443**	**1,922,895**	**2,054,765**	8,924	62,189	998,074	1,069,187
Newly originated assets which remained in Stage 1 at yearend	**12,738**	**–**	**–**	**12,738**	7,017	–	–	7,017
Newly originated assets which moved to Stages 2 and 3 at yearend	**–**	**207**	**53,913**	**54,120**	–	7,649	101,603	109,252
Transfers to Stage 1	**222,313**	**(12,979)**	**(209,334)**	**–**	10,769	(2,287)	(8,482)	–

(Forward)

	2021				2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	Stage 1	Stage 2	Stage 3	Total
Transfers to Stage 2	**(875)**	**90,473**	**(89,598)**	**–**	(958)	15,050	(14,092)	–
Transfers to Stage 3	**(4,109)**	**(20,370)**	**24,479**	**–**	(1,817)	(7,764)	9,581	–
Accounts charged off	**–**	**–**	**(20,328)**	**(20,328)**	–	–	(136,732)	(136,732)
Provisions (reversals)	**(131,066)**	**(583)**	**(333,647)**	**(465,296)**	(26,947)	29,844	(141,644)	(138,747)
Effect of collections and other movements	**71,512**	**(107,955)**	**(632,348)**	**(668,791)**	75,439	(45,238)	1,114,587	1,144,788
Ending Balance	**242,940**	**8,236**	**716,032**	**967,208**	72,427	59,443	1,922,895	2,054,765
Other Receivables								
Beginning Balance	**69,326**	**19,486**	**3,197,574**	**3,286,386**	77,497	21,915	4,240,580	4,339,992
Newly originated assets which remained in Stage 1 at yearend	**1,505**	**–**	**–**	**1,505**	2,449	–	–	2,449
Newly originated assets which moved to Stages 2 and 3 at yearend	**–**	**429**	**13,226**	**13,655**	–	922	20,632	21,554
Transfers to Stage 1	**1,295**	**(15)**	**(1,280)**	**–**	186	(23)	(163)	–
Transfers to Stage 2	**(967)**	**22,649**	**(21,682)**	**–**	(1,739)	1,741	(2)	–
Transfers to Stage 3	**(12,748)**	**(67,882)**	**80,630**	**–**	(51,149)	(2,811)	53,960	–
Accounts charged off	**–**	**–**	**(9,287)**	**(9,287)**	–	–	336	336
Provisions (reversals)	**(598,194)**	**(13,427)**	**131,248**	**(480,373)**	44,946	12,167	674,107	731,220
Effect of collections and other movements	**621,290**	**72,119**	**23,771**	**717,180**	(2,864)	(14,425)	(1,791,877)	(1,809,166)
Ending Balance	**81,507**	**33,359**	**3,414,200**	**3,529,066**	69,326	19,486	3,197,573	3,286,385
Total Loans and Receivables								
Beginning Balance	**1,248,985**	**969,118**	**30,196,547**	**32,414,650**	2,927,066	1,665,478	13,820,684	18,413,228
Newly originated assets which remained in Stage 1 at yearend	**657,594**	**–**	**–**	**657,594**	268,746	–	–	268,746
Newly originated assets which moved to Stages 2 and 3 at yearend	**–**	**1,307,999**	**5,676,327**	**6,984,326**	–	332,664	467,303	799,967
Transfers to Stage 1	**2,140,973**	**(161,286)**	**(1,979,687)**	**–**	195,825	(123,150)	(72,675)	–
Transfers to Stage 2	**(28,035)**	**1,142,045**	**(1,114,010)**	**–**	(77,132)	130,765	(53,633)	–
Transfers to Stage 3	**(83,038)**	**(258,014)**	**341,052**	**–**	(273,177)	(124,588)	397,765	–
Accounts charged off	**–**	**–**	**(1,439,313)**	**(1,439,313)**	(1,077)	(4,023)	(744,054)	(749,154)
Provisions (reversals)	**1,158,589**	**1,704,550**	**5,664,537**	**8,527,676**	(487,878)	63,507	16,254,846	15,830,475
Effect of collections and other movements	**(3,455,116)**	**(1,585,895)**	**(2,763,161)**	**(7,804,172)**	(1,303,388)	(971,535)	2,123,066	(151,857)
Ending Balance	**P1,639,952**	**P3,118,517**	**P34,582,292**	**P39,340,761**	P1,248,985	P969,118	P32,193,302	P34,411,405

Trade Receivables

Trade receivables consist of:

	2021	2020
	(In Thousands)	
Consumer goods	**P15,591,720**	P15,615,021
Contract receivables	**59,487**	1,168,440
Lease receivables	**–**	314,085
	15,651,207	17,097,546
Allowance for credit losses	**(246,122)**	(303,551)
	15,405,085	16,793,995
Noncurrent portion of contract receivables	**–**	(632,104)
	P15,405,085	P16,161,891

Trade receivables on consumer goods pertain to receivables from various customers of distilled spirits, beverages and tobacco segments, which are noninterest-bearing and generally have 30 to 90 days' terms.

Other Receivables

Other receivables are due and demandable and include accrued interest receivable pertaining to interest earned on cash and cash equivalents and unpaid utility charges to tenants and receivables from sale of various assets.

Movements of Allowance for Credit Losses

Details and movements of allowance for credit losses as follows:

	December 31, 2021			
	Finance Receivables	**Trade Receivables**	**Other Receivables**	**Total**
	(In Thousands)			
Balance at beginning of year	**P34,411,405**	**P303,551**	**P11,240**	**P34,726,196**
Provisions during the year (Note 26)				
Continuing operations	**11,047,912**	**10,264**	**274,829**	**11,333,005**
Accounts charged off, transfers and others	**(6,118,556)**	**(67,693)**	**(11,240)**	**(6,197,489)**
Balance at end of year	**P39,340,761**	**P246,122**	**P274,829**	**P39,861,712**

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

9. Inventories

Inventories consist of:

	2021	2020
	(In Thousands)	
At Cost:		
Consumer goods:		
Alcohol	**P4,819,501**	P4,001,287
Beverage	**2,904,499**	2,427,870
	7,724,000	6,429,157
Real estate inventories:		
Condominium and residential units for sale	**422,183**	419,238
Land held for future development	**217,542**	217,542
Subdivision land under development	**3,758,806**	3,745,583
	4,398,531	4,382,363
Fuel, materials and supplies	**974,767**	1,096,490
	13,097,298	11,908,010
At NRV - Materials and supplies	**1,189,225**	1,267,595
	P14,286,523	P13,175,605

Allowance for inventory obsolescence on materials and supplies amounted to P4.1 million as of December 31, 2021 and 2020.

Components of the consumer goods inventories are as follows:

	2021	2020
	(In Thousands)	
Finished goods	**P1,206,369**	P873,625
Work in process	**1,536,504**	1,362,453
Raw materials	**4,981,127**	4,193,079
	P7,724,000	P6,429,157

Cost of consumer goods inventories recognized as expenses under cost of goods sold amounted to P14.6 billion, P14.1 billion and P14.3 billion in 2021, 2020 and 2019, respectively (see Note 24).

Movements in real estate inventories are set out below:

	2021	2020
	(In Thousands)	
Balance at beginning of year	**P4,382,363**	P4,602,630
Construction/development costs incurred	**71,222**	19,257
Disposals and others	**(55,053)**	(239,524)
Balance at end of year	**P4,398,531**	P4,382,363

10. Other Current Assets

	2021	2020
	(In Thousands)	
Prepaid expenses	**P2,658,143**	P2,074,966
Creditable withholding taxes (CWT)	**1,876,158**	2,589,436
Input VAT	**1,644,556**	1,800,352
Advances to suppliers	**1,507,586**	1,770,204
Deferred charges	**1,065,090**	856,788
Excise tax	**649,482**	779,123
Miscellaneous cash and other cash items	**201,956**	29,246
Stationeries, office supplies and stamps on hand	**87,476**	81,110
Others	**608,315**	927,679
	P10,298,762	P10,908,904

CWTs pertain mainly to the amounts withheld from income derived from sale of consumer goods and real estate inventories. The CWTs can be applied against any income tax liability of a company in the Group to which the CWTs relate.

Prepaid expenses include prepaid importation charges amounting to P1,221.5 million and P945.6 million as of December 31, 2021 and 2020, respectively. Prepaid importation charges pertain to the purchases of raw materials by the distilled spirits.

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

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

Others include interoffice floats and advances to contractors.

11. Investment in Associates and Joint Ventures

Investments in Associates and Joint Ventures

The Group has the power to participate in the financial and operating policy decisions of PMFTC, Victorias Milling Company, Inc. (VMC), AB HPI, and APLII. The Group also has 50% interest in ABI Pascual Holdings Private Limited (ABI Pascual Holdings) and ALI-Eton Property Development Corporation (AEPDC) which are jointly controlled entities.

	Ownership		Amount	
	2021	2020	**2021**	2020
		(In Thousands)		
Associates:				
PMFTC	**49.6%**	49.6%	**P10,883,513**	P13,741,750
VMC	**30.9%**	30.9%	**3,340,834**	3,153,972
APLII	**44.0%**	44.0%	**2,468,107**	2,310,410
AB HPI	**50.0%**	50.0%	**–**	–
Joint Ventures:				
AEPDC	**50.0%**	50.0%	**P5,412,328**	P4,514,905
ABI Pascual Holdings	**50.0%**	50.0%	**103,527**	56,746
			P22,208,309	P23,777,783

Equity in net earnings (losses) consists of:

	2021	2020	2019
		(In Thousands)	
PMFTC	**P17,600,810**	P16,932,501	P15,936,195
Others	**420,370**	682,406	(1,122,944)
	18,021,180	17,614,907	14,813,251

Investment in PMFTC

Details of investment in PMFTC are as follows:

	2021	2020
	(In Thousands)	
Acquisition cost	**P13,483,541**	P13,483,541
Accumulated equity in net earnings:		
Balance at beginning of year	**(110,881)**	4,708,603
Equity in net earnings	**17,600,810**	16,932,501
Cash dividends (Note 22)	**(20,749,480)**	(21,751,985)
Balance at end of year	**(3,259,551)**	(110,881)
Accumulated share in other comprehensive income	**659,523**	369,090
	P10,883,513	P13,741,750

On February 25, 2010, FTC and PMPMI combined their respective domestic business operations by transferring selected assets and liabilities to PMFTC in accordance with the provisions of the Asset Purchase Agreement (APA) between FTC and its related parties and PMPMI. The establishment of PMFTC allows FTC and PMPMI to benefit from their respective, complementary brand portfolios as well as cost synergies from the resulting integration of manufacturing, distribution and procurement, and the further development and advancement of tobacco industry growing in the Philippines. FTC and PMPMI hold equal economic interest in PMFTC. Since PMPMI has majority of the members of the BOD, it has control over PMFTC. FTC considers PMFTC as an associate.

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

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

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

	2021	2020
	(In Thousands)	
Current assets	**P50,381,367**	P45,515,749
Noncurrent assets	**29,622,125**	26,952,835
Current liabilities	**22,236,683**	14,791,824
Noncurrent liabilities	**5,253,090**	5,713,996
Equity	**52,513,719**	51,962,764
Equity interest of the Parent Company	**49.6%**	49.6%
Share in net assets of the acquiree	**26,046,805**	25,773,531
Acquisition-related fair value adjustments, adjustments relating to differences in accounting policies and others	**(15,163,292)**	(12,031,781)
Carrying value of investment	**P10,883,513**	P13,741,750

Summarized financial information of PMFTC, based on its financial statements as at December 31, 2021 and 2020 and reconciliation with the carrying amount of the investment in consolidated financial statements are set out below:

	2021	2020	2019
		(In Thousands)	
Revenue	**P172,762,533**	P174,956,574	P170,872,448
Costs and expenses	**(127,882,015)**	(125,822,537)	(126,819,405)
Income before income tax	**44,880,518**	49,134,037	44,053,043
Provision for income tax	**(9,661,727)**	(14,911,929)	(13,252,072)
Net income	**35,218,791**	34,222,108	30,800,971
Other comprehensive income (loss)	**585,549**	(63,186)	(35,854)
Total comprehensive income	**P35,804,340**	P34,158,922	P30,765,117
Group's share of total comprehensive income for the year	**P17,758,953**	P16,942,825	P16,305,060

Investment in VMC

Details of investment in VMC are as follows:

	2021	2020
	(In Thousands)	
Acquisition cost	**P1,459,768**	P1,459,768
Accumulated equity in net earnings:		
Balance at beginning of year	**1,654,091**	1,390,291
(Forward)		

	2021	2020
	(In Thousands)	
Equity in net earnings	**P258,376**	P263,800
Cash dividends (Note 22)	**(84,736)**	–
Balance at end of year	**1,827,731**	1,654,091
Share in remeasurement gain on defined benefit plans	**(5,125)**	(18,347)
Balance of convertible notes	**58,460**	58,460
	P3,340,834	P3,153,972

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

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

The summarized financial information of VMC as of August 31, 2021 and 2020 and reconciliation with the carrying amount of the investment in consolidated financial statements are set out below:

	2021	2020
	(In Thousands)	
Current assets	**P3,851,240**	P3,137,861
Noncurrent assets	**6,498,798**	6,420,198
Current liabilities	**588,046**	543,262
Noncurrent liabilities	**862,428**	944,259
Equity	**8,899,564**	8,070,538
Equity interest of the Parent Company	**30.9%**	30.9%
Share in net assets of the acquiree	**2,749,965**	2,493,796
Fair value adjustments and others	**590,869**	660,176
Carrying value of investment	**P3,340,834**	P3,153,972

Summarized statements of comprehensive income of VMC for the years ended August 31 are as follows:

	2021	2020	2019
		(In Thousands)	
Revenue	**P7,468,247**	P7,437,424	P6,343,290
Costs and expenses	**(6,607,202)**	(6,431,233)	(5,296,131)
Income before income tax	**861,045**	1,006,191	1,047,159
Provision for income tax	**(74,809)**	(152,468)	(234,308)
Net income	**786,236**	853,723	812,851
Other comprehensive income (loss)	**42,790**	(26,009)	(3,285)
Total comprehensive income	**P829,026**	P827,714	P809,566
Group's share of total comprehensive income for the year	**P256,169**	P255,764	P250,156

Investment in APLII

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

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

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

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

The Group recognized gain on sale of the 51% interest in APLII amounting to P400.3 million, net of taxes and transaction costs amounting to P276.7 million and P153.3 million, respectively. The deferred revenue amounting to P976.2 million allocated to the EDR was presented as "Other deferred revenue" and will be amortized to income over 15 years from date of sale (see Note 20). Amortization amounting to P36.5 million was recognized in 2016 (see Note 28). Prior to the sale of shares to Allianz SE, PNB acquired additional 15% stockholdings from the minority shareholders for a consideration amounting to P292.4 million between June 2, 2016 and June 5, 2016.

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

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

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

Summarized financial information of APLII as of December 31, 2021 and 2020 follows:

	2021	2020
	(In thousands)	
Current assets	**P2,189,208**	P1,697,490
Noncurrent assets	**76,895,902**	50,584,277
Current liabilities	**3,217,567**	2,636,733
Noncurrent liabilities	**73,827,220**	47,905,927
Equity	**2,040,323**	1,739,107
Equity interest of the Parent Company	**44%**	44%
Share in net assets of the acquiree	**897,742**	765,207
Premium on acquisition	**1,570,365**	1,545,203
Carrying value of investment	**P2,468,107**	P2,310,410

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

	2021	2020
	(In Thousands)	
Revenue	**P3,732,388**	P3,132,745
Costs and expenses	**(3,624,691)**	(2,846,825)
Net income (loss)	**107,697**	285,920
Other comprehensive income	**–**	297,096
Total comprehensive income	**P107,697**	P583,016
Group's share of total comprehensive income for the year	**P47,387**	P256,527

Investment in AB HPI

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

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

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

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

On December 21, 2020, the Group entered into an amended Shareholders' Agreement contemporaneously with the Termination Deed with Heineken and AB HPI, to wind down the business and operations of AB HPI effective on December 31, 2020. The amended Shareholders' Agreement was entered into to amend, restate and eventually terminate the Shareholders' Agreement entered into on May 27, 2016 in its entirety, including the other agreements covered by the said agreement.

Furthermore, in accordance with the Termination Deed, the Group acquired fixed assets, including beer equipment, inventories and spare parts, from AB Heineken for proceeds totaling to P1.6 billion. The Group accounted for the purchase of these assets as an acquisition of group of assets and recognized these assets based on their acquisition cost.

On December 22, 2020, additional capital infusion amounting to P361.1 million was made to cover for AB HPI's outstanding debts, winding up and maintenance costs, consultant fees and taxes.

Details of the investment in an associate as of December 31 are as follows:

	2021	2020
	(In Thousands)	
Acquisition cost:		
Beginning balance	**P1,179,754**	P787,400
Additional investments	**–**	392,354
Balance at end of year	**1,179,754**	1,179,754
Accumulated equity in net earnings:		
Balance at the beginning of the year	**(1,196,585)**	(1,229,143)
Share in net loss of an associate	**–**	32,558
Balance at end of year	**(1,196,585)**	(1,196,585)
Excess of share in net losses in an associate over the cost of investment in an associate	**P16,831**	P16,831

In 2021 and 2020, the Group recorded a provision for excess of share in net losses of the associate over the cost of investment in and advance to an associate amounting to P16.8 million and P441.7 million, respectively. This was recorded as part of "Other noncurrent liabilities" account on the consolidated balance sheet.

Pursuant to the Termination Deed, ABI recorded reversal of share in net losses of AB HPI to the extent of its legal obligation to further contribute in case of insufficient funding of AB HPI to settle its liabilities in 2020, proportionate to its ownership in AB HPI, amounting to P32.6 million.

The reconciliation of the net assets of the foregoing material associate to the carrying amount of the interest in this associate recognized in the consolidated balance sheets is as follows:

	2021	2020
Net assets	**P13,425**	P13,425
Proportionate ownership	**50%**	50%
	P6,713	P6,713

Summarized financial information of AB HPI as of December 31, 2021 and 2020 and reconciliation with the carrying amount of the investment in consolidated financial statements are set out below:

	2021	2020
	(In Thousands)	
Current assets	**P935,967**	P935,967
Current liabilities	**922,542**	922,542
Equity	**P13,425**	P13,425

Summarized statements of comprehensive income of AB HPI for the years ended December 31 are as follows:

	2021	2020
	(In Thousands)	
Revenue	**P789,518**	P2,668,605
Costs and expenses	**(1,545,082)**	(3,810,276)
Total comprehensive loss	**P755,564**	P1,141,671
Group's share of total comprehensive loss for the year	**P–**	P–

Investment in AEPDC

On January 21, 2016, the Company entered into an agreement with Ayala Land Inc. (ALI) to jointly develop a project along the C5 corridor. The project is envisioned to be a township development that spans portion of Pasig City and Quezon City. On April 15, 2016, the Company infused P20.0 million to the joint project with ALI.

On July 5, 2017, the Company subscribed to additional 25,200,000 common shares and 226,800,000 preferred shares from AEPDC's increase in authorized capital stock for a consideration totaling to P252.0 million.

On November 20, 2017, the Company made additional capital infusion amounting to P370.0 million for the joint venture's initial purchase of land in exchange for 370,000,000 common shares.

In 2018, the Company made additional capital infusion totaling to P1.5 billion for the joint venture's project planning and development and direct operating expenses.

On July 16 and November 19, 2019, the Company infused additional capital totaling to P1,195.0 million for subscription of remaining unsubscribed shares and for increase in authorized capital stock. Aditional capital totaling P1,083.5 million for the joint venture's capital expenditure on construction projects and working capital.

Details of the investment in a joint venture as of December 31 are as follows:

	2021	2020
	(In Thousands)	
Acquisition cost:		
Balance at beginning of year	**P4,454,500**	P3,371,000
Additional capital infusion during the year	**833,000**	1,083,500
Balance at end of year	**5,287,500**	4,454,500
Accumulated equity in net earnings:		
Balance at the beginning of the year	**60,405**	(58,647)
Share in net income (loss) of a joint venture*	**64,423**	119,052
Balance at end of year	**124,828**	60,405
Ending balance	**P5,412,328**	P4,514,905

**Includes catch-up adjustment of share in net loss in 2019*

Summarized financial information of AEPDC as of December 31, 2021 and 2020 follows:

	2021	2020
	(In thousands)	
Current assets	**P13,677,474**	P12,838,898
Noncurrent assets	**4,506,255**	3,985,368
Current liabilities	**6,249,887**	8,394,044
Noncurrent liabilities	**862,949**	3,390,318
Equity	**11,070,893**	5,039,904

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

	2021	2020
	(In Thousands)	
Revenue	**P844,572**	P974,411
Costs and expenses	**(690,112)**	(629,969)
Income before income tax	**154,460**	344,442
Provision for income tax	**(25,614)**	(103,243)
Total comprehensive income (loss)	**P128,846**	P241,199
Group's share of total comprehensive income (loss) for the year	**P64,423**	P120,599

Investment in ABI Pascual Holdings

On February 15, 2012, ABI and Corporation Empresarial Pascual, S. L. (CEP), an entity organized and existing under the laws of Spain, agreed to form ABI Pascual Holdings, a jointly controlled entity organized and domiciled in Singapore. In accordance with the Agreement, ABI and CEP (the "venturers") will hold 50% interest in ABI Pascual Holdings. Further, the arrangement requires unanimous agreement for financial and operating decisions among venturers.

On November 21, 2012, ABI Pascual Holdings created ABI Pascual Foods Incorporated (ABI Pascual Foods), an operating company, incorporated and domiciled in the Philippines, that will develop a business of marketing and distributing certain agreed products. As part of the joint venture agreement, the venturers also agreed to execute a product distribution agreement.

As of December 31, 2012, ABI has an investment in ABI Pascual Holdings amounting to P20.1 million, while ABI Pascual Holdings has an investment in ABI Pascual Foods amounting to P40.2 million. The joint venture has started operations in September 2013.

The Group determined that its advances to ABI Pascual Foods represents the Group's long-term interest in ABI Pascual Holdings and its subsidiary that, in substance, form part of the Group's net investment in the joint venture.

The summarized financial information of ABI Pascual Holdings as of December 31 follows:

	2021	2020
	(In thousands)	
Current assets	**P529,034**	P529,034
Noncurrent assets	**3,151**	3,151
Current liabilities	**404,092**	404,092
Noncurrent liabilities	**13,285**	13,285
Total equity	**114,808**	114,808

The summarized statements of comprehensive income of ABI Pascual Holdings for the years ended December 31 are as follows:

	2021	2020
	(In Thousands)	
Revenue	**P398,464**	P385,710
Costs and expenses	**274,241**	288,875
Income before income tax	**124,223**	96,835
Provision for income tax	**30,937**	9,192
Net loss	**93,286**	87,643
Other comprehensive income	**7,731**	3,184
Total comprehensive income	**P101,017**	P90,827
Group's share of total comprehensive income for the year	**P39,566**	P35,575

Disclosures on Subsidiary with Material Non-controlling Interest

Following is the financial information of PNB, which has material non-controlling interests of 43.53% as of and for the years ended December 31:

	2021	2020	2019
		(In Thousands)	
Accumulated balances of material non-controlling interest	**P2,694,741**	P3,201,276	P2,882,038
Net income allocated to material non-controlling interest	**59,412**	10,835	79,726
Total comprehensive income (loss) allocated to material non-controlling interest	**282,293**	319,237	(14,705)

On February 9, 2013, PNB acquired 100% of the voting common stock of ABC. PNB accounted for the business combination with ABC under the acquisition method of PFRS 3. In the LTG consolidated financial statements, the merger of PNB and ABC and the acquisition of PNB through the Bank Holding Companies are accounted for under the pooling-of-interests method. Thus, the summarized financial information of PNB below is based on the amounts in the consolidated financial statements of PNB prepared under the pooling-of-interests method before the Group's intercompany eliminations.

Statements of Comprehensive Income:

	2021	2020	2019
		(In Thousands)	
Revenue	**P49,474,321**	P54,973,243	P56,772,519
Cost of services	**(8,608,926)**	(12,113,434)	(19,143,478)
General and administrative expenses	**(34,172,945)**	(44,655,737)	(28,503,520)
Foreign exchange gains - net	**743,549**	919,555	1,105,903
Other income - net	**32,867,305**	1,772,876	2,057,559
Income before income tax	**40,303,304**	896,503	12,288,983
Benefit from (provision for) income tax	**(5,545,194)**	1,798,238	(2,452,307)
Net income from continuing operations	**34,758,110**	2,694,741	9,836,676
Net income (loss) from discontinued operations	**(735,365)**	67,583	101,593
Net income	**34,022,745**	2,762,324	9,938,269
Other comprehensive income (loss)	**(2,052,906)**	(2,023,525)	4,821,405
Total comprehensive income	**P31,969,839**	P738,799	P14,759,674
Net income attributable to:			
Equity holders of the Parent Company	**P33,963,333**	P2,751,489	P9,858,543
Non-controlling interests	**59,412**	10,835	79,726
Total comprehensive income (loss) attributable to:			
Equity holders of the Parent Company	**31,687,546**	756,023	14,774,379
Non-controlling interests	**282,293**	(17,224)	(14,705)
Dividends declared to non-controlling interests	**4,705**	19,161	3,372

Statements of Financial Position:

	2021	2020
	(In Thousands)	
Current assets	**P599,353,375**	P644,182,968
Noncurrent assets	**586,057,462**	599,009,724
Current liabilities	**925,534,374**	946,187,119
Noncurrent liabilities	**105,783,546**	136,649,515
Equity attributable to:		
Equity holders of the Parent Company	**150,873,774**	157,154,782
Non-controlling interest	**3,219,143**	3,201,276

Statements of Cash Flows:

	2021	2020	2019
		(In Thousands)	
Operating	**P18,675,489**	P97,190,366	P22,079,130
Investing	**(6,878,382)**	(6,726,929)	(66,100,996)
Financing	**(51,527,513)**	30,464,746	51,891,720
Net increase (decrease) in cash and cash equivalents	**(P39,730,406)**	P120,928,183	P7,869,854

12. Property, Plant and Equipment

December 31, 2021

	At Appraised Values				At Cost							
	Land and Land Improvements	Plant Buildings and Building Improvements	Machineries and Equipment	Subtotal	Office and Administration Buildings and Improvements	Transportation Equipment	Returnable Containers	Furniture, Fixtures and Other Equipment	Construction in Progress	Subtotal	Right-of-Use Assets	Total
						(In Thousands)						
Cost												
Balance at beginning of year	**P40,574,827**	**P20,576,200**	**P25,039,674**	**P86,190,701**	**P8,249,265**	**P3,082,311**	**P5,294,316**	**P14,228,945**	**P1,144,170**	**P31,999,007**	**P3,746,868**	**P121,936,576**
Additions/transfers (Note 13)	**3,472,964**	**579,792**	**1,865,674**	**5,918,430**	**176,372**	**80,699**	**592,364**	**1,082,956**	**514,910**	**2,447,301**	**3,431,709**	**11,797,440**
Net increment in appraised value	**523,755**	**245,635**	**391,120**	**1,160,510**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,160,510**
Disposals/transfers/others (Note 28)	**–**	**(9,175,538)**	**(1,325,959)**	**(10,501,497)**	**(3,174,255)**	**(51,915)**	**(58,323)**	**(7,573,439)**	**(952,417)**	**(11,810,349)**	**(371,138)**	**(22,682,984)**
Balance at end of year	**44,571,546**	**12,226,089**	**25,970,509**	**82,768,144**	**5,251,382**	**3,111,095**	**5,828,357**	**7,738,462**	**706,663**	**22,635,959**	**6,807,439**	**112,211,542**
Accumulated Depreciation, Amortization and Impairment Losses												
Balance at beginning of year	**2,038,064**	**7,318,915**	**16,915,249**	**26,272,228**	**5,220,113**	**2,167,104**	**3,805,343**	**11,629,876**	**–**	**22,822,436**	**1,336,640**	**50,431,304**
Depreciation and amortization	**–**	**393,456**	**1,087,971**	**1,481,427**	**1,796,880**	**513,160**	**281,914**	**104,146**	**–**	**2,696,100**	**643,849**	**4,821,376**
Disposals/transfers/others (Note 28)	**543,175**	**(419,738)**	**(5,577,819)**	**(5,454,382)**	**(6,495,274)**	**(149,200)**	**124,362**	**(5,082,650)**	**–**	**(11,602,762)**	**(95,647)**	**(17,152,792)**
Balance at end of year	**2,581,239**	**7,292,633**	**12,425,401**	**22,299,273**	**521,719**	**2,531,064**	**4,211,619**	**6,651,372**	**–**	**13,915,774**	**1,884,842**	**38,099,889**
Net Book Value	**P41,990,307**	**P4,933,456**	**P13,545,108**	**P60,468,871**	**P4,729,663**	**P580,031**	**P1,616,738**	**P1,087,090**	**P706,663**	**P8,720,185**	**P4,922,597**	**P74,111,653**

December 31, 2020

	At Appraised Values				At Cost							
	Land and Land Improvements	Plant Buildings and Building Improvements	Machineries and Equipment	Subtotal	Office and Administration Buildings and Improvements	Transportation Equipment	Returnable Containers	Furniture, Fixtures and Other Equipment	Construction in Progress	Subtotal	Right-of-Use Assets	Total
						(In Thousands)						
Cost												
Balance at beginning of year	P40,731,214	P21,913,754	P28,578,363	P91,223,331	P7,656,583	P2,773,472	P4,607,717	P13,611,341	P1,382,293	P30,031,406	P3,588,074	P124,842,811
Additions/transfers (Note 13)	24,854	592,817	1,615,261	2,232,932	447,903	329,106	686,599	1,238,638	132,653	2,834,899	157,573	5,225,404
Net decrement in appraised value	(799,156)	(477,644)	(5,552,997)	(6,829,797)	–	–	–	–	–	–	–	(6,829,797)
Disposals/transfers/others (Note 28)	617,915	(1,452,727)	399,047	(435,765)	151,018	(20,267)	–	(574,765)	(370,776)	(814,790)	67,054	(1,183,501)
Effect of disposal group classified as held for sale (Note 37)	–	–	–	–	(6,239)	–	–	(46,269)	–	(52,508)	(65,833)	(118,341)
Balance at end of year	40,574,827	20,576,200	25,039,674	86,190,701	8,249,265	3,082,311	5,294,316	14,228,945	1,144,170	31,999,007	3,746,868	121,936,576
Accumulated Depreciation, Amortization and Impairment Losses												
Balance at beginning of year	2,212,172	7,962,240	21,237,008	31,411,420	4,546,841	1,939,265	3,476,141	10,915,688	–	20,877,935	654,329	52,943,684
Depreciation and amortization	93,187	598,694	987,154	1,679,035	451,302	233,069	304,809	757,716	–	1,746,896	1,233,524	4,659,455
Net decrement in appraised value	(885,602)	(399,247)	(5,569,390)	(6,854,239)	–	–	–	–	–	–	–	(6,854,239)
Disposals/transfers/others (Note 28)	618,307	(842,772)	260,477	36,012	227,787	(5,230)	24,393	(3,316)	–	243,634	(527,337)	(247,691)
Effect of disposal group classified as held for sale (Note 37)	–	–	–	–	(5,817)	–	–	(40,212)	–	(46,029)	(23,876)	(69,905)
Balance at end of year	2,038,064	7,318,915	16,915,249	26,272,228	5,220,113	2,167,104	3,805,343	11,629,876	–	22,822,436	1,336,640	50,431,304
Net Book Value	P38,536,763	P13,257,285	P8,124,425	P59,918,473	P3,029,152	P915,207	P1,488,973	P2,599,069	P1,144,170	P9,176,571	P2,410,228	P71,505,272

Right-of-use assets

December 31, 2021

	Bank Premises	Land and Land Improvements	Plant Buildings and Building Improvements	Machineries and Equipment	Total
Cost					
Balance at beginning of year	**P2,402,908**	**P1,219,878**	**P74,544**	**P49,538**	**P3,746,868**
Additions/transfers	**3,352,354**	**25,836**	**53,519**	**–**	**3,431,709**
Transfers/others	**(371,138)**	**–**	**–**	**–**	**(371,138)**
Balance at end of year	**5,384,124**	**1,245,714**	**128,063**	**49,538**	**6,807,439**
Accumulated Depreciation, Amortization and Impairment Losses					
Balance at beginning of year	**1,176,303**	**115,605**	**22,258**	**22,474**	**1,336,640**
Depreciation and amortization	**564,168**	**41,784**	**26,232**	**11,665**	**643,849**
Transfers/others	**(95,647)**	**–**	**–**	**–**	**(95,647)**
Balance at end of year	**1,644,824**	**157,389**	**48,490**	**34,139**	**1,884,842**
Net Book Value	**P3,739,300**	**P1,088,325**	**P79,573**	**P15,399**	**P4,922,597**

December 31, 2020

	Bank Premises	Land and Land Improvements	Plant Buildings and Building Improvements	Machineries and Equipment	Total
Cost					
Balance at beginning of year	P2,279,267	P1,185,608	P73,661	P49,538	P3,588,074
Additions/transfers	122,420	34,270	883	–	157,573
Transfers/others	67,054	–	–	–	67,054
Effect of disposal group classified as held for sale (Note 37)	(65,833)	–	–	–	(65,833)
Balance at end of year	2,402,908	1,219,878	74,544	49,538	3,746,868
Accumulated Depreciation, Amortization and Impairment Losses					
Balance at beginning of year	568,067	70,542	4,911	10,809	654,329
Depreciation and amortization	1,159,449	45,063	17,347	11,665	1,233,524
Transfers/others	(527,337)	–	–	–	(527,337)
Effect of disposal group classified as held for sale (Note 37)	(23,876)	–	–	–	(23,876)
Balance at end of year	1,176,303	115,605	22,258	22,474	1,336,640
Net Book Value	P1,226,605	P1,104,273	P52,286	P27,064	P2,410,228

Revaluation of Land and Land Improvements, Plant Buildings and Machineries and Equipment

The corresponding fair values of land and land improvements, plant buildings and building improvements, and machineries and equipment are determined based on valuation performed by Philippine SEC-accredited and independent appraisers. The fair value of the land was determined using the market data approach based on available market evidence and the fair values for land improvements, plant buildings, and machineries and equipment were derived using the depreciated replacement cost. The dates of the latest appraisal valuations were December 31, 2021, 2020, and 2018 (see Note 34).

Movements in revaluation increment, net of deferred income tax effect, are as follows:

	2021	2020
	(In Thousands)	
Revaluation increment on the property, plant and equipment, net of deferred income tax effect:		
Balance at beginning of year	**P20,207,236**	P20,930,672
Net revaluation increase	**1,176,887**	27,610
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	**(733,554)**	(751,046)
Balance at end of year	**P20,650,569**	P20,207,236
Attributable to:		
Equity holders of the Company	**P12,964,177**	P12,276,947
Non-controlling interests	**7,686,392**	7,930,289
	P20,650,569	P20,207,236

If land and land improvements, plant buildings and building improvements, and machineries and equipment were measured using the cost model, the carrying amount would be as follows:

	2021	2020
	(In Thousands)	
Cost		
Land and land improvements	**P9,425,784**	P8,989,134
Plant buildings and improvements	**21,019,350**	17,730,503
Machineries and equipment	**32,328,420**	34,756,304
	62,773,554	61,475,941
Accumulated depreciation		
Land and land improvements	**(3,863,021)**	(3,574,926)
Plant buildings and improvements	**(13,080,488)**	(11,058,925)
Machineries and equipment	**(14,490,043)**	(15,791,097)
	(31,433,550)	(30,424,948)
	P31,340,004	P31,050,993

Depreciation

Depreciation of property, plant and equipment charged to operations is as follows:

	2021	2020	2019
		(In Thousands)	
Continuing operations:			
Cost of goods sold and services (Note 24)	**P1,718,078**	P1,611,117	P1,490,522
Selling expenses (Note 25)	**476,052**	328,123	292,805
General and administrative expenses (Note 26)	**2,627,246**	2,720,215	2,548,348
	P4,821,376	P4,659,455	P4,331,675

As of December 31, 2021 and 2020, the Group's "Construction in progress" under the "Property, plant and equipment" account pertains to AAC's major rehabilitation of plant facilities and PNB's construction of building.

Out of the total additions in 2021 and 2020, P34.4 million and P154.3 million remain to be unpaid as of December 31, 2021 and 2020, respectively, which represent non-cash investing activities.

Certain property and equipment of the Group with carrying amount of P92.6 million are temporarily idle as of December 31, 2021 and 2020, respectively.

Borrowing Costs
Unamortized capitalized borrowing costs amounted to P9.2 million and P9.9 million as of December 31, 2021 and 2020, respectively. The average capitalization rate used to determine the amount of borrowing costs eligible for capitalization was 4.5% in 2015. There was no borrowing cost capitalized in 2021, 2020 and 2019.

13. Investment Properties

Movements of the Group's investment properties are as follows (in thousands):

	December 31, 2021				
	Land	**Buildings and Improvements**	**Residential Unit**	**Construction in Progress**	**Total**
Cost					
Balance at beginning of year	**P22,151,980**	**P14,845,043**	**P42,096**	**P3,322,539**	**P40,361,658**
Additions	**280,030**	**304,609**	**5,839,117**	**644,309**	**7,068,065**
Disposals/transfers/others	**(3,588,873)**	**(1,472,926)**	**–**	**–**	**(5,061,799)**
Balance at end of year	**18,843,137**	**13,676,726**	**5,881,213**	**3,966,848**	**42,367,924**
Accumulated Depreciation and Impairment Losses					
Balance at beginning of year	**2,501,903**	**4,981,889**	**40,491**	**–**	**7,524,283**
Depreciation	**–**	**326,229**	**122,510**	**–**	**448,739**
Disposals/transfers/others	**–**	**(52,451)**	**–**	**–**	**(52,451)**
Balance at end of year	**2,501,903**	**5,255,667**	**163,001**	**–**	**7,920,571**
Net Book Value	**P16,341,234**	**P8,421,059**	**P5,718,212**	**P3,966,848**	**P34,447,353**

	December 31, 2020				
	Land	Buildings and Improvements	Residential Unit	Construction in Progress	Total
Cost					
Balance at beginning of year	P22,150,005	P14,830,264	P42,096	P2,464,471	P39,486,836
Additions	55,430	79,275	–	858,068	992,773
Disposals/transfers/others	(53,455)	(64,496)	–	–	(117,951)
Balance at end of year	22,151,980	14,845,043	42,096	3,322,539	40,361,658
Accumulated Depreciation and Impairment Losses					
Balance at beginning of year	2,501,903	4,313,001	40,491	–	6,855,395
Depreciation	–	556,356	–	–	556,356
Disposals/transfers/others	–	112,532	–	–	112,532
Balance at end of year	2,501,903	4,981,889	40,491	–	7,524,283
Net Book Value	P19,650,077	P9,863,154	P1,605	P3,322,539	P32,837,375

The Group's investment properties consist of parcels of land for appreciation, residential and condominium units for lease and for sale, and real properties foreclosed or acquired in settlement of loans which are all valued at cost. Foreclosed investment properties still subject to redemption period by the borrowers amounted to P229.8 million and P181.2 million as of December 31, 2021 and 2020, respectively. The Group is exerting continuing efforts to dispose these properties.

In 2016, the Group reclassified certain properties from "property, plant and equipment" to "Investment property" with aggregate carrying amount of P4.7 billion. These properties mainly consist of the office spaces in the Allied Bank Center in Makati City leased out and land in Buendia, Makati City being held for future development.

As of December 31, 2021 and 2020, the Group's "Construction in progress" under the "Investment property" account pertains to the construction of building intended for leasing and which is expected to be completed in 2025.

Fair Values of Investment Properties
Below are the fair values of the investment properties as of December 31, 2021, which were determined by professionally qualified, SEC-accredited and independent appraisers based on market values (in thousands):

Property	Approach	Fair Value	Valuation Report Date
Land	Market approach	P37,297,522	December 31, 2021
Building and improvements	Market approach	20,036,189	December 31, 2021
		P57,333,711	

The estimated fair value of the land and building and improvements was arrived at using the Market Approach. In this approach, the value of the land and building were based on sales and listings of comparable property registered within the vicinity. The approach requires the adjustments of comparable property by reducing reasonable comparative sales and listings to a common denominator.

The valuations were performed by Philippine SEC-accredited and independent valuer. The valuation model used in accordance with that recommended by the International Valuation Standards Council has been applied. These valuation models are consistent with the principles in PFRS 13.

The fair values of land and building and improvements were updated to reflect the value of comparable property registered within the vicinity as of December 31, 2021.

The fair value of investment properties of the Group was determined using acceptable valuation approaches and both observable and unobservable inputs (see Note 34).

Rent Income and Direct Operating Expenses of Investment Properties
Rental income and direct operating expenses arising from the investment properties of property development segment amounted to P1,893.7 million and P724.1 million in 2021, P1,757.7 million and P466.6 million in 2020 and P1,707.8 million and P444.1 million in 2019, respectively (see Note 24). Rental income of the banking segment on its investment properties is presented under "Other income (charges)" (see Note 28).

Depreciation of investment properties charged to operations follows:

	2021	2020	2019
	(In Thousands)		
Cost of rental income (Note 24)	**P295,588**	P296,517	P400,369
General and administrative expenses (Note 26)	**153,151**	259,839	127,654
	P448,739	P556,356	P528,023

14. Other Noncurrent Assets

Other noncurrent assets consist of:

	2021	2020
	(In Thousands)	
Software costs	**P2,538,411**	P2,680,548
Deferred charges	**1,065,090**	859,031
Prepaid excise taxes (Note 37)	**801,820**	801,820
Creditable withholding taxes	**449,842**	396,550
Net retirement plan assets (Note 23)	**268,910**	249,437
Distribution network access	**229,401**	243,738
Chattel properties - net	**227,187**	115,356
Goodwill	**163,735**	163,735
Advances to suppliers	**147,016**	207,828
Deferred input VAT	**136,399**	496,205
Refundable and security deposits	**8,370**	206,931
Others - net	**1,220,637**	941,915
	7,256,818	7,363,094
Allowance for probable losses	**(1,479,432)**	(1,314,007)
	P5,777,386	P6,049,087

a. Movements in software costs are as follows:

	2021	2020
	(In Thousands)	
Balance at beginning of year	**P2,680,548**	P2,326,055
Additions	**661,544**	786,764
Amortization (Note 26)	**(461,630)**	(418,958)
Effect of disposal group classified as held for sale (Note 37)	**–**	(5,134)
Other adjustments	**(342,051)**	(8,179)
Balance at end of year	**P2,538,411**	P2,680,548

Additions to software costs pertain primarily to the upgrade of the core banking system of the banking segment.

b. In 2018, the Group reclassified the prepaid excise taxes of TDI from "Other current assets" to "Other noncurrent assets" in light of the Court of Tax Appeals decision dated February 7, 2019.

c. Deferred input VAT arises mainly from the acquisition of capital goods.

d. The distribution network access, which was acquired on March 31, 2017, covers APB Myanmar's relations with Myanmar Distribution Group, its exclusive distributor.

e. Refundable deposits consist principally of amounts paid by the property development segment to its utility providers for service applications and guarantee deposit to Makati Commercial Estate Association (MACEA) for plans processing, monitoring fee and development charge of the Group's projects. Deposits paid to utility companies will be refunded upon termination of the service contract while guarantee deposit paid to MACEA will be refunded upon project completion.

f. The Group recognized goodwill which pertains mainly to ADI amounting to P144.7 million, respectively. As of December 31, 2021 and 2020, the Group performed its annual impairment testing of goodwill related to its CGUs, ADI.

The recoverable amount of ADI is determined based on value-in-use calculations using cash flow projections from financial budgets approved by management covering a five-year period. The projected cash flows have been updated to reflect the increase in demand for products based on TDI's projected sales volume increase, selling price increase and cost and expenses increase. The pre-tax discount rate applied to the cash flow projection is 10.5% and 9.8% in 2021 and 2020, respectively. The growth rate used to extrapolate the cash flows of until beyond the five-year period is 6.0% as of December 31, 2021 and 6.5% as of December 31, 2020. Management assessed that this growth rate is comparable with the average growth for the industry in which ADI operates. Management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of ADI to exceed its recoverable amount, which is based on value-in-use. As of December 31, 2021 and 2020, the recoverable amount of ADI is higher than its carrying value.

g. As of December 31, 2021 and 2020, accumulated depreciation on chattel mortgage properties acquired by the Group in settlement of loans amounted to P241.8 million and P140.1 million, respectively. As of December 31, 2021 and 2020, the total recoverable value of certain chattel mortgage properties of PNB that were impaired is at P0.9 million.

h. The Group has receivable from an SPV amounting to P500 million. This represents fully provisioned subordinated notes received by the Group from Golden Dragon Star Equities and its assignee, Opal Portfolio Investing, Inc. (an SPV), relative to the sale of certain non-performing assets of the Group.

i. Miscellaneous assets mainly pertain to interoffice floats. The bank provided allowance for probable losses on floats which are long outstanding.

j. Movements in the allowance for probable losses on non-current assets follow:

	2021	2020
	(In Thousands)	
Balance at beginning of year	**P1,314,007**	P1,058,123
Provisions:		
Continuing operations (Note 28)	**165,425**	677,089
Discontinued operation	**–**	(527)
Transfers and others	**–**	(391,085)
Effect of discontinued operations	**–**	(29,593)
	P1,479,432	P1,314,007

15. Deposit Liabilities

	2021	2020
	(In Thousands)	
Demand	**P216,367,830**	P199,770,048
Savings	**484,227,339**	415,835,439
Time	**179,974,944**	264,906,076
	880,570,113	880,511,563
Presented as noncurrent	**(38,508,755)**	(58,380,208)
	P842,061,358	P822,131,355

Of the total deposit liabilities of the Group, P28.6 billion and P30.0 billion are non-interest bearing as of December 31, 2021 and 2020, respectively. Annual interest rates of the remaining deposit liabilities follow:

	2021	2020
Foreign-currency denominated deposit liabilities	**0.01% to 3.00%**	0.01% to 4.75%
Peso-denominated deposit liabilities	**0.10% to 6.75%**	0.10% to 10.00%

Under existing BSP regulations, non-FCDU deposit liabilities of PNB is subject to reserves equivalent to 12.00%. As of December 31, 2021 and 2020, available reserves booked under "Due from BSP" amounted to P81.3 billion and P80.0 billion, respectively (see Note 5).

Long-term Negotiable Certificates of Time Deposits (LTNCDs)
Time deposit of the Group includes the following LTNCDs:

				Interest Repayment	Carrying Value	
Issue Date	**Maturity Date**	**Face Value**	**Coupon Rate**	**Terms**	**2021**	2020
October 11, 2019	April 11, 2025	P4,600,000	4.38%	Quarterly	**P4,578,946**	P4,573,124
February 27, 2019	August 27, 2024	8,220,000	5.75%	Quarterly	**8,187,523**	8,176,616
October 26, 2017	April 26, 2023	6,350,000	3.88%	Quarterly	**6,339,910**	6,332,653
April 27, 2017	October 27, 2022	3,765,000	3.75%	Quarterly	**3,761,261**	3,756,911
December 6, 2016	June 6, 2022	5,380,000	3.25%	Quarterly	**5,377,750**	5,372,730
		P1,274,175,000			**P28,245,390**	P28,212,034

Other significant terms and conditions of the above LTNCDs follow:

a. Issue price at 100.00% of the face value of each LTNCD.

b. The LTNCDs bear interest rate per annum on its principal amount from and including the Issue Date thereof, up to but excluding the Early Redemption Date or Maturity Date (as the case may be). Interest in respect of the LTNCD will be calculated on an annual basis and will be paid in arrears quarterly on the last day of each successive Interest Period.

c. Unless earlier redeemed, the LTNCDs shall be redeemed by PNB on maturity date at an amount equal to one hundred percent (100%) of the aggregate issue price thereof, plus any accrued and unpaid interest thereon. The LTNCDs may not be redeemed at the option of the holders.

d. The LTNCDs constitute direct, unconditional, unsecured, and unsubordinated obligations of PNB, enforceable according to the related Terms and Conditions, and shall at all times rank paripassu and without any preference or priority among themselves and at least paripassu with all other present and future direct, unconditional, unsecured, and unsubordinated obligations of the Issuer, except for any obligation enjoying a statutory preference or priority established under Philippine laws.

e. Subject to the "Events of Default" in the Terms and Conditions, the LTNCDs cannot be pre-terminated at the instance of any CD Holder before Maturity Date. In the case of an event of default, none of the CD Holders may accelerate the CDs on behalf of other CD Holders, and a CD Holder may only collect from PNB to the extent of his holdings in the CDs. However, PNB may, subject to the General Banking Law of 2000, Section X233.9 of the Manual of Regulations for Banks, Circular No. 304 Series of 2001 of the BSP and other related circulars and issuances, as may be amended from time to time, redeem all and not only part of the outstanding CDs on any Interest Payment Date prior to Maturity Date, at an Early Redemption Amount equal to the Issue Price plus interest accrued and unpaid up to but excluding the Early Redemption Date.

f. The LTNCDs are insured by the PDIC up to a maximum amount of P0.5 million subject to applicable laws, rules and regulations, as the same may be amended from time to time.

g. Each Holder, by accepting the LTNCDs, irrevocably agrees and acknowledges that: (a) it may not exercise or claim any right of set-off in respect of any amount owed to it by PNB arising under or in connection with the LTNCDs; and (b) it shall, to the fullest extent permitted by applicable law, waive and be deemed to have waived all such rights of set-off.

Interest expense on deposit liabilities presented under "Cost of banking services" amounted to P4.8 billion, P7.3 billion and P13.6 billion in 2021, 2020 and 2019, respectively (see Note 24).

In 2021, 2020 and 2019, interest expense on LTNCDs of the Group includes amortization of transaction costs amounting to P33.4 million, P59.9 million and P40.5 million, respectively. Unamortized transaction costs of the LTNCDs amounted to P69.6 million and P103.0 million as of December 31, 2021 and 2020, respectively.

16. Financial Liabilities at Fair Value through Profit or Loss (FVTPL)

Financial liabilities at fair value through profit or loss consist of derivatives liabilities amounting to P891.5 million and P701.2 million as of December 31, 2021 and 2020, respectively (see Notes 21 and 33).

17. Bills and Acceptances Payable

Bills and acceptances payable consist of:

	2021	2020
	(In Thousands)	
Bills payable to:		
BSP and local banks	**P37,482,381**	P33,116,145
Foreign banks	**8,263,434**	50,482,387
Others	**98,086**	–
	45,843,901	83,598,532
Acceptances outstanding	**7,109,896**	3,560,918
	52,953,797	87,159,450
Presented as noncurrent	**(3,173,443)**	(14,181,368)
	P49,780,354	P72,978,082

Annual interest rates are shown below:

	2021	2020	2019
Foreign currency-denominated borrowings	0.1% to 1.2%	0.1% to 4.4%	0.2% to 4.4%
Peso-denominated borrowings	1.0% to 2.0%	4.0% to 6.5%	4.0% to 5.4%

As of December 31, 2021 and 2020, bills payable with a carrying amount of P38.5 billion and P69.9 billion are secured by a pledge of financial assets at FVTOCI with fair values of P32.8 billion and P44.6 billion, respectively, and investment securities at amortized cost with carrying values of P5.3 billion and P26.1 billion, respectively, and fair values of P5.6 billion and P27.6 billion, respectively (see Note 7).

Interest expense on bills payable is included under "Cost of banking services" amounting to P0.5 billion in 2021, P2.9 billion in 2020 and P2.2 billion in 2019 (see Note 24).

18. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of:

	2021	2020
	(In Thousands)	
Trade payables	**P3,154,756**	P7,821,737
Nontrade payables	**506,615**	637,021
Accrued expenses:		
Other benefits - monetary value of leave credits	**2,358,716**	1,859,275
Purchase of materials and supplies and others	**2,154,293**	2,253,204
PDIC insurance premiums	**1,191,720**	832,069
Project development costs	**1,167,420**	1,290,090
Advertising and promotional expenses	**985,735**	905,604
Taxes and licenses	**905,539**	979,412
Accrued interest	**816,859**	1,071,842
Information technology-related expenses	**665,191**	331,627
Retention payable	**613,124**	1,538,458
Rent and utilities payable	**178**	185,695
Due to government agencies	**457,006**	223,225
Output VAT	**395,637**	151,801
Other payables	**2,742,872**	767,984
	P18,115,661	P20,849,044

Trade Payables
Trade payables are non-interest bearing and are normally settled on 30 to 60 days terms. Trade payables arise mostly from trade purchases of the banking group and purchases of inventories, which include raw materials and indirect materials (i.e., packaging materials) and supplies, for use in manufacturing and other operations.

Trade payables also include importation charges related to raw materials purchases, as well as occasional acquisitions of production equipment and spare parts.

Retention Payable
Retention payable is the amount deducted from the total billing of the contractor which will be paid upon completion of the contracted services of Eton.

Accrued Project Development Costs
Accrued project development costs represent costs incurred by the Property Development segment in the development and construction of real estate projects.

Other Payables
Other payables include outside services, travel and transportation, employee benefits, management, director and other professional fees of the Group which are not individually material

19. Short-term and Long-term Debts

Short-term Debts
As of December 31, 2021 and 2020, outstanding unsecured short-term debts amounted to P3,940.0 million and P4,740.0 million, respectively. The loans, which are subject to annual interest rates ranging from 3.3% to 5.0% in 2021 and 3.7% to 7.0% in 2020, are payable lump-sum on various dates within one year and subject to renewal upon agreement by the Group and counterparty banks.

Long-term Debts

	2021	2020
	(In Thousands)	
Bonds payable	**P53,383,421**	P64,056,335
Lease liabilities (Note 37)	**5,144,046**	2,775,256
Unsecured term loans	**4,115,867**	2,911,053
	62,643,334	69,742,644
Current portion	**(3,597,299)**	(14,527,082)
	P59,046,035	P55,215,562

PNB's Bonds Payable
The fixed rate medium term senior notes are drawdowns from PNB's Medium Term Note Programme (the MTN Programme), which was established on April 13, 2018 with an initial nominal size of US$1.0 billion. On June 14, 2019, PNB increased the size of its MTN Programme to US$2.0 billion. Both issued fixed rate medium term senior notes are listed in the Singapore Exchange Securities Trading Limited.

The fixed rate bonds represent PNB's maiden issuance of Philippine peso-denominated bonds in Philippine Dealing & Exchange Corp.

As of December 31, 2021 and 2020, the unamortized transaction cost of bonds payable amounted to P168.7 million and P252.2 million. Amortization of transaction costs amounting to P83.5 million and P169.5 million was charged to 'Interest expenses - bonds payable' in the consolidated statement of income (Note 19).

Unsecured term loans of Eton
On January 28, 2013, Eton entered into an unsecured term loan agreement with Banco de Oro (BDO) amounting to P2.0 billion to finance the construction of Eton projects. The term loan bears a nominal interest rate of 5.53% and will mature on January 26, 2018. Principal repayments will start one year from the date of availment and are due annually while interest payments are due quarterly starting April 28, 2014. Effective on October 28, 2013, Eton and BDO agreed to the new interest rate of 4.75%. Eton settled the outstanding loans upon their maturity in January 2018.

In 2016, Eton entered into an unsecured term loan agreement with Asia United Bank (AUB) amounting to P1.5 billion, to finance the construction of Eton's projects. The term loan bears a nominal interest rate of 5% and will mature on September 28, 2023. Principal repayments will commence two years from the date of availment and are due quarterly while interest payments are due quarterly starting December 28, 2016.

In 2018, Eton entered into an unsecured term loan agreement with Bank of the Philippine Islands (BPI) amounting to P5.0 billion to finance the construction of the Eton's projects. On July 31, 2018, P0.5 billion was initially drawn and an additional P1.0 billion on September 26, 2018. The term loan with BPI has a nominal rate of 6.8% and 7.9% for the first and second drawdown, respectively. In 2021 and 2020, Eton availed loan drawdowns totaling to P1,700.0 million and P1,800.0 million, respectively, with a nominal rate of 5% for each of the drawdown. Principal repayments will commence a year from the date of initial borrowing and due quarterly, while interest payments are due quarterly.

Finance costs
Interest recognized on short-term and long-term debts, except for subordinated debts, are presented under "Finance costs" in the consolidated statements of income (see Note 27). Interest costs from subordinated debts are included in the "Cost of banking services" (see Note 24).

Compliance with debt covenants
As of December 31, 2021 and 2020, the Group has complied with the financial and non-financial covenants of its long-term debts.

20. Other Liabilities

	2021	2020
	(In Thousands)	
Customers' deposits	**P1,475,684**	P997,714
Deferred revenue	**1,391,578**	1,136,585
Dormant credits	**1,303,713**	1,258,502
Managers' checks and demand drafts outstanding	**1,256,121**	1,302,745
Provisions (Note 37)	**1,095,325**	979,067
Payable to landowners	**1,061,191**	1,061,191
Bills purchased - contra (Note 8)	**1,053,517**	1,548,226
Due to Treasurer of the Philippines	**882,769**	675,835
Deposit on lease contracts	**593,903**	878,193
Interoffice floats	**537,628**	537,628
Tenants' rental deposits	**411,502**	428,191
Margin deposits and cash letters of credit	**325,829**	329,432
Withholding taxes payable	**309,897**	265,884
Advance rentals	**217,857**	71,607
Due to other banks	**213,257**	537,116
Payment order payable	**196,718**	263,959
Miscellaneous tax securities	**131,875**	223,204
Others	**5,963,191**	3,211,751
	18,421,555	15,706,830
Noncurrent portion	**(9,040,491)**	(5,526,724)
	P9,381,064	P10,180,106

Payables to Landowners
In various dates in 2014, Eton executed a P1,061.2 million promissory note, subject to interest rate of PDSTF 3 years plus 0.50% spread, to various landowners in relation to its purchase of land located in Laguna with total purchase price of P1.3 billion. In June 2017, the payment of the various promissory notes were extended for another three years.

Interest expense related to payables to landowners amounted to P50.3 million and P62.7 million, net of capitalized portion of P10.1 million and P13.5 million in 2020 and 2019, respectively (nil in 2021) [see Notes 12, 13 and 27].

Customers' Deposits
Customers' deposits represent payments from buyers of residential units which will be applied against the corresponding contracts receivables which are recognized based on the revenue recognition policy of the Group. This account includes the excess of collections over the recognized receivables amounting to P995.1 million and P997.7 million as of December 31, 2021 and 2020, respectively.

Deposits and Deferred Credits

Other liabilities of the property development segment include tenants' rental deposits, advance rentals and other deferred credits. Security deposits pertain to the amounts paid by the tenants at the inception of the lease which is refundable at the end of the lease term. Advance rentals pertain to deposits from tenants which will be applied against receivables either at the beginning or at the end of lease term depending on the lease contract. Deferred credits represent the excess of the principal amount of the security deposits over its fair value. Amortization of deferred credits is included in "Rental income" in the consolidated statements of income (see Note 14).

Others

Other liabilities pertains to banking segment's liabilities which include insurance contract liabilities, accounts payable, bills purchased - contra, remittance-related payables, overages, advance rentals and sundry accounts.

21. Derivative Financial Instruments

The table in the next page show the fair values of derivative financial instruments entered into by the Group, recorded as derivative assets or derivative liabilities (included under "Financial assets and liabilities at FVTPL") , together with the notional amounts. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding as of December 31, 2021 and 2020 and are not indicative of either market risk or credit risk (amounts in thousands, except average forward rate).

	December 31, 2021				December 31, 2020			
	Assets	**Liabilities**	**Average Forward Rate**	**Notional Amount***	Assets	Liabilities	Average Forward Rate	Notional Amount*
				(In Thousands)				
Freestanding derivatives:								
Currency forwards								
BUY:								
USD	**P1,355,660**	**P274**	**51.00**	**P3,861,673**	P3,819	P556,154	48.02	P3,088,554
JPY	**–**	**–**	**–**	**–**	–	–	–	–
HKD	**–**	**–**	**–**	**–**	163	–	0.13	1,584,875
CNY	**–**	**–**	**–**	**–**	–	–	–	–
GBP	**47**	**16**	**1.35**	**6,325**	–	186	1.35	800
EUR	**6**	**5**	**1.13**	**12,645**	11	30	1.22	8,216
SGD	**31**	**–**	**0.74**	**1**	–	–	–	–
AUD	**–**	**–**	**–**	**–**	2,373	–	0.76	68,028
PHP	**–**	**1,544**	**1.00**	**1,788,750**	123	–	1.00	2,401,273
SELL:								
USD	**990**	**887,819**	**51.00**	**1,374,345**	212,405	120	48.02	877,320
CAD	**141**	**11**	**0.78**	**2,125**	91	84	0.78	9,461
GBP	**30**	**884**	**1.35**	**8,500**	1,163	–	1.35	2,500
HKD	**1,714**	**108**	**0.13**	**2,217,580**	19	51	0.13	726,829
EUR	**2**	**153**	**1.13**	**19,443**	–	3,823	1.22	16,700
JPY	**6,124**	**9**	**0.01**	**1,080,000**	12	665	0.01	1,170,000
SGD	**16**	**436**	**0.74**	**1,400**	–	440	0.75	708
AUD	**–**	**228**	**0.72**	**500**	–	200	0.76	400
NZD	**–**	**36**	**0.68**	**400**	63	–	0.71	350
PHP	**290**	**8**	**1.00**	**509,708**	3	23	1.00	7,023
Interest rate swaps	**–**	**–**	**–**	**–**	150,408	139,463	–	–
	P1,365,051	**P891,531**			P370,653	P701,239		

** The notional amounts pertain to the original currency except for the embedded derivatives, which represent the equivalent to USD amount.*

The table below shows the rollforward analysis of net derivatives assets (liabilities):

	2021	2020
	(In Thousands)	
Balance at beginning of year		
Derivative assets	**P370,653**	P373,040
Derivative liabilities	**701,239**	245,619
	(330,586)	127,421
Changes in fair value		
Currency forwards and spots*	**805,748**	(459,964)
Interest rate swaps and warrants**	**(23,472)**	(2,532)
	782,276	(462,496)
Availments	**21,830**	4,489
Balance at end of year		
Derivative assets	**1,365,051**	370,653
Derivative liabilities	**891,531**	701,239
	P473,520	(P330,586)

** Presented as part of "Foreign exchange gains".*
*** Presented as part of "Trading and investment securities gains-net"*

The changes in fair value of the derivatives are included in "Trading and securities gains - net" presented as part of "Banking revenues" in the consolidated statements of income (see Note 24).

22. Related Party Transactions

The Company has transacted with its subsidiaries, associates and other related parties as follows:

Parent Company, Subsidiaries, Associates and Joint Ventures	
Parent Company	*Associates*
Tangent	APLII
	AB HPI
Subsidiaries	PMFTC
TDI and Subsidiaries	VMC
AAC	
ADI	*Joint Ventures*
TBI	ABI Pascual Holdings
ABI and Subsidiaries	ABI Pascual Foods
AB Nutribev	AEPDC
Agua Vida Systems, Inc.	
Asia Pacific Beverage Pte Ltd	**Entities Under Common Control**
Asia Pacific Beverages Myanmar Company Limited	Ascot Holdings, Inc.
Interbev	Basic Holdings Corporation
Packageworld	Billinge Investments Limited
(Forward)	

Parent Company, Subsidiaries, Associates and Joint Ventures	
Waterich	Bright Able Holdings Ltd.
FTC	Complete Best Development Ltd.
Shareholdings	Cormack Investments Ltd
Saturn	Cosmic Holdings Corp.
Paramount and Subsidiaries	Cube Factor Holdings, Inc.
Eton	Dyzum Distillery Inc.
BCI	Foremost Farms Inc.
ECI	Grand Cargo and Warehousing Services., Inc.
EPMC	Grandspan Development Corp.
FHI	Grandway Konstruct, Inc.
Bank Holding Companies:	Harmonic Holdings Corp.
All Seasons Realty Corp.	Heritage Holdings Corp.
Allmark Holdings Corp.	Hibersham Assets Ltd.
Caravan Holdings, Corp.	High Above Properties Ltd.
Dunmore Development Corp.	Himmel Industries Inc.
Dynaworld Holdings Inc.	In Shape Group Ltd.
Fil-Care Holdings Inc.	Lapu Lapu Packaging
Ivory Holdings, Inc.	Link Great International Ltd.
Kenrock Holdings Corp.	Lucky Travel Corporation
Kentwood Development Corp.	Maxell Holdings, Corp.
La Vida Development Corp.	Negros Biochem Corporation
Leadway Holdings, Inc.	Networks Holdings & Equities, Inc.
Merit Holdings & Equities Corp.	Orient Legend Developments Ltd.
Multiple Star Holdings Corp.	Penick Group Limited
Pioneer Holdings & Equities, Inc.	Philippine Airlines, Inc.
Profound Holdings Inc.	Pol Holdings, Inc.
Purple Crystal Holdings, Inc.	Polima International Limited
Safeway Holdings & Equities Inc.	Proton Realty & Development Corporation
Society Holdings Corp.	Rapid Movers & Forwarders Co. Inc.
Solar Holdings Corp.	Sierra Holdings & Equities, Inc.
Total Holdings Corp.	Step Dragon Co. Limited
Donfar Management Ltd.	Trustmark Holdings Corporation
Fast Return Enterprises Ltd.	Upright Profits Ltd.
Fragile Touch Investments Ltd.	
Key Landmark Investments Ltd.	
Mavelstone International Ltd.	
True Success Profits Ltd.	
(Forward)	

Parent Company, Subsidiaries, Associates and Joint Ventures
Uttermost Success, Ltd.
PNB and Subsidiaries
Mabuhay Digital Philippines, Inc.
Mabuhay Digital Technologies, Inc.

The consolidated statements of income include the following revenue and other income-related (costs and other expenses) account balances arising from transactions with related parties:

	Nature	**2021**	2020	2019
			(In Thousands)	
Associates	Dividend income	**P20,749,480**	P21,751,985	P9,778,726
	Purchases of inventories	**(794,530)**	(427,183)	(547,273)
	Sales	**–**	418,772	516,812
	Leases	**35,100**	35,100	35,100
Entities Under Common Control	Banking revenue - interest on loans and receivables	**575,833**	1,895,183	1,255,819
	Rent income	**35,719**	28,001	17,968
	Interest income on loans and advances	**51,737**	22,688	23,090
	Sales of consumer products	**7,405**	7,331	30,656
	Other income	**86,856**	96,523	73,199
	Freight and handling	**(8,676)**	(17,517)	(13,802)
	Purchases of inventories	**(6,785)**	(6,479)	(6,336)
Entities Under Common Control	Management and professional fees	**(558,372)**	(558,372)	(581,793)
	Cost of banking services - interest expense on deposit liabilities	**(211,108)**	(99,403)	(246,104)
	Outside services	**–**	(71,771)	(71,668)
	Rent expense	**–**	(23,710)	(23,698)
	Cost of goods sold and services	**(866)**	(1,213)	(2,035)
	Advertising expense	**–**	–	(130)
Key Management	Short-term employee benefits	**(460,711)**	(587,077)	(572,547)
	Post-employment benefits	**(50,629)**	(70,204)	(77,652)

The consolidated statements of financial position include the following asset (liability) account balances with related parties:

			Amount/Volume		Outstanding Balance	
	Financial Statement Account	**Terms and Conditions**	**2021**	2020	**2021**	2020
				(In Thousands)		
Parent Company	Due to related parties	On demand; non-interest bearing	**P–**	P–	**(P15,325)**	(P15,325)
	Due from related parties	120 days term; 2.5% interest per annum	**5,729,300**	–	**6,238,300**	509,000
Associates	Other receivables - dividends	Payable monthly	**20,749,480**	21,751,985	**–**	–
	Trade receivables	- do -	**–**	418,772	**121,253**	141,405
	Nontrade receivables	- do -	**–**	258,057	**8,928**	8,928
	Account payable and other liabilities	30 to 60 days terms; non-interest bearing	**794,530**	(427,183)	**–**	(352,912)
Entities Under Common Control	Finance receivables	Secured by hold-out on deposits, government securities, real estate and mortgage trust indenture; Unimpaired; With interest rates ranging from 2.20% to 9.70% with maturity terms ranging from 60 days to 12 years and payment terms of ranging from monthly to quarterly payments; with aggregate allowance for credit losses of =9.6 billion	**575,833**	1,895,183	**57,580,429**	41,772,870
	Trade receivables	- do -	**7,405**	7,331	**21,665**	19,456
	Other receivables	- do -	**86,856**	96,523	**27,480**	11,675
	Due from related parties	On demand; non-interest bearing	**1,732**	100,000	**1,447,234**	1,445,502
	Advances to suppliers	- do -	**866**	(2,525)	**501**	501
	Deposit liabilities	With annual rates ranging from 0.10% to 1.50% and maturity ranging from 30 days to 365 days	**15,060,480**	5,918,653	**36,117,192**	21,056,712
	Account payable and other liabilitites	30 to 90 days terms; non-interest bearing	**(139,703)**	(37,852)	**478,265**	(338,562)
	Due to related parties	On demand; non-interest bearing	**–**	–	**(50,000)**	(50,000)
	Other payables	30 to 90 days terms; non-interest bearing	**–**	–	**–**	–

As of December 31, 2021 and 2020, the outstanding related party balances are unsecured and settlement occurs in cash, unless otherwise indicated. The Group has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related parties and the market in which these related parties operate.

Other terms and conditions related to the above related party balances and transactions are as follows:

Transactions with Tangent, parent company

- In December 2021, Tangent obtained interest-bearing loans from the Group totaling P5.7 billion with a term of 120 days.
- In 2021 and 2020, the Group declared cash dividends to stockholders of which P8.7 billion and P6.5 billion, respectively were paid to Tangent.

Transactions with Associates

- Dividend income from PMFTC amounted to P20.7 billion in 2021 and P21.8 billion in 2020 (see Note 11).
- The Group purchases raw materials such as raw and refined sugar and molasses from VMC.
- ABI entered into an operating lease agreement with AB HPI to lease portions of its two breweries, in Cabuyao, Laguna and El Salvador, Misamis Oriental, subject to the terms and conditions of an asset lease agreement signed last November 15, 2016. The lease has a fixed yearly increase as specified in the contract.
- ABI sold inventories to AB HPI aside from the nonmonetary assets sold on November 15, 2016, including work in progress, amounting to P423.3 million. In 2021 and 2020, ABI rendered services in favor of AB HPI related to supplies, both imported and locally-purchased, advertising expense, promotions, professional fees, engineering fee and shared expenses in the plant.

In 2020, in accordance with the Termination Deed, ABI acquired fixed assets, including beer equipment, inventories and spare parts, from AB HPI for purchase price totaling to P1.6 billion.

Transactions with Entities under Common Control

- Due to related parties include cash advances provided to the Group to support its working capital requirements.
- Several subsidiaries of the Group entered into management services agreements with Basic Holdings Corporation for certain considerations. Management fees are recorded under "Outside services" in "Cost of goods sold" and "Professional fees" in the "General and administrative expenses".
- The property development segment purchases parcels of land from other related parties for use in its various projects.
- Several entities under common control maintain peso and foreign currency denominated deposits and short-term and long-term loans with PNB. Interest income and financing charges related to these transactions are reported under "Banking revenue" and "Cost of banking services", respectively (see Note 24).

23. Retirement Benefits

The Group has funded, noncontributory defined benefit retirement plans, administered by a trustee, covering all of its permanent employees. As of December 31, 2021 and 2020, the Group is in compliance with Article 287 of the Labor Code, as amended by Republic Act No. 7641.

Details of the Group's net retirement plan assets and liabilities are as follows:

	2021	2020
	(In Thousands)	
Net retirement plan assets:		
FTC	**P256,485**	P241,252
LTG	**1,940**	6,068
TBI	**10,485**	2,117
	P268,910	P249,437
Net retirement benefits liabilities:		
PNB and subsidiaries	**P920,581**	P1,206,350
ABI and subsidiaries	**640,422**	984,644
Eton and subsidiaries	**141,134**	143,733
ADI	**46,556**	39,661
AAC	**56,184**	38,628
TDI	**12,780**	5,621
	P1,817,657	P2,418,637

The following tables summarize the components of net retirement plan assets and net retirement benefits liability recognized in the consolidated statements of financial position, the net benefit expenses recognized in the consolidated statements of income and the remeasurement losses (gains) recognized in consolidated statements of comprehensive income.

Net retirement plan assets:

	2021			2020			2019		
	Defined Benefit Obligations	**Fair Value of Plan Assets**	**Net Retirement Plan Assets**	Defined Benefit Obligations	Fair Value of Plan Assets	Net Retirement Plan Assets	Defined Benefit Obligations	Fair Value of Plan Assets	Net Retirement Plan Assets
					(In Thousands)				
Beginning balance	**P125,747**	**(P375,184)**	**(P249,437)**	P157,751	(P417,710)	(P259,959)	P201,030	(P481,494)	(P280,464)
Change in status of retirement plan	**–**	**–**	**–**	(62,878)	65,525	2,647	–	–	–
Net retirement benefits expense (income) in profit or loss:									
Current service cost	**6,577**	**–**	**6,577**	16,934	(1,465)	15,469	10,478	(1,380)	9,098
Net interest cost	**4,851**	**(14,520)**	**(9,669)**	5,040	(16,381)	(11,341)	7,389	(26,178)	(18,789)
	11,428	**(14,520)**	**(3,092)**	21,974	(17,846)	4,128	17,867	(27,558)	(9,691)
Contributions	**–**	**(8,030)**	**(8,030)**	–	(8,030)	(8,030)	(655)	(3,620)	(4,275)
Benefits paid	**(4,835)**	**4,835**	**–**	–	–	–	(3,995)	3,995	–
Remeasurement losses (gains) in other comprehensive income - actuarial changes arising from changes in:									
Financial assumptions	**4,256**	**–**	**4,256**	19,040	–	19,040	32,296	–	32,296
Demographic assumptions	**–**	**11,088**	**11,088**	–	894	894	–	(8,841)	(8,841)
Experience adjustments	**(25,510)**	**1,815**	**(23,695)**	(10,140)	1,983	(8,157)	11,927	(911)	11,016
	(21,254)	**12,903**	**(8,351)**	8,900	2,877	11,777	44,223	(9,752)	34,471
Ending balance	**P111,086**	**(P379,996)**	**(P268,910)**	P125,747	(P375,184)	(P249,437)	P258,470	(P518,429)	(P259,959)

Net retirement benefits liabilities:

	2021			2020			2019		
	Defined Benefit Obligations	**Fair Value of Plan Assets**	**Accrued Retirement Benefits**	Defined Benefit Obligations	Fair Value of Plan Assets	Accrued Retirement Benefits	Defined Benefit Obligations	Fair Value of Plan Assets	Accrued Retirement Benefits
					(In Thousands)				
Beginning balance	**P11,130,110**	**(P8,711,473)**	**P2,418,637**	P11,334,593	(P9,634,850)	P1,699,743	P9,239,745	(P7,601,607)	P1,638,138
Change in status of retirement plan	**–**	**–**	**–**	62,878	(65,525)	(2,647)	–	–	–
Net retirement benefits cost in profit or loss:									
Current service cost	**970,694**	**–**	**970,694**	832,107	–	832,107	625,316	–	625,316
Net interest cost	**385,429**	**(300,486)**	**84,943**	445,783	(325,044)	120,739	542,042	(431,789)	110,253
Past service cost	**–**	**–**	**–**	25,454	–	25,454	3,774	–	3,774
	1,356,123	**(300,486)**	**1,055,637**	1,303,344	(325,044)	978,300	1,171,132	(431,789)	739,343
Contributions	**(750,120)**	**(209,028)**	**(959,148)**	–	(1,117,108)	(1,117,108)	(1,000)	(1,904,683)	(1,905,683)
Benefits paid from plan assets	**(686,967)**	**686,967**	**–**	(537,982)	537,982	–	(419,579)	419,579	–
Benefits paid directly from book reserves	**–**	**–**	**–**	(1,440)	–	(1,440)	(20,590)	–	(20,590)
Settlement benefits paid directly by the Company	**–**	**–**	**–**	(6,092)	–	(6,092)	–	–	–
Remeasurement losses (gains) in other comprehensive income - actuarial changes arising from changes in:									
Financial assumptions	**(647,100)**	**–**	**(647,100)**	1,052,016	–	1,052,016	1,322,604	–	1,322,604
Demographic assumptions	**–**	**–**	**-**	(55,142)	–	(55,142)	(26,893)	–	(26,893)
Experience adjustments	**(294,650)**	**244,281**	**(50,369)**	(243,410)	128,580	(114,830)	69,174	(116,350)	(47,176)
	(941,750)	**244,281**	**(697,469)**	753,464	128,580	882,044	1,364,885	(116,350)	1,248,535
Effect of disposal group classified as held for sale	**–**	**–**	**–**	(62,899)	48,736	(14,163)	–	–	–
Ending balance	**P10,107,396**	**(P8,289,739)**	**P1,817,657**	P12,845,866	(P10,427,229)	P2,418,637	P11,334,593	(P9,634,850)	P1,699,743

The fair value of plan assets as of December 31 is as follows:

	2021	2020
	(In Thousands)	
Cash and cash equivalents	**P3,934,168**	P4,030,216
Receivables	**84,364**	230,309
Equity investments:		
Financial institutions	**1,017,676**	748,372
Other	**953,003**	844,956
Debt investments:		
Investment in private debt securities	**587,954**	2,542,429
Investments in government securities	**2,011,167**	1,745,693
Others	**81,403**	660,440
Fair value of plan assets	**P8,669,735**	P10,802,415

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

	2021	2020
Cash and cash equivalents	**45%**	37%
Receivables	**1%**	2%
Equity investments	**23%**	15%
Debt investments	**30%**	40%
Others	**1%**	6%
Fair value of plan assets	**100%**	100%

The overall investment policy and strategy of the Group's defined benefit plans is guided by the objective of achieving an investment return which, together with contributions, ensures that there will be sufficient assets to pay pension benefits as they fall due while also mitigating the various risk of the plans. The plan assets have diverse investments and do not have concentration risk.

The Group's defined pension plan are funded through the contributions made by the Group to the trust.

The principal assumptions used in determining pension benefit obligations for the Group's plans as of January 1 are shown below:

	2021	2020	2019
Discount rate	**3.45%-7.37%**	3.4%-3.8%	4.7%-5.1%
Future salary increases	**3.0%-10.0%**	3.0%-10.0%	4.0%-8.0%

As of December 31, 2021, the discount and future salary increase rates are 4.7%-5.1% and 4-8%, respectively.

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

	2021		2020	
	Change in rate	**Increase (Decrease) in Present Value of Defined Benefit Obligations**	Change in rate	Increase (Decrease) in Present Value of Defined Benefit Obligations
Discount rates	**0.50%**	**(P729,343)**	0.50%	(P788,245)
	-0.50%	**799,196**	-0.50%	854,060
Future salary increases	**1.00%**	**895,656**	1.00%	986,359
	-1.00%	**(785,500)**	-1.00%	(537,972)

Full actuarial valuations were performed to test the sensitivity of the defined benefit obligation to a 1% increment in salary increase rate, 0.5% decrement in the discount rate and a 10% improvement in the employee turnover rate. The results also provide a good estimate of the sensitivity of the defined benefit obligation to a 1% decrement in salary increase rate, 0.5% increment in the discount rate and a 10% increase in the employee turnover rate but with reverse impact.

The Group employs asset-liability matching strategies to maximize investment returns at the least risk to reduce contribution requirements while maintaining a stable retirement plan. Retirement plans are invested to ensure that liquid funds are available when benefits become due, to minimize losses due to investment pre-terminations and maximize opportunities for higher potential returns at the least risk.

The current plan asset of the Group is allocated to cover benefit payments in the order of their proximity to the present time. Expected benefit payments are projected and classified into short-term or long-term liabilities. Investment instruments that would match the liabilities are identified. This strategy minimizes the possibility of the asset-liability match being distorted due to the Group's failure to contribute in accordance with its general funding strategy.

Shown below is the maturity analysis of the undiscounted benefit payments of the Group *(in thousands)*:

	2021	2020
One year and less	**P1,585,137**	P1,569,917
More than one year up to five years	**5,321,019**	4,807,642
More than five years up to 10 years	**4,981,493**	4,801,580
More than 10 years up to 15 years	**4,702,291**	4,081,876
More than 15 years	**52,357,497**	51,558,308

The Group expects to contribute P1.3 billion to the defined benefit pension plan in 2022. The average duration of the defined benefit obligations at the end of the reporting period range from 14.0 years as of December 31, 2021 and 2020.

Transactions with Retirement Plans

Management of the retirement funds of the banking segment is handled by the PNB Trust Banking Group (TBG). The fair value of the plan assets as of December 31, 2021 and 2020 for the Group includes investments in the PNB shares of stock with fair value amounting to P165.2 million and P250.2 million classified as financial assets at FVTPL. No limitations and restrictions are provided and voting rights over these shares are exercised by a trust officer or any of its designated alternate officer of TBG.

As of December 31, 2021 and 2020, financial assets at FVTPL and at amortized costs include government and private debt securities and various funds. Deposits with other banks pertain to Special Deposit Accounts placement with BSP.

The retirement funds of the other companies in the Group are maintained by PNB, as the trustee bank. PNB's retirement funds have no investments in debt or equity securities of the companies in the Group.

24. Revenue and Cost of Goods Sold and Services

Revenue consist of:

	2021	2020	2019
		(In Thousands)	
Banking revenue (Note 5)	**P49,319,441**	P54,800,902	P56,522,642
Sale of consumer goods	**39,822,501**	37,227,642	34,495,786
Rental income (Note 13)	**1,893,706**	1,757,701	1,707,833
Real estate sales	**137,667**	641,689	1,424,598
	P91,173,315	P94,427,934	P94,150,859

Disaggregated revenue information

Set out below is the disaggregation of the Group's revenues from contracts with customers and revenues not covered under PFRS 15 for the year ended December 31, 2021 (in thousands):

	Goods/Services transferred at a point in time	Services transferred over time	Revenues outside the scope of PFRS 15	Total
Sale of consumer goods	P39,822,501	P–	P–	P39,822,501
Service fees and commission income	6,340,326	–	–	6,340,326
Real estate sales	–	137,667	–	137,667
Interest income	–	–	42,247,543	42,247,543
Rental income	–	–	1,893,706	1,893,706
Trading and securities gains - net	–	–	731,572	731,572
	P46,162,827	P137,667	P44,872,821	P91,173,315

Banking revenue consists of:

	2021	2020	2019
		(In Thousands)	
Interest income on:			
Loans and receivables	**P34,157,780**	P37,180,110	P39,618,364
Trading and investment securities (Note 21)	**6,913,237**	7,162,523	9,357,556
Deposits with banks and others	**1,093,275**	2,192,050	635,086
Interbank loans receivable	**83,251**	244,007	668,211
	42,247,543	46,778,690	50,279,217
Service fees and commission income	**6,340,326**	4,684,572	5,176,406
Trading and securities gains - net	**731,572**	3,337,640	1,067,019
	P49,319,441	P54,800,902	P56,522,642

Sale of consumer goods consists of:

	2021	2020	2019
		(In Thousands)	
Gross sales	**P42,421,388**	P39,638,196	P37,323,117
Less sales returns, discounts and allowances	**2,598,887**	2,410,554	2,827,331
	P39,822,501	P37,227,642	P34,495,786

Cost of goods sold and services consists of:

	2021	2020	2019
		(In Thousands)	
Cost of consumer goods sold:			
Materials used and changes in inventories (Note 9)	**P14,580,312**	P14,071,399	P14,326,602
Taxes and licenses	**11,385,173**	9,874,192	6,141,929
Depreciation and amortization (Notes 12, 13 and 14)	**2,147,685**	1,589,194	1,578,423
Fuel and power	**1,293,306**	1,037,620	1,192,723
Personnel costs	**1,240,849**	1,094,204	959,764
Freight and handling	**1,031,483**	499,292	435,428
Communication, light and water	**551,256**	562,574	820,024
Repairs and maintenance	**525,384**	480,955	512,175
Outside services	**507,311**	471,877	501,097
Others	**341,850**	425,294	530,317
	33,604,609	30,106,601	26,998,482
Cost of banking services	**8,573,207**	12,046,147	18,696,082
Cost of real estate sales (Note 9)	**55,053**	239,524	663,789
Cost of rental income (Note 13)	**724,145**	466,592	444,087
Cost of goods sold and services	**P42,957,014**	P42,858,864	P46,802,440

Other expenses include insurance, utilities and outside services which are individually not significant as to amounts.

Cost of banking services consist of:

	2021	2020	2019
		(In Thousands)	
Interest expense on:			
Deposit liabilities (Note 15)	**P4,778,047**	P7,311,731	P13,577,503
Bills payable and other borrowings (Notes 7 and 17)	**511,921**	846,642	2,184,918
Bonds payable	**2,231,863**	2,904,528	1,945,497
	7,521,831	11,062,901	17,707,918
Services fees and commission expense	**1,051,376**	983,246	988,164
	P8,573,207	P12,046,147	P18,696,082

25. Selling Expenses

	2021	2020	2019
		(In Thousands)	
Advertising and promotions	**P896,479**	P719,197	P1,458,151
Depreciation and amortization (Note 12)	**476,052**	328,123	292,805
Personnel costs	**151,125**	143,312	130,180
Management, consulting and professional fees	**107,910**	109,230	170,507
Royalties	**78,149**	60,439	72,239
Commissions	**23,594**	28,568	101,545
Communication, light and water	**16,542**	15,009	14,271
Materials and consumables	**P15,139**	P19,820	P37,901
Fuel and oil	**2,656**	2,287	28,939
Freight and handling	**–**	526,280	560,738
Others	**137,374**	98,849	144,148
	P1,905,020	P2,051,114	P3,011,424

Others include occupancy fees, repairs and maintenance, insurance, donations, membership and subscription dues, which are individually not significant as to amounts.

26. General and Administrative Expenses

	2021	2020	2019
		(In Thousands)	
Personnel costs	**P10,924,480**	P11,057,462	P10,265,619
Provision for credit losses (Note 8)	**11,333,005**	15,878,029	2,921,197
Taxes and licenses	**4,499,491**	4,993,514	5,108,681
Depreciation and amortization (Notes 12, 13 and 14)	**3,110,725**	3,413,200	3,186,759
Insurance	**2,014,664**	1,853,290	1,874,045
Outside services	**1,888,113**	1,823,620	1,849,011
Information technology	**1,304,930**	1,448,623	811,574
Occupancy	**1,067,404**	1,000,948	1,023,915
Management, consulting and professional fees	**936,946**	993,329	1,030,234
Marketing and promotional	**719,070**	738,387	1,137,757
Litigation	**395,386**	37,271	326,588
Travel and transportation	**383,935**	375,254	449,091
Materials and consumables	**318,241**	304,952	286,716
Communication, light and water	**208,541**	216,714	310,958
Repairs and maintenance	**173,200**	164,065	230,192
Freight and handling	**42,418**	30,973	78,884
Fuel and oil	**21,517**	20,333	30,438
Loss on loan modifications	**–**	1,587,605	–
Others	**979,811**	1,959,699	674,762
	P40,321,877	P47,897,268	P31,596,421

'Loss on loan modifications' pertains to the adjustment for the changes in expected cash flows of credit exposures, as a result of modifications in the original terms and conditions of the loan which include, but not limited to, changes in interest rates, principal amount, maturity date, and payment terms. In 2020, PNB accommodated modifications in the terms and conditions of certain loans of borrowers, which have been directly impacted by the COVID-19 pandemic. The loss is computed as the difference between the gross carrying amount of the loan and the present value of the modified contractual cash flows, discounted at the original effective interest rate of the loan. Subsequent accretion to interest income in 2021 and 2020 amounted to P525.7 million and P901.7 million, respectively.

Others include expense items mainly relating to banking operations, which are individually not significant as to amounts.

27. Finance Costs and Finance Income

Details of finance costs and finance income (other than the banking segment) are as follows:

	2021	2020	2019
		(In Thousands)	
Finance costs (Note 19):			
Short-term debts	**P201,616**	P185,900	P166,018
Unsecured term loan and notes payable (Note 20)	**163,257**	155,567	284,823
	P364,873	P341,467	P450,841
Finance income:			
Cash and other cash items (Note 5)	**P41,663**	P37,892	P138,630
Interest-bearing contracts receivable (Note 8)	**–**	4,529	7,623
	P41,663	P42,421	P146,253

28. Other Income (Charges)

	2021	2020	2019
		(In Thousands)	
Rental income and dues (Note 13)	**P1,357,043**	P664,229	P892,391
Rooms and other operated departments	**220,186**	205,183	181,862
Income from assets acquired	**183,173**	258,708	100,214
Management fees	**163,322**	31,916	24,170
Recoveries from charged off assets	**85,164**	203,750	76,362
Dividend income	**69,015**	51,815	145,704

(Forward)

	2021	2020	2019
		(In Thousands)	
Net gains (losses) on sale or exchange of assets	(P19,979)	P196,019	P814,920
Provision for probable losses (Notes 14 and 38)	165,425	677,089	–
Marketing allowance and income from wire transfers	–	241,353	344,090
Reversal of provision for expected credit loss (Note 8)	–	(45,974)	(142,017)
Gain on retirement	–	17,853	14,838
Mark-to-market gain on financial assets designated at FVTPL (Note 6)	–	–	17,800
Others	535,482	(598,972)	373,263
	P2,758,831	P1,902,969	P2,843,597

a. Rental income and dues significantly pertain to income arising from charges and expenses recharged to tenants. Loss on cancelled contracts represents the loss incurred by the Group as a result of cancellation of contracts to sell by the buyer or the Group in general.

b. Net gains on sale or exchange of assets include sale of investment properties of the banking segment in 2021, 2020 and 2019 amounting to P15.2 million, P11.7 million and P48.6 million, respectively.

c. Others include income and expense items mainly relating to banking operations, which are individually not significant as to amounts.

29. Income Taxes

Income taxes include the corporate income tax, which is discussed below, and final taxes paid, which represents final withholding tax on gross interest income from government securities and other deposit substitutes and income from the FCDU transactions. These income taxes, as well as the deferred tax benefits and provisions, are presented as "Provision for income tax" in the consolidated statements of income.

Under Philippine tax laws, PNB and its certain subsidiaries are subject to percentage and other taxes (presented as "Taxes and Licenses" in the consolidated statements of income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax and documentary stamp tax.

FCDU offshore income (income from non-residents) is tax-exempt while gross onshore income (income from residents) is generally subject to 10% income tax. In addition, interest income on deposit placement with other FCDUs and offshore banking units (OBUs) is taxed at 7.50%. Republic Act No. 9294, an act restoring the tax exemption of OBUs and FCDUs, provides that the income derived by the FCDU from foreign currency transactions with non-residents, OBUs, local commercial banks including branches of foreign banks is tax-exempt while interest income on foreign currency loans from residents other than OBUs or other depository banks under the expanded system is subject to 10% income tax.

a. Details of the Group's deferred income tax assets and liabilities as of December 31 follow:

	2021		2020	
	Net Deferred Income Tax Assets[(1)]	Net Deferred Income Tax Liabilities[(2)]	Net Deferred Income Tax Assets[(3)]	Net Deferred Income Tax Liabilities[(4)]
		(In Thousands)		
Recognized directly in the consolidated statements of income:				
Deferred income tax assets on:				
Allowance for impairment loss on:				
Receivables	P8,562,723	P104,593	P11,150,369	P93,393
Inventories	31,488	10,538	4,273	10,742
Property, plant and equipment	4,976	–	–	–
Allowance for probable losses on excise taxes	–	104,164	–	87,899
Accumulated depreciation on investment properties	495,884	–	729,869	–
Unrealized losses on:				
Inventories on hand	–	4,656	–	7,199
Sale of property to a subsidiary	395,542	5,491	384,523	4,529
Deferred rent income	129,050	10,599	130,213	13,481
Net retirement benefits liabilities	121,399	214,275	912,507	289,093
Reserves and others	51,981	288,314	545,126	343,402
Advance rentals	–	21,744	–	17,747
Accrued expenses	469,714	14,879	580,572	25,965
Difference between accounting and tax carrying amount of property, plant and equipment	–	–	30,289	–
Unamortized past service cost	7,316	7,479	9,009	4,793
Unrealized forex losses	–	1,160	5,067	2,996
Difference between right-of-use assets and lease liabilities	80,425	75,592	7,458	79,489
	10,350,498	863,484	14,489,275	980,728
Deferred income tax liabilities on:				
Fair value gain on investment properties	(918,043)	–	(1,043,165)	–
Excess of fair values over carrying values of property, plant and equipment acquired through business combination	(210,574)	(36,556)	(329,723)	(33,472)
Gain on re-measurement of a previously held interest	(246,651)	–	(246,651)	–
Unrealized foreign exchange gains	(346,586)	(2,582)	(97,033)	(153)
Borrowing cost capitalized to property, plant, and equipment	(73,703)	(175,087)	(2,983)	(171,826)
Deferred rental income	(42,073)	(60,116)	–	(91,488)
Difference between tax and book basis of accounting for real estate transactions	–	(61,631)	(3,157)	(111,376)
(Forward)				

	2021		2020	
	Net Deferred Income Tax Assets[(1)]	Net Deferred Income Tax Liabilities[(2)]	Net Deferred Income Tax Assets[(3)]	Net Deferred Income Tax Liabilities[(4)]
		(In Thousands)		
Unamortized debt cost	(P2,325)	(P1,048)	P–	(P4,751)
Gain on asset share swap	–	(443,110)	–	(443,110)
Net retirement plan assets	(3,380)	(99,624)	(1,912)	(116,336)
Net changes in fair values of FVTPL financial assets	(51,247)	(34,527)	(56,931)	(7)
Others	(605,606)	(30,217)	(110,388)	(19,270)
	(2,500,188)	(944,498)	(1,891,943)	(991,789)
	7,850,310	(81,014)	12,597,332	(11,061)
Recognized directly in equity:				
Deferred income tax assets on:				
Remeasurement losses on retirement benefits	6,713	40,478	5,233	56,304
Deferred income tax liabilities on:				
Revaluation increment on property, plant and equipment	(1,536,629)	(8,395,132)	(3,711,174)	(8,309,673)
Remeasurement gains on defined benefit plans	(28,547)	(21,460)	(2,360)	(16,502)
Unrealized gains on changes in fair value of financial assets at FVTOCI	–	(42,045)	–	(46,480)
	(1,565,176)	(8,458,637)	(3,713,534)	(8,372,655)
	(1,558,463)	(8,418,159)	(3,708,301)	(8,316,351)
	P6,291,847	(P8,499,173)	P8,889,031	(P8,327,412)

[(1)] Pertain to IPI, PWI, ABNC, AVSI, ADI, Eton and PNB
[(2)] Pertain to LTG, Saturn, PLI, AAC, TDI, ABI and FTC
[(3)] Pertain to IPI, ADI, Eton and PNB
[(4)] Pertain to LTG, Saturn, PLI, AAC, TDI, ABI, PWI and FTC

Details of the Group's net deferred income tax assets and liabilities are as follows:

	2021	2020
	(In Thousands)	
Net deferred income tax assets:		
PNB and subsidiaries	P5,806,384	P8,437,787
Eton and subsidiaries	395,542	393,256
Bank holding companies	59,340	1,526
ABI and subsidiaries	21,026	38,382
TDI and subsidiaries	9,555	18,080
	P6,291,847	P8,889,031
Net deferred income tax liabilities:		
PNB and subsidiaries	P7,310,014	P7,305,940
Paramount	443,110	443,110
TDI and subsidiaries	393,072	327,321
ABI and subsidiaries	115,531	106,537
FTC	88,735	89,023
Eton and subsidiaries	105,877	35,724
Saturn	3,035	3,035
LTG	5,278	1,009
Bank holding companies	34,521	15,713
	P8,499,173	P8,327,412

b. Provision for current income tax consists of:

	2021	2020	2019
		(In Thousands)	
RCIT	P2,660,808	P4,481,774	P2,711,115
MCIT	14,197	2,080	2,251
Final tax	1,437,058	1,513,953	1,497,703
Provision for current income tax	P4,112,063	P5,997,807	P4,211,069

c. As of December 31, 2021 and 2020, the Group has not recognized deferred income tax assets on certain deductible temporary differences such as NOLCO, excess MCIT and other items based on the assessment that sufficient taxable profit will not be available to allow the deferred income tax assets to be utilized as follows:

	2021	2020
	(In Thousands)	
Net retirement benefits liability	P1,199,030	P1,213,544
Allowance for credit losses	14,507,309	509,482
Derivative liabilities	891,346	558,220
Unamortized past service cost	2,541,881	338,594
NOLCO	1,485,229	704,639
Excess MCIT	27,593	30,422
Allowance for inventory obsolescence	16,848	–
Others	380,049	190,070

Details of the Group's NOLCO follow (in thousands):

Year Incurred	Amount	Applied	Expired	Balance	Expiry Year
2014	P48,163	P–	(P48,163)	P–	N/A
2018	217,439	–	(217,439)	–	2021
2019	157,938	–	–	157,938	2022
2020	281,099	–	–	281,099	2025
2021	–	1,046,192	–	1,046,192	2026
	P704,639	P1,046,192	(P265,602)	P1,485,229	

On September 30, 2020, the BIR issues Revenue Regulations No. 25-2020 implementing Section 4(bbbb) of "Bayanihan to Recover As One Act" which states that the NOLCO incurred for taxable years 2020 and 2021 can be carried over and claimed as a deduction from gross income for the next five (5) consecutive taxable years immediately following the year of such loss.

As of December 31, 2021, the Group has incurred NOLCO in taxable years 2021 and 2020 which can be claimed as deduction from the regular taxable income for the next five (5) consecutive taxable years pursuant to the Bayanihan to Recover As One Act

Details of the Group's MCIT follow (in thousands):

Year Incurred	Amount	Applied	Expired	Balance	Expiry Year
2018	P3,404	P–	(P3,404)	P–	2021
2019	925	–	–	925	2022
2020	26,093	–	–	26,093	2023
2021	–	525	–	525	2024
	P30,422	P525	(P3,404)	P27,593	

d. A reconciliation of the Group's provision for income tax computed based on income before income tax at the statutory income tax rates to the provision for income tax shown in the consolidated statements of income is as follows:

	2021	2020	2019
		(In Thousands)	
Provision for income tax at statutory income tax rate from:			
Continuing operations	P6,815,555	P6,475,984	P9,342,840
Discontinued operations	–	26,400	36,082
	6,815,555	6,502,384	9,378,922
Adjustments resulting from:			
Non-deductible expenses	8,694,202	5,936,027	1,803,030
Equity in net earnings of associates	(4,505,295)	(5,284,472)	(1,539,675)
Nontaxable income	(3,524,312)	(643,033)	(3,743,152)
Income subjected to final tax	(2,581,817)	(6,424,101)	(1,151,482)
(Forward)			

	2021	2020	2019
		(In Thousands)	
NOLCO and other deductible temporary differences for which no deferred income tax assets were recognized in current year	**P2,592,694**	(P582,527)	(P916,440)
Change in tax rate	**(77,224)**	–	–
Effect of availment of ITH	**(35,963)**	(47,490)	(51,911)
Difference of itemized deduction against 40% of taxable income	**–**	–	(53,648)
Non-deductible deficiency taxes	**–**	–	25,904
Application of NOLCO and other deductible temporary differences for which no deferred income tax assets were recognized in prior years	**–**	–	(24,949)
Others	**(956,094)**	(108,290)	(29,285)
Provision for income tax	**P6,421,746**	(P651,502)	P3,697,314

e. Impact of CREATE Law

Applying the provisions of the CREATE Law, the Group is subjected to lower regular corporate income tax rate of 25.00% effective July 1, 2020. The following are the impact of CREATE in the 2021 financial statements of the Group:

- Based on the provisions of Revenue Regulations (RR) No. 5-2021 dated April 8, 2021 issued by the BIR, the transitory RCIT and MCIT rates applicable to the Group for the taxable year 2020 is 27.50% and 1.50%, respectively. This resulted in reduction in the current income tax due for the taxable year 2020 amounting to P374.0 million for the Group. The reduced amounts were reflected in the 2020 Annual Income Tax Returns filed in 2021. For financial reporting purposes, such reductions in the 2020 current income taxes were recognized in the 2021 financial statements as reduction to 2021 income tax expense.

- The deferred tax assets as of December 31, 2021 were also remeasured using the lower RCIT rate of 25.00%. The net decrease in the deferred tax balances amounting to P508.1 million for the Group, reduced the provision for deferred tax by P507.8 million for the Group, and other comprehensive income by P0.3 million for the Group.

There were no tax-related contingent liabilities and contingent assets arising from the changes in the tax rates due to CREATE Act.

30. Equity

Capital Stock
Authorized and issued capital stock of the Company are as follows:

Authorized capital stock at P1 par value	
At beginning and end of year	25,000,000,000 shares
Issued capital stock at P1 par value:	
At beginning and end of year	P10,821,388,889

a. Capital stock is held by a total of 373 and 374 stockholders as of December 31, 2020 and 2019, respectively.

b. Track record of registration:

Date	Number of Shares Licensed	Issue/Offer Price
August 1948	100,000	P1.00
November 1958	500,000	1.00
December 1961	1,000,000	1.00
March 1966	2,000,000	1.00
March 1966	6,000,000	1.00
October 1995	247,500,000	1.00
October 2011	398,138,889	4.22
April 2013	1,840,000,000	20.50

In April 2013, LTG issued 1,840.0 million shares for P37.7 billion, where excess over par value amounting to P35.9 billion was recorded as capital in excess of par. Stock issue costs amounting to P1.1 billion were charged against capital in excess of par in 2013. Other offering-related expenses amounting to P59.0 million were charged directly to "General and administrative expenses".

Retained Earnings and Dividends

a. The Company's BOD approved the declaration and distribution of the following cash dividends:

Date of declaration	Date of record	Date of payment	Dividend per share	Amount
2021:				
November 19, 2021	December 6, 2021	December 13, 2021	P0.60	P6,492,833,333
June 11, 2021	June 25, 2021	July 7, 2021	0.24	2,597,133,333
March 17, 2021	March 31, 2021	April 12, 2021	0.24	2,597,133,334
				P11,687,100,000
2020:				
November 23, 2020	December 9, 2020	December 14, 2020	P0.15	P1,623,208,334
August 14, 2020	September 2, 2020	September 8, 2020	0.23	2,488,919,445
May 22, 2020	June 8, 2020	June 17, 2020	0.43	4,653,197,222
				P8,765,325,001
2019:				
April 10, 2019	April 29, 2019	May 8, 2019	0.31	P3,326,908,000

b. Retained earnings include undistributed earnings amounting to P141.7 billion, P98.1 billion and P76.4 billion as of December 31, 2021, 2020 and 2019, respectively, representing accumulated earnings of subsidiaries and equity in net earnings of associates and joint ventures, which are not available for dividend declaration until received in the form of dividends from the combining entities and associates. Retained earnings available for dividend declaration as at December 31, 2021 amounted to P41.8 billion.

Retained earnings are further restricted for the payment of dividends to the extent of the cost of the shares held in treasury (shares of stock of the company held by subsidiaries), unrealized foreign exchange gains except those attributable to cash and cash equivalents, fair value adjustment or gains arising from mark-to-market valuation, deferred income tax assets recognized that reduced the income tax expense and increased net income and retained earnings, and other unrealized gains or adjustments as of December 31, 2021 and 2020.

Preferred Shares of Subsidiaries issued to Parent Company

On March 20, 2013, the respective BOD's and stockholders of various Bank Holding Companies approved the increase in their authorized capital stocks comprising of common shares and preferred shares with par value of P1.00 per share. The preferred shares were subscribed by Tangent through conversion of its advances into investments in certain Bank Holding Companies (see Note 22).

Upon approval of the Philippine SEC of the increase in authorized capital stock of Bank Holding Companies on various dates in October, November and December 2013, preferred shares amounting to P7.4 billion presented under "Preferred shares of subsidiary issued to Parent Company" were issued to Tangent. Unissued preferred shares amounting to P6.0 billion which are pending approval of the Philippine SEC are presented under "Deposit for future stock subscription" as of December 31, 2013. Upon approval of the Philippine SEC on various dates in 2014, the remaining preferred shares of P6.0 billion and additional conversion of advances to preferred shares during the year of P4.7 billion were issued to Tangent.

In 2020, preferred shares of the subsidiary issued to Tangent amounting to P18.1 billion were redeemed.

The preferred shares have the following features: non-voting, non-cumulative and non-participating as to dividends, non-redeemable for a period of seven years from the issuance and redeemable at the option of the Bank Holding Companies after seven years from the issuance thereof.

Other Equity Reserves

Other equity reserves as at December 31 consist of:

	2021	2020
	(In Thousands)	
Equity adjustments arising from business combination under common control (Note 1) (Forward)	**P445,113**	P445,113

	2021	2020
	(In Thousands)	
Equity adjustments from sale of the Company's shares of stock held by a subsidiary	**(P6,448,518)**	(P2,262,606)
Equity adjustment in aggregate reserves on life insurance policies	**(309,361)**	(593,566)
Effect of transaction with non-controlling interest	**66,658**	66,658
Effect of sale of a subsidiary to Company	**99,655**	99,655
Effect of sale of direct interest in a subsidiary	**186,572**	186,376
	(P5,959,881)	(P2,058,370)

Shares of Stock of the Company Held by Subsidiaries

Shares held by subsidiaries include 4.9 million shares owned by All Seasons amounting to P12.5 million as of December 31, 2020 and 2019 and 76.5 million shares owned by Saturn amounting to P150.9 million as of December 31, 2011. On July 25, 2012, the shares of stocks owned by Saturn were sold to Tangent at P4.50 per share. As a result, the excess of the selling price over the cost of the treasury shares amounting to P193.2 million is presented as an addition to other equity reserves.

Non-controlling Interests

Below are the changes in non-controlling interests:

	2021	2020	2019
		(In Thousands)	
Balance as of January 1	**P70,124,342**	P67,086,030	P58,223,689
Net income attributable to non-controlling interests	**614,622**	1,304,120	4,448,233
Share in other comprehensive income, net of deferred income tax effect:			
Net change in aggregate reserves on life insurance policies	**128,239**	(457,555)	–
Remeasurement gains (losses) on defined benefit plans (Notes 2 and 23)	**124,792**	(342,880)	(305,881)
Revaluation increment on property plant and equipment	**(243,897)**	(274,064)	(170,223)
Cumulative translation adjustments	**341,939**	(127,530)	(456,101)
Net changes in financial assets at FVOCI (Note 7)	**(1,635,861)**	(85,398)	2,805,235
Reserves of disposal group classified as held for sale	**–**	394,197	–
Dividends received	**–**	(85,645)	(3,372)
Acquisition of shares of subsidiaries from the Controlling Shareholders	**441,157**	2,376,784	2,539,185
Other equity reserves	**3,569,938**	336,283	5,265
Balance as of December 31	**P73,465,271**	P70,124,342	P67,086,030

31. Basic/Diluted Earnings Per Share

The following tables reflect the net income and share data used in the earnings per share computations:

Basic/diluted earnings per share were calculated as follows:

	2021	2020	2019
		(In Thousands)	
Net income attributable to equity holders of the Company	**P20,246,467**	P21,021,996	P23,117,524
Divided by weighted-average number of shares	**10,821,389**	10,821,389	10,821,389
Basic/diluted EPS for net income attributable to equity holders of the Company	**P1.87**	P1.94	P2.14

Earnings per share attributable to equity holders of the Group from continuing operations:

	2021	2020	2019
		(In Thousands)	
Net income from continuing operations attributable to equity holders of the Company	**P20,234,820**	P20,983,832	P23,060,154
Divided by weighted-average number of shares	**10,821,389**	10,821,389	10,821,389
Basic/diluted EPS for net income from continuing operations attributable to equity holders of the Company	**P1.87**	P1.94	P2.13

There are no potential common shares with dilutive effect on the basic earnings per share in 2021, 2020 and 2019.

32. Financial Risk Management Objectives and Policies

The Group's financial risk management strategies are handled on a group-wide basis, side by side with those of the other related companies within the Group. The Group's management and the BOD of the various companies comprising the Group review and approve policies for managing these risks. Management closely monitors the funds and financial transactions of the Group.

Financial Risk Management Objectives and Policies of the Banking Segment

Risk Management Strategies

The Group's banking activities are principally related to the development, delivery, servicing and use of financial instruments. Risk is inherent in these activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's banking segment continuing profitability.

The Group monitors its processes associated with the following overall risk categories:

- Credit Risk
- Market Risk
- Liquidity Risk
- Operational Risk

Further, the Group is also cognizant of the need to address various other risks through the primary divisions presented above. The following are also taken into consideration as part of the overall Enterprise Risk Management (ERM) Framework:

- Interest Rate Risk in Banking Book (IRRBB)
- Strategic Business Risk
- Reputational Risk
- Credit Concentration Risk
- Cyber Security Risk

The banking segment's BOD has overall responsibility for the establishment and oversight of the Group's risk management framework. As delegated by the banking segment's BOD, the Risk Oversight Committee (ROC) is mandated to set risk appetite, approve frameworks, policies and processes for managing risk, and accept risks beyond the approval discretion provided to management. The ROC advises on the overall current and future risk appetite and strategy and assists in overseeing the implementation of those strategies and business plans by the banking segment's senior management.

The Risk Management Group (RMG) provides the legwork for the ROC in its role of formulating the risk management strategy, the development and maintenance of the internal risk management framework, and the definition of the governing risk management principles. The RMG provides assistance to the Assets and Liabilities Committee (ALCO) on capital management and the Board Policy Committee on the management of regulatory capital.

The mandate of the RMG involves:

- implementing the risk management framework of identifying, measuring, controlling and monitoring the various risk taking activities of the Group, inherent in all financial institutions;

- providing services to the risk-taking units and personnel in the implementation of risk mitigation strategies; and
- establishing recommended limits based on the results of its analysis of exposures.

Credit Risk
For the banking segment, credit risk is the non-recovery of credit exposures (on-and-off balance sheet exposures). Managing credit risk also involves monitoring of migration risk, concentration risk, country risk and settlement risk. The banking segment manages its credit risk at various levels (i.e., strategic level, portfolio level down to individual transaction).

The credit risk management of the entire loan portfolio is under the direct oversight of the ROC and Executive Committee. Credit risk assessment of individual borrower is performed by the business sector, remedial sector and credit management sector. Risk management is embedded in the entire credit process, i.e., from credit origination to remedial management (if needed).

Among the tools used by the bank segment in identifying, assessing and managing credit risk include:

- Documented credit policies and procedures: sound credit granting process, risk asset acceptance criteria, target market and approving authorities;
- System for administration and monitoring of exposure;
- Pre-approval review of loan proposals;
- Post approval review of implemented loans;
- Work out system for managing problem credits;
- Regular review of the sufficiency of valuation reserves;
- Monitoring of the adequacy of capital for credit risk via the Capital Adequacy Ratio (CAR) report;
- Monitoring of breaches in regulatory and internal limits;
- Credit Risk Management Dashboard;
- Diversification;
- Internal Risk Rating System for corporate accounts;
- Credit Scoring for retail accounts; and
- Active loan portfolio management undertaken to determine the quality of the loan portfolio and identify the following:
  a. portfolio growth
  b. movement of loan portfolio
  c. adequacy of loan loss reserves
  d. trend of nonperforming loans (NPLs)
  e. concentration risk (per classified account, per industry, clean exposure, large exposure, contingent exposure, currency, security, facility, demographic, etc.)

The bank segment follows the BOD approved policy on the generic classification of loans based on the type of borrowers and the purpose of the loan.

Credit-related commitments
The exposures represent guarantees, standby letters of credit (LCs) issued by PNB and documentary/commercial LCs which are written undertakings by PNB.

To mitigate this risk PNB requires hard collaterals, as discussed under *Collateral and other credit enhancement,* for standby LCs lines while commercial LCs are collateralized by the underlying shipments of goods to which they relate.

Derivative financial instruments
Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the consolidated statement of financial position.

Collateral and other credit enhancement
As a general rule, character is the single most important consideration in granting loans. However, collaterals are requested to mitigate risk. The loan value and type of collateral required depend on the assessment of the credit risk of the borrower or counterparty. The banking segment follows guidelines on the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For corporate accounts - deposit hold outs, guarantees, securities, physical collaterals (e.g., real estate, chattels, inventory, etc.); as a general rule, commercial, industrial and residential lots are preferred
- For retail lending - mortgages on residential properties and vehicles financed
- For securities lending and reverse repurchase transactions - cash or securities

The disposal of the foreclosed properties is handled by the Asset Management Sector which adheres to the general policy of disposing assets at the highest possible market value.

Management regularly monitors the market value of the collateral and requests additional collateral in accordance with the underlying agreement. The existing market value of the collateral is considered during the review of the adequacy of the allowance for credit losses. Generally, collateral is not held over loans and advances to banks except for reverse repurchase agreements. The banking segment is not permitted to sell or repledge the collateral held over loans and advances to counterparty banks and BSP in the absence of default by the owner of the collateral.

Maximum exposure to credit risk after collateral held or other credit enhancements
An analysis of the maximum exposure to credit risk after taking into account any collateral held or other credit enhancements for the Group's banking segment is shown below:

	2021			
	Maximum Exposure	**Fair Value of Collateral**	**Net Exposure**	**Financial Effect of Collateral**
		(In Millions)		
Securities held under agreements to resell	**P15,797**	**P15,800**	**P–**	**P15,797**
Loans and receivables:				
Receivables from customers*:				
Corporates	**527,719**	**247,962**	**429,892**	**97,827**
Local government units (LGU)	**4,241**	**–**	**4,241**	**–**
Credit Cards	**10,749**	**–**	**10,749**	**–**
Retail small and medium enterprises (SME)	**7,523**	**6,972**	**5,716**	**1,807**
Housing Loans	**27,485**	**7,264**	**25,913**	**1,572**
Auto Loans	**7,286**	**6,739**	**3,946**	**3,340**
Others	**7,887**	**7,711**	**6,632**	**1,255**
Other receivables	**13,339**	**–**	**13,339**	**–**
	P622,026	**P292,448**	**P500,428**	**P121,598**

**Receivables from customers exclude residual value of the leased asset (Note 8).*

	2020			
	Maximum Exposure	Fair Value of Collateral	Net Exposure	Financial Effect of Collateral
		(In Millions)		
Securities held under agreements to resell	P15,819	P16,499	P–	P15,819
Loans and receivables:				
Receivables from customers*:				
Corporates	505,180	193,781	412,862	92,318
LGU	6,372	–	6,372	–
Credit Cards	9,943	–	9,943	–
Retail SME	10,631	9,884	6,123	4,508
Housing Loans	22,738	5,586	19,267	3,471
Auto Loans	10,055	4,907	7,119	2,936
Others	19,871	17,974	14,025	5,846
Other receivables	14,507	–	14,507	–
	P615,116	P248,631	P490,218	P124,898

**Receivables from customers exclude residual value of the leased asset (Note 8).*

The maximum credit risk, without taking into account the fair value of any collateral and netting agreements, is limited to the amounts on the statement of financial position plus commitments to customers such as unused commercial letters of credit, outstanding guarantees and others as disclosed in Note 37 to the financial statements.

Excessive risk concentration
The banking segment's credit risk concentrations can arise whenever a significant number of borrowers have similar characteristics. The banking segment analyzes the credit risk concentration to an individual borrower, related group of accounts, industry, geographic, internal rating buckets, currency, term and security. For risk concentration monitoring purposes, the financial assets are broadly categorized into (1) loans and receivables and (2) trading and financial investment securities. To mitigate risk concentration, the banking segment constantly checks for breaches in regulatory and internal limits. Clear escalation process and override procedures are in place, whereby any excess in limits are covered by appropriate approving authority to regularize and monitor breaches in limits.

a. Limit per Client or Counterparty
For each CRR, the banking segment sets limits per client or counterparty based on the regulatory Single Borrowers Limit.

For trading and investment securities, the banking segment limits investments to government issues and securities issued by entities with high-quality investment ratings.

b. Geographic Concentration
The table below shows the banking segment's credit risk exposures, before taking into account any collateral held or other credit enhancements, categorized by geographic location:

	2021	2020
	(In Millions)	
Philippines	**P934,529**	P970,054
Asia (excluding the Philippines)	**109,521**	92,583
USA and Canada	**46,294**	35,404
Other European Union Countries	**9,434**	11,606
United Kingdom	**9,632**	18,198
Middle East	**1,069**	1,797
Oceania	**637**	613
	P1,111,116	P1,130,255

c. Concentration by Industry
The table below show the industry sector analysis of the banking segment's financial assets at amounts before taking into account the fair value of the loan collateral held or other credit enhancements:

	2021			
	Loans and receivables*	**Trading and investment securities**	**Other financial assets*** **	**Total**
		(In Millions)		
Primary target industry:				
Financial intermediaries	**P118,588**	**P43,483**	**P53,561**	**P215,632**
Wholesale and retail	**86,189**	**–**	**–**	**86,189**
Electricity, gas and water	**68,666**	**10,303**	**–**	**78,969**
Transport, storage and communication	**51,708**	**4**	**–**	**51,712**
Manufacturing	**47,944**	**130**	**–**	**48,074**
Public administration and defense	**8,270**	**–**	**–**	**8,270**
Agriculture, hunting and forestry	**6,383**	**–**	**–**	**6,383**
Secondary target industry:				
Government	**4,241**	**159,001**	**182,319**	**345,561**
Real estate, renting and business activities	**95,635**	**13,730**	**–**	**109,365**
Construction	**26,369**	**–**	**–**	**26,369**
Others**	**92,235**	**41,961**	**396**	**134,592**
	P606,228	**P268,612**	**P236,276**	**P1,111,116**

* *Loans and receivables exclude residual value of the leased asset (Note 8).*
** *Others include the following sectors - Other community, social and personal services, private household, hotel and restaurant, education, mining and quarrying, and health and social work.*
*** *Other financial assets include the following financial assets: "Due from BSP", "Due from other banks", "Interbank loans receivable", "Securities held under agreements to resell" and other financial assets booked under "Other Assets".*

	2020			
	Loans and receivables*	Trading and investment securities	Other financial assets***	Total
		(In Millions)		
Primary target industry:				
Financial intermediaries	P91,848	P41,346	P60,169	P193,363
Wholesale and retail	82,953	–	–	82,953
Electricity, gas and water	72,566	4,081	–	76,647
Transport, storage and communication	54,836	51	–	54,887
Manufacturing	46,797	1,579	–	48,376
Public administration and defense	12,463	–	–	12,463
Agriculture, hunting and forestry	9,056	–	–	9,056
Secondary target industry:				
Government	5,714	170,983	217,089	393,786
Real estate, renting and business activities	97,007	14,858	–	111,865
Construction	34,184	–	–	34,184
Others**	92,570	19,880	225	112,675
	P599,994	P252,778	P277,483	P1,130,255

* *Loans and receivables exclude residual value of the leased asset (Note 8).*
** *Others include the following sectors - Other community, social and personal services, private household, hotel and restaurant, education, mining and quarrying, and health and social work.*
*** *Other financial assets include the following financial assets: "Due from BSP", "Due from other banks", "Interbank loans receivable", "Securities held under agreements to resell" and other financial assets booked under "Other Assets".*

The internal limit of the banking segment based on the Philippine Standard Industry Classification sub-industry is 12% for priority industry, 8% for regular industry, 30% for power industry and 25% for activities of holding companies versus total loan portfolio.

Credit quality per class of financial assets
In 2018, the banking segment re-evaluated the segmentation of its loan portfolio so that it is grouped based on the underlying risk characteristics that are expected to respond in a similar manner to macroeconomic factors and forward looking conditions. Moreover, the banking segment has aligned the portfolio segmentation to sound practice guidelines of internal ratings-based banks.

Generally, the banking segment's exposures can be categorized as either Non-Retail and Retail. Non-Retail segment of the banking segment may be defined as debt obligation of a sovereign, financial intuition, corporation, partnership, or proprietorship. In particular, the banking segment's Non-retail portfolio segments are as follows: Sovereigns, Financial Institutions, Specialised Lending (e.g., Project Finance), Large Corporates, Middle Market and Commercial SME, GOCCs, LGUs. Retail exposures are exposures to individual person or persons or to a small business and are not usually managed on an individual basis but as groups of exposures with similar risk characteristics. This includes Credit Cards, Consumer Loans and Retail SME, among others.

Loans and Receivables
The credit quality of Non-Retail portfolio is evaluated and monitored using external ratings and internal credit risk rating system. The banking segment maintains a two-dimensional risk rating structure: that is, there is a borrower risk rating (BRR) and a facility risk rating (FRR).

The banking segment uses a single scale with 26 risk grades for all its borrower risk rating models. The 26-risk grade internal default masterscale is a representation of a common measure of relative default risk associated with the obligors/counterparties. The internal default masterscale is mapped to a global rating scale.

FRR, on the other hand, assesses potential loss of the banking segment in case of default, which considers collateral type and level of collateralization of the facility. The FRR has 9-grades, i.e., FRR A to FRR I.

The CRR or final credit risk rating shall be expressed in alphanumeric terms, e.g., CRR 1A which is a combination of the general creditworthiness of the borrower (BRR 1) and the potential loss of the banking segment in the event of the borrower's default (FRR A).

The credit quality and corresponding BRRs of the banking segment's receivables from customers are defined below:

Credit quality	26-grade CRR system
High S&P Equivalent Global Rating: AAA to BBB-	*BRR 1 Excellent* Borrower has an exceptionally strong capacity to meet its financial commitments. No existing disruptions or future disruptions are highly unlikely. Probability of going into default in the coming year is very minimal/low. *BRR 2 Very Strong* Borrower has a very strong capacity to meet its financial commitments. No existing disruptions or future disruptions are unlikely. It differs from BRR 1 borrowers only to a small degree. Probability of going into default in the coming year is very minimal/low. *BRR 3 Strong* Borrower has a strong capacity to meet its financial commitments. No existing disruptions or future disruptions are unlikely. However, adverse economic conditions or changing circumstances could lead to somewhat lesser capacity to meet financial obligations than in higher-rated borrowers. Probability of going into default in the coming year is very minimal/low. *BRR 4-6 Good* Borrower has an adequate capacity to meet its financial commitments in the normal course of its business. With identified disruptions from external factors but company has or will likely overcome. Default possibility is minimal/low. *BRR 7-9 Satisfactory* Borrower under this rating scale basically possesses the characteristics of borrowers rated as BRR 4 to BRR 6 with slightly lesser quality. Default possibility is minimal/low. *BRR 10-12 Adequate* Borrower has an adequate capacity to meet its financial commitments under the normal course of business. However, adverse economic conditions and changing circumstances are more likely to weaken the borrower's capacity to meet its financial commitments. Default possibility is minimal/low.
Standard S&P Equivalent Global Rating: BB+ to BB-	*BRR 13-15 Average* Borrower still has the capacity to meet its financial commitments and withstand normal business cycles, however, any prolonged unfavorable economic and/ or market conditions would create an immediate deterioration beyond acceptable levels. With identified disruptions from external forces, impact on the borrower is uncertain. Default is a possibility. *BRR 16-18 Acceptable* Borrower under this rating scale basically possesses the characteristics of borrowers rated as BRR 13 to BRR 15 with slightly lesser quality. Default is a possibility. *BRR 19-20 Vulnerable* Borrower is less vulnerable in the near term than other low-rated borrowers. However, it faces major ongoing uncertainties and exposure to adverse business, financial or economic conditions that could lead to the borrower's inadequate capacity to meet its financial commitment. Default is a possibility.
Substandard S&P Equivalent Global Rating: B+ to CCC-	*BRR 21-22 Weak* Borrower is more vulnerable than the borrowers rated BRR 19 and BRR 20 but the borrower currently has the capacity to meet its financial commitments. Adverse business, financial, or economic conditions will likely impair the borrower's capacity or willingness to meet its financial commitments. Default is more than a possibility. *BRR 23-25 Watchlist* Borrower is currently vulnerable and is dependent upon favorable business, financial, and economic conditions to meet its financial commitments. Borrower may already be experiencing losses and impaired capital in the case of BRR 25.
Impaired S&P Equivalent Global Rating: D	BRR 26 Default Default will be a general default. Borrower will fail to pay all or substantially all of its obligations as they come due.

For the Retail segment of the portfolio, such as Retail SME, Credit Cards, Housing and Auto Loans, credit scoring is being used in evaluating the creditworthiness of the borrower.

The table below shows the credit quality of the banking segment's receivables from customers, gross of allowance for credit losses and unearned and other deferred income, but net of residual values of leased assets, as of December 31:

	2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
		(In Millions)		
Subject to CRR				
Non-Retail - Corporate				
High	**P213,839**	**P–**	**P–**	**P213,839**
Standard	**224,477**	**3,844**	**–**	**228,321**
Substandard	**40,872**	**18,770**	**–**	**59,642**
Impaired	**–**	**–**	**47,479**	**47,479**
	479,188	**22,614**	**47,479**	**549,281**
Subject to Scoring & Unrated				
Non-Retail	**P10,136**	**P158**	**P2,367**	**P12,661**
Corporate	**5,919**	**110**	**2,299**	**8,328**
LGU	**4,217**	**48**	**68**	**4,333**
Retail	**42,252**	**987**	**16,909**	**60,148**
Auto Loans	**5,943**	**163**	**2,733**	**8,839**
Housing Loans	**20,048**	**487**	**10,429**	**30,964**
Retail SME	**5,792**	**68**	**1,328**	**7,188**
Credit Card	**10,469**	**269**	**2,419**	**13,157**
Others	**6,168**	**375**	**1,186**	**7,729**
	58,556	**1,520**	**20,462**	**80,538**
	P537,744	**P24,134**	**P67,941**	**P629,819**

	2020			
	Stage 1	Stage 2	Stage 3	Total
		(In Millions)		
Subject to CRR				
Non-Retail - Corporate				
High	P147,485	P84	P–	P147,569
Standard	252,549	11,015	–	263,564
Substandard	46,658	18,884	–	65,542
Impaired	95	297	50,516	50,908
	446,787	30,280	50,516	527,583
Subject to Scoring & Unrated				
Non-Retail	P8,077	P7	P25	P8,109
Corporate	1,687	–	–	1,687
LGU	6,390	7	25	6,422
Retail	40,640	2,161	15,326	58,127
Auto Loans	7,792	600	2,693	11,085
Housing Loans	16,040	1,042	8,073	25,155
Retail SME	7,609	319	1,428	9,356
Credit Card	9,199	200	3,132	12,531
Others	14,239	1,532	5,338	21,109
	62,956	3,700	20,689	87,345
	P509,743	P33,980	P71,205	P614,928

The analysis of past due status of receivables from customers that are subject to scoring and unrated follows:

	2021				
	Less than 30 days	**31 to 90 days**	**91 to 180 days**	**More than 180 days**	**Total**
			(In Millions)		
LGU	**P–**	**P–**	**P–**	**P25**	**P25**
Credit Card	**2**	**77**	**264**	**2,093**	**2,436**
Retail SME	**293**	**147**	**73**	**965**	**1,478**
Housing Loans	**464**	**366**	**798**	**9,454**	**11,082**
Auto Loans	**107**	**112**	**180**	**2,500**	**2,899**
Others	**247**	**107**	**112**	**1,543**	**2,009**
Total	**P1,113**	**P809**	**P1,427**	**P16,580**	**P19,929**

	2020				
	Less than 30 days	31 to 90 days	91 to 180 days	More than 180 days	Total
			(In Millions)		
LGU	P25	P–	P–	P–	P25
Credit Card	6	103	1,150	1,930	3,189
Retail SME	1,017	57	118	472	1,664
Housing Loans	171	24	50	8,755	9,000
Auto Loans	252	65	103	2,863	3,283
Others	1,914	58	67	5,190	7,229
Total	P3,385	P307	P1,488	P19,210	P24,390

Trading and Investment Securities and Other Financial Assets

In ensuring quality investment portfolio, PNB uses the credit risk rating based on the external ratings of eligible external credit rating institutions (i.e., Moody's Investors Service) as follows:

Aaa to Aa3 - fixed income are judged to be of high quality and are subject to very low credit risk, but their susceptibility to long-term risks appears somewhat greater.

A1 to A3 - fixed income obligations are considered upper-medium grade and are subject to low credit risk, but have elements present that suggest a susceptibility to impairment over the long term.

Baa1 and below - represents those investments which fall under any of the following grade:

- Baa1, Baa2, Baa3 - fixed income obligations are subject to moderate credit risk. They are considered medium grade and as such protective elements may be lacking or may be characteristically unreliable.
- Ba1, Ba2, Ba3 - obligations are judged to have speculative elements and are subject to substantial credit risk.
- B1, B2, B3 - obligations are considered speculative and are subject to high credit risk.
- Caa1, Caa2, Caa3 - are judged to be of poor standing and are subject to very high credit risk.
- Ca - are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest.
- C - are the lowest rated class of bonds and are typically in default, with little prospect for recovery of principal or interest.

Below are the financial assets of the banking segment, excluding receivables from customers, which are monitored using external ratings.

	December 31, 2021					
	Rated					
	Aaa to Aa3	**A1 to A3**	**Baa1 and below**	**Subtotal**	**Unrated**	**Total**
			(In Millions)			
Due from BSP[1/]	**P–**	**P–**	**P–**	**P–**	**P161,002**	**P161,002**
Due from other banks	**3,267**	**17,610**	**4,274**	**25,151**	**2,082**	**27,233**
Interbank loans receivables	**1,840**	**24,082**	**1,224**	**27,146**	**4,967**	**32,113**
Securities held under agreements to resell	**–**	**–**	**–**	**–**	**15,797**	**15,797**
Financial assets at FVTOCI						
Government securities	**6,882**	**2,789**	**110,624**	**120,295**	**159**	**120,454**
Private debt securities	**577**	**–**	**590**	**1,167**	**21,948**	**23,115**
Quoted equity securities	**–**	**–**	**48**	**48**	**559**	**607**
Unquoted equity securities	**–**	**–**	**406**	**406**	**23,404**	**23,810**
Investment securities at amortized cost:						
Government securities	**128**	**201**	**33,748**	**34,077**	**237**	**34,314**
Private debt securities	**670**	**26,131**	**2,804**	**29,605**	**29,358**	**58,963**
Financial asset at amortized cost:						
Others[2/]	**–**	**–**	**–**	**–**	**16,870**	**16,870**

[1/] 'Due from BSP' is composed of interest-earning short-term placements with the BSP and a demand deposit account to support the regular operations of PNB.

[2/] Loans and receivables - Others is composed of accrued interest receivable, accounts receivable, sales contracts receivable and other miscellaneous receivables, net of allowances (see Note 8)

	December 31, 2020					
	Rated					
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal	Unrated	Total
			(In Millions)			
Due from BSP[1/]	P–	P–	P–	P–	P202,129	P202,129
Due from other banks	5,814	10,124	1,792	17,730	2,003	19,733
Interbank loans receivables	13,867	24,308	1,526	39,701	–	39,701
Securities held under agreements to resell	–	–	–	–	15,819	15,819
Financial assets at FVTOCI						
Government securities	85	–	90,824	90,909	20,442	111,351
Private debt securities	405	3,232	1,976	5,613	15,806	21,419
Quoted equity securities	–	–	119	119	588	707
Unquoted equity securities	–	–	421	421	321	742
Investment securities at amortized cost:						
Government securities	120	188	42,541	42,849	227	43,076
Private debt securities	1,114	25,551	7,650	34,315	22,190	56,505
Financial asset at amortized cost:						
Others[4/]	–	–	–	–	17,813	17,813

[1/] 'Due from BSP' is composed of interest-earning short-term placements with the BSP and a demand deposit account to support the regular operations of PNB.

[2/] Loans and receivables - Others is composed of accrued interest receivable, accounts receivable, sales contracts receivable and other miscellaneous receivables, net of allowances (see Note 8)

Liquidity Risk and Funding Management

The banking segment's liquidity management involves maintaining funding capacity to accommodate fluctuations in asset and liability levels due to changes in the banking segment's business operations or unanticipated events created by customer behavior or capital market conditions. The banking segment seeks to ensure liquidity through a combination of active management of liabilities, a liquid asset portfolio composed substantially of deposits in primary and secondary reserves, and the securing of money market lines and the maintenance of repurchase facilities to address any unexpected liquidity situations.

Liquidity risk is monitored and controlled primarily by a gap analysis of maturities of relevant assets and liabilities reflected in the maximum cumulative outflow (MCO) report, as well as an analysis of available liquid assets. The MCO focuses on a 12-month period wherein the 12-month cumulative outflow is compared to the acceptable MCO limit set by the BOD. Furthermore, an internal liquidity ratio has been set to determine sufficiency of liquid assets over deposit liabilities.

Liquidity is monitored by the banking segment on a daily basis through the Treasury Group. Likewise, the RMG monitors the static liquidity via the MCO under normal and stressed scenarios.

The table below shows the banking segment's financial assets and financial liabilities' liquidity information which includes coupon cash flows categorized based on the expected date on which the asset will be realized and the liability will be settled. For other assets, the analysis into maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date or if earlier, the expected date the assets will be realized.

	December 31, 2021					
	Up to 1 Month	**More than 1 Month to 3 Months**	**More than 3 Months to 6 Months**	**More than 6 Months to 1 Year**	**Beyond 1 year**	**Total**
			(In Millions)			
Financial Assets						
COCI	**P27,553**	**P–**	**P–**	**P–**	**P–**	**P27,553**
Due from BSP and other banks	**198,068**	**–**	**–**	**–**	**–**	**198,068**
Interbank loans receivable	**19,806**	**10,716**	**1,067**	**568**	**–**	**32,157**
Securities held under agreements to resell	**15,803**	**–**	**–**	**–**	**–**	**15,803**
Financial assets at FVTPL:						
Government securities	**57**	**18**	**35**	**11,386**	**4,781**	**16,277**
Private debt securities	**-**	**18**	**176**	**31**	**2,580**	**2,805**
Equity securities	**17**	**–**	**12**	**24**	**1,515**	**1,568**
Derivative assets:						

	December 31, 2021					
	Up to 1 Month	**More than 1 Month to 3 Months**	**More than 3 Months to 6 Months**	**More than 6 Months to 1 Year**	**Beyond 1 year**	**Total**
(Forward)						
Gross contractual receivable	**P61,532**	**P14,897**	**P7,910**	**P4,590**	**P13**	**P88,942**
Gross contractual payable	**(60,680)**	**(14,705)**	**(7,645)**	**(4,535)**	**–**	**(87,565)**
	852	**192**	**265**	**55**	**13**	**1,377**
Financial Assets at FVTOCI:						
Government securities	**78,745**	**4,637**	**3,109**	**1,614**	**148,755**	**236,860**
Private debt securities	**3,445**	**1,412**	**8,989**	**854**	**45,107**	**59,807**
Equity securities	**–**	**8**	**8**	**23,006**	**1,749**	**24,771**
Investment securities at amortized cost						
Government securities	**6,362**	**215**	**6,969**	**6,158**	**54,936**	**74,640**
Private debt securities	**5,270**	**2,318**	**25,945**	**33,115**	**61,667**	**128,315**
Financial assets at amortized cost:						
Receivables from customers	**90,898**	**79,058**	**45,428**	**19,183**	**528,784**	**763,351**
Other receivables	**5,776**	**194**	**749**	**163**	**9,786**	**16,668**
Other assets	**136**	**–**	**–**	**1**	**14**	**151**
Total financial assets	**P452,788**	**P98,786**	**P92,752**	**P96,158**	**P859,687**	**P1,600,171**
Financial Liabilities						
Deposit liabilities:						
Demand	**P219,091**	**P–**	**P–**	**P–**	**P–**	**P219,091**
Savings	**332,015**	**–**	**–**	**–**	**–**	**332,015**
Time and LTNCDs	**184,258**	**98,415**	**19,410**	**22,530**	**30,400**	**355,013**
Financial liabilities at FVTPL:						
Derivative liabilities:						
Gross contractual payable	**20,905**	**30,667**	**17,595**	**255**	**–**	**69,422**
Gross contractual receivable	**(20,620)**	**(30,260)**	**(17,395)**	**(255)**	**–**	**(68,530)**
	285	**407**	**200**	**–**	**–**	**892**
Bills and acceptances payable	**26,965**	**7,654**	**13,197**	**210**	**3,207**	**51,233**
Bonds payable	**–**	**–**	**952**	**952**	**55,263**	**57,167**
Accrued interest payable and accrued other expenses payable	**773**	**420**	**439**	**75**	**1,030**	**2,737**
Other liabilities	**6,023**	**1,092**	**277**	**314**	**2,389**	**10,095**
Total financial liabilities	**P769,410**	**P107,988**	**P34,475**	**P24,081**	**P92,289**	**P1,028,243**

	December 31, 2020					
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	Total
			(In Millions)			
Financial Assets						
COCI	P25,136	P–	P–	P–	P–	P25,136
Due from BSP and other banks	227,072	–	–	–	–	227,072
Interbank loans receivable	33,212	4,405	10	748	1,128	39,503
Securities held under agreements to resell	15,825	–	–	–	–	15,825
Financial assets at FVTPL:						
Government securities	77	180	219	365	21,496	22,337
Private debt securities	–	19	79	98	5,098	5,294
Equity securities	8	17	5	22	1,156	1,208
Investment in UITFs	3	–	-	–	–	3
Derivative assets:						
Gross contractual receivable	44,836	9,158	354	28	143	54,519
Gross contractual payable	(44,728)	(9,045)	(347)	(36)	(165)	(54,321)
	108	113	7	(8)	(22)	198
Financial Assets at FVTOCI:						
Government securities	46,310	4,117	499	4,497	66,559	121,982
Private debt securities	507	424	1,486	3,328	18,901	24,646
Equity securities	–	8	8	16	1,008	1,040
Investment securities at amortized cost						
Government securities	4,877	743	5,578	2,249	32,109	45,556
Private debt securities	133	3,995	4,245	16,981	43,692	69,046
Financial assets at amortized cost:						
Receivables from customers	95,695	77,648	33,398	23,273	484,755	714,769
(Forward)						

	December 31, 2020					
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	Total
Other receivables	P9,815	P186	P703	P188	P7,507	P18,399
Other assets	84	–	–	2	14	100
Total financial assets	P458,862	P91,855	P46,237	P51,759	P683,401	P1,332,114
Financial Liabilities						
Deposit liabilities:						
Demand	P203,250	P–	P–	P–	P–	P203,250
Savings	291,773	–	–	–	–	291,773
Time and LTNCDs	218,590	93,746	15,130	17,667	60,033	405,166
Financial liabilities at FVTPL:						
Derivative liabilities:						
Gross contractual payable	35,770	12,482	11,301	1,517	122	61,192
Gross contractual receivable	(35,497)	(12,426)	(11,063)	(1,476)	(165)	(60,627)
	273	56	238	41	(43)	565
Bills and acceptances payable	45,293	25,985	237	1,553	14,242	87,310
Bonds payable	–	218	15,148	1,057	58,700	75,123
Accrued interest payable and accrued other expenses payable	222	668	416	501	775	2,582
Other liabilities	9,342	208	509	461	1,878	12,398
Total financial liabilities	P768,743	P120,881	P31,678	P21,280	P135,585	P1,078,167

Market Risks

Market risk is the risk to earnings or capital arising from adverse movements in factors that affect the market value of instruments, products, and transactions in an institutions' overall portfolio. Market risk arises from market making, dealing, and position taking in interest rate, foreign exchange and equity markets.

The succeeding sections provide discussion on the impact of market risk on the banking segment's trading and structural portfolios.

Trading market risk

Trading market risk exists in the banking segment as the values of its trading positions are sensitive to changes in market rates such as interest rates, foreign exchange rates and equity prices. PNB is exposed to trading market risk in the course of market making as well as from taking advantage of market opportunities. For internal monitoring of the risk in the trading portfolio, the banking segment uses the Value-at-Risk (VaR) as a primary risk measurement tool. It adopts both the Parametric VaR methodology and Historical Simulation methodology (with 99% confidence level) models were validated by an external independent validator. Volatilities used in the parametric are updated on a daily basis and are based on historical data for a rolling 261-day period while yields and prices in the historical VaR approach are also updated daily. The RMG reports the VaR utilization and breaches to limits to the risk taking personnel on a daily basis and to the ALCO and ROC on a monthly basis. All risk reports discussed in the ROC meeting are noted by the banking segment's BOD. The VaR figures are back-tested to validate the robustness of the VaR model. Results of backtesting on a rolling one year period are also reported to the ROC. Below are the objectives and limitations of the VaR methodology, VaR assumptions/parameters, backtesting, stress testing and VaR limits.

a. Objectives and limitations of the VaR methodology

The VaR models are designed to measure market risk in a normal market environment. The models assume that any changes occurring in the risk factors affecting the normal market environment will follow a normal distribution. The use of VaR has limitations because it is based on historical volatilities in market prices and assumes that future price movements will follow a statistical distribution. Due to the fact that VaR relies heavily on historical data to provide information and may not clearly predict the future changes and modifications of the risk factors, the probability of large market moves may be under estimated if changes in risk factors fail to align with the normal distribution assumption. VaR may also be under- or over- estimated due to the assumptions placed on risk factors and the relationship between such factors for specific instruments. Even though positions may change throughout the day, the VaR only represents the risk of the portfolios at the close of each business day, and it does not account for any losses that may occur beyond the 99.00% confidence level.

b. VaR assumptions/parameters

VaR estimates the potential loss on the current portfolio assuming a specified time horizon and level of confidence at 99.00%. The use of a 99.00% confidence level means that, within a one day horizon, losses exceeding the VaR figure should occur, on average, not more than once every one hundred days.

c. Backtesting

The validity of the assumptions underlying the banking segment's VaR models can only be checked by appropriate backtesting procedures. Backtesting is a formal statistical framework that consists of verifying that actual losses are within the projected VaR approximations. The banking segment adopts both the clean backtesting and dirty backtesting approaches approach in backtesting. Clean backtesting, consists of comparing the VaR estimates with some hypothetical P&L values of the portfolio, having kept its composition unchanged. In this case, the same portfolio is repriced or marked-to-market at the end of the time interval and the hypothetical P&L is then compared with the VaR. The other method, called dirty backtesting, consists of comparing the VaR estimates with the actual P&L values at the end of the time horizon. This method, however, may pose a problem if the portfolio has changed drastically because of trading activities between the beginning and the end of the time horizon since VaR models assume that the portfolio is "frozen" over the horizon. The banking segment uses the regulatory 3-zone (green, yellow and red) boundaries in evaluating the backtesting results. For the years 2016 and 2015, the number of observations which fell outside the VaR is within the allowable number of exceptions in the green and yellow zones to conclude that there is no problem with the quality and accuracy of the VaR models at 99.00% confidence level. Nonetheless, closer monitoring and regular review of the model's parameters and assumptions are being conducted.

d. Stress Testing

To complement the VaR approximations, the banking segment conducts stress testing on a quarterly basis, the results of which are being reported to the banking segment's BOD. Scenarios used in the conduct of stress test are event driven and represent the worst one-off event of a specific risk factor. Results of stress testing are analyzed in terms of the impact to earnings and capital.

e. VaR Limits

Since VaR is an integral part of the banking segment's market risk management, VaR limits have been established annually for all financial trading activities and exposures. Calculated VaR compared against the VaR limits are monitored. Limits are based on the tolerable risk appetite of the banking segment. VaR is computed on an undiversified basis; hence, the banking segment does not consider the correlation effects of the three trading portfolios.

Trading Portfolio	**Foreign Exchange***	**Interest Rate**	**Equities Price**	**Total VaR****
		(In Millions)		
December 29, 2021	**P3.67**	**P87.21**	**P42.28**	**P133.17**
Average Daily	**6.93**	**401.78**	**39.50**	**448.21**
Highest	**24.90**	**670.75**	**48.48**	**701.79**
Lowest	**0.88**	**87.21**	**23.49**	**133.17**
December 29, 2020	P9.85	P491.44	P22.92	P524.21
Average Daily	9.92	245.63	28.16	283.71
Highest	26.22	608.54	36.81	671.57
Lowest	1.40	46.64	22.92	70.96

* FX VaR is the bankwide foreign exchange risk
** The high and low for the total portfolio may not equal the sum of the individual components as the highs and lows of the individual trading portfolios may have occurred on different trading days

Structural Market Risk of the Banking Segment

<u>Non-trading Market Risk</u>

Interest rate risk

The banking segment seeks to ensure that exposure to fluctuations in interest rates are kept within acceptable limits. Interest margins may increase as a result of such changes but may be reduced or may create losses in the event that unexpected movements arise.

Repricing mismatches will expose the banking segment to interest rate risk. PNB measures the sensitivity of its assets and liabilities to interest rate fluctuations by way of a "repricing gap" analysis using the repricing characteristics of its financial instrument positions tempered with approved assumptions. To evaluate earnings exposure, interest rate sensitive liabilities in each time band are subtracted from the corresponding interest rate assets to produce a "repricing gap" for that time band. The difference in the amount of assets and liabilities maturing or being repriced over a one year period would then give the banking segment an indication of the extent to which it is exposed to the risk of potential changes in net interest income. A negative gap occurs when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. Vice versa, positive gap occurs when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities.

During a period of rising interest rates, a company with a positive gap is better positioned because the company's assets are refinanced at increasingly higher interest rates increasing the net interest margin of the company over time. During a period of falling interest rates, a company with a positive gap would show assets repricing at a faster rate than one with a negative gap, which may restrain the growth of its net income or result in a decline in net interest income.

For risk management purposes, the loan accounts are assessed based on next repricing date, thus as an example, if a loan account is scheduled to reprice three years from year-end report date, slotting of the account will be based on the date of interest repricing. Deposits with no specific maturity dates are excluded in the one-year repricing gap except for the portion of volatile regular savings deposits which are assumed to be withdrawn during the one year period and assumed to be replaced by a higher deposit rate.

The Group uses the Earnings at Risk (EaR) methodology to measure the likely interest margin compression in case of adverse change in interest rates given the Group repricing gap. The repricing gap covering the one-year period is multiplied by an assumed change in interest rates to yield an approximation of the change in net interest income that would result from such an interest rate movement. The Group BOD sets a limit on the level of EaR exposure tolerable to the Group. EaR exposure and compliance to the EaR limit is monitored monthly by the RMG and subject to a quarterly stress test.

The following table sets forth the repricing gap position of the banking segment:

	2021					
	Up to 1 Month	**More than 1 Month to 3 Months**	**More than 3 Months to 6 Months**	**More than 6 Months to 1 Year**	**Beyond 1 year**	**Total**
			(In Millions)			
Financial Assets*						
Due from BSP and other banks	**P125,574**	**P12,581**	**P4,001**	**P7,196**	**P38,758**	**P188,110**
Interbank loans receivable and securities held under agreements to resell	**34,549**	**10,772**	**1,466**	**1,115**	**–**	**47,902**
Receivables from customers and other receivables - gross**	**128,716**	**64,305**	**18,405**	**30,948**	**103,945**	**346,319**
Total financial assets	**288,839**	**87,658**	**23,872**	**39,259**	**142,703**	**582,331**
Financial Liabilities*						
Deposit liabilities:						
Savings	**135,672**	**68,263**	**23,806**	**49,986**	**220,894**	**498,621**
Time***	**93,532**	**43,040**	**4,788**	**3,236**	**7,134**	**151,730**
Bonds payable	**–**	**–**	**–**	**–**	**53,383**	**53,383**
Bills and acceptances payable	**42,931**	**8,030**	**44**	**260**	**1,689**	**52,954**
Total financial liabilities	**P272,135**	**P119,333**	**P28,638**	**P53,482**	**P283,100**	**P756,688**
Repricing gap	**P16,704**	**(P31,676)**	**(P4,566)**	**(P14,222)**	**(P140,397)**	**(P174,157)**
Cumulative gap	**16,704**	**(14,972)**	**(19,537)**	**(33,760)**	**(174,156)**	

* *Financial instruments that are not subject to repricing/rollforward were excluded.*
** *Receivables from customers excludes residual value of leased assets (Note 8).*
*** *Excludes LTNCD.*

	2020					
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	Total
			(In Millions)			
Financial Assets*						
Due from BSP and other banks	P138,408	P1,393	P441	P461	P81,324	P222,027

(Forward)

	2020					
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	Total
			(In Millions)			
Interbank loans receivable and securities held under agreements to resell	P49,389	P4,272	P1,107	P751	P–	P55,519
Receivables from customers and other receivables - gross**	118,843	79,871	18,557	15,140	129,524	361,935
Total financial assets	P306,640	P85,536	P20,105	P16,352	P210,848	P639,481
Financial Liabilities*						
Deposit liabilities:						
Savings	P79,342	P46,277	P13,998	P20,351	P265,643	P425,611
Time***	158,209	60,634	5,073	4,600	8,179	236,695
Bonds payable	–	–	13,853	–	50,204	64,057
Bills and acceptances payable	53,199	32,134	354	225	1,248	87,160
Total financial liabilities	P290,750	P139,045	P33,278	P25,176	P325,274	P813,523
Repricing gap	P15,890	(P53,509)	(P13,173)	(P8,824)	(P114,426)	(P174,042)
Cumulative gap	15,890	(37,617)	(50,790)	(59,612)	(174,038)	–

* *Financial instruments that are not subject to repricing/rollforward were excluded.*
** *Receivables from customers excludes residual value of leased assets (Note 8).*
*** *Excludes LTNCD.*

The following table sets forth, for the year indicated, the impact of changes in interest rates on the banking segment's repricing gap for the years ended December 31:

	2021		2020	
	Income Before Income Tax	**Equity**	Income Before Income Tax	Equity
		(In Millions)		
+50bps	**(P76)**	**(P76)**	(P189)	(P189)
-50bps	**76**	**76**	189	189
+100bps	**(152)**	**(152)**	(378)	(378)
-100bps	**152**	**152**	378	378

As one of the long-term goals in the risk management process, the banking segment has also implemented the adoption of the economic value approach in measuring the impact of the interest rate risk in the banking books to complement the earnings at risk approach using the modified duration approach. Cognizant of this requirement, the PNB has undertaken the initial activities such as identification of the business requirement and design of templates for each account and the inclusion of this requirement in the Asset Liability Management business requirement definition.

Foreign currency risk

Foreign exchange is the risk to earnings or capital arising from changes in foreign exchange rates. The banking segment takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financials and cash flows.

Foreign currency liabilities generally consist of foreign currency deposits in PNB's FCDU books, accounts made in the Philippines or which are generated from remittances to the Philippines by Filipino expatriates and overseas Filipino workers who retain for their own benefit or for the benefit of a third party, foreign currency deposit accounts with PNB and foreign currency-denominated borrowings appearing in the regular books of PNB.

Foreign currency deposits are generally used to fund PNB's foreign currency-denominated loan and investment portfolio in the FCDU. Banks are required by the BSP to match the foreign currency liabilities with the foreign currency assets held through FCDUs. In addition, the BSP requires a 30.00% liquidity reserve on all foreign currency liabilities held through FCDUs. Outside the FCDU, PNB has additional foreign currency assets and liabilities in its foreign branch network.

The banking segment's policy is to maintain foreign currency exposure within acceptable limits and within existing regulatory guidelines. The banking segment believes that its profile of foreign currency exposure on its assets and liabilities is within conservative limits for a financial institution engaged in the type of business in which the banking segment is involved.

The table below summarizes the banking segment's exposure to foreign exchange rate risk. Included in the table are the financial assets and liabilities at carrying amounts, categorized by currency (amounts in Philippine peso equivalent).

	December 31, 2021			December 31, 2020		
	USD	**Others***	**Total**	USD	Others	Total
			(In Millions)			
Assets						
COCI and due from BSP	**P215**	**P494**	**P709**	P151	P467	P618
Due from other banks	**14,160**	**4,403**	**18,563**	10,191	5,296	15,487
Interbank loans and securities held under agreements to resell	**1,824**	**2,314**	**4,138**	4,135	430	4,565
Loans and receivables	**27,523**	**11,002**	**38,525**	24,026	11,426	35,452
Financial Assets at FVTPL	**171**	**2**	**173**	177	–	177
Financial Assets at FVTOCI	**520**	**1,570**	**2,090**	1,948	1,302	3,250
Financial assets at amortized cost	**134**	**175**	**309**	126	1,085	1,211
Other assets	**17,128**	**1,224**	**18,352**	11,342	1,175	12,517
Total assets	**61,675**	**21,184**	**82,859**	52,096	21,181	73,277
Liabilities						
Deposit liabilities	**8,006**	**7,778**	**15,784**	7,198	7,474	14,672
Derivative liabilities	**–**	**–**	**–**	7	7	14
Bills and acceptances payable	**49,118**	**277**	**49,395**	62,015	286	62,301
Accrued taxes, interest and other expenses	**53**	**14**	**67**	95	10	105
Other liabilities	**1,115**	**2,211**	**3,326**	3,952	2,011	5,963
Total liabilities	**58,292**	**10,280**	**68,572**	73,267	9,788	83,055
Net Exposure	**P3,383**	**P10,904**	**P14,287**	(P21,171)	P11,393	(P9,778)

* *Other currencies include UAE Dirham (AED,) Australia dollar (AUD), Bahrain dollar (BHD), Brunei dollar (BND), Canada dollar (CAD), Swiss franc (CHF), China Yuan (CNY), Denmark kroner (DKK), Euro (EUR), UK pound (GBP), Hong Kong dollar (HKD), Indonesia rupiah (IDR), Japanese yen (JPY), New Zealand dollar (NZD), PHP, Saudi Arabia riyal (SAR), Sweden kroner (SEK), Singapore dollar (SGD), South Korean won (SKW), Thailand baht (THB) and Taiwan dollar (TWD).*

Information relating to the banking segment's currency derivatives is contained in Note 21.

Financial Risk Management Objectives and Policies of the Companies in the Group other than the Banking Segment

Risk Management Strategies
The Group's principal financial instruments comprise of short-term and long-term debts and COCI. The main purpose of these financial instruments is to ensure adequate funds for the Group's operations and capital expansion. Excess funds are invested in available-for-sale financial assets with a view to liquidate these to meet various operational requirements when needed. The Group has various other financial assets and financial liabilities such as receivables and accounts payable and accrued expenses which arise directly from its operations.

The main risks arising from the use of financial instruments are credit risk, liquidity risk and market risks (consisting of foreign exchange risk, interest rate risk and equity price risk).

Credit Risk
The Group manages its credit risk by transacting with counterparties of good financial condition and selecting investment grade securities. The Group trades only with recognized, creditworthy third parties. In addition, receivable balances are monitored on an on-going basis with the result that the Group's exposure to bad debts is not significant. Management closely monitors the fund and financial condition of the Group.

In addition, credit risk of property development segment is managed primarily through analysis of receivables on a continuous basis. The credit risk for contracts receivables is mitigated as the Group has the right to cancel the sales contract without the risk for any court action and can take possession of the subject property in case of refusal by the buyer to pay on time the contracts receivables due. This risk is further mitigated because the corresponding title to the property sold under this arrangement is transferred to the buyers only upon full payment of the contract price.

Concentration risk
Concentrations arise when a number of counterparties are engaged in similar business activities having similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location. Such credit risk concentrations, if not properly managed, may cause significant losses that could threaten the Group's financial strength and undermine public confidence. Concentration risk per business segment could arise on the following:

- Distilled spirits segment's annual sales pertain mainly to two trusted parties with sales to them comprising about 84% of the total segment revenue.
- Beverage segment annual sales pertain mainly to 13 parties with sales to them comprising about 100% of the total beverage sales.
- Tobacco and property development segments are not exposed to concentration risk because it has diverse base of counterparties.

Credit quality per class of financial assets
"Standard grade" accounts consist of financial assets from trusted parties with good financial condition. "Substandard grade" accounts, on the other hand, are financial assets from other counterparties with relatively low defaults. The Group did not regard any financial asset as "high grade" in view of the erratic cash flows or uncertainty associated with the financial instruments. "Past due but not impaired" are items with history of frequent default, nevertheless, the amount due are still collectible. Lastly, "Impaired financial assets" are those that are long-outstanding and have been provided with allowance for doubtful accounts.

Set out below is the information about the credit risk exposure on the Company's financial assets using provision matrix (in millions):

As of December 31, 2021:

			Trade and other receivables					
				Days past due				
	Cash in Banks	**Due from related parties**	**Current**	**< 30 days**	**30-60 days**	**61-90 days**	**> 90 days**	**Total**
Expected credit loss rate	**-%**	**-%**	**0.13% - 82.00%**	**0.13% - 78.9%**	**0.13% - 36.00%**	**0.13% - 93.06%**	**5.00% - 47.00%**	
Estimated total gross carrying amount at default	**P265.1**	**P7,685.5**	**P6,760.4**	**P2,160.7**	**P2,335.4**	**P1,398.3**	**P2,996.4**	**P15,651.2**
Expected credit loss	**P–**	**P–**	**P0.5**	**P10.0**	**P8.4**	**P36.6**	**P190.6**	**P246.1**

As of December 31, 2020:

			Trade and other receivables					
				Days past due				
	Cash in banks	Due from related parties	Current	< 30 days	30-60 days	61-90 days	> 90 days	Total
Expected credit loss rate	-%	-%	0.13% - 82.00%	0.13% - 78.9%	0.13% - 36.00%	0.13% - 93.06%	5.00% - 47.00%	
Estimated total gross carrying amount at default	P1,542.6	P1,954.5	P7,737.1	P2,472.8	P2,672.8	P1,600.3	P3,429.3	P17,912.3
Expected credit loss	P–	P–	P0.6	P12.3	P10.4	P45.2	P235.0	P303.6

Liquidity Risk and Funding Management
Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from the Group's inability to meet its obligations when they come due without incurring unacceptable losses or costs.

The Group's objective is to maintain a balance between continuity of funding and sourcing flexibility through the use of available financial instruments. The Group manages its liquidity profile to meet its working and capital expenditure requirements and service debt obligations. As part of the liquidity risk management program, the Group regularly evaluates and considers the maturity of its financial assets (e.g., trade receivables, other financial assets) and resorts to short-term borrowings whenever its available cash or matured placements is not enough to meet its daily working capital requirements. To ensure availability of short-term borrowings, the Group maintains credit lines with banks on a continuing basis.

The Group relies on budgeting and forecasting techniques to monitor cash flow concerns. The Group also keeps its liquidity risk minimum by prepaying, to the extent possible, interest bearing debt using operating cash flows.

The following tables show the maturity profile of the Group's other financial liabilities (undiscounted amounts of principal and related interest) as well as the financial assets used for liquidity management (in millions):

	2021			2020		
	Less than one year	**1 to less than 3 years**	**Total**	Less than one year	1 to less than 3 years	Total
Cash and other cash items	**P265**	**P–**	**P265**	P1,542	P–	P1,542
Trade receivables	**15,405**	**–**	**15,405**	16,794	–	16,794
Other receivables	**3,312**	**–**	**3,312**	3,421	–	3,421
Due from related parties	**7,686**	**–**	**7,686**	1,955	–	1,955
Refundable deposits	**181**	**–**	**181**	181	–	181
Financial assets at FVTPL	**11**	**–**	**11**	33	–	33
	P26,860	**P–**	**P26,860**	P23,926	P–	P23,926
Short term debts	**P3,940**	**P–**	**P3,940**	P4,740	P–	P4,740
Accounts payable and other liabilities*	**16,357**	**–**	**16,357**	9,893	–	9,893
Long-term debts	**3,597**	**59,046**	**62,643**	565	3,755	4,320
Due to related parties	**65**	**–**	**65**	65	–	65
Other liabilities	**18,422**	**–**	**18,422**	1,561	1,676	3,237
	P42,381	**P59,046**	**P101,427**	P16,824	P5,431	P22,255

**Excluding non-financial liabilities amounting to P1,758 million and P223.2 million as of December 31, 2021 and 2020, respectively.*

Market Risks of the Group other than the Banking Segment
The Group's operating, investing, and financing activities are directly affected by changes in foreign exchange rates and interest rates. Increasing market fluctuations in these variables may result in significant equity, cash flow and profit volatility risks for the Group. For this reason, the Group seeks to manage and control these risks primarily through its regular operating and financing activities.

Management of financial market risk is a key priority for the Group. The Group generally applies sensitivity analysis in assessing and monitoring its market risks. Sensitivity analysis enables management to identify the risk position of the Group as well as provide an approximate quantification of the risk exposures. Estimates provided for foreign exchange risk, cash flow interest rate risk, price interest rate risk and equity price risk are based on the historical volatility for each market factor, with adjustments being made to arrive at what the Group considers to be reasonably possible.

Equity price risk
Equity price risk is the risk that the fair value of equities will decrease as a result of changes in the levels of equity indices and value of individual stocks. In 2021, 2020 and 2019, changes in fair value of equity instruments held as equity instruments at FVTOCI due to a reasonable possible change in equity interest, with all other variables held constant, will increase profit by P108.8 million, P209.7 million and P10.4 million, respectively, if equity prices will increase by 5.3%, 14.8% and 19.4%, respectively. An equal change in the opposite direction would have decrease equity by the same amount.

Interest rate risk
Interest rate risk arises from the possibility that changes in interest rates would unfavorably affect future cash flows from financial instruments. As of December 31, 2021 and 2020, the Group's long-term debts are not exposed to the risk in changes in market interest rates since the debts are issued at fixed rates. Fixed rate financial instruments are subject to fair value interest rate risk while floating rate financial instruments are subject to cash flow interest rate risk. Repricing of floating rate financial instruments is mostly at interval of three months or six months.

Foreign currency risk
The non-banking segment of the Group is not significantly affected by foreign currency risk since the Group has no significant foreign currency transactions.

33. Offsetting of Financial Assets and Financial Liabilities

The Group is required to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreements or similar arrangements. The effects of these arrangements are disclosed in the succeeding tables.

Financial assets

December 31, 2021						
				Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		
Financial assets recognized at end of reporting period by type	**Gross carrying Amounts (before offsetting)**	**Gross amounts offset in accordance with the offsetting criteria**	**Net amount presented in the consolidated statement of financial position [a-b]**	**Financial instruments**	**Fair value of Financial collateral**	**Net exposure [c-d]**
	[a]	**[b]**	**[c]**	**[d]**		**[e]**
			(In Thousands)			
Derivative assets (Notes 6 and 21)	**P88,929,845**	**(P87,564,794)**	**P1,365,051**	**P240,111**	**P–**	**P1,605,162**
Securities sold under agreements to repurchase (Note 8)	**15,796,673**	**–**	**15,796,673**	**–**	**(15,800,317)**	**–**
	P104,726,518	**(P87,564,794)**	**P17,161,724**	**P240,111**	**(P15,800,317)**	**P1,605,162**

December 31, 2020						
Financial assets recognized at end of reporting period by type	Gross carrying Amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in the consolidated statement of financial position [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria: Financial instruments	Fair value of Financial collateral	Net exposure [c-d]
	[a]	[b]	[c]	[d]		[e]
			(In Thousands)			
Derivative assets (Notes 6 and 21)	P58,317,718	(P57,947,065)	P370,653	(P58,699)	P–	P311,954
Securities sold under agreements to repurchase (Note 8)	15,819,273	–	15,819,273	–	(16,499,434)	–
	P74,136,991	(P57,947,065)	P16,189,926	(P58,699)	(P16,499,434)	P311,954

Financial liabilities

December 31, 2021						
Financial assets recognized at end of reporting period by type	**Gross carrying Amounts (before offsetting)**	**Gross amounts offset in accordance with the offsetting criteria**	**Net amount presented in the consolidated statement of financial position [a-b]**	**Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria: Financial instruments**	**Fair value of Financial collateral**	**Net exposure [c-d]**
	[a]	**[b]**	**[c]**	**[d]**		**[e]**
			(In Thousands)			
Derivative liabilities (Notes 16 and 21)	**P70,313,430**	**(P69,421,899)**	**P891,531**	**P49,120**	**P–**	**P842,411**
Securities sold under agreements to repurchase (Note 8)*	**38,494,178**	**–**	**38,494,178**	**–**	**(30,619,104)**	**–**
Total	**P108,807,608**	**(P69,421,899)**	**P39,385,709**	**P49,120**	**(P30,619,104)**	**P842,411**

* Included in bills and acceptances payable in the consolidated statement of financial position.

December 31, 2020						
Financial assets recognized at end of reporting period by type	Gross carrying Amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in the consolidated statement of financial position [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria: Financial instruments	Fair value of Financial collateral	Net exposure [c-d]
	[a]	[b]	[c]	[d]		[e]
			(In Thousands)			
Derivative liabilities (Notes 16 and 21)	P65,641,080	(P64,939,841)	P701,239	(P85,540)	P–	P615,699
Securities sold under agreements to repurchase (Note 17)*	69,906,979	–	69,906,979	–	(72,585,497)	–
Total	P135,548,059	(P64,939,841)	P70,608,218	(P85,540)	(P72,585,497)	P615,699

* Included in bills and acceptances payable in the consolidated statement of financial position.

The amounts disclosed in column (d) include those rights to set-off amounts that are only enforceable and exercisable in the event of default, insolvency or bankruptcy. This includes amounts related to financial collateral both received and pledged, whether cash or non-cash collateral, excluding the extent of over-collateralization.

34. Fair Value Measurement

The Group has assets and liabilities that are measured at fair value on a recurring and non-recurring basis in the consolidated statements of financial position after initial recognition. Recurring fair value measurements are those that another PFRSs requires or permits to be recognized in the consolidated statements of financial position at the end of each reporting period. These include financial assets and liabilities at FVTPL and FVTOCI. Non-recurring fair value measurements are those that another PFRSs requires or permits to be recognized in the consolidated statement of financial position in particular circumstances. These include land and land improvements, buildings and building improvements and machineries and equipment measured at revalued amount and investment properties measured at cost but with fair value measurement disclosure.

The Group's management determines the policies and procedures for both recurring and non-recurring fair value measurement.

External valuers are involved for valuation of significant assets, such as investment properties, land and land improvements, plant buildings and building improvements and machineries and equipment. Involvement of external valuers is decided upon annually by management. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Management decides, after discussions with the Group's external valuers, which valuation techniques and inputs to use for each case.

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

As of December 31, 2021 and 2020, the carrying values of the Group's financial assets and liabilities approximate their respective fair values, except for the following financial instruments:

	December 31, 2021		December, 31, 2020	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
		(In Thousands)		
Financial Assets:				
Financial assets at amortized cost	**P89,455,843**	**P94,871,927**	P95,235,993	P99,368,418
Loans and receivables:				
Receivables from customers	**597,979,601**	**635,709,624**	585,855,937	622,821,007
	P687,435,444	**P730,581,551**	P681,091,930	P722,189,425
Financial Liabilities:				
Financial liabilities at amortized cost:				
Deposit liabilities:				
Time deposits	**P151,729,554**	**P151,729,554**	P236,694,042	P236,694,042
Bills payables	**45,843,901**	**45,860,995**	83,598,532	83,600,018
Long-term debts:				
Unsecured term loan	**4,115,867**	**4,115,867**	2,911,053	2,911,053
Bonds payable	**53,383,421**	**54,724,962**	64,056,335	67,728,954
LTNCD	**28,245,390**	**28,314,622**	28,212,034	28,541,261
Other liabilities:				
Payable to landowners	**1,061,191**	**1,061,191**	1,061,191	1,061,191
Tenants' rental deposits	**411,502**	**411,502**	428,191	428,191
	P284,790,826	**P286,218,693**	P416,961,378	P420,964,710

The methods and assumptions used by the Group in estimating the fair value of the financial instruments are:

Cash equivalents - Carrying amounts approximate fair values due to the relatively short-term maturity of these investments.

Debt securities - Fair values are generally based upon quoted market prices. If the market prices are not readily available, fair values are obtained from independent parties offering pricing services, estimated using adjusted quoted market prices of comparable investments or using the discounted cash flow methodology.

Equity securities - fair values of quoted equity securities are based on quoted market prices. While fair values of unquoted equity securities are the same as the carrying value since the fair value could not be reliably determined due to the unpredictable nature of future cash flows and the lack of suitable methods of arriving at a reliable fair value.

Loans and receivables - For loans with fixed interest rates, fair values are estimated by discounted cash flow methodology, using the Group's current market lending rates for similar types of loans. For loans with floating interest rates, with repricing frequencies on a quarterly basis, the Group assumes that the carrying amount approximates fair value.

Liabilities - Except for time deposit liabilities, subordinated debt, bonds payable, unsecured term loans, notes payable, payable to landowners, tenants' rental deposits and advance rentals, the carrying values approximate fair values due to either the presence of a demand feature or the relatively short-term maturities of these liabilities.

Derivative instruments - Fair values are estimated based on quoted market prices or acceptable valuation models.

Time deposit liabilities, bills payable with long term maturity and subordinated debt including designated at FVTPL - Fair value is determined using the discounted cash flow methodology.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of assets and liabilities by valuation technique. These levels are based in the inputs that are used to determine the fair value and can be summarized in:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The Group held the following assets and liabilities measured at fair value and at cost but which fair values are disclosed and their corresponding level in fair value hierarchy:

	December 31, 2021			
	Level 1	**Level 2**	**Level 3**	**Total**
		(In Thousands)		
Assets measured at fair value:				
Financial Assets				
Financial assets at FVTPL:				
Held-for-trading:				
Government securities	**P3,309,163**	**P4,646,850**	**P–**	**P7,956,013**
Derivative assets	**949,208**	**892,340**	**–**	**1,841,548**
Private debt securities	**–**	**1,365,051**	**–**	**1,365,051**
Equity securities	**5,045**	**–**	**–**	**5,045**
Designated at FVTPL:				
Investment in UITFs	**–**	**37,612**	**–**	**37,612**
	P4,263,416	**P6,941,853**	**P–**	**P11,205,269**

(Forward)

	December 31, 2021			
	Level 1	Level 2	Level 3	Total
		(In Thousands)		
Financial assets at FVTOCI:				
Government securities	P63,357,650	P57,407,275	P–	P120,764,925
Private debt securities	252,902	500,259	22,362,318	23,115,479
Equity securities**	903,611	1,149,056	–	2,052,667
	P64,514,163	P59,056,590	P22,362,318	P145,933,071
Non-financial assets				
Property, plant and equipment***				
Land and land improvements	P–	P–	P41,990,307	P41,990,307
Plant buildings and building improvements	–	–	4,933,456	4,933,456
Machineries and equipment	–	–	13,545,108	13,545,108
	P–	P–	P60,468,871	P60,468,871
Liabilities measured at fair value:				
Financial liabilities				
Financial liabilities at FVTPL:				
Designated at FVTPL:				
Derivative liabilities	P–	P891,531	P–	P891,531
Assets for which fair values are disclosed:				
Financial Assets				
Financial assets at amortized cost	17,676,548	77,195,379	–	94,871,927
Loans and receivables:				
Receivables from customers			635,709,624	635,709,624
	P17,676,548	P78,086,910	P635,709,624	P731,473,082
Non-financial Assets				
Investment properties***				
Land	P–	P–	P26,914,713	P26,914,713
Buildings and improvements	–	–	3,030,859	3,030,859
	P–	P–	P29,945,572	P29,945,572
Liabilities for which fair values are disclosed:				
Financial liabilities				
Financial liabilities at amortized cost:				
Deposit liabilities:				
Time deposits	P–	P–	P151,729,554	P151,729,554
Long term debts:				
Bills payable	–	–	45,860,995	45,860,995
Unsecured term loan	–	–	4,115,867	4,115,867
Bonds payable	38,997,788	15,727,174	–	54,724,962
LTNCD	–	28,314,622	–	28,314,622
Other liabilities:				
Payable to landowners	–	–	1,061,191	1,061,191
Tenants' rental deposits	–	–	411,502	411,502
	P38,997,788	P44,041,796	P203,179,109	P286,218,693

* *Excludes cash component*
** *Excludes unquoted available-for-sale securities*
*** *Based on the fair values from appraisal reports which are different from their carrying amounts which are carried at cost.*

	December 31, 2020			
	Level 1	Level 2	Level 3	Total
		(In Thousands)		
Assets measured at fair value:				
Financial Assets				
Financial assets at FVTPL:				
Held-for-trading:				
Government securities	P17,657,777	P478,614	P–	P18,136,391
Derivative assets	–	370,653	–	370,653
Private debt securities	3,198,949	1,097,151	–	4,296,100
Equity securities	1,019,626	–	–	1,019,626
Designated at FVTPL:				
Investment in UITFs	–	35,554	–	35,554
	P21,876,352	P1,981,972	P–	P23,858,324
(Forward)				
Financial assets at FVTOCI:				
Government securities	P67,513,412	P43,333,354	P–	P110,846,766
Private debt securities	9,773,253	11,645,281	–	21,418,534
Equity securities**	302,340	540,109	607,603	1,450,052
	P77,589,005	P55,518,744	P607,603	P133,715,352
Non-financial assets				
Property, plant and equipment***				
Land and land improvements	P–	P–	P38,269,468	P38,269,468
Plant buildings and building improvements	–	–	13,408,573	13,408,573
Machineries and equipment	–	–	8,240,432	8,240,432
	P–	P–	P59,918,473	P59,918,473

	December 31, 2020			
	Level 1	Level 2	Level 3	Total
		(In Thousands)		
(Forward)				
Liabilities measured at fair value:				
Financial liabilities				
Financial liabilities at FVTPL:				
Designated at FVTPL:				
Derivative liabilities	P–	P701,239	P–	P701,239
Assets for which fair values are disclosed:				
Financial Assets				
Financial assets at amortized cost	P12,712,144	P86,656,274	P–	P99,368,418
Loans and receivables:				
Receivables from customers	–	–	622,821,007	622,821,007
	P12,712,144	P86,656,274	P622,821,007	P722,189,425
Non-financial Assets				
Investment properties***				
Land	P–	P–	P26,970,597	P26,970,597
Buildings and improvements	–	–	3,947,077	3,947,077
	P–	P–	P30,917,674	P30,917,674
Liabilities for which fair values are disclosed:				
Financial liabilities				
Financial liabilities at amortized cost:				
Deposit liabilities:				
Time deposits	P–	P–	P236,694,042	P236,694,042
Long term debts:				
Bills payable	–	–	83,600,018	83,600,018
Unsecured term loan	–	–	2,911,053	2,911,053
Bonds payable	38,225,468	29,503,486	–	67,728,954
LTNCD	–	28,541,261	–	28,541,261
Other liabilities:				
Payable to landowners	–	–	1,061,191	1,061,191
Tenants' rental deposits	–	–	428,191	428,191
	P38,225,468	P58,044,747	P324,694,495	P420,964,710

* *Excludes cash component*
** *Excludes unquoted available-for-sale securities*
*** *Based on the fair values from appraisal reports which are different from their carrying amounts which are carried at cost.*

When fair values of listed equity and debt securities, as well as publicly traded derivatives at the reporting date are based on quoted market prices or binding dealer price quotations, without any deduction for transaction costs, the instruments are included within Level 1 of the hierarchy.

The unquoted debt securities fair values are estimated based on the market data approach that makes use of market multiples derived from a set of comparable. Multiples were determined that is most relevant to assessing the value of the unquoted securities (e.g., earnings, book value). The selection of the appropriate multiple within the range is based on qualitative and quantitative factors specific to the measurement.
For all other financial instruments, fair value is determined using valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist and other revaluation models.

Significant input used in determining fair values of financial instruments under Level 2 comprises of interpolated market rates of benchmark securities. For investments in UITFs, fair values are determined based on published NAVPU as of reporting date.

As of December 31, 2021 and 2020, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of level 3 fair value measurements.

The table below summarizes the valuation techniques used and the significant unobservable inputs valuation for each type of property, plant and equipment and investment properties held by the Group:

	Valuation Techniques	Significant Unobservable Inputs	Range of Estimates
Property, plant and equipment:			
Land and land improvements	Market Data Approach	Price per square meter	P6,000 - P6,200
Plant buildings and building improvements			
Building	Replaceable Fixed Asset Valuation Approach	Replacement cost Estimated total floor area	P4,287 - P10,000 24 - 1548 sq.m
Building improvements	Replaceable Fixed Asset Valuation Approach	Replacement cost Estimated number of components	P2.8 million - P26.5 million 315 - 723 components
Machineries and equipment	Replaceable Fixed Asset Valuation Approach	Replacement cost Estimated number of components	P3,200 - P8.6 million 465 - 1,162 components
Investment properties:			
Land	Market Data Approach	Price per square meter, size, location, shape, time element and corner influence	P800 - P100,000
Land and building	Market Data Approach and Replacement Cost Approach	New Reproduction Cost	

Significant favorable (unfavorable) adjustments to the aforementioned factors based on the professional judgment of the independent appraisers would increase (decrease) the fair value of land. Significant increases (decreases) in the current replacement cost would result in significantly higher (lower) appraised values whereas significant increase (decrease) in the remaining useful life of the property, plant and equipment over their total useful life would result in significantly higher (lower) appraised values.

Description of the valuation techniques and significant unobservable inputs used in the valuation of the Group's property, plant and equipment and investment properties are as follows:

	Description
Valuation Techniques	
Market Data Approach	A process of comparing the subject property being appraised to similar comparable properties recently sold or being offered for sale.
Replaceable Fixed Asset Valuation Approach	This method requires an analysis of the buildings and other land improvements by breaking them down into major components. Bills of quantities for each component using the appropriate basic unit are prepared and related to the unit cost for each component developed on the basis of current costs of materials, labor, plant and equipment prevailing in the locality to arrive at the direct costs of the components. Accrued depreciation was based on the observed condition.
Replacement Cost Approach	It is an estimate of the investment required to duplicate the property in its present condition. It is reached by estimating the value of the building "as if new" and then deducting the depreciated cost. Fundamental to the Cost Approach is the estimate of Reproduction Cost New of the improvements.
Reproduction Cost New	The cost to create a virtual replica of the existing structure, employing the same design and similar building materials.
Size	Size of lot in terms of area. Evaluate if the lot size of property or comparable conforms to the average cut of the lots in the area and estimate the impact of lot size differences on land value.
Shape	Particular form or configuration of the lot. A highly irregular shape limits the usable area whereas an ideal lot configuration maximizes the usable area of the lot which is associated in designing an improvement which conforms with the highest and best use of the property.
Location	Location of comparative properties whether on a main road, or secondary road. Road width could also be a consideration if data is available. As a rule, properties located along a main road are superior to properties located along a secondary road.
Time Element	"An adjustment for market conditions is made if general property values have appreciated or depreciated since the transaction dates due to inflation or deflation or a change in investors' perceptions of the market over time". In which case, the current data is superior to historic data.
Discount	Generally, asking prices in ads posted for sale are negotiable. Discount is the amount the seller or developer is willing to deduct from the posted selling price if the transaction will be in cash or equivalent.
Corner influence	Bounded by two (2) roads.

35. Notes to Consolidated Statements of Cash Flows

Cash Flows from Financing Activities
The changes in liabilities arising from financing activities in 2021 and 2020 follow:

	2021			
	Beginning balance	**Net cash flows**	**Others**	**Ending balance**
Bills and acceptances payable	**P87,159,450**	**(P36,426,226)**	**P2,220,573**	**P52,953,797**
Bonds payable	**64,056,335**	**(13,870,000)**	**3,197,086**	**53,383,421**
Lease liabilities	**2,775,256**	**(1,304,689)**	**3,673,479**	**5,144,046**
	P153,991,041	**(P51,600,915)**	**P9,091,138**	**P111,481,264**

	2020			
	Beginning balance	Net cash flows	Others	Ending balance
Bills and acceptances payable	P55,963,290	P32,255,780	(P1,059,619)	P87,159,451
Bonds payable	66,615,078	–	(2,558,743)	64,056,335
Lease liabilities	3,247,876	(794,735)	322,115	2,775,256
	P125,826,244	P31,461,045	(P3,296,247)	P153,991,042

Others include the effects of foreign exchange revaluations, amortization of transaction costs, and accretion of interest.

Non-cash Transactions
The Group applied creditable withholding taxes against its income tax payable amounting to P1.6 billion, P2.8 billion and P1.3 billion in 2021, 2020 and 2019, respectively.

The Group acquired investment properties through foreclosure and rescission amounting to P0.5 billion, P0.1 billion, and P1.0 billion in 2021, 2020 and 2019, respectively.

Non-cash Investing Activities

As of December 31, 2021 and 2020, unpaid additions to property, plant and equipment amounted to P34.4 million and P154.3 million, respectively, which is included as part of "Accounts payable and accrued expenses".

36. Capital Management

The main thrust of the Group's capital management policy is to ensure that the Group complies with externally imposed capital requirements, maintains a good credit standing and has a sound capital ratio to be able to support its business and maximize the value of its shareholders equity. The Group is also required to maintain debt-to-equity ratios to comply with certain loan agreements and covenants in 2021 and 2020.

The Group's dividend declaration is dependent on the availability of earnings and operating requirements. The Group manages its capital structure and makes adjustment to it, in light of changes in economic conditions. To maintain or adjust capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No change were made in the objectives, policies or processes in 2021 and 2020.

The Group considers its total equity reflected in the consolidated statements of financial position as its capital. The Group monitors its use of capital and the Group's capital adequacy by using leverage ratios, specifically, debt ratio (total debt/total equity and total debt) and debt-to-equity ratio (total debt/total equity). Included as debt are the Group's total liabilities while equity pertains to total equity as shown in the consolidated statements of financial position.

The table below shows the leverage ratios of the Group:

	2021	2020
	(In Thousands, except ratios)	
Total liabilities	**P1,048,299,685**	P1,097,584,175
Total equity	**263,536,679**	255,538,279
Total liabilities and equity	**P1,311,836,364**	P1,353,122,454
Debt ratio	**0.80:1**	0.81:1
Debt-to-equity ratio	**3.98:1**	4.30:1

Regulatory Qualifying Capital for the Banking Segment
Under existing BSP regulations, the determination of PNB's compliance with regulatory requirements and ratios is based on the amount of PNB's unimpaired capital (regulatory net worth) reported to the BSP, which is determined on the basis of regulatory policies, which differ from PFRSs in some respects.

In addition, the risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10.00% for both solo basis (head office and branches) and consolidated basis (parent bank and subsidiaries engaged in financial allied undertakings but excluding insurance companies). Qualifying capital and risk-weighted assets are computed based on BSP regulations. Risk-weighted assets consist of total assets less cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits and other non-risk items determined by the MB of the BSP.

PNB and its individually regulated subsidiaries/operations have complied with all externally imposed capital requirement throughout the year.

On January 15, 2013, the BSP issued Circular No. 781, Basel III Implementing Guidelines on Minimum Capital Requirements, which provides the implementing guidelines on the revised risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards. The circular is effective on January 1, 2014.

The Circular No. 781 sets out a minimum Common Equity Tier 1 (CET1) ratio of 6.0% and Tier 1 capital ratio of 7.5%. It also introduces a capital conservation buffer of 2.5% comprised of CET1 capital. The BSP's existing requirement for Total CAR remains unchanged at 10% and these ratios shall be maintained at all times.

Further, existing capital instruments as of December 31, 2010 which do not meet the eligibility criteria for capital instruments under the revised capital framework shall no longer be recognized as capital upon the effectivity of Basel III. Capital instruments issued under BSP Circular Nos. 709 and 716 (the circulars amending the definition of qualifying capital particularly on Hybrid Tier 1 and Lower Tier 2 capitals), starting January 1, 2011 and before the effectivity of BSP Circular No. 781, shall be recognized as qualifying capital until December 31, 2015. In addition to changes in minimum capital requirements, this Circular also requires various regulatory adjustments in the calculation of qualifying capital.

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

Internal Capital Adequacy Assessment Process (ICAAP) Implementation
In compliance with BSP Circular 639, PNB has adopted its live ICAAP Document for 2011 to 2013. However, the BOD and the Management recognized that ICAAP is beyond compliance, i.e., it is about how to effectively run PNB's operations by ensuring that PNB maintains at all times an appropriate level and quality of capital to meet its business objective and commensurate to its risk profile. In line with its ICAAP principles, PNB shall maintain a capital level that will not only meet the BSP CAR requirement but will also cover all material risks that it may encounter in the course of its business. The ICAAP process highlights close integration of capital planning/strategic management with risk management. PNB has in place a risk management framework that involves a collaborative process for assessing and managing identified Pillar 1 and Pillar 2 risks. PNB complies with the required annual submission of updated ICAAP.

BSP also requires the Basel III Leverage Ratio (BLR), which is designed to act as a supplementary measure to the risk-based capital requirements. BLR intends to restrict the build-up of leverage in the banking sector to avoid destabilizing deleveraging processes, which can damage the broader financial system and the economy. Likewise, it reinforces the risk-based requirements with a simple, non-risk based "backstop" measure. BLR is computed as the capital measure (Tier 1 capital) divided by the total exposure measure and should not be less than 5.00%.

Capital build-up plan
In 2021, PNB prepared its capital build-up plan which aims to increase its qualifying capital for the succeeding three years. Further, while PNB is executing its capital build-up plan, it intends to apply the regulatory reliefs provided under BSP Memoranda M-2021-055 and M-2021-056 in calculating its CAR in 2022.

37. Leases, Provision and Contingencies and Other Matters

Leases
The Group as lessor
The Group entered into lease agreements with third parties covering its investment property portfolio, certain motor vehicles and items of machinery. These leases generally provide for either (a) fixed monthly rent, or (b) minimum rent or a certain percentage of gross revenues, whichever is higher. The Group records rental income on a straight-line basis over less non-cancellable lease term. Any difference between the calculated rental income and amount actually received is recognized as "Deferred rent" (see Note 8).

The Group has tenants' rental deposits and advance rentals which are presented under "Other noncurrent liabilities". Tenants' rental deposits pertain to the amounts paid by the tenants at the inception of the lease which is refundable at the end of the lease term. Advance rentals pertain to deposits from tenants which will be applied against receivables either at the beginning or at the end of lease term depending on the lease contract.

In May and November 2020, Eton granted discounts to its lessees totaling to P107.2 million.

Future minimum rental receivables under non-cancellable operating leases as of December 31 are as follows:

	2021	2020
	(In Thousands)	
Within one year	**P1,467,172**	P1,437,821
After one year but not more than five years	**3,012,918**	2,981,337
More than five years	**48,036**	208,351
	P4,528,126	P4,627,509

The Group as lessee
The Group has entered into commercial leases for its branch sites/premises, land where the related investment property or property, plant and equipment is build/constructed, warehouse and warehouse equipment, ATM offsite location and other equipment. These non-cancellable leases have lease terms of 1 to 40 years. Most of these lease contracts include escalation clauses, an annual rent increase of 2.00% to 10.00%. The Group ROU asset is composed of the PNB's branch sites and its subsidiaries offices under lease arrangements.

The Group has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Group's business needs. Management exercises judgement in determining whether these extension and termination options are reasonably certain to be exercised.

Rent expense charged against current operations (included in 'Occupancy' in the consolidated statements of income) amounted to

P251.5 million, P580.6 million and P581.1 million in 2021, 2020 and 2019, respectively, for the Group, of which P223.2 million, P532.9 million and P454.1 million in 2021, 2020, and 2019, respectively, pertain to the PNB. Rent expense in 2021 and 2020 pertains to expenses from short-term leases and leases of low-value assets.

As of December 31, 2021 and 2020, the Group has no contingent rent payable.

As of December 31, 2021, the carrying amounts of 'Lease liabilities' are as follows:

Balance at beginning of year	P2,775,256
Additions	3,462,536
Interest expense	210,943
Payments	(1,304,689)
	P5,144,046

Future minimum lease receivables under finance leases are as follows:

	2021	2020
	(In Thousands)	
Within one year	**P1,232,961**	P1,364,058
Beyond one year but not more than five years	**643,821**	906,513
More than five years	**14,344**	31,845
Total	**1,891,126**	2,302,416
Less amounts representing finance charges	**13,770**	13,770
Present value of minimum lease payments	**P1,877,356**	P2,288,646

Trust Operations
Securities and other properties held by PNB in fiduciary or agency capacities for its customers are not included in the accompanying statements of financial position since these are not assets of PNB. Such assets held in trust were carried at a value of P143.3 billion and P154.4 billion as of December 31, 2021 and 2020, respectively. In connection with the trust functions of PNB, government securities amounting to P1.6 billion and P1.9 billion (included under 'Financial assets at amortized cost') as of December 31, 2021 and 2020, respectively, are deposited with the BSP in compliance with trust regulations.

In compliance with existing banking regulations, PNB transferred from surplus to surplus reserves the amounts of P23.2 million, P20.4 million and P21.4 million in 2021, 2020 and 2019, respectively, which correspond to 10% of the net income realized in the preceding years from its trust, investment management and other fiduciary business until such related surplus reserve constitutes 20% of its regulatory capital.

Provisions and Contingencies
In the normal course of business, the Group makes various commitments and incurs certain contingent liabilities that are not presented in the consolidated financial statements including several suits and claims which remain unsettled. No specific disclosures on such unsettled assets and claims are made because any such specific disclosures would prejudice the Group's position with the other parties with whom it is in dispute. Such exemption from disclosures is allowed under PAS 37, Provisions, Contingent Liabilities and Contingent Assets. The Group and its legal counsel believe that any losses arising from these contingencies which are not specifically provided for will not have a material adverse effect on the financial statements.

Excise Tax Refund Claim
The new excise tax law or RA 10351 became effective on January 1, 2013, and increased the excise tax rates of, among others, distilled spirits. Another change that was brought in by the new law is the shift in the tax burden of distilled spirits from raw materials to the finished product.

To implement the said law, the Secretary of Finance issued Revenue Regulations No. 17-2012 (RR 17-2012), which, in one of its transitory provisions, disallowed the tax crediting of the excise taxes that were already paid under the old law on the raw materials inventory by end of the year 2012 or by the effectivity of RA 10351 in favor of the excise taxes due on the finished goods inventory.

The Commissioner of Internal Revenue issued on January 9, 2013 Revenue Memorandum Circular (RMC) No. 3-2013. This RMC sought to clarify further certain provisions of RR No. 17-2012 but in effect extended the imposition of the excise tax on both the (1) ethyl alcohol as raw materials in the production of compounded liquors and (2) the manufactured finished product. Per the RMC, both ethyl alcohol and compounded liquor are considered as distinct distilled spirits products and are thus separate taxable items under the new law. This interpretation of the law was however modified with the issuance of RMC No. 18-2013. The new RMC allowed the non-payment of excise tax on ethyl alcohol that were purchased after the issuance of RMC No. 3-2013 to be used as raw materials in the manufacture of compounded liquors provided certain requirements such as posting of surety bonds are complied with. RMC No. 18-2013, however, still maintained that taxes previously paid on the raw materials, i.e., ethyl alcohol/ethanol inventory, at the time of the effectivity of the new excise tax law are still not subject to refund/tax credit to the manufacturers.

Under RR No. 17-2012, the amount of excise tax that was disallowed for tax credit was P725.8 million. Said amount represented taxes paid previously on raw materials and were not allowed to be deducted from the excise taxes that became due on the finished goods as taxed under the new law. TDI is contesting the disallowance of the tax credit and is undertaking appropriate legal measures to obtain a favorable outcome.

TDI has paid a total of P45.9 million in excise taxes for the raw materials that were purchased/imported for purposes of compounding during the subsistence of RMC No. 3-2013. TDI also would claim this amount on the basis that the RMC was issued without basis and beyond the authority granted by law to the administrative agency.

On February 8, 2019, TDI received the decision of the Court of Tax Appeals (CTA) Second Division denying TDI's claim for refund since TDI failed to prove that there is actual payment of the excise tax being claimed. On February 22, 2019, TDI filed a Motion for Reconsideration. On July 28, 2019, the motion was denied by the CTA Second Division. TDI filed a Petition for Review to the CTA En Banc on August 1, 2019. On October 28, 2020, the petition was denied, affirming the decisions and resolutions made by CTA Second Division. On November 16, 2020, a Motion for Reconsideration was filed by the legal counsel before the CTA En Banc which was also denied on March 22, 2021 for lack of merit.

On July 29, 2021, TDI filed a Petition for Review on Certiorari at the Supreme Court. As of March 15, 2022, TDI is awaiting for the Supreme Court's decision.

Assets and Liabilities of Disposal Group Classified as Held for Sale and Discontinued Operations
On various dates in 2020, the respective BODs of PNB and PNB Holdings approved the sale of all their holdings in PNB Gen for cash. As a result, the Group reclassified all the assets and liabilities of PNB Gen to 'Assets of disposal group classified as held for sale' and 'Liabilities of disposal group classified as held for sale', respectively, in the consolidated statement of financial position as of December 31, 2020. The business of PNB Gen represented the entirety of the PNB's non-life insurance business.

The results of PNB Gen were previously presented in the 'Others' section of the business segment disclosure.

The results of operation of PNB Gen are presented below:

	2021	2020	2019
Interest Income on			
Loans and receivables	**P35**	P202	P275
Investment securities at amortized cost and FVOCI	**19,830**	81,734	67,708
Deposits with banks and others	**34**	5,087	17,453
	19,899	87,023	85,436
Interest Expense on			
Lease liabilities	**530**	2,698	128
Net Interest Income	**19,369**	84,325	85,308
Net Service Fees and Commission Income	**110**	19,718	7,460
Insurance premium	**202,543**	955,640	1,151,704
Insurance benefits and claims	**143,605**	716,820	909,974
Net Insurance Premium	**58,938**	238,820	241,730
Other Income			
Foreign exchange gains (losses) - net	**1,804**	(2,878)	15
Trading and investment securities gains - net	**–**	9,123	94
Total Operating Income	**80,221**	349,108	334,607
Operating Expenses			
Compensation and fringe benefits	**37,040**	152,265	133,896
Depreciation and amortization	**6,592**	28,862	8,901
Provision for (reversal of) credit losses	**1,174**	29,781	(324)
Occupancy and equipment-related costs	**903**	1,910	17,074
Taxes and licenses	**290**	4,750	4,878
Miscellaneous	**8,832**	43,539	49,910
Total Operating Expenses	**54,831**	261,107	214,335
Income Before Income Tax	**25,390**	88,001	120,272
Provision for Income Tax	**4,775**	20,418	18,679
Net Income from Discontinued Operations	**P20,615**	P67,583	P101,593

Net Insurance Premium
This account consists of:

	2021	2020	2019
Net insurance premiums			
Gross earned premium	**P385,904**	P2,385,857	P2,764,108
Reinsurer's share of gross earned premiums	**(183,361)**	(1,430,217)	(1,612,404)
	202,543	955,640	1,151,704
Less net insurance benefits and claims			
Gross insurance contract benefits and claims paid	**207,003**	2,241,488	1,598,129
Reinsurer's share of gross insurance contract benefits and claims paid	**(130,493)**	(1,983,736)	(1,262,884)
Gross change in insurance contract liabilities	**48,017**	1,410,172	(65,571)
Reinsurer's share of change in insurance contract liabilities	**19,078**	(951,104)	640,300
	143,605	716,820	909,974
	P58,938	P238,820	P241,730

The major classes of assets and liabilities of PNB Gen classified as disposal group as of December 31, 2020 follow:

Assets	
Due from other banks	P164,894
Financial assets at FVTPL	1,387
Financial assets at FVOCI	1,183,355
Investment securities at amortized cost	788,430
Loans and other receivables - net	4,232,047
Deferred reinsurance premium	901,623
Property and equipment - net	48,436
Deferred tax assets	36,475
Intangible assets - net	5,134
Other assets	584,164
	P7,945,945
Liabilities	
Accrued taxes, interest and other expenses	P269,100
Insurance contract liabilities	4,360,733
Reserved for unearned reinsurance premium	1,196,273
Accounts payable	142,513
Other liabilities	385,345
	P6,353,964
Net assets of disposal group held for sale	P1,591,981
Amounts included in accumulated OCI:	
Remeasurement gain on retirement plan	P59,407
Net unrealized gain on financial assets at FVOCI	29,209
	P88,616

Net cash flows of PNB Gen follow:

	2021	2020	2019
Net cash flows from operating activities	**(P36,288)**	(P27,016)	(P298,984)
Net cash flows from investing activities	**18,740**	(242,063)	(8,619)
Net cash flows from financing activities	**(1,912)**	(22,648)	292,789
	(P19,460)	(P291,727)	(P14,814)

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Director & Treasurer

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Chairman & Chief Executive Officer

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Peter Y. Ong
Advisor

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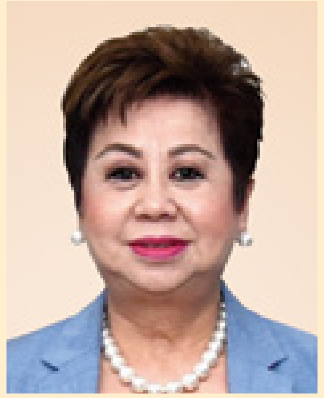

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