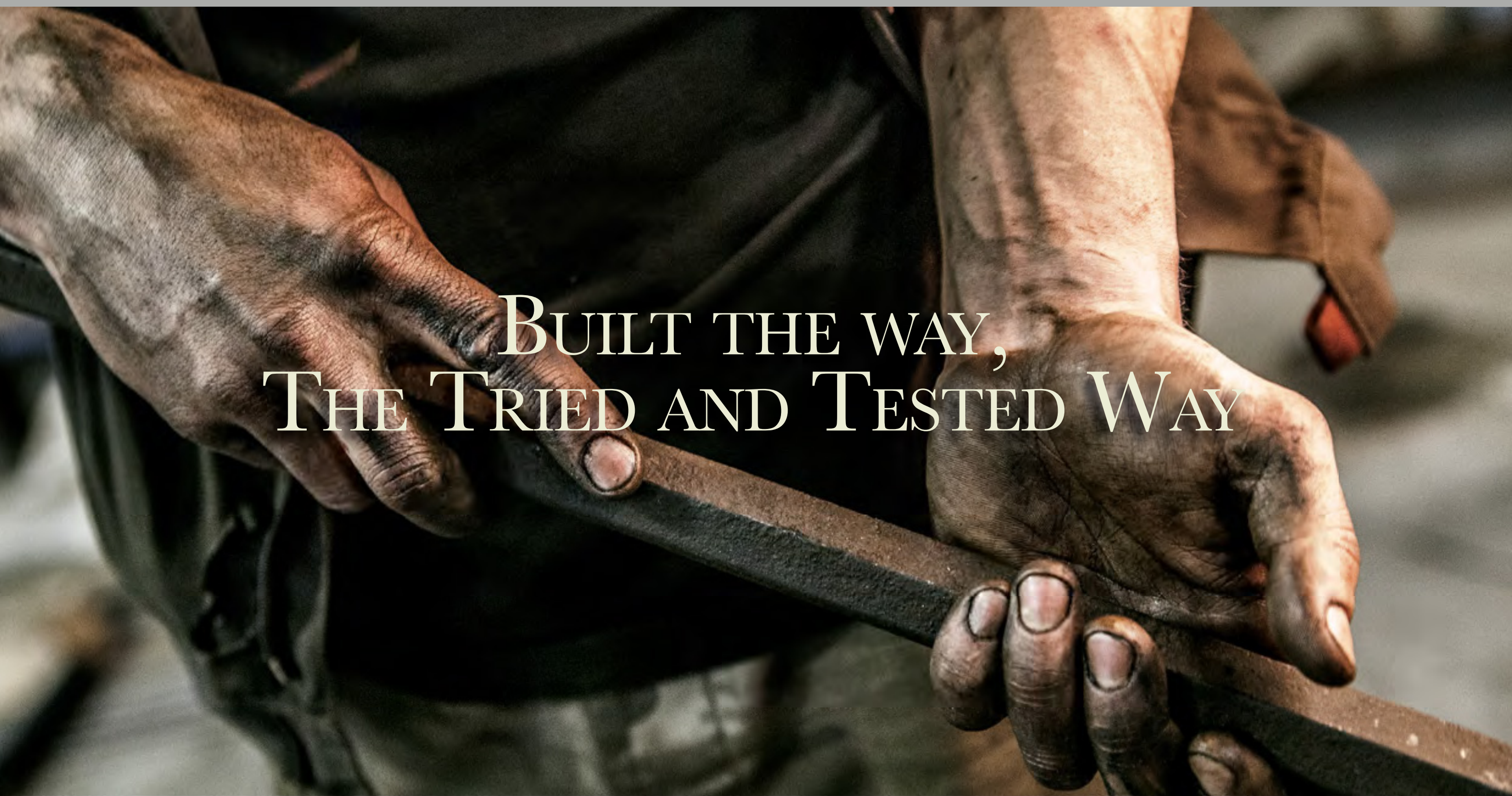
LT Group, Inc. 2022 Annual Report



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.

CONTENTS

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 8, 2022 and February 14, 2023.)

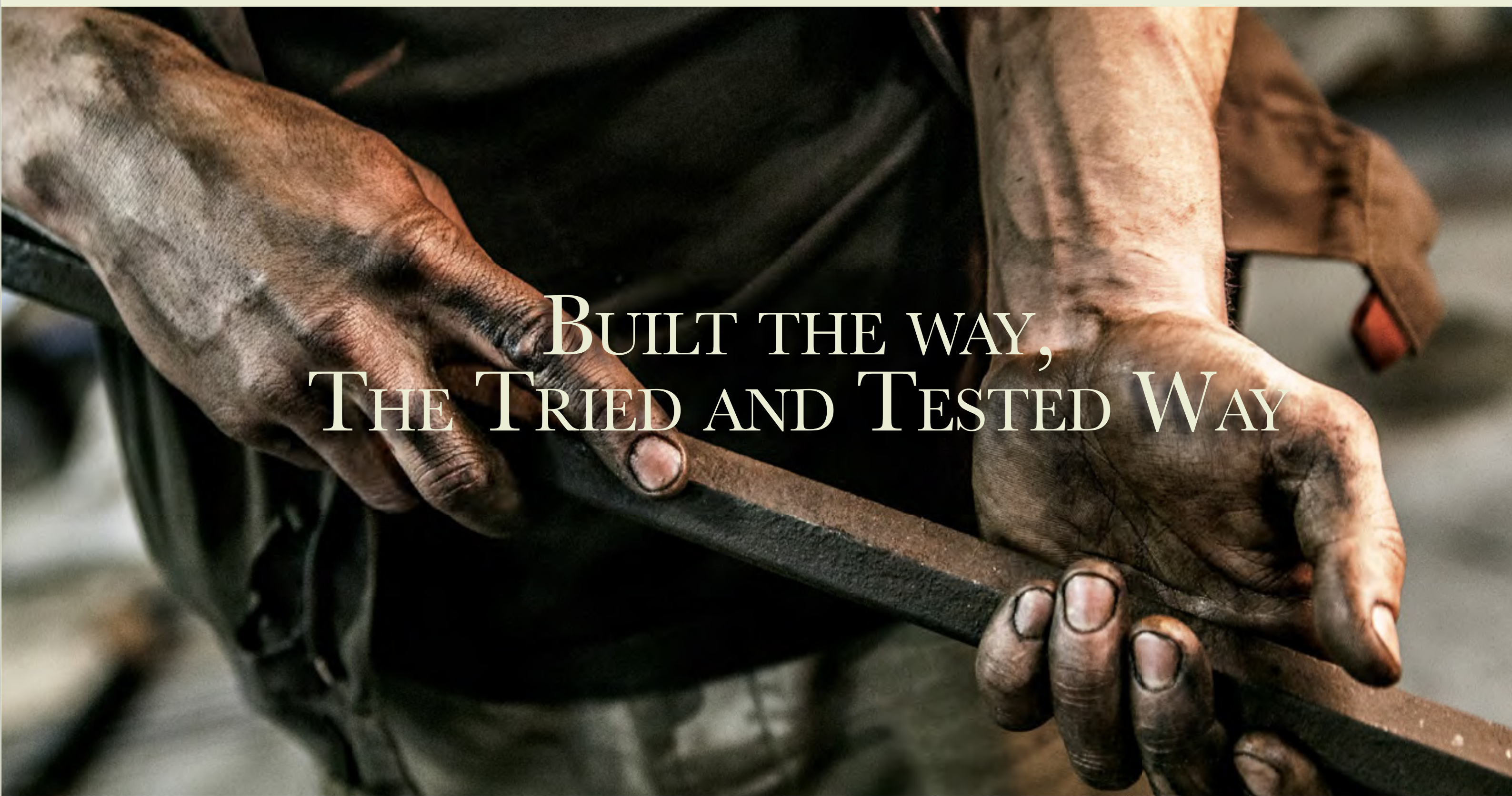
OUR COVER

Dirty working hands are a symbol of hard work and determination. They are a testament to the hours spent toiling, building or creating something from scratch.

These hands may be rough, calloused, and stained with dirt and grime, but they are also a source of pride for those who wear them. They show that individuals are not afraid to get their hands dirty, to work tirelessly towards their goals, and to never give up until the job is done.

These hands may be worn and tired, but they embody the resilience and the willingness that made LT Group, Inc. achieve success and build the way—the tried and tested way.

LT GROUP, INC. 2022 ANNUAL REPORT



BUILT THE WAY, THE TRIED AND TESTED WAY

FINANCIAL SUMMARY

REVENUES
in Php Millions

2022	**100,872**
2021	91,173
2020	94,428

TOTAL ASSETS
in Php Millions

2022	**1,268,118**
2021	1,311,836
2020	1,353,122

NET INCOME
in Php Millions

2022	**30,665**
2021	20,861
2020	22,326

TOTAL LIABILITIES
in Php Millions

2022	**991,456**
2021	1,048,300
2020	1,097,584

EBITDA
in Php Millions

2022	**43,487**
2021	33,368
2020	27,606

TOTAL EQUITY
in Php Millions

2022	**276,662**
2021	263,536
2020	255,538

PER SHARE DATA
in Php, except Pay-out Rate

	2022	2021	2020
Earnings per Share	**2.32**	1.87	1.94
Book Value per Share (at year-end)	**18.38**	17.56	17.13
Cash Dividend	**1.40**	1.08	0.81
Pay-out Rate	**74.83%**	55.59%	37.91%

RATIO

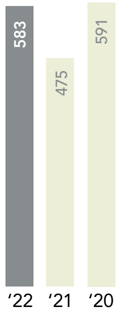
	2022	2021	2020
Current Ratio	**0.65**	0.70	0.72
Current Ratio (w/o PNB)	**3.04**	3.28	2.82
Debt to Equity Ratio	**3.58**	3.98	4.30
Debt to Equity Ratio (w/o PNB)	**0.14**	0.15	0.16
Return on Average Assets	**1.9%**	1.5%	1.6%
Return on Average Equity	**12.9%**	10.8%	11.3%

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 third in the bottled water segment.

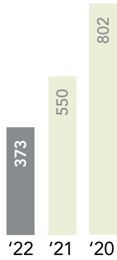


Net Income
in Php Millions

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.

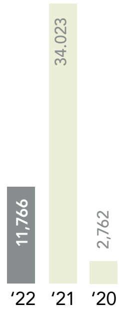


Net Income
in Php Millions

PNB

56.47%
OWNERSHIP

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

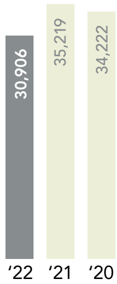


Net Income
in Php Millions
Note: Pooling Method

pmftc

49.6%
OWNERSHIP

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

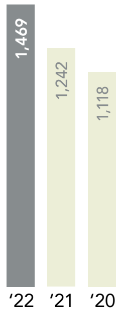


Net Income
in Php Millions

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.

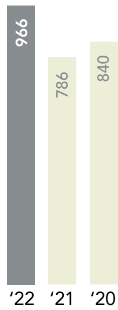


Net Income
in Php Millions

Victorias

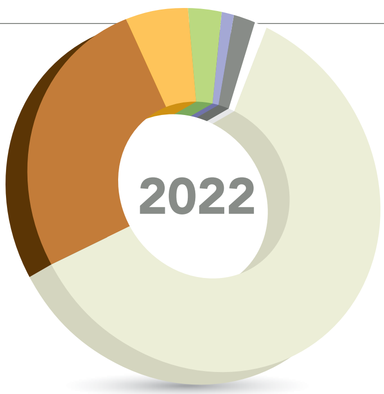
30.9%
OWNERSHIP

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



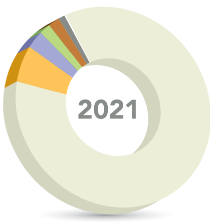
Net Income
in Php Millions
Note: For crop years September to August

Attributable Net Income Contribution to LTG
in Php Millions

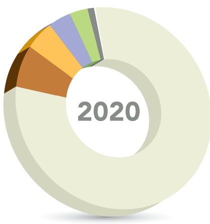


		% to total
TOBACCO	15,276	61%
BANKING	6,611	26%
DISTILLED SPIRITS	1,467	6%
BEVERAGE	580	3%
PROPERTY DEVELOPMENT	372	1%
VMC	491	2%
OTHERS	340	1%
TOTAL	**25,137**	**100%**

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



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



		% to total
TOBACCO	16,825	80%
BANKING	1,550	7%
DISTILLED SPIRITS	1,104	5%
BEVERAGE	583	3%
PROPERTY DEVELOPMENT	799	4%
VMC	264	1%
OTHERS	(104)	0%
TOTAL	**21,021**	**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, Greek Style, and Chocolate Pudding. Pascual Yogurt reported a value growth of 31% in 2022, with a nationwide market share estimated at 41%. It is the leader in convenience stores with an 86% market share and has an 80% share in the Mindanao region. Thanks to the continued success of Pascual Spoon Yogurt, the joint venture has plans to launch new ready-to-drink (RTD) dairy products locally manufactured for the local market in 2023, and in the future for export to other ASEAN markets.

The joint venture company has a bright future given the broad range of products that offer high-quality, healthy, and affordable products for all Filipinos.

ALI-Eton 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.

In December 2022, the Parklinks Bridge was inaugurated. The bridge features an iconic design with 20 steel cables suspended from the arch. The cables are arranged asymmetrically, creating a dramatic and interesting backdrop that varies when viewed from different angles. It has a 40-meter-high arch that diagonally spans the 110-meter-long and 25-meter-wide road deck structure. The bridge connects Quezon City and Pasig City over the Marikina River.

Allianz PNB Life Insurance, Inc. is a joint venture forged in 2016 between global insurance leader Allianz SE, and local banking giant, Philippine National Bank.

Allianz is the world's number one insurance brand and ranks top 34 in Interbrands' Top 100 Best Global Brands in 2022, increasing its value by 23% to USD 19.7 billion. It generated total revenues of EUR 152.7 billion and operating profits of EUR 14.2 billion in the same year, consolidating its position as one of the world's largest, most resilient, and trusted global financial institutions.

Allianz is also the most sustainable insurer according to the international Dow Jones Sustainability Index. Its ambition is to integrate sustainability into everything that happens in the Group and drive real-world impact in societies, economies, and the environment. In the Philippines, Allianz PNB Life's primary sustainability advocacies are financial inclusion, sustainable mobility, and youth empowerment in collaboration with partners such as SOS Children's Village, the World Wildlife Fund, and local government units.

Allianz PNB Life's purpose is to Secure the Future of Filipinos and it has grown to become the top bancassurance partnership in the country with record-breaking sales performance in its Agency Life Changer channel. As of the third quarter in 2022 Insurance Commission statistics, it achieved the Top 3 ranking in total gross written premiums and annualized new premiums among all Philippine life insurers.

Allianz PNB Life is also proud to have earned 10 awards in 2022 recognizing the excellence of its leaders, marketing campaigns, HR practices, and sustainability advocacies. Its foremost distinction is being awarded the region's Life Insurer of the Year in the Insurance Asia News' Awards for Excellence.

PMFTC Inc. (PMFTC) is the business combination between Philip Morris Philippines Manufacturing Inc. and Fortune Tobacco Corporation, a 99.6%-owned subsidiary of the LT Group, Inc. It continues to be the leading cigarette manufacturer in the Philippines, with a market share of 62.0% in 2022. 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

"As we strive to be good corporate citizens, we also focus on the Environmental, Social, and Governance (ESG)."

— LUCIO C. TAN

Dear Shareholders,

LT Group, Inc. (LTG) achieved remarkable success in 2022. Despite the pandemic's lingering impact, your Company was able to recover due to the patronage of loyal customers and the continuing trust of our shareholders.

During the past year, LTG reported strong financial results. Attributable Net Income reached Php25.1 billion, the highest income recorded by our Company in a decade since its Initial Public Offering (IPO) in 2013. Over the years, significant investments were also poured in to strengthen our Group's financial position.

This achievement was no accident nor based on sheer luck. It was the product of hard work and dedication by men and women on the frontlines – our factory workers, bank tellers, sales and delivery personnel, and countless others who ensure that the wheels of our enterprise continue to run smoothly.

Credit, of course, also goes to our management team whose vision, determination, and experience made this possible. A decade since our IPO, this year's theme "**Built the Way, the Tried and Tested Way**" is quite appropriate. Indeed, the courage to challenge convention, explore new directions, spot opportunities, and take calculated risks brought our Company to where it is today.

Those of us who were privileged to be part of LTG from its inception are grateful for the courage and passion of those who paved the way and laid the groundwork for our Company.

As we strive to be good corporate citizens, we also focus on the Environmental, Social, and Governance (ESG). After all, a good reputation, responsible use of resources, concern for the environment, and accountability to all our stakeholders, is good business.

I take this opportunity to extend my heartfelt thanks to the Board of Directors for their valuable guidance and directions. My sincere appreciation, too, for all the contributions of our staff and management team. You are all remembered with gratitude.

Dr. Lucio C. Tan
Chairman

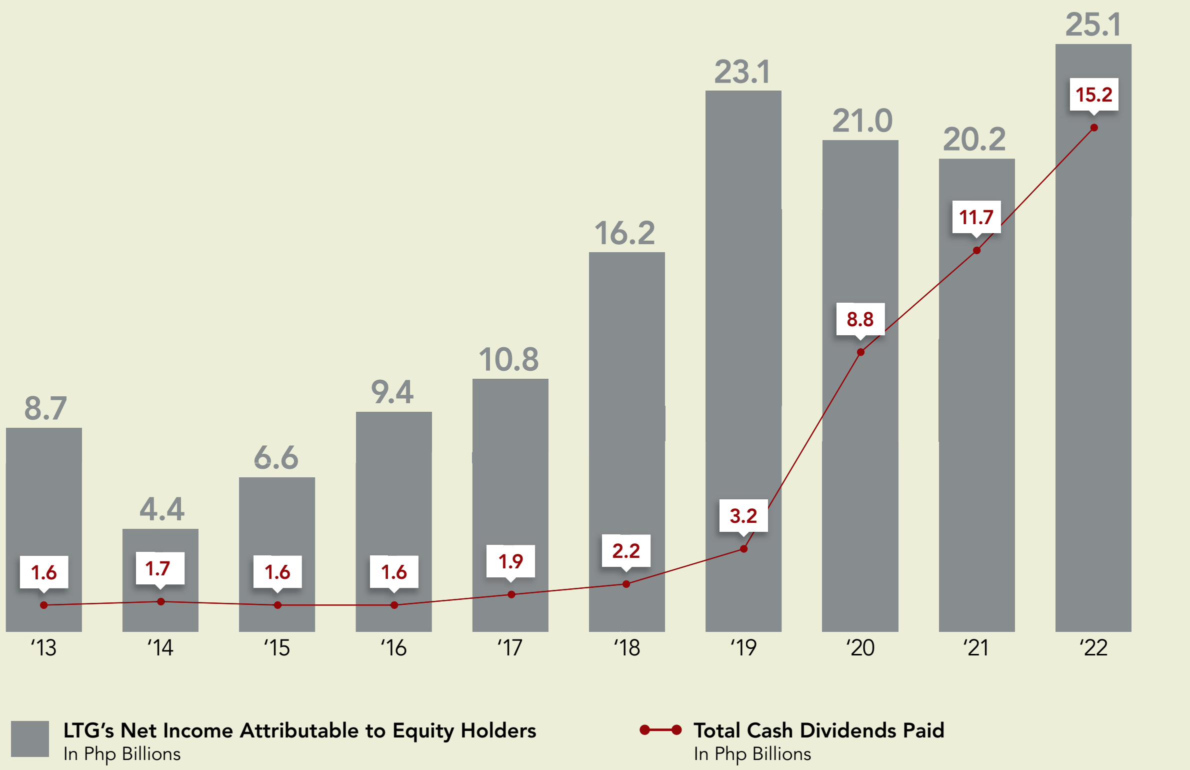
MESSAGE FROM THE PRESIDENT

The year 2022 was when the country eased out of the restrictions of the COVID-19 pandemic. The opening up of the economy led to a 7.6% GDP growth. However, inflation remained a concern, averaging at 5.8% in 2022 from 3.9% in 2021, increasing from 3.0% in January up to the peak of 8.1% in December. This uptick has continued into 2023, with inflation at 8.7% and 8.6% in the first two months of 2023.

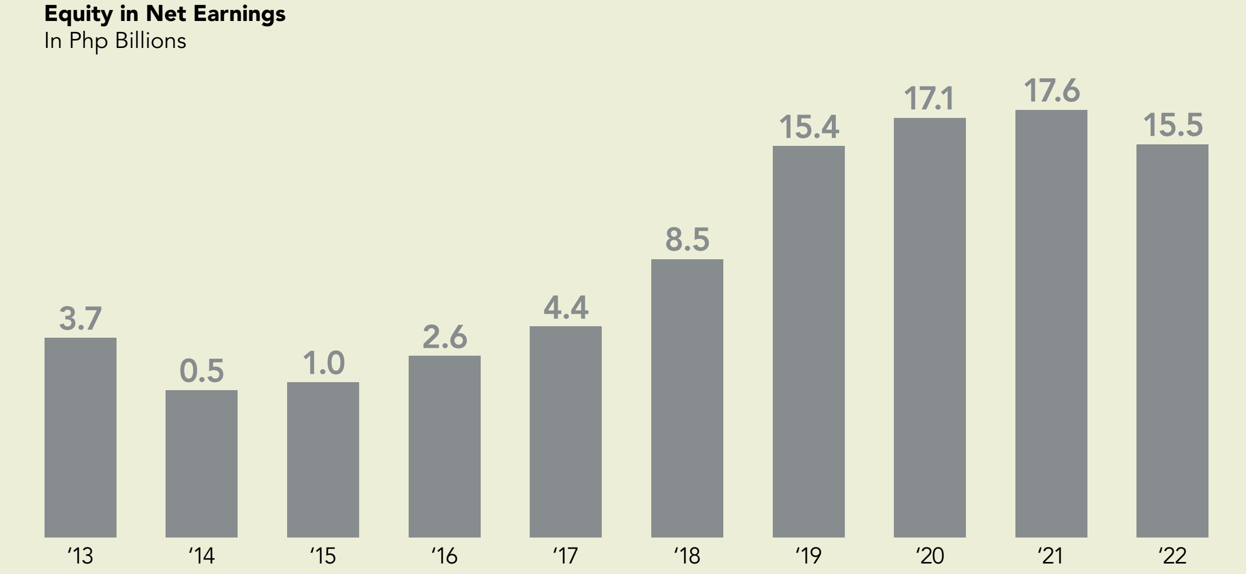
Like most businesses, your Company had to grapple with higher energy, raw material, and freight costs, higher interest rates, and higher foreign exchange rates, making it a challenge in trying to keep costs down and at the same time, implement price increases to pass on some of the cost increases to our customers. And your Company was able to succeed, posting growth in our income for 2022.

It has been a decade since our Initial Public Offering in 2013, the largest at that time, raising a net of Php37.7 billion. Your Company has been through ups and downs, the biggest challenges of which were the illicit trade in tobacco from 2014 up to 2016, followed by the COVID-19 pandemic starting in the first quarter of 2020. It was how your Company, **Built the Way, the Tried and Tested Way**, through hard work, cooperation, and a strong financial position built through the years that we were able to hurdle these challenges. We reported LTG's highest-ever Attributable Net Income of Php25.1 billion in 2022.

LTG's profitability, backed by the strong cash flow from the tobacco business enabled the Company to declare the highest-ever cash dividends in 2022, at Php1.40 per share or a total of Php15.2 billion, representing a 74.8% payout rate. Since the IPO in 2013, LTG has declared dividends of Php4.58 per share or a total of Php49.6 billion.



PMFTC Inc. continues to account for the bulk of earnings at 61%, but income impacted by lower volume

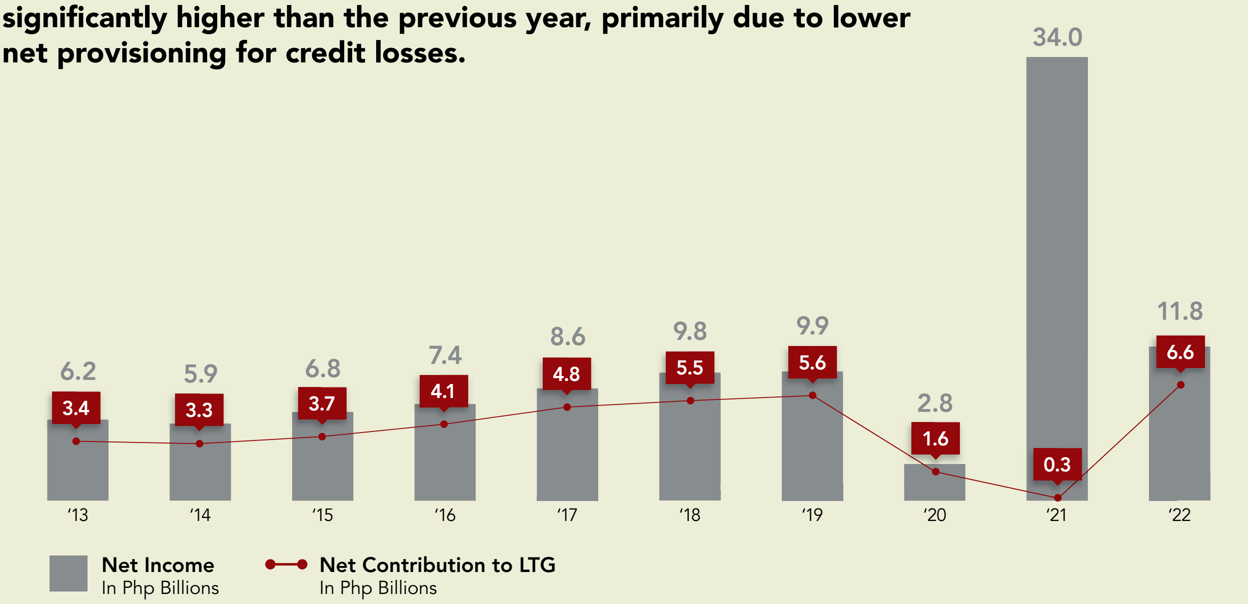


PMFTC's shipment volume for 2022 was 6.3% lower than 2021's, attributed to trade inventory adjustments and downtrading post the industry-wide price increase, in end-March 2022 for PMFTC and in early February for our biggest competitor. This was to pass on the Php5 per pack increase in excise taxes to Php55 per pack.

As more of our consumers were affected by lower purchasing power brought about by inflation, PMFTC launched more affordable products in 2022. In October, Marlboro Crafted was launched. It offers the premium quality of the world's #1 brand at a more affordable price. The recommended retail price is Php7 per stick compared to Marlboro's Php8 per stick. In late November, PMFTC launched more affordable versions of the heated tobacco system, Bonds, that retails at Php990 per unit, significantly lower than IQOS' Php1,690 to Php2,990. Blends were also launched in menthol and non-menthol variants at Php100 per pack of 20 sticks compared to IQOS' Heets at Php140 per pack. The Philippines was one of the two countries where Bonds and Blends were initially launched.

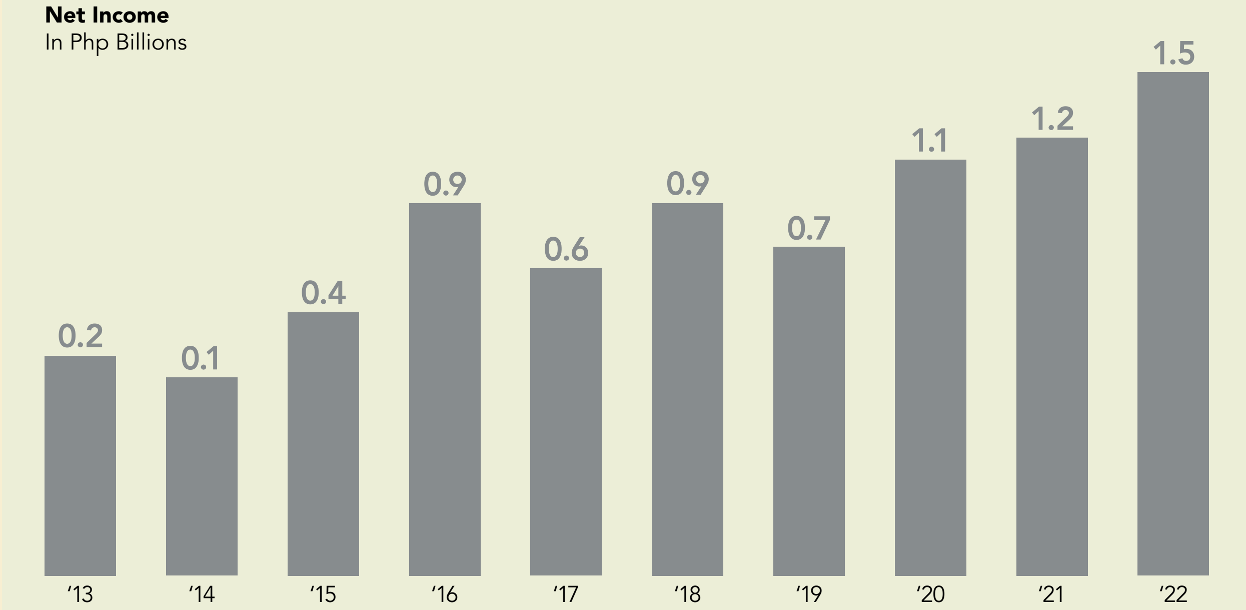
PNB's contribution to LTG's bottom line significantly improved to Php6.6 billion in 2022 from only Php308 million in 2021. This was largely due to the decrease in net provisioning for credit losses to Php7.2 billion in 2022, from Php10.7 billion in 2021. Net Interest income was higher by 7% as Net Interest Margin improved by over 30 basis points. Net Service Fees and Commission Income were also 5% higher year-on-year (y-o-y).

Philippine National Bank's (PNB) contribution to LTG was significantly higher than the previous year, primarily due to lower net provisioning for credit losses.



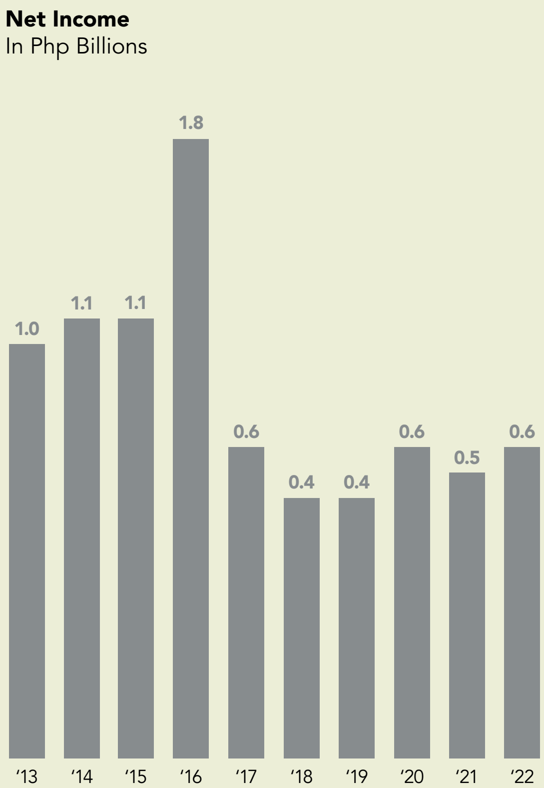
Note: PNB's 2021 net income included a Php33.44B gain from transferring real estate assets into PNB Holdings Corporation, which was eliminated at the LTG level.

Tanduay Distillers, Inc.'s (TDI) higher sales volume for liquor resulted in higher earnings



Liquor volume increased by 16% to 27.49 million cases, which coupled with price increases in the fourth quarter of 2021 and in November 2022 to pass on the increase in excise taxes and other costs enabled TDI to post an 18% growth in earnings in 2022.

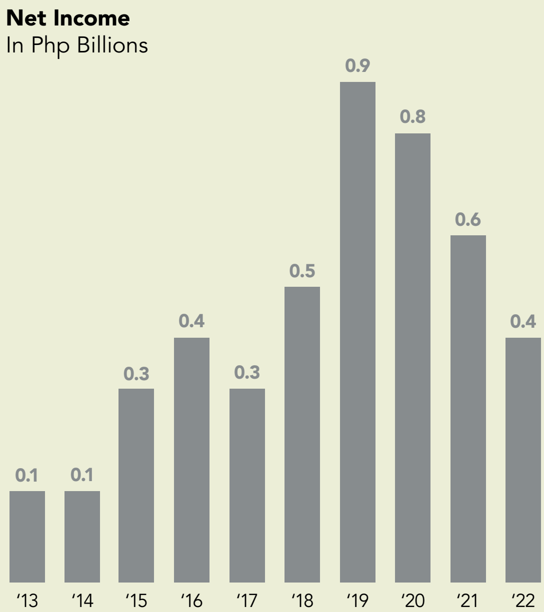
Asia Brewery, Inc. (ABI) saw sales volumes for most products grow, except for the packaging business



In 2022, the sales volumes of all of ABI's beverage and yogurt products increased as restrictions on COVID-19 were eased, more people reported back to the office, and face-to-face classes had started. Cobra Energy Drink's and Vitamilk soymilk's volumes have already surpassed the pre-pandemic levels, while that of bottled water brands Absolute and Summit are at 85% of pre-pandemic levels.

Despite the challenges of higher energy and raw material costs, ABI was able to increase its contribution to LTG to Php580 million in 2022 from Php475 million in 2021.

Eton Properties Philippines, Inc. (Eton) lower income due to lower margins for the leasing business



Eton reported a 32% drop in net income to Php373 million from Php550 million due to lower margins in the leasing business as costs increased to Php927 million from Php724 million the previous year.

Built the Way, the Tried and Tested Way

Your Company's journey, from the reorganization in 2012 of Tanduay Holdings, Inc. to what it is today, has not been easy. As I look back over the past decade of LTG as a publicly-listed company, we have done our best to lead it to where it is, **Built the Way, the Tried and Tested Way.**

The task of the President of this Company is not about the glitz and glamour, but meant stewardship over what was entrusted to me, with careful and responsible management, with accountability. I have handled the responsibility with integrity and done what I could to the best of my ability. I have always put the interests of the stakeholders and shareholders, especially the minority shareholders, above everything else.

In closing, I would like to thank our stakeholders for the continued support and trust in your Company, our Board of Directors, our management team, and all our employees who have served with dedication and hard work through these years. We have been through tough and better times and together have seen our Company come out stronger and better.

Michael G. Tan
President

MESSAGE FROM THE CFO

For the year 2022, LT Group, Inc.'s (LTG) total revenues amounted to Php100.87 billion, an increase of Php9.70 billion or 10.64% higher than 2021's Php91.17 billion revenues. All segments of the company experienced revenue growth from the previous year.

The attributable net income of LTG reached Php25.14 billion, Php4.89 billion or 24.15% higher than 2021's Php20.25 billion. In 2022, the distilled spirits and beverage segments posted higher net income versus the previous year, while the property development, banking, and tobacco segments netted lower year-on-year (y-o-y).

On a per-segment contribution to LTG's attributable income for 2022, 61% was from the tobacco business, 26% from Philippine National Bank (PNB), 6% from Tanduay Distillers, Inc. (TDI), 3% from Asia Brewery, Inc. (ABI), and1% from Eton Properties Philippines, Inc. (Eton). From LTG's 30.9% ownership of Victorias Milling Company, Inc. (VMC), 2% of total attributable income, or Php491 million, was booked as equity in net earnings from this investment.

The contribution of the tobacco business reached Php15.28 billion, a Php2.16 billion or 12.4% drop from 2021's Php17.43 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 Php15.46 billion in 2022, a Php2.14 billion or 12.2% decrease from 2021's Php17.60 billion. The tobacco segment's 2022 contribution decreased on downtrading and trade inventory adjustments. The most recent excise tax law on tobacco, Republic Act (RA) 11346, imposed a Php5 per pack increase in 2022 and will continue in 2023, then a 5% annual increase starting in 2024.

PNB's 2022 contribution amounted to Php6.61 billion, and was 21x higher than 2021's Php308 million. In 2021, PNB booked a gain of Php33.44 billion from the bank's transfer of real estate assets into PNB Holdings Corporation, which was not at the LTG consolidated level. In 2022, PNB's net interest and service fee income increased, while treasury and other income decreased.

TDI's contribution was Php1.47 billion, an increase of Php229 million or 18.5% higher than 2021's Php1.24 billion. Improved profitability in both TDI's liquor and alcohol businesses drove its income higher despite higher operating expenses. Higher volumes, driven by plant efficiencies, boosted the distilled spirits' 2022 performance despite lower margins caused by higher direct costs. TDI's alcohol business improved on the back of higher margins driven by bioethanol selling prices while slightly offset by lower volumes.

ABI's contribution was Php580 million, Php105 million, or 22.1% higher than in 2021. Recovery in ABI's modern trade business drove sales volumes across all ABI brands, except for commercial packaging. ABI operating expenses during the year were higher mainly on marketing, depreciation, and energy costs.

Eton's contribution amounted to Php372 million, Php176 million, or 32.1% lower than the previous year's Php548 million. Both sales and leasing revenues increased in 2022.

On March 16, 2022, LTG declared a regular cash dividend of Php0.15 per share and a special cash dividend of Php0.15 per share. Thereafter the Company declared special cash dividends three times: Php0.30 in June, Php0.30 in September, and another Php0.50 in November. These dividend issuances amounted to Php15.15 billion, or 74.8% of LTG's 2021 attributable income of Php20.25 billion. The Company's dividend payout policy is 20%.

Total capital expenditure was Php9.87 billion in 2022. PNB invested Php5.69 billion for mainly IT and digitalization projects. ABI spent Php1.30 billion on plant improvements. TDI spent Php763 million primarily on upgrades in its plants. Eton invested Php55 million in building improvements. LTG also invested Php2.1 billion 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 Php1.26 billion as of end-2022. Debt-to-Equity Ratio was at 3.58:1 with the Bank, and at 0.14:1 without the Bank.

Jose Gabriel D. Olives
Chief Financial Officer

Asia Brewery, Inc.

Asia Brewery, Inc. (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.

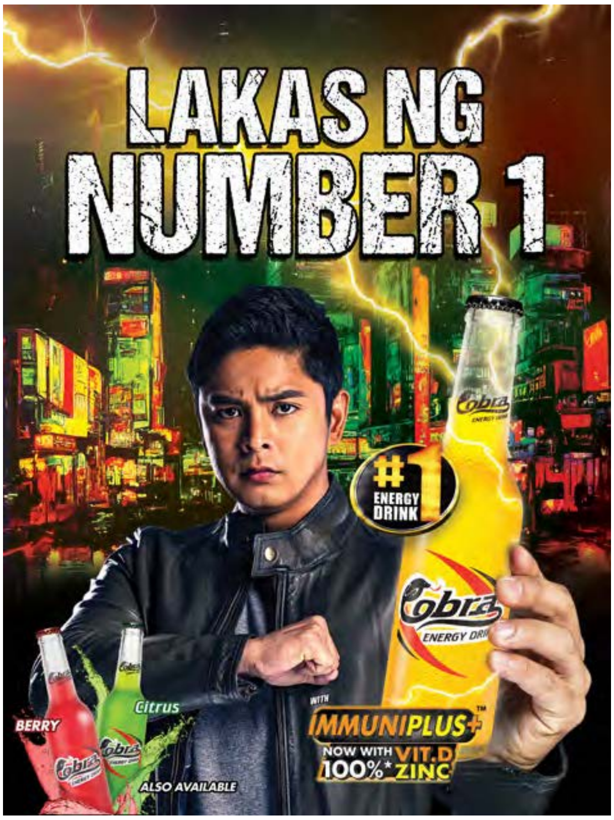
The year 2022 marked a strong market recovery as the full opening of the economy helped boost labor market conditions and drove domestic consumption. Despite soaring prices, the Philippine Household Final Consumption Expenditure reported a robust growth of 8.3% in 2022, coming from a 4.2% growth in 2021, with food and non-alcoholic beverages growing faster at 5.7% compared to 3.5% in the previous year. This helped fuel the expansion in the services and industry sectors, which provided a more favorable environment for the non-alcoholic beverage portfolio of the Company.

Backed by strong brands and 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 Php17.22 billion in 2022, a 24% increase from the Php13.92 billion generated in 2021.

Gross profit margins averaged 22%, just slightly below 23% in 2021 as soaring prices of strategic inputs along with the depreciation of the peso put pressures on margins.

Operating expenses increased by 15% due to higher marketing expenses and increased depreciation on containers to support the growth in sales volume. ABI's net income for the year reached Php583 million, a 23% improvement from Php475 million in 2021.

Cobra continued to recover strongly as it exceeded its pre-pandemic volumes in 2022 achieving double-digit growth while maintaining its #1 position in the energy



drinks market at 59% market share. Driving innovation in the market through the launch of Immuniplus™ as well as its aggressive expansion of Cobra Astig in PET format and campaigns to boost flavor variants, Cobra Citrus and Cobra Berry, Cobra expanded its volume base at the expense of the carbonated soft drinks (CSD) market. With its growing revenue base, Cobra remained ABI's flagship product, accounting for over a third of revenues.

Bottled water remained ABI's second biggest contributor to revenues. The lifting of mobility restrictions in 2022 allowed the "on-the-go" and modern trade markets to bounce back, driving the double-digit growth in ABI bottled water volumes, in line with industry. With its Absolute and Summit water brands, ABI remains to be one of the top three formidable industry players in the packaged water business.

The success of Summit brand ambassadors, Hidilyn Diaz in the Tokyo Olympics, EJ Obiena in the International Pole Vaulting Competitions, and Filipinas' historic qualification for the 2023 FIFA World Cup also served to enhance the brand's image as the bottled water for an active, on-the-go lifestyle.

Pioneering the local production of drinking water in premium glass packaging, Summit Still and Sparkling were launched in November 2017. To date, Summit continues to be the #1 brand in the still and sparkling water in glass format category with 90% market share—besting internationally-known brands in the market.

Vitamilk continued to dominate the soymilk market with a 75% market share due to its strong position as a healthy drink for young adults. Aside from protecting the core young adult market, Vitamilk built its portfolio to cater to moms and kids with its multi and single-serve products in tetra packaging.

The revival of on-premise outlets and the growth in tourism in 2022 allowed ABI's alcoholic beverage portfolio to gradually recover lost volumes during the pandemic.

Tanduay Ice, a key player in the alcopop market, grew significantly driven by the reactivation of communication efforts to reignite the interest of the entry-level drinkers in the brand.

Beer na Beer, ABI's multi-awarded beer, has also gone through a positive rebrand with BNB, highlighting a fresh new look to appeal to the new beer generation with an affordable price to make its way to more Filipino homes.

Paving the way for more quality beer to be enjoyed by the Filipino people, ABI launched Paraiso Craft Beer Style, made with high-quality malt, hops, yeast, and specialty ingredients that elevate the beer drinking experience with its clean and unique signature taste but at more affordable prices, making it accessible to the mainstream market.

Eton Properties Philippines, Inc.

Eton WestEnd Square

As the economy started to stabilize in 2022, the Company maintained a steady performance with Total Revenues of Php2.15 billion and a Net Income of Php 373 million. The results were mainly attributable to the prudent financial strategy of the Company.

Eton increased its leasing revenues by 9% from Php1.6 billion to Php1.8 billion on the back of aggressive efforts to source new locators to invest in various projects of the Company. The Company also improved its Debt-to-Equity Ratio by 16% from 0.69:1 to 0.58:1. Total Equity increased by 2% to Php19.61 billion as of end-2022.

As Eton rebounds from the pandemic, the leasing business continues to be the Company's most significant contributor to total revenues. The office leasing business contributed 72% of total revenues, while commercial and retail leasing added 17%. The balance of 11% was from residential and other leasing properties.

In 2022, over 7,200 square meters of additional office space was leased out in eWestPod building and Blakes Tower inside the one-hectare Eton WestEnd Square township in Makati City and Centris Cyberpod One in the Eton Centris township in Quezon City. Meanwhile, Centris Cyberpods Two and Three continued to have high occupancy rates at 89% and 100%, respectively. In 2023, Eton expects the Office Leasing business to improve as companies, especially from the IT-BPO sector, expand their operations due to a positive economic outlook.

Commercial Leasing, on the other hand, is expected to increase its portfolio as the four-hectare Eton City Square, a commercial complex in the 600-hectare Eton City township in Sta. Rosa, Laguna was already 95% complete as of end-2022. Village Walk, envisioned

Multi-awarded Blakes Tower at Eton WestEnd Square Makati

Centris Cyberpod 1 to 3 along EDSA, Quezon City

The Mini Suites at Eton Tower Makati

as a modern lifestyle commercial center, is also open for land lease—thereby increasing commercial retail spaces for Eton City. More retail stores are slated to open in various Eton commercial properties in Makati, Quezon City, and Sta. Rosa, Laguna.

Residential Leasing increased its portfolio in 2022 to close to 40,000 square meters from around 19,500 square meters in 2021 with the completion of Blakes Tower. In 2023, Eton expects a steady increase in occupancy rates as face-to-face classes resume and more companies require employees to return to work. The Mini Suites at Eton Tower Makati also made a sound performance in 2022, as it benefited from the rebound in travel in the final quarter.

Philippine National Bank

Financial Performance

Philippine National Bank (PNB) registered a net income of Php11.8 billion in 2022, with total operating income growing by 19% from 2021, coming from sustained growth in core income and supplemented by substantial gains on disposal of the Bank's low-earning foreclosed properties.

Amid the rising interest rate environment in 2022, the net interest income of the Bank reached Php37.3 billion, up by 7% year-on-year (y-o-y) due to higher yields on interest-earning assets. This translated to the net interest margin improving to 3.42% from 3.10% from the previous year. The Bank's core income was further boosted by the 5% growth in its fee-based revenues largely coming from fees on its deposits, bancassurance, and underwriting transactions.

As part of its strategic initiatives to reduce low-earning assets, the Bank concluded several sale transactions involving high-value foreclosed properties in 2022, which generated net gains on sale and exchange of Php7.8 billion during the year, almost 8 times higher than the gains recorded in 2021.

Furthermore, gains from foreign exchange transactions expanded to Php1.6 billion, up by 116% y-o-y. These gains cushioned the impact of trading losses recorded in 2022 amounting to Php1.3 billion with the uptrend in interest rates, brought about by the global monetary tightening during the year.

In 2021, the Bank reported a one-off gain coming from the transfer of properties into PNB Holdings Corporation (PHC) which significantly increased the prior year's net income by Php33.4 billion. This caused the comparative net income in 2022 to be lower by 65%. However, taking out the effect of this one-off gain, the Bank's pre-tax income showed growth of 2.4 times y-o-y on the back of stronger core operating income in 2022.

Operating expenses posted a moderate increase of 9% y-o-y excluding provisions for credit losses on account of the taxes related to the property sales, as well as higher amortization costs for the leased properties of the Bank where it is currently holding its operations.

The Bank's gross loan portfolio settled at Php615.3 billion as of end-December 2022, lower by 3% from the prior year's level, reflective of the Bank's lending stance to fast-track collection of short-term loans with minimal profitability and re-direct new loan grants to essential sectors that thrive in the new normal. Credit provisions on the loan accounts are 33% lower than the year-ago level arising from improvements in payment and credit status in 2022 of certain large exposures of the Bank.

On the funding side, the Bank's deposit liabilities likewise were reduced by 3% mainly due to the Bank's strategy to trim down higher-cost time deposits. However, this decline was tempered by the continued build-up of current and savings deposits, which together grew by 4% y-o-y.

Consequently, the total resources of the Bank stood at Php1.14 trillion by end-2022, 4% lower compared to the previous year's balance. Despite the economic challenges in 2022, the Bank's equity remained robust as it increased by 6% y-o-y, bringing the Capital Adequacy Ratio to 15.08% and the Common Equity Tier 1 Ratio to 14.24%.

Operational Highlights

As the local and global economies started to open and people's mobility improved, PNB continued to help its customers bounce back from the challenges brought by the COVID-19 pandemic.

The Bank focused on introducing initiatives that would make it more resilient and stronger amid potential crisis scenarios. Efforts were rolled out to transition to a paperless workflow as digitization efforts in internal and external processes were ramped up.

With the increase in preference for online banking, PNB accelerated digital transformation in terms of offering digital banking products and services for clients. The PNB Digital App recorded an increase in usage, user engagement, and value-adding features. PNB customers can now make withdrawal requests from their deposit accounts even without a debit card or a passbook. The app's security features were also strengthened, which was supported by intense awareness campaigns to educate customers on safe and secure online banking. Furthermore, the PNB Digital App now carries investment banking services, serving a wider range of clients with diverse banking needs.

The Bank's retail banking and lending groups continued to show improvements in both business and process. The effective strategy of deposit-taking and cross-selling led to substantial growth in the branch banking business. Efforts to streamline the branch network to enhance cost efficiency were also implemented during the year. On the other hand, the retail lending business made gains in improving loan portfolio and reducing past due and non-performing loans. PNB consumer loans are still among the most competitively-priced and flexible in the country.

Overseas, PNB's international banking and remittance business continued to thrive as the Bank harnessed partnerships to offer better services to *kababayans (fellow countrymen)*. Moreover, employees overseas gained accolades from their communities – proof that

anywhere in the world, Philnabankers' brand of service is highly appreciated and lauded.

In the credit cards business, the Bank saw hefty growth especially now that traveling has resumed, and consumer spending has improved. The Bank strengthened its partnership with PAL and Mabuhay Miles to offer more exciting perks to clients. To keep cards relevant to customers, PNB also launched acquisition promos with top-of-the-line prizes. Most importantly, the Bank partnered with one of the country's leading mall chains for an extensive acquisition campaign.

On the investment front, PNB wealth managers continued to offer varied investment tools to clients of diverse risk profiles. This was complemented by PNB's award-winning research team which has been recognized for the second straight year by Asiamoney Private Banking Awards 2022 as Best Bank for Investment Research in the Philippines.

The year 2022 was also PNB's second year of implementing its Three-Year Sustainability Transition Plan. The Bank's Sustainability journey includes: the update of several internal committee charters to include sustainability and sustainable financing clauses; the cascade of the Bank's sustainability policy to external stakeholders; ESG portfolio reviews for corporate accounts; automation and strengthening of digital channels; and collaboration with external subject matter experts for the Bank's Environmental and Social Risk Management System (ESRMS). These activities did not go unnoticed as PNB earned distinctions such as the Four Golden Arrow Award from the ASEAN Corporate Governance Scorecard Golden Arrow Awards; as one of Asia's Most Influential Companies from the Asia Corporate Excellence and Sustainability Awards; and for Transparency and Reporting from the UN Women 2022 Philippines Women's Empowerment Principles Awards.

As the economy regains its momentum, PNB will bounce back and focus on initiatives that will take advantage of the opportunities in a landscape that was radically transformed by the pandemic. PNB remains committed as a steady and dependable partner of the National Government in rebuilding the Philippine economy and making lives better for Filipinos – here and around the globe.

TOBACCO

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 and 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 2022, the excise tax on cigarettes was increased in accordance with Republic Act No. 11346. The new excise rates increased from Php 50 to Php 55 per pack from January 2022 until December 2022 with an increase of Php 5 every year until 2023, and an increase of 5 percent (5%) annually from January 2024 onwards.

PMFTC cigarette volumes decreased by 6.5% equivalent to 2.2 billion sticks, mainly reflecting market contraction, coupled with a decrease in PMFTC market share to 62.0%* which is down by 0.1 share points compared to last year driven by downtrading due to excise-driven industry price increase.

PMFTC employs around 4,290 employees and sources tobacco from around 12,008 tobacco 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 believes that giving back creates shared values that benefit the communities in which we operate. What we do at the community level depends on their needs with the aim of contributing to the achievement of the global Sustainable Development Goals (SDGs). Deeply anchored also on the objectives of Ambisyon Natin 2040, the charitable donations and community investments of PMFTC share the collective long-term vision and aspirations of the Filipino people for themselves and for the country in the next 25 years—all Filipinos will enjoy a strongly rooted, comfortable, and secure life or a matatag, maginhawa, at panatag na buhay.

Sales and Marketing
Marlboro continues to uphold its position of being the #1 cigarette brand in the Philippines*. In 2022, to further cement its leadership and brand loyalty, Marlboro launched campaigns that focused on superior flavor and freedom including Limited Edition Packs and a design upgrade for Marlboro Red, commemorating 50 years of being the #1 brand in the world*. Marlboro introduced Crafted Red in October 2022. At Php 7 per stick, Crafted Red offers the premium quality of the world's #1 at a more affordable price. These key Marlboro initiatives were supported by visibility materials at trade and programs, both digital and on-ground, for retailers and adult smokers.

In addition, Fortune underwent a major brand revamp through a packaging upgrade in March 2022 and maintained its suggested retail price at Php 6 per stick. This allowed the brand to remain competitive in the low-price segment and become more relatable and up-to-date in the eyes of adult smokers. This revamp was supported by digital trade and consumer platforms, and via point-of-sale materials (POSM).

Chesterfield started 2022 strong by making its two main variants: Chesterfield Original and Chesterfield Remix Cool 100s available nationwide. Bolstered by a sustained full-year support plan for both retailers and adult smokers, spanning from visibility to engagement, these launches fast-tracked the growth of Chesterfield, making it one of the fastest-growing brands in the Philippines.

Bringing Better Cigarette Alternatives to Filipino Adult Smokers
LT Group Inc., together with Philip Morris International through PMFTC Inc., is building its future on a new category of smoke-free products that, while not risk-free, is a much better choice than continuing to smoke combustible cigarettes. IQOS, the world's number one heated tobacco system, is a precisely-controlled heating device in which a specially-designed heated tobacco unit is inserted and heated to generate aerosol. IQOS produces on average 90-95% lower levels of toxic chemicals compared to conventional cigarettes. (Important information: It does not necessarily equal a 90-95% or 95% reduction in risk. IQOS and BONDS by IQOS are not risk-free. "95% less" represents the average reduction in levels of a range of harmful chemicals, excluding nicotine, compared to the smoke of a reference cigarette. See Important Information on IQOS.com)

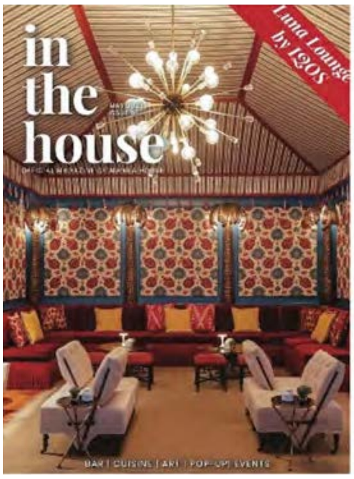
IQOS Retail Stores and Designated Vaping Areas

Since 2020, IQOS has gained more presence and has been made more available to Filipino adult smokers who would otherwise continue to smoke or use other nicotine products. This included commercial expansion

*Based on Nielsen Retail Trade Audit, December 2022

of branded retail stores and designated vaping areas in Metro Manila and other key cities.

This was complemented with the opening of The Luna Lounge by IQOS in Manila House Private Members Club in Taguig City last April 2022 and extended partnerships with key accounts, authorized stores and delivery couriers to increase availability of heated tobacco sticks nationwide.



IQOS Lounge, Manila House

Convenience Stores

In November 2022, the Philippines was the first country to launch a new product from IQOS, BONDS by IQOS, with its accompanying specially designed tobacco sticks, BLENDS. BONDS by IQOS is a compact, low-maintenance, and hassle-free to use smoke-free offer equipped with a bladeless-heating technology, ROUNDHEAT TOBACCO SYSTEM™. When BONDS by IQOS heats the tobacco, it emits 95% less harmful chemicals compared to cigarettes. ("90%-95% or 95% less" represents the average reductions in levels of a range of harmful chemicals, excluding nicotine, compared to the smoke of a reference cigarette. See Important Information on IQOS.com)

Operations
PMFTC Manufacturing continued its Integrated Operating System (IOS) journey with the introduction of LEAP 2024 as a Compelling Business Need (CBN) to drive manufacturing to achieve 3 years (2022-2024) operation goals of productivity, product quality improvement, a step change in capacity improvement and readiness of the organization for Manufacturing of the Future.

Capacity Optimization projects were initiated in the Batangas and Marikina manufacturing sites and in line with the PMI announcement of investment in the Philippines in Smoke-Free Products (SFP) Manufacturing, the project of manufacturing readiness was also kicked off in 2Q22.

Illicit Trade
The tax-driven price hikes have resulted in a steady increase in illicit trade which Euromonitor estimated at 14% in 2022. Cigarette excise taxes have annually increased by Php 5 per pack since 2019, resulting in a tax rate of Php 55 per pack of legitimate cigarettes by 2022. Smuggled illicit cigarettes are sold at Php 40 per pack.

A 3Q22 survey on the prevalence of illicit cigarettes conducted by Kantar showed that Mindanao accounts for the highest incidence of illicit packs (32.6% from 22.2% in 4Q21), with Luzon (6.4% from 4.9% in 4Q21) and Visayas (3.5% from 1.2% in 4Q21) as distant second and third respectively.

The price gap between illicit cigarettes and legitimate cigarettes ranges from 66% - 200%. Since illicit cigarettes are cheaper than PMFTC's brands, they become an attractive alternative for smokers, particularly younger adults and those with low income. The legislated annual increase of excise taxes on tobacco products further widens the price gap between legal and illicit cigarettes, making illicit cigarettes even more attractive.

In response to the increasing incidence of illicit trade in the Philippines, PMFTC regularly engages various internal and external stakeholders to raise awareness about the illegal cigarette trade problem which includes capacity building such as training on how to spot an illicit cigarette product. This also includes direct engagements with more than 300,000 tobacco points of sales and sustained information campaign on social and traditional media directed at retailers and consumers.

There is a continuing education and information campaign directed at law enforcement agencies focusing on the illicit trade in cigarettes. Part of the briefing relates to the illicit trade incidence study which provides law enforcement agencies with geographic areas where illicit cigarettes are rampant.

Through trade partners and retailer organizations, PMFTC conducts anti-illicit trade information campaigns.

The Company has embarked on a demand reduction campaign by educating retailers and consumers about the kinds and consequences of patronizing illicit cigarettes with the goal of denormalizing the selling of illicit cigarettes.

As of December 2022, the Company has conducted at least 33 training sessions with 1,102 attendees composed of retailers, law enforcement officials, and internal stakeholders.

The Company also supports the enactment of legislations at local and national level. On December 12, 2022, the House of Representatives passed on third reading House Bill no. 3917, amending the Anti-Agricultural Smuggling Act to include smuggling of tobacco and tobacco products including cigarettes and heated tobacco products as economic sabotage with a penalty of thirty to forty years of imprisonment. The House Bill will be transmitted to the Senate for a counterpart bill. On June 6, 2022, the Bureau of Internal Revenue (BIR) issued a Revenue Memorandum Circular fixing the floor price of cigarettes at Php 82.49 per pack and listing registered brands of cigarettes, heated tobacco products, and vapor products that can be legally sold. On August 23, 2022, the BIR issued Revenue Memorandum Order No. 40-2022 instituting guidelines in the conduct of enforcement operations against illicit traders of cigarettes.

Some local government units have also passed ordinances penalizing retailers involved in the trade of illicit cigarettes with monetary penalties including revocation of business permits.

Enforcement teams of the BIR and Bureau of Customs continue their close coordination with law enforcement agencies in the fight against illicit trade.

People and Culture

As PMFTC ushered in the new normal in 2022, the Company remained steadfast in focusing on its mission of creating a workplace inspired by curiosity and innovation, empowered by inclusion and diversity, and driven and shaped by its people. In its fourth year, PMFTC has been awarded as TOP Employer in the Philippines and the Asia Pacific region. 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.

Reclaiming the Rhythm in Well-Being

As the Company navigates a new paradigm of work and embraces a hybrid work structure, it continues to adapt its approach on well-being to drive greater value and impact to employees' well-being. SMARTWORK was launched in April 2022, changing the face of modern work and providing greater flexibility, along with an increase in wellbeing and better collaboration.

In 1Q22, a cross-functional team was created to reassess current strategy and enhance programs in the four pillars of wellbeing: Psychosocial, Physical, Financial, and Community. Through this holistic model, the employees are empowered to take charge of their own wellbeing by providing them with adaptive and responsive programs and always-on resources.

Webinars were co-created with employees and facilitated by external subject matter experts—covering important topics on mental health, financial investment, leadership, nutrition, and physical health, and including in-person activities such as dance workouts.

Sparking a Grateful Workforce
In 3Q22, SINAG was launched—a digital and informal peer-to-peer gratitude platform that provides recognition that is frequent, personal, specific, and visible across the Company. Anchored on the PMI Leadership Model of Consumer-Centric, Forward-Looking and Empowering People, the platform empowers employees across all levels to appreciate one another, not just for going above and beyond at work, but also for the employees' everyday efforts, whether big or small.

Since its launch, 22% of the employees received recognition across functions and locations. Amplifying the message of gratitude, several employee engagements and activities have also been deployed, with the aim to pass on the gratitude or light to underserved communities.

Deepening the Talent Bench
Leveraging on the success of the pioneer batches of LEAP and RISE, a second cohort was launched—a testament to the program's strength in building the Company's talents of the future.

In September 2022, the LEAP program was adopted by Operations, welcoming 12 young engineering graduates and talented professionals who were immersed in highly experiential roles and projects under Manufacturing, Quality, and Open+.

LEAP
Leader Empowerment Accelerator Program

RISE

Before the year ended, 18 more LEAP graduate trainees plus 6 aspiring and highly-driven RISErs were integrated into the Commercial organization, adding depth to our pool of future leaders in Sales, Marketing, and RRP. This comes in the heels of the successful program completion of the pioneer batch—7 RISErs who now handle key managerial roles and Commercial projects.

Ambassadors of Inclusion and Diversity
PMFTC continues to champion inclusion and diversity exceeding its globally set target of 40% women in management positions. Beyond achieving this target, it is also inspiring to witness the passion of our women colleagues in self-organizing employee resource groups (ERGs) in manufacturing and field sales. These ERGs paved the way to create various relevant forums, well-being programs, and charitable activities fostering inclusion & support.

W1N PH

A series of Women Speak sessions were organized to discuss the most common workplace concerns of women. The Company's female leaders, both locally and globally, shared their stories and testimonies on how to rise above these challenges. Chita Herce, the Director for External Communications, and the Global I&D Heads—Silke Muenster (PMI Chief Diversity Officer) and Zeynep Ince (PMI Global Head for Inclusion & Diversity) participated in these conversations, inspiring fellow women leaders, employees, including new hires while fostering a stronger sense of belongingness for all.

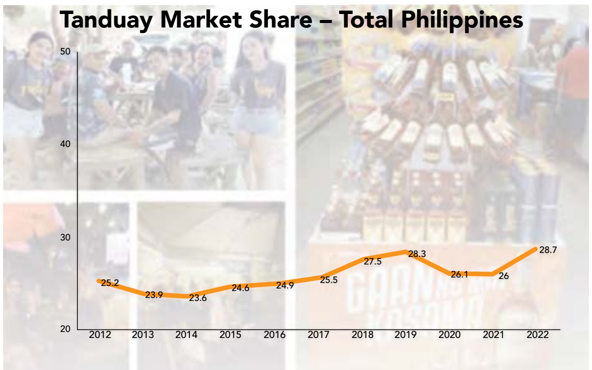
VISAYAS INCLUSIVE & EMPOWERED WOMEN
VIEW

As a member of the distinguished Philippine Financial & Inter-Industry Pride (PFIP), PMFTC continues to cultivate inclusion in private and public organizations by sponsoring the 2022 PFIP Pride Summit, where a strong number of LGBTQIA+ employers of choice gainfully discussed challenges, stories of inspiration, and potential solutions in creating a more inclusive environment in the country today.

Tanduay Distillers, Inc.

The Philippine economy posted a 7.2% GDP growth in 2022 as it continued its recovery from the coronavirus pandemic. The recovery momentum was however stalled towards the end of the year by soaring commodity prices, depreciating currency, and high interest rates due to various external headwinds. The lessening of pandemic restrictions boosted household consumption and investments which overshadowed the adverse effects of elevated inflation.

The Philippine liquor industry grew by 6% in terms of volume, to come closer to pre-pandemic levels but slower in comparison with the 10% growth in 2021 that rose from historically low volumes in 2020 due to the pandemic. On-trade sales increased as restrictions were eased enabling other types of alcoholic drinks other than spirits to take a bigger share of the market.



Tanduay liquor volumes went up by 16% as it capitalized on its continuing dominance of the Visayas-Mindanao (VisMin) market where three out of every four liquor drinkers patronize Tanduay brands. Significant improvement in the productivity of Tanduay's bottling plants also enabled the Company to push more products to the market. With its dominating performance in VisMin, Tanduay outgrew its competitors to further improve its share of the domestic liquor market in 2022.

Demand for bioethanol used as fuel grew in 2022 due to less mobility restrictions but with domestic production still constrained by limited feedstocks, imported ethanol was the main source of growth. Average selling prices of fuel ethanol also improved significantly due to the rising prices of molasses and sugar. Demand for alcohol for pharmaceutical use declined due to the easing of the pandemic.

Boosted by the double-digit growth in liquor volumes- and higher bioethanol selling prices, Tanduay's consolidated net income increased to Php1.47 billion or 18% better than 2021 figures. Excluding non-core income of Phh168 million on the revaluation of property (which is not recognized at the parent LTG-level) net profits went up by 17% to Php1.31 billion.

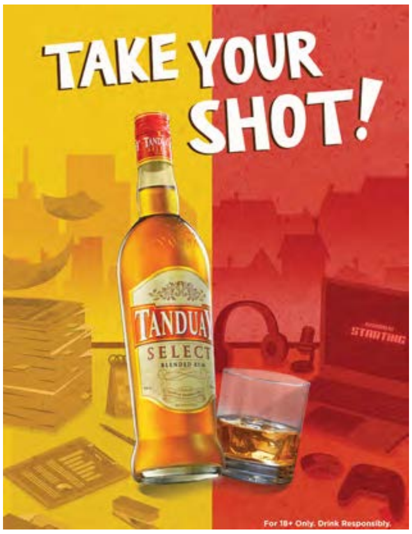
Tanduay's consolidated revenues for the year ended at Php31.6 billion, an 18% increase from 2021 coming from higher liquor volumes and average selling prices. The consolidated cost of sales grew by 19% to Php28.0 billion due to higher excise taxes and manufacturing costs. Gross profit ended 11% higher at Php3.6 billion for the year but this was offset by higher operating expenses reducing the increase in consolidated net income after tax to 5% or to Php1.30 billion compared to the previous year's Php1.24 billion.

Revenues from liquor went up to Php28.1 billion or 26% higher than in 2021 on account of the 16% increase in volume and the 9% improvement in selling prices. The cost of liquor sales increased at a faster pace though, by 30% to Php25.1 billion from Php19.4 billion in 2021. Excise taxes per case went up by 8% while unit costs of direct materials increased by 13% primarily due to the impact of the peso's depreciation on imported components.

Revenues from bioethanol went up by 21% primarily due to the 23% increase in average selling prices that negated the drop in volume by 1%. Margins improved by 11% as the increase in selling prices offset higher molasses and energy costs. The export business continues to grow as volume for 2022 rose by 16% as Tanduay products are now sold in more countries other than the USA like the United Kingdom, Canada, Costa Rica, Poland and Germany. In the USA, Tanduay is now sold in 16 states.

Tanduay also won major awards in the SIP Competitions held in Newport, California. Tanduay Especia Rum and Tanduay Asian Rum Silver won the Platinum Award in the Spiced Rum and White Rum Categories, respectively. Tanduay Double Rum garnered a silver in the Extra Aged Rum Category while Tanduay Asian Rum Gold got a silver in the Dark Rum Category. SIP is the only international spirits competition wherein consumers act as judges.

The country's economic growth is expected to slow down further as external headwinds and elevated inflation are seen to continue to dampen domestic demand. The challenge for Tanduay is to maintain its consumer base amid the projected erosion in consumer purchasing power and to adopt a more restrained approach to spending, as costs are expected to rise due to inflationary pressures.



Corporate Governance Report

LT Group, Inc. is fully committed to raising its standing in the universe of companies reputed for its exercise and practice of the rules of good corporate governance. The Company believes that this is the only way to repay the continued support and confidence of its Stockholders all through the years. The commitment is to improve and implement. Thus, in 2022, notwithstanding the limiting effect of the prevalence of the COVID-19 pandemic, the Company's Management, together with its Board of Directors, worked closely to ensure that all matters seeking immediate attention are timely and effectively resolved. Moreover, it approved and put in place additional policies and measures to ensure compliance with the recommendations of the Philippine Stock Exchange (PSE) and the Securities and Exchange Commission (SEC). These corporate governance practices and policies that were adopted and implemented are posted in the Company's website at www.ltg.com.ph.

BOARD COMPOSITION

The Board of Directors whose actions and decisions are guided by the Company's mission and vision statements, and its Revised Corporate Governance Manual, conducts its business in compliance with or consistent with the prescribed or suggested rules of the Securities and Exchange Commission. The Board conducts an annual review of the Company's vision and mission statements and compliance with corporate governance practices. The latest reviews were made on February 8, 2022 and February 14, 2023, respectively.

The board is composed of eleven (11) members, six (6) of which we proudly note are women while the balance is made up of five (5) men. The majority of the 11-member board serve as Non-Executive Directors (NED), while four (4) members serve as Independent Directors (ID). We are pleased to note that all Independent Directors are compliant with the prescribed qualification under Circular No. 16 Series of 2002 of the SEC. The Board of Directors is composed of the following:

Dr. Lucio C. Tan, *88, 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., **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, and 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%: 18 of 18 Board Meetings
Date of First Appointment: July 2, 1999
No. of Years on the Board: 23 Years
Other Information: No conflict of interest transactions in the past one (1) year.

Carmen K. Tan, *82, Director*
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%: 18 of 18 Board Meetings
Date of First Appointment: May 5, 2010
No. of Years on the Board: 12 Years
Other Information: No conflict of interest transactions in the past one (1) year.

Karlu T. Say, *53, Director*
Ms. Say is the Founder and Director of Dong-A Pharma Phils., Inc., Director and Chief Operating Officer of Eton Properties Management Corp., Eton Properties Philippines, Inc., PNB Holdings Corporation, and Director of Alliedbankers Insurance Corporation.

Board Attendance: 100%: 18 of 18 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, *57, President and Director*
Mr. Tan is a Director, President, and Chief Operating Officer of Asia Brewery, Inc.; Director of Tangent Holdings Corp., **MacroAsia Corporation**, **Philippine National Bank**, PMFTC Inc., Absolut Distillers, Inc., Tanduay Distillers, Inc., Tanduay Brands International, Inc., Trustmark Holdings Corporation, Shareholdings, Inc., Asia's Emerging Dragon Corporation, Paramount Land Equities, Inc., Allied Commercial Bank – Xiamen, Allied Banking Corp (Hongkong) Limited, PNB Global Remittance & Financial Company (HK) Ltd, Saturn Holdings, Inc. **Victorias Milling Company, Inc.**, Maranaw Hotel (Century Park Hotel), and Pan-Asia Securities Corp; and Director and Treasurer of Zuma Holdings and Management Corporation. He is a member of the ASEAN Business Advisory Council (ASEAN BAC) representing the Philippines, a Director and Vice President of the Federation of Filipino-Chinese Chambers of Commerce & Industry, Inc., a Director of the Philippine Chamber of Commerce and Industry (PCCI), and Trustee of the Help Educate and Rear Orphans (HERO) Foundation, Inc. In October 2022, he was appointed as a member of the Private Sector Advisory Council which is tasked to provide the Philippine President with advice and recommendations for economic reforms. 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.

Board Attendance: 100%: 18 of 18 Board Meetings
Date of First Appointment: February 21, 2003
No. of Years on the Board: 19 Years
Other Information: No conflict of interest transactions in the past one (1) year.

Lucio C. Tan III, *30, Vice Chairman and COO*
Mr. Tan is a Director, President, and Chief Operating Officer of Tanduay Distillers, Inc.; Vice Chairman and President of Sabre Travel Network Phils. Inc.; Vice President and Director of **PAL Holdings, Inc.**; Vice President of Dunmore Development Corporation; Director of Ali-Eton Property Development Corp, Air Philippines Corporation, Allied Club, Inc., Allied Water Services, Inc., Asia's Emerging Dragon Corporation, Belton Communities, Inc., Eton City, Inc., First Homes, Inc., Fortune Landequities and Resources, Inc., Lufthansa Technik Philippines, MacroAsia Airport Services Corp., MacroAsia Corporation, MacroAsia Catering Services, Inc., MacroAsia SATS Food Industries, MacroAsia SATS Inflight Services Corp., PMFTC Inc., Philippine Airlines, Inc., PNB Holdings Corporation, **Philippine National Bank**, and Prior Holdings Corp. He earned his Bachelor's Degree in Electrical Engineering from Stanford University in 2015 and Master's Degree in Computer Science from Stanford University in 2017.

Board Attendance: 100%: 18 of 18 Board Meeting
Date of First Appointment: December 17, 2019; May 4, 2022 as Vice Chairman and Chief Operating Officer
No. of Years on the Board: 3 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, the Founding Chairperson of Entrepreneurs School of Asia, and the Founding Trustee of Philippine Center for Entrepreneurship (Go Negosyo).

Board Attendance: 100%: 18 of 18 Board Meetings
Date of First Appointment: May 7, 2019
No. of Years on the Board: 4 Years
Other Information: No conflict of interest transactions in the past one (1) year.

Juanita T. Tan Lee, *80, Treasurer and Director*
Ms. Tan Lee is a 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%: 18 of 18 Board Meetings
Date of First Appointment: May 2, 2012
No. of Years on the Board: 10 Years
Other Information: No conflict of interest transactions in the past one (1) year.

Johnip G. Cua, *66, 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 Asia Brewery, Inc., Century Pacific Food, Inc., First Aviation Academy, **MacroAsia Corporation**, MacroAsia Catering Services, Inc., MacroAsia Airport Services Corporation, MacroAsia SATS Food Industries Corporation, MacroAsia SATS Inflight Services Corporation, **PAL Holdings, Inc.** and Philippine Airlines, Inc., PhilPlans First, Inc., and Tanduay Distillers, Inc. He is also a member of the Board of Directors of Interbake Marketing Corporation, Teambake Marketing 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%: 18 of 18 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, *70, 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 Plastic Industrial Association of the Philippines, and the Association of Volunteer Fire Chiefs and Firefighters of the Philippines; 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; Director of Philippine Dongshi Townmate Association, Inc., and Tripartite Member of National Tripartite Council.

Board Attendance: 89%: 16 of 18 Board Meetings
Date of First Appointment: May 7, 2019
No. of Years on the Board: 4 Years
Other Information: No conflict of interest transactions in the past one (1) year.

Wilfrido E. Sanchez, *86, Independent Director*
Mr. Sanchez is the Tax Counsel of Quiason Makalintal Barot Torres Ibarra Sison & Damaso Law Firm. He is an Independent Director of Asia Brewery, Inc., Eton Properties Philippines, Inc., **Philippine National Bank**, and Tanduay Distillers, Inc. Mr. Sanchez is a Trustee of Gokongwei Brothers Foundation and JVR Foundation; Director of **EEI Corporation**, EMCOR, Inc. **House of Investments**, Inc., J-DEL Investments and Management Corp., Kawasaki Motor Corp., KS Prime Financial Corp., K-Servico, Inc., Trimotors Technology Corp., and Wodel, 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%: 18 of 18 Board Meetings
Date of First Appointment: July 31, 2012
No. of Years on the Board: 10 Years
Other Information: No conflict of interest transactions in the past one (1) year.

Florencia G. Tarriela, *76, Independent Director*
Ms. Tarriela is a Director of PNB Capital and Investment Corporation and PNB International Investments Corporation; Independent Director of Nickel Asia Philippines (NAC); 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) and TSPI MBA. She is also a Former Chairman of **Philippine National Bank**, former Undersecretary of Finance, and the First Filipina Vice President of Citibank NA.

Board Attendance: 100%: 18 of 18 Board Meetings
Date of First Appointment: August 9, 2012
No. of Years on the Board: 10 Years
Other Information: No conflict of interest transactions in the past one (1) year.

BOARD RESPONSIBILITIES

The Company's Board of Directors holds its regular meetings every second Tuesday of the month, as prescribed in the By-Laws. The regular monthly meetings require the respective Chief Financial Officers (CFOs) of the different subsidiaries under the conglomerate to report on the operational results of their respective companies and likewise report on the other developments and target plans for the year. For quarterly meetings, aside from requiring the subsidiaries' CFOs to be present and report on their results, they are likewise joined by their respective Presidents/Chief Executive Officer (CEO) or Chief Operating Officers (COOs) of each of the subsidiaries.

In 2022, the Board of Directors conducted 18 meetings via remote communication. The Directors religiously attended these meetings and actively participated in the discussion and raised the issues that were needed to be raised and resolved. The attendance for each Director may be found below:

Board	Name	Date of Election	No. of Meetings Held during the year (2022)	No. of Meetings Attended	%
Chairman	Dr. Lucio C. Tan	05/04/2022	18	18	100
Member	Carmen K. Tan	05/04/2022	18	18	100
Member	Karlu T. Say	05/04/2022	18	18	100
Member	Michael G. Tan	05/04/2022	18	18	100
Member	Lucio C. Tan III	05/04/2022	18	18	100
Member	Vivienne K. Tan	05/04/2022	18	18	100
Member	Juanita T. Tan Lee	05/04/2022	18	18	100
Independent	Johnip G. Cua	05/04/2022	18	18	100
Independent	Mary G. Ng	05/04/2022	18	16	89
Independent	Wilfrido E. Sanchez	05/04/2022	18	18	100
Independent	Florencia G. Tarriela	05/04/2022	18	18	100

BOARD COMMITTEES

One of the functions of the Board is to foster the long-term success of the Company and sustain its competitiveness and profitability in a manner consistent with its corporate objectives and in the best interest of its stockholders and other stakeholders. Accordingly, to ensure that various tasks are properly managed and easily resolved, the Board formed five (5) committees, namely: (i) Audit Committee, (ii) Risk Management Committee, (iii) Executive Committee, (iv) Nomination and Compensation Committee, and (v) Corporate Governance Committee.

For each Committee, the Board adopts a charter which provides, among other things, the composition of the Committee, the qualifications of each member, and the functions, duties and responsibilities of the Committee.

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 main purpose of the Audit Committee is to assist the Board in its oversight functions. It is tasked to review (i) the financial reporting process, (ii) the system of internal control, (iii) the audit process, and (iv) the Company's process for monitoring compliance with laws and regulations and its own code of business conduct.

The Charter provides that for a member of said Committee to be able to perform his/her functions properly, it is necessary to obtain an understanding of the detailed responsibilities as a member, as well as the Company's business, operations, and risks.

Accordingly, the members were carefully chosen individuals who are equipped with the necessary professional experience and knowledge to properly execute their functions. They are 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) members are Independent Directors, including the Chairman.

In 2022, the Committee conducted six (6) 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	05/04/2022	6	6	100	5
Member (ID)	Wilfrido E. Sanchez	05/04/2022	6	6	100	9
Member (ID)	Florencia G. Tarriela	05/04/2022	6	6	100	9
Member (ID)	Mary G. Ng	05/04/2022	6	5	83	3
Member (ED)	Juanita T. Tan Lee	05/04/2022	6	6	100	9

For the calendar year 2022, the Committee:

- Approved the Audit Committee Charter
- Approved the Management Representation Letter in connection with SGV & Co.'s audits of the consolidated and separate financial statements of LT Group, Inc. as of December 31, 2021 and 2020 and for each of the three years covering the period of December 31, 2019 to December 31, 2021
- Approved the recommendation to select and appoint the Auditing Firm of SGV & Co. as the Company's External Auditor
- Approved the LTG Consolidated Financial Statements as of and for the period of 31 March 2022
- Approved the LTG Consolidated Financial Statements as of and for the period ended 30 June 2022
- Approved the Internal Audit Accomplishments for the year 2021, Internal Audit Plan, and Internal Audit Budget for the year 2022
- Reviewed and approved the Annual Report on the Internal Control Environment for 2021
- Reviewed and approved the Statement of Independence of Internal Audit
- Approved the Engagement Proposal of SGV & Co. for the conduct of the Corporate Governance Seminar
- Approved the LTG Consolidated Financial Statements as of and for the period of 30 September 2022
- Reviewed and approved the Engagement Letter of SGV & Co. for the 2022 Financial Audit

RISK MANAGEMENT COMMITTEE (RMC)

The main purpose of the Risk Management Committee is to assist the Board in fulfilling its oversight responsibilities to monitor the potential risk environment that may affect the sustainability of the Company and or may affect the many aspect of the Company's operation or profitability. The Committee facilitates continuous improvement in managing the Company's priority risks.

In compliance with its Charter and the recommendations of good corporate governance, the RMC 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) members are Independent Directors, including the Chairman.

In 2022, the Committee conducted six (6) 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)	Mary G. Ng	05/04/2022	6	6	100	1
Member (ID)	Wilfrido E. Sanchez	05/04/2022	6	6	100	1
Member (ID)	Florencia G. Tarriela	05/04/2022	6	6	100	1
Member (ID)	Johnip G. Cua	05/04/2022	6	6	100	1
Member (ED)	Juanita T. Tan Lee	05/04/2022	6	6	100	1

These meetings involve presentations from the different subsidiaries of their respective risk management frameworks and risks which should be regularly monitored by the RMC.

EXECUTIVE COMMITTEE (EXCOM)

The Executive Committee's role and authority are derived from and limited to functions not expressly reserved to be exercised by the Board of Directors under the laws of the Philippines, the Company By-Laws, and its Revised Corporate Governance Manual. The EXCOM provides a mechanism for Board leaders to engage, within the limits set by the Board policy and the Company's By-laws, in decision-making, oversight, and communication on important organizational matters. Based on its Charter, its task is to ensure that the Board properly manages the businesses and affairs of the Company.

The Committee 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. Lucio C. Tan III, and Mr. Johnip G. Cua as members.

In accordance with its Charter, the Committee is expected to hold meetings only on an "as-need basis". No EXCOM meetings were conducted in the year 2022. There was no urgent matter requiring the convening of the Executive Committee meeting.

NOMINATION AND COMPENSATION COMMITTEE (NCC)

The objective of the Nomination and Compensation Committee is to ensure a formal and transparent Board nomination process, and to select, compensate, monitor and, when necessary, replace key executives and oversee succession planning.

It is composed of seven (7) directors with Dr. Lucio C. Tan as Chairman and Ms. Karlu T. Say, Mr. Michael G. Tan, Mr. Lucio C. Tan III, 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. Hence, on February 8, 2022, the Committee convened and passed upon the qualifications of candidates who were nominated for election at the Annual Stockholders' Meeting (ASM) held last May 4, 2022. 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 (years)
Chairman (ED)	Dr. Lucio C. Tan	05/04/2022	1	1	100	23
Member (NED)	Karlu T. Say	05/04/2022	1	1	100	2
Member (ED)	Michael G. Tan	05/04/2022	1	1	100	19
Member (ED)	Juanita T. Tan Lee	05/04/2022	1	1	100	10
Member (ID)	Mary G. Ng	05/04/2022	1	1	100	3
Member (ID)	Wilfrido E. Sanchez	05/04/2022	1	1	100	10
Member (NED)	Lucio C. Tan III*	05/04/2022	0	0	0	0

*Mr. Lucio C. Tan III was only appointed last May 4, 2022.

CORPORATE GOVERNANCE COMMITTEE (CGC)

One of the main functions of the Corporate Governance Committee is to ensure the Board's effectiveness and due observance of corporate governance principles and guidelines. It is tasked to ensure that the principles declared and enumerated in the Revised Corporate Governance Manual adopted by the Company are practiced, observed, and complied with by the Board of Directors and Management. More importantly, it is the CGC's primary responsibility to ensure the Company's compliance with the Philippine laws, rules and regulations, and the SEC recommendations on good corporate governance for publicly-listed companies.

The CGC is composed of six (6) directors with Ms. Florencia G. Tarriela as Chairman and Mr. Michael G. Tan, Mr. Lucio C. Tan III, Ms. Juanita T. Tan Lee, Mr. Johnip G. Cua, and Ms. Mary G. Ng as members.

In the year 2022, the Committee held a meeting 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.

The Company likewise conducted a performance evaluation last November 11, 2022 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 2022 meetings:

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee (years)
Chairman (ID)	Florencia G. Tarriela	05/04/2022	1	1	100	9
Member (ED)	Michael G. Tan	05/04/2022	1	1	100	9
Member (ED)	Juanita T, Tan Lee	05/04/2022	1	1	100	9
Member (ID)	Johnip G. Cua	05/04/2022	1	1	100	5
Member (ID)	Mary G. Ng	05/04/2022	1	1	100	1
Member (NED)	Lucio C. Tan III*	05/04/2022	1	0	0	0

*Mr. Lucio C. Tan III was only appointed last May 4, 2022

MANAGEMENT

The Company's Management is led by the able and experienced leadership of its Chairman and CEO, Dr. Lucio C. Tan, its Vice Chairman and COO, Mr. Lucio C. Tan III, and President, Mr. Michael G. Tan. By working together, and with the united and informed decision-making of its Board of Directors, the Company was able to deal with the highly critical and sensitive issues efficiently and effectively.

The Company held its Annual Stockholders' Meeting last May 4, 2022 which was attended 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

All senior officers and directors of companies are required to annually attend a seminar on Corporate Governance conducted by an SEC-accredited institution to keep themselves up-to-date with the current trends and necessities of being globally competitive. This is in accordance with SEC Memorandum Circular No. 20, series of 2013.

In this relation, the Company conducted a Group-wide Corporate Governance Seminar via the Zoom webinar app for all companies under the Lucio Tan Group last September 14, 2022, with SGV & Co. as its service provider. The seminar was attended by the Directors, Officers, and essential employees of the whole 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
Vivienne K. Tan	Florencia G. Tarriela

Board Advisor:

Peter Y. Ong

Officers:
Ma. Cecilia L. Pesayco – Corporate Secretary
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

On the other hand, Mr. Lucio C. Tan III, Vice Chairman and COO, and Atty. Marivic T. Moya, Assistant Corporate Secretary, attended via Zoom the Corporate Governance Seminar conducted by the Center for Global Best Practices on October 21, 2022.

DISCLOSURE AND TRANSPARENCY
UNSTRUCTURED DISCLOSURES

In 2022, the Company made the following disclosures to the SEC and the Philippine Stock Exchange (PSE) which disclosures were subsequently uploaded to its website for proper and efficient dissemination of information to its Stockholders:

Date of Report	Subject Matter Disclosed
February 9, 2022	Calling of the Annual Stockholders' Meeting
March 7, 2022	Calling of the Analysts'/Investors' Briefing
March 16, 2022	Declaration of Regular Cash Dividend of Php0.15 per share and Special Cash Dividend of Php0.15 per share to all its Stockholders as of March 30, 2022.
March 18, 2022	Press Release: LTG Reports 2021 Unaudited Attributable Net Income of Php20.25 billion, 4% Lower than 2020's Php21.02 billion.
March 21, 2022	Annual Report of the Company
March 23, 2022	Manual of Corporate Governance of the Company
May 5, 2022	Results of Annual Stockholders' Meeting and Organizational Meeting of the Board of Directors
May 5, 2022	Material Information/Press Release: Outlook for 2022
May 5, 2022	Calling of the Analysts'/Investors' Briefing
May 12, 2022	Integrated Annual Corporate Governance Report (I-ACGR) of the Company
May 13, 2022	Press Release: LTG Reports First Quarter 2022 Attributable Net Income of Php6.53 billion, 1% Higher than 1Q21's Php6.49 billion
May 18, 2022	Declaration of Special Cash Dividend of Php0.30 per share to all stockholders of record as of May 31, 2022
August 1, 2022	Calling of the Analysts'/Investors' Briefing
August 12, 2022	Material Information/Press Release: LTG Reports First Half 2022 Attributable Net Income of Php15.40 billion, 313% Higher than 1H21's Php3.73 billion
August 17, 2022	Declaration of Special Cash Dividend of Php0.30 per share to all its Stockholders as of September 2, 2022
September 2, 2022	Material Information/Transaction: Sale of Asian Alcohol Corporation
October 4, 2022	Certificates of Attendance in Corporate Governance Seminar
November 2, 2022	Calling of the Analysts'/Investors' Briefing
November 10, 2022	Appointment of Mr. Chester Y. Luy as member of the Board of Advisors of the Company
November 11, 2022	Press Release: LTG Reports First Nine Months 2022 Attributable Net Income of Php20.41 billion, 105% Higher than 9M2021's Php9.95 billion
November 18, 2022	Certificates of Attendance in Corporate Governance Seminar of Mr. Lucio C. Tan III and Atty. Marivic T. Moya
November 18, 2022	Declaration of Special Cash Dividend of Php0.50 per share to all its Stockholders as of December 6, 2022
December 1, 2022	Change in Directors and/or Officers: Early Retirement of Atty. Erwin C. Go as Chief Counsel and the Appointment of Atty. Abelardo T. Domondon as the Chief Counsel
December 1, 2022	Initial Statement of Beneficial Ownership of Securities of Atty. Abelardo T. Domondon
December 13, 2022	Material Information/Transaction: Intended but not consummated Sale and Purchase Agreement by Tanduay Distillers, Inc together with Prior Holdings, Inc. and Castelbridge Investment Corporation and acquisition by Victorias Milling Company, Inc. of 100% of the outstanding capital stock of Asian Alcohol Corporation

DISCLOSURE AND TIMING

The Company, as a publicly-listed company, is responsible to ensure compliance with the rules and regulations of the SEC and the PSE and provide the investing public with immediate information of any material information relating to or affecting the Company.

With its firm commitment to achieving good corporate governance, the Company files and submits with the SEC and subsequently discloses with the PSE, 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 likewise posted on the Company website at www.ltg.com.ph for immediate dissemination of information to its Stockholders and the investing public.

These submissions and disclosures include material information, press releases, and declaration of dividends. Moreover, as a Company practice, and further to the recommendations for good corporate governance, the Minutes of the Annual Stockholders' Meeting (ASM) are uploaded to the Company 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 2022 were submitted to the SEC and the PSE on March 20, 2023, 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 the 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)	2023 (Estimate)	9,406,320	830,720	3,102,000
	2022	8,551,200	755,200	2,820,000
	2021	8,040,000	670,000	2,890,000
All other officers and directors as a group unnamed	2023 (Estimate)	–	–	7,496,500
	2022	–	–	6,815,000
	2021	400,000	33,333	6,800,000

*Others – Includes per diem of directors

The following constitute 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.
3. Atty. Ma. Cecilia L. Pesayco is the Corporate Secretary.
4. Ms. Juanita T. Tan Lee is the Treasurer.

EXTERNAL AUDITOR

The Company, through its Audit Committee, regularly reviews and evaluates the performance of its External Auditor before making the necessary recommendation to the Board for its approval.

The Audit Committee conducted an assessment evaluation of the four biggest Audit Firms to handle the audit requirement of the Company and its subsidiaries. After due study and evaluation, the Audit Committee recommended to retain the services of the auditing firm Sycip Gorres Velayo & Co. (SGV & Co.), with Ms. Aileen L. Saringan as the partner-in-charge.

Accordingly, SGV & Co. provides 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 2022, the Company incurred audit fees of Php1,426,000.00, exclusive of Out-of-Pocket Expenses.

DEALINGS IN SECURITIES

All directors and principal officers are prohibited from dealing in the Company's securities during the period within which a material non-public information is obtained and up to two (2) full trading days after the price-sensitive information is disclosed, bearing in mind the following dates for the Company's reports:

Annual Report – within 105 days after the end of the fiscal year
Quarterly Report – within 45 days from end of the first 3 quarters of the fiscal year
Other periodical report – as may be prescribed by the PSE.

With respect to 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-2021	Direct shares As of end-2022	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	-
Karlu T. Say	1,000	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	2,200	2,200	NIL	-
TOTAL	**1,166,796**	**1,166,796**	**530,000**	**-**

Trading Blackouts

The Company strictly observes and implements a policy against insider trading and fraudulent practices. As such, it implements a policy on trading blackouts which covers directors, officers, advisers, consultants, and employees who may have knowledge on material facts regarding matters which may affect the Company. The following are the blackout periods before the financials are disclosed to the public:

For quarterly reports – two weeks before disclosure; and
For year-end financials – one month or thirty (30) days before disclosure.

During the Blackout Period, the covered persons 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.

In 2022, 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

Stockholders are highly encouraged to participate in Company activities and business endeavors outside the Annual and/or Special Stockholders' Meeting. As such, they are allowed to exercise their rights which include:

Right to Participate

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. To do so, Stockholders are called to personally attend the ASM with an option to designate an authorized representative should they be unavailable.

In accordance with the Revised Corporation Code and the Company's by-laws, 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 the purpose 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, is 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.

In compliance with the Notice from the SEC dated February 16, 2022, Notices to the ASM held last May 4, 2022 were published in print and online format at least twenty-one (21) days prior to the scheduled date of the Meeting. The 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.

Right to Vote
Stockholders are entitled to exercise their right to vote on various matters by submitting their voting instructions to the Office of the Corporate Secretary within the period stated in the Notice to the Stockholders' Meeting. This right is in accordance with the Revised Corporation Code of the Philippines and includes 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.

Nevertheless, 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, except for the election of Directors and such other matters where the law requires a different threshold for approval.

The Minutes of the most recent Stockholders' Meeting is posted in the Company website. This includes the attendance, all matters taken up during the Meeting, as well as all resolutions approved, and the recorded abstains, dissents, and approvals.

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
In keeping with good corporate governance and its duty as a publicly-listed company, its Stockholders and the investing public are granted immediate access to material information via the Company 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 in the Company, such as when there is a need for special reserve for probable contingencies.

In 2022, the Company four (4) times declared and distributed the following regular/special cash dividends:

Date	Dividends	Payment
March 16, 2022	Regular Cash Dividend of Php0.15 per share and Special Cash Dividend of Php0.15 per share to all its Stockholders as of record date of March 30, 2022	April 12, 2022
May 18, 2022	Special Cash Dividend of Php0.30 per share to all its Stockholders as of record of May 31, 2022	June 15, 2022
August 17, 2022	Special Cash Dividend of Php0.30 per share to all its Stockholders as of record of September 2, 2022	September 15, 2022
November 18, 2022	Special Cash Dividend of Php0.50 per share to all its Stockholders as of record of December 6, 2022	December 16, 2022

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 declarations as stated above, payments were made within 30 days after it was approved by the Board and disclosed to the PSE.

Appraisal Right
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.

EMPLOYEE RELATIONS

The Company considers the contributions of its employees vital in the daily operations of the business. As such, since the start of the COVID-19 pandemic, the Company has implemented various measures to ensure the safety of not only its employees but their families as well. Vaccination drives were conducted across the whole Group, which included their family members, and hybrid working arrangements became the norm to prevent unnecessary exposure to the virus.

Moreover, various online activities coupled with regular physical and mental health assessments were conducted to keep the high spirits and zeal of its employees.

CORPORATE GOVERNANCE MANUAL AND POLICIES

The principles and practices of good corporate governance implemented by the Company are contained in its Revised Corporate Governance Manual. 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.

In keeping with its duty to ensure that the Company is compliant with its policies, the CGC conducts regular meetings to review and evaluate the said Manual and other Company policies.

Moreover, the Corporate Secretary likewise ensures to inform the Board and Management of the latest issuances of the different regulatory agencies.

Corporate Governance Confirmation Statement
The Company adheres to and fully complies with the recommendations of good corporate governance as provided in the SEC-mandated submission of the Integrated Annual Corporate Governance Report (I-ACGR) and the Code of Corporate Governance for Publicly Listed Companies.

To ensure substantial compliance, the CGC conducts meetings to discuss the matters which should be implemented and resolved. Notwithstanding the foregoing, the Company has yet to comply with the following recommended 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.

AWARDS AND DISTINCTIONS

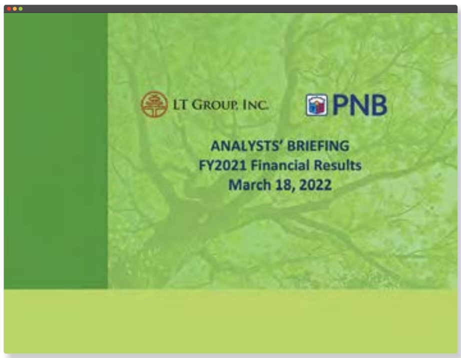
The Company's efforts in improving its practices and policies to ensure compliance with the Philippine Code of Corporate Governance and the internationally recommended corporate governance practices by the ASEAN Corporate Governance Scorecard (ACGS) was not left unnoticed by the Institute of Corporate Directors (ICD), the duly appointed domestic ranking body of the SEC.

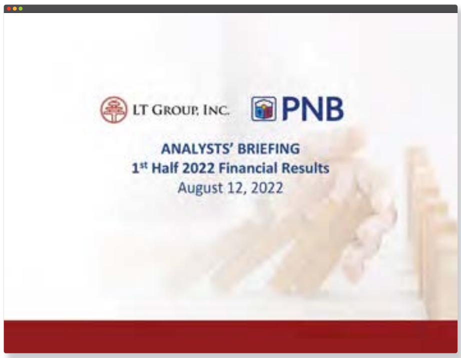
As a testament to the Company's dedication and commitment, it received the three (3) golden arrows during the ICD's recognition ceremony on January 20, 2023. Golden arrows are awarded by the ICD to companies that achieve scores of at least 80 points in the ACGS Assessment, to a maximum score of 130 points. For the year 2021, the Company garnered a score of 106.09 points.

INVESTOR RELATIONS
The Company maintains open communications 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 2022, all of LTG's quarterly analysts' briefings, conducted with PNB, were all virtual. Over 50 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 2021 Results on March 18, 2022
- First Quarter 2022 Results on May 13, 2022
- First Half 2022 Results on August 12, 2022
- Nine Months 2022 Results on November 11, 2022





TAN YAN KEE FOUNDATION, INC.

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

All 20 TYKFI-Foundation for Liberty and Prosperity (FLP) Scholars Passed the Bar Exam; New Scholarships Given

20 scholars took the 2020/2021 bar exams on April 12, 2022 and passed.

Name	School
Banoar R. Abratique	University of Cordilleras
Pamela Camille A. Barredo	Far Eastern University
Angelette C. Bulacan	Far Eastern University
Patricia isabel Cornelio	Far Eastern University
Stephanie Mae B. Domingo	University of the Cordilleras
Patrick Angela M. Gutierrez	Far Eastern University
Mayumi G. Matsumura	Ateneo de Manila University
Juralyn Lilian A. Obra	University of the Cordilleras
Carmella Gaye D. Perez	University of San Carlos
Edrea Jean V. Ramirez	University of Santo Tomas
William Christian P. Dela Cruz	Father Saturnino Urios University
Ricka Abigael Dumelod	University of Santo Tomas
Florida K. Fomaneg	University of the Philippines
Rowell Nico S. Macalino	Ateneo de Manila University
Joy Francine B. Mappang	University of the Cordilleras
Geremae M. Mata	University of San Carlos
Carlo Angelo T. Negado	University of San Carlos
Laurence M. Obaob	University of San Carlos
Jani G. Omamalin	University of San Carlos
Stephen Mark C. Sy	University of the Philippines

Meanwhile, 11 third-year and 10 fourth-year law students were given scholarships for the school year 2021-2022.

Brigada Eskwela

- In June 2022, a set of painting materials were donated to the Tan Yan Kee Elementary School in Barangay Balete, Sta. Fe, Nueva Vizcaya.
- Nagtenga Elementary School in Sta. Cruz, Ilocos Sur, construction materials were given for the repair of the canteen
- For Sidaoan Elementary School, materials and paint were given to repair the termite-ridden classroom of Grade 2

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:

- Language Match Baseline Study in the Bangsamoro of Muslim Mindanao
- Of Math and Memes
- Making the World Better through Extreme E-Service Learning
- Aral (Doctrine), Asal, (Manners) Dasal (Prayer): Problematizing Philippine Education in a Post-Truth Era
- Updated the Teaching Support Materials for Teachers in English, Mathematics, and Science
- Partnered with Philippine Normal University for STEM Teaching Fellowship

Tan Yan Kee Library Summer Classes

Online summer classes were held for 30 students, aged 6 to 12 years old from May 3 to July 8.

TYKFI-Saint Teresita's Academy (STA) Scholars

Two career orientation sessions were conducted for 41 senior high school scholars who are children of farmers. The topics were about Agriculture and Forestry. There are currently 87 scholars in STA.

TYKFI-Asia Brewery, Inc. Medical Specialty Scholar

Dr. Evangelyn Grace M. Matias completed her one-year training in Transplant Nephrology at McMaster University – St. Joseph Healthcare Hamilton in Ontario, Canada.

School Supplies as Face to Face Classes Start

School supplies were given to 352 students from Babayoan Elementary School and Nagtenga Elementary School in Nueva Vizcaya and Sidaoen Elementary School in Ilocos Sur. The children were given school bags, pens, pencils, notebooks, undergarments, and uniform shirts. Dong-A Pharma also gave hygiene products.

Scholarships for UPLB Students

Four BS Forestry students in University of the Philippines – Los Baños were given scholarships for the second semester of School Year 2021-2022.

HEALTH SERVICES

Distribution of Anti-COVID Medical Supplies to LGUs

3,000 surgical masks and 11,850 face masks were given to the municipalities of Santa Fe and Aritao in Nueva Vizcaya. Also included were 120 bottles of 900ml hand sanitizers from Dong-A Pharma Phils., Inc.

SOCIAL WELFARE

Holiday Gifts

- On December 17, 519 elementary pupils in Sidaoen, Nagtenga, and Babyonan in Sta. Cruz, Ilocos Sur were each given 5-kilogram packs of rice, a Christmas Eve package with spaghetti, cheese, powdered iced tea drink, Vitamilk soy milk, and snacks.

- 41 five-kilogram sacks of rice were donated to the residents of Bagong Silang, Caloocan City

Hope Caravan for Victims of Typhoon Karding

Typhoon Karding hit in September 2022. On October 9, the Hope Caravan of TYKFI donated 750 10-kilogram sacks of rice to the farmers of Ipil-Ipil, Yakal, Mulawin, and Almaciga in Dingalan, Aurora. PAL Foundation also participated and gave out hygiene kits, drawing kits for children, neck pillows, hand sanitizers, and canned goods.

ENVIRONMENT

Dr. Lucio C. Tan Legacy Forest Project

The forest project, now in its eight year, covers 930 hectares and 56 hectares in Carranglan, Nueva Ecija. Species planted include alibangbang, sampaloc, and pine. In 2022, 28 hectares were planted with 32,577 seedlings.

In the 56-hectare Friendship Park, a study was conducted that showed there are 37,328 trees and plants that belong to 56 species were planted.

COVID-19 MASKS IN PARTNERSHIP WITH TEMASEK FOUNDATION

Photo on the right shows TF Chief Executive Officer Ng Boon Heong (right) and LTG President Michael G. Tan (left) during the ceremonial signing of the Deed of Donation. The event was witnessed by Philippine Ambassador to Singapore Joseph M. Yap and TF Senior Director Gerard Yeo

To help the Philippines in its continuing COVID-19 response, Singapore's Temasek Foundation International (TF) partnered with LT Group, Inc. (LTG) to donate eight million face masks to various local government units in the country.

During simple turnover rites, TF Chief Executive Officer Ng Boon Heong signed the Deed of Donation together with LTG President Michael G. Tan. The event was witnessed by Philippine Ambassador to Singapore Joseph M. Yap and TF Senior Director Gerard Yeo.

Based on the Deed of Donation, each BYD Care surgical mask is for single-use only and provides three layers of protection with a particle filtration efficiency of >95%. "We are making available up to 8 million pieces of the masks to the LT Group Inc for deployment to the local government units and communities in the Philippines," the Foundation said.

Temasek paid for the masks while LTG handled freight costs from Singapore to Manila, as well as the cost of distributing the masks to various LGUs throughout the Philippines.

KN95 FACE MASKS FOR MAKATI. *The City of Makati is the recipient of 500,000 KN95 face masks from Singapore's Temasek Foundation in partnership with LT Group Inc. to help in the city's continuing fight against COVID. Photo shows Singapore Ambassador Gerard Ho (left) and LTG President Michael Tan (2nd from left) leading the ceremonial turnover with Mayor Abby Binay and husband Makati District Rep. Luis Campos receiving the donation.*

Delivery of 500,000 masks to Makati

3 GOOD HEALTH AND WELL-BEING
6 CLEAN WATER AND SANITATION
17 PARTNERSHIPS FOR THE GOALS

250,000 masks for Cabuyao, Laguna were delivered in two batches

500,000 masks were donated to Quezon City

With Manila's Mayor Isko Moreno who received 500,000 masks

200,000 masks delivered to San Juan City

500,000 masks for Pasay City were delivered to the Pasay Sports Complex

With Pasay Mayor Emi Calixto-Rubiano

250,000 masks were delivered to the Province of Pampanga

150,000 masks were delivered at a warehouse in Las Piñas City

250,000 masks for Santa Rosa, Laguna

With Lian, Batangas Mayor Joseph Peji who received 100,000 masks

With Marikina Mayor Marcy Teodoro who received 250,000 masks

250,000 masks were given to Bulacan Province and delivered to Bulacan Medical Center

Mayor Sonny Collantes with PMFTC personnel during the turnover of 250,000 masks for Tanauan, Batangas

Mount Bulusan located in the Bicol Region erupted on June 12, 2022. LTG sent 300 cases of 350ml and 500 cases of 6-liter White Label Absolute water, as well as 200,000 masks from Temasek. These were given through Governor Francisco "Chiz" Escudero of Sorsogon.

Water, a basic human need, is always LTG's top priority donation during calamities. Through the "Help Flows" program of Asia Brewery, Inc., 350-milliliter and 6-liter bottles—bearing white labels with "Donated by Lucio Tan Group of Companies" and "Not for Sale"—were donated instead of the usual green labels used in commercially-sold bottles.

Sorsogon Governor Francis "Chiz" Escudero during the ceremonial turnover of the masks with Singapore Ambassador Gerard Ho and LT Group, Inc. President Michael G. Tan

White Label Absolute water and masks at Bibincahan Gym in Sorsogon City

ASIA BREWERY, INC.

Brigada Eskwela (School Brigade), Bayanihan Para sa Paaralan (Cooperation for Schools), Tugon sa Hamon ng Ligtas na Balik Aral (Response to the Challenge of Safe Back-to-School)
ABI Employees participated in various activities to help public schools for the school opening

In August, employees in Cabuyao helped in the rehabilitation of classrooms and clean-up drive in preparation for the class opening.

From August to September, the Company donated bond paper, printers, and reading books to public schools in various areas where ABI plants are located.

World Teachers' Day Celebration in October in Cabuyao

Balik Eskwela participation of El Salvador employees in August

Plant a Tree, Save the World
From June to August 2022, employees in the plants in Pampanga, Davao, El Salvador, and Cabuyao were encouraged to plant trees.

On-the-Job Training
ABI allowed thirteen students from Polytechnic University of the Philippines' (PUP) Sta. Rosa and Sto. Tomas campuses, AMA University - Calamba, and National University – Calamba to get on-the-job training in its Cabuyao, Laguna facility.

Book Donation Drive
Employees were encouraged to Give a Gift of Reading by donating books to orphanages. Employees in Cabuyao, Pampanga, and El Salvador in Misamis Oriental participated.

Bottled Water for Expectant Mothers
ABI participated in the annual program of the Cabuyao Local Government Unit (LGU) where expectant mothers are taught the importance of pre- and post-natal screening and breastfeeding. ABI donated 50 boxes of Absolute 6-liter bottles.

ETON PROPERTIES PHILIPPINES, INC.

Kanlungan ni (Shelter of) Maria

Eton Properties extended its blessings to Kanlungan ni Maria, a non-profit organization that helps the poor, abandoned, neglected, homeless, and sick elderly, located in Antipolo City. Eton donated fresh vegetables in December, that included 95 kilograms of squash, okra, cucumbers, string beans, gourds, and sweet potato leaves that were bought from the farmers of the Dr. Lucio Tan Legacy Forest, as well as two sacks of rice. There are currently 23 elderly people under the care of the organization.

Masaganang Palayan (Prosperous Ricefields) Project

Eton continued to support the Masaganang Palayan Project in Nueva Ecija. For 2022, around 150 kilos of hybrid palay seedlings were donated.

Parol- (Lantern-) Making Contest

Eton partnered with the Quezon City local government unit for the second year of the annual parol-making contest, which was participated in by different barangays/villages in Quezon City.

Group Home for Abandoned Older Women

Eton donated vegetables and fruits purchased from the Dr. Lucio Tan Legacy Forest farmers to the Group Home for Abandoned Older Women in San Juan City. It is a community-based residential care facility for abandoned and indigent older women. The donation included over 90 kilos of green beans, okra, gourds, cucumbers, snow cabbage, papaya, and bananas. Fifty kilos of rice were also donated.

Eton Properties Partners with Rotary Club in the Fight Against Polio

Eton Properties partnered with the Rotary Club of Quezon City Big Bike Riders (RCQC BBR) with 2,500 members to join the worldwide cause to eradicate polio. A two-day event called "Motorcycle and Music Festival with Rotary Fellowship to End Polio Now," was held on October 28 and 29 at Eton Centris in Quezon City. The fund-raising activity was for the benefit of Rotary International's End Polio Now.

PHILIPPINE NATIONAL BANK

PNB CommuniTree: Together as One for the Environment

In celebration of PNB's 106th anniversary, in partnership with TYKFI, 833 Falcata (Paraserianthes falcataria) seedlings were planted on July 30 in Barangay Mamuyao, Tanay, Rizal. Bank employees in other areas were also encouraged to participate in their localities bringing to 1,150 the number of forest and fruit-bearing tree seedlings that were planted.

Access to Fresh Vegetables

PNB Employees and outsourced personnel had access to fresh vegetables from the TYKFI Legacy Forest farmers in Nueva Ecija. Vegetables were delivered weekly and were sold at low prices.

Health and Wellness

The Bank sponsored various activities for the health and wellness of employees. These include:

- Virtual power classes on yoga
- Fun runs
- Cycling activities during the Bank's anniversary in July
- Health care coverage with Annual Physical Examination (APE), medical teleconsultation hotlines, and 24/7 Mental Health Hotline via Konsulta MD
- An internal mental health hotline manned by an in-house certified Psychosocial Support Facilitator.
- Webinars on mental health and developing good habits for employees

Employee Voluntarism

In 2022, 845 employees rendered an estimated 2,775 volunteer man-hours in their respective communities. An estimate of 1,665 individuals from 832 families and 48 communities benefited from these activities, which include:

- Packing and distributing relief goods
- Planting trees
- Coastal clean-ups
- Community clean-up drives
- Gift-giving
- Feeding children and families
- Bloodletting
- Medical and dental missions.

Donation of Decommissioned Computers

PNB donated 30 decommissioned desktop computers and a laptop to Dr. Pablito V. Mendoza Senior High School in Bustos, Bulacan on December 7.

Wellness and Sustainability Fair

PNB organized a Wellness and Sustainability Fair, in partnership with Philippine Airlines, with the theme of "Welcoming Wellness and Sustainability in the Hybrid Workspace" for the employees of the two companies. The week-long fair offered online and onsite activities which included wellness webinar sessions on career, social, financial, physical, and community well-being.

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. In 2022, the campaign's messaging made use of global and local ESG observances like World Wetlands Day and Plastic-Free July.

E-Greeting Card Project
PNB launched the Sustainability e-Greeting Cards Project for its internal and external stakeholders in October 2022. The objective is to help establish or maintain relations with clients or external partners, as well as help the Bank communicate its business strategy and sustainability thrusts, activities, and initiatives to its external stakeholders to align expectations. Editable electronic greeting card templates are generated for each national holiday (e.g., Christmas or Easter, etc.) or special occasions (e.g., birthdays, Company anniversaries, etc.).

Financial Literacy, Wellness, and Sustainable Financing Learning Sessions for Existing and Potential Clients
An estimate of 14,593 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.

PMFTC INC.

Mechanization Key to Sustainable Food Production
In September 2022, PMFTC donated harvesters and tractors to the Provincial Government of Nueva Ecija to upgrade the post-harvest tools of farmer groups. Approximately 2,000 rice farmers and farm workers will benefit from this donation. Maintenance of the equipment and other consumables will be provided by the Provincial Government of Nueva Ecija.

Whole-of-Nation Approach in Disaster Relief and Response

Behind the scenes of every crisis, a whole-of-nation approach is needed for efficient response and recovery. It requires partnership with various government agencies and members of society to avoid duplication of efforts and inefficiencies. In addition to food rations, medical support, and other response paraphernalia mitigating the impact on rural communities that bear the brunt of natural disasters, our interventions also included capacity-building measures to enhance the communications infrastructure of our civil-military units for more rapid and comprehensive disaster response.

Super Typhoon Odette (December 2021) and Abra Earthquake (July 2022). More than 1.7 million individuals were provided with timely emergency relief assistance through the provision of water, food, medicines, and other immediate needs.

September 2022, Camp Panacan, Davao City. Ceremonial groundbreaking of Communications Hub to reinforce the capability of our civil-military units in Eastern Mindanao to receive and disseminate timely information especially during complex emergencies.

Clean Water and Water And Sanitation Hygiene (WASH) in Public Settings

Drinking water and water filtration systems were provided to help prevent diseases and other health risks directly caused by unsafe water, especially in vulnerable communities in times of disaster. PMFTC also featured good practices and promotion of handwashing across workplaces, communities, and school settings and supported the improvement of WASH facilities in six primary schools in Batangas. This intervention also helped ensure safe school reopening and reduce disease transmission in public settings.

November 2022, Mindanao. On the eve of All Saints Day, typhoon Paeng and the tail end of the frontal weather system brought flash floods and rain-induced landslides in Mindanao. As an immediate response, clean drinking water was provided to at least 6,000 individuals in the provinces of Maguindanao, Sultan Kudarat, and Cotabato.

August and September 2022, Batangas. Elementary school students practice good hygiene as they wash their hands using the newly constructed facility within the school premises. A total of six handwashing facilities was donated to six schools in two towns in the province of Batangas.

Merit-based Scholarship in Science, Technology, Engineering, and Mathematics (STEM)

Eight scholars nationwide embarked on a four- to five-year STEM-related course. This is also aimed at increasing the number of women graduates in STEM.

Preventive Healthcare for Children and the Elderly

Preventive health care helps maintain good health. Screenings are important to avoid future health problems or catch them early when they are easier to treat. But the COVID-19 pandemic has led to a decrease in preventive screenings because some patients have been hesitant to seek preventive check-ups. PMFTC has leveraged the flexibility and adaptability of portable diagnosis systems to fill in gaps to reach social-economically underserved populations in both urban and rural areas, particularly children and the elderly.



In partnership with different local government units and other like-minded organizations, at least 161,000 vulnerable individuals (the majority are women and children) received free health checkups. During these medical-related events, patients were given the opportunity to consult health practitioners and, at the same time, receive proper prescription-based on the outcome of diagnostics tests performed on the same day and on-site.

Upgrading Healthcare Infrastructure

Transfusions of blood and blood products save millions of lives every year. To help ensure that those who need it have access to supplies of safe and quality-assured blood and blood products, we are helping equip Sta. Ana Hospital to have its own blood bank. The turn-key project is intended for people with immune deficiencies or blood diseases, especially in this time of the COVID-19 pandemic.

October 2022, Manila City. The groundbreaking ceremony and signing of the Deed of Donation of the Blood bank facility, which will house six state-of-the-art bleeding stations for Sta. Ana Hospital was attended by representatives of the Manila LGU, Jaime V. Ongpin Foundation Inc. The blood bank is expected to accommodate at least 480 blood collection procedures per month to support the various medical services offered by Sta. Ana Hospital to the public.

Alliances for Litter-Free Surroundings

Littering is an issue that affects not just the people living in a community, but also the environment at large. In 2022, various cleanups were conducted in collaboration with government agencies, civil society organizations, and volunteer employees. Several like-minded organizations made a commitment to participate in the annual World Cleanup Day as an awareness-raising initiative to promote litter-free communities.


A total of 17,438 individuals have participated in a nationwide clean-up in 12 major sites in Luzon, Visayas, and Mindanao, including, Baguio, Marikina, Makati-Mandaluyong, Taguig, Batangas, Bulacan, Las Pinas, Bacolod, Cebu, Cagayan De Oro, Zamboanga,

TANDUAY DISTILLERS, INC.

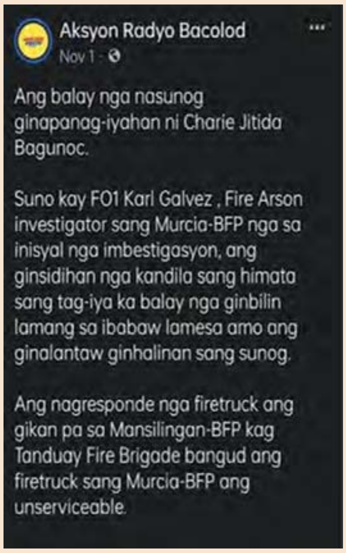
Tree Planting and Coastal Clean-up in Laiya Aplaya, San Juan, Batangas
On June 17, 2022, TDI Cabuyao conducted coastal clean-up and tree-planting activities together with the Regional Civil Service Unit 4A Laguna, and in partnership with PENRO 4A. A total of 225 seedlings were planted at Brgy. Laiya Aplaya, San Juan, Batangas.

Adopt-an-Estero (Estuary) Program
Adopt-an-Estero Program is a quarterly collaboration among the residents living near the estero, Tanduay El Salvador, and the Department of Energy and Natural Resources -Environment Management Bureau (DENR-EMB) of Region X. The objectives of the program are to clean the estero of wastes, debris, and silt, to mobilize communities in cleaning the estero, and to enlist their active participation in maintaining a clean estero for the future.

Various Fire Responses by Tanduay's Firemen
TDI's firetrucks and firemen responded to various fire incidents near the areas where the factories are located.

In Zone 1 Linabo, Cogon, El Salvador City, Misamis Oriental. The fire started at around 2030H at the Control Room of Donau Carbon Philippines Incorporated

On December 21, TDI El Salvador received a call from El Salvador BFP Station requesting assistance for a burning house in Barangay Himaya



Aksyon Radyo Bacolod
Nov 1

Ang balay nga nasunog ginapanag-iyahan ni Charie Jitida Bagunoc.

Suno kay FO1 Karl Galvez , Fire Arson investigator sang Murcia-BFP nga sa inisyal nga imbestigasyon, ang ginsidihan nga kandila sang himata sang tag-iya ka balay nga ginbilin lamang sa ibabaw lamesa amo ang ginalantaw ginhalinan sang sunog.

Ang nagresponde nga firetruck ang gikan pa sa Mansilingan-BFP kag Tanduay Fire Brigade bangud ang firetruck sang Murcia-BFP ang unserviceable.

Tanduay Murcia had nine fire emergency responses in 2022—four in residential areas, four in sugarcane fields, and one was a grass fire.

Donation to Bolisong Elementary School
On May 31, 2022, TDI El Salvador donated trash bins, scrap plyboards, and wooden pallets to Bolisong Elementary School in El Salvador, Misamis Oriental. These were used for water storage, fabrication of cabinets, and solid waste segregation and management respectively.

City-Wide Multisectoral Tree Planting Activity in Cabuyao, Laguna
On August 1, 2022, TDI Cabuyao joined the Multisectoral Tree Planting activity where 500 seedlings of Dita, 135 seedlings of Kabuyaw, and 1,000 Palo Santo seedlings were distributed to barangays, subdivisions, and selected locations/landmarks in the area.

Flushing of Public Market Canals
On December 12, 2022, TDI Murcia conducted the flushing of market canals at Murcia Public Market as requested by the LGU. It is to help the local market maintain cleanliness in their facility.

Mangrove Tree-Planting
On December 19, 2022, TDI El Salvador in partnership with DENR-EMB Region X conducted a Mangrove tree-planting activity at Barangay Sinaloc, El Salvador City. The event is in celebration of the National Environmental Awareness Month, National Clean Air Month, and Climate Change Conscious Week.

Adopt-A-Continuous Ambient Air Quality Monitoring Station (CAAQMS) Program
In partnership with the Environmental Management Bureau Region X, Tanduay El Salvador contributed to the success of the Adopt-A-Continuous Ambient Air Quality Monitoring Station (CAAQMS) Program and was awarded a Plaque of Appreciation by the Department of Environment and Natural Resources. The inauguration of the monitoring station and awarding to partners were done on December 12, 2022 at Xavier University - Pueblo de Oro Campus, Upper Carmen, Cagayan de Oro City.

2022 Highlights and Contribution to the UN SDGs

> "This year's sustainability report, with the theme "Advancing our Sustainability Journey," shows our steady progress toward becoming a sustainable and inclusive business despite ongoing challenges."

Dr. Lucio C. Tan
Chairman and Chief Executive Officer

ECONOMIC AND GOVERNANCE

8 DECENT WORK AND ECONOMIC GROWTH

Direct Economic Value *in Php Billions*

	2020	2021	2022
GENERATED	114.77	112.81	128.28
DISTRIBUTED	101.26	103.66	112.76

Php12.08 bn spent in employee wages and benefits

5 GENDER EQUALITY

55% of women on the Board

33% of women in senior management roles

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

ACGS ASEAN CORPORATE GOVERNANCE SCORECARD

Received **three** Golden Arrows **(LT Group, Inc.)** and **four** Golden Arrows **(PNB)** at the 2022 ACGS Golden Arrow Awards

ENVIRONMENT

6 CLEAN WATER AND SANITATION

Water withdrawal

2022	**7,562.54 ML**
2021	**7,214.09 ML**
2020	**7,795.68 ML**

7 AFFORDABLE AND CLEAN ENERGY

Two-megawatt solar power generation facility in Lian, Batangas supplying electric power to the National Grid Corporation of the Philippines (NGCP)

- **2,447,718.6 kWh** total energy generated

Green Power Initiative

- **Renewable energy for Luzon manufacturing sites** from Shell Energy
- **13.8 megawatt solar photovoltaic (PV) system** on manufacturing facilities
- **Cabuyao's Solar Project** that will be operational by Q4 of 2023

11 SUSTAINABLE CITIES AND COMMUNITIES

Waste generated

2022	**7,867.58 mt**
2021	**6,210.40 mt**
2020	**8,839.50 mt**

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Overall energy consumption

2022	**2.55 million GJ**
2021	**1.91 million GJ**
2020	**3.24 million GJ**

13 CLIMATE ACTION

Total carbon footprint

2022	**218,178 tCO_2e**
2021	**263,163 tCO_2e**
2020	**259,435 tCO_2e**

15 LIFE ON LAND

Carbon dioxide sequestration potential of **493.66 metric tons** via the Legacy Forest

Produced **22 tons of various crops** via the Agroforestry Farm Project at Barangay Digdig in Carrangalan, Nueva Ecija

"We have made steady progress toward deepening the integration of sustainability principles into our business practices over the past years."

Michael G. Tan
President

EMPLOYEES

3 GOOD HEALTH AND WELL-BEING

12,325
employees covered by the OHS management system

26,460,502 safe man hours

22% of trainings are focused on mental health of all employees

4 QUALITY EDUCATION

425,508
total training hours

5 GENDER EQUALITY

41%
female employees

8 DECENT WORK AND ECONOMIC GROWTH

12,325
total employees

100% received regular performance and career development review

CUSTOMERS

3 GOOD HEALTH AND WELL-BEING

ZERO
incidents of non-compliance with regulations on customer health and safety

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

1,575 ATMs, **179** CAMs, and **8,367** POS Terminals

25,341 enrolled users and **6,504** new enrollments in the PNB Cashnet mobile app

SOCIETY

1 NO POVERTY

Php 25.91 million total community investments

Php 40,000/year quarterly tilapia fingerlings dispersal at Lian River

Php 36,000/year Rice Donation to Fisherfolk of Brgy. San Diego, Lian, Batangas

2 ZERO HUNGER

150kg of hybrid palay seedlings donated to farmers of Masaganang Palayan Project in Nueva Ecija

367,108.51 metric tons of Liquid Fertilizers donated to Sugarcane Farmers

4 QUALITY EDUCATION

Php 170,908 amount of in-kind donations for Brigada Eskwela, Balik Eskwela Program, Teacher's Day, Give a Gift Reading

Donated 30 decommissioned desktop computers and one laptop for the use of students of Dr. Pablito V. Mendoza Senior HS in Bustos, Bulacan

36 Dual Training System Trainees and 435/month of allowances provided and one Dual Tech School maintained via the Brigada Eskwela Program

Career orientation sessions for 41 senior high school beneficiaries of the TYKFI-STA Scholarship Program for Farmers' Children

School bags donated to 415 elementary school pupils in Sta. Cruz, Ilocos Sur

10kgs sacks of white rice donated to over **522 pupils and 29 teachers** in Sta. Cruz, Ilocos Sur

The 2022 LTG Sustainability Report has been prepared in accordance with the Global Reporting Initiative (GRI) Standards: Core Option; the sustainability reporting guide provided by the Philippine SEC in Memorandum Circular No. 4, Series of 2019; Sustainable Accounting Standards Board (SASB) and the Task Force on Climate-related Financial Disclosures (TCFD). 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: https://ltg.com.ph/sustainability-reports/

ASIA BREWERY, INC.

Job Fairs
ABI participated in virtual and face-to-face job fairs which resulted in 33 personnel being hired. This was in partnership with different government agencies and the academe.

National ID
ABI made arrangements with the National Statistics Office to allow employees of Cabuyao, Laguna to be able to register for their National IDs on site.

Health of Employees
Asia Brewery continued to look out for the health of its employees against COVID-19 in 2022:

- From January to March 2022, ABI provided its employees in its offices and plants with Soomlab masks (N95)

- COVID-19 vaccination booster shots through the LTG and in coordination with different Local Government Units (LGUs)

- Rapid Antigen Testing of symptomatic employees and visitors/travelers from outside the country

ABI also provided the following for the general health of employees:

- On-site pneumococcal vaccination were administered by the company's nurses in the Makati Head Office, Cabuyao, San Fernando, and Pasig facilities. Employees were able to avail of the vaccination for their families, with payment via salary deductions.

Environment, Health, and Safety (EHS)
In September, the different plant and business units showcased the skills of their employees related to critical responses during emergencies such as fire, earthquake, and the like. Interested employees are also given EHS-related training by accredited safety training providers.

Work and Life Balance

The company had various activities to promote a healthy work and life balance:

ABI's 40th Founding Anniversary

Valentine's Day Activities

Mother's Day

Father's Day

AB Nutribev's Fifth Founding Anniversary

Halloween Trick or Treat Activity

Christmas Tree Lighting Activity

Year-end party

Interbev Phils., Inc.'s 19th Founding Anniversary

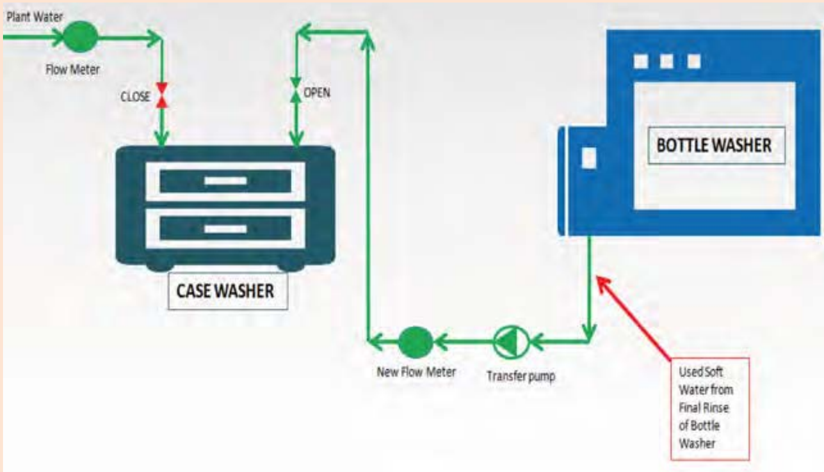
General Assembly on November 10

Employee Training
400 HR personnel, supervisors, managers and department heads were given training on Handling Employee Discipline and Its Consequences in June to July 2022. These covered personnel nationwide—in ABI's offices, plants, and major sales offices.

ABI implemented Online or Digital Learning for employees to enhance their skills

Training on grievance handling was conducted in El Salvador Complex on July 8

Improving the Efficiency of Production, Machines, and Equipment
The shift of Cobra 350 ml PET Secondary packaging from wrap around cartons to shrink wrap resulted in annual savings of over Php17 million.



Recovery of final rinse water at bottle washing section reduced water consumption—which saved over 1,600 hectoliters per month.

Recovery of rinse water at bottled water rinser and filler translated to savings of Php 242K per year.

Reduction of Residual Waste for Hauling
At the glass plant in Sta. Rosa, Laguna, ferrous metal was segregated from residual waste to decrease the number of hauling trips and eventually reduce the cost of hauling. This resulted in savings of Php 460K in 2022.

Bloodletting Drive
In April, July, and November, ABI had bloodletting drives in its facilities in Cabuyao, Laguna and El Salvador, Misamis Oriental in coordination with the National Red Cross.

Renewable Energy

TotalEnergies ENEOS Signs a Solar Rooftop Project for Asia Brewery, a Major Player in the Philippines' Beverage and Industrial Packaging Industry

Mr. Michael G. Tan (left), President and COO of Asia Brewery, Inc. (ABI) and Mr. Bernd Krukenberg (right), President and COO of Shell Energy Philippines, Inc. (Shell) signed a contract for the supply of 15MW of renewable energy for ABI's plants in Luzon on July 26. The renewable energy will be from solar, geothermal and hydro sources.

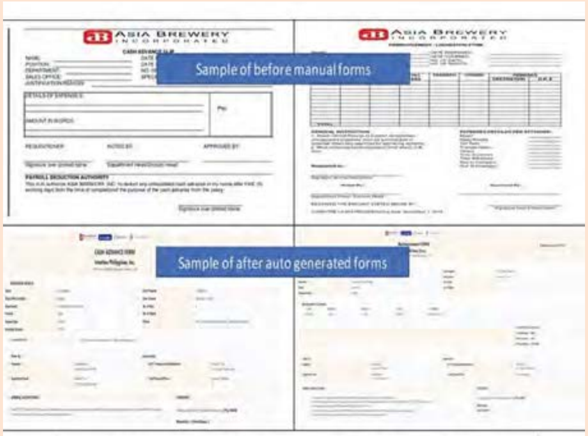
Service Awards
In December, ABI recognized employees' loyalty to the Company and awarded those who excel in their chosen fields.

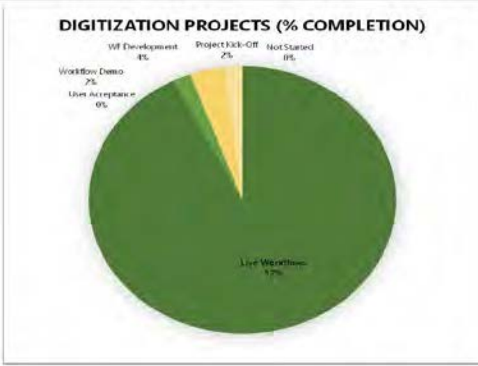
In-House Training Programs

ABI provided 1,424 employees with in-house training programs in its various facilities

Dredging the Area between ABI's Complex and the Barangay Sala Residential Area

In August, to eliminate flooding in the area where ABI Complex and the Barangay Sala community are located, dredging was conducted with the Department of Public Works and Highways. Some of the sludge, around 7 to 8 truckloads, was placed in the dumping area of the glass plant's silica. Non-hazardous waste was mixed with the pile of fine cullet.





Digitalization

ABI continued its shift to paperless transactions. Fifty-four (54) workflows are currently paperless.

Award from the Department of Environment and Natural Resources (DENR)

ABI received a Plaque of Appreciation from the DENR-Environmental Management Bureau (EMB) Region X for its ambient air monitoring equipment.

PHILIPPINE NATIONAL BANK

Environmental and Social Risk Management System (ESRMS)
In compliance with Bangko Sentral ng Pilipinas (BSP) Circular Numbers 1085 (Sustainable Finance Framework) and 1128 (ESRMS), PNB is developing its ESRMS with the assistance of TYKFI with its Subject Matter Experts (SMEs) from the academe.

The BSP Circulars require the bank to have a set of policies, procedures, and tools to identify, assess, monitor, and mitigate exposure of the bank to environmental and social (E & S) risks, particularly on credit risk management and operational risk management.

Reduction of Energy and Water Consumption, Carbon Footprint
The Bank is using energy-efficient LED lights and inverter-type air conditioning units in all offices. Employees are constantly enjoined to do their part in reducing the carbon footprint of the Bank by unplugging office equipment that are not being used and minimizing the use of office equipment and lighting. There is a trip maximization policy where official business travel is subject to approval. Regular preventive maintenance of generator sets was also conducted by a third-party service. This resulted in savings of Php1.9 million in 2022.

The Bank conducts regular maintenance activities year-round to ensure sufficient water supply, inspect water supply equipment for wear and tear, and repair water leakages, as needed. Water-efficient fixtures and fittings were also put in place to help to conserve water. This resulted in savings of Php255k in 2022.

Financing Green and Sustainable Businesses and Projects
PNB provides financing or support for sustainable businesses and projects such as food manufacturing, agricultural production, water distribution and supply, energy generation and distribution, construction and operation of tolls roads and bridges, telecommunications infrastructure, responsible packaging, construction of green buildings and health facilities that promote nation building and countryside development.

The Bank continues to provide support for environmentally-compliant projects such as: Operation of Toll Roads and Bridges; Generation and Distribution of Power and Water; Construction of Green or LEED buildings and infrastructure; and Real Estate Development.

As of the end of 2022, the Bank had an outstanding balance of such loans amounting to Php289 billion.

Digital Innovation and Transformation

PNB continues to work towards automating its operations. These include:

- Automating bank forms
- Encouraging customers to shift to e-SOA (Statements Of Accounts)
- Migrating existing customers to the Bank's digital channels
- Improving its mobile banking offering, the PNB Digital, with enhanced security features, expanded payment and disbursement capabilities, and access to more products to provide a better mobile banking experience for its customers.
- Continuing to boost awareness, enrollment, and usage of the digital banking app in a paperless way, extensively using the Bank's digital media assets (Facebook, Instagram, YouTube, email, SMS) to promote the mobile app to PNB's prospective and existing clients.
- Introducing the PNB Cashnet Plus mobile app, the Bank's corporate internet platform, which promises a more efficient method of conducting online business transactions.

As of December 2022, the Bank had a 349% increase in new enrolments in its digital platforms—PNB Digital and Account Access Portal, compared to end-2021.

Recognition of Employees' Excellence

Employees were recognized through different activities, including:

- Living Our Values Everyday (L.O.V.E.) is releasedat least once a week to showcase stories of actual events/activities/acts of employees
- Celebrate LOVE at Work is a month-long Valentine's Day celebration with activities impacting on building relationships, creating memories, reconnecting with clients and colleagues, while raising funds for employees in need, and even promoting PNB products and services to employees.
- Hybrid Service Excellence Awards and Recognition Night to recognize loyal employee awardees, as well as employees who have gone above and beyond their line of work
- What Outstanding Work! (WOW!) Award
- Circle of Excellence Award where 432 people were recognized.

Sustainability Materiality Assessment Online Survey

From October to November, PNB rolled out an Online Sustainability Materiality Survey for its employees and external stakeholders such as customers, vendors/third-party service providers, regulators, outsourced personnel, and community partners.

Using the random sampling method, the survey generated 1,810 respondents from a target of 2,495. The survey generated a list of twenty sustainability topics and themes for the Bank and its internal and external stakeholders to focus on. PNB donated Php200 to TYKFI's Forest Legacy Project for each accomplished questionnaire or a total of Php362K. Each survey respondent will have a tree planted in his name.

PMFTC INC.

LEAP (Leader Empowerment Accelerator Program)

LEAP is an 18-month development accelerator program anchored on Philip Morris International's Talent Development Model and designed to inject and assimilate highly driven junior talent committed to growing their career in PMFTC as future leaders in our commercial organization.

We Care

Behavior Observation Program (BOS)

The program targets Zero Total Recordable Incidents thru monitoring of leading indicators (participation/ frequency rate and unsafe observation rate)

- Project contractors increased headcount at Batangas Factory due to Project Plutus, SFP, and Solar PV Installations
- Behavior Observation Program that enables all contractors to develop a mindset of care for others' safety; reinforcing safe behaviors and intervening in unsafe behaviors by providing feedback.

Safety Dashboard

- One dashboard containing Safety Observations, Unsafe Condition Reports, Safety Incidences
- Patterned after the Regional Safety Reports With details of analysis from 1st to 3rd level

Emergency Response Team

- Re-establish Emergency Response Team through capability training of Fire Brigade team and First Aiders.
- Ensure compliance on mandatory 2x Emergency Evacuation drill per year

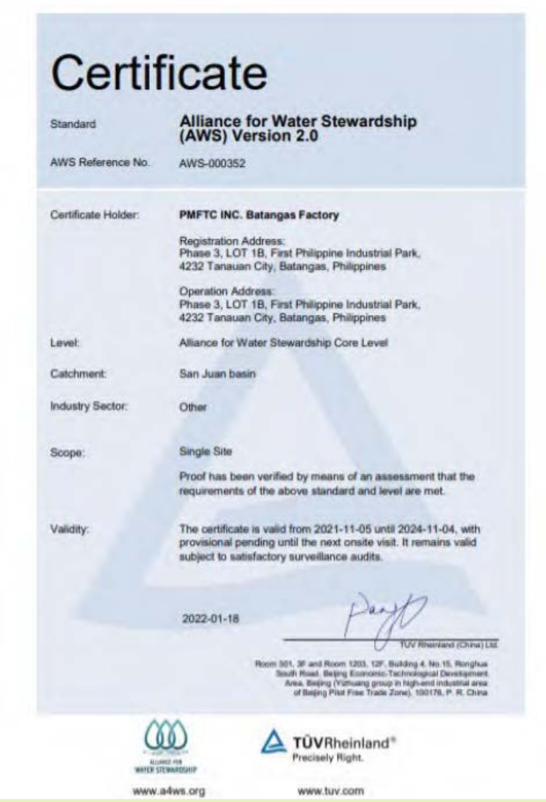
EQUAL-SALARY CERTIFIED

Equal-Salary Certified

PMFTC had the EQUAL-SALARY Certification for the past four years, from 2018 to 2022. The certification verifies that organizations have sustainable policies and practices to ensure that they pay their male and female employees equally for equal work. Gender pay equality cannot be taken for granted.

RISE Program

RISE is an 18-month management development program that exposes next-generation commercial leaders with 5-6 years of experience in sales, marketing & digital to an accelerated journey in an immersive and fast-paced learning environment towards being a successful leader of PMFTC.


Certificate

Standard	Alliance for Water Stewardship (AWS) Version 2.0
AWS Reference No.	AWS-000352
Certificate Holder:	PMFTC INC. Batangas Factory Registration Address: Phase 3, LOT 1B, First Philippine Industrial Park, 4232 Tanauan City, Batangas, Philippines Operation Address: Phase 3, LOT 1B, First Philippine Industrial Park, 4232 Tanauan City, Batangas, Philippines
Level:	Alliance for Water Stewardship Core Level
Catchment:	San Juan basin
Industry Sector:	Other
Scope:	Single Site Proof has been verified by means of an assessment that the requirements of the above standard and level are met.
Validity:	The certificate is valid from 2021-11-05 until 2024-11-04, with provisional pending until the next onsite visit. It remains valid subject to satisfactory surveillance audits.

2022-01-18

TÜV Rheinland (China) Ltd.

Room 301, 3F and Room 1203, 12F, Building 4, No.15, Ronghua South Road, Beijing Economic-Technological Development Area, Beijing (Yizhuang group in high-end industrial area of Beijing Pilot Free Trade Zone), 100176, P. R. China

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Alliance for Water Stewardship (AWS) at the Batangas Factory
The Batangas Factory continuously commits and delivers projects and engagements with the community and stakeholders to drive the water sustainability goal of AWS. We were once again recertified after the first surveillance audit held last October 4 to 6, 2022, with zero non-conformities.

Moreover, the Contributions and Sustainability Team commits to helping increase the resilience of ecosystems, minimize climate change effects, and involve employees to increase their awareness of the changing conditions of our environment. Seventy employees, contractors, and community volunteers planted 250 tree saplings.

In response to the Department of Environment and Natural Resources' request for private companies to help speed up the arsenic contamination detection at groundwater sources possibly affected by Taal Volcano eruption, PMFTC donated three units of Digital Arsenators on September 20, 2022, to help with the early detection of arsenic chemical on groundwater sources within the TVPL PAMO. Initial findings reached 40-70 parts per billion of arsenic versus the allowable safe level of 10 parts per billion.

At the "Walking to a Trash-Free Philippines" events on September 14 and 17, where global leaders, together with PMFTC volunteers and contractors, were able to collect 888.9 kgs of various wastes.

A trash trap was installed at the major tributary of the San Juan river on August 9, 2022, located in Barangay Santiago, Sto. Tomas City.

In celebration of Global Handwashing day, with the help of NGO partners, PMFTC was able to donate 6 handwashing stations, with 60 faucets benefitting 4,306 pupils of 6 elementary schools at Tanauan City and Sto.Tomas City.

Alliance for Water Stewardship (AWS) at the Marikina Factory
Marikina Factory underwent a certification audit to provide assurance to external and internal stakeholders that our claims of good water stewardship. The certification audit was done remotely and onsite on November 8 to 10, 2022.

Reduction of CO2 Emission: Equipment Efficiency in the Batangas Factory

- An optimizer for the entire compressed air system was installed which will control the loading and unloading of all 8 units of air compressors. It will automatically balance all the demand versus the capacity. This will result in USD38K per year.

- Improvements were made to the Miura Boiler Operations by adjusting the boiler matrix run, to optimize the set pressure based on the running loads. This will result in a reduction of 1,300 kgs of CO_2 emissions and USD61K savings per year.

- Converted the exterior lighting of high-pressure sodium and metal halide lamps which have 400W lights to 120W LED high-efficiency lamps, which translated to savings of USD7.2K per year

- It was seen that the cooling process in the flash tower drier was unnecessary as it was not required to cool the entire room. It was consuming 131,000 kWh a year for this cooling process. The removal of this cooling process translated to savings of USD12.96K per year.

TANDUAY DISTILLERS, INC.

Creek Clean-Up
On December 3, 2022, TDI Murcia conducted a creek clean-up at Cabungan-an Creek. TDI - Negros plant personnel collected almost 10 kilograms of biodegradable, non-biodegradable, recyclable, and residual wastes.

Organic Liquid Fertilizer Donated to Farmers
The Company continued to haul and donate fertilizer from distillery effluent to farmers in the Batangas area.

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, 2022, 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 14th day of March 2023

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, 2022 and 2021, 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, 2022, 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, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2022 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 in calculating ECL.

Allowance for credit losses on finance receivables as of December 31, 2022 and the provision for credit losses in 2022 amounted to P40.9 billion and P7.2 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; (c) tested PNB's application of internal credit risk rating system by reviewing the ratings of sample credit exposures; (d) assessed whether expected life is different from the contractual life by testing the maturity dates reflected in 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; 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, 2022, the deferred tax assets of PNB amounted to P6.0 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 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. We also assessed 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, 2022, the Group's share in the net income of PMFTC amounted to P15.5 billion and accounts for 50% 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, 2022. 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, 2022 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, 2022, 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, 2022 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. 72557-SEC (Group A)
  Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions
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. 9564694, January 3, 2023, Makati City

March 14, 2023

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

	December 31	
	2022	2021
ASSETS		
Current Assets		
Cash and cash equivalents (Note 5)	**P224,745,923**	P265,139,174
Financial assets at fair value through profit or loss (FVTPL) [Notes 6 and 21]	**7,379,126**	11,205,269
Financial assets at fair value through other comprehensive income (FVTOCI) [Notes 7 and 17]	**86,852,606**	75,800,753
Financial assets at amortized cost (Notes 7 and 17)	**31,511,748**	45,931,953
Loans and receivables (Notes 8 and 17)	**205,494,119**	216,143,944
Inventories (Note 9)	**15,010,773**	14,286,523
Due from related parties (Note 22)	**3,556,476**	7,685,534
Other current assets (Note 10)	**13,497,126**	10,298,762
Total Current Assets	**588,047,897**	646,491,912
Noncurrent Assets		
Loans and receivables - net of current portion (Notes 8 and 17)	**409,434,007**	407,515,357
Financial assets at FVTOCI (Notes 7 and 17)	**50,761,530**	71,468,657
Financial assets at amortized cost (Notes 7 and 17)	**78,956,212**	43,523,890
Investments in associates and joint ventures (Note 11)	**21,589,874**	22,208,309
Property, plant and equipment (Note 12):		
At appraised values	**58,504,993**	60,468,871
At cost	**12,268,828**	13,642,782
Investment properties (Note 13)	**37,045,004**	34,447,353
Deferred income tax assets - net (Note 29)	**6,524,012**	6,291,847
Other noncurrent assets (Notes 14, 23 and 37)	**4,985,212**	5,777,386
Total Noncurrent Assets	**680,069,672**	665,344,452
TOTAL ASSETS	**P1,268,117,569**	P1,311,836,364
LIABILITIES AND EQUITY		
Current Liabilities		
Deposit liabilities (Note 15)	**P831,605,372**	P842,061,358
Financial liabilities at FVTPL (Notes 16 and 21)	**1,039,776**	891,531
Bills and acceptances payable (Note 17)	**8,798,056**	49,780,354
Accounts payable and accrued expenses (Note 18)	**21,854,536**	18,115,661
Short-term debts (Note 19)	**4,490,000**	3,940,000
Current portion of long-term debts (Note 19)	**20,399,948**	3,597,299
Income tax payable	**1,839,835**	381,539
Due to related parties (Note 22)	**50,000**	65,325
Other current liabilities (Notes 20 and 37)	**10,375,775**	9,381,064
Total Current Liabilities (Carried Forward)	**900,453,298**	928,214,131

	December 31	
	2022	2021
Total Current Liabilities (Brought Forward)	**P900,453,298**	P928,214,131
Noncurrent Liabilities		
Deposit liabilities - net of current portion (Note 15)	**20,796,801**	38,508,755
Bills and acceptances payable (Note 17)	**6,182,317**	3,173,443
Long-term debts - net of current portion (Note 19)	**46,312,355**	59,046,035
Net retirement benefits liability (Note 23)	**796,500**	1,817,657
Deferred income tax liabilities - net (Note 29)	**8,450,442**	8,499,173
Other noncurrent liabilities (Note 20)	**8,464,180**	9,040,491
Total Noncurrent Liabilities	**91,002,595**	120,085,554
Total Liabilities	**991,455,893**	1,048,299,685
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	**11,935,325**	14,410,914
Other equity reserves	**(5,529,303)**	(5,959,881)
Retained earnings	**145,723,736**	134,905,274
Shares of stock of the Company held by subsidiaries	**(12,519)**	(12,519)
	198,844,859	190,071,408
Non-controlling interests (Notes 1, 7, 12 and 30)	**77,816,817**	73,465,271
Total Equity	**276,661,676**	263,536,679
TOTAL LIABILITIES AND EQUITY	**P1,268,117,569**	P1,311,836,364

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in Thousands, Except for Basic/Diluted Earnings Per Share)

	Years Ended December 31		
	2022	2021	2020
REVENUE (Note 24)			
Banking	**P50,843,607**	P49,319,441	P54,800,902
Distilled spirits	**31,559,876**	26,648,772	25,000,110
Beverage	**16,216,881**	13,173,729	12,227,532
Property development	**2,251,558**	2,031,373	2,399,390
	100,871,922	91,173,315	94,427,934
COST OF GOODS SOLD AND SERVICES (Note 24)	**51,102,930**	42,957,014	42,858,864
GROSS INCOME	**49,768,992**	48,216,301	51,569,070
EQUITY IN NET EARNINGS OF ASSOCIATES AND JOINT VENTURES (Note 11)	**16,094,575**	18,021,180	17,614,907
	65,863,567	66,237,481	69,183,977
OPERATING EXPENSES			
Selling expenses (Note 25)	**2,283,909**	1,905,020	2,051,114
General and administrative expenses (Note 26)	**37,795,783**	40,321,877	47,897,268
	40,079,692	42,226,897	49,948,382
OPERATING INCOME	**25,783,875**	24,010,584	19,235,595
OTHER INCOME (CHARGES)			
Foreign exchange gains - net	**1,548,877**	816,015	747,095
Finance costs (Note 27)	**(484,614)**	(364,873)	(341,467)
Finance income (Note 27)	**219,285**	41,663	42,421
Others - net (Note 28)	**9,536,173**	2,758,831	1,902,969
	10,819,721	3,251,636	2,351,018
INCOME BEFORE INCOME TAX	**36,603,596**	27,262,220	21,586,613
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 29)			
Current	**6,445,510**	4,112,063	5,976,621
Deferred	**(506,920)**	2,309,683	(6,648,541)
	5,938,590	6,421,746	(671,920)
NET INCOME FROM CONTINUING OPERATIONS	**30,665,006**	20,840,474	22,258,533
NET INCOME FROM DISCONTINUED OPERATIONS (Note 37)	**–**	20,615	67,583
NET INCOME	**P30,665,006**	P20,861,089	P22,326,116
NET INCOME ATTRIBUTABLE TO:			
Equity holders of the Company	**P25,137,400**	P20,246,467	P21,021,996
Non-controlling interests	**5,527,606**	614,622	1,304,120
	P30,665,006	P20,861,089	P22,326,116
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Company (Note 31)	**P2.32**	P1.87	P1.94
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Company from Continuing Operations (Note 31)	**P2.32**	P1.87	P1.94

See accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31		
	2022	2021	2020
NET INCOME	**P30,665,006**	P20,861,089	P22,326,116
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)	**(4,764,711)**	(3,178,301)	(734,748)
Translation adjustments	**752,592**	684,700	(275,320)
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods	**(4,012,119)**	(2,493,601)	(1,010,068)
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:			
Share in aggregate gains (losses) on life insurance policies	**762,490**	412,444	(1,051,118)
Net changes in fair value of financial assets at FVTOCI (Note 7)	**(359,252)**	(971,776)	(1,616,606)
Income tax effect	**89,813**	242,944	484,982
	(269,439)	(728,832)	(1,131,624)
Remeasurement gains (losses) on defined benefit plans (Note 23)	**2,789,805**	573,756	(1,516,399)
Income tax effect	**(697,451)**	(143,439)	454,920
	2,092,354	430,317	(1,061,479)
Share in remeasurement gains (losses) on defined benefit plans of associates (Note 11)	**(1,394,576)**	290,433	203,269
Net revaluation increase (decrease) on property, plant and equipment (Note 12)	**(508,786)**	1,569,183	39,444
Income tax effect	**127,196**	(392,296)	(11,833)
	(381,590)	1,176,887	27,611
Net other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods	**809,239**	1,581,249	(3,013,341)
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	**(3,202,880)**	(912,352)	(4,023,409)
TOTAL COMPREHENSIVE INCOME	**P27,462,126**	P19,948,737	P18,302,707
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Equity holders of the Company	**P23,923,395**	P20,618,903	P18,286,014
Non-controlling interests	**3,538,731**	(670,166)	16,693
	P27,462,126	P19,948,737	P18,302,707

See accompanying Notes to Consolidated Financial Statements.

LT GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2022, 2021 AND 2020
(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	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	Other Equity Reserves	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, 2020	**P10,821,389**	**P35,906,231**	**P8,538,837**	**P–**	**P692,552**	**P4,619,445**	**(P1,203,707)**	**P12,726,318**	**P1,203,707**	**P18,038,315**	**P1,024,653**	**P112,604,635**	**(P12,519)**	**P186,921,541**	**P67,086,030**	**P254,007,571**
Net income for the year	–	–	–	–	–	–	–	–	–	–	–	21,021,996	–	21,021,996	1,304,120	22,326,116
Other comprehensive income (loss)	–	–	–	–	(147,788)	(1,780,973)	(718,599)	301,675	203,269	(2,142,416)	(593,566)	–	–	(2,735,982)	(1,287,427)	(4,023,409)
Total comprehensive income (loss) for the year	–	–	–	–	(147,788)	(1,780,973)	(718,599)	301,675	203,269	(2,142,416)	(593,566)	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 change in accounting policy on borrowing costs (Note 2)	–	–	–	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	–	88,616	544,764	2,809,263	(1,981,713)	12,276,947	1,406,976	15,056,237	(2,058,370)	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)	–	–	–	–	342,761	(2,271,272)	305,525	1,420,784	290,433	88,231	284,205	–	–	372,436	(1,284,788)	(912,352)
Total comprehensive income (loss) for the year	–	–	–	–	342,761	(2,271,272)	305,525	1,420,784	290,433	88,231	284,205	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	**10,821,389**	**35,906,231**	**–**	**–**	**887,525**	**537,991**	**(1,676,188)**	**12,964,177**	**1,697,409**	**14,410,914**	**(5,959,881)**	**134,905,274**	**(12,519)**	**190,071,408**	**73,465,271**	**263,536,679**
Net income for the year	–	–	–	–	–	–	–	–	–	–	–	25,137,400	–	25,137,400	5,527,606	30,665,006
Other comprehensive income (loss)	–	–	–	–	399,542	(2,746,538)	2,457,350	(360,361)	(1,394,576)	(1,644,583)	430,578	–	–	(1,214,005)	(1,988,875)	(3,202,880)
Total comprehensive income (loss) for the year	–	–	–	–	399,542	(2,746,538)	2,457,350	(360,361)	(1,394,576)	(1,644,583)	430,578	25,137,400	–	23,923,395	3,538,731	27,462,126
Cash dividends declared	–	–	–	–	–	–	–	–	–	–	–	(15,149,944)	–	(15,149,944)	–	(15,149,944)
Increase in noncontrolling interest without loss of control	–	–	–	–	–	–	–	–	–	–	–	–	–	–	330,235	330,235
Other equity reserve	–	–	–	–	–	–	–	–	–	–	–	–	–	–	482,580	482,580
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	–	–	–	–	–	–	–	(831,006)	–	(831,006)	–	831,006	–	–	–	–
BALANCES AT DECEMBER 31, 2022	**P10,821,389**	**P35,906,231**	**P–**	**P–**	**P1,287,067**	**(P2,208,547)**	**P781,162**	**P11,772,810**	**P302,833**	**P11,935,325**	**(P5,529,303)**	**P145,723,736**	**(P12,519)**	**P198,844,859**	**P77,816,817**	**P276,661,676**

See accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31		
	2022	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax from continuing operations	**P36,603,596**	P27,262,220	P21,586,613
Income before income tax from discontinued operations (Note 37)	**–**	20,615	88,001
Income before income tax	**36,603,596**	27,282,835	21,674,614
Adjustments for:			
Equity in net earnings of associates (Note 11)	**(16,094,575)**	(18,021,180)	(17,614,907)
Provision for losses (Notes 8 and 26)	**7,129,045**	10,816,497	16,883,793
Depreciation and amortization (Notes 12, 13 and 14)	**6,398,842**	5,741,054	5,677,820
Finance costs (Note 27)	**484,614**	364,873	341,467
Finance income (Note 27)	**(219,285)**	(41,663)	(42,421)
Movement in accrued retirement benefits (Note 23)	**377,132**	492,593	(583,714)
Dividend income (Note 28)	**(72,283)**	(5,679)	(5,679)
Gain on disposal of other noncurrent assets (Notes 12, 13 and 28)	**–**	–	(196,019)
Operating income before changes in working capital	**34,607,086**	26,629,330	26,134,954
Decrease (increase) in:			
Financial assets at FVTPL	**3,826,143**	12,653,055	(10,388,944)
Receivables	**1,551,916**	(17,880,364)	38,698,806
Inventories	**(724,250)**	(1,110,918)	(978,734)
Other current assets	**(3,198,364)**	8,556,087	(7,081,387)
Increase (decrease) in:			
Deposit liabilities	**(23,867,940)**	58,550	62,272,608
Financial liabilities at FVTPL	**148,245**	190,292	455,620
Accounts payable and accrued expenses	**3,590,278**	(1,935,196)	(4,554,291)
Other current and noncurrent liabilities	**989,261**	(3,043,155)	(204,012)
Cash generated from operations	**16,922,375**	24,117,681	104,354,620
Income taxes paid, including creditable withholding and final taxes	**(4,805,486)**	(4,738,591)	(5,679,490)
Interest paid	**(301,617)**	(619,856)	(1,241,781)
Interest received	**269,499**	44,716	41,683
Dividends received (Notes 11, 22 and 28)	**72,283**	5,679	5,679
Net cash from operating activities	**12,157,054**	18,809,629	97,480,711
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of:			
Financial assets at FVTOCI (Note 7)	**(P638,254,305)**	(P224,263,439)	(P169,859,472)
Financial assets at amortized cost	**(162,172,316)**	(34,009,921)	(56,130,885)
Property, plant and equipment (Note 12)	**(1,548,742)**	(7,136,148)	(4,879,544)
Software (Note 14)	**(1,707,436)**	(283,472)	(283,472)
Investment properties (Note 13)	**(7,406,216)**	(1,609,978)	(205,934)
Additional investment in joint venture and associates	**(1,774,684)**	(831,118)	(1,044,120)
Dividends received from joint venture and associates (Note 11)	**19,250,184**	20,834,216	21,751,985
Proceeds from sale of:			
Financial assets at FVTOCI (Note 7)	**642,875,429**	209,478,786	158,936,702
Financial assets at amortizaed cost	**141,160,199**	39,790,071	61,359,549
Other assets (Notes 12 and 13)	**605,433**	652,329	1,299,817
Advances (extended to) received from affiliates	**4,113,733**	(5,731,032)	74,934
Net cash from (used in) investing activities	**(4,858,721)**	(3,109,706)	11,019,560
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from availment of:			
Bill and acceptance payable (Note 17)	**237,506,670**	237,327,616	168,973,402
Short-term debts (Note 19)	**1,465,000**	–	1,850,000
Long-term debts (Note 19)	**5,559,083**	–	–
Payments of:			
Bill and acceptance payable (Note 17)	**(274,667,279)**	(271,058,488)	(145,443,067)
Dividends (Note 30)	**(15,149,944)**	(11,687,100)	(8,850,969)
Long-term debts (Note 19)	**–**	(7,099,310)	(2,826,812)
Short-term debts (Note 19)	**(915,000)**	(800,000)	(2,260,000)
Principal portion of lease liabilities	**(1,490,114)**	(1,304,689)	(794,735)
Net cash from (used in) financing activities	**(47,691,584)**	(54,621,971)	10,647,819
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(40,393,251)**	(38,922,048)	119,148,090
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**265,139,174**	304,061,222	184,913,132
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	**P224,745,923**	P265,139,174	P304,061,222

See accompanying Notes to Consolidated Financial Statements.

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

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

Corporate Information

LT Group, Inc. ("LTG" or the "Company") is a stock corporation incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on May 27, 1937 to engage in the trading business. On November 17, 1947, the Company's shares of stock were listed in the Philippine Stock Exchange (PSE). The Company's corporate life is 50 years from the date of incorporation and was extended for another 50 years from and after May 27, 1987. On September 22, 1995, the Philippine SEC approved the change in the Company's primary purpose to that of a holding company. On July 30, 1999, the Company acquired Twin Ace Holdings Corp., now known as 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, 2022 and 2021, 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, 2022 and 2021 and for each of the three years in the period ended December 31, 2022 were authorized for issue by the Board of Directors (BOD) on March 14, 2023.

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.

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						
	2022		2021		2020		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)	–	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)	–	90.0	–	90.0	–	90.0	Myanmar
Tobacco							
Shareholdings, Inc. (Shareholdings)	97.7	–	97.7	–	97.7	–	Philippines
Fortune Tobacco Corporation (FTC)	82.7	16.9	82.7	16.9	82.7	16.9	Philippines
Property Development							
Saturn Holdings, Inc.	100.0	–	100.0	–	100.0	–	Philippines
Paramount Landequities, Inc. (PLI) and Subsidiaries	100.0	–	100.0	–	100.0	–	Philippines
Eton Properties Philippines, Inc. (Eton)	–	99.6	–	99.6	–	99.6	Philippines
Belton Communities, Inc. (BCI)	–	99.6	–	99.6	–	99.6	Philippines
Eton City, Inc. (ECI)	–	99.6	–	99.6	–	99.6	Philippines
FirstHomes, Inc. (FHI)	–	99.6	–	99.6	–	99.6	Philippines
Eton Properties Management Corporation (EPMC)	–	99.6	–	99.6	–	99.6	Philippines
Banking							
Bank Holding Companies (Note 22) (1)	80-100	–	80-100	–	80-100	–	Various
Philippine National Bank (PNB) and Subsidiaries(2)	–	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 General Insurers, Inc. (PNB Gen)	–	56.5	–	56.5	–	56.5	Philippines

(Forward)

	Percentage of Ownership						
	2022		2021		2020		Country of
	Direct	**Indirect**	Direct	Indirect	Direct	Indirect	Incorporation
							United States of America
PNB Corporation - Guam (PNB Guam)	–	56.5	–	56.5	–	56.5	(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
Other Investments							
PNB Holdings Corporation (PNB Holdings) [3]	–	56.5	–	56.5	–	56.5	Philippines
Mabuhay Global Holding Company Pte. Ltd. (MGHCPL) [4]	–	–	–	–	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] As of December 31, 2022, 2021 and 2020, 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).
[2] Represents the effective ownership interest of LTG through the collective ownership of the Bank Holding Companies in the merged PNB.
[3] This pertains to the effective ownership through the Bank Holding Companies and PNB. In 2021, PNB declared its 51% ownership interest in PNB Holdings as property dividends to its stockholders. Effective ownership of the Group before and after the declaration of property dividends is still at 56.5% (i.e., 28.8% indirect ownership through the Bank Holding Companies and 27.7% indirect ownership through PNB).
[4] 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.

<u>Noncurrent Assets and Disposal Group Held for Sale and Discontinued Operations</u>
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.

<u>Changes in Accounting Policies and Disclosures</u>
The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new standards effective in 2022. 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 new standards did not have an impact on the consolidated financial statements of the Group.

- Amendments to PFRS 3, Business Combinations: *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 Group adopted the amendments beginning January 1, 2022. The amendments did not have a material impact on the Group.

- Amendments to PAS 16, Property, 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 Group adopted the amendments beginning January 1, 2022. The amendments did not 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 Group adopted the amendments beginning January 1, 2022. The amendments did not 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 in the parent's consolidated financial statements, based on the parent's date of transition to PFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of PFRS 1.

  - 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.

  - 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.

  The Group adopted the amendments beginning January 1, 2022. The amendments did not have a material impact on the Group.

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

Effective beginning on or after January 1, 2023

- Amendments to PAS 1, Presentation of Financial Statements 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.

- Amendments to PAS 8, *Accounting Policies, Changes in Accounting Estimates and Error, 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 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.

Effective beginning on or after January 1, 2024

- Adoption of the Deferral 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
a. 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
b. 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:

  - That only covenants with which an entity must comply on or before reporting date will affect a liability's classification as current or non-current.
  - 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, 2024 and must be applied retrospectively. The amendments are not expected to have a material impact on the Group.

- Amendments to PFRS 16, *Lease Liability in a Sale and Leaseback*

  The amendments specify how a seller-lessee measures the lease liability arising in a sale and leaseback transaction in a way that it does not recognize any amount of the gain or loss that relates to the right of use retained.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2024 and must be applied retrospectively. Earlier adoption is permitted and that fact must be disclosed. The amendments are not expected to have a material impact on the Group.

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 Financial and Sustainability Reporting Standards Council 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 2022 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
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.

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 (losses) - 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 changes in fair value of 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.

<u>Reclassification of Financial Instruments</u>
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 Derecognition of Financial Assets and Liabilities.

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.

<u>Offsetting of Financial Instruments</u>
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.

<u>Investments in Associates and Joint Ventures</u>
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.

<u>Other Current Assets</u>
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.

<u>Property, Plant and Equipment</u>
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 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.

<u>Investment Properties</u>

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 consolidated 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 consolidated 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.

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 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.

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.

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.

Credit Card Revenues

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.

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.

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.

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.

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.

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'.

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.

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:

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.

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 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.

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.

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:

Credit losses on 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.

In response to the changing credit environment due to the protracted COVID-19 pandemic, as well as the effects of the Russia-Ukraine conflict, rising interest rates, inflation, and other 'black swan' events which may potentially occur, the Group reviews on a monthly basis its loan portfolio, particularly for accounts that have shown or are beginning to show increases in credit risk. The Group performs comprehensive review of the default profile of its accounts to determine if there are factors or indicators not captured in the risk rating model. If there are noted weaknesses in the model, where possible, the Group recalibrates the parameter estimates to the ECL models to incorporate internal default experience, as well as most recent available external data affecting each segment of the Group's loan portfolio.

Starting April 2020, 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 and other stress scenarios to ensure that changes in economic conditions are captured in the ECL calculations.

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.

The Group reassesses its business plan, as well as tax strategies, in the next three to five years, considering various economic scenarios including recovery outlook and effects on specific industries and trade of the protracted COVID-19 pandemic, Russia-Ukraine conflict, rising interest rates, inflation, and other 'black swan' events (such as longer lasting supply shock inflation pressure, credit rating downgrade, deep recession in the USA and Europe, and emergence of a new pandemic).

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 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 present value of retirement obligation is disclosed in Note 23.

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.

Details of the carrying value of the Group's inventories are disclosed in 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 P58.5 billion and P60.5 billion as of December 31, 2022 and 2021, 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 2022 and 2021, there were no significant changes made in the useful lives and residual values of the property, plant and equipment and investment properties. Details and the carrying value of depreciable property, plant and equipment, and investment properties as of December 31, 2022 and 2021 is disclosed in Notes 12 and 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, 2022.

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 1.7% and 2.2% as of December 31, 2022, respectively, and 0.2% and 2.8% as of December 31, 2021 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 liquor revenue from two major distributors which averaged 99% of the segment's total liquor revenue in 2022, 2021 and 2020. 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, 2022:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
				(In Thousands)			
Segment revenue:							
External customers	P50,843,607	P31,559,876	P16,216,881	P–	P1,143,977	P1,107,581	P100,871,922
Inter-segment	117,729	61,014	1,007,789	–	831,805	(2,018,337)	–
	50,961,336	31,620,890	17,224,670	–	1,975,782	(910,756)	100,871,922
Cost of goods sold and services	9,346,027	28,005,598	13,428,544	–	1,153,648	(830,887)	51,102,930
Gross profit	41,615,309	3,615,292	3,796,126	–	822,134	(79,869)	49,768,992
Equity in net earnings of associates and joint ventures	(56,060)	–	61,444	15,461,496	–	627,695	16,094,575
	41,559,249	3,615,292	3,857,570	15,461,496	822,134	547,826	65,863,567
Selling expenses	–	911,617	1,369,531	–	2,761	–	2,283,909
General and administrative expenses	35,382,372	659,916	1,420,737	297,919	747,656	(712,817)	37,795,783
Operating income	6,176,877	2,043,759	1,067,302	15,163,577	71,717	1,260,643	25,783,875
Foreign exchange gains (losses) - net	1,608,281	26,340	6,064	(117,170)	6,804	18,558	1,548,877
Finance income	–	44,160	19,455	315,598	13,388	(173,316)	219,285
Finance costs	–	(53,498)	(260,132)	–	(299,508)	128,524	(484,614)
Others - net	8,911,847	(207,103)	25,266	11,973	692,318	101,872	9,536,173
Income before income tax	16,697,005	1,853,658	857,955	15,373,978	484,719	1,336,281	36,603,596
Provision for income tax	4,931,228	384,777	275,417	37,123	111,422	198,623	5,938,590
Segment profit from:							
Continuing operations	11,765,777	1,468,881	582,538	15,336,855	373,297	1,137,658	30,665,006
Discontinued operations	–	–	–	–	–	–	–
	P11,765,777	P1,468,881	P582,538	P15,336,855	P373,297	P1,137,658	P30,665,006
Segment profit attributable to:							
Equity holders of the Company	P11,714,107	P1,466,876	P579,401	P15,336,855	P373,297	(P4,333,136)	P25,137,400
Non-controlling interests	51,670	2,005	3,137	–	–	5,470,794	5,527,606
Depreciation and amortization expense	4,044,067	636,581	1,956,640	36,756	366,473	(641,675)	6,398,842

Other financial information of the operating segments as of December 31, 2022 is as follows:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
				(In Thousands)			
Assets:							
Current assets	**P537,671,669**	**P19,159,272**	**P20,826,361**	**P14,991,417**	**P8,647,442**	**(P13,248,264)**	**588,047,897**
Noncurrent assets	**602,847,076**	**9,331,703**	**15,432,784**	**11,591,207**	**22,352,276**	**18,514,626**	**680,069,672**
	P1,140,518,745	**P28,490,975**	**P36,259,145**	**P26,582,624**	**P30,999,718**	**P5,266,362**	**1,268,117,569**
Liabilities:							
Current liabilities	**P898,204,863**	**P5,116,546**	**P10,076,295**	**P303,526**	**P7,790,574**	**(P21,038,506)**	**P900,453,298**
Noncurrent liabilities	**79,405,266**	**831,002**	**944,553**	**95,001**	**3,599,967**	**6,126,806**	**91,002,595**
	P977,610,129	**P5,947,548**	**P11,020,848**	**P398,527**	**P11,390,541**	**(P14,911,700)**	**P991,455,893**
Investments in associates and joint ventures	**P2,688,764**	**P–**	**P164,971**	**P8,227,070**	**P–**	**P10,509,069**	**P21,589,874**
Equity attributable to:							
Equity holders of the Company	**159,359,238**	**22,335,893**	**25,186,993**	**26,184,097**	**19,609,177**	**(53,830,539)**	**198,844,859**
Non-controlling interests	**3,549,378**	**207,534**	**51,304**	**-**	**-**	**74,008,601**	**77,816,817**
Additions to noncurrent assets:							
Property, plant and equipment	**19,667,204**	**8,268,866**	**13,991,294**	**82,010**	**912,384**	**27,852,063**	**70,773,821**
Investment properties	**12,684,829**	**239,009**	**14,002**	**2,108,595**	**20,984,232**	**1,014,337**	**37,045,004**
Short-term debts	**–**	**–**	**4,490,000**	**–**	**–**	**–**	**4,490,000**
Long-term debts	**62,075,488**	**434,237**	**549,526**	**–**	**4,926,148**	**(1,273,096)**	**66,712,303**

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	16,754,953	17,796,934	14,286,955	9,744,300	(11,444,605)	646,491,912
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	27,533,643	33,582,862	29,232,082	32,446,315	3,630,625	1,311,836,364
Liabilities:							
Current liabilities	P925,534,374	5,406,099	8,058,760	307,572	6,542,370	(17,635,044)	928,214,131
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	6,430,659	9,373,709	396,307	13,222,656	(12,441,566)	1,048,299,685
Investments in associates and joint ventures	P2,468,107	–	103,527	11,729,777	–	7,906,898	22,208,309
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)	–
	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

5. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	2022	2021
	(In Thousands)	
Cash and other cash items	**P23,220,417**	P29,012,418
Cash equivalents:		
Due from BSP	**94,701,360**	161,001,912
Securities held under agreements to resell	**64,523,862**	15,796,673
Due from other banks	**26,010,183**	27,222,083
Interbank loans receivables*	**16,290,101**	32,106,088
	P224,745,923	P265,139,174

**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:

	2022	2021
	(In Thousands)	
Demand deposit	**P74,701,360**	P81,273,307
Term deposit facility (TDF)	**20,000,000**	79,728,605
	P94,701,360	P161,001,912

TDFs bear annual interest rates ranging from 5% to 6.43% in 2022 and 1.50% to 1.88% in 2021.

c. Interbank loans receivables bear annual interest ranging from 1.5% to 6.4% in 2022 for peso-denominated interbank loans receivables and from 0.4% to 5.3% and from 0.0% to 1.5% in 2022 and 2021, respectively, for foreign currency-denominated interbank loans receivables.

d. Securities held under agreements to resell bear interest ranging from 2.00% to 5.50%, from and 1.50% to 2.50% in 2022 and 2021, respectively.

The fair value of the treasury bills pledged under these agreements as of December 31, 2022 and 2021 amounted to P64.3 billion and P16.0 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:

	2022	2021
	(In Thousands)	
Government securities	**P4,371,670**	P7,956,013
Private debt securities	**1,610,682**	1,841,548
Derivative assets (Notes 21 and 33)	**1,361,951**	1,365,051
Unit investment trust fund (UITF)	**31,925**	37,612
Equity securities	**2,898**	5,045
	P7,379,126	P11,205,269

The effective interest rates of debt securities at FVTPL range from:

	2022	2021
Government securities	**1.4% - 8.0%**	1.4% - 9.5%
Private debt securities	**4.9% - 6.9%**	4.9% - 6.9%

7. Financial Assets at FVTOCI and Financial Assets at Amortized Cost

Financial Assets at FVTOCI
This account consists of:

	2022	2021
	(in thousands)	
Government securities (Note 17)	**P118,396,055**	P120,764,925
Private debt securities	**15,430,870**	23,115,480
Equity securities:		
Quoted	**2,078,059**	2,052,667
Unquoted	**1,709,152**	1,336,338
	137,614,136	147,269,410
Noncurrent portion	**(50,761,530)**	(71,468,657)
	P86,852,606	P75,800,753

a. For the years ended December 31, 2022, 2021 and 2020, the nominal interest rates of government securities range from 0.2% to 26.2%, 0.1% to 18.3% and 0.2% to 18.3%, respectively.

b. For the years ended December 31, 2022, 2021 and 2020, the nominal interest rates of private debt securities range from 0.5% to 6.4%, 0.4% to 6.9% and 2.0% to 6.9% respectively.

c. As of December 31, 2022 and 2021, 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 P2.5 billion and P32.8 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, 2022 and 2021, the ECL on debt securities at FVOCI (included in 'Net unrealized gain (loss) on financial assets at FVOCI') amounted to P119.5 million and P31.5 million, respectively.

Financial Assets at Amortized Cost
This account consists of:

	2022	2021
Private debt securities	**P36,082,780**	P59,144,715
Government securities	**78,233,180**	34,133,294
	114,315,960	93,278,009
Less allowance for expected credit losses	**(3,848,000)**	(3,822,166)
	110,467,960	89,455,843
Noncurrent portion	**(78,956,212)**	(43,523,890)
	P31,511,748	P45,931,953

In 2022 and 2021, 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, 2022 and 2021, the fair 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 P5.5 billion and P5.6 billion, respectively (see Note 17).

8. Loans and Receivables

Loans and receivables consist of:

	2022	2021
	(In Thousands)	
Finance receivables (Notes 17 and 22)	**P632,837,081**	P644,557,364
Trade receivables	**19,078,556**	15,651,207
Other receivables	**4,467,755**	3,312,442
	656,383,392	663,521,013
Allowance for credit losses	**(41,455,266)**	(39,861,712)
	614,928,126	623,659,301
Noncurrent portion	**(409,434,007)**	(407,515,357)
	P205,494,119	P216,143,944

Finance Receivables

	2022	2021
	(In Thousands)	
Receivables from customers:		
Loans and discounts	**P579,956,975**	P597,979,601
Customers' liabilities on acceptances, letters of credit and trust receipts	**17,651,337**	15,425,196
Credit card receivables	**14,382,681**	11,407,608
Bills purchased (Note 20)	**1,236,798**	1,364,543
Lease contract receivable	**873,878**	2,628,289
	614,101,669	628,805,237
Other receivables:		
Accrued interest receivable	**7,071,980**	6,053,656
Sales contract receivables	**6,240,309**	6,029,384
Accounts receivable	**5,620,135**	4,191,402
Miscellaneous	**559,098**	595,929
	19,491,522	16,870,371
	633,593,191	645,675,608
Unearned and other deferred income	**(756,110)**	(1,118,244)
	632,837,081	644,557,364
Allowance for credit losses	**(40,941,534)**	(39,340,761)
	591,895,547	605,216,603
Noncurrent portion	**(409,345,493)**	(407,515,357)
	P182,550,054	P197,701,246

a. Lease contract receivable

An analysis of the Group's lease contract receivable as of December 31 is presented as follows:

	2022	2021
	(In Thousands)	
Gross investment in lease contract receivable		
Due within one year	**P446,485**	P1,245,258
Due beyond one year but not over five years	**196,987**	643,821
Due beyond five years	**–**	14,344
	643,472	1,903,423
Residual value of leased equipment		
Due within one year	**P107,634**	P505,784
Due beyond one year but not over five years	**122,772**	219,082
	230,406	724,866
Total lease contract receivable	**P873,878**	P2,628,289

b. Interest income on loans and receivables amounted to P34.3 billion, P34.2 billion and P37.2 billion in 2022, 2021 and 2020, respectively (see Note 24).

As of December 31, 2022 and 2021, 69.5% and 69.4%, respectively, of the total receivable from customers of PNB were subject to interest repricing. As of December 31, 2022 and 2021, 70.5% and 68.3%, respectively, of the total receivables from customers of PNB were subject to interest repricing. Remaining receivables carry annual fixed interest rates ranging from 1.1% to 11.2% in 2022, from 1.0% to 9.0% in 2021 and from 1.1% to 9.0% in 2020 for foreign currency-denominated receivables, and from 1.1% to 31.5% in 2022, from 1.1% to 31.5% in 2021 and from 1.1% to 21.0% in 2020 for peso-denominated receivables.

Sales contract receivables bear fixed interest rates per annum ranging from 4.2% to 20.2% in 2022 and from 3.3% to 21.0% in 2021 and 2020.

The reconciliation of allowance for the receivables from customers of the Banking segment are shown below.

	Consolidated							
	2022				2021			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Corporate Loans								
Beginning Balance	**P459,223**	**P859,753**	**P24,311,397**	**P25,630,373**	P437,633	P690,482	P18,092,141	P19,220,256
Transfers to Stage 1	**124,442**	**(122,231)**	**(2,211)**	**–**	1,375,088	(51,070)	(1,324,018)	–
Transfers to Stage 2	**(13,026)**	**7,561,264**	**(7,548,238)**	**–**	(21,796)	170,627	(148,831)	–
Transfers to Stage 3	**(2,707)**	**(181,214)**	**183,921**	**–**	(41,035)	(97,886)	138,921	–
Provisions (reversals)	**1,040,999**	**(1,848,298)**	**4,953,289**	**4,145,990**	1,136,551	501,195	10,381,492	12,019,238
Accounts charged off	**–**	**–**	**(14,581)**	**(14,581)**	–	–	(1,100)	(1,100)
Loan settlement through dacion (Note 33)	**–**	**–**	**(4,580,430)**	**(4,580,430)**	–	–	–	–
Sale of receivables (Note 26)	**–**	**–**	**–**	**–**	–	–	(2,520,236)	(2,520,236)
Effect of collections and other movements	**(153,893)**	**(314,918)**	**26,381**	**(442,430)**	(2,427,218)	(353,595)	(306,972)	(3,087,785)
Ending Balance	**1,455,038**	**5,954,356**	**17,329,528**	**24,738,922**	459,223	859,753	24,311,397	25,630,373
LGU								
Beginning Balance	**265**	**10,632**	**67,798**	**78,695**	24,040	1,737	24,916	50,693
Provisions (reversals)	**261**	**(2,141)**	**(2,080)**	**(3,960)**	22,642	3,902	2,296	28,840
Effect of collections and other movements	**(54)**	**(20)**	**–**	**(74)**	(46,417)	4,993	40,586	(838)
Ending Balance	**472**	**8,471**	**65,718**	**74,661**	265	10,632	67,798	78,695
Credit Cards								
Beginning Balance	**61,472**	**26,686**	**2,319,769**	**2,407,927**	38,224	26,246	2,523,198	2,587,668
Transfers to Stage 1	**14,583**	**(5,637)**	**(8,946)**	**–**	39,251	(6,432)	(32,819)	–
Transfers to Stage 2	**(1,666)**	**2,188**	**(522)**	**–**	(2,254)	5,721	(3,467)	–
Transfers to Stage 3	**(2,726)**	**(3,171)**	**5,897**	**–**	(9,135)	(9,282)	18,417	–
Provisions (reversals)	**375,074**	**71,292**	**216,035**	**662,401**	(98,840)	17,705	1,085,746	1,004,611
Accounts charged off	**–**	**–**	**(602,113)**	**(602,113)**	–	–	(1,399,465)	(1,399,465)
Effect of collections and other movements	**44,772**	**(7,616)**	**199,211**	**236,367**	94,226	(7,272)	128,159	215,113
Ending Balance	**491,509**	**83,742**	**2,129,331**	**2,704,582**	61,472	26,686	2,319,769	2,407,927
Retail SMEs								
Beginning Balance	**156,723**	**16,002**	**1,643,255**	**1,815,980**	361,274	20,786	1,426,132	1,808,192
Transfers to Stage 1	**15,101**	**(386)**	**(14,715)**	**–**	7,502	(1,634)	(5,868)	–
Transfers to Stage 2	**(51,349)**	**51,549**	**(200)**	**–**	(351)	2,151	(1,800)	–
Transfers to Stage 3	**(736)**	**(1,050)**	**1,786**	**–**	(5,680)	(6,204)	11,884	–
Provisions (reversals)	**155,930**	**22,928**	**344,916**	**523,774**	31,995	(1,617)	42,831	73,209
Accounts charged off	**–**	**–**	**(207,724)**	**(207,724)**	–	–	–	–
Effect of collections and other movements	**(75,048)**	**(62,412)**	**60,912**	**(76,548)**	(238,017)	2,520	170,076	(65,421)
Ending Balance	**200,621**	**26,631**	**1,828,230**	**2,055,482**	156,723	16,002	1,643,255	1,815,980
Housing Loans								
Beginning Balance	**256,953**	**54,367**	**3,121,446**	**3,432,766**	99,896	107,786	2,166,204	2,373,886
Transfers to Stage 1	**527,271**	**(17,691)**	**(509,580)**	**–**	395,713	(45,005)	(350,708)	–
Transfers to Stage 2	**(5,794)**	**71,159**	**(65,365)**	**–**	(2,061)	35,012	(32,951)	–
Transfers to Stage 3	**(33,977)**	**(26,337)**	**60,314**	**–**	(11,394)	(53,478)	64,872	–
Provisions (reversals)	**(206,039)**	**(335,412)**	**1,332,275**	**790,824**	391,794	(7,381)	(888,382)	(503,969)
Effect of collections and other movements	**(90,744)**	**369,022**	**(149,234)**	**129,044**	(616,995)	17,433	2,162,411	1,562,849
Ending Balance	**447,670**	**115,108**	**3,789,856**	**4,352,634**	256,953	54,367	3,121,446	3,432,766
Auto Loans								
Beginning Balance	**P8,996**	**P2,166**	**P1,467,584**	**P1,478,746**	P146,165	P43,152	P843,487	P1,032,804
Transfers to Stage 1	**85,614**	**(671)**	**(84,943)**	**–**	58,625	(2,965)	(55,660)	–
Transfers to Stage 2	**(197)**	**5,619**	**(5,422)**	**–**	(113)	8,396	(8,283)	–
Transfers to Stage 3	**(350)**	**(1,213)**	**1,563**	**–**	(615)	(3,229)	3,844	–
Provisions (reversals)	**(72,234)**	**(3,455)**	**459,134**	**383,445**	73,402	6,628	(708,378)	628,348)
Accounts charged off	**–**	**–**	**(1,899)**	**(1,899)**	–	–	(9,133)	(9,133)
Effect of collections and other movements	**(985)**	**(193)**	**(332,018)**	**(333,196)**	(268,468)	(49,816)	1,401,707	1,083,423
Ending Balance	**20,844**	**2,253**	**1,503,999**	**1,527,096**	8,996	2,166	1,467,584	1,478,746
Other Loans								
Beginning Balance	**242,940**	**8,236**	**716,032**	**967,208**	72,427	59,443	1,922,895	2,054,765
Transfers to Stage 1	**302,607**	**(3,134)**	**(299,473)**	**–**	222,313	(12,979)	(209,334)	–
Transfers to Stage 2	**(50)**	**27,615**	**(27,565)**	**–**	(875)	90,473	(89,598)	–
Transfers to Stage 3	**(506)**	**(2,527)**	**3,033**	**–**	(4,109)	(20,370)	24,479	–
Provisions (reversals)	**(290,921)**	**(7,934)**	**330,221**	**31,366**	(131,066)	(583)	(333,647)	(465,296)
Accounts charged off	**–**	**–**	**(3,780)**	**(3,780)**	–	–	(20,328)	(20,328)
Effect of collections and other movements	**(238,320)**	**55,941**	**458,649**	**276,270**	84,250	(107,748)	(578,435)	(601,933)
Ending Balance	**15,750**	**78,197**	**1,177,117**	**1,271,064**	242,940	8,236	716,032	967,208
Other Receivables								
Beginning Balance	**81,507**	**33,359**	**3,414,200**	**3,529,066**	69,326	19,486	3,197,574	3,286,386
Transfers to Stage 1	**26**	**(5)**	**(21)**	**–**	1,295	(15)	(1,280)	–
Transfers to Stage 2	**(758)**	**10,530**	**(9,772)**	**–**	(967)	22,649	(21,682)	–
Transfers to Stage 3	**(4,861)**	**(15,475)**	**20,336**	**–**	(12,748)	(67,882)	80,630	–
Provisions (reversals)	**(10,889)**	**20,157**	**655,009**	**664,277**	(598,194)	(13,427)	131,248	(480,373)
Accounts charged off	**–**	**–**	**(2,579)**	**(2,579)**	–	–	(9,287)	(9,287)
Loan settlement through dacion (Note 33)	**–**	**–**	**(11,313)**	**(11,313)**	–	–	–	–
Effect of collections and other movements	**22,968**	**99,664**	**(84,990)**	**37,642**	622,795	72,548	36,997	732,340
Ending Balance	**87,993**	**148,230**	**3,980,870**	**4,217,093**	81,507	33,359	3,414,200	3,529,066
Total Loans and Receivables								
Beginning Balance	**1,268,079**	**1,011,201**	**37,061,481**	**39,340,761**	1,248,985	969,118	30,196,547	32,414,650
Transfers to Stage 1	**1,069,644**	**(149,755)**	**(919,889)**	**–**	2,099,787	(120,100)	(1,979,687)	–
Transfers to Stage 2	**(72,840)**	**7,729,924**	**(7,657,084)**	**–**	(28,417)	335,029	(306,612)	–
Transfers to Stage 3	**(45,863))**	**(230,987)**	**276,850**	**–**	(84,716)	(258,331)	343,047	–
Provisions (reversals)	**992,181**	**(2,082,863)**	**8,288,799**	**7,198,117**	828,284	506,422	9,713,206	11,047,912
Accounts charged off	**–**	**–**	**(832,676)**	**(832,676)**	–	–	(1,439,313)	(1,439,313)
Loan settlement through dacion (Note 33)	**–**	**–**	**(4,591,743)**	**(4,591,743)**	–	–	–	–
Sale of receivables (Note 26)	**–**	**–**	**–**	**–**	–	–	(2,520,236)	(2,520,236)
Effect of collections and other movements	**(491,304)**	**139,468**	**178,911**	**(172,925)**	(2,795,844)	(420,937)	3,054,529	(162,252)
Ending Balance	**P2,719,897**	**P6,416,988**	**P31,804,649**	**P40,941,534**	P1,268,079	P1,011,201	P37,061,481	P39,340,761

Trade Receivables
Trade receivables consist of:

	2022	2021
	(In Thousands)	
Consumer goods	**P17,978,654**	P15,591,720
Contract receivables	**708,173**	59,487
Lease receivables	**391,729**	-
	19,078,556	15,651,207
Allowance for credit losses	**(476,950)**	(246,122)
	18,601,606	15,405,085
Noncurrent portion of contract receivables	**(88,514)**	-
	P18,513,092	P15,405,085

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, 2022			
	Finance Receivables	**Trade Receivables**	**Other Receivables**	**Total**
		(In Thousands)		
Balance at beginning of year	**P39,340,761**	**P246,122**	**P274,829**	**P39,861,712**
Provisions (reversals) during the year (Note 26)	**7,198,117**	**–**	**(69,072)**	**7,129,045**
Accounts charged off, transfers and others	**(5,597,344)**	**230,828**	**(168,975)**	**(5,535,491)**
Balance at end of year	**P40,941,534**	**P476,950**	**P36,782**	**P41,455,266**

	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)	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

9. Inventories

Inventories consist of:

	2022	2021
	(In Thousands)	
At Cost:		
Consumer goods:		
Alcohol	**P3,650,581**	P4,819,501
Beverage	**4,292,228**	2,904,499
	7,942,809	7,724,000
Real estate inventories:		
Condominium and residential units for sale	**430,865**	422,183
Land held for future development	**217,542**	217,542
Subdivision land under development	**3,666,508**	3,758,806
	4,314,915	4,398,531
Fuel, materials and supplies	**1,134,268**	974,767
	13,391,992	13,097,298
At NRV - Materials and supplies	**1,618,781**	1,189,225
	P15,010,773	P14,286,523

Allowance for inventory obsolescence on materials and supplies amounted to P4.1 million as of December 31, 2022 and 2021.

a. Components of the consumer goods inventories are as follows:

	2022	2021
	(In Thousands)	
Finished goods	**P1,460,258**	P1,206,369
Work in process	**1,611,017**	1,536,504
Raw materials	**4,871,534**	4,981,127
	P7,942,809	P7,724,000

Cost of consumer goods inventories recognized as expenses under cost of goods sold amounted to P17.9 billion, P14.6 billion and P14.1 billion in 2022, 2021 and 2020, respectively (see Note 24).

b. Movements in real estate inventories are set out below:

	2022	2021
	(In Thousands)	
Balance at beginning of year	**P4,398,531**	P4,382,363
Construction/development costs incurred	**142,819**	71,222
Disposals and others	**(226,435)**	(55,054)
Balance at end of year	**P4,314,915**	P4,398,531

10. Other Current Assets

	2022	2021
	(In Thousands)	
Assets of disposal group classified as held for sale	**P2,464,603**	P–
Prepaid expenses	**2,460,720**	2,658,143
Advances to suppliers	**2,282,424**	1,507,586
Creditable withholding taxes (CWT)	**1,694,430**	1,876,158
Input VAT	**1,667,311**	1,644,556
Deferred charges	**1,477,762**	1,065,090
Stationeries, office supplies and stamps on hand	**398,770**	87,476
Excise tax	**262,686**	649,482
Miscellaneous cash and other cash items	**71,457**	201,956
Others	**716,963**	608,315
	P13,497,126	P10,298,762

a. Assets of disposal group classified as held for sale pertains to the assets of AAC, a subsidiary of TDI. Based on management's assessment, this met the criteria and qualifies as a disposal group held for sale. Assets of AAC as of December 31, 2022 consist of the following:

Cash	P100,618
Inventories	343,894
Property, plant and equipment	1,093,742
Investment properties	642,258
Others	248,091
	P2,464,603

b. Prepaid expenses include prepaid importation charges amounting to P1,336.5 million and P1,221.5 million as of December 31, 2022 and 2021, respectively. Prepaid importation charges pertain to the purchases of raw materials by the distilled spirits.

c. Advances to suppliers pertain to deposits made for raw material purchases and are applied upon delivery of the related inventories.

d. 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.

e. Excise tax pertains to advance tax payments to the Bureau of Internal Revenue (BIR) on sale of alcoholic beverages.

f. 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	
	2022	2021	2022	2021
			(In Thousands)	
Associates:				
PMFTC	49.6%	49.6%	P7,313,230	P10,883,513
VMC	30.9%	30.9%	3,774,931	3,340,834
APLII	44.0%	44.0%	2,688,764	2,468,107
AB HPI	50.0%	50.0%	–	–
Joint Ventures:				
AEPDC	50.0%	50.0%	7,647,978	5,412,328
ABI Pascual Holdings	50.0%	50.0%	164,971	103,527
			P21,589,874	P22,208,309

Equity in net earnings consists of:

	2022	2021	2020
		(In Thousands)	
PMFTC	**P15,461,496**	P17,600,810	P16,932,501
Others	**633,079**	420,370	682,406
	P16,094,575	P18,021,180	P17,614,907

Investment in PMFTC

Details of investment in PMFTC are as follows:

	2022	2021
	(In Thousands)	
Acquisition cost	P13,483,541	P13,483,541
Accumulated equity in net earnings:		
Balance at beginning of year	(3,259,551)	(110,881)
Equity in net earnings	15,461,496	17,600,810
Cash dividends (Note 22)	(19,190,868)	(20,749,480)
Balance at end of year	(6,988,923)	(3,259,551)
Accumulated share in other comprehensive income	818,612	659,523
	P7,313,230	P10,883,513

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 at December 31, 2022 and 2021 and reconciliation with the carrying amount of the investment in consolidated financial statements are set out below:

	2022	2021
	(In Thousands)	
Current assets	**P52,127,377**	P50,381,367
Noncurrent assets	**28,478,321**	29,622,125
Current liabilities	**24,167,426**	22,236,683
Noncurrent liabilities	**4,720,614**	5,253,090
Equity	**51,717,658**	52,513,719
Equity interest of the Parent Company	**49.6%**	49.6%
Share in net assets of the acquiree	**25,651,958**	26,046,805
Acquisition-related fair value adjustments, adjustments relating to differences in accounting policies and others	**(18,338,728)**	(15,163,292)
Carrying value of investment	**P7,313,230**	P10,883,513

Summarized financial information of PMFTC, based on its financial statements as of December 31, are set out below:

	2022	2021	2020
		(In Thousands)	
Revenue	**P176,007,078**	P172,762,533	P174,956,574
Costs and expenses	**(134,565,385)**	(127,882,015)	(125,822,537)
Income before income tax	**41,441,693**	44,880,518	49,134,037
Provision for income tax	**(10,536,036)**	(9,661,727)	(14,911,929)
Net income	**30,905,657**	35,218,791	34,222,108
Other comprehensive income (loss)	**320,745**	585,549	(63,186)
Total comprehensive income	**P31,226,402**	P35,804,340	P34,158,922
Group's share of total comprehensive income for the year	**P15,488,295**	P17,758,953	P16,942,825

Investment in VMC

Details of investment in VMC are as follows:

	2022	2021
	(In Thousands)	
Acquisition cost	**P1,459,768**	P1,459,768
Accumulated equity in net earnings:		
Balance at beginning of year	**1,827,731**	1,654,091
Equity in net earnings	**491,046**	258,376
Cash dividends (Note 22)	**(59,316)**	(84,736)
Balance at end of year	**2,259,461**	1,827,731
Share in remeasurement gain on defined benefit plans	**(2,758)**	(5,125)
Balance of convertible notes	**58,460**	58,460
	P3,774,931	P3,340,834

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, 2022 and 2021 and reconciliation with the carrying amount of the investment in consolidated financial statements are set out below:

	2022	2021
	(In Thousands)	
Current assets	**P4,236,359**	P3,851,240
Noncurrent assets	**7,108,633**	6,498,798
Current liabilities	**751,030**	588,046
Noncurrent liabilities	**994,476**	862,428
Equity	**9,599,486**	8,899,564
Equity interest of the Parent Company	**30.9%**	30.9%
Share in net assets of the acquiree	**2,966,241**	2,749,965
Fair value adjustments and others	**808,690**	590,869
Carrying value of investment	**P3,774,931**	P3,340,834

Summarized statements of comprehensive income of VMC for the years ended August 31 are as follows:

	2022	2021	2020
		(In Thousands)	
Revenue	**P8,550,322**	P7,468,247	P7,437,424
Costs and expenses	**(7,460,683)**	(6,607,202)	(6,431,233)
Income before income tax	**1,089,639**	861,045	1,006,191
Provision for income tax	**(123,569)**	(74,809)	(152,468)
Net income	**966,070**	786,236	853,723
Other comprehensive income (loss)	**7,820**	42,790	(26,009)
Total comprehensive income	**P973,890**	P829,026	P827,714
Group's share of total comprehensive income for the year	**P300,932**	P256,169	P255,764

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, 2022 and 2021 follows:

	2022	2021
	(In thousands)	
Current assets	**P1,452,894**	P2,189,208
Noncurrent assets	**90,446,895**	76,895,902
Current liabilities	**1,535,802**	3,217,567
Noncurrent liabilities	**87,928,050**	73,827,220
Equity	**2,435,937**	2,040,323
Equity interest of the Parent Company	**44%**	44%
Share in net assets of the acquiree	**1,071,812**	897,742
Fair value adjustments and others	**1,616,952**	1,570,365
Carrying value of investment	**P2,688,764**	P2,468,107

Summarized statements of total comprehensive income of APLII for the year ended December 31 are as follows:

	2022	2021	2020
		(In Thousands)	
Revenue	**P4,344,038**	P3,732,388	P3,132,745
Costs and expenses	**(4,486,380)**	(3,624,691)	(2,846,825)
Net income (loss)	**(142,342)**	107,697	285,920
Other comprehensive loss	**(262,006)**	–	297,096
Total comprehensive income (loss)	**(P404,348)**	P107,697	P583,016
Group's share of total comprehensive income (loss) for the year	**(P177,913)**	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:

	2022	2021
	(In Thousands)	
Acquisition cost	**P1,179,754**	P1,179,754
Accumulated equity in net earnings:		
Balance at the beginning and end of the 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 2022 and 2021, 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. 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:

	2022	2021
Net assets	**P13,425**	P13,425
Proportionate ownership	**50%**	50%
	P6,713	P6,713

Summarized financial information of AB HPI as of December 31, 2022 and 2021 and reconciliation with the carrying amount of the investment in consolidated financial statements are set out below:

	2022	2021
	(In Thousands)	
Current assets	**P935,967**	P935,967
Current liabilities	**922,542**	922,542
Equity	**P13,425**	P13,425

For the year ended December 31, 2022, AB HPI has no operations, hence, no significant transaction impacting profit or loss. Summarized statements of comprehensive income of AB HPI for the years ended December 31, 2021 and 2020 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	**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.

On April 28 and July 27, 2020, the Company infused additional capital totaling P1,083.5 million for the joint venture’s capital expenditure on construction projects and working capital.

On February 22, May 11 and December 13, 2021, the Company infused additional capital totaling P833.0 million for the joint venture’s capital expenditure on construction projects and working capital.

On April 29 and November 25, 2022 , the Company infused additional capital totaling P2,099.0 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:

	2022	2021
	(In Thousands)	
Acquisition cost:		
Balance at beginning of year	**P5,287,500**	P4,454,500
Additional capital infusion during the year	**2,099,000**	833,000
Balance at end of year	**7,386,500**	5,287,500
Accumulated equity in net earnings:		
Balance at the beginning of the year	**124,828**	60,405
Share in net income of a joint venture	**136,650**	64,423
Balance at end of year	**261,478**	124,828
Ending balance	**P7,647,978**	P5,412,328

Summarized financial information of AEPDC as of December 31, 2022 and 2021 follows:

	2022	2021
	(In thousands)	
Current assets	**P16,056,792**	P13,677,474
Noncurrent assets	**6,081,276**	4,506,255
Current liabilities	**6,627,948**	6,249,887
Noncurrent liabilities	**219,309**	862,949
Equity	**15,290,811**	11,070,893

Summarized statements of total comprehensive income of AEPDC for the year ended December 31 are as follows:

	2022	2021
	(In Thousands)	
Revenue	**P1,966,855**	P844,572
Costs and expenses	**(1,599,992)**	(690,112)
Income before income tax	**366,863**	154,460
Provision for income tax	**(93,566)**	(25,614)
Total comprehensive income	**P273,297**	P128,846
Group’s share of total comprehensive income	**P136,650**	P64,423

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:

	2022	2021
	(In thousands)	
Current assets	**P398,619**	P529,034
Noncurrent assets	**4,012**	3,151
Current liabilities	**66,390**	404,092
Noncurrent liabilities	**6,936**	13,285
Total equity	**329,305**	114,808

The summarized statements of comprehensive income of ABI Pascual Holdings for the years ended December 31 are as follows:

	2022	2021
	(In Thousands)	
Revenue	**P501,204**	P398,464
Costs and expenses	**335,345**	274,241
Income before income tax	**165,859**	124,223
Provision for income tax	**43,123**	30,937
Net income	**122,736**	93,286
Other comprehensive income	**3,280**	7,731
Total comprehensive income	**P126,016**	P101,017
Group's share of total comprehensive income	**P63,088**	P39,566

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:

	2022	2021	2020
		(In Thousands)	
Accumulated balances of material non-controlling interest	**P3,549,378**	P3,219,143	P3,201,276
Net income allocated to material non-controlling interest	**51,670**	59,412	10,835
Total comprehensive income allocated to material non-controlling interest	**343,580**	282,293	319,237

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:

	2022	2021	2020
		(In Thousands)	
Revenue	**P50,961,336**	P49,474,321	P54,973,243
Cost of services	**(9,346,027)**	(8,608,926)	(12,113,434)
General and administrative expenses	**(35,382,372)**	(34,172,945)	(44,655,737)
Foreign exchange gains - net	**1,608,281**	743,549	919,555
Other income - net	**8,855,787**	32,867,305	1,772,876
Income before income tax	**16,697,005**	40,303,304	896,503
Benefit from (provision for) income tax	**(4,931,228)**	(5,545,194)	1,798,238
Net income from continuing operations	**11,765,777**	34,758,110	2,694,741
Net income (loss) from discontinued operations	**–**	(735,365)	67,583
Net income	**11,765,777**	34,022,745	2,762,324
Other comprehensive loss	**(2,887,965)**	(2,052,906)	(2,023,525)
Total comprehensive income	**P8,877,812**	P31,969,839	P738,799
Net income attributable to:			
Equity holders of the Parent Company	**P11,714,107**	P33,963,333	P2,751,489
Non-controlling interests	**51,670**	59,412	10,835
Total comprehensive income (loss) attributable to:			
Equity holders of the Parent Company	**8,534,232**	31,687,546	756,023
Non-controlling interests	**343,580**	282,293	(17,224)
Dividends declared to non-controlling interests	**13,345**	4,705	19,161

Statements of Financial Position:

	2022	2021
	(In Thousands)	
Current assets	**P537,671,669**	P599,353,375
Noncurrent assets	**602,847,076**	586,057,462
Current liabilities	**898,204,863**	925,534,374
Noncurrent liabilities	**79,405,266**	105,783,546
Equity attributable to:		
Equity holders of the Parent Company	**159,359,238**	150,873,774
Non-controlling interest	**3,549,378**	3,219,143

Statements of Cash Flows:

	2022	2021	2020
		(In Thousands)	
Operating	**P6,270,264**	P18,675,489	P97,190,366
Investing	**(10,452,461)**	(6,878,382)	(6,726,929)
Financing	**(40,608,849)**	(51,527,513)	30,464,746
Net increase (decrease) in cash and cash equivalents	**(P44,791,046)**	(P39,730,406)	P120,928,183

12. Property, Plant and Equipment

December 31, 2022

	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	**P44,571,546**	**P12,226,089**	**P25,970,509**	**P82,768,144**	**P5,251,382**	**P3,111,095**	**P5,828,357**	**P7,738,462**	**P706,663**	**P22,635,959**	**P6,807,439**	**P112,211,542**
Additions/transfers (Note 13)	**306**	**174,837**	**787,256**	**962,399**	**421,808**	**180,002**	**801,683**	**1,512,918**	**167,382**	**3,083,793**	**696,522**	**4,742,714**
Net decrement in appraised value	**(229,621)**	**(107,690)**	**(171,475)**	**(508,786)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(508,783)**
Disposals/transfers/others (Note 28)	**2,410,509**	**(394,900)**	**(3,015,159)**	**(999,550)**	**(974,713)**	**(90,258)**	**–**	**(621,434)**	**(483,548)**	**(2,169,953)**	**(342,732)**	**(3,512,238)**
Balance at end of year	**46,752,740**	**11,898,336**	**23,571,131**	**82,222,207**	**4,698,477**	**3,200,839**	**6,630,040**	**8,629,946**	**390,497**	**23,549,799**	**7,161,229**	**112,933,235**
Accumulated Depreciation, Amortization and Impairment Losses												
Balance at beginning 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**
Depreciation and amortization	**(21,359)**	**319,868**	**1,138,999**	**1,437,508**	**(298,319)**	**247,916**	**476,199**	**1,301,941**	**–**	**1,727,737**	**1,305,342**	**4,470,587**
Disposals/transfers/others (Note 28)	**–**	**(207)**	**(19,360)**	**(19,567)**	**712,641**	**(82,370)**	**–**	**(646,588)**	**–**	**(16,317)**	**(375,178)**	**(411,062)**
Balance at end of year	**2,559,880**	**7,612,294**	**13,545,040**	**23,717,214**	**936,041**	**2,696,610**	**4,687,818**	**7,306,725**	**–**	**15,627,194**	**2,815,006**	**42,159,414**
Net Book Value	**P44,192,860**	**P4,286,042**	**P10,026,091**	**P58,504,993**	**P3,762,436**	**P504,229**	**P1,942,222**	**P1,323,221**	**P390,497**	**P7,922,605**	**P4,346,223**	**P70,773,821**

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)	(17,152,791)
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	41,990,307	4,933,456	13,545,108	60,468,871	4,729,663	580,031	1,616,738	1,087,090	706,663	8,720,185	4,922,596	74,111,653

Right-of-use assets

December 31, 2022

	Bank Premises	Land and Land Improvements	Plant Buildings and Building Improvements	Machineries and Equipment	Total
Cost					
Balance at beginning of year	**P5,384,124**	**P1,245,714**	**P128,063**	**P49,538**	**P6,807,439**
Additions/transfers	**803,905**	**–**	**–**	**–**	**803,905**
Transfers/others	**(367,364)**	**(7,650)**	**(850)**	**–**	**(375,864)**
Balance at end of year	**5,820,665**	**1,238,064**	**127,213**	**49,538**	**7,235,480**
Accumulated Depreciation, Amortization and Impairment Losses					
Balance at beginning of year	**1,644,824**	**157,389**	**48,490**	**34,139**	**1,884,842**
Depreciation and amortization	**1,205,712**	**53,659**	**34,306**	**11,665**	**1,305,342**
Transfers/others	**(375,178)**	**45,293**	**28,958**	**–**	**(300,927)**
Balance at end of year	**2,475,358**	**256,341**	**111,754**	**45,804**	**2,889,257**
Net Book Value	**P3,345,307**	**P981,723**	**P15,459**	**P3,734**	**P4,346,223**

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

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, 2022, 2021, and 2020 (see Note 34).

Movements in revaluation increment, net of deferred income tax effect, are as follows:

	2022	2021
	(In Thousands)	
Revaluation increment on the property, plant and equipment, net of deferred income tax effect:		
Balance at beginning of year	**P20,650,569**	P20,207,236
Net revaluation increase (decrease)	**(381,590)**	1,176,887
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	**(831,006)**	(733,554)
Balance at end of year	**P19,437,973**	P20,650,569
Attributable to:		
Equity holders of the Company	**P11,772,813**	P12,964,177
Non-controlling interests	**7,665,163**	7,686,392
	P19,437,976	P20,650,569

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:

	2022	2021
	(In Thousands)	
Cost		
Land and land improvements	**P9,137,689**	P9,425,784
Plant buildings and improvements	**21,196,966**	21,019,350
Machineries and equipment	**33,151,530**	32,328,420
	63,486,185	62,773,554
Accumulated depreciation		
Land and land improvements	**(4,151,116)**	(3,863,021)
Plant buildings and improvements	**(15,124,253)**	(13,080,488)
Machineries and equipment	**(15,955,719)**	(14,490,041)
	(35,231,088)	(31,433,550)
	P28,255,097	P31,340,004

Depreciation

Depreciation of property, plant and equipment charged to operations is as follows:

	2022	2021	2020
		(In Thousands)	
Continuing operations:			
Cost of goods sold and services (Note 24)	**P1,804,042**	P1,718,078	P1,611,117
Selling expenses (Note 25)	**623,076**	476,052	328,123
General and administrative expenses (Note 26)	**2,043,469**	2,627,246	2,720,215
	P4,470,587	P4,821,376	P4,659,455

As of December 31, 2022 and 2021, 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 2022 and 2021, P1.4 million and P34.4 million remain to be unpaid as of December 31, 2022 and 2021, respectively, which represent non-cash investing activities.

Certain property and equipment of the Group with carrying amount of P75.6 million and P92.6 million are temporarily idle as of December 31, 2022 and 2021, respectively.

Borrowing Costs

Unamortized capitalized borrowing costs amounted to P8.79 million and P9.2 million as of December 31, 2022 and 2021, 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 2022, 2021 and 2020.

13. Investment Properties

Movements of the Group's investment properties are as follows (in thousands):

	December 31, 2022				
	Land	**Buildings and Improvements**	**Residential Unit**	**Construction in Progress**	**Total**
Cost					
Balance at beginning of year	**P18,843,137**	**P13,676,726**	**P5,881,213**	**P3,966,848**	**P42,367,924**
Additions	**4,013,930**	**2,797,066**	**–**	**–**	**6,810,996**
Disposals/transfers/others	**1,679,529**	**(3,875,995)**	**–**	**(2,418,157)**	**(4,614,623)**
Balance at end of year	**24,536,596**	**12,597,797**	**5,881,213**	**1,548,691**	**44,564,297**
Accumulated Depreciation and Impairment Losses					
Balance at beginning of year	**2,501,903**	**5,255,667**	**163,001**	**–**	**7,920,571**
Depreciation	**–**	**508,565**	**–**	**–**	**508,565**
Disposals/transfers/others	**–**	**(909,843)**	**–**	**–**	**(909,843)**
Balance at end of year	**2,501,903**	**4,854,389**	**163,001**	**–**	**7,519,293**
Net Book Value	**P22,034,693**	**P7,743,408**	**P5,718,212**	**P1,548,691**	**P37,045,004**

	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

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 P199.9 million and P229.8 million as of December 31, 2022 and 2021, 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, 2022 and 2021, 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, 2022, 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	P143,763,044	December 31, 2022
Building and improvements	Market approach	24,121,543	December 31, 2022
		P167,884,587	

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, 2022.

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 P2,026.4 million and P927.2 million in 2022, P1,893.7 million and P724.1 million in 2021 and P1,757.7 million and P466.6 million in 2020, 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:

	2022	2021	2020
	(In Thousands)		
Cost of rental income (Note 24)	**P355,472**	P295,588	P296,517
General and administrative expenses (Note 26)	**153,093**	153,151	259,839
	P508,565	P448,739	P556,356

14. Other Noncurrent Assets

Other noncurrent assets consist of:

	2022	2021
	(In Thousands)	
Software costs	**P2,144,378**	P2,538,411
Deferred charges	**1,477,860**	1,065,090
Prepaid excise taxes (Note 37)	**771,713**	801,820
Creditable withholding taxes	**451,537**	449,842
Net retirement plan assets (Note 23)	**265,850**	268,910
Distribution network access	**229,401**	229,401
Chattel properties - net	**211,619**	227,187
Advances to suppliers	**182,529**	147,016
Refundable and security deposits	**176,690**	8,370
Goodwill	**163,735**	163,735
Deferred input VAT	**116,814**	136,399
Others - net	**219,997**	1,220,637
	6,412,123	7,256,818
Allowance for probable losses	**(1,426,911)**	(1,479,432)
	P4,985,212	P5,777,386

a. Movements in software costs are as follows:

	2022	2021
	(In Thousands)	
Balance at beginning of year	**P2,538,411**	P2,680,548
Additions	**881,572**	661,544
Amortization (Note 26)	**(1,219,901)**	(461,630)
Other adjustments	**(55,704)**	(342,051)
Balance at end of year	**P 2,144,378**	P2,538,411

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 P144.70 million, respectively. As of December 31, 2022 and 2021, 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 11.2% and 10.5% in 2022 and 2021, respectively. The growth rate used to extrapolate the cash flows of until beyond the five-year period is 6.5% as of December 31, 2022 and 6.0% as of December 31, 2021. 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, 2022 and 2021, the recoverable amount of ADI is higher than its carrying value.

g. As of December 31, 2022 and 2021, accumulated depreciation on chattel mortgage properties acquired by the Group in settlement of loans amounted to P229.1 million and P241.8 million, respectively. As of December 31, 2022 and 2021, the total recoverable value of certain chattel mortgage properties of PNB that were impaired is at P1.2 million and P0.9 million, respectively.

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:

	2022	2021
	(In Thousands)	
Balance at beginning of year	**P1,479,432**	P1,314,007
Provisions (Note 28)	**–**	165,425
Transfers and others	**(52,521)**	–
	P1,426,911	P1,479,432

15. Deposit Liabilities

	2022	2021
	(In Thousands)	
Savings	**P501,114,987**	P484,227,339
Demand	**220,043,866**	216,367,830
Time	**131,243,320**	179,974,944
	852,402,173	880,570,113
Presented as noncurrent	**(20,796,801)**	(38,508,755)
	P831,605,372	P842,061,358

Of the total deposit liabilities of the Group, P27.8 billion and P28.6 billion are non-interest bearing as of December 31, 2022 and 2021, respectively. Annual interest rates of the remaining deposit liabilities follow:

	2022	2021
Foreign-currency denominated deposit liabilities	**0.00% to 5.50%**	0.01% to 3.00%
Peso-denominated deposit liabilities	**0.10% to 6.12%**	0.10% to 6.75%

Under existing BSP regulations, non-FCDU deposit liabilities of PNB is subject to reserves equivalent to 12.00%, while peso-denominated LTNCDs are subject to reserves equivalent to 4.00%. As of December 31, 2022 and 2021, available reserves booked under "Due from BSP" amounted to P74.7 billion and P81.3 billion, respectively (see Note 5).

Long-term Negotiable Certificates of Time Deposits (LTNCDs)
Time deposit of the Group includes the following LTNCDs:

Issue Date	Maturity Date	Face Value	Coupon Rate	Interest Repayment Terms	Carrying Value 2022	Carrying Value 2021
October 11, 2019	April 11, 2025	P4,600,000	4.38%	Quarterly	**P4,584,136**	P4,578,946
February 27, 2019	August 27, 2024	8,220,000	5.75%	Quarterly	**8,198,193**	8,187,523
October 26, 2017	April 26, 2023	6,350,000	3.88%	Quarterly	**6,347,683**	6,339,910
April 27, 2017	October 27, 2022	3,765,000	3.75%	Quarterly	**–**	3,761,261
December 6, 2016	June 6, 2022	5,380,000	3.25%	Quarterly	**–**	5,377,750
		P28,315,000			**P19,130,012**	P28,245,390

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 P5.2 billion, P4.8 billion and P7.3 billion in 2022, 2021 and 2020, respectively (see Note 24).

In 2022, 2021 and 2020, interest expense on LTNCDs of the Group includes amortization of transaction costs amounting to P29.6 million, P33.4 million and P59.9 million, respectively. Unamortized transaction costs of the LTNCDs amounted to P40.0 million and P69.6 million as of December 31, 2022 and 2021, respectively.

16. Financial Liabilities at FVTPL

Financial liabilities at fair value through profit or loss consist of derivatives liabilities amounting to P1,039.8 million and P891.5 million as of December 31, 2022 and 2021, respectively (see Notes 21 and 33).

17. Bills and Acceptances Payable

Bills and acceptances payable consist of:

	2022	2021
	(In Thousands)	
Bills payable to:		
BSP and local banks	**P1,036,491**	P37,482,381
Foreign banks	**6,665,834**	8,263,434
Others	**–**	98,086
	7,702,325	45,843,901
Acceptances outstanding	**7,278,048**	7,109,896
	14,980,373	52,953,797
Presented as noncurrent	**(6,182,317)**	(3,173,443)
	P8,798,056	P49,780,354

Annual interest rates are shown below:

	2022	2021	2020
Peso-denominated	**0.3% - 4.3%**	1.0% - 2.0%	4.0% - 6.5%
Foreign currency-denominated	**1.9% - 5.5%**	0.1% - 1.2%	0.1% - 4.4%

As of December 31, 2022 and 2021, bills payable with a carrying amount of P6.6 billion and P38.5 billion are secured by a pledge of financial assets at FVTOCI with fair values of P2.5 billion and P32.8 billion, respectively, and investment securities at amortized cost with carrying values of P5.5 billion and P5.3 billion, respectively, and fair values of P5.5 billion and P5.6 billion, respectively (see Note 7).

Interest expense on bills payable is included under "Cost of banking services" amounting to P0.4 billion in 2022, P0.5 billion in 2021 and P0.9 billion in 2020 (see Note 24).

18. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of:

	2022	2021
	(In Thousands)	
Trade payables	**P7,439,068**	P3,154,756
Nontrade payables	**742,774**	506,615
Accrued expenses:		
Purchase of materials and supplies and others	**6,494,354**	2,154,293
Taxes and licenses	**1,339,777**	905,539
Accrued interest	**999,856**	816,859
Advertising and promotional expenses	**956,657**	985,735
PDIC insurance premiums	**803,612**	1,191,720
Project development costs	**675,051**	1,167,420
Retention payable	**600,908**	613,124
Rent and utilities payable	**300,029**	178
Other benefits - monetary value of leave credits	**289,033**	2,358,716
Information technology-related expenses	**256,339**	665,191
Due to government agencies	**407,580**	457,006
Output VAT	**411,123**	395,637
Other payables	**138,375**	2,742,872
	P21,854,536	P18,115,661

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, 2022 and 2021, outstanding unsecured short-term debts amounted to P4,490.0 million and P3,940.0 million, respectively. The loans, which are subject to annual interest rates ranging from 3.2% to 7.0% in 2022 and 3.3% to 5.0% in 2021, 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

	2022	2021
	(In Thousands)	
Bonds payable	**P58,439,097**	P53,383,421
Lease liabilities (Note 35, 37)	**5,017,860**	5,144,046
Unsecured term loans	**3,255,346**	4,115,867
	66,712,303	62,643,334
Current portion	**(20,399,948)**	(3,597,299)
	P46,312,355	P59,046,035

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, 2022 and 2021, the unamortized transaction cost of bonds payable amounted to P92.8 million and P168.7 million. Amortization of transaction costs amounting to P75.9 million and P83.5 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, 2022 and 2021, the Group has complied with the financial and non-financial covenants of its long-term debts.

20. Other Liabilities

	2022	2021
	(In Thousands)	
Dormant credits	**P1,558,713**	P1,303,713
Managers' checks and demand drafts outstanding	**1,548,448**	1,256,121
Provisions (Note 37)	**1,376,289**	1,095,325
Deferred revenue	**1,155,171**	1,391,578
Payable to landowners	**1,061,191**	1,061,191
Customers' deposits	**945,825**	1,475,684
Due to Treasurer of the Philippines	**891,709**	882,769
Bills purchased - contra (Note 8)	**877,767**	1,053,517
Interoffice floats	**537,628**	537,628
Tenants' rental deposits	**663,907**	411,502
Due to other banks	**276,770**	213,257
Withholding taxes payable	**310,530**	309,897
Margin deposits and cash letters of credit	**224,033**	325,829
Payment order payable	**220,949**	196,718
Miscellaneous tax securities	**211,642**	131,875
Advance rentals	**136,644**	217,857
Deposit on lease contracts	**75,129**	593,903
Others	**6,767,610**	5,963,191
	18,839,955	18,421,555
Noncurrent portion	**(8,464,180)**	(9,040,491)
	P10,375,775	P9,381,064

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, net of capitalized portion of P10.1 million in 2020 (nil in 2022 and 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 P995.3 million and P995.1 million as of December 31, 2022 and 2021, 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.

Others
Other liabilities pertains to liabilities of disposal group classified as held for sale amounting to P278.1 million and 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, 2022 and 2021 and are not indicative of either market risk or credit risk (amounts in thousands, except average forward rate).

	December 31, 2022				December 31, 2021			
	Assets	**Liabilities**	**Average Forward Rate**	**Notional Amount***	Assets	Liabilities	Average Forward Rate	Notional Amount*
				(In Thousands)				
Freestanding derivatives:								
Currency forwards								
BUY:								
USD	**P749,512**	**P760,764**	**55.76**	**P1,539,816**	P1,355,660	P274	51.00	P3,861,673
GBP	**–**	**–**	**–**	**–**	47	16	1.35	6,325
EUR	**243**	**57,543**	**1.06**	**72,318**	6	5	1.13	12,645
SGD	**303**	**–**	**0.74**	**7**	31	–	0.74	1
PHP	**172**		**0.13**	**24**	–	1,544	1.00	1,788,750
SELL:								
USD	**604,222**	**65**	**55.76**	**644,843**	990	887,819	51.00	1,374,345
CAD	**–**	**75**	**0.73**	**1,700**	141	11	0.78	2,125
GBP	**2,765**	**–**	**1.20**	**2,000**	30	884	1.35	8,500
HKD	**187**	**236**	**0.13**	**321,189**	1,714	108	0.13	2,217,580
EUR	**3,803**	**70,519**	**1.06**	**62,040**	2	153	1.13	19,443
JPY	**216**	**11,911**	**0.01**	**534,700**	6,124	9	0.01	1,080,000
SGD	**–**	**348**	**0.74**	**1,700**	16	436	0.74	1,400
AUD	**9**	**55**	**0.67**	**700**	–	228	0.72	500
NZD	**319**	**–**	**0.63**	**400**	–	36	0.68	400
PHP	**200**	**138,260**	**1.00**	**2,743,406**	290	8	1.00	509,708
	P1,361,951	**P1,039,776**			P1,365,051	P891,531		

** 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):

	2022	2021
	(In Thousands)	
Balance at beginning of year		
Derivative assets	**P1,365,051**	P370,653
Derivative liabilities	**891,531**	701,239
	473,520	(330,586)
Changes in fair value		
Currency forwards and spots*	**(147,028)**	805,748
Interest rate swaps and warrants**	**–**	(23,472)
	(147,028)	782,276
Net availments (settlements)	**(4,317)**	21,830
Balance at end of year		
Derivative assets	**1,361,951**	1,365,051
Derivative liabilities	**1,039,776**	891,531
	P322,175	P473,520

** Presented as part of “Foreign exchange gains-net”.*
*** 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
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.
(Forward)	

Parent Company, Subsidiaries, Associates and Joint Ventures	
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.	
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	2022	2021	2020
		(In Thousands)		
Associates	Dividend income	**P19,250,184**	P20,834,736	P21,751,985
	Purchases of inventories	**(366,912)**	(794,530)	(427,183)
	Sales	**–**	–	418,772
	Leases	**35,100**	35,100	35,100
Entities Under Common Control	Banking revenue - interest on loans and receivables	**723,194**	575,833	1,895,183
	Rent income	**55,117**	35,719	28,001
	Interest income on loans and advances	**51,026**	51,737	22,688
	Sales of consumer products	**2,147**	7,405	7,331
	Other income	**20,424**	86,856	96,523
	Freight and handling	**(20,635)**	(8,676)	(17,517)
	Purchases of inventories	**(6,696)**	(6,785)	(6,479)
Entities Under Common Control	Management and professional fees	**(326,399)**	(558,372)	(558,372)
	Cost of banking services - interest expense on deposit liabilities	**(570,304)**	(211,108)	(99,403)
	Outside services	**–**	–	(71,771)
	Rent expense	**22,794**	–	(23,710)
	Cost of goods sold and services	**(42,768)**	(866)	(1,213)
	Advertising expense	**–**	–	–
Key Management	Short-term employee benefits	**(517,114)**	(460,711)	(587,077)
	Post-employment benefits	**(47,424)**	(50,629)	(70,204)

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	2022	2021	2022	2021
				(In Thousands)		
Parent Company	Due to related parties	On demand; non-interest bearing	**(P15,325)**	P–	**P–**	(P15,325)
	Due from related parties	Maturity terms ranging from 90 days to 3 years; 2.5% interest per annum	**(4,129,300)**	5,729,300	**2,109,000**	6,238,300
Associates	Other receivables - dividends	Payable monthly	**–**	20,749,480	**–**	–
	Trade receivables	- do -	**–**	–	**121,253**	121,253
	Nontrade receivables	- do -	**(181)**	–	**8,747**	8,928
	Account payable and other liabilities	30 to 60 days terms; non-interest bearing	**(366,912)**	794,530	**(366,912)**	–
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 P9.6 billion	**723,194**	575,833	**41,077,025**	57,580,429
	Trade receivables	- do -	**2,147**	7,405	**23,812**	21,665
	Other receivables	- do -	**20,424**	86,856	**47,904**	27,480
	Due from related parties	On demand; non-interest bearing	**242**	1,732	**1,447,476**	1,447,234
	Advances to suppliers	- do -	**(42,768)**	866	**43,269**	501
	Deposit liabilities	With annual rates ranging from 0.10% to 1.50% and maturity ranging from 30 days to 365 days	**4,235,274**	15,060,480	**40,352,466**	36,117,192
	Account payable and other liabilitites	30 to 90 days terms; non-interest bearing	**–**	(139,703)	**478,265**	478,265
	Due to related parties	On demand; non-interest bearing	**–**	–	**(50,000)**	(50,000)

As of December 31, 2022 and 2021, 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 loans from the Group totaling P5.7 billion with additional loans during the year amounting to P0.6 billion, which P4.7 billion was paid in various dates in 2022.
- In 2022 and 2021, the Group declared cash dividends to stockholders of which P11.3 billion and P8.7 billion, respectively were paid to Tangent.

Transactions with Associates

- Dividend income from PMFTC amounted to P19.2 billion in 2022 and P20.7 billion in 2021 (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 2022 and 2021, 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, 2022 and 2021, 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:

	2022	2021
	(In Thousands)	
Net retirement plan assets:		
FTC	**P259,793**	P256,485
LTG	**6,057**	1,940
TBI	**–**	10,485
	P265,850	P268,910
Net retirement benefits liabilities:		
PNB and subsidiaries	**P378,850**	P920,581
ABI and subsidiaries	**203,859**	640,422
Eton and subsidiaries	**158,174**	141,134
ADI	**47,869**	46,556
TBI	**2,807**	–
AAC	**–**	56,184
TDI	**4,941**	12,780
	P796,500	P1,817,657

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:

	2022			2021			2020		
	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	**P111,086**	**(P379,996)**	**(P268,910)**	P125,747	(P375,184)	(P249,437)	P157,751	(P417,710)	(P259,959)
Change in status of retirement plan	**–**	**–**	**–**	–	–	–	(62,878)	65,525	2,647
Net retirement benefits expense (income) in profit or loss:									
Current service cost	**14,678**	**–**	**14,678**	6,577	–	6,577	16,934	(1,465)	15,469
Net interest cost	**5,395**	**(16,030)**	**(10,635)**	4,851	(14,520)	(9,669)	5,040	(16,381)	(11,341)
	20,073	**(16,030)**	**4,043**	11,428	(14,520)	(3,092)	21,974	(17,846)	4,128
Contributions	**–**	**(14,098)**	**(14,098)**	–	(8,030)	(8,030)	–	(8,030)	(8,030)
Benefits paid	**(4,877)**	**4,877**	**–**	(4,835)	4,835	–	–	–	–
Remeasurement losses (gains) in other comprehensive income - actuarial changes arising from changes in:									
Financial assumptions	**(13,069)**	**20,173**	**7,104**	4,256	–	4,256	19,040	–	19,040
Demographic assumptions	**–**	**805**	**805**	–	11,088	11,088	–	894	894
Experience adjustments	**(7,062)**	**12,268**	**5,206**	(25,510)	1,815	(23,695)	(10,140)	1,983	(8,157)
	(20,131)	**33,246**	**13,115**	(21,254)	12,903	(8,351)	8,900	2,877	11,777
Ending balance	**P106,151**	**(P372,001)**	**(P265,850)**	P111,086	(P379,996)	(P268,910)	P125,747	(P375,184)	(P249,437)

Net retirement benefits liabilities:

	2022			2021			2020		
	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	**P10,107,396**	**(P8,289,739)**	**P1,817,657**	P11,130,110	(P8,711,473)	P2,418,637	P11,334,593	(P9,634,850)	P1,699,743
Change in status of retirement plan				–	–	–	62,878	(65,525)	(2,647)
Net retirement benefits cost in profit or loss:									
Current service cost	**1,012,069**	**-**	**1,012,069**	970,694	–	970,694	832,107	–	832,107
Net interest cost	**527,651**	**(448,643)**	**79,008**	385,429	(300,486)	84,943	445,783	(325,044)	120,739

(Forward)

	2022			2021			2020		
	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)				
Past service cost	**312,332**	**–**	**312,332**	–	–	–	25,454	–	25,454
	1,852,052	**(448,643)**	**1,403,409**	1,356,123	(300,486)	1,055,637	1,303,344	(325,044)	978,300
Contributions	**–**	**(976,430)**	**(976,430)**	(750,120)	(209,028)	(959,148)	–	(1,117,108)	(1,117,108)
Benefits paid from plan assets	**–**	**–**	**–**	(686,967)	686,967	–	(537,982)	537,982	–
Benefits paid directly from book reserves	**(1,068,558)**	**1,068,558**	**–**	–	–	–	(1,440)	–	(1,440)
Settlement benefits paid directly by the Group	**(44,042)**	**44,042**	**–**	–	–	–	(6,092)	–	(6,092)
Remeasurement losses (gains) in other comprehensive income - actuarial changes arising from changes in:									
Financial assumptions	**(471,353)**	**373,145**	**(98,208)**	(647,100)	–	(647,100)	1,052,016	–	1,052,016
Demographic assumptions	**(1,195,424)**	**(5,317)**	**(1,200,741)**	–	–	-	(55,142)	–	(55,142)
Experience adjustments	**(218,881)**	**69,694**	**(149,187)**	(294,650)	244,281	(50,369)	(243,410)	128,580	(114,830)
	(1,885,658)	**437,522**	**(1,448,136)**	(941,750)	244,281	(697,469)	753,464	128,580	882,044
Effect of disposal group classified as held for sale	**–**	**–**	**–**	–	–	–	(62,899)	48,736	(14,163)
Ending balance	**P8,961,190**	**(P8,164,690)**	**P796,500**	P10,107,396	(P8,289,739)	P1,817,657	P12,845,866	(P10,427,229)	P2,418,637

The fair value of plan assets as of December 31 is as follows:

	2022	2021
	(In Thousands)	
Cash and cash equivalents	**P4,010,871**	P3,934,168
Receivables	**160,380**	84,364
Equity investments:		
Financial institutions	**701,165**	1,017,676
Other	**628,389**	953,003
Debt investments:		
Investment in private debt securities	**626,677**	587,954
Investments in government securities	**1,796,154**	2,011,167
Others	**613,054**	81,403
Fair value of plan assets	**P8,536,690**	8,669,735

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

	2022	2021
Cash and cash equivalents	**47%**	45%
Receivables	**2%**	1%
Equity investments	**16%**	23%
Debt investments	**28%**	30%
Others	**7%**	1%
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:

	2022	2021	2020
Discount rate	**4.70% - 5.10%**	3.45%-7.37%	3.40%-3.80%
Future salary increases	**4.00% - 8.00%**	3.00%-10.00%	3.00%-10.00%

As of December 31, 2022, the discount and future salary increase rates are 6.92%-7.15% and 4.00%-10.00%, 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):

	2022		2021	
	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	**+1.00%**	**(P589,152)**	0.50%	(P729,343)
	-1.00%	**631,760**	-0.50%	799,196
Future salary increases	**+1.00%**	**706,805**	1.00%	895,656
	-1.00%	**(632,758)**	-1.00%	(785,500)

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):

	2022	2021
One year and less	**P1,736,846**	P1,585,137
More than one year up to five years	**5,528,064**	5,321,019
More than five years up to 10 years	**5,002,975**	4,981,493
More than 10 years up to 15 years	**5,106,646**	4,702,291
More than 15 years	**53,121,932**	52,357,497

The Group expects to contribute P1.2 billion to the defined benefit pension plan in 2023. The average duration of the defined benefit obligations at the end of the reporting period is 14.0 years as of December 31, 2022 and 2021.

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, 2022 and 2021 for the Group includes investments in the PNB shares of stock with fair value amounting to P156.2 million and P165.2 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, 2022 and 2021, 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:

	2022	2021	2020
		(In Thousands)	
Banking revenue (Note 5)	**P50,843,607**	P49,319,441	P54,800,902
Sale of consumer goods	**47,776,757**	39,822,501	37,227,642
Rental income (Note 13)	**2,026,439**	1,893,706	1,757,701
Real estate sales	**225,119**	137,667	641,689
	P100,871,922	P91,173,315	P94,427,934

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, 2022 (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	P47,776,757	P–	P–	**P47,776,757**
Service fees and commission income	6,997,609	–	–	**6,997,609**
Real estate sales	–	225,119	–	**225,119**
Interest income	–	–	45,126,781	**45,126,781**
Rental income	–	–	2,026,439	**2,026,439**
Trading and securities losses - net	–	–	(1,280,783)	**(1,280,783)**
	P54,774,366	P225,119	P45,872,437	**P100,871,922**

Banking revenue consists of:

	2022	2021	2020
		(In Thousands)	
Interest income on:			
Loans and receivables (Note 8)	**P34,306,910**	P34,002,946	P37,180,110
Trading and investment securities (Note 21)	**8,447,607**	6,596,086	7,162,523
Deposits with banks and others	**1,417,661**	1,248,155	2,192,050
Interbank loans receivable	**954,603**	400,356	244,007
	45,126,781	42,247,543	46,778,690
Service fees and commission income	**6,997,609**	6,340,326	4,684,572
Trading and securities gains (losses) - net	**(1,280,783)**	731,572	3,337,640
	P50,843,607	P49,319,441	P54,800,902

Sale of consumer goods consists of:

	2022	2021	2020
		(In Thousands)	
Gross sales	**P50,761,426**	P42,421,388	P39,638,196
Less sales returns, discounts and allowances	**(2,984,669)**	(2,598,887)	(2,410,554)
	P47,776,757	P39,822,501	P37,227,642

Cost of goods sold and services consists of:

	2022	2021	2020
		(In Thousands)	
Cost of consumer goods sold:			
Materials used and changes in inventories (Note 9)	**P17,938,542**	P14,580,312	P14,071,399
Taxes and licenses	**14,234,198**	11,385,173	9,874,192
Depreciation and amortization (Notes 12, 13 and 14)	**1,731,982**	1,679,530	1,589,194
Freight and handling	**1,374,885**	1,031,483	499,292
Fuel and power	**1,319,435**	1,293,306	1,037,620
Personnel costs	**1,248,866**	1,240,849	1,094,204
Communication, light and water	**783,266**	525,481	562,574
Outside services	**584,126**	484,804	471,877
Repairs and maintenance	**579,288**	511,739	480,955
Others	**570,750**	571,720	425,294
	40,365,338	33,304,397	30,106,601
Cost of banking services	**9,140,692**	8,573,207	12,046,147
Cost of real estate sales (Note 9)	**226,435**	55,053	239,524
Cost of rental income (Note 13)	**1,370,465**	1,024,357	466,592
Cost of goods sold and services	**P51,102,930**	P42,957,014	P42,858,864

Other expenses include insurance, utilities and outside services which are individually not significant as to amounts.

Cost of banking services consist of:

	2022	2021	2020
		(In Thousands)	
Interest expense on:			
Deposit liabilities (Note 15)	**P5,166,332**	P4,778,047	P7,311,731
Bills payable and other borrowings (Notes 7 and 17)	**433,973**	511,921	846,642
Bonds payable	**2,111,192**	2,231,863	2,904,528
	7,711,497	7,521,831	11,062,901
Services fees and commission expense	**1,429,195**	1,051,376	983,246
	P9,140,692	P8,573,207	P12,046,147

25. Selling Expenses

	2022	2021	2020
		(In Thousands)	
Advertising and promotions	**P1,027,998**	P896,479	P719,197
Depreciation and amortization (Note 12)	**623,076**	476,052	328,123
Personnel costs	**145,712**	151,125	143,312
Management, consulting and professional fees	**105,608**	107,910	109,230
Royalties	**113,996**	78,149	60,439
Materials and consumables	**27,776**	15,139	19,820
Communication, light and water	**22,018**	16,542	15,009
Fuel and oil	**P2,947**	P2,656	P2,287
Commissions	**384**	23,594	28,568
Freight and handling	**–**	–	526,280
Others	**214,394**	137,374	98,849
	P2,283,909	P1,905,020	P2,051,114

Others include occupancy fees, repairs and maintenance, insurance, taxes and licenses, outside services, an entertainment, amusement and recreation, which are individually not significant as to amounts.

26. General and Administrative Expenses

	2022	2021	2020
		(In Thousands)	
Personnel costs	**P10,681,708**	P10,924,480	P11,057,462
Provision for credit losses (Note 8)	**7,129,045**	10,816,497	15,878,029
Taxes and licenses	**5,623,939**	4,411,375	4,993,514
Depreciation and amortization (Notes 12, 13 and 14)	**3,613,554**	2,247,378	3,413,200
Outside services	**2,002,298**	1,888,113	1,823,620
Insurance	**1,798,088**	2,014,664	1,853,290
Information technology	**1,193,975**	1,304,930	1,448,623
Occupancy	**1,161,775**	1,930,751	1,000,948
Marketing and promotional	**1,070,147**	719,070	738,387

(Forward)

	2022	2021	2020
		(In Thousands)	
Management, consulting and professional fees	**P1,045,619**	P936,946	P993,329
Travel and transportation	**442,357**	383,935	375,254
Materials and consumables	**305,913**	318,241	304,952
Communication, light and water	**266,151**	208,541	216,714
Repairs and maintenance	**180,023**	173,200	164,065
Freight and handling	**144,088**	141,869	30,973
Fuel and oil	**28,802**	21,517	20,333
Loss on loan modifications	**–**	–	1,587,605
Litigation	**–**	–	37,271
Others	**1,108,301**	1,880,370	1,959,699
	P37,795,783	P40,321,877	P47,897,268

'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 2022 and 2021 amounted to P369.2 million and P351.5 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:

	2022	2021	2020
		(In Thousands)	
Finance costs (Note 19):			
Short-term debts	**P260,132**	P201,616	P185,900
Unsecured term loan and notes payable (Note 20)	**224,482**	163,257	155,567
	P484,614	P364,873	P341,467
Finance income:			
Cash and other cash items (Note 5)	**P219,285**	P41,663	P37,892
Interest-bearing contracts receivable (Note 8)	**–**	–	4,529
	P219,285	P41,663	P42,421

28. Other Income (Charges)

	2022	2021	2020
		(In Thousands)	
Net gains (losses) on sale or exchange of assets	**P7,795,284**	(P19,979)	P196,019
(Forward)			

	2022	2021	2020
Rental income and dues (Note 13)	**P321,297**	P1,357,043	P664,229
Recoveries from charged off assets	**303,435**	85,164	203,750
Rooms and other operated departments	**219,489**	220,186	205,183
Management fees	**174,081**	163,322	31,916
Income from assets acquired	**95,736**	183,173	258,708
Dividend income	**72,283**	69,015	51,815
Provision for probable losses (Notes 14 and 38)	**–**	165,425	677,089
Marketing allowance and income from wire transfers	**–**	–	241,353
Reversal of provision for expected credit loss (Note 8)	**–**	–	(45,974)
Gain on retirement	**–**	–	17,853
Others	**554,568**	535,482	(598,972)
	P9,536,173	P2,758,831	P1,902,969

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 2022, 2021 and 2020 amounting to P5,703.9 million, P15.2 million and P11.7 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:

	2022		2021	
	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	**P8,615,818**	**P128,045**	P8,562,723	P104,593
Inventories	**30,728**	**10,540**	31,488	10,538
Property, plant and equipment	**2,428**	**–**	4,976	–
Allowance for probable losses on excise taxes	**–**	**104,364**	–	104,164
Accumulated depreciation on investment properties	**520,544**	**–**	495,884	–
(Foward)				

	2022		2021	
	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)		
Unrealized losses on:				
Inventories on hand	**P–**	**P4,665**	P–	P4,656
Sale of property to a subsidiary	**419,070**	**5,502**	395,542	5,491
Deferred rent income	**162,342**	**15,678**	129,050	10,599
Net retirement benefits liabilities	**91,912**	**196,489**	121,399	214,275
Reserves and others	**174,197**	**295,687**	51,981	288,314
Advance rentals	**–**	**32,163**	–	21,744
Accrued expenses	**372,660**	**22,008**	469,714	14,879
Unamortized past service cost	**3,569**	**7,484**	7,316	7,479
Unrealized forex losses	**–**	**1,162**	–	1,160
Difference between right-of-use assets and lease liabilities	**39,238**	**108,407**	80,425	75,592
	10,432,506	**932,194**	10,350,498	863,484
Deferred income tax liabilities on:				
Fair value gain on investment properties	**(P1,414,221)**	**P–**	(P918,043)	P–
Excess of fair values over carrying values of property, plant and equipment acquired through business combination	**(161,634)**	**(43,364)**	(210,574)	(36,556)
Gain on re-measurement of a previously held interest	**(246,651)**		(246,651)	–
Unrealized foreign exchange gains	**(342,947)**	**(2,583)**	(346,586)	(2,582)
Borrowing cost capitalized to property, plant, and equipment	**(35,958)**	**(220,161)**	(73,703)	(175,087)
Deferred rental income	**(44,956)**	**(75,723)**	(42,073)	(60,116)
Difference between tax and book basis of accounting for real estate transactions		**(77,632)**	–	(61,631)
Unamortized debt cost	**(1,134)**	**(1,320)**	(2,325)	(1,048)
Gain on asset share swap		**(443,110)**	–	(443,110)
Net retirement plan assets	**(5,804)**	**(104,303)**	(3,380)	(99,624)
Net changes in fair values of FVTPL financial assets	**(58,719)**	**(79,730)**	(51,247)	(34,527)
Others	**(27,997)**	**(34,238)**	(605,606)	(30,217)
	(2,340,021)	**(1,082,164)**	(2,500,188)	(944,498)
	8,092,485	**(149,970)**	7,850,310	(81,014)
Recognized directly in equity:				
Deferred income tax assets on:				
Remeasurement losses on retirement benefits	**11,529**	**11,368**	6,713	40,478
Deferred income tax liabilities on:				
Revaluation increment on property, plant and equipment	**(1,564,192)**	**(8,270,677)**	(1,536,629)	(8,395,132)
Remeasurement gains on defined benefit plans	**(13,928)**	**(21,461)**	(28,547)	(21,460)
Unrealized gains on changes in fair value of financial assets at FVTOCI	**(1,882)**	**(19,702)**	–	(42,045)
	(1,580,002)	**(8,311,840)**	(1,565,176)	(8,458,637)
	(1,568,473)	**(8,300,472)**	(1,558,463)	(8,418,159)
	P6,524,012	**(P8,450,442)**	P6,291,847	(P8,499,173)

(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:

	2022	2021
	(In Thousands)	
Net deferred income tax assets:		
PNB and subsidiaries	**P6,017,780**	P5,806,384
Eton and subsidiaries	**419,070**	395,542
Bank holding companies	**60,495**	59,340
ABI and subsidiaries	**10,258**	21,026
TDI and subsidiaries	**16,409**	9,555
	P6,524,012	P6,291,847
Net deferred income tax liabilities:		
PNB and subsidiaries	**P7,133,553**	P7,310,014
Paramount	**443,110**	443,110
TDI and subsidiaries	**400,944**	393,072
ABI and subsidiaries	**212,537**	115,531
FTC	**95,001**	88,735
Eton and subsidiaries	**76,101**	105,877
Saturn	**–**	3,035
LTG	**9,466**	5,278
Bank holding companies	**79,730**	34,521
	P8,450,442	P8,499,173

b. Provision for current income tax consists of:

	2022	2021	2020
		(In Thousands)	
RCIT	**P4,587,430**	P2,660,808	P4,481,774
MCIT	**1,190**	14,197	2,080
Final tax	**1,856,890**	1,437,058	1,492,767
Provision for current income tax	**P6,445,510**	P4,112,063	P5,976,621

c. As of December 31, 2022 and 2021, 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:

	2022	2021
	(In Thousands)	
Net retirement benefits liability	**P658,363**	P1,199,030
Allowance for credit losses	**9,124,826**	14,507,309
Derivative liabilities	**1,037,348**	891,346
Unamortized past service cost	**2,140,071**	2,541,881
NOLCO	**1,661,662**	1,485,229
Excess MCIT	**26,738**	27,543
Allowance for inventory obsolescence	**17,241**	16,848
Others	**309,178**	380,049

Details of the Group's NOLCO follow *(in thousands)*:

Year Incurred	December 31, 2021	Additions	Expired	December 31, 2022	Expiry Year
2019	P157,938	P–	(P157,938)	P–	2022
2020	281,099	–	–	281,099	2025
2021	1,046,192	–	–	1,046,192	2026
2022	–	334,371	–	334,371	2025
	P1,485,229	P334,371	(P157,938)	P1,661,662	

On September 30, 2020, the BIR issued 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 2021 and 2022 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, 2022, 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	December 31, 2022	Addition	Expired	December 31, 2022	Expiry Year
2019	P925	P–	(P925)	P–	2022
2020	26,093	–	–	26,093	2023
2021	525	–	–	525	2024
2022	–	120	–	120	2025
	P27,543	P120	(P925)	P26,738	

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:

	2022	2021	2020
		(In Thousands)	
Provision for income tax at statutory income tax rate from:			
Continuing operations	**P9,150,899**	P6,815,555	P6,475,984
Discontinued operations	**–**	–	26,400
	9,150,899	6,815,555	6,502,384
Adjustments resulting from:			
Nontaxable income	**(5,039,157)**	(3,524,312)	(643,033)
Equity in net earnings of associates	**(4,023,644)**	(4,505,295)	(5,284,472)
Non-deductible expenses	**2,712,313**	8,694,202	5,936,027
NOLCO and other deductible temporary differences for which no deferred income tax assets were recognized in current year	**2,567,494**	2,592,694	(582,527)
Income subjected to final tax	**(P882,010)**	(P2,581,817)	(P6,424,101)
Effect of availment of ITH	**–**	(35,963)	(47,490)
Change in tax rate	**–**	(77,224)	–
Others	**1,452,695**	(956,094)	(128,708)
Provision for income tax	**P5,938,590**	P6,421,746	(P671,920)

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 372 and 377 stockholders as of December 31, 2022 and 2021, 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
2022:				
November 18, 2022	December 6, 2022	December 14, 2022	P0.50	P5,410,694,440
August 17, 2022	September 2, 2022	September 13, 2022	0.30	3,246,416,667
May 17, 2022	May 31, 2022	June 13, 2022	0.30	3,246,416,667
March 16, 2022	March 30, 2022	April 8, 2022	0.30	3,246,416,667
				P15,149,944,441
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

b. Retained earnings include undistributed earnings amounting to P154.1 billion, P141.7 billion and P98.1 billion as of December 31, 2022, 2021 and 2020, 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, 2022 amounted to P44.6 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, 2022 and 2021.

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:

	2022	2021
	(In Thousands)	
Equity adjustments arising from business combination under common control (Note 1)	**P445,113**	P445,113
Equity adjustments from sale of the Company's shares of stock held by a subsidiary	**(6,448,518)**	(6,448,518)
Equity adjustment in aggregate reserves on life insurance policies	**121,217**	(309,361)
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**	186,572
	(P5,529,303)	(P5,959,881)

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, 2022 and 2021. As of December 31, 2011, Saturn owned 76.5 million shares of the Company. 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:

	2022	2021	2020
		(In Thousands)	
Balance as of January 1	**P73,465,271**	P70,124,342	P67,086,030
Net income attributable to non-controlling interests	**5,527,606**	614,622	1,304,120
Share in other comprehensive income, net of deferred income tax effect:			
Net change in aggregate reserves on life insurance policies	**331,912**	128,239	(457,555)
Remeasurement gains (losses on defined benefit plans (Notes 2 and 23)	**(364,996)**	124,792	(342,880)

(Fowrad)

	2022	2021	2020
		(In Thousands)	
Revaluation increment on property plant and equipment	**(P21,229)**	(P243,897)	(P274,064)
Cumulative translation adjustments	**353,050**	341,939	(127,530)
Net changes in financial assets at FVOCI (Note 7)	**(2,287,612)**	(1,635,861)	(85,398)
Reserves of disposal group classified as held for sale	**–**	–	394,197
Dividends received	**–**	–	(85,645)
Acquisition of shares of subsidiaries from the Controlling Shareholders	**330,235**	441,157	2,376,784
Other equity reserves	**482,580**	3,569,938	336,283
Balance as of December 31	**P77,816,817**	P73,465,271	P70,124,342

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:

	2022	2021	2020
		(In Thousands)	
Net income attributable to equity holders of the Company	**P25,137,400**	P20,246,467	P21,021,996
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	**P2.32**	P1.87	P1.94

Net income from continuing operations is attributable to:

	2022	2021	2020
		(In Thousands)	
Equity holders of the Company	**P25,137,400**	P20,234,820	P20,983,832
Non-controlling interests	**–**	11,647	38,164
	P25,137,400	P20,246,467	P21,021,996

Earnings per share attributable to equity holders of the Company from continuing operations:

	2022	2021	2020
		(In Thousands)	
Net income from continuing operations attributable to equity holders of the Company	**P25,137,400**	P20,234,820	P20,983,832
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	**P2.32**	P1.87	P1.94

There are no potential common shares with dilutive effect on the basic earnings per share in 2022, 2021 and 2020.

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 Framework
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 banking segment's 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 banking segment's continuing profitability.

The banking segment defines material risks (at group level) as those risks from any business activity large enough to threaten the Parent Bank's capital position to drop below its desired level resulting in either a P13.3 billion increase in risk-weighted assets or a P1.7 billion reduction in earnings and/or qualifying capital which translate into a reduction in CAR by 20 basis points (bps).

Resulting from the assessments based on the premise identified above, the banking segment's Parent Bank agrees and reviews on a regular basis the material risks that need particular focus from all three lines of defense. For the assessment period 2020-2022, these are based on the following nine (9) material risks, which are grouped under Pillar 1 and Pillar 2 risks, and shall be covered in the Internal Capital Adequacy Assessment Process (ICAAP) document and required for monitoring.

Types and definition of each of these risks are discussed hereunder:

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

Pillar 2 Risks:
4. Credit Concentration Risk
5. Interest Rate Risk in Banking Book (IRRBB)
6. Liquidity Risk
7. Reputational / Customer Franchise Risk
8. Strategic Business Risk
9. Cyber Security Risk

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.

<u>Credit Risk</u>
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: portfolio growth, movement of loan portfolio, adequacy of loan loss reserves, trend of nonperforming loans (NPLs), and 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. The loan portfolio is grouped based on the underlying risk characteristics that are expected to respond in a similar manner to macroeconomic factors and forward looking conditions.

Credit-related commitments
The exposures represent guarantees, standby letters of credit (LCs) issued by the banking segment's Parent Bank and documentary/commercial LCs which are written undertakings by banking segment's Parent Bank. To mitigate this risk, the banking segment's Parent Bank requires hard collaterals 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:

	2022			
	Maximum Exposure	**Fair Value of Collateral**	**Net Exposure**	**Financial Effect of Collateral**
	(In Millions)			
Securities held under agreements to resell	**P64,524**	**P64,334**	**P190**	**P64,334**
Loans and receivables:				
Receivables from customers*:				
Corporates	**516,316**	**289,978**	**425,412**	**90,904**
Local government units (LGU)	**2,771**	**–**	**2,771**	**–**
Credit Cards	**13,094**	**–**	**13,094**	**–**
Retail small and medium enterprises (SME)	**4,735**	**3,594**	**2,822**	**1,913**
Housing Loans	**24,241**	**37,043**	**7,119**	**17,122**
Auto Loans	**5,570**	**11,421**	**1,765**	**3,805**
Others	**11,393**	**4,991**	**8,437**	**2,956**
Other receivables	**14,980**	**–**	**14,980**	**–**
	P657,624	**P411,361**	**P476,590**	**P181,034**

**Receivables from customers exclude residual value of the leased asset (Note 8).*

	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
LGU	4,241	–	4,241	–
Credit Cards	10,749	–	10,749	–
Retail 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).*

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.

Credit 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 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:

	2022			
	Loans and receivables*	**Trading and investment securities**	**Other financial assets****	**Total**
	(In Millions)			
Philippines	**P552,598**	**P237,143**	**P120,953**	**P910,694**
Asia (excluding the Philippines)	**26,641**	**21,914**	**36,746**	**85,301**
United Kingdom	**8,865**	**6,709**	**22,039**	**37,613**
USA and Canada	**2,096**	**8,378**	**13,190**	**23,664**
Other European Union Countries	**2,079**	**–**	**8,655**	**10,734**
Middle East	**524**	**1,855**	**10**	**2,389**
Oceania	**66**	**–**	**3**	**69**
	P592,869	**P275,999**	**P201,596**	**P1,070,464**

** Loans and receivables exclude residual value of the leased asset*
*** 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'*

	2021			
	Loans and receivables*	Trading and investment securities	Other financial assets**	Total
	(In Millions)			
Philippines	P556,479	P200,907	P176,809	P934,195
Asia (excluding the Philippines)	29,779	43,637	39,214	112,630
USA and Canada	8,202	18,728	16,566	43,496
United Kingdom	1,820	5,318	2,477	9,615
Other European Union Countries	8,356	21	1,062	9,439
Middle East	924	–	145	1,069
Oceania	668	–	3	671
	P606,228	P268,611	P236,276	P1,111,115

** Loans and receivables exclude residual value of the leased asset*
*** 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'*

c. Concentration by Industry

The tables in the next page 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.

	2022			
	Loans and receivables*	**Trading and investment securities**	**Other financial assets*****	**Total**
	(In Millions)			
Primary target industry:				
Financial intermediaries	**P119,770**	**P19,521**	**P73,231**	**P212,522**
Wholesale and retail	**87,945**	**–**	**–**	**87,945**
Electricity, gas and water	**77,714**	**9,306**	**–**	**87,020**
Manufacturing	**59,847**	**167**	**–**	**60,014**
Transport, storage and communication	**40,563**	**–**	**–**	**40,563**
Agriculture, hunting and forestry	**5,193**	**–**	**–**	**5,193**
Public administration and defense	**1,627**	**–**	**–**	**1,627**
Secondary target industry:				
Government	**2,795**	**196,640**	**127,598**	**327,033**
Real estate, renting and business activities	**92,958**	**14,283**	**14**	**107,255**
Construction	**27,006**	**–**	**–**	**27,006**
Others**	**77,452**	**36,081**	**753**	**114,286**
	P592,870	**P275,998**	**P201,596**	**P1,070,464**

** 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".*

	2021			
	Loans and receivables*	Trading and investment securities	Other financial assets***	Total
		(In Millions)		
Primary target industry:				
Financial intermediaries	P126,159	P43,483	P53,561	P223,203
Wholesale and retail	86,433	–	–	86,433
Electricity, gas and water	72,426	10,303	–	82,729
Transport, storage and communication	51,693	4	–	51,697
Manufacturing	46,915	130	–	47,045
Agriculture, hunting and forestry	8,271	–	–	8,271
Public administration and defense	6,409	–	–	6,409
Secondary target industry:				
Government	4,240	159,001	182,319	345,560
Real estate, renting and business activities	95,268	13,730	–	108,998
Construction	26,281	–	–	26,281
Others**	82,133	41,961	396	124,490
	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".

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

Loans and Receivables

The segmentation of the banking segment's loan portfolio is based on the underlying risk characteristics that are expected to respond in a similar manner to macroeconomic factors and forward-looking conditions.

Generally, the banking segment's exposures can be categorized as either of the following:

- Non-Retail Portfolio - consists of debt obligations of sovereigns, financial institutions, corporations, partnerships, or proprietorships. In particular, the banking segment's Non-Retail Portfolio segments are as follows: Sovereigns, Financial Institutions, Specialized Lending (e.g., Project Finance), Large Corporates, Middle Market and Commercial SME, government-owned and controlled corporations and LGUs.
- Retail Portfolio - consists of exposures to individual person/s or to a small business, and are not usually managed on an individual basis but as groups of exposures with similar credit risk characteristics. This includes Credit Cards, Consumer Loans and Retail SME, among others.

The credit quality of the Non-Retail Portfolio is evaluated and monitored using external ratings and internal credit risk rating system. The banking segment's Parent Bank 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 developed specific borrower rating models to capture specific and unique risk characteristics of each of the Non-Retail Portfolio segments. The BRR is measured based on financial condition of the borrower combined with an assessment of non-financial factors such as management, industry outlook and market competition. The BRR models captures overlays and early warning signals as well. The banking segment uses a single scale with 26 risk grades for all its borrower risk rating models. The 26-risk grade internal default masterscale is a representation of a common measure of relative default risk associated with the obligors/counterparties. The internal default masterscale is mapped to a global rating scale.

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:

	2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
		(In Millions)		
Subject to CRR				
Non-Retail - Corporate				
High	**P210,563**	**P–**	**P–**	**P210,563**
Standard	**198,910**	**30,732**	**–**	**229,642**
Substandard	**29,953**	**31,164**	**–**	**61,117**
Impaired	**–**	**–**	**26,950**	**26,950**
	439,426	**61,896**	**26,950**	**528,272**
Subject to Scoring & Unrated				
Non-Retail	**2,849**	**11,761**	**1,184**	**15,794**
Corporate	**96**	**11,724**	**1,118**	**12,938**
LGU	**2,753**	**37**	**66**	**2,856**
Retail	**41,072**	**1,411**	**13,920**	**56,403**
Auto Loans	**4,956**	**102**	**1,970**	**7,028**
Housing Loans	**18,930**	**644**	**9,015**	**28,589**
Retail SME	**4,029**	**349**	**2,026**	**6,404**
Credit Card	**13,157**	**316**	**909**	**14,382**
Others	**9,377**	**1,547**	**1,987**	**12,911**
	53,298	**14,719**	**17,091**	**85,108**
	P492,724	**P76,615**	**P44,041**	**P613,380**

	2021			
	Stage 1	Stage 2	Stage 3	Total
		(In Millions)		
Subject to CRR				
Non-Retail - Corporate				
High	P213,839	P–	P–	P213,839
Standard	212,873	3,844	–	216,717
Substandard	40,872	21,006	–	61,878
Impaired	–	–	53,191	53,191
	467,584	24,850	53,191	545,625
Subject to Scoring & Unrated				
Non-Retail	10,135	158	2,367	12,660
Corporate	5,919	110	2,299	8,328
LGU	4,216	48	68	4,332
Retail	42,973	1,081	18,383	62,437
Auto Loans	5,943	163	2,733	8,839
Housing Loans	20,002	487	10,429	30,918
Retail SME	6,559	162	2,802	9,523
Credit Card	10,469	269	2,419	13,157
Others	7,520	377	1,198	9,095
	60,628	1,616	21,948	84,192
	P528,212	P26,466	P75,139	P629,817

The analysis of past due status of receivables from customers that are subject to scoring and unrated follows:

	2022				
	Less than 30 days	**31 to 90 days**	**91 to 180 days**	**More than 180 days**	**Total**
			(In Millions)		
Housing Loans	**P297**	**P599**	**P596**	**P8,202**	**P9,694**
Auto Loans	**61**	**75**	**66**	**1,869**	**2,071**
Retail SME	**61**	**21**	**48**	**1,815**	**1,945**
Credit Card	**1**	**103**	**233**	**631**	**968**
LGU	**8**	**–**	**–**	**58**	**66**
Others	**719**	**108**	**50**	**1,254**	**2,131**
Total	**P1,147**	**P906**	**P993**	**P13,829**	**P16,875**

	2021				
	Less than 30 days	31 to 90 days	91 to 180 days	More than 180 days	Total
			(In Millions)		
Housing Loans	P463	P366	P798	P9,454	P11,081
Auto Loans	107	112	180	2,500	2,899
Retail SME	293	147	73	965	1,478
Credit Card	2	77	264	2,093	2,436
LGU	–	–	–	25	25
Others	247	107	112	1,543	2,009
Total	P1,112	P809	P1,427	P16,580	P19,928

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, 2022					
	Rated					
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal	Unrated	Total
			(In Millions)			
Due from BSP [1/]	**P–**	**P–**	**P–**	**P–**	**P94,701**	**P94,701**
Due from other banks	**3,257**	**18,388**	**3,259**	**24,904**	**1,116**	**26,020**
Interbank loans receivables	**1,571**	**2,685**	**–**	**4,256**	**12,036**	**16,292**
Securities held under agreements to resell	**–**	**21,207**	**17,235**	**38,442**	**26,084**	**64,526**
Financial assets at FVOCI						
Government securities	**3,310**	**554**	**114,076**	**117,940**	**–**	**117,940**
Private debt securities	**596**	**252**	**160**	**1,008**	**14,429**	**15,437**
Quoted equity securities	**–**	**–**	**58**	**58**	**734**	**792**
Unquoted equity securities	**–**	**–**	**389**	**389**	**23,632**	**24,021**
Investment securities at amortized cost						
Government securities	**145**	**7,951**	**69,893**	**77,989**	**209**	**78,198**
Private debt securities	**–**	**8,877**	**1,159**	**10,036**	**26,083**	**36,119**
Financial assets at amortized cost						
Loans and receivables - Others [2/]	**–**	**–**	**–**	**–**	**17,925**	**17,925**

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, 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:						
Loans and receivables - 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)

Liquidity Risk and Funding Management

Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from the banking segment's inability to meet its obligations when they come due without incurring unacceptable losses or costs.

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.

	2022					
	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	**P22,218**	**P–**	**P–**	**P–**	**P–**	**P22,218**
Due from BSP and other banks	**125,114**	**–**	**–**	**–**	**–**	**125,114**
Interbank loans receivable	**8,876**	**1,313**	**2,442**	**4,109**	**–**	**16,740**
Securities held under agreements to resell	**60,878**	**3,784**	**–**	**–**	**–**	**64,662**
Financial assets at FVTPL:						
Government securities	**200**	**1,080**	**296**	**1,054**	**6,650**	**9,280**
Private debt securities	**12**	**21**	**18**	**51**	**3,224**	**3,326**
Equity securities	**3**	**–**	**–**	**–**	**–**	**3**
Derivative assets:						
Gross contractual receivable	**40,036**	**7,665**	**10,332**	**3,260**	**15**	**61,308**
Gross contractual payable	**(39,051)**	**(7,543)**	**(10,098)**	**(3,240)**	**–**	**(59,932)**
Financial Assets at FVTOCI:						
Government securities	**87,743**	**3,615**	**9,340**	**9,487**	**141,545**	**251,730**
Private debt securities	**3,418**	**1,165**	**284**	**2,883**	**42,342**	**50,092**
Equity securities	**1,614**	**–**	**–**	**–**	**23,199**	**24,813**
Investment securities at amortized cost						
Government securities	**6,044**	**10,034**	**6,718**	**2,835**	**149,213**	**174,844**
Private debt securities	**1,243**	**6,417**	**11,656**	**10,451**	**37,190**	**66,957**
Financial assets at amortized cost:						
Receivables from customers	**95,929**	**75,908**	**32,256**	**14,027**	**528,529**	**746,649**
Other receivables	**7,227**	**904**	**1,587**	**787**	**8,684**	**19,189**
Other assets	**51**	**–**	**–**	**–**	**19**	**70**
Total financial assets	**P421,555**	**P104,363**	**P64,831**	**P45,704**	**P940,610**	**P1,577,063**
Financial Liabilities						
Deposit liabilities:						
Demand	**P222,500**	**P–**	**P–**	**P–**	**P–**	**P222,500**
Savings *	**359,731**	**–**	**–**	**–**	**–**	**359,731**
Time and LTNCDs *	**138,446**	**96,586**	**26,247**	**16,416**	**21,788**	**299,483**
Financial liabilities at FVTPL:						
Derivative liabilities:						
Gross contractual payable	**P27,156**	**P38,707**	**P17,168**	**P558**	**P–**	**P83,589**
Gross contractual receivable	**(26,737)**	**(38,304)**	**(16,952)**	**(556)**	**–**	**(82,549)**
Bills and acceptances payable	**8,335**	**3,571**	**30**	**44**	**3,145**	**15,125**
Bonds payable	**–**	**–**	**17,772**	**686**	**42,883**	**61,341**
Accrued interest payable and accrued other expenses payable	**2,996**	**146**	**167**	**59**	**480**	**3,848**
Other liabilities	**6,530**	**482**	**444**	**983**	**1,785**	**10,224**
Total financial liabilities	**P738,957**	**P101,188**	**P44,876**	**P18,190**	**P70,081**	**P973,292**

* High-yield savings accounts are included under time deposits.

	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:						
Gross contractual receivable	61,532	14,897	7,910	4,590	13	88,942
Gross contractual payable	(60,680)	(14,705)	(7,645)	(4,535)	–	(87,565)
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						

(Forward)

	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
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)
Bills and acceptances payable	35,961	12,411	1,156	2,419	1,038	52,985
Bonds payable	–	–	952	952	55,263	57,167
Accrued interest payable and accrued other expenses payable	1,380	420	439	75	422	2,736
Other liabilities	6,022	1,092	277	314	2,389	10,094
Total financial liabilities	P779,012	P112,745	P22,434	P26,290	P89,512	P1,029,993

** High-yield savings accounts are included under time deposits.*

BSP Reporting for Liquidity Positions and Leverage

To promote short-term resilience of banks' liquidity risk profile, BSP requires banks and other regulated entities to maintain:

- over a 30-calendar day horizon, an adequate level of unencumbered high-quality liquid assets (HQLA) that consist of cash or assets that can be converted into cash to offset the net cash outflows they could encounter under a liquidity stress scenario; and
- a stable funding profile in relation to the composition of their assets and off-balance sheet activities.

To monitor the liquidity levels, the banking segment computes for its Liquidity Coverage Ratio (LCR), which is the ratio of HQLA to the total net cash outflows. As of December 31, 2022 and 2021, LCR reported to the BSP with certain adjustments is 246.25% and 188.31%, respectively.

The banking segment also computes for its Net Stable Funding Ratio (NSFR), which is the ratio of the available stable funding to the required stable funding. Both LCR and NSFR should be maintained no lower than 100.00% on a daily basis under normal situations. As of December 31, 2022 and 2021, NSFR reported to the BSP with certain adjustments is shown in the table below (amounts, except ratios, are expressed in millions):

	2022	2021
Available stable funding	**P852,706**	P867,468
Required stable funding	**621,402**	630,819
NSFR	**137.22%**	137.51%

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. The banking segment 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) to measure the banking segment's trading market risk. Both the Parametric models and Historical Simulation 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 400-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.

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.

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.

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 2022 and 2021, 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.

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.

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.

The table below show the trading VaR:

Trading Portfolio	Foreign Exchange*	Interest Rate	Equities Price	Total VaR**
		(In Millions)		
December 29, 2022	**P1.98**	**P130.50**	**P0.00**	**P132.48**
Average Daily	**6.77**	**161.09**	**0.00**	**167.09**
Highest	**25.45**	**889.57**	**0.00**	**895.51**
Lowest	**0.87**	**118.10**	**0.00**	**131.61**
December 29, 2021	3.67	87.21	42.28	133.17
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

** 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*

Non-trading Market Risk

Interest rate risk
The banking segment seeks to ensure that exposure to fluctuations in interest rates are kept within acceptable limits. Interest margins may increase as a result of such changes but may be reduced or may create losses in the event that unexpected movements arise.

Repricing mismatches will expose the banking segment to interest rate risk. PNB measures the sensitivity of its assets and liabilities to interest rate fluctuations by way of a "repricing gap" analysis using the repricing characteristics of its financial instrument positions tempered with approved assumptions. To evaluate earnings exposure, interest rate sensitive liabilities in each time band are subtracted from the corresponding interest rate assets to produce a "repricing gap" for that time band. The difference in the amount of assets and liabilities maturing or being repriced over a one year period would then give the banking segment an indication of the extent to which it is exposed to the risk of potential changes in net interest income. A negative gap occurs when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. Vice versa, positive gap occurs when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities.

During a period of rising interest rates, a company with a positive gap is better positioned because the company's assets are refinanced at increasingly higher interest rates increasing the net interest margin of the company over time. During a period of falling interest rates, a company with a positive gap would show assets repricing at a faster rate than one with a negative gap, which may restrain the growth of its net income or result in a decline in net interest income.

For risk management purposes, the loan accounts are assessed based on next repricing date, thus as an example, if a loan account is scheduled to reprice three years from year-end report date, slotting of the account will be based on the date of interest repricing. Deposits with no specific maturity dates are excluded in the one-year repricing gap except for the portion of volatile regular savings deposits which are assumed to be withdrawn during the one year period and assumed to be replaced by a higher deposit rate.

The 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:

	2022					
	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	**P57,045**	**P12,538**	**P3,792**	**P7,079**	**P40,258**	**P120,712**
Interbank loans receivable and securities held under agreements to resell	**69,846**	**4,826**	**2,119**	**4,023**	**–**	**80,814**
Receivables from customers and other receivables - gross**	**38,027**	**45,573**	**34,155**	**35,260**	**188,412**	**341,427**
Total financial assets	**P164,918**	**P62,937**	**P40,066**	**P46,362**	**P228,670**	**P542,953**

	2022					
	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 Liabilities*						
Deposit liabilities:						
Savings	**P114,431**	**P82,874**	**P27,877**	**P50,253**	**P244,506**	**P519,941**
Time***	**57,117**	**30,219**	**11,044**	**9,461**	**4,273**	**112,114**
Bonds payable	**–**	**–**	**16,697**	**–**	**41,742**	**58,439**
Bills and acceptances payable	**9,383**	**3,640**	**17**	**370**	**1,570**	**14,980**
Total financial liabilities	**P180,931**	**P116,733**	**P55,635**	**P60,084**	**P292,091**	**P705,474**
Repricing gap	**(P16,013)**	**(P53,796)**	**(P15,569)**	**(P13,722)**	**(P63,421)**	**(P162,521)**
Cumulative gap	**(16,013)**	**(69,809)**	**(85,378)**	**(99,100)**	**(162,521)**	

** Financial instruments that are not subject to repricing/rollforward were excluded.*
*** Receivables from customers excludes residual value of leased assets (Note 8).*
**** Excludes LTNCD.*

	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	(P31,675)	(P4,566)	(P14,223)	(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.

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:

	2022		2021	
	Income Before Income Tax	**Equity**	Income Before Income Tax	Equity
		(In Millions)		
+50bps	**(P353)**	**(P353)**	(P76)	(P76)
-50bps	**353**	**353**	76	76
+100bps	**(705)**	**(705)**	(152)	(152)
-100bps	**705**	**705**	152	152

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 the banking segment 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 the banking segment'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 the banking segment's Parent Bank and foreign currency-denominated borrowings appearing in the regular books of the banking segment's Parent bank.

Foreign currency deposits are generally used to fund the banking segment'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, the banking segment's Parent Bank 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, 2022			December 31, 2021		
	USD	*Others**	*Total*	USD	Others*	Total
			(In Millions)			
Assets						
COCI and due from BSP	**P84**	**P221**	**P305**	P215	P494	P709
Due from other banks	**15,808**	**6,252**	**22,060**	14,160	4,403	18,563
Interbank loans and securities held under agreements to resell	**1,056**	**1,963**	**3,019**	1,824	2,314	4,138
Loans and receivables	**27,846**	**9,648**	**37,494**	27,523	11,002	38,525
Financial Assets at FVTPL	**1**	**2**	**3**	171	2	173
Financial Assets at FVTOCI	**837**	**1,359**	**2,196**	520	1,570	2,090
Financial assets at amortized cost	**145**	**512**	**657**	134	175	309
Other assets	**123**	**1,120**	**1,243**	5,820	1,224	7,044
Total assets	**45,900**	**21,077**	**66,977**	50,367	21,184	71,551
Liabilities						
Deposit liabilities	**8,239**	**7,994**	**16,233**	8,006	7,778	15,784
Derivative liabilities				-	-	-
Bills and acceptances payable	**11,984**	**17**	**12,001**	49,118	277	49,395
Accrued taxes, interest and other expenses	**93**	**82**	**175**	53	14	67
Other liabilities	**26,256**	**2,200**	**28,456**	1,115	2,211	3,326
Total liabilities	**46,572**	**10,293**	**56,865**	58,292	10,280	68,572
Net Exposure	**(P672)**	**P10,784**	**P10,112**	(P7,925)	P10,904	P2,979

* 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).

The exchange rates used to convert the Group and the Parent Company's US dollar-denominated assets and liabilities into Philippine peso were P55.76 to US$1.00 as of December 31, 2022 and P51.00 to US$1.00 as of December 31, 2021.

The following tables set forth the impact of the range of reasonably possible changes in the USD:PHP exchange rate on the Group and the Parent Company's income before income tax and equity (due to the revaluation of monetary assets and liabilities) for the years ended December 31, 2022 and 2021:

	2022		2021	
	Income Before Income Tax	**Equity**	Income Before Income Tax	Equity
		(In Millions)		
+1.00%	**(P15)**	**(P7)**	(P84)	(P79)
-1.00%	**15**	**7**	84	79

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

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 99% 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 Group's financial assets using provision matrix (in millions):

As of December 31, 2022:

			Trade and other receivables					
	Cash in	**Due from**		**Days past due**				
	Banks	**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	**P224.7**	**P3,556.5**	**P8,240.8**	**P2,633.9**	**P2,846.8**	**P1,704.5**	**P3,652.6**	**P19,078.6**
Expected credit loss	**P–**	**P–**	**P1.0**	**P19.4**	**P16.3**	**P70.9**	**P369.4**	**P477.0**

As of December 31, 2021:

			Trade and other receivables					
	Cash in	Due from					Days past due	
	banks	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

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):

	2022			2021		
	< 1 year	**1 to 3 years**	**Total**	< 1 year	1 to 3 years	Total
Financial assets:						
Cash and other cash items	**P224,745**	**P–**	**P224,745**	P265,139	P–	P265,139
Trade receivables	**19,079**	**–**	**19,079**	15,651	–	15,651
Other receivables	**4,468**	**–**	**4,468**	3,312	–	3,312
Due from related parties	**3,556**	**–**	**3,556**	7,686	–	7,686
Refundable deposits	**177**	**–**	**177**	8	–	8
Financial assets at FVTPL	**7,379**	**–**	**7,379**	11,205	–	11,205
	P259,404	**P–**	**P259,404**	P303,001	P–	P303,001
Financial liabilities:						
Short term debts	**P4,490**	**P–**	**P4,490**	P3,940	P–	P3,940
Accounts payable and other liabilities*	**19,697**	**–**	**19,697**	16,357	–	16,357
Long-term debts	**20,400**	**46,312**	**66,712**	3,597	59,046	62,643
Due to related parties	**50**	**–**	**50**	65	–	65
Other liabilities	**10,376**	**8,464**	**18,840**	9,381	9,040	18,421
	P55,013	**P54,776**	**P109,789**	P33,340	P68,086	P101,426

**Excluding non-financial liabilities amounting to =2,158 million and =1,758 million as of December 31, 2022 and 2021, 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 2022, 2021 and 2020, 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 P110.1 million, P108.8 million and P209.7 million, respectively, if equity prices will increase by 5.3%, 5.3% and 14.8%, 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, 2022 and 2021, 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

				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)			
December 31, 2022:						
Derivative assets (Notes 6 and 21)	**P61,149,066**	**(P59,787,115)**	**P1,361,951**	**P73,039**	**P–**	**P1,288,912**
Securities sold under agreements to repurchase (Note 5)	**64,523,863**	**–**	**64,523,863**	**–**	**64,334,349**	**189,514**
	P125,672,929	**(P59,787,115)**	**P65,885,814**	**P73,039**	**P64,334,349**	**P1,478,426**
December 31, 2021:						
Derivative assets (Notes 6 and 21)	P88,929,845	(P87,564,794)	P1,365,051	P240,111	P–	P1,124,940
Securities sold under agreements to repurchase (Note 5)	15,796,673	–	15,796,673	–	(16,084,357)	–
	P104,726,518	(P87,564,794)	P17,161,724	P240,111	(P16,084,357)	P1,124,940

Financial liabilities

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)			
December 31, 2022:						
Derivative liabilities (Notes 16 and 21)	P70,051,569	(P69,011,793)	P1,039,776	P456,745	P–	P583,031
Securities sold under agreements to repurchase (Note 8)*	6,595,689	–	6,595,689	–	7,981,190	–
Total	P76,647,258	(P69,011,793)	P7,635,465	P456,745	7,981,190	P583,031
December 31, 2021:						
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	–	38,336,528	157,650
Total	P108,807,608	(P69,421,899)	P39,385,709	P49,120	P38,336,528	P1,000,061

** 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, the carrying values of the Group's financial assets and liabilities approximate their respective fair values, except for the following financial instruments:

	2022		2021	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
		(In Thousands)		
Financial Assets:				
Financial assets at amortized cost	**P110,467,960**	**P111,403,001**	P89,455,843	P94,871,927
Loans and receivables:				
Receivables from customers	**597,198,888**	**629,572,434**	597,979,601	635,709,624
	P707,666,848	**P740,975,435**	P687,435,444	P730,581,551
Financial Liabilities:				
Financial liabilities at amortized cost:				
Deposit liabilities:				
Time deposits	**P112,113,308**	**P112,113,308**	P151,729,554	P151,729,554
Bills payables	**7,702,325**	**7,625,229**	45,843,901	45,860,995
Long-term debts:				
Unsecured term loan	**3,255,346**	**3,255,346**	4,115,867	4,115,867
Bonds payable	**58,439,097**	**56,833,468**	53,383,421	54,724,962
LTNCD	**19,130,012**	**18,922,562**	28,245,390	28,314,622
Other liabilities:				
Payable to landowners	**1,061,191**	**1,061,191**	1,061,191	1,061,191
Tenants' rental deposits	**487,342**	**487,342**	411,502	411,502
	P202,188,621	**P200,298,446**	P284,790,826	P286,218,693

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, 2022			
	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	P27,009	P4,344,662	P–	P4,371,671
Derivative assets	–	1,361,951	–	1,361,951
Private debt securities	146,495	1,464,186	–	1,610,681
Equity securities	2,898	–	–	2,898
Designated at FVTPL:				
Investment in UITFs	–	31,925	–	31,925
Financial assets at FVTOCI:				
Government securities	55,867,413	62,072,370	–	117,939,783
Private debt securities	233,298	1,128,254	23,451,320	24,812,872
Equity securities**	244,224	15,186,646	–	15,430,870
	P56,521,337	P85,589,994	P23,451,320	P165,562,651
Non-financial assets				
Property, plant and equipment***				
Land and land improvements	P–	P–	P44,192,860	P44,192,860
Plant buildings and building improvements	–	–	4,286,042	4,286,042
Machineries and equipment	–	–	10,026,091	10,026,091
	P–	P–	P58,504,993	P58,504,993
Liabilities measured at fair value:				
Financial liabilities				
Financial liabilities at FVTPL:				
Designated at FVTPL:				
Derivative liabilities	P–	P1,039,776	P–	P1,039,776
Assets for which fair values are disclosed:				
Financial Assets				
Financial assets at amortized cost	14,695,749	96,707,252	–	111,403,001
Loans and receivables:				
Receivables from customers	–	–	610,493,878	610,493,878
	P14,695,749	P96,707,252	P610,493,878	P721,896,879
Non-financial Assets				
Investment properties***				
Land	P–	P–	P29,868,859	P29,868,859
Buildings and improvements	–	–	3,510,670	3,510,670
	P–	P–	P33,379,529	P33,379,529

(Forward)

	December 31, 2022			
	Level 1	**Level 2**	**Level 3**	**Total**
		(In Thousands)		
Liabilities for which fair values are disclosed:				
Financial liabilities				
Financial liabilities at amortized cost:				
Deposit liabilities:				
Time deposits	**P–**	**P–**	**P112,113,308**	**P112,113,308**
Long term debts:				
Bills payable	**–**	**–**	**7,625,229**	**7,625,229**
Unsecured term loan	**–**	**–**	**3,255,346**	**3,255,346**
Bonds payable	**39,955,398**	**16,878,070**	**–**	**56,833,468**
LTNCD	**–**	**18,922,562**	**–**	**18,922,562**
Other liabilities:				
Payable to landowners	**–**	**–**	**1,061,191**	**1,061,191**
Tenants' rental deposits	**–**	**–**	**487,342**	**487,342**
	P39,955,398	**P35,800,632**	**P124,542,416**	**P200,298,446**

* *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, 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
Financial assets at FVTOCI:				
Government securities	63,357,650	57,407,275	–	120,764,925
Private debt securities	252,902	500,259	22,362,318	23,115,479
Equity securities**	903,611	1,149,056	–	2,052,667
	P68,777,579	P65,998,443	P22,362,318	P157,138,340
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.*

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, 2022 and 2021, 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:

Valuation Techniques	Description
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.

Valuation Techniques	Description
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 2022 and 2021 follow:

	2022			
	Beginning balance	Net cash flows	Others	Ending balance
Bills and acceptances payable	P52,953,797	(P37,160,609)	(P812,815)	P14,980,373
Short-term debts (Note 19)	3,940,000	550,000	–	4,490,000
Bonds payable and unsecured loans (Note 19)	57,499,288	5,559,083	(7,874,620)	55,183,751
Lease liabilities (Note 19, 37)	5,144,046	(1,490,114)	1,363,928	5,017,860
	P119,537,131	(P32,541,640)	(P7,323,507)	P79,671,984

	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
Short-term debts (Note 19)	4,740,000	(800,000)	–	3,940,000
Bonds payable and unsecured loans (Note 19)	66,967,388	(7,099,310)	(10,600,524)	49,267,554
Lease liabilities	2,775,256	(1,304,689)	3,673,479	5,144,046
	P161,642,094	(P45,630,225)	(P4,706,472)	P111,305,397

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 P0.2 billion, P1.6 billion and P2.8 billion in 2022, 2021 and 2020, respectively.

The Group acquired investment properties through foreclosure and rescission amounting to P4.3 billion, P0.5 billion, and P0.1 billion in 2022, 2021 and 2020, respectively.

Non-cash Investing Activities

As of December 31, 2022 and 2021, unpaid additions to property, plant and equipment amounted to P1.4 million and P34.4 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 2022 and 2021.

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 2022 and 2021.

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:

	2022	2021
	(In Thousands, except ratios)	
Total liabilities	**P991,455,893**	P1,048,299,685
Total equity	**276,661,676**	263,536,679
Total liabilities and equity	**P1,268,117,569**	P1,311,836,364
Debt ratio	**0.78:1**	0.80:1
Debt-to-equity ratio	**3.58:1**	3.98:1

Regulatory Qualifying Capital for the Banking Segment

The banking segment is subject to the regulatory requirements of the BSP. PNB manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Parent Company may adjust the amount of dividend payment to shareholders, return capital structure, or issue capital securities. No changes were made in the objectives, policies and processes from the previous periods. PNB has complied with all externally imposed capital requirements throughout the year.

BSP reporting for capital management

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 based on Regulatory Accounting Principles (RAP), 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 (PNB and subsidiaries engaged in financial allied undertakings but excluding insurance companies). Qualifying capital and risk-weighted assets are computed based on RAP. 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.

On May 16, 2002, the BSP approved the booking of additional appraisal increment on properties of P431.8 million and recognition of the same in determining the CAR, and booking of translation adjustment of P1.6 billion representing the increase in peso value of the investment in foreign subsidiaries for purposes of the quasi-reorganization and rehabilitation of PNB, provided that the same shall be excluded for dividend purposes.

On August 29, 2019, the MB of the BSP approved the integration of PNB Savings Bank (PNBSB) with PNB. One of the integration incentives granted by the BSP was a temporary capital relief by not deducting the amount of investment of PNB in PNBSB from CET1 Capital in computing the CAR on a solo basis. The relief commenced on the date of net asset transfer and shall become effective until approval by the SEC of the reduction of authorized capital stock of PNBSB.

PNB considered BSP regulations, which set out a minimum CET1 ratio of 6.00% and Tier 1 capital ratio of 7.50%, and require capital conservation buffer of 2.50% comprised of CET1 capital.

In line with its ICAAP document, PNB maintains a capital level that not only meets the BSP's CAR requirement, but also covers all material risks that it may encounter in the course of its business. The ICAAP process highlights close integration of capital planning and 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 Reporting for Basel III Leverage Ratio

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%. BLR is computed based on RAP.

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.

An analysis of the Group's lease contract receivables are as follows:

	2022	2021
	(In Thousands)	
Within one year	**P446,485**	P1,232,961
After one year but not more than five years	**196,987**	643,821
More than five years	**–**	14,344
	P643,472	P1,891,126

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 P270.2 million, P251.5 million and P580.6 million in 2022, 2021 and 2020, respectively, for the Group, of which P201.6 million, P223.2 million and P532.9 million in 2022, 2021, and 2020, respectively, pertain to the PNB. Rent expense in 2022 and 2021 pertains to expenses from short-term leases and leases of low-value assets.

As of December 31, 2022 and 2021, the Group has no contingent rent payable.

As of December 31, the carrying amounts of 'Lease liabilities' are as follows:

	2022	2021
	(In Thousands)	
Balance at beginning of year	**P5,144,046**	P2,775,256
Additions	**1,059,931**	3,462,536
Interest expense	**290,671**	210,943
Payments	**(1,490,114)**	(1,304,689)
Transfers	**13,326**	–
Balance at end of year	**P5,017,860**	P5,144,046

Future minimum lease receivables under finance leases are as follows:

	2022	2021
	(In Thousands)	
Within one year	**P1,087,134**	P1,232,961
Beyond one year but not more than five years	**3,460,037**	643,821
More than five years	**1,066,927**	14,344
Total	**5,614,098**	1,891,126
Less amounts representing finance charges	**–**	13,770
Present value of minimum lease payments	**P5,614,098**	P1,877,356

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 P152.7 billion and P143.3 billion as of December 31, 2022 and 2021, respectively. In connection with the trust functions of PNB, government securities amounting to P1.6 billion (included under 'Financial assets at amortized cost') as of December 31, 2022 and 2021, 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 P24.7 million, P23.2 million and P20.4 million in 2022, 2021 and 2020, respectively, which correspond to 10.00% of the net income realized in the preceding years from its trust, investment management and other fiduciary business until such related surplus reserve constitutes 20.00% 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.

On March 8, 2023, a public news article stated that the Supreme Court has upheld the CTA decision that denied TDI's tax refund claim. However, as of March 14, 2023, TDI and its legal counsel have not received a copy of the decision. Management believes that the outcome of this contingency will not materially impact the consolidated financial statements.

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
Interest Income on		
Loans and receivables	P35	P202
Investment securities at amortized cost and FVOCI	19,830	81,734
Deposits with banks and others	34	5,087
	19,899	87,023
Interest Expense on		
Lease liabilities	530	2,698
Net Interest Income	19,369	84,325
Net Service Fees and Commission Income	P110	P19,718
Insurance premium	202,543	955,640
Insurance benefits and claims	143,605	716,820
Net Insurance Premium	58,938	238,820
Other Income		
Foreign exchange gains (losses) - net	1,804	(2,878)
Trading and investment securities gains - net	–	9,123
Total Operating Income	80,221	349,108
Operating Expenses		
Compensation and fringe benefits	37,040	152,265
Depreciation and amortization	6,592	28,862
Provision for (reversal of) credit losses	1,174	29,781
Occupancy and equipment-related costs	903	1,910
Taxes and licenses	290	4,750
Miscellaneous	8,832	43,539
Total Operating Expenses	54,831	261,107
Income Before Income Tax	25,390	88,001
Provision for Income Tax	4,775	20,418
Net Income from Discontinued Operations	P20,615	P67,583

Net Insurance Premium

This account consists of:

	2021	2020
Net insurance premiums		
Gross earned premium	P385,904	P2,385,857
Reinsurer's share of gross earned premiums	(183,361)	(1,430,217)
	202,543	955,640
Less net insurance benefits and claims		
Gross insurance contract benefits and claims paid	207,003	2,241,488
Reinsurer's share of gross insurance contract benefits and claims paid	(130,493)	(1,983,736)
Gross change in insurance contract liabilities	48,017	1,410,172
Reinsurer's share of change in insurance contract liabilities	19,078	(951,104)
	143,605	716,820
	P58,938	P238,820

Net cash flows of PNB Gen follow:

	2021	2020
Net cash flows from operating activities	(P36,288)	(P27,016)
Net cash flows from investing activities	18,740	(242,063)
Net cash flows from financing activities	(1,912)	(22,648)
	(P19,460)	(P291,727)

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Vice Chairman
and Chief Operating Officer

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Chairman and Chief Executive Officer

Michael G. Tan
Director and President

Juanita T. Tan Lee
Director and Treasurer

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Chief Financial Officer

Nestor C. Mendones
Deputy Chief Financial Officer

Atty. Ma. Cecilia L. Pesayco
Corporate Secretary

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