



FORWARD TOGETHER



LT GROUP, INC. 2023 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.

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

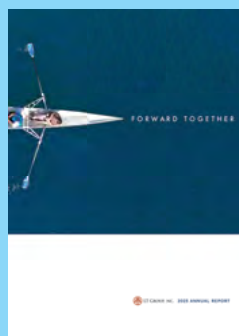
Anchored to its Vision, the LT Group commits:

- 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 14, 2023 and February 13, 2024.)

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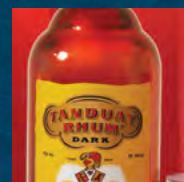
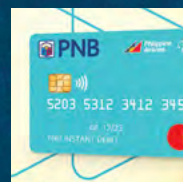
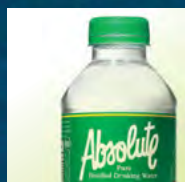


OUR COVER

This year, we navigated the currents of change with unity and resilience. Together, we moved with steadfastness. Each stroke deliberate, synchronized, propelling us towards our shared vision.



FORWARD TOGETHER



LT GROUP, INC. 2023 ANNUAL REPORT

FINANCIAL SUMMARY

REVENUES

in Php Millions

2023	115,299
2022	100,872
2021	91,173

TOTAL ASSETS

in Php Millions

2023	1,372,396
2022	1,268,118
2021	1,311,836

NET INCOME

in Php Millions

2023	34,016
2022	30,665
2021	20,861

TOTAL LIABILITIES

in Php Millions

2023	1,027,160
2022	991,456
2021	1,048,300

EBITDA

in Php Millions

2023	46,421
2022	43,487
2021	33,368

TOTAL EQUITY

in Php Millions

2023	300,236
2022	276,662
2021	263,536

PER SHARE DATA

in Php, except Pay-out Rate

	2023	2022	2021
Earnings per Share	2.35	2.32	1.87
Book Value per Share (at year-end)	19.64	18.38	17.56
Cash Dividend	1.20	1.40	1.08
Pay-out Rate	51.66%	74.83%	55.59%

RATIOS

	2023	2022	2021
Current (x)	0.71	0.65	0.70
Current w/o PNB (x)	3.69	3.04	3.28
Debt to Equity (x)	3.42	3.58	3.98
Debt to Equity w/o PNB (x)	0.12	0.14	0.15
Return on Average Assets	2.0%	1.9%	1.5%
Return on Average Equity	12.4%	12.9%	10.8%

OUR BUSINESSES AT A GLANCE



99.9%
OWNERSHIP

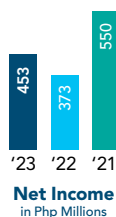
Asia Brewery, Inc. started as a brewery in 1982. It also offers non-alcoholic beverages as well as packaging materials. It is a market leader in the energy drinks and soymilk categories. It is ranked third in the bottled water segment.



Eton Properties Philippines, Inc.

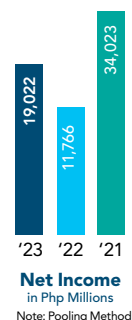
99.6%
OWNERSHIP

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.



56.47%
OWNERSHIP

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



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.



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.

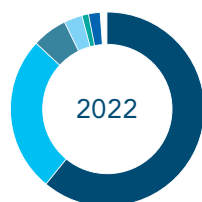


30.9%
OWNERSHIP

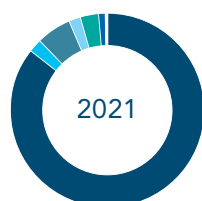
Victorias Milling Company, Inc. is one of the country's largest sugar refineries, based in Negros Occidental.



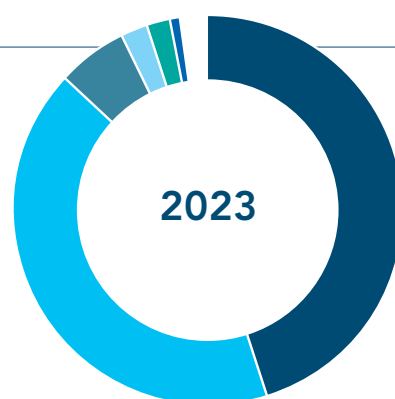
Attributable Net Income Contribution to LTG in Php Millions



		% 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%



		% 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	11,333	45%
BANKING	10,747	42%
DISTILLED SPIRITS	1,558	6%
BEVERAGE	571	2%
PROPERTY DEVELOPMENT	451	2%
VMC	347	1%
OTHERS	414	2%
TOTAL	25,421	100%

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



OUR PARTNERSHIPS



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

2023 has been a year of firsts for the Company. Marking its 10th year anniversary of distributing imported yogurts from Spain, it gained market leadership in the spoonable yogurt category. Its diverse product offerings, such as Original, Non-Fat, Thick & Creamy, and Greek Style have established Pascual® as the number 1 spoonable yogurt brand in the Philippines.

To strengthen the Company's mission to improve consumer well-being and health through nutritious, healthy, and delicious products, AB Pascual was able to enter the ready-to-drink dairy category by launching Pascual® Chocolate Milk Drink in July 2023 and three variants of Pascual® Greek-Style Yogurt Drink (Plain, Mango, and Strawberry) in November 2023.

Achieving these milestones in 2023 is just the first step of great things to come for AB Pascual as the Company continues to strive to provide affordable and quality products for every Filipino.



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.

Two residential high-rise projects under the Ayala Land Premier and Alveo Land brands have been launched, namely Parklinks North Tower and The Lattice, respectively. The Parklinks Mall is also under construction.

In December 2022, the Parklinks Bridge was inaugurated. It is 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.

An international school will also rise in Parklinks.

Allianz PNB LIFE INSURANCE

Allianz PNB Life Insurance, Inc. (Allianz PNB Life) is a joint venture between global insurance leader Allianz SE (Allianz) and local banking giant Philippine National Bank (PNB). The partnership includes a 15-year exclusive bancassurance agreement that started in 2016, when Allianz acquired 51% of PNB Life, PNB's life insurance arm.

Headquartered in Munich, Germany, Allianz has been the #1 insurance brand for five consecutive years and #31 in the world according to Interbrand's prestigious Best Global Brands rankings. This distinction measures an organization's economic profit that can be allocated to branded sales, the role of the brand in influencing



purchase decisions, and brand strength across internal and external factors from different industries.

In the Philippines, Allianz PNB Life shares its parent companies' reputation of authenticity and stellar quality standards and values. Its wide range of products and services addresses the various life insurance needs of PNB customers, with its bancassurance partnership remaining as its primary distribution channel. It also operates 12 business centers in key cities. It has onboarded close to 1,750 Life Changers™ in its Agency Channel, who are committed to the purpose of securing the future of Filipinos in lifetime financial planning, wealth accumulation, and well-being aspirations.

Allianz is also among the most sustainable global insurers according to the Dow Jones Sustainability

Index. With a focus on sustainability, Allianz PNB Life plays an active role in the community. It creates a better tomorrow through advocacies such as sustainable mobility, financial inclusion, youth empowerment, and food rescue. It was recognized as a pioneer sustainability partner by the Scholars of Sustenance Food Rescue Philippines and the Quezon City government.

Allianz PNB Life earned accolades in 2023 for excellence in leadership, HR practices, marketing campaigns, corporate governance and sustainability advocacy. With its first certification as Great Place to Work™ from the Global Authority on Workplace Culture for the period of July 2023 to July 2024, AZPNBL strengthens its commitment to empowering its people to deliver the purpose of securing the future of Filipinos through diversity, camaraderie, and community in the workplace.



PMFTC Inc. (PMFTC) is the business combination between Philip Morris International (PMI) and Fortune Tobacco Corporation (a subsidiary of LT Group, Inc.). It remains the leading cigarette manufacturer in the Philippines, with a market share of 55.2% in 2023. PMFTC manufactures 6 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 homegrown brands in the Philippines.

PMFTC is leading change across the Philippine tobacco industry, building a future on a new category of smoke-free products that, while not risk-free, are a much better choice than continued smoking, due to the elimination of combustion. Through multidisciplinary capabilities in science and technology, it is playing an active role in making the Philippine society smoke-free, offering adult smokers who would otherwise continue to smoke better alternatives with its portfolio of smoke-free products, such as IQOS and Zyn.



MESSAGE
FROM THE CHAIRMAN



We will
continue to move
Forward Together,
synchronized
and propelling us
toward our shared
vision with resilience.

— LUCIO C. TAN



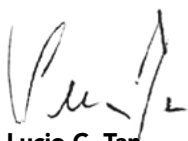
Dear Shareholders,

The year 2023 was a year of transition, as we saw a new President take over the helm of LT Group, Inc. (LTG) in May. I am pleased that the management and employees of the companies under LTG threw their support behind him, so that the transition was as smooth as possible. We were able to move **Forward Together**.

As we moved with unity and steadfastness, from the rank-and-file employees to the management team, LTG was able to report an attributable net income of Php25.42 billion in 2023, a bit higher than the Php25.14 billion reported in 2022. We achieved this in the face of high inflation and a high-interest rate environment, as the groundwork laid down before has enabled us to remain financially strong.

We will continue to move **Forward Together**, synchronized and propelling us toward our shared vision with resilience.

I want to take this opportunity to give my sincere appreciation and thanks for our shareholders' continued trust and confidence, to the Board of Directors for their valued guidance, and to our management team and staff for their hard work and dedication.



Lucio C. Tan
Chairman

MESSAGE FROM THE PRESIDENT



The year 2023 was a year of transition for LT Group, Inc. (LTG). As we navigated through changes, we were able to do so with unity. We worked to overcome and moved **Forward Together**.

As the country's economy emerged from the aftermath of the COVID-19 pandemic, one of the biggest challenges businesses faced was inflation. It averaged at 6.0% in 2023, from a high of 8.7% in January and declining to a low of 3.9% in December. Companies had to implement price increases to pass on higher costs, affecting consumers' purchasing power. Consumers had to prioritize buying basic necessities, resulting in lower sales volumes for many of our products.

The continued drop in PMFTC Inc.'s (PMFTC) earnings was due to lower volume as the price increases were implemented in the first quarter of 2023 to pass on the increase in excise taxes. It was

adversely affected by the increasing incidence of illicit trade, where cigarettes are sold at half to a third of the price of legal cigarettes, which includes the full excise tax and 12% value-added tax price.

The higher income contribution from Philippine National Bank (PNB), however, was able to offset the drop in the contribution of the tobacco business.

In 2023, LTG's attributable net income amounted to Php25.42 billion, 1% higher than 2022's Php25.14 billion. The Company declared cash dividends amounting to Php1.20 per share or a total of Php12.99 billion, representing a 51.7% payout rate.

Tobacco volume was affected by illicit trade and price increases.


The tobacco business' net income in 2023 amounted to Php11.38 billion, 26% lower than 2022's Php15.34 billion. Most of the tobacco business' income is from equity in net earnings from the 49.6% stake in PMFTC. This amounted to Php11.07 billion in 2023, a 28% or Php4.39 billion decrease compared to 2022's Php15.46 billion.

The industry's volume (excluding illicit trade) was 20% lower year-on-year (y-o-y) in 2023 to 42.9 billion sticks from 53.4 billion sticks in 2022, largely due to the industry-wide price increase in 1Q23, increasing illicit incidence and trade inventory movements. PMFTC's 2023 volume was 26% lower than in 2022.

On February 27, 2023, PMFTC implemented a price increase to pass on the Php5 per pack increase in excise taxes, effective January 1, 2023, to Php60 per pack. Marlboro is now at Php9 per stick from Php8. Fortune and Jackpot are at Php7 from Php6. Marlboro Crafted remains unchanged at Php7, while Chesterfield had no price increase and is still at Php6 per stick.

PNB's net income was significantly higher with the improvement in Net Interest Margins (NIMs) and lower provisions for credit losses.

In 2023, PNB's net profit under the pooling method was Php19.02 billion, 62% higher than 2022's Php11.77 billion. The 2023 profit included a Php4.54 billion gain from the sale of repossessed assets, compared to Php7.78 billion in 2022.



Loans and receivables were 4% higher as of end-2023 at Php617 billion from Php593 billion as of end-2022. NIM improved to 4.2% from 3.6%, causing Net Interest Income to improve by 19% to Php44.59 billion from Php37.33 billion.

Net Service Fee and Commission Income were 4% lower at Php5.32 billion from Php5.57 billion.

The bank booked provisions for credit losses of Php5.92 billion in 2023, 18% lower than the Php7.20 billion of 2022. As a result, operating expenses were 3% lower in 2023 at Php34.33 billion, compared to Php35.38 billion in 2022. NPL cover was at 90.8% as of December 2023, compared to 91.1% as of December 2022.

Tanduay Distillers, Inc. (TDI) posted higher earnings as two recent price increases resulted in higher margins.

TDI's net income in 2023 was Php1.57 billion, 7% more than 2022's Php1.47 billion.

The volume of liquor was lower y-o-y by 15%. Due to this volume drop, revenues were Php29.95 billion in 2023, 5% lower than 2022's Php31.62 billion.

However, as TDI implemented an Php84 per case price increase in October 2022 and a Php70 per case price increase in January 2023, GPM improved to 13% in 2023 from 11% in 2022, as the price increases enabled TDI to pass on increased raw material and energy costs.

As of December 2023, TDI's nationwide market share for distilled spirits was at 31.4%, compared to 27.7% as of December 2022. In the Visayas and Mindanao regions where most of TDI's sales are generated, market share was at 71.8% and 79.3%, respectively, compared to 67.1% and 75.6% as of December 2022.

Asia Brewery, Inc. (ABI) had mixed results as price increases tempered the volume of some products.

ABI's net income in 2023 was Php578 million, 1% lower than 2022's Php583 million.

Revenues were 1% higher at Php17.38 billion from Php17.23 billion on the back of higher volume for bottled water and price increases in 1Q23 ranging from 5% to 10% across product lines. These

price increases enabled the Company to slightly improve GPM to 23% from 22% and pass on higher manufacturing and energy costs.

Cobra energy drink maintained its leadership with a market share of 60.4% in 2023, while bottled water brands Absolute and Summit have the third-largest share at 19.0%.

Eton Properties Philippines, Inc. (Eton) was buoyed by higher leasing revenues.

Eton's net profit in 2023 was Php453 million, 21% higher than 2022's Php373 million. This was largely due to a 17% increase in leasing revenues, as occupancy rates averaged at 71% and 70%, respectively, for office and retail space as of the end of 2023.

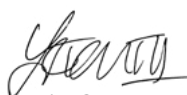
In the third quarter, Eton resumed selling the remaining inventory of previously launched projects in 68 Roces in Quezon City and in Eton City, Laguna.

Outlook

With inflation expected at 3.8% in 2024 and interest rates also expected to go down, the outlook for 2024 is more optimistic. This will help reign in the continued rise in manufacturing costs. It should positively impact LTG's different businesses, and help stabilize and even grow our volumes.

As we move **Forward Together**, we will do so with unity and resilience. We remain steadfast in our commitment as we work towards our shared vision.

I want to thank our stakeholders for your support and trust in your Company. I also extend my thanks to our Board of Directors, the management team, and our employees for their commitment and hard work during this transition. We will continue to move **Forward Together**.



Lucio C. Tan III
President and Chief Operating Officer

MESSAGE FROM THE CFO



For the year 2023, LT Group, Inc.'s (LTG) total revenues amounted to Php115.29 billion, an increase of Php14.42 billion or 14.3% higher than 2022's Php100.87 billion revenues. Apart from distilled spirits, all segments reported an increase in revenues over the previous year.

The attributable net income of LTG reached Php25.42 billion, Php0.28 billion or 1.1% higher than 2022's Php25.14 billion. In 2023, the distilled spirits, property development, and banking segments posted higher net income versus the previous year, while the beverage and tobacco segments netted lower year-on-year (y-o-y).

On a per-segment contribution to LTG's attributable income for 2023, 45% was from the tobacco business, 42% from Philippine National Bank (PNB), 6% from Tanduay Distillers, Inc. (TDI), 2% from Asia Brewery, Inc. (ABI), and 2% from Eton Properties Philippines, Inc. (Eton). From LTG's 30.9% ownership of Victorias Milling Company, Inc. (VMC), 1% of total attributable income, or Php347 million, was booked as equity in net earnings from this investment.

The contribution of the tobacco business reached Php11.38 billion, a Php3.96 billion or 25.8% drop from 2022's Php15.34 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 Php11.07 billion in 2023, a Php4.40 billion or 28.4% decrease from 2022's Php15.46 billion. The tobacco segment's 2023 contribution decreased on customer downtrading, soft consumer demand, and a strong illicit market trade. In 2023, Republic Act (RA) 11346 imposed another Php5 per pack increase in excise taxes, which brought up the total excise tax per pack to Php60.


PNB's 2023 contribution amounted to Php19.02 billion, 61.7% higher than Php11.77 billion in 2022. In 2023, PNB's net interest income increased from improved interest margins on the mix of its gross loans book and financial investment portfolio. Trading and investment securities income also showed improvement y-o-y, while the sale of real and other properties acquired, net service fee and commission income, and foreign-exchange-related income decreased.

TDI's contribution was Php1.57 billion, an increase of Php97 million or 6.6% higher than 2022's Php1.47 billion. Improved profitability in TDI's liquor business drove income higher. Price increases in liquor products, which allowed TDI to pass on higher excise taxes and raw material costs, enabled a stellar TDI performance in 2023 despite an extended softness in local consumer purchasing power. Meanwhile, its alcohol business posted a slower performance y-o-y on the back of lower margins driven by capped market price increases that were insufficient to cover the spikes in input costs.

ABI's contribution was Php578 million, Php5 million, or 1% lower than 2022. Steady volumes from the bottled water, yogurt, iced tea, and commercial bottles categories drove sales revenue despite weaker demand in energy, soymilk, and packaging products due to high base and price increase factors. ABI operating and interest expenses during the year were higher y-o-y.

Eton's contribution amounted to Php453 million, Php80 million or 21.5% higher than the previous year's Php373 million. Leasing revenues increased in 2023, driven by strong occupancy across all commercial, office, and residential leasing segments. Sales revenues were lower y-o-y.

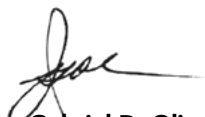
On February 17, 2023, LTG declared a regular cash dividend of Php0.15 per share and a special cash dividend of Php0.15 per share. Thereafter, the Company declared special cash dividends three



times: Php0.30 in May, Php0.30 in August, and another Php0.30 in November. These dividend issuances amounted to Php12.99 billion, or 51.7% of LTG's 2022 attributable income of Php25.14 billion. The Company's dividend payout policy is 20%.

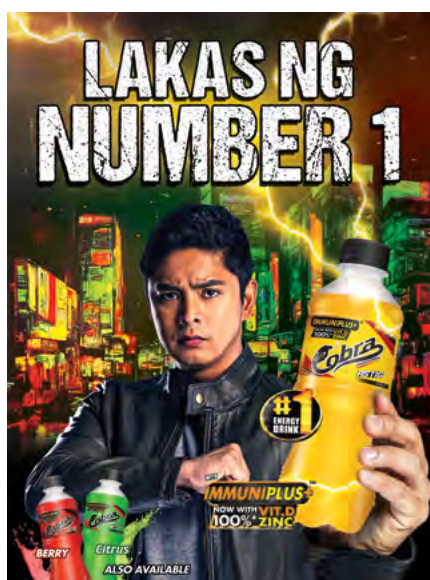
Total capital expenditure was Php6.51 billion in 2023. PNB invested Php1.85 billion mainly in IT and digitalization projects. ABI spent Php1.64 billion on plant improvements. TDI spent Php 944 million primarily towards upgrades in its plants. Eton invested Php151 million in building repairs and improvements. LTG also invested Php1.92 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 Php1.84 billion as of end-2023. The debt-to-equity ratio was at 3.42:1 with the Bank and at 0.12:1 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 leading beverage and condiments manufacturers in the country.

In 2023, the Company faced significant challenges from diminishing consumer purchasing power. Soaring input prices and persistent supply chain hurdles have driven inflation to peak during the first half of the year, prompting the Bangko Sentral ng Pilipinas to raise interest rates aggressively to curb inflation. The surge in consumer borrowing, which has been fueling the reopening of the economy, has softened in some areas and, coupled with higher prices, has curbed consumption growth. Household Final Consumption Expenditure (HFCE) decelerated from 8.3% growth in 2022 to 5.6% in 2023, with consumption for Food and Non-Alcoholic Beverages growing flat at 0.4% in 2023 compared to 5.7% growth in the previous year and Alcoholic Beverages and Tobacco consumption contracting by 1.5% compared to an increase of 1.0% in 2022. This has brought significant challenges to the Company during the year in terms of growing its volume and protecting its profitability.

Backed by strong brands and a broad portfolio across the beverage industry's different categories, ABI was able to sustain its revenues at Php17.38 billion in 2023, slightly higher than the Php17.23 billion generated in 2022. This gain was propped up by the continuous recovery in the bottled water segment and stable Cobra sales.

Gross profit margins slightly improved to 23% from 22% in 2022 despite soaring prices of strategic inputs and the peso's depreciation. ABI's continuous efforts to innovate and improve manufacturing costs allowed it to control costs in other areas and ease downward pressures on margins.

Operating expenses were held at bay at Php2.8 billion, comparable to the previous year, despite the 18% increase in marketing expenses and the 6% higher depreciation on containers to support the growth in sales.

Operating income grew by 10% to Php1.1 billion from Php1.0 billion in 2022 on account of higher revenues and improved margins. However, higher interest expense on bank loans and lower foreign exchange gains offset the gains in gross profit, resulting in a net income of Php578 million in 2023, just slightly below the Php583 million reported in 2022.

Cobra upheld its market leadership in the energy drinks market at 60% market share. It continues to generate strong revenues driven by the aggressive



expansion of Cobra Astig in PET format. To capitalize on this growth, the Company invested in additional PET capacity, which is scheduled to come online by the first half of 2024. To further drive the growth of Cobra in returnable glass, a Luzon-wide “under-the-crown” promotion was launched in the summer of 2023, garnering significant consumer participation, which helped boost volumes during the summer peak. With its growing revenue base, Cobra remained ABI’s flagship product, accounting for 40% of total revenues.

Bottled water prevailed as ABI’s second biggest contributor to revenues. The full reopening of the economy has allowed the “on-the-go” and modern trade markets to bounce back, driving the continuous growth in ABI bottled water volumes, which is in line with industry growth. With its Absolute and Summit water brands, ABI remains one of the top three formidable industry players in the packaged water business.

Summit Still and Summit Sparkling, ABI’s premium bottled water in glass packaging, continues to be the #1 brand in still and sparkling water in glass format category with almost 70% market share – besting internationally known brands in the market. During the year, the Company rolled out the products in returnable glass format at more affordable price points to the general trade market, supporting the Company’s vision of launching more sustainable products in the market.

Vitamilk continued to dominate the soymilk market with its strong position as a healthy drink for young adults. To capture the evolving preferences of its market, the Company expanded its flavor variants with the recent launch of Vitamilk Strawberry and Vitamilk Ube in twist cap enclosures, offering both benefits of new exciting flavors and enhanced packaging. Aside from protecting the core young adult market, Vitamilk also built its portfolio to cater to moms and kids with its multi-serve and single-serve products in tetra packaging.

Capitalizing on the growing health awareness in the market, ABI entered into an exclusive distribution agreement to distribute C-vitt, a non-carbonated Vitamin C drink containing 700mg of Vitamin C designed to boost our immune system. The product was originally launched in Japan and has since become Indonesia and Thailand’s #1 Vitamin C drink.

Pascual® yogurt, a long-life spoonable yogurt imported from Spain and distributed through ABI’s affiliate, ABI Pascual Foods, has overtaken the market leader and has garnered the #1 spot with 47% market share. To capitalize on the Pascual® brand, the

Company also launched its ready-to-drink dairy line in 2023, produced locally for the Philippine market. The dairy line includes Pascual® Chocolate Milk Drink and Pascual® Greek-Style Yogurt Drink in plain, mango, and strawberry variants specially designed as a healthy, nutritious, and affordable drink for young adults. The products come in 250ml glass bottles, which is in line with the Company’s sustainability campaign.

The alcoholic drink segment continued its promising recovery in 2023 as consumers started returning to bars and drinking outlets following the full reopening as the economy reels off from pandemic restrictions.



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 at 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. Paraiso continued to gain traction with the launch of “Barangay Paraiso” and aggressive below-the-line programs to increase awareness and trial of the product. Paraiso tapped local celebrity Nadine Lustre as its first-ever calendar girl for 2024 to further exude the brand’s local and enchanting tropical vibe. This partnership captures the brand’s vision of enjoying beer on fresh occasions and targeting consumers who are ready to unleash themselves and try new experiences.

Tanduay Ice, a key player in the alcopop market, revitalized its presence in the market with aggressive digital marketing and active event sponsorship to reignite the interest of entry-level drinkers of the brand.



Eton Properties Philippines, Inc.



TierraBela Clubhouse

In 2023, Eton Properties Philippines, Inc. (Eton) demonstrated an improved financial performance, marked by a 21% surge in net income, reaching Php453 million from Php373 million in the previous year. This substantial growth was complemented by a solid 10% increase in total revenue, rising to Php2.2 billion pesos from Php2.0 billion in 2022 and the clean-up of long-aged accruals. The Company's diversified portfolio contributed significantly to its overall income, backed by the resumption of sales, a healthy leasing income, and other revenue channels.

As a result of strategic investments and developments, coupled with a focus on operational efficiency, the Company's income ratio increased by two percentage points from 19% to 21% this year, while the debt-to-equity ratio slightly improved from 0.58 to 0.45.

The leasing portfolio remains the primary driver of the Company's earnings at 86% contribution, with serviced residences at 9% and residential sales at 5%.

Aligning with the robust economic growth, the leasing segment achieved a notable 17% increase in revenues, climbing from Php1.8 billion in 2022 to Php2.1 billion in 2023. Office leasing remained the leading revenue contributor, comprising 67% of the total, followed by commercial and retail leasing at 21%. Meanwhile, residential and miscellaneous leasing portfolios collectively contributed 12% to the overall revenues.

Within the office leasing segment, Eton accomplished significant milestones, closing



136,429 square meters of office space across key developments such as the eWestPod building, Blakes Tower in Eton WestEnd Square Makati City, and Centris Cyberpod One in Eton Centris Quezon City. Additionally, Centris Cyberpods Two and Three maintained high occupancy rates of 78% and 100%, respectively. With an optimistic economic outlook, particularly in the IT-BPO sector, the office leasing segment anticipates further growth as companies plan to expand operations in 2024.

Commercial leasing is poised for expansion with the completion of Eton City Square, a four-hectare commercial complex in Eton City township in Sta. Rosa, Laguna. Furthermore, Village Walk, a modern lifestyle commercial center within Eton City, is now open for land lease, bolstering retail spaces. The Company also anticipates the opening of more retail stores across its commercial properties in Makati, Quezon City, and Sta. Rosa, Laguna, throughout 2024.

Residential leasable space rose from 47,030 square meters in 2022 to 54,041 square meters in 2023, resulting in a 53% occupancy rate by the year-end. With companies gradually returning to in-person work arrangements, Eton expects a steady increase in residential occupancy in 2024. Notably, The Mini Suites at Eton Tower Makati capitalized on the rebound in travel demand in the final quarter, contributing to the segment's performance.

In addition to the leasing segment's performance, Eton anticipates steady growth with the resumption of sales activities. The Company achieved an accumulated income of Php137 million from its residential projects 68 Roces in Quezon City and four (4) subdivisions, such as RiverBend, WestWing Residences, TierraBela, and South Lake Village, at Eton City in Sta. Rosa, Laguna. This further bolsters the Company's financial position, supporting future growth initiatives.

Looking ahead to 2024, Eton Properties plans to expand its revenue streams by opening sales on residential condominiums. This strategic move aligns with the Company's commitment to diversifying its portfolio and capitalizing on market opportunities. With the anticipated resurgence in sales activities and the introduction of residential condominium sales, Eton remains well-positioned for sustained growth and value creation in the coming year.

Continuing the strategy to diversify revenue streams, the Company forged a management agreement with parent LTG to oversee their participation in the joint venture with Ayala Land, ALI-Eton Property Development Corporation. This



Eton City Square



Riverbend

collaboration underscores our commitment to strategic partnerships and expansion opportunities. Notably, our joint venture project, Parklinks, is rapidly progressing towards delivering a sprawling 35-hectare township to the market. Positioned as the epitome of sustainable urban living, Parklinks is envisioned to become the country's premier "greenest urban estate" development further solidifying its commitment to environmentally conscious initiatives and innovative urban planning.

Undeniably, Eton demonstrated strength and adaptability in its diversified portfolio, leveraging market opportunities and strategic developments to drive revenue growth amidst a recovering economy. Looking ahead, the company remains poised for further expansion and success in the dynamic real estate landscape.

Philippine National Bank



Financial Performance

Philippine National Bank recorded a consolidated net income of Php19.0 billion in 2023, growing by 62% year-on-year (y-o-y) on the back of robust net interest income and lower credit provisions. Net core banking income, which excludes gains on the sale of acquired properties, climbed by a record 166% y-o-y. This translated to an improved return on equity of 10.9% from the 7.4% posted a year ago.

The Bank's net interest margin widened to 4.2% in 2023, compared to 3.6% in the previous year, as the Bank continued its focus on efficiently deploying funds. Gross loans increased by 5% from year-ago to Php644 billion by end-2023 as the Bank expanded its lending to the commercial sector and small- and medium-sized entities. Likewise, the Bank continued to build up its current and savings accounts (CASA) deposits, growing by 4% y-o-y and accounting for 83% of the Bank's total deposits as of end-2023.

Trading and foreign exchange gains of Php1.8 billion rose more than fourfold y-o-y as the Bank capitalized on market opportunities, despite the limited market liquidity and rising interest rate environment in 2023. The Bank also offloaded certain high-value foreclosed properties as it continues to dispose of non-performing assets aggressively.

The healthier performance in 2023 was augmented by lower provisions on distressed loans and other credit assets as the market continued to rebound during the year from the lingering effects of the pandemic and other adverse market conditions in recent years.

Operating expenses remained relatively flat at Php28.4 billion in 2023 due to prudent spending despite the continued business growth. As a result, the cost efficiency ratio improved to 39.2% from last year's 40.3%, net of provisioning.

As of end-2023, the Bank's total assets stood at Php1.2 trillion, increasing by 6% from the previous year's level, buoyed by higher loans and investment portfolio. Meanwhile, the Bank's capital at Php181.7 billion grew by 14% y-o-y, resulting in a stronger Common Equity Tier 1 Ratio and Capital Adequacy Ratio of 16.85% and 17.7%, respectively.

Operational Highlights

In 2023, local and global economies made inroads in recovery efforts, and business truly began to normalize. As new opportunities continued to unfold, PNB focused on realigning its strategy and priorities, driving campaigns, and streamlining its organization – all pointing towards improving efficiencies and preparing the Bank for further growth.

The post-pandemic period can be considered a new chapter in every organization's history, and PNB ensured to start this chapter right by strengthening its foundation. In April 2023, the Bank's board of directors and senior management team gathered and worked together to come up with a new set of vision, mission, and core values. Along with this, the working team also identified the Bank's key objectives. Having a refreshed vision and mission set the tone for the entire bank serving as an anchor in carrying out the strategy.

On the digital front, initiatives were rolled out to further beef up the features and functions of the PNB Digital App. The Bank zeroed in on elevating client experience through innovation and convenient banking, strongly emphasizing system reliability and security. Committed execution of digital strategy led to increased digital adoption and usage as well as the upward trend in enrollment. To date, PNB Digital App's registered users have surpassed one million – a 42% y-o-y growth. Efforts were recognized by industry experts as PNB won the top award for "Philippines Digital Experience of the Year – Banking" at the Asian Experience Awards 2023. The awards program recognizes the ingenious initiatives of

companies in delivering meaningful brand experiences to stakeholders.

PNB's competitive retail banking rates spurred a notable increase in total deposits through successful CASA promotions. Online account openings saw an 18% surge, propelled by targeted promo campaigns. Collaborating with Philippine Airlines (PAL) Mabuhay Miles, PNB rewarded eligible account holders. The branch rationalization program streamlined branches to 631, while the ATM/Cash Accept Machine fleet exceeded a thousand units. Bank On Wheels continues to serve customers in remote areas of Metro Manila and Luzon.

To further optimize cost structure and maximize the potential of the consumer loan business, the Bank created the Consumer Finance Sector in the last quarter of 2023 consolidating the businesses of the Cards and Payments Solutions Group and the Retail Lending Group. With growth objectives aligned, the new sector leveraged on having an extensive branch network as a steady sales channel to drive cards acquisition and enhance the consumer loan portfolio.

For overseas operations, the Bank's international banking and remittance business established new partnerships with various organizations with the aim of serving a wider reach of Filipinos around the globe. Key officers from various countries reaped awards and accolades for exhibiting service excellence and thought leadership. To enhance client servicing, the team started implementing new and innovative ways of working.

On the investment front, PNB's wealth management business continued offering diverse range of financial solutions to clients of varying risk profiles. To support this, the Bank's research team has been consistent in providing client investors with guidance on the right investment tools. In recognition of the Bank's efforts, Asiamoney's Private Banking Awards hailed PNB as "Best Bank for Investment Research in the Philippines" for the third consecutive year.

In 2023, PNB marked its third year of Sustainability Transition Plan implementation. The Bank started to put together its Environmental and Social Risk Management System (ESRMS) with the assistance of Tan Yan Kee Foundation's subject matter experts from UP Los Baños. Internally, the Bank formally established the Sustainable Finance Working Group (SFWG), a subset of the Sustainability Technical Working Group (TWG), to focus solely on ESG-related loans and investment accounts and matters. Other significant sustainability milestones include: the formal launch of the PNB Sustainability Training and E-Learning Program (PNB S.T.E.P.); hazard-mapping and assessment of the Bank's branches and infrastructures, and collateral locations of the Bank's borrowers for acute and chronic physical risks; integration of ESG elements in the screening of existing and potential customers and vendors; recalibration of the existing ESG Scorecard and integration of E&S risk factors in the financial risk rating of loan accounts; integration of sustainability elements in the new vision and mission statements, core values and business strategy of the Bank; and the development of an end-to-end loan originating process which includes E&S risk factors, among others.



The Bank continued to gain recognition for its sustainability initiatives. The Asia Responsible Enterprise Awards honored PNB for its Sustainability Reporting and Corporate Governance Practice. For aligning its corporate citizenship initiatives with its sustainability agenda, the Bank was awarded by the International Business Magazine as "2023 Best Bank for Corporate Social Responsibility in the Philippines".

All of the Bank's endeavors to give customers a great banking experience gained the attention of some of the world's most prestigious awards organizations. For 2023, PNB ranked second in the Philippines in Forbes' list of the World's Best Banks. The ranking was based on a worldwide survey of 48,000 banking customers in 32 countries, as highlighted in Forbes' story, "Meet the World's Best Banks 2023". Forbes said: *"Trust was the most important factor that contributed to the success of banks globally. Banks need more than great rates to attract corporate and individual customers. They must also offer quick, multi-channel service – both online and in branches – and use that customer service to earn trust."*

Before the year ended, the Bank took an important step to revitalize the PNB brand. A multi-media advertising campaign was launched, highlighting a new brand promise: *Every Step Together*. The key message was clear: PNB will be the bank Filipinos can count on through uncertainties to help them hurdle challenges and ride the tide until a new dawn begins. PNB promises to be right beside its customers to make things happen every step of the way.

The road to full economic recovery may have bumps and detours, but PNB's commitment is unswerving. The Bank is determined to forge ahead and face challenges head-on. PNB remains to be a reliable partner in the success of the Filipino people – in all stages of their lives, wherever they are in the world.

PMFTC Inc.



Overview

PMFTC Inc. (PMFTC), the business combination between Philip Morris International (PMI) and Fortune Tobacco Corporation (FTC, a subsidiary of LT Group, Inc. or LTG), is the leading cigarette manufacturer in the Philippines. It manufactures 6 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 homegrown brands in the Philippines.

PMFTC is leading change across the Philippine tobacco industry, building a future on a new category of smoke-free products that, while not risk-free, are a much better choice than continued smoking, due to the elimination of combustion. Through multidisciplinary capabilities in science and technology, it is playing an active role in making the Philippine society smoke-free, offering adult smokers who would otherwise continue to smoke, better alternatives with its portfolio of smoke-free products, such as IQOS and Zyn.

In 2023, the excise tax on cigarettes was increased in accordance with Republic Act No. 11346. The new excise rates increased from Php55 to Php60 per

pack from January 2023 until December 2023, with an increase of 5 percent (5%) annually from January 2024 onwards. PMFTC cigarette volumes decreased by 26.4%, mainly reflecting market contraction from excise-driven industry price increase, growth of illicit trade, and downtrading.

PMFTC employs around 4,400 employees and sources tobacco from around 12,000 tobacco farmers through its suppliers, 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 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 PMFTC operates. What the Company does at the community level depends on its needs to contribute 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 firmly rooted, comfortable, and secure life or a matatag, maginhawa, at panatag na buhay.

Sales and Marketing

Marlboro continues to uphold its position as the #1 cigarette brand in the Philippines. To leverage on its brand equity and further strengthen its position in the market, PMFTC launched Marlboro Crafted in 2022. In 2023, PMFTC focused on growing the new Marlboro Crafted Red as well as introducing Marlboro Crafted Ice, which offer legal age smokers "100% Marlboro flavor" at an affordable suggested retail price of Php7 per stick. Both variants were supported through trade and consumer programs all year round. Marlboro also supported the entire family through impactful consumer promotions.



Chesterfield continued its strong growth momentum through 2023 and is one of the fastest-growing brands of PMFTC. Fueling the growth of Chesterfield was the expansion of Chesterfield Menthol 100s in Visayas starting June, ongoing visibility and trade support, and a national LAS (legal aged smokers) promotion that was enabled both on-ground and online.



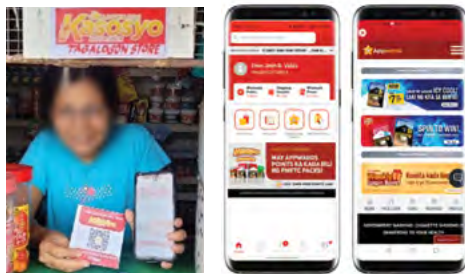
Fortune remains resilient in 2023. One major initiative in 2023 was the Fortune Golden Ticket promotion, promising legal-age smokers with the chance to win up to Php1 million. In its second year, the promotion garnered a higher redemption rate vs 2022. This was achieved with robust support via visibility materials at point-of-sale, on-ground promoter engagements, and digital activation in Fortune.ph.



Fortune Golden Ticket merchandising (Top) | Lucky adult smoker winner of Php1 million (Bottom, left) | Fortune Golden Ticket digital content (Bottom, right)

Appwards Kasosyo digital B2B platform

Appwards Kasosyo is a digital B2B platform launched to link PMFTC-covered wholesalers with retailers beyond PMFTC's direct coverage (indirectly served retailers or ISR). This platform provides said ISR with access to various content and exclusive programs when ordering PMFTC products using the app. In 2023, Appwards Kasosyo started to pilot online-exclusive promotions with LTG for its beverage products in select wholesalers across North, Central, and South Luzon.



ISR registers in Appward Kasosyo app (Left) | Digital programs for retailers (Right)

Next-level Cigarette Alternatives to Filipino Adult Smokers

LTG, together with PMI through PMFTC 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 one¹ heated tobacco system, is a precisely controlled heating device into which a specially designed heated tobacco unit is inserted and heated to generate an aerosol. IQOS produces

on average 90-95% lower levels² of toxic chemicals than conventional cigarettes.

Now in its third year, IQOS has established its presence in key cities nationwide through its commercial efforts to improve visibility and



¹ PMI global estimate of total In-Market Sales of Heated Tobacco category in units as of December 2023 (excluding China and US)

² It does not necessarily equal a 90-95% reduction in risk. IQOS and BONDS by IQOS are not risk-free. "90-95% lower levels" 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



availability, including expansion in key accounts, e-commerce, branded spaces, and general trade.

In October 2023, PMFTC launched a next-level tobacco innovation IQOS ILUMA, the most advanced heated tobacco technology for adult smokers. IQOS ILUMA uses the new SMARTCORE INDUCTION SYSTEM™ to heat tobacco from within the TEREA Smartcore sticks. IQOS ILUMA unlocks the taste of real tobacco without any smoke and ash. The bladeless system does not require cleaning after use, creating a more effortless experience than previous IQOS devices. IQOS ILUMA also features an auto-start function that detects when the TEREA stick is inserted and automatically turns on the device.

To further complement its smoke-free products portfolio, PMFTC launched ZYN in November 2023, making it the first launch of Zyn in the Asia Pacific

region since PMI's acquisition of Swedish Match in 2022. ZYN nicotine pouches are a modern way to enjoy nicotine in a smoke-free and tobacco-free way. ZYN is currently available in both menthol and non-menthol variants, 6mg and 3mg nicotine levels, and is made available in IQOS stores, zyn.com website, and select key account chains in Metro Manila.

Illicit Trade

The tax-driven price hikes have resulted in a steady increase in illicit trade estimated at 19.6% in 2023 and is projected to reach up to 20.4% in 2024³. Excise taxes have annually increased by Php5 per pack since 2019 and will increase by 5% from 2024 onwards. This translated to a tax rate of Php60/pack in 2023, while illicit cigarettes were sold at a mere Php40/pack. A survey on the prevalence of illicit cigarettes conducted by Kantar in 2023 showed that Mindanao accounts for the highest incidence of illicit packs (38.3% in 2023 vs. 32.6% in 2022).

³ Euromonitor Illicit Trade Penetration 2023



TOBACCO

Based on the survey conducted by Kantar, illicit cigarettes are 50% cheaper than legitimate cigarettes. Since illicit cigarettes are more affordable than PMFTC's brands, these 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 engaged 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. There is also a continuing education and information campaign directed at law enforcement agencies focusing on the illicit cigarette trade.

The objective of the Company is to limit illicit trade incidence to manageable levels working at the affiliate level and globally through other PMI affiliates.

People and Culture

The Company continues to surge forward despite challenges and uncertainties in the market. PMFTC kept its organization formidable by providing its employees with people support and empowering them through engagement. All this led to a culture that genuinely cultivates and cares for its employees and organization.

For the 5th year, PMFTC has been awarded as TOP Employer in the Philippines and Asia Pacific, besting hundreds of companies. It was awarded by the distinguished TOP Employer Institute that's based in the Netherlands. TOP Employer Institute recognized the excellence of our people practices and our commitment to continuously build a diverse & inclusive work environment for our employees across the archipelago.



Enabling Business Expansion

PMFTC sustained its competitive advantage through direct retail coverage expansion. This project was possible with the right people leading at the forefront. The Company onboarded new sales personnel, and they are already contributing to the business. With fresh talent and this groundbreaking expansion, the team continues to push for more innovation and business growth.



Developing Diverse Next Generation Leaders

The expansion is also about the growth and enablement of locally and internationally diverse talents. Locally, PMFTC has welcomed over 1,300 talents in 2023 bringing with them unique skills & experiences to drive the business to greater heights. This hiring initiative also improved our gender balance, as females now comprise 46% of management positions, surpassing the Company's target. This is a clear testament to PMFTC's commitment to leveraging the talents of Women in Leadership. Along with these, PMFTC also keeps its stellar reputation as a PMI Talent exporter with 23 Filipino Talents in development and growth opportunities globally, making their marks in various PMI offices worldwide.

Employees also had the opportunity to grow further and develop in their roles. From functional and individual learning to future proofing employees, a repertoire of 27 uniquely curated courses is about expanding the Company's talents' horizons for learning and development.





Raising the Bar on Diversity, Equality & Inclusion

For the 5th year, PMFTC has earned Equal Salary Certification. This certification affirms that PMFTC is an organization that commits to integrating Diversity, Equity, and Inclusion (DEI) in its culture.

PMFTC also launched two employee resource groups (ERGs), i.e., W1N PH and STR1PES PH to help organically drive a sense of belonging and inclusivity in the organization. These ERGs have since become self-organized and driven to set up membership drives and DEI and leadership engagements both internally and externally. With over 590 members from diverse backgrounds across different regions, PMFTC ERGs have become a global benchmark for ERG enablement in other regions.



Tanduay Distillers, Inc.



The country sustained its economic expansion in the post-pandemic period with a 5.7% growth in its gross domestic product in 2023. This strong performance was made possible by the robust domestic demand despite high inflation, improved government spending, sustained remittance inflows from overseas workers, and the continued recovery of the tourism sector.

The headline inflation rate slowed to 6% in 2023 from a high of 8.1% in 2022. Price increases continue to strain growth in consumption volumes especially

in non-food categories like alcohol and tobacco products, which posted the highest price increase among all household expenditure types, with 14.7%. The rise in prices of alcohol and tobacco products was driven mainly by the legislated annual increase in excise tax rates. The opening up of the economy post-pandemic, higher employment rates, and growth in domestic tourism somehow tempered the challenges imposed by rising prices.

Tanduay Distillers, Inc.'s (TDI's) liquor volumes declined by 15% in 2023 compared to last year mainly due to higher-than-usual orders by its distributors in the last quarter of 2022 in anticipation of price increases.

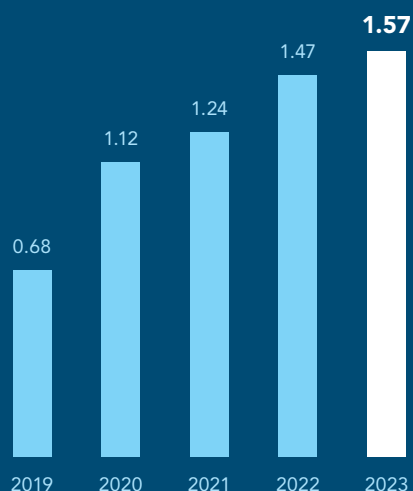
Fuel ethanol sales volume was flat, while demand for alcohol for pharmaceutical use continued to decline due to the lower demand.

TDI's consolidated net income after tax continued its upward trend with a 7% increase in 2023 to



Consolidated Net Income

in Php Billions



Php1.57 billion from Php1.47 billion in 2022. This was made possible by the 12% improvement in average selling prices which negated lower volumes and increased costs.

Revenues from liquor declined to Php26.9 billion, or 4% lower from Php28.1 billion in 2022. This was on account of the 15% decrease in volume offset by the 12% increase in selling prices. The cost of liquor sales of Php23.4 billion was lower by 7% compared to Php25.1 billion in 2022 due to lower volume but negated by the 10% increase in cost per case. Excise tax per case went up by 12% while unit the cost of direct materials increased by 4%, primarily due to the impact of the peso's depreciation on imported materials.

Revenues from bioethanol increased by 15%, primarily due to the 13% increase in average selling prices and the slight increase in volume by 1%. Margins, though, declined as cost per liter increased by 17%. The 14% increase in the cost of molasses was the primary driver of the increase in cost per liter.

The growth of the Philippine economy is projected to continue in 2024, with strong private consumption spending as a key driver as inflation pressures ease. Tanduay seeks to ride on this favorable economic tailwind to sustain its drive toward higher revenue growth, financial stability and profitability, and to continue improving its operating efficiency and agility to capitalize on emerging business opportunities.



CORPORATE GOVERNANCE REPORT

The year 2023 was a year of changes, chances and choices in the Company.

The Company elected a new President in the person of Mr. Lucio C. Tan III, whose initial and primary action was to connect directly with the Senior Management teams of the Company and its subsidiaries. These meetings promoted synergy and a deeper understanding of the different issues that confront the subsidiaries and recommended solutions to the same. It likewise provided the opportunity to promote the Company's shared resources with the subsidiaries.

Amid the transformational shifts, decisions were made aligning the Company's path with evolving market trends and shareholder and stakeholder expectations. The Company through its subsidiaries, provided the opportunities for innovation and positive transformation by implementing programs prescribed under relevant laws, such as reduction of carbon footprint, use of renewable energy sources, and reduction of waste. The compliance with the laws translates to sustainable growth, management of risks and generally contribute to the protection of the environment and promote the welfare of society.

Moreover, every decision made, whether strategic or operational, reflects the Company's continuous commitment to good corporate governance, and environmental and social responsibilities. It believes that the decisions it makes not only significantly impact the performance, value formation, and reputation of the Company, but also generates the satisfaction and continuous support of its stakeholders and shareholders.

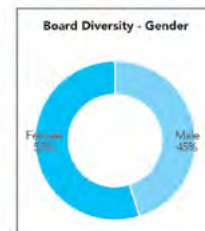
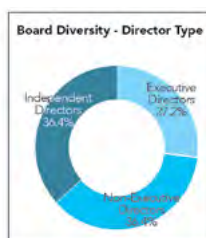
With the spirit of resilience and a forward-looking mindset, the Company charges to 2024, with renewed optimism and vigor to forge ahead.

Board Composition

Consistent with its aim of forming a broad spectrum of widely and highly qualified individuals to compose the Board of Directors, the attributes and characteristics were carefully chosen of distinguished leaders and experts in the respective fields relevant to the industry composing the conglomerate's subsidiaries. The attributes and qualifications of the distinguished members of the Board ensures active participation during Board meetings. The members of the Board are elected during the Annual Stockholders' Meeting and serve as the Company's highest governing body.

Among the factors considered in nominating the members of the board include, business experience, gender, competence, knowledge, and expertise. Among these, the Company prioritizes gender and expertise. As such, its eleven (11) member board consists of six (6) accomplished women and five (5) accomplished men.

Committed to having a balanced decision-making body, the Board has a majority of Non-Executive Directors (NED), while four (4) members serve as Independent Directors (ID), all of whom are compliant with the prescribed qualifications under Circular No. 16 Series of 2002 of the SEC.



To follow good corporate governance practices, the Company appointed Atty. Wilfrido E. Sanchez as Lead Independent Director (LID). His roles include serving as an intermediary between the Chairman and other Directors, convening and chairing the meetings of NEDs and IDs, and contributing to the performance evaluation of the Chairman.

The directors ensure the continuous and effective performance of the Company by performing their functions under the Company's mission and vision statements, its Revised Corporate Governance Manual, and the prescribed or suggested rules of the SEC and the PSE.

Moreover, the Board conducts a comprehensive annual review of the Company's vision and mission statements and assesses compliance with corporate governance practices. The latest review was made on February 13, 2024, which reflects its unwavering adherence to excellence, transparency and ethical governance practices.

Board of Directors



DR. LUCIO C. TAN

Filipino, 89 years old
Chairman and Chief Executive Officer,
LT Group, Inc.
Committee Chairman,
Executive Committee
Committee Chairman, Nomination and
Compensation Committee

Academic Background

- Doctor of Philosophy, Major in Commerce, University of Sto. Tomas – Manila
- BS Chemical Engineering, Far Eastern University

Date of First Appointment: July 2, 1999

Directorships and Positions in Listed Companies

- Chairman - MacroAsia Corporation
- Chairman - PAL Holdings, Inc.

Chairmanship in Board of Non-Listed Companies

- 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.
- Philippine Airlines, Inc.
- PMFTC Inc.
- Progressive Farms, Inc.
- Tanduary Distillers, Inc.
- Tanduary Brands International, Inc.
- Tangent Holdings Corporation
- The Charter House, Inc.
- Trustmark Holdings Corporation
- University of the East

- Grandspan Development Corporation
- Himmel Industries, Inc.
- Zuma Holdings and Management Corporation

Position in Other Organizations and Corporations

- Chairman Emeritus - Philippine National Bank



CARMEN K. TAN

Filipino, 83 years old
Vice Chairman, LT Group, Inc.

Academic Background

- Paco Citizen Academy Foundation (Formerly Paco Chinese School)

Date of First Appointment

- Vice Chairman – May 3, 2023
- Director – May 5, 2010

Directorships in Listed Companies

- MacroAsia Corporation
- PAL Holdings, Inc.

Directorships in Non-Listed Companies

- Philippine Airlines, Inc.
- Air Philippines Corporation
- Asia Brewery, Inc.
- Buona Sorte Holdings, Inc.
- Foremost Farms, Incorporated
- Dynamic Holdings, Ltd.
- Eton City, Inc.
- Fortune Tobacco Corporation
- Himmel Industries, Inc.
- PMFTC Inc.
- Progressive Farms, Inc.
- Zuma Holdings and Management Corporation
- Tanduy Distillers, Inc.
- Manufacturing Services and Trade Corporation
- Sipalay Trading Corporation
- Saturn Holdings, Inc.
- Tangent Holdings Corporation
- Trustmark Holdings Corporation

Position in Other Organizations and Corporations

- Vice Chairman - Philippine Airlines, Inc.
- Board Advisor - Philippine National Bank



LUCIO C. TAN III

Filipino, 31 years old
President and Chief Operating Officer, LT Group, Inc.
Member, Executive Committee
Member, Nomination and Compensation Committee
Member, Corporate Governance Committee

Academic Background

- Masters in Computer Science, Stanford University
- BS Electrical Engineering, Stanford University, California
- Lick Wilmerding High School, California, United States of America
- British School Manila, Taguig, Philippines

Date of First Appointment

- President – May 3, 2023
- Chief Operating Officer – May 4, 2022
- Director – December 17, 2019

Directorships in Listed Companies

- PAL Holdings, Inc.
- MacroAsia Corporation
- Philippine National Bank

Directorships in Non-Listed Companies

- Tanduy Distillers, Inc.

- Dunman Holdings Corporation
- Tanduy Brands International, Inc.
- Sabre Travel Network Phils. Inc.
- Dunmore Development Corporation
- Ali-Eton Property Development Corp.
- Air Philippines Corporation
- Allied Club, Inc.
- Allied Water Services, Inc.
- Asia Brewery, Inc.
- Asia's Emerging Dragon Corporation
- Asian Cancer Center, Inc.
- Belton Communities, Inc.
- Dominion Realty & Construction Corporation
- Eton City, Inc.
- Eton Properties Philippines, Inc.
- First Homes, Inc.
- Fortune Landequities and Resources Inc.
- Fortune Tobacco Corporation
- Kaizer Chemical Industries, Inc.
- Lufthansa Technik Philippines, Inc.
- MacroAsia Airport Services Corp.
- MacroAsia Catering Services Inc.
- MacroAsia SATS Food Industries
- MacroAsia SATS Inflight Services Corp.
- PMFTC Inc.
- Philippine Airlines, Inc.
- PNB Holdings Corporation
- Prior Holdings Corp.
- Qualisure Holdings, Inc.
- REM Development Corporation
- Shareholdings, Inc.
- Silangan Holdings, Inc.
- Sipalay Trading Corporation
- Trustmark Holdings Corporation
- Zuma Holdings and Management Corporation

Positions in Other Organizations and Corporations

- President and Chief Operating Officer - PAL Holdings, Inc.
- President and Chief Operating Officer - Tanduy Distillers, Inc.
- President - Dunman Holdings Corporation
- President - Tanduy Brands International, Inc.
- Vice Chairman and President - Sabre Travel Network Phils. Inc.
- Vice President - Dunmore Development Corporation



KARLU T. SAY

Filipino, 54 years old
Member, Executive Committee
Member, Nomination and Compensation Committee

Academic Background

- Bachelor of Science in Management from the Ateneo de Manila University
- Associate of Arts Degree in Interior Design from the Fashion Institute of Design & Merchandising in San Francisco, California, USA

Date of First Appointment: May 5, 2021

Directorships in Non-Listed Companies

- Dong-A Pharma Phils, Inc.
- Eton Properties Philippines, Inc.
- PNB Holdings Corporation
- Alliedbankers Insurance Corporation

Position in Other Organizations and Corporations

- President - PNB Holdings Corporation



CORPORATE GOVERNANCE REPORT



MICHAEL G. TAN

Filipino, 58 years old
Member, Executive Committee
Member, Nomination and Compensation Committee
Member, Corporate Governance Committee

Academic Background

- Bachelor of Applied Science in Civil Engineering, Major in Structural Engineering,
- University of British Columbia, Canada
- High School, Dunman High School Singapore
- Beijing Language Institute
- Beijing University

Date of First Appointment: February 21, 2003

Directorships in Listed Companies

- MacroAsia Corporation
- Philippine National Bank
- Victorias Milling Company, Inc.

Directorships in Non-Listed Companies

- Asia Brewery, Inc.
- Tangent Holdings Corp.
- PMFTC Inc.
- Absolut Distillers, Inc.
- Tanduay Distillers, Inc.
- Tanduay Brands International, Inc.
- Trustmark Holdings Corporation
- Shareholdings, Inc.
- Asia's Emerging Dragon Corporation
- Paramount Landequities, Inc.
- Allied Commercial Bank – Xiamen
- Allied Banking Corp. (Hong Kong) Limited
- PNB Global Remittance & Financial Company (HK) Ltd.
- Saturn Holdings, Inc.
- Maranaw Hotel & Resort Corporation (Owner of Century Park Hotel)
- Pan-Asia Securities Corp.
- Zuma Holdings and Management Corporation
- Philippine Chamber of Commerce and Industry (PCCI)

Positions in Other Organizations and Corporations:

- President and Chief Operating Officer - Asia Brewery, Inc.
- Member - ASEAN Business Advisory Council (ASEAN BAC) representing the Philippines
- Vice-President - Federation of Filipino-Chinese Chambers of Commerce & Industry, Inc.
- Treasurer - Zuma Holdings and Management Corporation
- Vice President - Philippine Chamber of Commerce and Industry (PCCI)
- Trustee - Help Educate and Rear Orphans (HERO) Foundation, Inc.



VIVIENNE K. TAN

Filipino, 56 years old
Member, Executive Committee

Academic Background

- Bachelor of Science – Double Degree in Mathematics and Computer Science, University of San Francisco, U.S.A.
- Diploma in Fashion Design and Manufacturing Management, Fashion Institute of Design and Merchandising, Los Angeles, U.S.A.

Date of First Appointment: May 7, 2019

Directorships in Listed Companies

- Philippine National Bank

Directorships in Non-Listed Companies

- Air Philippines Corporation
- University of the East
- University of the East Ramon Magsaysay Memorial Medical Center
- Entrepreneurs School of Asia
- Philippine Center for Entrepreneurship (Go Negosyo)

Positions in Other Organizations and Corporations

- Founding Chairperson - Entrepreneurs School of Asia
- Founding Trustee - Philippine Center for Entrepreneurship (Go Negosyo)



JUANITA T. TAN LEE

Filipino, 81 years old
Treasurer, LT Group, Inc.
Member, Executive Committee
Member, Nomination and Compensation Committee
Member, Audit Committee
Member, Risk Management Committee
Member, Corporate Governance Committee

Academic Background

- BS Business Administration, University of the East

Date of First Appointment

- Treasurer – April 8, 2014
- Director – May 2, 2012
- Assistant Corporate Secretary – September 13, 2000 to September 17, 2012

Membership in Board of Non-Listed Companies

- | | |
|-------------------------------------|-------------------------------------|
| • Asia Brewery, Inc. | • Grandspan Development Corporation |
| • Eton Properties Philippines, Inc. | • Himmel Industries, Inc. |
| • Tanduay Distillers, Inc. | • Landcom Realty Corporation |
| • Fortune Tobacco Corporation | • PMFTC Inc. |
| • Absolut Distillers, Inc. | • Progressive Farms, Inc. |
| • Asian Alcohol Corporation | • Total Bulk Corporation |
| • The Charter House, Inc. | • University of the East |
| • Foremost Farms, Inc. | |

Positions in Other Organizations and Corporations

- Corporate Secretary - Fortune Tobacco Corporation
- Corporate Secretary - Absolut Distillers, Inc.
- Corporate Secretary - Asian Alcohol Corporation
- Corporate Secretary - The Charter House, Inc.
- Corporate Secretary - Foremost Farms, Inc.
- Corporate Secretary - Grandspan Development Corporation
- Corporate Secretary - Himmel Industries, Inc.
- Corporate Secretary - Landcom Realty Corporation
- Corporate Secretary - PMFTC Inc.
- Corporate Secretary - Progressive Farms, Inc.
- Corporate Secretary - Total Bulk Corporation
- Assistant Corporate Secretary - Basic Holdings Corporation
- Treasurer - Philippine Airlines, Inc.
- Treasurer - PAL Holdings, Inc.

**JOHNIP G. CUA**

Filipino, 67 years old
 Committee Chairman, Audit Committee
 Member, Risk Management Committee
 Member, Executive Committee
 Member, Corporate Governance Committee

Academic Background

- BS Chemical Engineering, University of the Philippines

Date of First Appointment: May 8, 2018

Directorships in Listed Companies

- MacroAsia Corporation
- PAL Holdings, Inc.

Directorships in Non-Listed Companies

- P&Gers Fund, Inc.
- Xavier School, Inc.
- Taibrews Corporation
- Asia Brewery, Inc.
- Tanduay Distillers, Inc.
- First Aviation Academy
- MacroAsia Catering Services, Inc.
- MacroAsia Airport Services Corporation
- MacroAsia SATS Food Industries Corporation
- MacroAsia SATS Inflight Services Corporation
- Philippine Airlines, Inc.
- PhilPlans First, Inc.
- Lufthansa Technik Philippines, Inc.
- Interbake Marketing Corporation
- Teambake Marketing Corporation
- Lartizan Corporation
- Allied Botanical Corporation
- Zenori Corporation
- MGCC Foundation
- Xavier School Educational & Trust Fund

Positions in Other Organizations and Corporations

- Former President - Procter & Gamble Philippines, Inc.
- Chairman and President - Taibrews Corporation

**MARY G. NG**

Filipino, 70 years old
 Committee Chairman, Risk Management Committee
 Member, Nomination and Compensation Committee
 Member, Audit Committee
 Member, Corporate Governance Committee

Academic Background

- BS Commerce, Major in Banking and Finance, St. Paul's College

Date of First Appointment: May 7, 2019

Directorship in Non-Listed Companies

- Eton Properties Philippines, Inc.
- ABIC Insurance
- Department of Labor and Employment (DOLE)
- Technical Educational and Skills Development (TESDA)
- Philippine Dongshi Townmate Association, Inc.

Positions in Other Organizations and Corporations

- Chief Executive Officer - H&E Group of Companies

- Honorary President - Packaging Institute of the Philippines
- Honorary President - Philippine Plastic Industrial Association of the Philippines, Inc.
- Honorary President - Association of Volunteer Fire Chiefs and Firefighters of the Philippines
- Executive Vice President - Federation of Filipino-Chinese Chamber of Commerce and Industries
- Vice President - Philippine Piak O Eng Chamber of Commerce
- Vice President - Philippine Piak O Eng Uy's Association
- Management and Operation Consultant - Foremost Farms, Incorporated
- Tripartite Member - National Tripartite Council

**WILFRIDO E. SANCHEZ**

Filipino, 87 years old
 Member, Nomination and Compensation Committee
 Member, Audit Committee
 Member, Risk Management Committee

Academic Background

- Bachelor of Arts, Ateneo de Manila University
- Bachelor of Laws, Ateneo de Manila University
- Master of Laws, Yale Law School

Date of First Appointment: July 31, 2012

Membership in Board of Listed Companies

- EEI Corporation
- House of Investments, Inc.
- Philippine National Bank

Directorship in Non-Listed Companies

- Asia Brewery, Inc.
- Eton Properties Philippines, Inc.
- Tanduay Distillers, Inc.
- Gokongwei Brothers Foundation
- JVR Foundation
- EMCOR, Inc.
- J-Del Investments and Management Corp.
- Kawasaki Motor Corp.
- KS Prime Financial Corp.
- K-Servico, Inc.
- Trimotors Technology Corp.
- Wodel, Inc.

Positions in Other Organizations and Corporations

- Tax Counsel - Quiason Makalintal Barot Torres Ibarra Sison & Damaso Law Firm

**FLORENCIA G. TARRIELA**

Filipino, 77 years old
 Committee Chairman, Corporate Governance Committee
 Member, Audit Committee
 Member, Risk Management Committee

Academic Background

- BSBA Major in Economics, University of the Philippines
- Master of Arts in Economics, University of California, Los Angeles (UCLA), USA

Date of First Appointment: August 9, 2012

Directorship in Non-Listed Companies

- PNB Capital and Investment Corporation
- PNB International Investments Corporation



CORPORATE GOVERNANCE REPORT

- Nickel Asia Philippines (NAC)
- Tarriela Management Company
- Gozon Development Corporation
- Financial Executives of the Philippines (FINEX)
- Tulay sa Pag-unlad, Inc. (TSPI)
- TSPI MBA

Positions in Other Organizations and Corporations:

- Board of Advisor and former Chairman - Philippine National Bank
- Vice President - Tarriela Management Company
- Vice President/Assistant Treasurer - Gozon Development Corporation
- Former Undersecretary of Finance
- First Filipina Vice President of Citibank NA

ADVISORY BOARD



CHESTER Y. LUY

Filipino, 55 years old
Member, Audit Committee
Member, Risk Management Committee
Member, Corporate Governance Committee

Academic Background:

- Chartered Financial Analyst (CFA)
- Masters in Management (MBA), J.L. Kellogg Graduate School of Management, Northwestern University
- BS Business Administration, University of the Philippines

Date of First Appointment: November 10, 2022

Directorship in Listed Companies

- Philippine National Bank

Directorship in Non-Listed Companies

- Tanduay Distillers, Inc.
- Philippine National Bank (Europe) PLC.
- PNB Global Remittance and Financial Company (HK) Limited

Positions in Other Corporations and Organizations

- Board Advisor – Eton Properties Philippines, Inc.
- Former Board Advisor – Philippine National Bank
- Former Director - PNB Mizuho Leasing and Finance Corporation
- Former Executive Vice President and Head of Strategy Sector and Wealth Management Group - Philippine National Bank
- Former Senior Executive Vice President, Treasurer, and Head for the Financial Advisory and Markets Group (comprised of Treasury and the Wealth Management Group), Rizal Commercial Banking Corporation
- Served in Senior Leadership Roles and/or as Managing Director across a variety of businesses including Investment Banking, Corporate Finance, Credit Risk Analysis, Investment Management, and Wealth Management with several international banks and was based in New York, Singapore, and Manila for various global banks such as: JPMorgan, Bank of America Barclays Capital, HSBC, Julius Baer, Bank of Singapore
- Former Member - Singapore Institute of Directors
- Former Board Member of a Singapore-based Real Estate and Hospitality Entity



PETER Y. ONG

Filipino, 76 years old

Academic Background:

- BS Chemical Engineering, Mapua Institute of Technology

Date of First Appointment: May 7, 2019

Membership in Non-Listed Companies

- Merit Holdings & Equities Corporation
- Fortune Tobacco Corporation
- AlliedBankers Insurance Corporation
- Allied Leasing and Finance Corporation
- Solar Holdings Corporation

Positions in Other Organizations and Corporations

- Treasurer - Merit Holdings & Equities Corporation
- Former President - Air Philippines Corporation
- Former Senior Vice President for Production - Fortune Tobacco Corporation
- Former Director - Allied Savings Bank

Board Responsibilities

The Board exists to guide the Company towards effective governance for sustainable development. Its primary mandate is to give strategic direction and make critical business decisions that shape the Company's trajectory. Guided by its by-laws, the Company's Board convenes every second Tuesday of the month. The respective Chief Financial Officers (CFOs) of the conglomerate's diverse subsidiaries attend these monthly meetings to update the Board on the operational results of their respective companies, ensuring that the Board is well-aware of the nuances of each subsidiary, and, at the same time, fostering a culture of transparency.

In addition to the monthly meetings, each subsidiary's respective Presidents/ Chief Executive Officer (CEO) or Chief Operating Officers (COOs) are mandated to attend the quarterly meetings. This fosters a cohesive strategic alignment among leadership tiers through a shared vision.

In 2023, the Board of Directors conducted 19 meetings via remote communication. Despite the virtual setting, these meetings were religiously attended and actively participated in by the Directors, showing their unwavering dedication to ensure proper governance amidst evolving challenges.

	Name	No. of Meetings Attended	% Present
Chairman	Dr. Lucio C. Tan	19	100
Member	Carmen K. Tan	19	100
Member	Lucio C. Tan III	19	100
Member	Karl T. Say	19	100
Member	Michael G. Tan	19	100
Member	Vivienne K. Tan	19	100
Member	Juanita T. Tan Lee	19	100
Independent	Johnip G. Cua	19	100
Independent	Mary G. Ng	19	100
Independent	Wilfrido E. Sanchez	19	100
Independent	Florencia G. Tarriela	19	100

Moving forward, the Board remains resolute in its commitment to steer the Company towards a future characterized by sustainability, inclusivity and excellent governance.

Independent Directors

The Company guarantees that its Board shall have no less than four (4) Independent Directors (IDs) who, among other qualifications, must be independent of Management and the controlling shareholder and are free from any business or other relationships which could, or could reasonably be perceived to, materially interfere with his/her exercise of independent judgment in carrying out the responsibilities of a director of the Company.

In 2023, the Company elected four (4) IDs who are experts in their respective fields. They have the qualifications, background, experience, independence and skills required for the proper execution of their functions individually and as a whole.

While two (2) of the IDs have already served and maximized the nine-year term allowed, their nomination and re-election were in accordance with the SEC Memo Circular No. 4, Series of 2017 and the Company's Revised Corporate Governance Manual which provides that by way of exception, an ID who has served for more than nine (9) years may be re-nominated as such if: (i) The Nomination Committee endorses such nomination on meritorious grounds and (ii) Approval of the stockholders is obtained during the Annual Stockholders' Meeting.

Board Committees

Fostering the Company's long-term success of the Company and sustaining its competitiveness and profitability in a manner consistent with its corporate objectives and in the best interest of its stockholders and other stakeholders are some of the essential functions of the Board. To achieve these and in its pursuit of good corporate governance, the Company established five (5) committees, namely: (i) Audit Committee, (ii) Risk Management Committee, (iii) Executive Committee, (iv) Nomination and Compensation Committee, and (v) Corporate Governance Committee. The committees exercise oversight functions over the various tasks and operations of the subsidiaries.

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

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

Audit Committee (AC)

The Audit Committee was created to assist the Board in its oversight functions. Its primary purpose is 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 code of business conduct.

As the Committee is tasked with significant functions vital to the Company's business, operations, and risks, its members have relevant backgrounds, knowledge, skills and experience in accounting, auditing, or finance. Aside from these qualifications, the Chairman of the Committee is likewise an Independent Director who is not simultaneously the Chairman of the Board or any other Committee.

The Committee's charter stipulates that it must conduct its regular meeting at least every quarter and call for special meetings as necessary. Thus in 2023, the Committee held four (4) meetings, as provided in the table below:

Office	Name	No. of Meetings Attended	% Present	Length of Service in the Committee (years)
Chairman (ID)	Johnip G. Cua	4	100	6
Member (ID)	Wilfrido E. Sanchez	4	100	10
Member (ID)	Florencia G. Tarriela	4	100	10
Member (ID)	Mary G. Ng	4	100	4
Member (ED)	Juanita T. Tan Lee	4	100	10
Member	Chester Y. Luy ¹	4	100	1

The Audit Committee approved the following matters:

- LTG Audited Consolidated Financial Statements as of December 31, 2022
- 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, 2022
- Recommendation to select and appoint the Auditing Firm of SGV & Co. as the Company's External Auditor for the year 2023
- Unaudited Report and the Unaudited Financial Statements for the First Quarter of 2023
- Unaudited Report and the Unaudited Financial Statements for the Second Quarter of 2023
- Internal Audit Accomplishments for the year 2022, and Internal Audit Plan and Internal Audit Budget for the year 2023
- Annual Report on the Internal Control Environment for 2022
- Engagement Proposal of Sycip, Gorres, Velayo & Co. for the 2023 Financial Audit
- Conduct of External Auditor Tender Process for 2024 and allow Philippine National Bank (PNB) to take the lead
- Unaudited Report and the Unaudited Financial Statements for the Third Quarter of 2023

In accordance with good governance practices, the Lead Independent Director chaired the annual meeting with the external auditors. The meeting was attended by the other Independent Directors and Non-Executive Directors.

¹ Mr. Luy was only appointed as member of the Audit Committee last May 3, 2023.

CORPORATE GOVERNANCE REPORT

Risk Management Committee (RMC)

The Risk Management Committee assists the Board in fulfilling its oversight responsibilities. It monitors the risk environment of the Company and provides direction for the activities to mitigate, to an acceptable level, the risks that may adversely affect the Company's ability to achieve its goals. It likewise facilitates the continuous improvement of the Company's capabilities around managing its priority risks.

To achieve efficiency and promote good corporate governance, the Committee comprises six (6) competent members, four (4) of whom are Independent Directors, including the Chairman. Each has relevant background, knowledge, skills and experience to discharge their duties and responsibilities properly and efficiently. Its charter requires the Committee to conduct regular meetings when necessary to discuss current risk exposures based on Management reports and review and approve the annual Sustainability Report. Accordingly, the Committee conducted thirteen (13) meetings in the year 2023, as shown below:

Office	Name	No. of Meetings Attended	% Present	Length of Service in the Committee (years)
Chairman (ID)	Mary G. Ng	13	100	2
Member (ID)	Wilfrido E. Sanchez	12	92	2
Member (ID)	Florencia G. Tarriela	13	100	2
Member (ID)	Johnip G. Cua	13	100	2
Member (ED)	Juanita T. Tan Lee	12	92	2
Member	Chester Y. Luy ²	7	100	1

During these meetings, the Chief Financial Officer (CFO) and the Chief Risk Officer (CRO) of the subsidiaries report to the Committee their respective risk management frameworks and the updates on the significant risks found that require regular monitoring and their corresponding risk mitigation plans. The members of the Committee, in turn, share their inputs and make suggestions on how to further mitigate the risks presented further.

In addition, the Chief Sustainability Officer and the Sustainability Report Consultant, present the annual Sustainability Report (SR) before the Committee, which covers the progress, status, and monitoring of sustainability initiatives. Likewise reported to the Committee is the conduct of sustainability workshops on the Global Reporting Initiative (GRI) and other SR Reporting Standards.

Executive Committee (EXCOM)

The Executive Committee exercises all the powers of the Board, excluding powers expressly reserved to the Board under Philippines laws and the Company's By-Laws. Its responsibilities include:

1. Acting on specific matters within the competence of the Board of Directors as may be delegated to it by a majority vote of the Board, except with respect to the following:
 - a. Approval of any action for which shareholders' approval is also required;
 - b. Filling of vacancies in the Board;
 - c. Amendment or repeal of By-Laws or the adoption of new By-Laws;
 - d. Amendment or repeal of any resolution of the Board, which by its express terms is not so amendable or repealable; and
 - e. Distribution of cash dividends to shareholders.

² Mr. Luy was only appointed as member of the Risk Management Committee last May 3, 2023.

2. Serving as a sounding board for Management on emerging issues, problems and initiatives;
3. Reporting to the Board any official actions taken by the Committee, the same being subject to revisions and alterations by the Board, provided, that no rights of third persons shall be affected by any such revision or alteration;
4. Approving the business plan, operating budget, and capital expenditure each year, which shall be subject to confirmation by the Board.

The Committee is composed of seven (7) directors, and following its Charter, the Committee is expected to hold meetings as often as necessary or on an "as-needed basis". Since no urgent matters required the decision or guidance of the Committee, no EXCOM meeting was conducted in the year 2023.

Nomination and Compensation Committee (NCC)

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

As prescribed by its Charter, the Committee comprises seven (7) directors, two (2) of whom are Independent. It conducts a meeting at least once a year. Hence, on February 13, 2023, the Committee convened and passed upon the pre-qualified and shortlisted candidates for election to the Board of Directors, including candidates for Independent Directors who shall constitute at least thirty percent (30%) of the members of the Board. The candidates were nominated and elected at the Annual Stockholders' Meeting (ASM) held last May 3, 2023. This meeting was attended by all members of the Nomination and Compensation Committee, as shown below:

Office	Name	No. of Meetings Attended	% Present	Length of Service in the Committee (years)
Chairman (ED)	Dr. Lucio C. Tan	1	100	24
Member (ED)	Lucio C. Tan III	1	100	1
Member (NED)	Karl T. Say	1	100	3
Member (NED)	Michael G. Tan	1	100	20
Member (ED)	Juanita T. Tan Lee	1	100	11
Member (ID)	Mary G. Ng	1	100	4
Member (ID)	Wilfrido E. Sanchez	1	100	11

Corporate Governance Committee (CGC)

One of the Company's primary goals is to ensure its growth and success, while maintaining the trust of its stockholders and the investing public. With this in mind, the Company established the Corporate Governance Committee to assist the Board in fulfilling its corporate governance responsibilities and ensure the Company's compliance with Philippine laws, rules and regulations, and the SEC recommendations on good corporate governance for publicly-listed companies. In reference to its Charter, the Committee ensures the Board's effectiveness and due observance of corporate governance principles and guidelines. It guarantees that the principles declared and enumerated in the Company's Revised Corporate Governance Manual are practiced, observed and complied with by the Board of Directors and Management.

As part of good governance, the Committee, composed of seven (7) directors, met twice in 2023 and made the following notation and approvals:

- Notation of the Company's Integrated Annual Corporate Governance Report (I-ACGR), for endorsement to the Board for approval;
- Amendment of Article IV (f) (1) of the Company's Revised Corporate Governance Manual, pertaining to the composition of the Committee;
- Amendment of Article 2 Section 1 of the Corporate Governance Committee Charter to be consistent with the abovementioned amendment to the Corporate Governance Manual;
- Engagement Proposal of Sycip, Gorres, Velayo & Co. for the conduct of the Corporate Governance Seminar.

Moreover, guided by the committee, the Company conducted a performance evaluation last November 15, 2023 to ensure that the Directors and Committee members are capable of fulfilling and have been adequately carrying out their duties and responsibilities.

The table below shows the attendance of the members of the CGC during the 2023 meetings:

Office	Name	No. of Meetings Attended	% Present	Length of Service in the Committee (years)
Chairman (ID)	Florencia G. Tarriela	2	100	10
Member (ED)	Lucio C. Tan III	2	100	1
Member (NED)	Michael G. Tan	2	100	10
Member (ED)	Juanita T. Tan Lee	1	50	10
Member (ID)	Johnip G. Cua	2	100	6
Member (ID)	Mary G. Ng	2	100	2
Member	Chester Y. Luy ³	1	100	1

MANAGEMENT

The Company's daily operations are controlled by Management in adherence to the principles and rules under the Revised Corporation Code of the Philippines, the Company's Articles of Incorporation and By-Laws and internal policies.

It is led by the able and experienced leadership of its Chairman and Chief Executive Officer (CEO), Dr. Lucio C. Tan, together with Mr. Lucio C. Tan III, as President and Chief Operating Officer (COO). In addition to the regular monthly board meetings, the President and COO likewise holds Management meetings twice a month to thoroughly discuss the thoughts and issues of the different subsidiaries under the conglomerate.

Orientation and Continuing Education Programs for Directors

Consistent with SEC Memorandum Circular No. 20, series of 2013, the Corporate Governance Committee ensures that the members of the Board annually attend a seminar on corporate governance which is conducted by an accredited and recognized private institution. Invited to the workshop, which lasts four (4) hours, are the senior officers and directors of the companies under the conglomerate, together with the other directors and officers under the expanded Lucio Tan Group. The seminar was conducted last October 24, 2023 via the Zoom webinar app with SGV & Co. as the service provider.

³ Mr. Luy was only appointed as Member of the Corporate Governance Committee last May 3, 2023.

Among the attendees were the following:

Board of Directors:

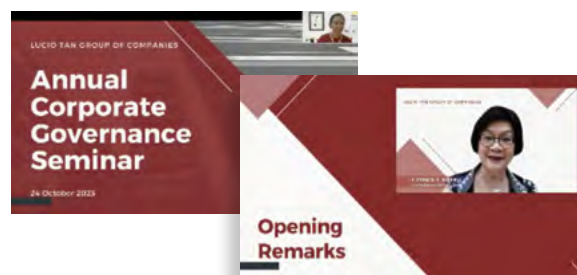
1. Dr. Lucio C. Tan
2. Carmen K. Tan
3. Lucio C. Tan III
4. Karlu T. Say
5. Michael G. Tan
6. Vivienne K. Tan
7. Juanita T. Tan Lee
8. Johnip G. Cua
9. Mary G. Ng
10. Atty. Wilfrido E. Sanchez
11. Florencia G. Tarriela

Board Advisors:

12. Peter Y. Ong
13. Chester Y. Luy

Officers:

14. Atty. Ma. Cecilia L. Pesayco – Corporate Secretary
15. Atty. Marivic T. Moya – Assistant Corporate Secretary and Compliance Officer
16. Jose Gabriel D. Olives – Chief Financial Officer, Chief Risk Officer, Chief Sustainability Officer and ESG Officer
17. Nestor C. Mendones – Deputy Chief Financial Officer
18. Dioscoro Teodorico L. Lim – Chief Audit Executive



Disclosure and Transparency

Unstructured Disclosures

In 2023, the Company made the following disclosures to the SEC and the Philippine Stock Exchange (PSE), which disclosures were subsequently uploaded in its website for proper and efficient dissemination of information to its Stockholders:

Date	Subject Matter Disclosed
February 13, 2023	Calling of the Annual Stockholders' Meeting on May 3, 2023 at 10:00 a.m. via Remote Communication
February 13, 2023	Authorized signatories for the Directors and Officers of Liability Insurance
February 17, 2023	Declaration of Cash Dividends
March 7, 2023	Approval of the Audited Consolidated Financial Statements for the period ending December 31, 2022
March 7, 2023	Approval of the 2022 Sustainability Report
March 7, 2023	Approval of the Reappointment of SGV & Co. as External Auditor of the Corporation for 2023-2024
April 11, 2023	Approval of the Nominees to the Board of Directors in the 2023 Annual Stockholders' Meeting
April 11, 2023	Appointment of Atty. Terencio R. Yumang Jr. and Associates as counsel to represent the Company in its protest against the assessment being made by the LGU of Taguig
May 9, 2023	Approval of the Consolidated Financial Statements for the period ending March 31, 2023
May 9, 2023	Appointment of Mr. Jose Gabriel D. Olives as Chief Sustainability Report Officer and ESG Officer
May 9, 2023	Approval of 2022 Integrated Annual Corporate Governance Report (I-ACGR)
May 9, 2023	Approval of the Revised Manual on Corporate Governance
May 9, 2023	Approval of the Revised Corporate Governance Charter
May 15, 2023	Declaration of Cash Dividends

CORPORATE GOVERNANCE REPORT

July 11, 2023	Authorized Terencio R. Yumang, Jr. & Associates to represent the Corporation in the Court of Tax Appeals
August 8, 2023	Approval of the Consolidated Financial Statements for the period ending June 30, 2023
August 15, 2023	Declaration of Cash Dividends
August 15, 2023	Authorized Ms. Zerlynette C. Ong to Appear as Witness in the Corporation's Case entitled "Lucio Tan Group, Inc., V. J. Voltaire I. Enriquez", CTA Case No. 924.
November 7, 2023	Approval of the Consolidated Financial Statements for the period ending September 30, 2023
November 7, 2023	Approval of the Nominees to the Board of Directors of Victorias Milling Company
November 7, 2023	Appointment of Proxies to the 2024 Annual Stockholders' Meeting of Victorias Milling Company
November 7, 2023	Appointment of Proxy to the Special Stockholders' Meeting of PNB Holdings Corporation
November 17, 2023	Declaration of Cash Dividends
December 12, 2023	Renewal of LT Group, Inc.'s Credit Line with Philippine Airlines, Inc. under Corporate Purchase Order/Letter Order (PO/LO)
December 12, 2023	Authority to Sign the Directors and Officers Liability Insurance

Disclosure and Timing

As a publicly listed entity, the Company is firm in its commitment to achieve good corporate governance. Thus, it ensures compliance with the rules and regulations of the SEC and the PSE by filing and submitting to the SEC and its subsequent disclosure to the PSE any 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 then posted on the Company website at www.ltg.com.ph for immediate dissemination of information to its Stockholders and the investing public.

The timely submissions and disclosures made by the Company include material information, press releases, and declaration of dividends. Moreover, following the recommendations for good governance practices, the Minutes of the Annual Stockholders' Meeting (ASM) are uploaded in 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 2023 were submitted to the SEC and the PSE on March 18, 2024, at least forty six (46) days before the ASM. While the interim and quarterly financial statements and results of operations are submitted to the regulators within 45 days from the end of the financial period, as prescribed by the rules.



To ensure that the investing public is made aware of vital information affecting the Company and allow the public access to the periodic financial statements relative to the stock market, the Company, aside from timely disclosures, regularly conducts analysts' briefings throughout the year. These briefings are attended by members of Management who will explain and/or answer any questions the analysts raise.

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	1,411,416,085	12.34%
Common	PCD Nominee Corporation	Non-Filipino	676,220,704	6.25%

BOARD REMUNERATION

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.

COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS

Executive Directors	Compensation
Dr. Lucio C. Tan	3,285,000
Carmen K. Tan	685,000
Lucio C. Tan III	1,346,667
Juanita T. Tan Lee	1,315,000
Non-Executive Directors	
Michael G. Tan	856,667
Karl T. Say	660,000
Vivienne K. Tan	685,000
Independent Directors	
Johnip G. Cua	955,000
Mary G. Ng	955,000
Wilfredo E. Sanchez	925,000
Florencia G. Tarriela	955,000

SUMMARY COMPENSATIONS TABLE: ANNUAL COMPENSATION

	Year	Salary	Bonus	Others*
Four (4) most highly compensated executive officers (see below)	2024 (Estimate)	9,528,640	794,054	3,294,500
	2023	8,662,400	721,867	2,995,000
	2022	8,551,200	755,200	2,820,000
All other officers and directors as a group unnamed	2024 (Estimate)	-	-	9,797,334
	2023	500,000	41,667	8,365,000
	2022	-	-	6,815,000

*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. Lucio C. Tan III is the President and COO.
3. Atty. Ma. Cecilia L. Pesayco is the Corporate Secretary.
4. Ms. Juanita T. Tan Lee is the Treasurer.

EXTERNAL AUDITOR

The Audit Committee (AC) recommends to the Board the External Auditors' appointment, dismissal, replacement, and re-appointment. Thus, it regularly reviews and evaluates the performance of its External Auditor before making the necessary recommendation to the Board for its approval.

In 2023, the Chief Audit Executive (CAE), Mr. Dioscoro Teodorico Lim, proposed for the approval of the AC the reappointment of the firm of Sycip Gorres Velayo & Co. (SGV & CO.) reporting that the proposal was based on the tender process conducted and the continuing performance evaluation of the external auditor. Likewise considered were auditing firm's size of the said auditing firm, its extensive knowledge of the Company's business, and the fact that security risk is minimized by re-engaging said firm.

After due study and evaluation, the AC approved the proposal of the CAE and recommended to the Board the retention of SGV & Co.'s services, with Ms. Aileen L. Saringan as the partner-in-charge.

Accordingly, SGV & Co., as part of its services, 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 2023, the Company incurred audit fees of Php1,426,000, exclusive of out-of-pocket expenses.

The fees incurred for non-audit services provided by Gaia Corporate Sustainability Solutions, Inc. (GCSS) was Php1,300,000.

DEALINGS IN SECURITIES

All directors and principal officers are prohibited from dealing in the Company's securities during the period within which 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 stock to 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 Security Ownership of Management as of December 31, 2023:

Title of Class	Name of Beneficial owner	Amount and Nature of Beneficial Ownership	Citizenship	Percent of Beneficial Ownership
Common	Lucio C. Tan	2,200 R (direct)	Filipino	Nil
Common	Carmen K. Tan	2,200 R (direct)	Filipino	Nil
Common	Lucio C. Tan III	1,100 R (direct)	Filipino	Nil
Common	Karl T. Say	1,000 R (direct) and 530,000 (indirect)	Filipino	Nil
Common	Michael G. Tan	1,151,996 R (direct)	Filipino	Nil
Common	Vivienne K. Tan	1,000 R (direct)	Filipino	Nil
Common	Juanita T. Tan Lee	1,100 R (direct)	Filipino	Nil
Common	Johnip G. Cua	1,000 R (direct)	Filipino	Nil
Common	Mary G. Ng	1,000 R (direct)	Filipino	Nil
Common	Wilfredo E. Sanchez	1,000 R (direct)	Filipino	Nil
Common	Florencia G. Tarriela	1,000 R (direct)	Filipino	Nil
Common	Ma. Cecilia L. Pesayco	2,200 R (direct)	Filipino	Nil
N/A	Jose Gabriel D. Olives	None N/A	Filipino	N/A
N/A	Dioscoro Teodorico L. Lim	None N/A	Filipino	N/A
N/A	Nestor C. Mendones	None N/A	Filipino	N/A
N/A	Marivic T. Moya	None N/A	Filipino	N/A

Security ownership of all directors and officers as a group unnamed is 1,696,796 representing 0% of the Company's total outstanding capital stock.

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, 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 2023, 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.



CORPORATE GOVERNANCE REPORT

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:

1. Right to Participate

- Stockholders are urged to attend the ASM personally with an option to designate an authorized representative should they be unavailable.
- Stockholders holding at least one-third (1/3) of the subscribed and paid-up capital stock of the Company have (1) the right to call for a Special Stockholders' Meeting; and (2) the right to propose items in the agenda of the Stockholders' Meeting, provided the items are for legitimate business purposes.
- Notice to attend the Annual and Special Stockholders' Meeting, whether in person or by proxy, which includes sufficient and relevant information, is sent to the Stockholders 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 March 13, 2023, Notices to the ASM held last May 3, 2023 were published in print and online format via the Philippine Daily Inquirer and Philippine Star, at least twenty-one (21) days prior to the scheduled date of the Meeting. The publications included 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 for registering and voting at the virtual meeting.

2. Right to Vote

- Stockholders are encouraged to vote by submitting their voting instructions to the Office of the Corporate Secretary within the period stated in the Notice to the Stockholders' Meeting.
- They have the 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.
- 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, is required in all matters submitted for voting in the ASM.

3. Right to Inspect or Examine Corporate Records

- Stockholders 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, provided that they have not misused any information previously gathered.

4. Right to Information

- The Company makes timely disclosures through the PSE website and its website at ltg.com.ph to allow stockholders and the investing public immediate access to material information.
- Minority stockholders are furnished with relevant information as may be required by law on a timely and regular basis.

5. Right to Dividends

In 2023, the Company declared dividends four (4) times out of its Unrestricted Retained Earnings. It strictly adheres to its dividend policy to distribute the dividends within 30 days from the time it is approved and declared.

Date	Dividends	Payment
February 17, 2023	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 6, 2023	March 17, 2023
May 15, 2023	Special Cash Dividend of Php0.30 per share to all its Stockholders as of record of May 30, 2023	June 13, 2023
August 15, 2023	Special Cash Dividend of Php0.30 per share to all its Stockholders as of record of September 4, 2023	September 13, 2023
November 17, 2023	Special Cash Dividend of Php0.30 per share to all its Stockholders as of record of December 15, 2023	December 15, 2023

6. Appraisal Right

Stockholders have the right to dissent and demand payment of the fair value of their shares 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 values its employees' well-being, believing that their contribution, health, and safety are vital in the daily operations of its business. For this reason, it has implemented hybrid working arrangements while conducting various online activities, coupled with regular physical and mental health assessments, to keep its employees' high spirits and zeal.

CORPORATE GOVERNANCE MANUAL AND POLICIES

The Company's Manual which encapsulates principles and practices, is strictly implemented to guide its directors, officers and management in their roles and responsibilities. Regular internal meetings are done to review and evaluate the adequacy and accuracy of the Manual and other Company policies. Should updates be needed, a report is made with the Corporate Governance Committee for their approval.

The Corporate Secretary likewise ensures that the Board and Management stay abreast with the latest issuances of the different regulatory agencies to guarantee that governance is in keeping with the evolving best practices.

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 Corporate Governance Committee conducts meticulous meetings to determine which matters should be implemented and resolved. Nevertheless, any outstanding items are discussed, and necessary actions are taken to address them.



AWARDS AND DISTINCTIONS

In 2023, as evidence of the Company's commitment to continuous growth and improvement, it was awarded two (2) golden arrow award. This prestigious recognition was conferred by the Institute of Corporate Directors (ICD) to the Company for achieving a score of 98.02 points out of the possible 130 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, there have been no plant visits since the start of the COVID-19 pandemic. LTG also communicates through emails, telephone calls, WhatsApp, and Viber.

In 2023, 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 2022 Results on March 17, 2023

First Quarter 2023 Results on May 12, 2023

First Half 2023 Results on August 11, 2023

Nine Months 2023 Results on November 10, 2023



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 of Trustees.

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

EDUCATION

Scholars Graduate

Twenty-one TYKFI scholars graduated from the University of the East, from both Manila and Caloocan campuses. Their courses include Bachelor of Science in Biology, Communications, Business Administration, Engineering and Computer Studies and Systems.

Foundation for Upgrading the Standard of Education (FUSE) Update



FUSE continued to help educators upskill. From January to June 2023, 230 teachers were trained in the following courses:

- English - reading competency, journalistic writing, global communication skill standards
- Mathematics – competencies in Algebra, Statistics, Geometry, Trigonometry, Mathematical Modelling
- How to educate the Filipino student in the framework of Virtual Virtues

This was made possible through a Php5 million donation from PNB.



TYKFI Scholarships for Agriculture and Forestry

Seven students taking up Streams in Environmental Forestry graduated from University of the Philippines, Los Baños.



Learning Chinese Culture at Tan Yan Kee Library

Between May 27 to July 16, sixteen students from different schools, aged 5 to 12 years old, experienced learning Chinese literature, language and culture. In October, 47 children, aged 6 to 12 years old, attended an autumn-themed storytelling activity.



Immersion at Legacy Forest

On May 27 to 31, seventeen Grade 12 scholars from Saint Teresita's Academy in Aritan, Nueva Ecija, had an immersion at the Legacy Forest project. Their activities included seedling production, vermicompost, carbonized rice hull, soil and water management, pest management and hydroponics.

TYKFI-Asia Brewery, Inc. Medical Specialty Scholars





School Supplies

TYKFI distributed school supplies to around 900 students in Tan Yan Kee and Macdu Elementary Schools (Nueva Vizcaya), and Babayoan, Nagtenga and Sidaoen Elementary Schools (Ilocos Sur).

Training for Farmers

In April, 27 farmers from Sta. Fe, Nueva Vizcaya were given training on vermiculture and soil management, sowing media and proper pesticide use.

Brigada Eskwela (School Brigade)

TYKFI donated materials to paint the roofs and classrooms of Nagtenga Elementary School and Sidaoen Elementary School in Ilocos Sur.



Sta. Teresita's Academy Scholars

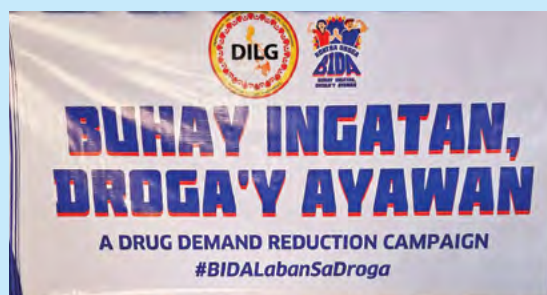
For school year 2023-2024, TYKFI has five new scholars and 56 continuing scholars. These are farmers' children who work in The Legacy Forest Project.

HEALTH SERVICES

Food Supplements and Vitamins for Farmers' Families

- In April, TYKFI gave farmers' families in Balete, Sta. Fe, Nueva Vizcaya 3,000 pieces of vitamins, around 120 packs of a chocolate nutritional drink. Teachers and students were also given 300 pieces of vitamins.
- In May, residents of Aritao, Nueva Vizcaya were given 510 packs of a chocolate nutritional drink.
- On the first of June, 176 packs of the nutritional chocolate drink and 9,360 pieces of vitamins were given to UERM Medical Center staff, patients and their companions.

SOCIAL WELFARE



TYKFI signs Memo of Understanding (MOU) for Buhay Ingatan, Droga'y Ayawan (BIDA, Avoid Drugs and Care for Life)

On May 23, TYKFI joined other private entities in signing a MOU with the Department of Interior and Local Government to implement BIDA in their workplaces. Also present were representatives of other companies under the Lucio Tan Group.

Other CSR Activities

- Donated a laptop, printer and a smart TV to the Fire Department of the Municipality of Aritao.
- Donated Php30,000 to Concordia Children's Services, Inc., an orphanage in Manila.



CORPORATE SOCIAL RESPONSIBILITY



Palay (rice seeds) for Farmers

On February 11, TYKFI gave ten farmers 15 kilograms of palay seeds.



Trophies from TYKFI and Tanduay Distillers, Inc. (TDI)

Eight trophies were donated to Barangay Las-Ud, Sta. Cruz, Ilocos Sur for their basketball league. TDI also donated caps and t-shirts to all players of the league's 16 teams.



Donation of Land for Road in Cabuyao, Laguna

The Cabuyao, Laguna Local Government Unit awarded Dr. Lucio C. Tan its first Golden Bell Award on September 8. This is in recognition of the donation of a piece of land that will be used to construct an alternative road to ease traffic congestion.



Relief for Mindoro Oil Spill Victims

In June, TYKFI, Philippine National Bank and Philippine Airlines distributed 10 kilogram-bags of rice, hygiene kits and activity kits for children to over 500 families in Barangays Navotas, Nag-Iba, I and II, Calapan City Mindoro. The oil spill was from MT Princess Empress which sank earlier in the year.



ENVIRONMENT



Las-Ud Mangroves Project

On May 3 to 11, the TYKFI team revisited the mangrove area in St. Cruz, Ilocos Sur and made an inventory of the floral species and measured carbon sequestration.

Dr. Lucio C. Tan Legacy Forest Project

Now in its ninth year, the Forest Project covers 930 hectares in Nueva Ecija. To date, 325 hectares have been inventoried and 175 species of trees have been identified. The project saw the initial propagation of four species of bamboo. A total of 6,100 seedlings were planted in 2023.



At the Agriforestry Farm, close to 25 tons of crops were produced from January to June 2023.

Meanwhile, the project's agriculturists attended technical training at the Bukid Amara vegetable and flower farm in Quezon Province.



Irrigation Project with the Department of Agriculture (DA)

TYKFI and the DA's Bureau of Soils and Water Management (BSWM) signed a Memorandum of Agreement (MoA) in October for the construction and rehabilitation of small-scale irrigation projects (SSIP). These projects also double as road networks, providing access to members of the communities.

In March, the Manaol Diversion Project was completed. It benefits 300 hectares of rice fields of over a hundred farmers in Pozorrubio, Pangasinan. Since 2005, TYKFI has funded thirteen SSIPs that encompass 1,623 hectares.



Help Flows for Victims of Natural and Man-Made Disasters

Water, a basic human need, is always a top priority donation during natural and man-made calamities. These include typhoons, fires, and cholera outbreaks. Asia Brewery, Inc.'s Help Flows program donates distilled bottled water and deploys mobile water stations on behalf of the Group during situations that call for it. These water bottles come in 350-milliliter and 6-liter bottles. They are called "white labels" as these bear white labels with "Donated by the Lucio Tan Group of Companies" and "Not for Sale" printed on them, instead of the usual green labels used in the commercially-sold Absolute Distilled Water bottles. Meanwhile, the mobile water stations have a capacity of 3,000 gallons for every 24 hours of operation.

In 2023, over five thousand cases of 6-liter and 350-milliliter bottles were donated, equivalent to 63,000 liters.

The donations included the following:



- In July, a truckload of 1,260 cases of 350 milliliter bottles were delivered to the Laoag Provincial Capitol in the aftermath of Typhoon Egay, which shut down power in many areas of the province.



- Also in July, two mobile water stations were sent to Albay for the then expected eruption of Mayon Volcano. These were placed at the Guinobatan Community College, which served as an evacuation site. Face masks were also sent along with the water stations.



- In October, Help Flows sent 100 boxes of water bottles and a mobile water station to Barangay Taparac, Alubijid, Misamis Oriental, during a cholera outbreak.



LT GROUP, INC.



Donation to Trauma Team Rescue Volunteers (TTRV)

In September, LTG donated two chainsaws to TTRV based in Negros Occidental. TTRV is a non-profit organization involved in emergency rescue and medical volunteer services. The chainsaws will be used for pre-landfall preparation for typhoons, and for trimming and felling of pre-determined high-risk trees to prevent excessive damage to nearby structures such as powerlines, vehicles, walls, and buildings.



Sponsorship of Justice Reform Initiative (JRI)

In 2023, LTG agreed to sponsor JRI. One of the recent activities of JRI was a forum on the *Supreme Court – Justice Reform Initiative 2024 Justice Summit: Freedom Through Justice Reforms*. There were 150 attendees, including prominent members of the judiciary, seven Supreme Court Associate Justices, and the guest of honor, Chief Justice Alexander G. Gesmundo. This was held on February 1, 2024.



profit organization that advocates entrepreneurship and changes Filipinos' mindsets and attitudes. Go Negosyo believes that Filipinos can address poverty in the country by engaging in entrepreneurship. The organization's numerous programs are aimed at mentoring small and medium enterprises. LTG annually gives Php5 million to Go Negosyo, while Asia Brewery, Inc. (ABI) donates bottled water for various activities.



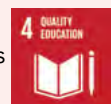
Go Negosyo Sponsorship

LTG annually sponsors Go Negosyo or the Center for Entrepreneurship (PCE), a non-



Sponsorship of Washington SyCip National Education Summit

LTG sponsored the 2023 Washington SyCip National Education Summit on September 21 and 22. During the summit, Local Government Units (LGUs) share best practices and plan programs that are responsive to children's needs.



CORPORATE SOCIAL RESPONSIBILITY

ASIA BREWERY, INC.

Clean-Up Activities



On September 29, at Bolobolo Creek in El Salvador City



In September, at the International Coastal Clean-up (ICC) with the theme "Sea The Change". The event was conducted along the Laguna de Bay lakeside, Barangay Aplaya, Sta. Rosa City, Laguna.

On June 25, at Doyugan, El Salvador City, in front of ABI Complex



On March 22, in Barangay Baclaran, Cabuyao, for a multi-sectoral lakeshore clean-up activity.



Tree Planting

On June 24, ABI joined a tree planting activity spearheaded by the Sta. Rosa Watershed Management Council in Silang, Cavite. A total of 800 seedlings were planted together with CENRO of Sta. Rosa, MENRO of Silang, and PENRO of Cavite.



Bottled Water for Buntis (Pregnant) Congress

ABI donated 50 boxes of 5-liter bottles of Absolute Distilled Water to the Cabuyao Regional Health Unit.

Mangroves

On September 17, employees of ABI participated in the mangrove reforestation in Sinaloc, El Salvador City. The project was initiated by ABI's El Salvador Plant in collaboration with the Local Government Unit of Sinaloc, and the local office of the Department of Environment and Natural Resources.



Book Donation Drive

ABI products were given in exchange for donated books.



Employees held a book donation drive for students of Hinigdaan Elementary School in El Salvador City.



On May 5, employees of ABI El Salvador City went to the Hinigdaan Elementary School for the same activities.

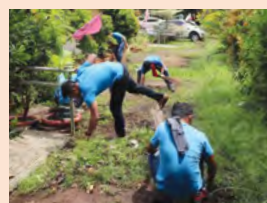
On March 29, Packageworld employees shared the joy of reading to kids in San Lorenzo Day Care Center.



Aside from the book donation drive, employees of the packaging division in Cabuyao shared the joy of reading with students in the Sala Day Care Center on March 28.



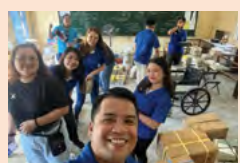
Brigada Eskwela (School Brigade)



On August 14, ABI Davao donated paint and other construction materials to Binugan Elementary School. Employees also participated in the cleaning and painting of the school.



On August 18, IPI Cabuyao had the same activity in Cabuyao Central Elementary School.



On August 18, IPI Pampanga had the same activity in Baliti Integrated School.





ETON PROPERTIES PHILIPPINES, INC.



Providing a Venue for Filipino talents

Regular musical events are held every Friday and Saturday at Eton Centris through partnerships with independent production companies. This provides a venue for budding local talents to showcase their musical prowess.



Educational Assistance

Eton, through Tan Yan Kee Foundation, Inc. (TYKFI), gave scholarships worth Php100,000 each to two children of construction workers who were victims of accidents in Eton construction sites.



National Mango Festival at Eton Centris



In May, Eton Centris hosted the three-day 19th National Mango Festival led by the Department of Agriculture.



Burnout Festival

In partnership with the Office of Senator Risa Hontiveros, the first ever Burnout Festival was held at Eton Centris.



Eton Joins Buhay Ingatan, Droga'y Ayawan (BIDA, Avoid Drugs and Care for Life)

On May 23, Eton joined 30 other private entities in signing a Memorandum of Understanding (MOU) with the Department of Interior and Local Government to implement BIDA in their workplaces.

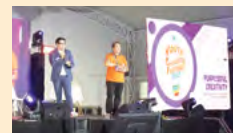


Eton pledged to promote the anti-drug campaign through one million pesos worth of highly visible outdoor media advertising opportunities in its flagship properties in Quezon City and Sta. Rosa, Laguna. The Company will also implement a drug policy and subject its employees to random drug tests.



Youth Creativity Festival

The Philippine Association for National Advertisers Foundation (PANAF) made waves as it successfully held the Youth Creativity Festival at Eton Centris from October 20 to 21. Renowned influencers and content creators shared valuable insights and experiences with the enthusiastic attendees. On the second day, the spotlight shifted to the PANAnawAwards, where five finalist colleges presented their communication plans to clinch the coveted title.



CORPORATE SOCIAL RESPONSIBILITY

ETON PROPERTIES PHILIPPINES, INC.



Masaganang Palayan (Prosperous Ricefields) Project

Eton continued to support the Masaganang Palayan Project of Tan Yan Kee Foundation, Inc. For 2023, around 567 kilos of hybrid palay seeds were donated to assist 20 farmers in Nueva Vizcaya. The hybrid seeds can help farmers yield up to 120 sacks per hectare, and the donated seeds are enough for 30 hectares of rice fields, or around 3,600 sacks of palay.



Farmers Assistance Program



Eton continues with its commitment to improve the lives of the farming community and provide a sustainable food source. Eton buys fresh produce from farmers in Nueva

Ecija and donates these to different foundations

that support underprivileged communities. The fresh produce is also regularly offered for sale to all Eton employees.



Bike to Work Festival

In partnership with the Department of Health, the festival encouraged individuals to choose cycling as a practical and eco-friendly way to travel to their workplaces. Held in various cities, the Bike to Work Festival kicked off in Eton Centris and featured activities and initiatives to support and celebrate cycling commuters.



Concordia Children's Services, Inc.

Eton donated toys and hygiene kits to Concordia Children's Services, Inc., a child welfare agency based in Sta. Mesa, Manila. The agency provides residential and community-based programs for orphans and children of impoverished families.



Renewal of Vows

Eton provided the venue for the renewal of vows ceremony for 1,600 couples from various barangays (villages) in Quezon City. This is a project of the Office of the Vice Mayor of Quezon City.



Parol- (Lantern-) Making Contest

Once more, Eton partnered with the Quezon City Government and held Kumukutikutitap III, an event that recognizes and honors the Best Barangays for their outstanding parol displays.

PHILIPPINE NATIONAL BANK



PNB CommuniTree

In celebration of PNB's 107th anniversary, 285 employees planted 1,425 trees in their backyards and communities nationwide from July to September. Meanwhile, 52 employees from North Metro Manila branches planted 1,200 trees in Brgy. Mamuyao, Tanay, Rizal.

For the past three years, a total of 5,408 trees have been planted by employees under the yearly PNB CommuniTree Activity.



Access to Fresh Vegetables

PNB employees and outsourced personnel continue to have access to fresh vegetables from the TYKFI Legacy Forest farmers in Nueva Ecija. Vegetables are delivered weekly and sold at low prices.



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

An estimated 10,816 participants from existing and potential clients and employees participated in this year-round program. Participants included borrowers/lenders, OFWs along with their dependents, police officers, professionals, blue-collar workers, and entrepreneurs.



Employee Volunteerism

In 2023, 738 employees rendered an estimated 2,697 volunteer man-hours in their respective communities. An estimate of 2,750 individuals from 795 families and 39 communities benefited from these activities, which include:

- Packing and distributing relief goods
- Planting trees
- Coastal and community clean-ups
- Bloodletting
- Medical and dental missions



Health and Wellness

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

- Face-to-face dance classes
- Annual physical examination and medical teleconsultation hotlines
- Webinars on mental health
- Weight loss program
- Special ID and parking space to support employees who bike to and from work



Wellness and Sustainability Fair

On November 13 to 17, PNB organized a fair with the theme, "Achieving Strength and Solidarity through Wellness and Sustainability."



The week-long fair offered webinar sessions on holistic proper nutrition, the benefits of proper sleep, the impact of social media and technology on mental health, financial wellness, and proper waste management. Wellness and sustainability merchants set up their booths at PNB Financial Center in Pasay City, while an onsite medical consultation station was also organized for employees during the event. In addition, there was a 107-kilometer virtual cycling challenge for employees.



CORPORATE SOCIAL RESPONSIBILITY

PHILIPPINE NATIONAL BANK



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

Project PLANET 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. It was formally launched in July 2019. In 2023, the campaign's message was on the observance of national and global activities such as World Environment Day and Earth Hour.



Donation of Decommissioned Computers

PNB donated 10 decommissioned desktop computers and two laptops to the Cavite State University. Since 2019, PNB has donated a total of 196 decommissioned computers to non-governmental organizations (NGOs) and public schools.



Chiang Kai Shek College

PNB donated Php35 million for the construction of a school building in the Chiang Kai Shek College South Forbes Campus in Silang, Cavite.



Partnership with FUSE

PNB donated Php5 million to Foundation for the Upgrading of Standards of Education (FUSE) for the training of teachers in English, Mathematics and Science.



PMFTC INC.



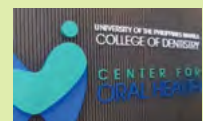
A Day with the LOLAS in Sta. Ana – San Joaquin Bahay Ampunan

In December, the Tanauan Sales team made the holidays more special for 17 grandmothers affectionately called "Lolas" last December 23rd at the Sta. Ana - San Joaquin Bahay Ampunan. The Lolos, who used to be homeless and have no families, warmly welcomed the team with their smiles, and they were provided with a month's supply of rice, canned goods, and noodles. PMFTC has been doing this for two years.



Upgrading Healthcare Facility to Promote Good Oral Healthcare

In February, a 400 square meter area in the University of the Philippines – Manila's College of Dentistry was inaugurated with advanced dental facilities. PMFTC donated the dental facility to enable comprehensive care for various dental conditions and training for future dental professionals.



Disaster Relief and Response for Victims of Typhoon Egay

Typhoon Egay caused floods in North and Central Luzon in July. Relief operations and rescue efforts were immediately mobilized to several affected employees in various PMFTC Sales Offices in Vigan, Mangaldan, San Fernando, and Guiguinto. All employees received relief goods.





TANDUAY DISTILLERS, INC.



Cabuyao River Clean-Up

In March, in celebration of World Water Day 2023, TDI-Cabuyao participated in the multisectoral clean-up together with the Cabuyao River Protection Advocates (CaRPA) members at Barangay Baclaran, Cabuyao, Laguna. The TDI team collected thirty (30) sacks of trash, mostly plastic wastes, along the shoreline in Barangay Baclaran.

Meanwhile, in November, TDI participated in the Multisectoral Environmental Community Engagement with other CaRPA members, where 50 seedlings of marang, rambutan, and santol were planted and distributed to the community. During this activity, the TDI team collected 20 sacks of trash, which consisted primarily of non-biodegradable wastes.

Show the Love



On February 28, TDI participated in The Climate Coalition's "Show The Love" campaign, spreading awareness among its employees and demonstrating a commitment to urgent climate action.



Donations

In 2023, TDI's donations included the following:

- Alcohol and bottled water to the Office of the Vice Mayor in Murcia to support its projects
- Three plastic blue drums, 10 sets of trash bins and 50 pieces of plyboards to Molugan National High School in El Salvador City, Misamis Oriental
- Five plastic drums to the Bureau of Jail Management and Penology (BJMP) in El Salvador City
- Twenty pieces of plyboards to El Salvador City Central School
- 10 plastic drums to the Philippine National Police (PNP) in Cagayan de Oro City
- A truckload of scrap wood to the El Salvador City Slaughterhouse
- Five computers to Ramon Avanceña High School in Manila



Fire Response

In 2023, TDI responded and helped put out a number of fires.



On March 26, a wild grass fire near TDI's Cabuyao, Laguna plant



On April 18, the Bulihan grass fire

Turnover of Streetlights

On April 24, TDI turned over two streetlights equipped with Photovoltaic Energy Management System (PEMS) to Barangay Sambulawan, El Salvador City.



TANDUAY DISTILLERS, INC.



Fire Prevention Month

In March, TDI joined the Bureau of Fire Protection in its motorcade for the Fire Prevention Month kick-off. It had the theme "Sa Pag-iwas sa Sunog, Hindi ka Nag-iisa!" or In Avoiding Fires, You Are Not Alone.



Adopt-an-Estero program at El Salvador Plant

TDI employees at the plant in El Salvador, Misamis Oriental, participate in the quarterly clean-up of the Bolobolo Creek.



Quarterly Creek Cleaning in Murcia, Negros Occidental

TDI's employees at the Murcia plant actively participated in the Adopt-An-Estero Program of the Department of Environment and Natural Resources (DENR).



Tree Planting Activities



On June 24, TDI joined the tree planting activity in Barangay Himaya, El Salvador City, in celebration of National Arbor Day.



On June 16, TDI employees planted over 1,000 trees at the Barangay Alangilan Protected Watershed in Bacolod City, Negros Occidental. This was in collaboration with the Bacolod Water District.



Water for Athletes

On April 29, TDI donated 26,000 liters of water to the Taytay Elementary School in support of the Northern Mindanao Regional Athletic Association (NMRAA).



World Oceans Day Clean-Up



On June 8, TDI celebrated World Oceans Day by joining the Department of Environment and Natural Resources - Environmental Management Bureau (DENR-EMB) in a coastal cleanup activity at Barangay Poblacion, El Salvador City.



Baseco Beach Clean-Up

TDI joined the Environmental Management Bureau – National Capital Region and other government agencies for simultaneous clean-up activities on March 18 at Baseco, Barangay 649, Manila City, celebrating the 2023 World Water Day.



TANDUAY DISTILLERS, INC.

Manila Day Clean-Up



On June 15, TDI participated in a citywide clean-up drive to celebrate "Araw ng Maynila." The cleaned up area was at J. Nepomuceno St., outside TDI's Quiapo office and old plant.

Lake Seeding Activities

In May, over 12,000 milkfish fingerlings were released in Laguna Lake (Marinig Fishing Port). TDI participated in the activity together with the Cabuyao Agriculture Office and other government and private entities. This is part of the "Balik Sigla sa Ilog at Lawa (BASIL, return vigor to the river and lake)" of the Bureau of Fisheries and Aquatic Resources (BFAR) and in celebration of Farmers' and Fisherfolks' Month 2023.



In September, around 10,000 tilapia fingerlings were released in the same area for the 60th Fish Conservation Week 2023, in which TDI also participated.



International Coastal Clean-Up Day

On September 16, TDI participated in the 2023 International Coastal Clean-up Day. The area tidied up was around Manila Ocean Park, along Roxas Boulevard in the City of Manila.

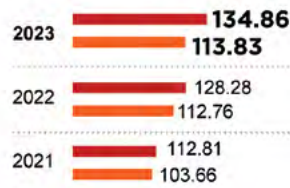


2023 Highlights and Contribution to the UN SDGs

LONG-TERM GROWTH



**Direct
Economic
Value**
in Php Billions



● **GENERATED**
● **DISTRIBUTED**



42%
of women on the **Board**

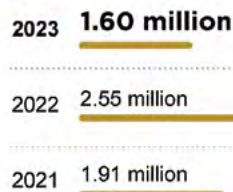
47%
of women in **Senior
Management Roles**



**Total
Carbon
Footprint**
in tCO₂e



**Overall
Energy
Consumption**
in GJ



RESPONSIBLE OPERATIONS



**Water
Withdrawal**



**Waste
Generated**



VALUE THROUGH PRODUCT AND SERVICES



1,535 ATMs

145 CAMs

29
Corporate CAMs (CCAMs)



7,876
POS Terminals

WELFARE OF EMPLOYEES AND COMMUNITIES



12,333
Total Employees



403,456
trees and seedlings planted



10,311
metric tons of potential carbon sequestration



Php 35 Million
donated for school construction in Silang, Cavite



Php 5 million
worth of donations to Small and Midsize Enterprises (SMEs)



Php 5 million
donated to Foundation for the Upgrading of Standards of Education (FUSE)



Received regular performance and career development review
100%



Php 49.96 Million
Community Investments



789 students
provided with scholarship grants and educational assistance



417,023
Total Training Hours



52%
Female Employees



2,750 individuals, 795 families, and 39 communities
Beneficiaries of Coastal and community clean-ups, bloodletting activities, and medical and dental missions.



The 2023 LTG Sustainability Report has been prepared in accordance with the 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 (TFCD). This report is also aligned with the 17 United Nations (UN) Sustainability 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/>

Streamlining Our Efforts for a More Sustainable Future

SUSTAINABILITY

ASIA BREWERY, INC.

Work and Life Balance

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



ABI's 41st Founding Anniversary celebration



ABI El Salvador's 7th Anniversary



Flu Vaccination in the Makati Head Office, Pasig Sales Office, and plants in Cabuyao, San Fernando and El Salvador City



A sports tournament among ABI's different operating units and subsidiaries



ABI Pampanga's 5th Anniversary



ABI subsidiary, Packageworld's 25th Anniversary



ABI subsidiary, IPI's 20th Founding Anniversary



Wellness Day in Cabuyao, Davao and El Salvador



ABI subsidiary, AB Nutribev Corporation's 6th Anniversary



ABI subsidiary, InterBev Pampanga's 11th Anniversary



A token gift (lunch box) for all employees on their birthday



ABI subsidiary, IPI Davao's 14th Anniversary



Recognition for monthly perfect attendance



ASIA BREWERY, INC.



Service Awards

On November 24, ABI recognized employees' loyalty to the Company and awarded those who showed exemplary individual achievement, contribution and performance in their jobs and other related duties beyond their own areas. Employees with 30 years, 20 years and 10 years of service were also recognized.



Bloodletting Drive

ABI employees joined the blood-letting activities of the Philippine National Red Cross in three plant sites— in Davao on January 16, in El Salvador City, Misamis Oriental on September 1, and in Cabuyao, Laguna on October 6.



Earth Hour

On March 25, all of ABI's plants and business units participated in Earth Hour.



Employee Training

In 2023, 1,911 employees participated in 19 different training sessions.



Environment, Health and Safety (EHS) Summit

In August, ABI had an EHS Summit in its Cabuyao Complex.



Job Fairs

ABI conducted a job fair in the ABI Complex in El Salvador City.



Clean-Up of ABI Complex in Cabuyao

On June 30, 191 volunteers participated in the complex-wide clean-up.



PHILIPPINE NATIONAL BANK



Reduction of Energy and Water Consumption, and Carbon Footprint

The Bank has fully converted all lighting fixtures at the PNB Financial Center in Pasay and the Makati Center to energy-efficient LED lights. The Bank continues to update its outdated equipment and acquired energy-efficient devices to reduce and manage its energy consumption and emissions in all its domestic offices and branches. Fuel consumption is implemented with a trip maximization policy and regular maintenance of generator sets. In addition, the Bank continues to conduct virtual activities, meetings, and trainings, implement hybrid work arrangements; and promote the "Share-A-Ride" Program among the employees. These resulted in savings of Php7.2 million in 2023.

Meanwhile, the Bank conducts regular maintenance to ensure sufficient water supply, inspects water supply equipment for wear and tear, and repairs water leakages, as needed. Water-efficient fixtures and fittings were also implemented to help conserve water. These resulted in savings of Php546 thousand in 2023.



Recognition of Employees' Excellence

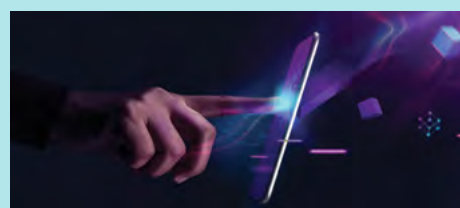
Employees were recognized through different activities, including:

- Living Our Values Everyday (L.O.V.E.) is released at least once a week to showcase stories of actual events/activities/acts of employees
- The Hybrid Service Excellence Awards and Recognition Night recognizes loyal employee awardees, as well as employees who have gone above and beyond their line of work. In 2023, 29 individuals and 38 teams were recognized for their excellent service.



Gender Equality and Inclusion Initiative

The Bank organized a webinar and a month-long learning calendar for employees on topics such as Gender Equality and Diversity and Inclusion in LinkedIn Learning in March.



Digital Innovation and Transformation

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

- Continue to shift customers to automated bank forms
- Shorten turnaround time
- Further improve its mobile banking offering, PNB Digital
- Enhancements in the corporate internet platform called the PNB C@shnet Plus

As of the end of 2023, the PNB Digital app had 1,105,231 enrolled users. The bank invested Php145.1 million for PNB Digital App, Php137.6 million for C@shNet Plus and Php389.3 million for Investment Banking Sector - Loan Evaluation and Decision System (IBS LEADS) Project.

PHILIPPINE NATIONAL BANK



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, construction of green buildings and health facilities that promote nation building and countryside development.

As of the end of 2023, the Bank had an outstanding balance of such loans amounting to Php313 billion.



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.

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.

Among the significant work that the Bank is working on are:

- Assessment of branches, infrastructures and collateral locations of borrowers for acute and chronic physical risks
- Integration of ESG elements in the screening of existing and potential customers and vendors
- Recalibration of the existing ESG Scorecard
- Integration of E&S risk factors in the financial risk rating of loan accounts
- Integration of sustainability elements in the new vision and mission statements, core values, and business strategy of the Bank
- The development of an end-to-end loan originating process, which includes E&S risk factors, among others.

PMFTC INC.



Tree Planting for Multistakeholder Initiatives on Biodiversity

At the Batangas and Marikina factories, 149 volunteers, including third-party contractors, planted 100 Narra and Molave trees, and 16 fruit-bearing trees (avocado, jackfruit, and tamarind). The trees were planted at Barangay San Lucas, Lipa City, First Industrial Park, and Barangay Fortune, Marikina City.



Alliance for Water Stewardship (AWS) Core Certification, 2nd Surveillance Audit



The Batangas plant was once again recertified with zero nonconformities after the 2nd surveillance audit, which was held from October 4 to 6.



UNI-RAGS -- Old Uniforms Turned into Sustainable Rags

Coined from the words "Uniform" and "Rags", Uni-Rags is a collaborative partnership between Batangas Plant and the "Grupo ng Kababaihan ng Lumban" in the province of Laguna. The main objective of the collaboration is to turn old uniforms into new forms. 3,500 pieces of old uniforms were donated to the group of empowered women and were recycled into sustainable Uni-Rags.



Fully Electric Vehicles as Delivery Vans



At the Marikina Sales Office, the first batch of fully electric vehicles was launched to replace PMFTC's existing internal combustion engine routing trucks, first for Philip Morris International for delivery vans. There was a total of ten trucks. This effort supports PMFTC's goal to be carbon neutral by 2025.



Flu Vaccination Program

Flu Vaccination was rolled out across all sites to boost the immune system and minimize the likelihood of having flu for all our employees and their dependents. Although this was available to all employees, it was voluntary.





PMFTC INC.

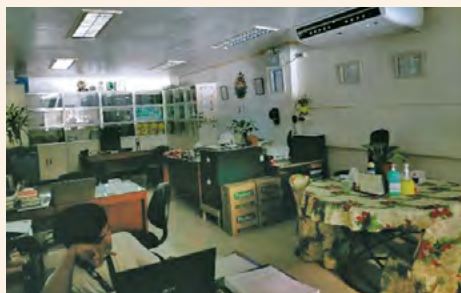


World Clean Up Day

On September 16, 8,355 volunteers from five locations— Batangas, Marikina, Manila, Cebu, and Cagayan De Oro gathered more than 24,000 kilograms of waste. Cleaning materials and waste bins were donated to augment the host communities in Tanauan City, Batangas, and Marikina City to maintain the cleanliness of these communities.



TANDUAY DISTILLERS, INC.



Earth Hour

TDI joined Earth Hour 2023 and extended it beyond a single night, opting to observe energy conservation and environmental mindfulness during lunch breaks throughout the entire week of March 27 to 31.



World Day for Safety and Health at Work

TDI participated by reinforcing its commitment to ensuring a safe and healthy working environment for its employees.



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, 2023, 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:

A handwritten signature in black ink, appearing to read 'Lucio C. Tan'.

Lucio C. Tan
Chairman and
Chief Executive Officer

A handwritten signature in black ink, appearing to read 'Lucio C. Tan III'.

Lucio C. Tan III
President

A handwritten signature in black ink, appearing to read 'Jose Gabriel D. Olives'.

Jose Gabriel D. Olives
Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT



SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City Philippines

Tel: (632) 8891 0307
Fax: (632) 8819 0872
eycom/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, 2023 and 2022, 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, 2023, and notes to the consolidated financial statements, including material accounting policy information.

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, 2023 and 2022, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2023 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, 2023 and the provision for credit losses in 2023 amounted to P44.6 billion and P5.9 billion, respectively.

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

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, 2023, the Group's share in the net income of PMFTC amounted to P11.1 billion and accounts for 33% of the Group's consolidated net income. This matter is significant to our audit because of the materiality of the amount equitized by 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 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, 2023. We reviewed the relevant working papers of the statutory auditor of PMFTC, focusing on the procedures performed on key audit areas, and discussed with them the results of their audit. We also obtained the financial information of PMFTC as of and for the year ended December 31, 2023 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, 2023, 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, 2023 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

BIR Accreditation No. 08-001998-058-2023, October 23, 2023, valid until October 22, 2026

PTR No. 10082011, January 6, 2024, Makati City

March 5, 2024

CONSOLIDATED FINANCIAL STATEMENTS AND NOTES

LT GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Amounts in Thousands)

	December 31	
	2023	2022
ASSETS		
Current Assets		
Cash and cash equivalents (Note 5)	P243,790,981	P224,745,923
Financial assets at fair value through profit or loss (FVTPL) [Notes 6 and 21]	10,550,595	7,379,126
Financial assets at fair value through other comprehensive income (FVTOCI) [Notes 7 and 17]	112,335,996	86,852,606
Financial assets at amortized cost (Notes 7 and 17)	21,841,362	31,511,748
Loans and receivables (Notes 8 and 17)	291,696,307	205,494,119
Inventories (Note 9)	13,709,117	15,010,773
Due from related parties (Note 22)	2,338,723	3,556,476
Other current assets (Note 10)	12,378,192	13,497,126
Total Current Assets	708,641,273	588,047,897
Noncurrent Assets		
Loans and receivables - net of current portion (Notes 8 and 17)	347,989,209	409,434,007
Financial assets at FVTOCI (Notes 7 and 17)	31,709,930	50,761,530
Financial assets at amortized cost (Notes 7 and 17)	101,359,065	78,956,212
Investments in associates and joint ventures (Note 11)	19,003,747	21,589,874
Property, plant and equipment (Note 12):		
At appraised values	57,516,431	58,504,993
At cost	11,615,081	12,268,828
Investment properties (Note 13)	37,848,430	37,045,004
Deferred income tax assets - net (Note 29)	6,860,706	6,524,012
Other noncurrent assets (Notes 14, 23 and 37)	4,852,404	4,985,212
Total Noncurrent Assets	618,755,003	680,069,672
TOTAL ASSETS	P1,327,396,276	P1,268,117,569
LIABILITIES AND EQUITY		
Current Liabilities		
Deposit liabilities (Note 15)	P892,931,695	P831,605,372
Financial liabilities at FVTPL (Notes 16 and 21)	555,811	1,039,776
Bills and acceptances payable (Note 17)	19,047,156	8,798,056
Accounts payable and accrued expenses (Note 18)	22,889,975	21,854,536
Short-term debts (Note 19)	4,280,000	4,490,000
Current portion of long-term debts (Note 19)	43,115,944	20,399,948
Income tax payable	432,496	1,839,835
Due to related parties (Note 22)	50,000	50,000
Other current liabilities (Notes 20 and 37)	9,990,372	10,375,775
Total Current Liabilities (Carried Forward)	993,293,449	900,453,298
(Forward)		

	December 31	
	2023	2022
Total Current Liabilities (Brought Forward)	P993,293,449	P900,453,298
Noncurrent Liabilities		
Deposit liabilities - net of current portion (Note 15)	10,833,859	20,796,801
Bills and acceptances payable (Note 17)	1,115,447	6,182,317
Long-term debts - net of current portion (Note 19)	6,395,070	46,312,355
Net retirement benefits liability (Note 23)	1,009,716	796,500
Deferred income tax liabilities - net (Note 29)	8,275,257	8,450,442
Other noncurrent liabilities (Note 20)	6,237,658	8,464,180
Total Noncurrent Liabilities	33,867,007	91,002,595
Total Liabilities	1,027,160,456	991,455,893
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	12,418,924	11,935,325
Other equity reserves	(5,592,465)	(5,529,303)
Retained earnings	158,972,132	145,723,736
Shares of stock of the Company held by subsidiaries	(12,519)	(12,519)
	212,513,692	198,844,859
Non-controlling interests (Notes 1, 7, 12 and 30)	87,722,128	77,816,817
Total Equity	300,235,820	276,661,676
TOTAL LIABILITIES AND EQUITY	P1,327,396,276	P1,268,117,569

See accompanying Notes to Consolidated Financial Statements.

LT GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

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

	Years Ended December 31		
	2023	2022	2021
REVENUE (Note 24)			
Banking	P66,550,969	P50,843,607	P49,319,441
Distilled spirits	29,884,821	31,559,876	26,648,772
Beverage	16,414,006	16,216,881	13,173,729
Property development	2,449,140	2,251,558	2,031,373
	115,298,936	100,871,922	91,173,315
COST OF GOODS SOLD AND SERVICES (Note 24)	55,537,664	51,102,930	42,957,014
GROSS INCOME	59,761,272	49,768,992	48,216,301
EQUITY IN NET EARNINGS OF ASSOCIATES AND JOINT VENTURES (Note 11)	11,924,732	16,094,575	18,021,180
	71,686,004	65,863,567	66,237,481
OPERATING EXPENSES			
Selling expenses (Note 25)	2,516,285	2,283,909	1,905,020
General and administrative expenses (Note 26)	36,886,503	37,795,783	40,321,877
	39,402,788	40,079,692	42,226,897
OPERATING INCOME	32,283,216	25,783,875	24,010,584
OTHER INCOME (CHARGES)			
Foreign exchange gains - net	1,289,740	1,548,877	816,015
Finance costs (Note 27)	(691,456)	(484,614)	(364,873)
Finance income (Note 27)	84,958	219,285	41,663
Others - net (Note 28)	6,267,239	9,536,173	2,758,831
	6,950,481	10,819,721	3,251,636
INCOME BEFORE INCOME TAX	39,233,697	36,603,596	27,262,220
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 29)			
Current	5,665,437	6,445,510	4,112,063
Deferred	(447,620)	(506,920)	2,309,683
	5,217,817	5,938,590	6,421,746
NET INCOME FROM CONTINUING OPERATIONS	34,015,880	30,665,006	20,840,474
NET INCOME FROM DISCONTINUED OPERATIONS (Note 37)	—	—	20,615
NET INCOME	P34,015,880	P30,665,006	P20,861,089
NET INCOME ATTRIBUTABLE TO:			
Equity holders of the Company	P25,421,454	P25,137,400	P20,246,467
Non-controlling interests	8,594,426	5,527,606	614,622
	P34,015,880	P30,665,006	P20,861,089
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Company (Note 31)	P2.35	P2.32	P1.87

See accompanying Notes to Consolidated Financial Statements.

LT GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Thousands)

	Years Ended December 31		
	2023	2022	2021
NET INCOME	P34,015,880	P30,665,006	P20,861,089
OTHER COMPREHENSIVE INCOME (LOSS)			
<i>Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:</i>			
Net changes in fair value of financial assets at FVTOCI, net of tax (Note 7)	2,505,660	(4,764,711)	(3,178,301)
Translation adjustments	(475,513)	752,592	684,700
Net other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods	2,030,147	(4,012,119)	(2,493,601)
<i>Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:</i>			
Share in aggregate gains (losses) on life insurance policies	(111,850)	762,490	412,444
Net changes in fair value of financial assets at FVTOCI (Note 7)	2,378,381	(359,252)	(971,776)
Income tax effect	(594,595)	89,813	242,944
	1,783,786	(269,439)	(728,832)
Remeasurement gains (losses) on defined benefit plans (Note 23)	(2,655,046)	2,789,805	573,756
Income tax effect	663,762	(697,451)	(143,439)
	(1,991,284)	2,092,354	430,317
Share in remeasurement gains (losses) on defined benefit plans of associates (Note 11)	396,615	(1,394,576)	290,433
Net revaluation increase (decrease) on property, plant and equipment (Note 12)	(68,512)	(508,786)	1,569,183
Income tax effect	17,128	127,196	(392,296)
	(51,384)	(381,590)	1,176,887
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	25,883	809,239	1,581,249
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	2,056,030	(3,202,880)	(912,352)
TOTAL COMPREHENSIVE INCOME	P36,071,910	P27,462,126	P19,948,737
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:			
Equity holders of the Company	P26,654,500	P23,923,395	P20,618,903
Non-controlling interests	9,417,410	3,538,731	(670,166)
	P36,071,910	P27,462,126	P19,948,737

See accompanying Notes to Consolidated Financial Statements.



LT GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2023, 2022 AND 2021
(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	Reserves of Disposal Group Classified as Held for Sale	Cumulative Translation Adjustments	Net Changes in Financial Assets at FVOCI (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)	Shares of Stock of the Company Held by Subsidiaries	Non-controlling Interests (Notes 2, 7, 12 and 30)
BALANCES AT JANUARY 1, 2021	P10,821,389	P35,906,231	P88,616	P544,764	P2,809,263	(P1,981,713)	P12,276,947	P1,406,976	P15,056,237	P125,612,353	P70,124,342
Net income for the year	-	-	-	-	-	-	-	-	-	20,246,467	614,622
Other comprehensive income (loss)	-	-	-	342,761	(2,271,272)	305,525	1,420,784	290,433	88,231	284,205	372,436
Total comprehensive income (loss) for the year	-	-	-	342,761	(2,271,272)	305,525	1,420,784	290,433	88,231	20,246,467	20,861,089
Cash dividends declared	-	-	-	-	-	-	-	-	-	-	-
Other equity reserve	-	-	-	-	-	-	-	-	-	(11,687,100)	-
Increase in noncontrolling interest without loss of control	-	-	-	-	-	-	-	-	-	(4,185,716)	3,569,938
Reversal of reserves of disposal group classified as held for sale	-	-	-	-	-	-	-	-	-	-	-
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	-	-	(88,616)	-	-	-	-	-	-	-	441,157
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	134,905,274	190,071,408
Net income for the year	-	-	-	-	-	-	-	-	-	25,137,400	5,527,606
Other comprehensive income (loss)	-	-	-	399,542	(2,746,538)	2,457,350	(360,361)	(1,394,576)	(1,644,583)	430,578	(1,988,875)
Total comprehensive income (loss) for the year	-	-	-	399,542	(2,746,538)	2,457,350	(360,361)	(1,394,576)	(1,644,583)	23,923,395	3,538,731
Cash dividends declared	-	-	-	-	-	-	-	-	-	-	-
Other equity reserve	-	-	-	-	-	-	-	-	-	(15,149,944)	27,462,126
Increase in noncontrolling interest without loss of control	-	-	-	-	-	-	-	-	-	-	(15,149,944)
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	-	-	-	-	-	-	-	-	-	-	482,580
BALANCES AT DECEMBER 31, 2022	10,821,389	35,906,231	-	1,287,067	(2,208,547)	781,162	11,772,810	302,833	11,935,325	148,723,736	198,844,859
Net income for the year	-	-	-	-	-	-	-	-	-	25,421,454	8,594,426
Other comprehensive income (loss)	-	-	-	(338,490)	2,444,953	(1,198,045)	(8,825)	396,615	1,296,208	(63,162)	822,984
Total comprehensive income (loss) for the year	-	-	-	(338,490)	2,444,953	(1,198,045)	(8,825)	396,615	1,296,208	(63,162)	26,654,500
Cash dividends declared	-	-	-	-	-	-	-	-	-	-	-
Other equity reserve	-	-	-	-	-	-	-	-	-	-	-
Increase in noncontrolling interest without loss of control	-	-	-	-	-	-	-	-	-	(12,985,667)	-
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	-	-	-	-	-	-	-	-	-	-	528,534
BALANCES AT DECEMBER 31, 2023	P10,821,389	P35,906,231	P-	P948,577	P236,406	(P416,863)	P10,951,376	P698,448	P12,418,924	P159,972,132	P12,519

See accompanying Notes to Consolidated Financial Statements.

LT GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

	Years Ended December 31		
	2023	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax from continuing operations	P39,233,697	P36,603,596	P27,262,220
Income before income tax from discontinued operations (Note 37)	—	—	20,615
Income before income tax	39,233,697	36,603,596	27,282,835
Adjustments for:			
Equity in net earnings of associates and joint ventures (Note 11)	(11,924,732)	(16,094,575)	(18,021,180)
Depreciation and amortization (Notes 12, 13 and 14)	6,495,530	6,398,842	5,741,054
Provision for losses (Notes 8 and 26)	5,923,054	7,129,045	10,816,497
Movements in accrued retirement benefits (Note 23)	(2,056,686)	377,132	492,593
Finance costs (Note 27)	691,456	484,614	364,873
Finance income (Note 27)	(84,958)	(219,285)	(41,663)
Dividend income (Note 28)	(81,165)	(72,283)	(5,679)
Operating income before changes in working capital	38,196,196	34,607,086	26,629,330
Decrease (increase) in:			
Receivables	(30,775,247)	1,551,916	(17,880,364)
Financial assets at FVTPL	(3,171,469)	3,826,143	12,653,055
Inventories	1,301,656	(724,250)	(1,110,918)
Other current assets	1,118,934	(3,198,364)	8,556,087
Increase (decrease) in:			
Deposit liabilities	56,719,665	(23,867,940)	58,550
Accounts payable and accrued expenses	1,016,757	3,590,278	(1,935,196)
Financial liabilities at FVTPL	(483,965)	148,245	190,292
Other current and noncurrent liabilities	(4,287,594)	(1,229,193)	(3,043,155)
Cash generated from operations	59,634,933	14,703,921	24,117,681
Income taxes paid, including creditable withholding and final taxes	(5,872,620)	(2,587,032)	(4,738,591)
Interest paid	752,258	(301,617)	(619,856)
Interest received	179,761	269,499	44,716
Dividends received (Notes 11, 22 and 28)	81,165	72,283	5,679
Net cash from operating activities	54,775,497	12,157,054	18,809,629
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of:			
Financial assets at FVTOCI (Note 7)	(P562,081,002)	(P638,254,305)	(P224,263,439)
Financial assets at amortized cost	(76,810,828)	(162,172,316)	(34,009,921)
Investment properties (Note 13)	(6,877,944)	(7,406,216)	(1,609,978)
Property, plant and equipment (Note 12)	(4,393,052)	(1,548,742)	(7,136,148)
Software (Note 14)	(1,224,566)	(1,707,436)	(283,472)
Additional investment in joint venture and associates	(2,349,641)	(1,774,684)	(831,118)
Dividends received from joint venture and associates (Note 11)	16,748,650	19,250,184	20,834,216
Proceeds from sale of:			
Financial assets at FVTOCI (Note 7)	559,938,659	642,875,429	209,478,786
Financial assets at amortized cost	64,078,361	141,160,199	39,790,071
Other assets (Notes 12 and 13)	749,996	605,433	652,329
Advances received from (extended to) affiliates	1,217,753	4,113,733	(5,731,032)
Net cash from (used in) investing activities	(11,003,614)	(4,858,721)	(3,109,706)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from availment of:			
Bill and acceptance payable (Note 17)	136,027,137	237,506,670	237,327,616
Short-term debts (Note 19)	590,000	1,465,000	—
Long-term debts (Note 19)	—	5,559,083	—
Payments of:			
Bill and acceptance payable (Note 17)	(130,357,006)	(274,667,279)	(271,058,488)
Long-term debts (Note 19)	(15,886,773)	—	(7,099,310)
Dividends (Note 30)	(12,985,667)	(15,149,944)	(11,687,100)
Principal portion of lease liabilities	(1,314,516)	(1,490,114)	(1,304,689)
Short-term debts (Note 19)	(800,000)	(915,000)	(800,000)
Net cash from (used in) financing activities	(24,726,825)	(47,691,584)	(54,621,971)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	19,045,058	(40,393,251)	(38,922,048)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	224,745,923	265,139,174	304,061,222
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	P243,790,981	P224,745,923	P265,139,174

See accompanying Notes to Consolidated Financial Statements.



LT GROUP, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

Corporate Information

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

Basis of Consolidation

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

LTG and subsidiaries (collectively referred to as the "Group") operate are described in Note 4 to the consolidated financial statements.

As of December 31, 2023 and 2022, 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, 2023 and 2022 and for each of the three years in the period ended December 31, 2023 were authorized for issue by the Board of Directors (BOD) on March 5, 2024.

2. Summary of Material 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 and Sustainability Reporting Standards Council (FSRSC).

	Percentage of Ownership						Country of Incorporation
	2023		2022		2021		
	Direct	Indirect	Direct	Indirect	Direct	Indirect	
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) ⁽¹⁾	-	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)	99.6	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) ⁽²⁾	80-100	-	80-100	-	80-100	-	Various
Philippine National Bank (PNB) and Subsidiaries ⁽³⁾	-	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

	Percentage of Ownership						Country of Incorporation
	2023		2022		2021		
	Direct	Indirect	Direct	Indirect	Direct	Indirect	
PNB Corporation - Guam (PNB Guam)	-	56.5	-	56.5	-	56.5	United States of America (USA)
PNB International Investments Corporation (PNB IIC)	-	56.5	-	56.5	-	56.5	USA
PNB Remittance Centers, Inc. (PNB RCI)	-	56.5	-	56.5	-	56.5	USA
PNB RCI Holding Co. Ltd.	-	56.5	-	56.5	-	56.5	USA
PNB Remittance Co. (Canada)	-	56.5	-	56.5	-	56.5	Canada
PNB Europe PLC	-	56.5	-	56.5	-	56.5	United Kingdom
PNB Global Remittance & Financial Co. (HK) Ltd. (PNB GRF)	-	56.5	-	56.5	-	56.5	Hong Kong
Allied Integrated Holdings, Inc. (AIHI)	-	56.5	-	56.5	-	56.5	Philippines
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
Allied Commercial Bank (ACB)	-	55.9	-	55.9	-	55.9	Republic of China
Allianz-PNB Life Insurance, Inc. (APLI) (formerly PNB LII)	-	44.0	-	44.0	-	44.0	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) ⁽⁴⁾	-	56.5	-	56.5	-	56.5	Philippines
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⁾ Classified as held for sale (see Notes 10 and 20)

⁽²⁾ As of December 31, 2023, 2022 and 2021, 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).

⁽³⁾ Represents the effective ownership interest of LTG through the collective ownership of the Bank Holding Companies in PNB.

⁽⁴⁾ 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).

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

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

Business Combination and Goodwill

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

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

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group as an acquirer shall report in its consolidated financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the Group as an acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognized as of that date. During the measurement period, the Group as an acquirer shall also recognize additional assets or liabilities if new information



is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period ends as soon as the Group as an acquirer receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. However, the measurement period shall not exceed one year from the acquisition date.

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

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

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

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

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

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

Common control business combinations

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

cases where the transaction has no commercial substance, the business combination is accounted for using the pooling of interest method.

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

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

Noncurrent Assets and Disposal Group Held for Sale and Discontinued Operations

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

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

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

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

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

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

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

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

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

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

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new standards effective in 2023. 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 any material impact on the consolidated financial statements of the Group.

- 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. The amendments have had an impact on the Group's disclosure of accounting policies, but not on measurement, recognition or presentation of any items in the Group's financial statements.

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

The Group adopted the amendments beginning January 1, 2023. The amendments did not have a material impact on the Group.

- Amendments to PAS 12, *Income Taxes - 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).

The Group adopted the amendments beginning January 1, 2023. The amendments did not have a material impact on the Group.

- Amendments to PAS 12, *Income Taxes - International Tax Reform - Pillar Two Model Rules*

The amendments have been introduced in response to the Base Erosion and Profit Sharing Pillar Two model rules of the Economic Cooperation and Development and include:

- A mandatory temporary exemption to the recognition and disclosure of deferred taxes arising from the jurisdictional implementation of the Pillar Two model rules; and
- Disclosure requirements for affected entities to help users of the financial statements better understand an entity's exposure to Pillar Two income taxes arising from that legislation, particularly before its effective date.

The mandatory temporary exemption – the use of which is required to be disclosed – applies immediately. The remaining disclosure requirements apply for annual reporting periods beginning on or after January 1, 2023 but not for any interim periods ending on or before December 31, 2023.

The Group has reviewed its corporate structure in light of the introduction of Pillar Two Model Rules in the various jurisdictions in which it operates. The Group has determined that it is not subject to Pillar Two taxes since its effective tax rate is above 15% in all the jurisdictions in which it operates (except for domestic subsidiaries, which are not material to the Group). Therefore, as the related Pillar Two disclosures are not required, the amendments have no impact on the Group's consolidated financial statements.

Future Changes in Accounting Policies

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

Effective beginning on or after January 1, 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.

- Amendments to PAS 7, *Statement of Cash Flows*, and PFRS 7, *Financial Instruments Disclosures: Supplier Finance Arrangements*

The amendments specify disclosure requirements to enhance the current requirements, which are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk.

The amendments are effective for annual reporting periods beginning on or after January 1, 2024. 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.

- Amendments to PAS 21, *The Effects of Changes in Foreign Exchange Rates - Lack of exchangeability*

The amendments specify how an entity should assess whether a currency is exchangeable and how it should determine a spot exchange rate when exchangeability is lacking.

The amendments are effective for annual reporting periods beginning on or after January 1, 2025. Earlier adoption is permitted and that fact must be disclosed. When applying the amendments, an entity cannot restate comparative information. The amendments are not expected to have a material impact on 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 2023 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.

Material Accounting Policies Applicable to the Group

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 consolidated statement of financial position securities sold under agreements to repurchase at a specified future date ('repos'). Instead, the Group recognizes the corresponding cash received, including accrued interest, as a loan to the Group, reflecting the economic substance of such transaction.

Conversely, the Group does not recognize securities purchased under agreements to resell at a specified future date ('reverse repos'). The Group is not permitted to sell or repledge the securities in the absence

of default by the owner of the collateral. The Group recognizes the corresponding cash paid, including accrued interest, as a loan to the counterparty. The difference between the purchase price and resale price is treated as interest income and is accrued over the life of the agreement using the effective interest method.

Reclassification of Financial Instruments

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

Derecognition of Financial Assets and Liabilities

Financial assets

The Group derecognizes a financial asset (or, where applicable, a part of a financial asset or part of a group of financial assets) when:

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

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

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

Financial liabilities

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

Impairment of Financial Assets

ECL methodology

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

Staging assessment

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

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

Definition of "default" and "cure"

The Group considers default to have occurred when:

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

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

Determining SICR

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

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

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

Transfer between stages

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

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

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

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

Modified or restructured loans and other credit exposures

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

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

Offsetting of Financial Instruments

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

Investments in Associates and Joint Ventures

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

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

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

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

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

Other Current Assets

Prepayments are expenses paid in advance and recorded as asset before they are utilized. This account comprises mainly of prepaid importation charges and excise tax, prepaid rentals and insurance

premiums and other prepaid items, and creditable withholding tax. Prepaid rentals and insurance premiums and other prepaid items are apportioned over the period covered by the payment and charged to the appropriate accounts in the consolidated statement of income when incurred.

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

Property, Plant and Equipment

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

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

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

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

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

Construction in progress consists of properties in the course of construction for production or administrative purposes, which are

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

Returnable containers (i.e., returnable bottles and crates) are stated at cost less accumulated depreciation and any impairment in value. Cost of manufactured containers comprises materials used and applicable allocation of fixed and variable labor and overhead cost. Amortization of returnable containers is included under "Selling expenses" account in the consolidated statement of 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 and warehouse equipment	5 - 15

ROU assets are subject to impairment.

Investment Properties

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

- entry of judgment in case of judicial foreclosure;
- execution of the Sheriff's Certificate of Sale in case of extra-judicial foreclosure; or
- 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 material 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 issues 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.

Material 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:

Fees 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 Fees

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.

Income from Sale of Properties

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 calculate 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.

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 'Interest income' over the expected life of the loan.

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.

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.

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.

Material 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.

Material 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 interdependencies. 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 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.

The Group revisits the segmentation of its portfolio based on industry vulnerability and resiliency assessment. The Group also reassesses the framework for macroeconomic overlay, incorporating 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 of the 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 P57.5 billion and P58.5 billion as of December 31, 2023 and 2022, 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 2023 and 2022, 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, 2023 and 2022 are 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 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.

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).

For the year ended December 31, 2023:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
<i>(In Thousands)</i>							
Segment revenue:							
External customers	P66,550,969	P29,884,821	P16,414,006	P–	P1,334,404	P1,114,736	P115,298,936
Inter-segment	28,919	67,066	967,289	–	837,765	(1,901,039)	–
	66,579,888	29,951,887	17,381,295	–	2,172,169	(786,303)	115,298,936
Cost of goods sold and services	16,268,299	26,026,120	13,459,250	–	1,161,584	(1,377,589)	55,537,664
Gross profit	50,311,589	3,925,767	3,922,045	–	1,010,585	591,286	59,761,272
Equity in net earnings of associates and joint ventures	268,093	–	42,329	11,065,618	–	548,692	11,924,732

- 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 1.4% and 3.3% as of December 31, 2023, respectively, and 1.7% and 2.2% as of December 31, 2022 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 material 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 88%, 89% and 92% of the segment's total liquor revenue in 2023, 2022 and 2021, respectively. The other segments of the Group have no significant customer that contributes 10% or more of their segment revenues.

The following tables present the information about the Group's operating segments:



	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
	(In Thousands)						
Selling expenses	50,579,682	3,925,767	3,964,374	11,065,618	1,010,585	1,139,978	71,686,004
General and administrative expenses	—	1,039,399	1,465,956	—	10,930	—	2,516,285
Operating income	34,330,259	674,953	1,346,389	281,831	850,513	(597,442)	36,886,503
Foreign exchange gains (losses) - net	16,249,423	2,211,415	1,152,029	10,783,787	149,142	1,737,420	32,283,216
Finance income	1,367,409	5,013	1,926	(83,833)	678	(1,453)	1,289,740
Finance costs	—	15,069	6,892	804,704	18,388	(760,095)	84,958
Others - net	—	(40,791)	(364,211)	—	(346,262)	59,808	(691,456)
Income before income tax	5,412,961	(56,379)	12,075	17,603	761,194	119,785	6,267,239
Provision for income tax	23,029,793	2,134,327	808,711	11,522,261	583,140	1,155,465	39,233,697
Segment profit from:	4,007,375	568,083	231,033	142,908	130,227	138,191	5,217,817
Continuing operations	19,022,418	1,566,244	577,678	11,379,353	452,913	1,017,274	34,015,880
Discontinued operations	—	—	—	—	—	—	—
	P19,022,418	P1,566,244	P577,678	P11,379,353	P452,913	P1,017,274	P34,015,880
Segment profit attributable to:							
Equity holders of the Company	P19,035,855	P1,557,897	P570,980	P11,379,353	P452,913	(P7,575,544)	P25,421,454
Non-controlling interests	(13,437)	8,347	6,698	—	—	8,592,818	8,594,426
Depreciation and amortization expense	3,956,038	707,794	1,972,084	27,575	455,514	(623,475)	6,495,530

Other financial information of the operating segments as of December 31, 2023 is as follows:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
	(In Thousands)						
Assets:							
Current assets	P660,924,980	P18,916,472	P20,627,751	P16,736,351	P7,591,858	(P16,156,139)	P708,641,273
Noncurrent assets	545,358,931	9,452,071	15,278,346	6,110,083	22,023,831	20,531,741	618,755,003
	P1,206,283,911	P28,368,543	P35,906,097	P22,846,434	P29,615,689	P4,375,602	P1,327,396,276
Liabilities:							
Current liabilities	P998,997,571	P3,753,179	P9,072,221	P324,929	P6,411,544	(P25,265,998)	P993,293,446
Noncurrent liabilities	22,126,877	828,946	1,370,201	105,649	3,163,521	6,271,813	33,867,007
	P1,021,124,448	P4,582,125	P10,442,422	P430,578	P9,575,065	(P18,994,185)	P1,027,160,453
Investments in associates and joint ventures	P3,199,124	P—	P212,773	P2,615,366	P—	P12,976,484	P19,003,747
Equity attributable to:							
Equity holders of the Company	181,650,718	23,572,712	25,405,673	22,415,856	20,040,624	(60,571,886)	212,513,697
Non-controlling interests	3,508,745	213,706	58,002	—	—	83,941,673	87,722,126
Noncurrent assets:							
Property, plant and equipment	18,382,650	8,248,785	13,705,159	89,094	850,156	27,855,668	69,131,512
Investment properties	13,469,401	655,656	14,002	2,108,595	20,751,188	849,588	37,848,430
Short-term debts	—	—	4,280,000	—	—	—	4,280,000
Long-term debts	45,323,755	441,017	735,213	—	3,095,287	(84,258)	49,511,014

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 - 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 (benefit from) 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
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
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



5. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	2023	2022
	(In Thousands)	
Cash and other cash items	P21,807,797	P23,220,417
Cash equivalents:		
Due from BSP	95,410,350	94,701,360
Securities held under agreements to resell	69,694,538	64,523,862
Interbank loans receivables*	35,634,440	16,290,101
Due from other banks	21,243,856	26,010,183
	P243,790,981	P224,745,923

*net of allowance for ECL

- 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.
- 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:

	2023	2022
	(In Thousands)	
Demand deposit	P78,372,794	P74,701,360
Overnight deposit facility (ODF)	15,000,000	5,000,000
Term deposit facility (TDF)	2,037,556	15,000,000
	P95,410,350	P94,701,360

ODFs and TDFs bear annual interest rates range from:

	2023	2022	2021
ODF	5.00% - 6.00%	1.50% - 5.00%	1.50% - 2.00%
TDF	6.28% - 6.75%	1.66% - 6.43%	1.60% - 2.02%

- Interbank loans receivables bear annual interest ranging from 5.5% to 6.4% in 2023 for peso-denominated interbank loans receivables and from 0.9% to 6.1% and from 0.4% to 5.3% in 2023 and 2022, respectively, for foreign currency-denominated interbank loans receivables.
- Securities held under agreements to resell bear interest ranging from 4.20% to 7.00% and from 2.00% to 5.50% in 2023 and 2022, respectively.

The fair value of the treasury bills pledged under these agreements as of December 31, 2023 and 2022 amounted to P57.8 billion and P64.3 billion, respectively, for the Group (Note 33).

- 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:

	2023	2022
	(In Thousands)	
Government securities	P8,174,405	P4,371,670
Private debt securities	1,590,489	1,610,682
Derivative assets (Notes 21 and 33)	749,199	1,361,951
Unit investment trust fund (UITF)	33,731	31,925
Equity securities	2,771	2,898
	P10,550,595	P7,379,126

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

	2023	2022
Government securities	1.4% - 8.0%	1.4% - 8.0%
Private debt securities	2.8% - 8.8%	4.9% - 6.9%

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

Financial Assets at FVTOCI

This account consists of:

	2023	2022
	(In Thousands)	
Government securities (Note 17)	P124,895,862	P118,396,055
Private debt securities	14,180,552	15,430,870
Equity securities:		
Quoted	2,248,636	2,078,059
Unquoted	2,720,876	1,709,152
	144,045,926	137,614,136
Noncurrent portion	(31,709,930)	(50,761,530)
	P112,335,996	P86,852,606

- For the years ended December 31, 2023, 2022 and 2021, the nominal interest rates of government securities range from 0.2% to 19.1%, 0.2% to 26.2% and 0.1% to 18.3%, respectively.
- For the years ended December 31, 2023, 2022 and 2021, the nominal interest rates of private debt securities range from 0.5% to 6.4%, 0.5% to 6.4%, and 0.4% to 6.9% respectively.
- As of December 31, 2023 and 2022, 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 P6.5 billion and P2.5 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.
- Other debt securities consist of notes issued by private entities. As of December 31, 2023 and 2022, the ECL on debt securities at FVOCI (included in 'Net unrealized gain (loss) on financial assets at FVOCI') amounted to P46.8 million and P119.5 million, respectively.

Financial Assets at Amortized Cost

This account consists of:

	2023	2022
Government securities	P104,533,382	P78,233,180
Private debt securities	18,822,880	36,082,780
	123,356,262	114,315,960
Less allowance for expected credit losses	(155,835)	(3,848,000)
	123,200,427	110,467,960
Noncurrent portion	(101,359,065)	(78,956,212)
	P21,841,362	P31,511,748

The effective interest rates of investment securities at amortized cost of the Group:

	2023	2022	2021
Government securities	0.8% - 7.5%	0.8% - 7.5%	0.1% - 7.4%
Private debt securities	1.0% - 8.3%	0.8% - 8.3%	0.4% - 6.9%

In 2023 and 2022, 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, 2023 and 2022, 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 (see Note 17).

As of December 31, 2023, the Group set aside government securities booked under 'Investment securities at amortized cost' with total carrying value of P363.3 million as liquidity cover for 50.0% of the outstanding balances of electronic money (e-money) products in compliance with BSP Circular 1166, *Amendments to the Regulations on Electronic Money and the Operations of Electronic Money Issuers in the Philippines*. This is on top of the fund held in trust to cover for the other 50.0% of the outstanding e-money balances.

8. Loans and Receivables

Loans and receivables consist of:

	2023	2022
	(In Thousands)	
Finance receivables (Notes 17 and 22)	P661,279,406	P632,837,081
Trade receivables	19,006,343	19,078,556
Other receivables	4,350,518	4,467,755
	684,636,267	656,383,392
Allowance for credit losses	(44,950,751)	(41,455,266)
	639,685,516	614,928,126
Noncurrent portion	(347,989,209)	(409,434,007)
	P291,696,307	P205,494,119

Finance Receivables

Finance receivables pertains to receivables from customers of the Banking segment. This account consists of the following:

	2023	2022
	(In Thousands)	
Receivables from customers:		
Loans and discounts	P608,727,856	P579,956,975
Customers' liabilities on acceptances, letters of credit and trust receipts	18,221,792	17,651,337
Credit card receivables	15,232,845	14,382,681
Bills purchased (Note 20)	1,966,389	1,236,798
Lease contract receivable	8,399	873,878
	644,157,281	614,101,669
Other receivables:		
Accrued interest receivable	8,355,100	7,071,980
Accounts receivable	5,322,230	5,620,135
Sales contract receivables	3,760,162	6,240,309
Miscellaneous	366,093	559,098
	17,803,585	19,491,522
	661,960,866	633,593,191
Unearned and other deferred income	(681,460)	(756,110)
	661,279,406	632,837,081
Allowance for credit losses	(44,568,661)	(40,941,534)
	616,710,745	591,895,547
Noncurrent portion	(347,975,014)	(409,345,493)
	P268,735,731	P182,550,054

The reconciliation of allowance for credit losses on finance receivables are shown below.

	Consolidated							
	2023				2022			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Corporate Loans								
Beginning Balance	P1,455,038	P5,954,356	P19,266,969	P26,676,363	P459,223	P859,753	P26,308,150	P27,627,126
Transfers to Stage 1	22,816	(22,816)	—	—	124,442	(122,231)	(2,211)	—
Transfers to Stage 2	(572,482)	647,566	(75,084)	—	(13,026)	7,561,264	(7,548,238)	—
Transfers to Stage 3	(331,606)	(3,394,552)	3,726,158	—	(2,707)	(181,214)	183,921	—
Provisions (reversals)	1,200,421	(289,526)	2,718,659	3,629,554	887,106	(2,163,216)	5,165,128	3,889,018
Accounts charged off	—	—	(27,652)	(27,652)	—	—	(48,784)	(48,784)
Loan settlement through dacion (Note 33)	—	—	—	—	—	—	(4,580,430)	(4,580,430)
Other movements	—	—	—	—	—	—	(210,567)	(210,567)
Ending Balance	1,774,187	2,895,028	25,709,050	30,278,265	1,455,038	5,954,356	19,266,969	26,676,363
LGU								
Beginning Balance	472	8,471	65,694	74,637	265	10,632	67,798	78,695
Provisions (reversals)	(81)	(1,787)	(2,478)	(4,346)	207	(2,161)	(2,104)	(4,058)
Ending Balance	391	6,684	63,216	70,291	472	8,471	65,694	74,637
Credit Cards								
Beginning Balance	491,509	83,742	712,977	1,288,228	61,472	26,686	2,319,769	2,407,927
Transfers to Stage 1	22,578	(16,917)	(5,661)	—	14,583	(5,637)	(8,946)	—
Transfers to Stage 2	(17,425)	17,465	(40)	—	(1,666)	2,188	(522)	—
Transfers to Stage 3	(25,370)	(12,031)	37,401	—	(2,726)	(3,171)	5,897	—
Provisions (reversals)	37,154	37,624	844,677	919,455	419,846	63,676	411,234	894,756
Accounts charged off	—	—	(892,571)	(892,571)	—	—	(2,014,455)	(2,014,455)
Ending Balance	508,446	109,883	696,783	1,315,112	491,509	83,742	712,977	1,288,228
Retail SMEs								
Beginning Balance	200,621	26,631	1,337,812	1,565,064	156,723	16,002	1,643,255	1,815,980
Transfers to Stage 1	110	—	(110)	—	15,101	(386)	(14,715)	—
Transfers to Stage 2	(1,051)	2,229	(1,178)	—	(51,349)	51,549	(200)	—
Transfers to Stage 3	—	(80,052)	80,052	—	(736)	(1,050)	1,786	—
Provisions (reversals)	(11,015)	61,308	463,438	513,731	80,882	(39,484)	402,656	444,054
Accounts charged off	—	—	(401,774)	(401,774)	—	—	(694,970)	(694,970)
Other movements	—	—	(689,424)	(689,424)	—	—	—	—
Ending Balance	188,665	10,116	788,816	987,597	200,621	26,631	1,337,812	1,565,064
Housing Loans								
Beginning Balance	447,670	115,108	3,785,067	4,347,845	256,953	54,367	3,121,446	3,432,766
Transfers to Stage 1	43,356	(6,424)	(36,932)	—	527,271	(17,691)	(509,580)	—
Transfers to Stage 2	(30,074)	43,180	(13,106)	—	(5,794)	71,159	(65,365)	—
Transfers to Stage 3	(260,638)	(124,595)	385,233	—	(33,977)	(26,337)	60,314	—
Provisions (reversals)	325,582	19,928	(165,041)	180,469	(296,783)	33,610	1,178,252	915,079
Ending Balance	525,896	47,197	3,955,221	4,528,314	447,670	115,108	3,785,067	4,347,845

(Forward)

a. Lease contract receivable

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

	2023	2022
	(In Thousands)	
Minimum lease payments		
Due within one year	P7	P446,485
Due beyond one year but not over five years	2,734	196,987
	2,741	643,472
Residual value of leased equipment		
Due within one year	5,658	107,634
Due beyond one year but not over five years	—	122,772
	5,658	230,406
Gross investment in lease contract receivables	P8,399	P873,878

b. Interest income on loans and receivables amounted to P40.8 billion, P34.3 billion and P34.2 billion in 2023, 2022 and 2021, respectively (see Note 24).

As of December 31, 2023 and 2022, 69.6% and 69.5%, respectively, of the total receivable from customers of PNB were subject to interest repricing. As of December 31, 2023 and 2022, 70.6% and 70.5%, respectively, of the total receivables from customers of PNB were subject to interest repricing. Remaining receivables carry annual fixed interest rates ranging from 1.0% to 9.0% in 2023, from 1.1% to 11.2% in 2022 and from 1.0% to 9.0% in 2021 for foreign currency-denominated receivables, and from 1.1% to 31.5% in 2023, from 1.1% to 31.5% in 2022 and from 1.1% to 31.5% in 2021 for peso-denominated receivables.

Sales contract receivables bear fixed interest rates per annum ranging from 5.0% to 20.2% in 2023 and from 3.3% to 21.0% in 2022 and 2021.



	Consolidated							
	2023				2022			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Auto Loans								
Beginning Balance	P20,844	P2,253	P1,497,222	P1,520,319	P8,996	P2,166	P1,467,584	P1,478,746
Transfers to Stage 1	600	(131)	(469)	—	85,614	(671)	(84,943)	—
Transfers to Stage 2	(476)	525	(49)	—	(197)	5,619	(5,422)	—
Transfers to Stage 3	(21,039)	(10,155)	31,194	—	(350)	(1,213)	1,563	—
Provisions (reversals)	25,764	8,194	(401,452)	(367,494)	(73,219)	(3,648)	124,794	47,927
Accounts charged off	—	—	(47,526)	(47,526)	—	—	(6,354)	(6,354)
Ending Balance	25,693	686	1,078,920	1,105,299	20,844	2,253	1,497,222	1,520,319
Other Loans								
Beginning Balance	15,750	78,197	1,168,060	1,262,007	242,940	8,236	716,032	967,208
Transfers to Stage 1	1,364	(244)	(1,120)	—	302,607	(3,134)	(299,473)	—
Transfers to Stage 2	(148,740)	216,224	(67,484)	—	(50)	27,615	(27,565)	—
Transfers to Stage 3	(42,076)	(6,097)	48,173	—	(506)	(2,527)	3,033	—
Provisions (reversals)	245,496	(23,372)	(219,101)	3,023	(529,241)	48,007	788,680	307,446
Ending Balance	71,794	264,708	928,528	1,265,030	15,750	78,197	1,168,060	1,262,007
Other Receivables								
Beginning Balance	87,993	148,230	3,970,848	4,207,071	81,507	33,359	3,414,200	3,529,066
Transfers to Stage 1	162	(138)	(24)	—	26	(5)	(21)	—
Transfers to Stage 2	(4,115)	4,177	(62)	—	(758)	10,530	(9,772)	—
Transfers to Stage 3	(3,463)	(421,743)	425,206	—	(4,861)	(15,475)	20,336	—
Provisions (reversals)	50,698	306,790	454,298	811,786	12,079	119,821	528,402	660,302
Accounts charged off	—	—	(49,305)	(49,305)	—	—	(8,626)	(8,626)
Loan settlement through dacion (Note 33)	—	—	—	—	—	—	(11,313)	(11,313)
Other movements	—	—	49,201	49,201	—	—	37,642	37,642
Ending Balance	131,275	37,316	4,850,162	5,018,753	87,993	148,230	3,970,848	4,207,071
Total Loans and Receivables								
Beginning Balance	2,719,897	6,416,988	31,804,649	40,941,534	1,268,079	1,011,201	39,058,234	41,337,514
Transfers to Stage 1	90,986	(46,670)	(44,316)	—	1,069,644	(149,755)	(919,889)	—
Transfers to Stage 2	(774,363)	931,366	(157,003)	—	(72,840)	7,729,924	(7,657,084)	—
Transfers to Stage 3	(684,192)	(4,049,225)	4,733,417	—	(45,863)	(230,987)	276,850	—
Provisions (reversals)	1,874,019	119,159	3,693,000	5,686,178	500,877	(1,943,395)	8,597,042	7,154,524
Accounts charged off	—	—	(1,418,828)	(1,418,828)	—	—	(2,785,836)	(2,785,836)
Loan settlement through dacion (Note 33)	—	—	—	—	—	—	(4,591,743)	(4,591,743)
Other movements	—	—	(640,223)	(640,223)	—	—	(172,925)	(172,925)
Ending Balance	P3,226,347	P3,371,618	P37,970,696	P44,568,661	P2,719,897	P6,416,988	P31,804,649	P40,941,534

Trade Receivables

Trade receivables consist of:

	2023	2022
	(In Thousands)	
Consumer goods	P18,628,297	P17,978,654
Contract receivables	222,843	708,173
Lease receivables	155,203	391,729
	19,006,343	19,078,556
Allowance for credit losses	(345,306)	(476,950)
	18,661,037	18,601,606
Noncurrent portion of contract receivables	(14,195)	(88,514)
	P18,646,842	P18,513,092

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, 2023			
	Finance Receivables	Trade Receivables	Other Receivables	Total
	(In Thousands)			
Balance at beginning of year	P40,941,534	P476,950	P36,782	P41,455,266
Provisions during the year (Note 26)	5,923,054	—	—	5,923,054
Accounts charged off, transfers and others	(2,295,927)	(131,644)	2	(2,427,569)
Balance at end of year	P44,568,661	P345,306	P36,784	P44,950,751

	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

9. Inventories

	2023	2022
	(In Thousands)	
At Cost:		
Consumer goods:		
Alcohol	P3,856,589	P3,650,581
Beverage	3,736,531	4,292,228
	7,593,120	7,942,809
Real estate inventories:		
Condominium and residential units for sale	439,547	430,865
Land held for future development	217,542	217,542
Subdivision land under development	3,101,070	3,666,508
	3,758,159	4,314,915
Fuel, materials and supplies	1,204,892	1,134,268
	12,556,171	13,391,992
At NRV - Materials and supplies	1,152,946	1,618,781
	P13,709,117	P15,010,773

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

	2023	2022
	(In Thousands)	
Finished goods	P1,168,086	P1,460,258
Work in process	1,414,595	1,611,017
Raw materials	5,010,439	4,871,534
	P7,593,120	P7,942,809

Cost of consumer goods inventories recognized as expenses under cost of goods sold amounted to P17.3 billion, P17.9 billion and P14.6 billion in 2023, 2022 and 2021, respectively (see Note 24).

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

	2023	2022
	(In Thousands)	
Balance at beginning of year	P4,314,915	P4,398,531
Construction/development costs incurred	23,123	142,819
Sales	(579,879)	(226,435)
Balance at end of year	P3,758,159	P4,314,915

c. Allowance for inventory obsolescence on materials and supplies amounted to P.8 million and P4.1 million as of December 31, 2023 and 2022, respectively.

10. Other Current Assets

	2023	2022
	(In Thousands)	
Advances to suppliers	P2,487,299	P2,282,424
Input VAT	2,267,529	1,667,311
Assets of disposal group classified as held for sale	1,770,930	2,464,603
Creditable withholding taxes (CWT)	1,693,190	1,694,430
Deferred charges	1,346,142	1,477,762
Prepaid expenses	1,026,036	2,460,720
Stationeries, office supplies and stamps on hand	570,375	398,770
Excise tax	209,558	262,686
Miscellaneous cash and other cash items	50,444	71,457
Others	956,689	716,963
	P12,378,192	P13,497,126

- a. Advances to suppliers pertain to deposits made for raw material purchases and are applied upon delivery of the related inventories.
- b. 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 consist of the following:

	2023	2022
	(In Thousands)	
Cash	P32,357	P100,618
Inventories	229,461	343,894
Property, plant and equipment	1,032,990	1,093,742
Investment properties	249,432	642,258
Others	226,690	284,091
	P1,770,930	P2,464,603

- c. Prepaid expenses include prepaid importation charges amounting to P93.9 million and P1,336.5 million as of December 31, 2023 and 2022, respectively. Prepaid importation charges pertain to the purchases of raw materials by the distilled spirits.
- 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	
	2023	2022	2023	2022
	(In Thousands)			
Associates:				
PMFTC	49.6%	49.6%	P1,637,857	P7,313,230
VMC	26.1%	30.9%	4,183,952	3,774,931
APLII	44.0%	44.0%	3,199,124	2,688,764
AB HPI	50.0%	50.0%	-	-
Joint Ventures:				
AEPDC	50.0%	50.0%	9,770,041	7,647,978
ABI Pascual Holdings	50.0%	50.0%	212,773	164,971
			P19,003,747	P21,589,874

Equity in net earnings consists of:

	2023	2022	2021
	(In Thousands)		
PMFTC	P11,065,618	P15,461,496	P17,600,810
Others	859,114	633,079	420,370
	P11,924,732	P16,094,575	P18,021,180

Investment in PMFTC

Details of investment in PMFTC are as follows:

	2023	2022
	(In Thousands)	
Acquisition cost	P13,483,541	P13,483,541
Accumulated equity in net earnings (losses):		
Balance at beginning of year	(6,988,923)	(3,259,551)
Equity in net earnings	11,065,618	15,461,496
Cash dividends (Note 22)	(16,748,650)	(19,190,868)
Balance at end of year	(12,671,955)	(6,988,923)
Accumulated share in other comprehensive income	826,271	818,612
	P1,637,857	P7,313,230

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, 2023 and 2022 and reconciliation with the carrying amount of the investment in consolidated financial statements are set out below:

	2023	2022
	(In Thousands)	
Current assets	P49,695,515	P52,127,377
Noncurrent assets	32,007,716	28,478,321
Current liabilities	31,313,619	24,167,426
Noncurrent liabilities	4,274,243	4,720,614
Equity	46,115,369	51,717,658
Equity interest of the Parent Company	49.60%	49.6%
Share in net assets of the acquiree	22,873,223	25,651,958
Fair value adjustments, adjustments relating to differences in accounting policies and others	(21,235,366)	(18,338,728)
Carrying value of investment	P1,637,857	P7,313,230

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

	2023	2022	2021
	(In Thousands)		
Revenue	P145,412,540	P176,007,078	P172,762,533
Costs and expenses	(115,995,393)	(134,565,385)	(127,882,015)
Income before income tax	29,417,147	41,441,693	44,880,518
Provision for income tax	(7,373,888)	(10,536,036)	(9,661,727)
Net income	22,043,259	30,905,657	35,218,791
Other comprehensive income	15,441	320,745	585,549
Total comprehensive income	P22,058,700	P31,226,402	P35,804,340
Group's share of total comprehensive income for the year	P10,941,115	P15,488,295	P17,758,953

Investment in VMC

Details of investment in VMC are as follows:

	2023	2022
	(In Thousands)	
Acquisition cost	P1,459,768	P1,459,768
Accumulated equity in net earnings:		
Balance at beginning of year	2,259,461	1,827,731
Equity in net earnings	346,627	491,046
Cash dividends (Note 22)	—	(59,316)
Balance at end of year	2,606,088	2,259,461
Share in remeasurement gain (loss) on defined benefit plans	59,636	(2,758)
Balance of convertible notes	58,460	58,460
	P4,183,952	P3,774,931

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, 2023 and 2022 and reconciliation with the carrying amount of the investment in consolidated financial statements are set out below:

	2023	2022
	(In Thousands)	
Current assets	P5,390,238	P4,236,359
Noncurrent assets	8,153,445	7,108,633
Current liabilities	1,573,162	751,030
Noncurrent liabilities	790,213	994,476
Equity	11,180,308	9,599,486
Equity interest of the Parent Company	30.90%	30.9%
Share in net assets of the acquiree	3,454,715	2,966,241
Fair value adjustments and others	729,237	808,690
Carrying value of investment	P4,183,952	P3,774,931

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

	2023	2022	2021
	(In Thousands)		
Revenue	P15,546,991	P8,550,322	P7,468,247
Costs and expenses	(13,823,398)	(7,460,683)	(6,607,202)
Income before income tax	1,723,593	1,089,639	861,045
Provision for income tax	(152,921)	(123,569)	(74,809)
Net income	1,570,672	966,070	786,236
Other comprehensive income	201,919	7,820	42,790
Total comprehensive income	P1,772,591	P973,890	P829,026
Group's share of total comprehensive income for the year	P547,731	P300,932	P256,169

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, 2023 and 2022 follows:

	2023	2022
	(In thousands)	
Current assets	P2,181,489	P1,452,894
Noncurrent assets	113,166,291	90,446,895
Current liabilities	1,404,749	1,535,802
Noncurrent liabilities	110,327,928	87,928,050
Equity	3,615,103	2,435,937
Equity interest of the Parent Company	44%	44%
Share in net assets of the acquiree	1,590,645	1,071,812
Fair value adjustments and others	1,608,479	1,616,952
Carrying value of investment	P3,199,124	P2,688,764

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

	2023	2022	2021
	(In Thousands)		
Revenue	P6,867,294	P4,344,038	P3,732,388
Costs and expenses	(6,257,991)	(4,486,380)	(3,624,691)
Net income (loss)	609,303	(142,342)	107,697
Other comprehensive loss	(357,591)	(262,006)	—
Total comprehensive income (loss)	P251,712	(P404,348)	P107,697
Group's share of total comprehensive income (loss) for the year	P110,753	(P177,913)	P47,387

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.

In December 2020, the BOD of AB HPI approved the termination of the Shareholders' Agreement entered into on May 27, 2016, including the other related agreements, and the wind down of the business and operations of AB HPI effective December 31, 2020. The BOD also approved the sale of fixed assets, including beer equipment, and spare parts to the Company for purchase price totaling P1.3 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 costs.

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.

In 2020, due to AB HPI's change of plans in the brewery business and continuing losses of AB HPI, the Group recognized an impairment loss on its investment in an associate amounting to P392.4 million.

Investment in AB HPI as of December 31, 2023 and 2022 amounted to nil.

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.

Information on the Company's investment to AEPDC follows:

Date of investment	Additional number of shares	2023	2022
April 15, 2016	20,000,000	P20,000,000	P20,000,000
July 5, 2017	25,200,000	25,200,000	25,200,000
July 5, 2017	226,800,000	226,800,000	226,800,000
November 20, 2017	370,000,000	370,000,000	370,000,000
January 1, 2018	1,534,000,000	1,534,000,000	1,534,000,000
July 16 and November 19, 2019	1,195,000,000	1,195,000,000	1,195,000,000
April 28 and July 27, 2020	1,083,500,000	1,083,500,000	1,083,500,000
February 22, 2021	150,000,000	150,000,000	150,000,000
May 11, 2021	377,000,000	377,000,000	377,000,000
December 13, 2021	306,000,000	306,000,000	306,000,000
April 29, 2022	1,250,000,000	1,250,000,000	1,250,000,000
November 25, 2022	849,000,000	849,000,000	849,000,000
May 9, 2023	820,000,000	820,000,000	-
December 6, 2023	1,100,000,000	1,100,000,000	-
		P9,306,500,000	P7,386,500,000

Details of the investment in a joint venture as of December 31 are as follows:

	2023	2022
	(In Thousands)	
Acquisition cost:		
Balance at beginning of year	P7,386,500	P5,287,500
Additional capital infusion during the year	1,920,000	2,099,000
Balance at end of year	9,306,500	7,386,500
Accumulated equity in net earnings:		
Balance at beginning of year	261,478	124,828
Share in net income of a joint venture	202,063	136,650
Balance at end of year	463,541	261,478
Ending balance	P9,770,041	P7,647,978

Summarized financial information of AEPDC as of December 31, 2023 and 2022 follows:

	2023	2022
	(In thousands)	
Current assets	P20,370,090	P16,056,792
Noncurrent assets	6,481,855	6,081,276
Current liabilities	6,939,521	6,627,948
Noncurrent liabilities	377,485	219,309
Equity	19,534,939	15,290,811

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

	2023	2022
	(In Thousands)	
Revenue	P3,583,758	P1,966,855
Costs and expenses	(3,043,370)	(1,599,992)
Income before income tax	540,388	366,863
Provision for income tax	(136,260)	(93,566)
Total comprehensive income	P404,128	P273,297
Group's share of total comprehensive income	P202,063	P136,650

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:

	2023	2022
	(In thousands)	
Current assets	P504,896	P398,619
Noncurrent assets	3,568	4,012
Current liabilities	87,123	66,390
Noncurrent liabilities	9,431	6,936
Total equity	411,910	329,305

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

	2023	2022
	(In Thousands)	
Revenue	P682,267	P501,204
Costs and expenses	(569,426)	(335,345)
Income before income tax	112,841	165,859
Provision for income tax	(30,594)	(43,123)
Net income	82,247	122,736
Other comprehensive income	358	3,280
Total comprehensive income	P82,605	P126,016
Group's share of total comprehensive income	P41,303	P63,088

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:

	2023	2022	2021
	(In Thousands)		
Accumulated balances of material non-controlling interest	P3,508,745	P3,549,378	P3,219,143
Net income (loss) allocated to material non-controlling interest	(13,437)	51,670	59,412
Total comprehensive income (loss) allocated to material non-controlling interest	(37,064)	343,580	282,293

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:

	2023	2022	2021
	(In Thousands)		
Revenue	P66,579,888	P50,961,336	P49,474,321
Cost of services	(16,268,299)	(9,346,027)	(8,608,926)
General and administrative expenses	(34,330,259)	(35,382,372)	(34,172,945)
Foreign exchange gains - net	1,367,409	1,608,281	743,549
Other income - net	5,681,054	8,855,787	32,867,305
Income before income tax	23,029,793	16,697,005	40,303,304
Provision for income tax	(4,007,375)	(4,931,228)	(5,545,194)
Net income from continuing operations	19,022,418	11,765,777	34,758,110
Loss from discontinued operations	-	-	(735,365)
Net income	19,022,418	11,765,777	34,022,745
Other comprehensive income (loss)	3,280,769	(2,887,965)	(2,052,906)
Total comprehensive income	P22,303,187	P8,877,812	P31,969,839
Net income attributable to:			
Equity holders of the Parent Company	P19,035,855	P11,714,107	P33,963,333
Non-controlling interests	(13,437)	51,670	59,412
Total comprehensive income (loss) attributable to:			
Equity holders of the Parent Company	22,340,251	8,534,232	31,687,546
Non-controlling interests	(37,064)	343,580	282,293
Dividends declared to non-controlling interests	3,569	13,345	4,705

Statements of Financial Position:

	2023	2022
	(In Thousands)	
Current assets	P660,924,980	P537,671,669
Noncurrent assets	545,358,931	602,847,076
Current liabilities	998,997,571	898,204,863
Noncurrent liabilities	22,126,877	79,405,266
Equity attributable to:		
Equity holders of the Parent Company	181,650,718	159,359,238
Non-controlling interest	3,508,745	3,549,378

Statements of Cash Flows:

	2023	2022	2021
	(In Thousands)		
Operating	P39,314,906	P6,270,264	P18,675,489
Investing	(6,986,603)	(10,452,461)	(6,878,382)
Financing	(12,937,150)	(40,608,849)	(51,527,513)
Net increase (decrease) in cash and cash equivalents	P19,391,153	(P44,791,046)	(P39,730,406)

12. Property, Plant and Equipment

December 31, 2023

	At Appraised Values			At Cost				
	Land and Land Improvements	Buildings and Building Improvements	Plant Machineryes and Equipment	(In Thousands)				
				Subtotal	Office and Administration Buildings and Improvements	Transportation Equipment	Returnable Containers	Furniture, Fixtures and Other Equipment
Cost								
Balance at beginning of year	P46,752,740	P11,898,336	P23,571,131	P82,222,207	P4,699,477	P3,200,839	P6,630,040	P8,629,946
Additions/transfers (Note 13)	714	247,729	912,209	1,160,652	75,051	147,085	511,894	2,446,739
Disposals/transfers/others (Note 28)	(619,322)	(15,125)	(47,520)	(681,967)	(222,425)	(240,856)	(19,266)	(2,034,959)
Balance at end of year	46,134,132	12,130,940	24,435,820	82,700,892	4,551,103	3,107,068	7,122,668	8,039,339
Accumulated Depreciation, Amortization and Impairment Losses								
Balance at beginning 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
Depreciation and amortization	41,039	428,319	1,118,255	1,587,613	150,998	201,434	573,201	595,506
Disposals/transfers/others (Note 28)	(106,601)	(1,359)	(12,407)	(120,366)	(181,436)	(109,367)	(9,633)	(854,210)
Balance at end of year	2,494,318	8,039,255	14,650,888	25,184,461	905,603	2,788,677	5,251,386	7,048,021
Net Book Value	P43,639,814	P4,091,685	P9,784,932	P57,516,431	P3,645,500	P318,391	P1,871,282	P991,318

December 31, 2022

	At Appraised Values			At Cost				
	Land and Land Improvements	Buildings and Building Improvements	Plant Machineryes and Equipment	(In Thousands)				
				Subtotal	Office and Administration Buildings and Improvements	Transportation Equipment	Returnable Containers	Furniture, Fixtures and Other Equipment
Cost								
Balance at beginning of year	P44,571,546	P12,228,089	P25,970,509	P82,768,144	P5,251,382	P3,111,095	P5,828,357	P7,738,462
Additions/transfers (Note 13)	306	174,837	787,256	962,399	421,808	180,002	801,683	1,512,918
Net decrement in appraised value	(229,621)	(107,690)	(171,475)	(508,786)	—	—	—	—
Disposals/transfers/others (Note 28)	2,410,509	(394,900)	(3,015,159)	(999,550)	(974,713)	(90,258)	—	(621,434)
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
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
Depreciation and amortization	(21,359)	319,868	1,138,999	1,437,508	(296,319)	247,916	476,199	1,301,941
Disposals/transfers/others (Note 28)	—	(207)	(19,360)	(19,567)	712,641	(82,370)	—	(946,588)
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
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

Right-of-Use Assets

December 31, 2023

	Bank Premises	Land and Land Improvements	Plant Buildings and Building Improvements	Machineries and Equipment	Total
Cost					
Balance at beginning of year	P5,703,282	P1,245,714	P162,695	P49,538	P7,161,229
Additions/transfers	1,425,032	53,925	—	—	1,478,957
Transfers/others	(1,307,244)	(17,383)	(2,036)	(696)	(1,327,359)
Balance at end of year	5,821,070	1,282,256	160,659	48,842	7,312,827
Accumulated Depreciation, Amortization and Impairment Losses					
Balance at beginning of year	2,475,358	211,048	82,796	45,804	2,815,006
Depreciation and amortization	1,311,843	85,685	49,627	3,038	1,450,193
Transfers/others	(1,243,266)	(9,173)	(5,638)	—	(1,258,077)
Balance at end of year	2,543,935	287,560	126,785	48,842	3,007,122
Net Book Value	P3,277,135	P994,696	P33,874	P—	P4,305,705

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	696,522	—	—	—	696,522
Transfers/others	(377,364)	—	35,632	—	(342,732)
Balance at end of year	5,703,282	1,245,714	162,695	49,538	7,161,229
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)	—	—	—	(375,178)
Balance at end of year	2,475,358	211,048	82,796	45,804	2,815,006
Net Book Value	P3,227,924	P1,034,666	P79,899	P3,734	P4,346,223

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, 2023, 2022, and 2021 (see Note 34).

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

	2023	2022
	(In Thousands)	
Revaluation increment on the property, plant and equipment, net of deferred income tax effect:		
Balance at beginning of year	P19,437,973	P20,650,569
Net revaluation decrease	(51,384)	(381,590)
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	(812,609)	(831,006)
Balance at end of year	P18,573,980	P19,437,973
Attributable to:		
Equity holders of the Company	P10,951,376	P11,772,813
Non-controlling interests	7,622,604	7,665,160
	P18,573,980	P19,437,973

If land and land improvements, plant buildings and building improvements, and machineries and equipment were measured using the cost model, their carrying amounts would be as follows:

	2023	2022
	(In Thousands)	
Cost		
Land and land improvements	P9,138,403	P9,137,689
Plant buildings and improvements	21,444,695	21,196,966
Machineries and equipment	34,063,739	33,151,530

	2023	2022
	(In Thousands)	
Accumulated depreciation	64,646,837	63,486,185
Land and land improvements	(4,480,250)	(4,151,116)
Plant buildings and improvements	(17,596,337)	(15,124,253)
Machineries and equipment	(18,539,650)	(15,955,719)
	(40,616,237)	(35,231,088)
	P24,030,600	P28,255,097

Depreciation

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

	2023	2022	2021
	(In Thousands)		
Continuing operations:			
Cost of goods sold and services (Note 24)	P2,007,399	P1,804,042	P1,718,078
Selling expenses (Note 25)	653,398	623,076	476,052
General and administrative expenses (Note 26)	1,898,148	2,043,469	2,627,246
	P4,558,945	P4,470,587	P4,821,376

As of December 31, 2023 and 2022, the Group's "Construction in progress" under the "Property, plant and equipment" account pertains to TDI's construction of building.

Out of the total additions in 2023 and 2022, P1.4 million remained unpaid as of December 31, 2023 and 2022, which represent non-cash investing activities.

Certain property and equipment of the Group with carrying amount of P90.0 million and P75.6 million are temporarily idle as of December 31, 2023 and 2022, respectively.

Borrowing Costs

Borrowing costs capitalized as cost of investment properties in 2023 and 2022 amounted to nil.

13. Investment Properties

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

December 31, 2023					
	Land	Buildings and Improvements	Residential Unit	Construction in Progress	Total
Cost					
Balance at beginning of year	P24,536,596	P12,597,797	P5,881,213	P1,548,691	P44,564,297
Additions	1,951,107	1,527,649	—	35,032	3,513,788
Disposals/transfers/others	(1,683,721)	(1,480,294)	—	—	(3,164,015)
Balance at end of year	24,803,982	12,645,152	5,881,213	1,583,723	44,914,070
Accumulated Depreciation and Impairment Losses					
Balance at beginning of year	2,501,903	4,854,389	163,001	—	7,519,293
Depreciation	—	718,234	—	—	718,234
Disposals/transfers/others	—	(1,171,887)	—	—	(1,171,887)
Balance at end of year	2,501,903	4,400,736	163,001	—	7,065,640
Net Book Value	P22,302,079	P8,244,416	P5,718,212	P1,583,723	P37,848,430

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

The Group's investment properties consist of parcels of land held 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 P581.7 million and P199.9 million as of December 31, 2023 and 2022, respectively. The Group is exerting continuing efforts to dispose these foreclosed 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, 2023 and 2022, 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, 2023, 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	P338,776,000	December 31, 2023
Building and improvements	Market approach	24,121,543	December 31, 2023
		P362,897,543	

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, 2023. 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 P2,330.8 million and P1,823.9 million in 2023, P2,026.4 million and P927.2 million in 2022 and P1,893.7 million and P724.1 million in 2021, 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:

	2023	2022	2021
	(In Thousands)		
Cost of rental income (Note 24)	P356,058	P355,472	P295,588
General and administrative expenses (Note 26)	362,176	153,093	153,151
	P718,234	P508,565	P448,739



14. Other Noncurrent Assets

Other noncurrent assets consist of:

	2023	2022
	(In Thousands)	
Software costs	P1,562,119	P2,144,378
Prepaid excise taxes (Note 37)	771,713	771,713
Deferred charges	719,191	1,477,860
Creditable withholding taxes	453,461	451,537
Chattel properties – net	304,817	211,619
Net retirement plan assets (Note 23)	277,320	265,850
Refundable and security deposits	231,466	176,690
Distribution network access	229,401	229,401
Advances to suppliers	175,818	182,529
Goodwill	163,735	163,735
Deferred input VAT	116,742	116,814
Others – net	1,564,386	219,997
	6,570,169	6,412,123
Allowance for probable losses	(1,717,765)	(1,426,911)
	P4,852,404	P4,985,212

a. Movements in software costs are as follows:

	2023	2022
	(In Thousands)	
Balance at beginning of year	P2,144,378	P2,538,411
Additions	598,969	881,572
Amortization (Note 26)	(1,207,856)	(1,219,901)
Other adjustments	26,628	(55,704)
Balance at end of year	P1,562,119	P2,144,378

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. As of December 31, 2023 and 2022, 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 11.59% and 11.2% in 2023 and 2022, respectively. The growth rate used to extrapolate the cash flows of until beyond the five-year period is 6.2% as of December 31, 2023 and 6.5% as of December 31, 2022. 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, 2023 and 2022, the recoverable amount of ADI is higher than its carrying value.

g. As of December 31, 2023 and 2022, accumulated depreciation on chattel mortgage properties acquired by the Group in settlement of loans amounted to P337.6 million and P229.1 million, respectively. As of December 31, 2023 and 2022, the total recoverable value of certain chattel mortgage properties of PNB that were impaired is at P1.2 million.

h. The Group has receivable from an SPV amounting to P500 million. This represents fully provisioned subordinated notes received by the Group from Golden Dragon Star Equities and its assignee, Opal Portfolio Investing, Inc. (an SPV), relative to the sale of certain non-performing assets of the Group.

i. Miscellaneous assets mainly pertain to interoffice floats. The bank provided allowance for probable losses on floats which are long-outstanding.

j. Movements in the allowance for probable losses on noncurrent assets follow:

	2023	2022
	(In Thousands)	
Balance at beginning of year	P1,426,911	P1,479,432
Provisions (reversals)	290,854	(52,521)
Balance at end of year	P1,717,765	P1,426,911

15. Deposit Liabilities

	2023	2022
	(In Thousands)	
Demand	P228,405,865	P220,043,866
Savings	516,804,085	501,114,987
Time	158,555,604	131,243,320
	903,765,554	852,402,173
Presented as noncurrent liabilities	(10,833,859)	(20,796,801)
Presented as current liabilities	P892,931,695	P831,605,372

Of the total deposit liabilities of the Group, P27.1 billion and P27.8 billion are non-interest bearing as of December 31, 2023 and 2022, respectively. Annual interest rates of the remaining deposit liabilities follow:

	2023	2022
Foreign-currency denominated deposit liabilities	0.10% to 6.10%	0.00% to 5.50%
Peso-denominated deposit liabilities	0.10% to 7.50%	0.10% to 6.12%

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, 2023 and 2022, available reserves booked under “Due from BSP” amounted to P78.4 billion and P74.7 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	
					2023	2022
October 11, 2019	April 11, 2025	P4,600,000	4.38%	Quarterly	P4,591,288	P4,584,136
February 27, 2019	August 27, 2024	8,220,000	5.75%	Quarterly	8,212,255	8,198,193
October 26, 2017	April 26, 2023	6,350,000	3.88%	Quarterly	—	6,347,683
		P19,170,000			P12,803,543	P19,130,012

Other significant terms and conditions of the above LTNCDs follow:

- Issue price at 100.00% of the face value of each LTNCD.
- 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.
- 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.
- 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.
- 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 the CD Holder's 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.
- 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.
- 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 P12.1 billion, P5.2 billion and P4.8 billion in 2023, 2022 and 2021, respectively (see Note 24).

In 2023, 2022 and 2021, interest expense on LTNCDs of the Group includes amortization of transaction costs amounting to P23.5 million, P29.6 million and P33.4 million, respectively. Unamortized transaction costs of the LTNCDs amounted to P16.5 million and P40.0 million as of December 31, 2023 and 2022, respectively.

16. Financial Liabilities at FVTPL

Financial liabilities at fair value through profit or loss consist of derivatives liabilities amounting to P555.8 million and P1,039.8 million as of December 31, 2023 and 2022, respectively (see Notes 21 and 33).

17. Bills and Acceptances Payable

Bills and acceptances payable consist of:

	2023	2022
	(In Thousands)	
Bills payable to:		
BSP and local banks	P395	P1,036,491
Foreign banks	10,607,231	6,665,834
	10,607,626	7,702,325
Acceptances outstanding	9,554,977	7,278,048
	20,162,603	14,980,373
Presented as noncurrent liabilities	(1,115,447)	(6,182,317)
Presented as current liabilities	P19,047,156	P8,798,056

Annual interest rates are shown below:

	2023	2022	2021
Peso-denominated	6.0% - 6.8%	1.9% - 5.5%	1.0% - 2.0%
Foreign currency-denominated	0.0% - 5.4%	0.3% - 4.3%	0.1% - 1.2%

As of December 31, 2023 and 2022, bills payable with a carrying amount of P10.1 billion and P6.6 billion are secured by a pledge of financial assets at FVTOCI with fair values of P6.5 billion and P2.5 billion, respectively, and investment securities at amortized cost with carrying values of P5.5 billion (see Note 7).

Interest expense on bills payable is included under "Cost of banking services" amounting to P0.3 billion in 2023, P0.4 billion in 2022 and P0.5 billion in 2021 (see Note 24).

18. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of:

	2023	2022
	(In Thousands)	
Trade payables	P5,673,661	P7,439,068
Nontrade payables	516,320	742,774
Accrued expenses:		
Purchase of materials and supplies and others	5,783,682	6,494,354
Accrued interest	2,443,570	999,856
Advertising and promotional expenses	1,708,628	956,657
Taxes and licenses	1,528,535	1,339,777
PDIC insurance premiums	1,055,859	803,612
Other benefits - monetary value of leave credits	690,548	289,033
Information technology-related expenses	617,853	256,339
Retention payable	473,799	600,908
Rent and utilities payable	339,300	300,029
Project development costs	162,200	675,051
Output VAT	1,054,277	411,123
Due to government agencies	256,783	407,580
Other payables	584,960	138,375
	P22,889,975	P21,854,536

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

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 of 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, 2023 and 2022, the Group has complied with the financial and non-financial covenants of its long-term debts.

19. Short-term and Long-term Debts

Short-term Debts

As of December 31, 2023 and 2022, outstanding unsecured short-term debts amounted to P4,280.0 million and P4,490.0 million, respectively. The loans, which are subject to annual interest rates ranging from 6.5% to 7.0% in 2023 and 3.2% to 7.0% in 2022, 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

	2023	2022
	(In Thousands)	
Bonds payable	P41,490,871	P58,439,097
Lease liabilities (Note 35, 37)	5,408,720	5,017,860
Unsecured term loans	2,611,423	3,255,346
	49,511,014	66,712,303
Current portion	(43,115,944)	(20,399,948)
	P6,395,070	P46,312,355

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, 2023 and 2022, the unamortized transaction cost of bonds payable amounted to P26.3 million and P92.6 million. Amortization of transaction costs amounting to P66.5 million and P75.9 million was charged to 'Interest expenses - bonds payable' in the consolidated statements of income (Note 19).

Unsecured term loans of Eton

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.

20. Other Liabilities

	2023	2022
	(In Thousands)	
Due to Treasurer of the Philippines	P1,444,009	P891,709
Bills purchased - contra (Note 8)	1,362,515	877,767
Managers' checks and demand drafts outstanding	1,296,191	1,548,448
Dormant credits	1,220,172	1,558,713
Deferred revenue	1,105,449	1,155,171
Provisions (Note 37)	1,068,215	1,376,289
Payable to landowners	1,061,191	1,061,191
Customers' deposits	900,224	945,825
Due to other banks	744,625	276,770
Margin deposits and cash letters of credit	686,130	224,033
Interoffice floats	632,242	537,628
Tenants' rental deposits	467,334	663,907
Withholding taxes payable	374,139	310,530
Miscellaneous tax securities	273,711	211,642
Advance rentals	231,744	136,644
Payment order payable	221,340	220,949
Deposit on lease contracts	76,028	75,129
Others	3,062,771	6,767,610
	16,228,030	18,839,955
Noncurrent portion	(6,237,658)	(8,464,180)
	P9,990,372	P10,375,775

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. In 2020, various landowners requested for extension, and the payment of the various promissory notes was extended for another three years. In 2022, the promissory note was further extended for another year using the same interest rate.

Interest expense related to payables to landowners net of capitalized portion is nil in 2023, 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 P900.2 million and P995.3 million as of December 31, 2023 and 2022, 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 pertain to liabilities of disposal group classified as held for sale amounting to P122.3 million in 2023 and P278.1 million in 2022 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, 2023 and 2022 and are not indicative of either market risk or credit risk (amounts in thousands, except average forward rate).

	2023			
	Assets	Liabilities	Average Forward Rate*	Notional Amount*
Currency forwards and spots:				
BUY:				
JPY	P90,263	P190,651	USD0.01	17,322,000
USD		351,871	1.00	1,344,799
SGD	40,763	—	0.76	11
SELL:				
USD	456	7,147	1.00	1,661,278
HKD	615,180	1	0.13	345,477
GBP	2,493	395	1.27	1,970
SGD	44	2,840	0.76	863
EUR	—	2,006	1.11	3,300
CAD	—	405	0.76	800
PHP	—	300	0.02	830,850
NZD	—	195	0.63	400
	P749,199	P555,811		

*The notional amounts pertain to original currencies.

	2022			
	Assets	Liabilities	Average Forward Rate*	Notional Amount*
Currency forwards and spots:				
BUY:				
USD	P749,512	P760,764	USD1.00	1,539,816
SGD	303	—	0.74	7
EUR	243	57,543	1.06	72,318
HKD	172	—	0.13	24
SELL:				
USD	604,222	65	1.00	644,843
EUR	3,803	70,519	1.06	62,040
GBP	2,765	—	1.20	2,000
NZD	319	—	0.63	400
JPY	216	11,911	0.01	534,700
PHP	200	138,260	0.02	2,743,406
HKD	187	236	0.13	321,189
AUD	9	55	0.67	700
SGD	—	348	0.74	1,700
CAD	—	75	0.73	1,700
	P1,361,951	P1,039,776		

*The notional amounts pertain to original currencies.

The table below shows the rollforward analysis of net derivative assets (liabilities):

	2023	2022
	(In Thousands)	
Balance at beginning of year		
Derivative assets	P1,361,951	P1,365,051
Derivative liabilities	1,039,776	891,531
	322,175	473,520
Changes in fair value		
Currency forwards and spots*	(135,968)	(147,028)
Interest rate swaps and warrants**	609	—
	(135,359)	(147,028)
Net availments (settlements)	6,573	(4,317)
Balance at end of year		
Derivative assets	749,199	1,361,951
Derivative liabilities	555,811	1,039,776
	P193,388	P322,175

* 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
	PMFTC
	VMC
Subsidiaries	Joint Ventures
TDI and Subsidiaries	ABI Pascual Holdings
AAC	ABI Pascual Foods
ADI	AEPCD
TBI	
ABI and Subsidiaries	
AB Nutrivev	
Agua Vida Systems, Inc.	
Asia Pacific Beverage Pte Ltd	
Asia Pacific Beverages Myanmar Company Limited	
Interbev	
Packageworld	
Waterich	
FTC	
Shareholdings	
Saturn	
Paramount and Subsidiaries	
Eton	
BCI	
ECI	
EPMC	
FHI	
Bank Holding Companies:	
All Seasons Realty Corp.	
Allmark Holdings Corp.	
Caravan Holdings, Corp.	
Dunmore Development Corp.	
Dynaworld Holdings Inc.	
Fil-Care Holdings Inc.	
Ivory Holdings, Inc.	
Kenrock Holdings Corp.	
Kentwood Development Corp.	
La Vida Development Corp.	
Leadway Holdings, Inc.	
Merit Holdings & Equities Corp.	
Multiple Star Holdings Corp.	
Pioneer Holdings & Equities, Inc.	
Profound Holdings Inc.	
Purple Crystal Holdings, Inc.	
Safeway Holdings & Equities Inc.	
Society Holdings Corp.	
Solar Holdings Corp.	
Total Holdings Corp.	
Donfar Management Ltd.	
Fast Return Enterprises 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.	
Entities Under Common Control	
Ascot Holdings, Inc.	
Basic Holdings Corporation	
Billings Investments Limited	
Bright Able Holdings Ltd.	
Complete Best Development Ltd.	
Cormack Investments Ltd	
Cosmic Holdings Corp.	
Cube Factor Holdings, Inc.	
Dyzum Distillery Inc.	
Foremost Farms Inc.	
Grand Cargo and Warehousing Services, Inc.	
Grandsan Development Corp.	
Grandway Konstruct, Inc.	
Harmonic Holdings Corp.	
Heritage Holdings Corp.	
Hibersham Assets Ltd.	
High Above Properties Ltd.	
Himmel Industries Inc.	
In Shape Group Ltd.	
Lapu Lapu Packaging	
Link Great International Ltd.	
Lucky Travel Corporation	
Maxell Holdings, Corp.	
Negros Biochem Corporation	
Networks Holdings & Equities, Inc.	
Orient Legend Developments Ltd.	
Penick Group Limited	
Philippine Airlines, Inc.	
Pol Holdings, Inc.	
Polima International Limited	
Proton Realty & Development Corporation	
Rapid Movers & Forwarders Co. Inc.	
Sierra Holdings & Equities, Inc.	
Step Dragon Co. Limited	
Trustmark Holdings Corporation	
Upright Profits Ltd.	



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	2023	2022	2021
			(In Thousands)	
Associates	Dividend income	P16,748,650	P19,250,184	P20,834,736
	Purchases of inventories	(16,795)	(366,912)	(794,530)
	Service fee and commission income	431,287	73,199	73,199
	Leases	35,100	35,100	35,100
Entities Under Common Control	Banking revenue - interest on loans and receivables	1,997,271	723,194	575,833
	Rent income	97,556	55,117	35,719
	Interest income on loans and advances	9,834	51,026	51,737
	Sales of consumer products	2,085	2,147	7,405
	Other income	30,793	20,424	86,856
	Freight and handling	(11,435)	(20,635)	(8,676)
	Purchases of inventories	(161)	(6,696)	(6,785)
Entities Under Common Control	Management and professional fees	(503,100)	(326,399)	(558,372)
	Cost of banking services - interest expense on deposit liabilities	(1,644,192)	(570,304)	(211,108)
	Rent expense	(22,794)	(22,794)	-
	Cost of goods sold and services	(23,834)	(42,768)	(866)
Key Management	Short-term employee benefits	(526,038)	(517,114)	(460,711)
	Post-employment benefits	(53,041)	(47,424)	(50,629)

The consolidated statements of financial position include the following asset (liability) account balances with related parties:

Financial Statement Account	Terms and Conditions	Amount/Volume		Outstanding Balance	
		2023	2022	2023	2022
			(In Thousands)		
Parent Company	Due to related parties	P-	(P15,325)	P-	P-
	On demand; non-interest bearing				
	Maturity terms ranging from 90 days to 3 years; 2.5% interest per annum	(1,195,000)	(4,129,300)	914,000	2,109,000
	Due from related parties				
	Trade receivables	(121,253)	-	-	121,253
	Nontrade receivables	(6,153)	(181)	2,595	8,747
	Account payable and other liabilities				
	30 to 60 days terms; non-interest bearing	364,852	(366,912)	(2,060)	(366,912)
Entities Under Common Control	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	1,997,271	723,194	55,298,956	41,077,025
	Finance receivables				
	Trade receivables	2,085	2,147	7,497	23,812
	Other receivables	30,793	20,424	11,345	47,904
	Due from related parties	(22,753)	242	1,424,723	1,447,476
	Advances to suppliers	(30,394)	(42,768)	12,875	43,269
	With annual rates ranging from 0.10% to 1.50% and maturity ranging from 30 days to 365 days	(5,980,997)	(4,235,274)	(46,333,463)	(40,352,466)
	Deposit liabilities				
	Account payable and other liabilities	273,186	-	(205,079)	478,265
	Due to related parties	-	-	(50,000)	(50,000)
	On demand; non-interest bearing				

As of December 31, 2023 and 2022, 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 2023 and 2022, the Group declared cash dividends to stockholders of which P9.7 billion and P11.3 billion, respectively were paid to Tangent.

Transactions with Associates

- Dividend income from PMFTC amounted to P16.7 billion in 2023 and P19.2 billion in 2022 (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.
- In 2023 and 2022, 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.

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, 2023 and 2022, 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:

	2023	2022
	(In Thousands)	
Net retirement plan assets:		
FTC	P270,437	P259,793
LTG	3,991	6,057
TBI	2,892	—
	P277,320	P265,850
Net retirement benefits liabilities:		
PNB and subsidiaries	P264,302	P378,850
ABI and subsidiaries	571,553	203,859
TDI	101,832	4,941
Eton and subsidiaries	72,029	158,174
ADI	—	47,869
TBI	—	2,807
	P1,009,716	P796,500

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:

	2023			2022			2021		
	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
Beginning balance	P106,151	(P372,001)	(P265,850)	P111,086	(P379,996)	(P268,910)	P125,747	(P375,184)	(P249,437)
Net retirement benefits expense (income) in profit or loss:									
Current service cost	13,011	–	13,011	14,678	–	14,678	6,577	–	6,577
Net interest cost	7,197	(23,734)	(16,537)	5,395	(16,030)	(10,635)	4,851	(14,520)	(9,669)
	20,208	(23,734)	(3,526)	20,073	(16,030)	4,043	11,428	(14,520)	(3,092)
Contributions	–	(9,149)	(9,149)	–	(14,098)	(14,098)	–	(8,030)	(8,030)
Benefits paid	(8,851)	8,851	–	(4,877)	4,877	–	(4,835)	4,835	–
Remeasurement losses (gains) in other comprehensive income - actuarial changes arising from changes in:									
Financial assumptions	(112)	20,174	20,062	(13,069)	20,173	7,104	4,256	–	4,256
Experience adjustments	(37,880)	12,269	(25,611)	(7,062)	12,268	5,206	(25,510)	1,815	(23,695)
Return of plan asset	–	6,754	6,754	–	805	805	–	11,088	11,088
	(37,992)	39,197	1,205	(20,131)	33,246	13,115	(21,254)	12,903	(8,351)
Ending balance	P79,516	(P356,836)	(P277,320)	P106,151	(P372,001)	(P265,850)	P111,086	(P379,996)	(P268,910)

Net retirement benefits liabilities:

	2023			2022			2021		
	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
Beginning balance	P8,961,190	(P8,164,690)	P796,500	P10,107,396	(P8,289,739)	P1,817,657	P11,130,110	(P8,711,473)	P2,418,637
Net retirement benefits cost in profit or loss:									
Current service cost	1,734,534	–	1,734,534	1,012,069	–	1,012,069	970,694	–	970,694
Net interest cost	800,670	(610,270)	190,400	527,651	(448,643)	79,008	385,429	(300,486)	84,943
Past service cost	–	–	–	312,332	–	312,332	–	–	–
	2,535,204	(610,270)	1,924,934	1,852,052	(448,643)	1,403,409	1,356,123	(300,486)	1,055,637
Contributions	–	(1,289,113)	(1,289,113)	–	(976,430)	(976,430)	(750,120)	(209,028)	(959,148)
Benefits paid from plan assets	(901,628)	901,628	–	–	–	–	(686,967)	686,967	–
Benefits paid directly from book reserves	(44,042)	44,042	–	(1,068,558)	1,068,558	–	–	–	–
Settlement benefits paid directly by the Group	508	–	508	(44,042)	44,042	–	–	–	–
Remeasurement losses (gains) in other comprehensive income - actuarial changes arising from changes in:									
Financial assumptions	(493,328)	–	(493,328)	(471,353)	373,145	(88,208)	(647,100)	–	(647,100)
Demographic assumptions	616,579	(5,317)	611,262	(1,195,424)	(5,317)	(1,200,741)	–	–	–
Experience adjustments	179,199	(720,246)	(541,047)	(218,881)	69,694	(149,187)	(294,650)	244,281	(50,369)
	302,450	(725,563)	(423,113)	(1,885,656)	437,522	(1,448,136)	(941,750)	244,281	(697,469)
Ending balance	P10,853,682	(P9,843,966)	P1,009,716	P8,961,190	(P8,164,690)	P796,500	P10,107,396	(P8,289,739)	P1,817,657

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

	2023	2022
	(In Thousands)	
Cash and cash equivalents	P3,109,010	P4,010,871
Receivables	590,138	160,380
Equity investments:		
Financial institutions	1,034,001	701,165
Other	2,001,825	628,389
Debt investments:		
Investment in private debt securities	555,915	626,677
Investments in government securities	2,296,273	1,796,154
Others	613,640	613,054
Fair value of plan assets	P10,200,802	P8,536,690

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

	2023	2022
Cash and cash equivalents	30%	47%
Receivables	6%	2%
Equity investments	30%	16%
Debt investments	28%	28%
Others	6%	7%
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:

	2023	2022	2021
Discount rate	6.92% - 7.15%	4.70% - 5.10%	3.45% - 7.37%
Future salary increases	4.00% - 10.00%	4.00% - 8.00%	3.00% - 10.00%

As of December 31, 2023, the discount and future salary increase rates are 1.00% - 7.11% and 9.00% - 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):

	2023	2022
	Increase (Decrease) in Present Value of Defined Benefit Obligations	Increase (Decrease) in Present Value of Defined Benefit Obligations
	Change in rate	Change in rate
Discount rates	+0.50% (P613,074)	+1.00% (P589,152)
	-0.50% 658,840	-1.00% 631,760
Future salary increases	+1.00% 729,825	+1.00% 706,805
	-1.00% (678,685)	-1.00% (632,758)

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):

	2023	2022
One year and less	P2,026,566	P1,736,846
More than one year up to five years	5,760,457	5,528,064
More than five years up to 10 years	4,735,491	5,002,975
More than 10 years up to 15 years	4,981,907	5,106,646
More than 15 years	50,802,058	53,121,932

The Group expects to contribute P1.1 billion to the defined benefit pension plan in 2024. The average duration of the defined benefit obligations at the end of the reporting period is 14.0 years as of December 31, 2023 and 2022.

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, 2023 and 2022 for the Group includes investments in the PNB shares of stock with fair value amounting to P152.1 million and P156.2 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, 2023 and 2022, 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:

	2023	2022	2021
	(In Thousands)		
Banking revenue (Note 5)	P66,550,969	P50,843,607	P49,319,441
Sale of consumer goods	46,298,827	47,776,757	39,822,501
Rental income (Note 13)	2,330,775	2,026,439	1,893,706
Real estate sales	118,365	225,119	137,667
	P115,298,936	P100,871,922	P91,173,315

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 years ended December 31 (in thousands):

2023:

	Goods/Services transferred at a point in time	Services transferred over time	Revenues outside the scope of PFRS 15	Total
Sale of consumer goods	P46,298,827	P-	P-	P46,298,827
Service fees and commission income	6,591,256	-	-	6,591,256
Real estate sales	-	118,365	-	118,365
Interest income	-	-	59,565,610	59,565,610
Rental income	-	-	2,330,775	2,330,775
Trading and securities gains - net	-	-	394,103	394,103
	P52,890,083	P118,365	P62,290,488	P115,298,936

2022:

	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:

	2023	2022	2021
	(In Thousands)		
Interest income on:			
Loans and receivables (Note 8)	P40,729,008	P34,306,910	P34,002,946
Trading and investment securities (Note 21)	12,860,064	8,447,607	6,596,086
Interbank loans receivable	3,368,565	954,603	400,356
Deposits with banks and others	2,607,973	1,417,661	1,248,155
	59,565,610	45,126,781	42,247,543
Service fees and commission income	6,591,256	6,997,609	6,340,326
Trading and securities gains (losses) - net	394,103	(1,280,783)	731,572
	P66,550,969	P50,843,607	P49,319,441

Sale of consumer goods consists of:

	2023	2022	2021
	(In Thousands)		
Gross sales	P48,692,069	P50,761,426	P42,421,388
Less sales returns, discounts and allowances	(2,393,242)	(2,984,669)	(2,598,887)
	P46,298,827	P47,776,757	P39,822,501

Cost of goods sold and services consists of:

	2023	2022	2021
	(In Thousands)		
Cost of consumer goods sold:			
Materials used and changes in inventories (Note 9)	P17,293,723	P17,938,542	P14,580,312
Taxes and licenses	13,414,629	14,234,198	11,385,173
Depreciation and amortization (Notes 12, 13 and 14)	1,823,560	1,731,982	1,679,530
Personnel costs	1,267,163	1,248,866	1,240,849
Fuel and power	936,516	1,319,435	1,293,306
Communication, light and water	900,049	783,266	525,481
Freight and handling	777,075	1,374,885	1,031,483
Repairs and maintenance	601,148	579,288	511,739
Outside services	353,314	584,126	484,804
Others	1,083,839	570,750	571,720
	38,451,016	40,365,338	33,304,397
Cost of banking services	15,386,569	9,140,692	8,573,207
Cost of rental income (Note 13)	1,644,152	1,370,465	1,024,357
Cost of real estate sales (Note 9)	55,927	226,435	55,053
Cost of goods sold and services	P55,537,664	P51,102,930	P42,957,014

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

Cost of banking services consist of:

	2023	2022	2021
	(In Thousands)		
Interest expense on:			
Deposit liabilities (Note 15)	P12,123,916	P5,166,332	P4,778,047
Bills payable and other borrowings (Notes 7 and 17)	335,847	433,973	511,921
Bonds payable	1,660,193	2,111,192	2,231,863
	14,119,956	7,711,497	7,521,831
Services fees and commission expense	1,266,613	1,429,195	1,051,376
	P15,386,569	P9,140,692	P8,573,207

25. Selling Expenses

	2023	2022	2021
	(In Thousands)		
Advertising and promotions	P1,111,536	P1,027,998	P896,479
Depreciation and amortization (Note 12)	653,398	623,076	476,052
Royalties	150,299	113,996	78,149
Personnel costs	139,135	145,712	151,125
Management, consulting and professional fees	115,432	105,608	107,910
Materials and consumables	33,585	27,776	15,139
Freight and Handling	31,410	56,313	14,413
Communication, light and water	15,117	22,018	16,542
Commissions	5,346	384	23,594
Fuel and oil	2,962	2,947	2,656
Others	258,065	158,081	122,961
	P2,516,285	P2,283,909	P1,905,020

Others include occupancy fees, repairs and maintenance, insurance, donations, membership and subscription dues, which are individually not significant as to amounts.

26. General and Administrative Expenses

	2023	2022	2021
	(In Thousands)		
Personnel costs	P11,377,863	P10,681,708	P10,924,480
Provision for credit losses (Note 8)	5,923,054	7,129,045	10,816,497
Taxes and licenses	5,332,642	5,623,939	4,411,375
Depreciation and amortization (Notes 12, 13 and 14)	3,478,675	3,613,554	2,247,378
Outside services	2,153,673	2,002,298	1,888,113
Insurance	2,025,999	1,798,088	2,014,664
Management, consulting and professional fees	1,025,723	1,045,619	936,946
Information technology	1,001,111	1,193,975	1,304,930
Occupancy	P965,598	P1,161,775	P1,930,751
Marketing and promotional	843,794	1,070,147	719,070
Litigation and assets acquired expenses	662,610	373,740	396,386
Travel and transportation	423,594	442,357	383,935
Materials and consumables	259,688	305,913	318,241
Communication, light and water	240,547	266,161	208,541
Repairs and maintenance	154,286	180,023	173,200
Freight and handling	137,612	144,088	141,869
Entertainment and representation	30,031	154,987	189,098
Fuel and oil	25,858	28,802	21,517
Others	824,145	579,564	1,294,886
	P36,886,503	P37,795,783	P40,321,877

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:

	2023	2022	2021
	(In Thousands)		
Finance costs (Note 19):			
Short-term debts	P364,211	P260,132	P201,616
Unsecured term loan and notes payable (Note 20)	327,245	224,482	163,257
	P691,456	P484,614	P364,873
Finance income:			
Cash and other cash items (Note 5)	P84,958	P219,285	P41,663

28. Other Income (Charges)

	2023	2022	2021
	(In Thousands)		
Net gains (losses) on sale or exchange of assets	P4,540,535	P7,795,284	(P19,979)
Rental income and dues (Note 13)	1,011,999	540,786	1,357,043
Recoveries from charged off assets	215,834	303,435	85,164
Rooms and other operated departments	192,849	219,489	220,186
Dividend income	81,165	72,283	69,015
Management fees	75,202	174,081	163,322
Income from assets acquired	74,074	95,736	183,173
Provision for probable losses (Notes 14)	—	—	165,425
Others	75,581	335,079	535,482
	P6,267,239	P9,536,173	P2,758,831

- 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 2023, 2022 and 2021 amounting to P3,048.6 million, P5,703.9 million and P15.2 million, respectively.
- c. Others include income and expense items mainly relating to banking operations, which are individually not significant as to amounts.

- a. Details of the Group's deferred income tax assets and liabilities as of December 31 follow:

	2023		2022	
	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	P9,558,221	P93,004	P8,615,818	P128,045
Inventories	15,617	5,603	30,728	10,540
Property, plant and equipment	7,386	—	2,428	—
Allowance for probable losses on excise taxes	—	51,071	—	104,364
Accumulated depreciation on investment properties	585,363	—	520,544	—
Unrealized losses on:				
Inventories on hand	—	2,283	—	4,665
Sale of property to a subsidiary	41,021	2,692	419,070	5,502
Deferred rent income	182,557	14,218	162,342	15,678
Net retirement benefits liabilities	P152,571	P135,865	P91,912	P196,489
Reserves and others	195,889	153,521	174,197	295,687
Advance rentals	—	29,167	—	32,163
Accrued expenses	419,064	19,958	372,660	22,008
Unamortized past service cost	10,857	3,887	3,569	7,484
Unrealized forex losses	—	569	—	1,162
Difference between right-of-use assets and lease liabilities	119,359	95,325	39,238	108,407
	11,287,905	607,163	10,432,506	932,194
Deferred income tax liabilities on:				
Fair value gain on investment properties	(1,590,323)	—	(1,414,221)	—
Excess of fair values over carrying values of property, plant and equipment acquired through business combination	(181,761)	(21,220)	(161,634)	(43,364)
Gain on re-measurement of a previously held interest	(277,365)	—	(246,651)	—
Unrealized foreign exchange gains	(391,385)	(82)	(342,947)	(2,583)
Borrowing cost capitalized to property, plant, and equipment	(109,381)	(197,083)	(35,958)	(220,161)
Deferred rental income	(12,976)	(68,670)	(44,956)	(75,723)
Difference between tax and book basis of accounting for real estate transactions	—	(70,401)	—	(77,632)
Unamortized debt cost	(3,450)	(1,197)	(1,134)	(1,320)
Gain on asset share swap	—	(443,110)	—	(443,110)
Net retirement plan assets	(1,377)	(102,284)	(5,804)	(104,303)
Net changes in fair values of FVTPL financial assets	(16,948)	(5,985,173)	(58,719)	(79,730)
Others	(24,779)	(25,597)	(27,997)	(34,238)
	(2,609,744)	(6,914,819)	(2,340,021)	(1,082,164)
	8,678,161	(6,307,656)	8,092,485	(149,970)

(Forward)

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.



	2023		2022	
	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)			
<i>Recognized directly in equity:</i>				
Deferred income tax assets on:				
Remeasurement losses on retirement benefits	2,735	46,427	11,529	11,368
Deferred income tax liabilities on:				
Revaluation increment on property, plant and equipment	(1,775,705)	(1,920,906)	(1,564,192)	(8,270,677)
Remeasurement gains on defined benefit plans	(42,368)	(19,462)	(13,928)	(21,461)
Unrealized gains on changes in fair value of financial assets at FVTOCI	(2,116)	(73,660)	(1,882)	(19,702)
	(1,820,190)	(2,014,029)	(1,580,002)	(8,311,840)
	(1,817,454)	(1,967,602)	(1,568,473)	(8,300,472)
	P6,860,706	(P8,275,257)	P6,524,012	(P8,450,442)

(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:

	2023	2022
	(In Thousands)	
Net deferred income tax assets:		
PNB and subsidiaries	P6,767,127	P6,017,780
Eton and subsidiaries	41,021	419,070
ABI and subsidiaries	31,204	10,258
Bank holding companies	17,461	60,495
TDI and subsidiaries	3,893	16,409
	P6,860,706	P6,524,012
Net deferred income tax liabilities:		
PNB and subsidiaries	P7,278,366	P7,133,553
Paramount	443,110	443,110
TDI and subsidiaries	196,203	400,944
ABI and subsidiaries	113,953	212,537
FTC	105,649	95,001
Eton and subsidiaries	69,013	76,101
Bank holding companies	55,545	79,730
LTG	13,418	9,466
	P8,275,257	P8,450,442

b. Provision for current income tax consists of:

	2023	2022	2021
	(In Thousands)		
RCIT	P2,591,343	P4,587,430	P2,660,808
MCIT	1,055	1,190	14,197
Final tax	3,073,039	1,856,890	1,437,058
Provision for current income tax	P5,665,437	P6,445,510	P4,112,063

c. As of December 31, 2023 and 2022, 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:

	2023	2022
	(In Thousands)	
Allowance for credit losses	P8,262,820	P9,124,826
NOLCO	2,701,181	1,661,662
Unamortized past service cost	1,578,746	2,140,071
Derivative liabilities	555,811	1,037,348
Net retirement benefits liability	545,305	658,363
Unrealized loss on AFS investment	147,661	870,774
Unrealized foreign exchange loss	115,483	—
Excess MCIT	27,486	26,738
Allowance for inventory obsolescence	—	17,241
Others	952,417	309,178

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

	December 31, 2022	Additions	Expired	December 31, 2023	Expiry Year
Year Incurred					
2020	P281,099	P—	P—	P281,099	2025
2021	1,046,192	—	—	1,046,192	2026
2022	334,371	—	—	334,371	2025
2023	—	984,313	—	984,313	2026
	P1,716,868	P984,313	P—	P2,701,181	

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, 2023, the Group has incurred NOLCO in taxable years 2020 and 2021 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):

	December 31, 2022	Addition	Expired	December 31, 2023	Expiry Year
Year Incurred					
2020	P26,093	P—	P26,093	P—	2023
2021	525	—	—	525	2024
2022	120	—	—	120	2025
2023	—	1,056	—	1,056	2026
	P26,738	P1,056	P26,093	P1,821	

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:

	2023	2022	2021
	(In Thousands)		
Provision for income tax at statutory income tax rate	P9,808,424	P9,150,899	P6,815,555
Adjustments resulting from:			
Nontaxable income	(4,797,970)	(5,039,157)	(3,524,312)
Equity in net earnings of associates and joint ventures	(2,981,183)	(4,023,644)	(4,505,295)
Non-deductible expenses	2,938,953	2,712,313	8,694,202
NOLCO and other deductible temporary differences for which no deferred income tax assets were recognized in current year	2,179,126	2,567,494	2,592,694
Income subjected to final tax	(P176,430)	(P882,010)	(P2,581,817)
Effect of availment of ITH	—	—	(35,963)
Change in tax rate	—	—	(77,224)
Others - net	(1,743,103)	1,452,695	(956,094)
Provision for income tax	P5,217,817	P5,938,590	P6,421,746

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 377 and 372 stockholders as of December 31, 2023 and 2022, 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	In Absolute Amount
2023:				
November 17, 2023	December 5, 2023	December 15, 2023	P0.30	P3,246,416,667
August 15, 2023	September 4, 2023	September 13, 2023	0.30	3,246,416,667
May 15, 2023	May 30, 2023	June 13, 2023	0.30	3,246,416,667
February 17, 2023	March 6, 2023	March 17, 2023	0.30	3,246,416,667
				P12,985,666,668
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

On February 23, 2024, the Company's BOD approved the declaration of cash dividends amounting to 3,246.42 million (i.e., 0.30 per share) to all stockholders of record as of March 11, 2024. The cash dividends were authorized to be paid not later than March 22, 2024.

b. Retained earnings include undistributed earnings amounting to P172.3 billion, P154.1 billion and P98.1 billion as of December 31, 2023, 2022 and 2021, 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, 2023 amounted to P46.6 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, 2023 and 2022.

Other Equity Reserves

Other equity reserves as at December 31 consist of:

	2023	2022
	(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	58,055	121,217
Effect of transaction with non-controlling interest	66,658	66,658
Effect of sale of a subsidiary to the Company	99,655	99,655
Effect of sale of direct interest in a subsidiary	186,572	186,572
	(P5,592,465)	(P5,529,303)

Shares of Stock of the Company Held by Subsidiaries

Shares held by subsidiaries include P5.0 million shares owned by All Seasons amounting to P12.5 million as of December 31, 2023 and 2022. As of December 31, 2011, Saturn owned P76.5 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:

	2023	2022	2021
	(In Thousands)		
Balance as of January 1	P77,816,817	P73,465,271	P70,124,342
Net income attributable to non-controlling interests	8,594,426	5,527,606	614,622
Share in other comprehensive income, net of deferred income tax effect:			
Net change in aggregate reserves on life insurance policies	(48,688)	331,912	128,239
Remeasurement gains (losses) on defined benefit plans (Notes 2 and 23)	(793,240)	(364,996)	124,792
Revaluation increment on property plant and equipment	(42,559)	(21,229)	(243,897)
Cumulative translation adjustments	(137,023)	353,050	341,939
Net changes in financial assets at FVOCI (Note 7)	1,844,494	(2,287,612)	(1,635,861)
Acquisition of shares of subsidiaries from the Controlling Shareholders	(40,633)	330,235	441,157
Other equity reserves	528,534	482,580	3,569,938
Balance as of December 31	P87,722,128	P77,816,817	P73,465,271

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:

	2023	2022	2021
	(In Thousands)		
Net income attributable to equity holders of the Company	P25,421,454	P25,137,400	P20,246,467
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	P2.35	P2.32	P1.87

Net income from continuing operations is attributable to:

	2023	2022	2021
	(In Thousands)		
Equity holders of the Company	P25,421,454	P25,137,400	P20,234,820
Non-controlling interests	8,594,426	5,527,606	605,654
	P34,015,880	P30,665,006	P20,840,474

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

	2023	2022	2021
	(In Thousands)		
Net income from continuing operations attributable to equity holders of the Company	P25,421,454	P25,137,400	P20,234,820
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	P2.35	P2.32	P1.87

There are no potential common shares with dilutive effect on the basic earnings per share in 2023, 2022 and 2021.

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 an increase in risk-weighted assets or a reduction in earnings

and/or qualifying capital which translate into a reduction in CAR by 20 basis points (bps).

On the other hand, risks that will potentially have an impact to the CAR by less than 20 bps will also be considered "material" by the Group if these fall under the following:

- Pillar 1 risks, i.e., Credit, Market, and Operational Risks;
- Other risks under BSP Cir. No. 510, i.e., Interest Rate Risk in the Banking Book (IRRBB),
- Liquidity Risk, Reputational Risk and Strategic Business Risk;
- Information Technology Risk (BSP Cir. No. 808);
- Information Security / Cyber Security Risk (BSP Cir. No. 982) and
- Further risks identified as "material" by the Board and Management Committee such as Data
- Privacy Risk and Human Resource Risk.

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:

1. Credit Concentration Risk
2. Interest Rate Risk in Banking Book (IRRBB)
3. Liquidity Risk
4. Reputational Risk
5. Strategic Business Risk
6. Information Security / Cyber Security / Data Privacy Risk
7. Information Technology
8. Human Resource 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.

Credit Risk

For the banking segment, credit risk is the non-recovery of credit exposures (on-and-off balance sheet exposures). Managing credit risk also involves monitoring of migration risk, concentration risk, country risk and settlement risk. The banking segment manages its credit risk at various levels (i.e., strategic level, portfolio level down to individual transaction).

The credit risk management of the entire loan portfolio is under the direct oversight of the ROC and Executive Committee. Credit risk

assessment of individual borrower is performed by the business sector, remedial sector and credit management sector. Risk management is embedded in the entire credit process, i.e., from credit origination to remedial management, as applicable.

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;
- 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 monitoring and reporting;
- 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:

	2023			
	Maximum Exposure	Fair Value of Collateral	Net Exposure	Financial Effect of Collateral
(In Millions)				
Securities held under agreements to resell	P69,695	P57,785	P11,909	P57,785
Loans and receivables:				
Receivables from customers*:				
Corporates	543,916	273,902	449,262	94,654
Local government units (LGU)	2,196	—	2,196	—
Credit Cards	13,918	—	13,918	—
Retail small and medium enterprises (SME)	4,379	2,398	2,796	1,583
Housing Loans	23,773	22,519	12,306	11,467
Auto Loans	5,397	11,004	1,266	4,132
Others	10,660	5,751	6,684	3,977
Other receivables	12,466	—	12,466	—
	P686,400	P373,359	P512,803	P173,598

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

	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).

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:

	2023			
	Loans and receivables*	Trading and investment securities	Other financial assets**	Total
	(In Millions)			
Philippines	P591,914	P265,176	P126,074	P983,164
Asia (excluding the Philippines)	15,018	17,836	88,779	121,633
USA and Canada	6,846	2,870	6,479	16,195
Other European Union Countries	P1,938	P7,155	P11	P9,104
Middle East	58	3,877	3	3,938
United Kingdom	448	1,335	1,037	2,820
Oceania	483	—	2	485
	P616,705	P298,249	P222,385	P1,137,339

* 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"

	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"

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.

	2023			
	Loans and receivables*	Trading and investment securities	Other financial assets***	Total
	(In Millions)			
Primary target industry:				
Financial intermediaries	P91,682	P10,488	P123,167	P225,337
Wholesale and retail	115,294	—	—	115,294
Electricity, gas and water	83,772	16,562	—	100,334
Manufacturing	58,057	2	—	58,059
Transport, storage and communication	44,878	—	—	44,879
Agriculture, hunting and forestry	5,017	—	—	5,017
Public administration and defense	1,533	—	—	1,533
Secondary target industry:				
Government	2,183	229,289	99,169	330,641
Real estate, renting and business activities	106,897	9,227	14	116,138
Construction	31,040	—	—	31,040
Others**	76,353	32,681	36	109,070
	P616,706	P298,249	P222,386	P1,137,341

* 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".

	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".

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-	<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>
Standard S&P Equivalent Global Rating: BB+ to BB-	<p>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.</p> <p>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.</p> <p>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.</p>
Substandard S&P Equivalent Global Rating: B+ to CCC-	<p>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.</p> <p>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.</p>
Impaired S&P Equivalent Global Rating: D	<p>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.</p>

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:

	2023			
	Stage 1	Stage 2	Stage 3	Total
(In Millions)				
Subject to CRR				
Non-Retail - Corporate				
High	P220,424	P7	P-	P220,431
Standard	240,185	6,626	-	246,811
Substandard	46,359	20,817	-	67,176
Impaired	-	-	32,477	32,477
	506,968	27,450	32,477	566,895
Subject to Scoring & Unrated				
Non-Retail	7,232	39	561	7,832
Corporate	5,049	10	498	5,557
LGU	2,183	29	63	2,275
Retail	43,677	863	10,877	55,417
Auto Loans	5,215	22	1,264	6,501
Housing Loans	20,090	249	7,962	28,301
Retail SME	4,163	152	1,067	5,382
Credit Card	14,209	440	584	15,233
Others	8,573	2,088	1,667	12,328
	59,482	2,990	13,105	75,577
	P566,450	P30,440	P45,582	P642,472

	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

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

	2023				
	Less than 30 days	31 to 90 days	91 to 180 days	More than 180 days	Total
(In Millions)					
Housing Loans	P165	P198	P229	P7,629	P8,221
Auto Loans	15	19	15	1,236	1,285
Retail SME	36	16	13	1,627	1,692
Credit Card	635	367	309	553	1,864
LGU	13	-	-	51	64
Others	27	36	204	1,599	1,866
Total	P891	P636	P770	P12,695	P14,992

	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



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, 2023					Unrated	Total
	Rated						
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal			
	(In Millions)						
Due from BSP ^{1/}	P–	P–	P–	P–	P95,410	P95,410	
Due from other banks	3,421	13,011	4,012	20,444	810	21,254	
Interbank loans receivables	8,816	22,455	–	31,271	4,372	35,643	
Securities held under agreements to resell	21,931	22,581	25,197	69,709	–	69,709	
Financial assets at FVOCI							
Government securities	1,526	3,542	119,143	124,211	160	124,371	
Private debt securities	–	3,633	10,547	14,180	–	14,180	
Quoted equity securities	–	–	–	–	1,049	1,049	
Unquoted equity securities	–	–	–	–	24,929	24,929	
Investment securities at amortized cost							
Government securities	476	7,029	96,971	104,476	57	104,533	
Private debt securities	–	12,300	6,523	18,823	–	18,823	
Financial assets at amortized cost							
Loans and receivables - Others ^{2/}	–	–	–	–	17,486	17,486	

^{1/} Due from BSP¹ 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, 2022					
	Rated				Unrated	Total
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal		
	(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	145	7,951	69,893	77,989	209	78,198
Government securities	–	8,877	1,159	10,036	26,083	36,119
Private debt securities						
Financial assets at amortized cost						
Loans and receivables - Others ^{2/}	–	–	–	–	17,925	17,925

^{1/} Due from BSP¹ 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 tables in the next page show 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.

	2023					
	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	P21,151	P–	P–	P–	P–	P21,151
Due from BSP and other banks	120,467	–	–	–	–	120,467
Interbank loans receivable	28,531	5,489	968	1,023	–	36,011
Securities held under agreements to resell	69,812	–	–	–	–	69,812
Financial assets at FVTPL:						
Government securities	4,294	534	39	92	3,587	8,546
Private debt securities	–	30	19	995	662	1,706
Equity securities	3	–	–	–	–	3
Derivative assets:						
Gross contractual receivable	87,950	17,614	2,100	445	30	108,139
Gross contractual payable	(87,391)	(17,458)	(2,071)	(441)	(29)	(107,390)
Financial Assets at FVTOCI:						
Government securities	33,490	46,205	1,285	2,180	47,002	130,162
Private debt securities	938	1,112	1,988	2,370	9,480	15,888
Equity securities	1,411	–	–	–	24,567	25,978
Investment securities at amortized cost						
Government securities	6,210	4,082	5,719	4,000	124,961	144,972
Private debt securities	1,347	3,825	1,334	1,705	27,485	35,696
Financial assets at amortized cost:						
Receivables from customers	149,406	61,187	28,126	23,387	510,204	772,310
Other receivables	14,813	666	388	242	1,377	17,486
Other assets	383	–	–	–	19	402
Total financial assets	P452,815	P123,286	P39,895	P35,998	P749,345	P1,401,339
Financial Liabilities						
Deposit liabilities:						
Demand	P229,771	P–	P–	P–	P–	P229,771
Savings *	367,398	–	–	–	–	367,398
Time and LTNCDS *	190,634	98,115	16,667	19,936	14,355	339,707
Financial liabilities at FVTPL:						
Derivative liabilities:						
Gross contractual payable	53,574	7,507	3,407	673	–	65,161
Gross contractual receivable	(53,335)	(7,274)	(3,341)	(658)	–	(64,608)
Bills and acceptances payable	6,020	10,282	2,290	504	1,139	20,235
Bonds payable	–	15	–	42,762	–	42,777
Accrued interest payable and accrued other expenses payable	4,683	55	218	113	479	5,548
Other liabilities	8,055	3	–	77	1,215	9,350
Total financial liabilities	P806,800	P108,703	P19,241	P63,407	P17,188	P1,015,339

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

	December 31, 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–	=22,218
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

(Forward)



December 31, 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
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	27,156	38,707	17,168	558	—	83,589
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.

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, 2023 and 2022, LCR reported to the BSP with certain adjustments is 271.54% and 246.25%, 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, 2023 and 2021, NSFR reported to the BSP with certain adjustments is shown in the table below (amounts, except ratios, are expressed in millions):

	2023	2022
Available stable funding	P894,199	P852,706
Required stable funding	595,019	621,402
NSFR	150.28	137.22%

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 parametric 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.

The VaR models undergo close monitoring and regular review of the model's parameters and assumptions to determine model quality.

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.

The table below show the trading VaR:

Trading Portfolio	Foreign Exchange*	Interest Rate	Equities Price	Total VaR**
(In Millions)				
December 29, 2023	P3.99	P86.63	P0.00	P90.62
Average Daily	9.26	133.08	0.00	142.34
Highest	33.27	313.88	0.00	320.92
Lowest	1.78	62.67	0.00	67.76
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

* 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:

	2023					
	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	P58,150	P9,074	P3,369	P8,901	P37,160	P116,654
Interbank loans receivable and securities held under agreements to resell	98,093	5,439	734	1,063	–	105,329
Receivables from customers and other receivables - gross**	161,956	49,845	28,902	39,616	104,404	384,723
Total financial assets	P318,199	P64,358	P33,005	P49,580	P141,564	P606,706
Financial Liabilities*						
Deposit liabilities:						
Savings	P158,675	P56,242	P27,796	P49,150	P249,146	P541,009
Time***	81,037	40,011	6,280	5,894	12,530	145,752
Bonds payable	–	–	–	41,491	–	41,491
Bills and acceptances payable	10,303	5,297	1,747	185	2,631	20,163
Total financial liabilities	P250,015	P101,550	P35,823	P96,720	P264,307	P748,415
Repricing gap	P68,184	(P37,192)	(P2,818)	(P47,140)	(P122,743)	P141,709
Cumulative gap	68,184	30,992	28,174	(18,966)	(141,709)	

* Financial instruments that are not subject to repricing/rollforward were excluded.

** Receivables from customers excludes residual value of leased assets (Note 8).

***Excludes LTNCO.



	2022					Total
	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	
	(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					Total
	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	
	(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)	

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:

	2023		2022	
	Statement of Income	Equity	Statement of Income	Equity
	(In Millions)			
+50bps	P120	P120	(P353)	(P353)
-50bps	(120)	(120)	353	353
+100bps	240	240	(705)	(705)
-100bps	(240)	(240)	705	705

In addition to EaR, the banking segment's Parent Bank also employs economic value-based measures that assess the present value of the expected net cash flows of assets and liabilities, particularly those that are interest-bearing, discounted to reflect market rates. At the same time that fluctuations in interest rates will affect the banking segment's earnings, these will also have an impact on its net worth or capital position. In coming up with present values, the relevant risk-free rate shall be used to formulate discount factors. Resulting weighted net positions across tenors are aggregated to determine the Economic Value of Equity (EVE) per book and per major currency under different shock scenarios.

Delta EVE is the difference between the total net present value of expected asset and liability cash flows when discounted at prevailing market rates and when discounted against shocked interest rates. Delta EVE is computed based on several interest rate shock scenarios (e.g. parallel up, parallel down, short rates up, short rates down, steepening rates, flattening rates). The scenario with the most negative Delta EVE, pertaining to the highest decline in net present value, is compared to the medium to long-term Delta EVE trigger, which corresponds to a percentage of the banking segment's Parent Bank's Common Equity Tier 1 (CET1) capital.

As of December 31, 2023, the maximum negative Delta EVE is at P6.2 billion or 5.43% of CET1 capital coming from the steepening rates scenario.

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 excluding those under FCDU (amounts in Philippine peso equivalent).

	December 31, 2023			December 31, 2022		
	USD	Others*	Total (In Millions)	USD	Others*	Total
Assets						
Due from other banks	P119	P425	P544	P84	P221	P305
Interbank loans and securities held under agreements to resell	11,639	3,863	15,502	15,808	6,252	22,060
Loans and receivables	15,135	4,827	19,962	1,056	1,963	3,019
Financial Assets at FVTPL	26,836	11,552	38,388	27,846	9,648	37,494
Financial Assets at FVTOCI	5	—	5	1	2	3
Financial assets at amortized cost	866	733	1,599	837	1,359	2,196
Other assets	476	624	1,100	145	512	657
	11,780	1,031	12,811	123	1,120	1,243
Total assets	66,856	23,055	89,911	45,900	21,077	66,977
Liabilities						
Deposit liabilities	8,849	8,964	17,813	8,239	7,994	16,233
Derivative liabilities	—	—	—	—	—	—
Bills and acceptances payable	10,510	—	10,510	11,984	17	12,001
Accrued taxes, interest and other expenses	89	21	110	93	82	175
Other liabilities	9,378	2,494	11,872	26,256	2,200	28,456
Total liabilities	28,826	11,479	40,305	46,572	10,293	56,865
Net Exposure	P38,030	P11,576	P49,606	(P672)	P10,784	P10,112

* 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 P55.37 to US\$1.00 as of December 31, 2023 and P55.76 to US\$1.00 as of December 31, 2022.

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, 2023 and 2022:

	2023		2022	
	Income Before Income Tax	Equity (In Millions)	Income Before Income Tax	Equity
+1.00%	P372	(P380)	(P15)	(P7)
-1.00%	(372)	380	15	7

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, 2023:

	Cash in Banks	Due from related parties	Trade and other receivables					Total
			Current	Days past due				
				< 30 days	30-60 days	61-90 days	> 90 days	
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	P243.8	P2,338.7	P8,209.4	P2,623.9	P2,836.0	P1,698.0	P3,638.7	P19,006.0
Expected credit loss	P-	P-	P1.1	P18.4	P19.9	P8.5	P363.9	P411.8

As of December 31, 2022:

	Cash in banks	Due from related parties	Trade and other receivables						Total
			Current	Days past due					
				< 30 days	30-60 days	61-90 days	> 90 days		
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	

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):

	2023			2022		
	< 1 year	1 to 5 years	Total	< 1 year	1 to 5 years	Total
Financial assets:						
Cash and other cash items	P243,791	P-	P243,791	P224,745	P-	P224,745
Trade receivables	18,992	-	18,992	19,079	-	19,079
Other receivables	4,351	-	4,351	4,468	-	4,468
Due from related parties	2,339	-	2,339	3,556	-	3,556
Refundable deposits	203	-	203	177	-	177
Financial assets at FVTPL	10,551	-	10,551	7,379	-	7,379
	P280,227	P-	P280,227	P259,404	P-	P259,404
Financial liabilities:						
Short-term debts	P4,280	P-	P4,280	P4,490	P-	P4,490
Accounts payable and other liabilities*	22,890	-	22,890	19,697	-	19,697
Long-term debts	43,116	6,395	49,511	20,400	46,312	66,712
Due to related parties	50	-	50	50	-	50
Other liabilities	9,090	6,238	15,328	10,376	8,464	18,840
	P79,426	P12,633	P92,059	P55,013	P54,776	P109,789

*Excluding non-financial liabilities amounting to =2,164 million and =2,158 million as of December 31, 2023 and 2022, 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 2023, 2022 and 2021, 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, 2023 and 2022, 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

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		Net exposure [c-d]
				Financial instruments	Fair value of Financial collateral	
	[a]	[b]	[c]		[d]	[e]
(In Thousands)						
December 31, 2023:						
Derivative assets (Notes 6 and 21)	P108,139,719	P107,390,520	P749,199	P37,098	P–	P712,101
Securities sold under agreements to repurchase (Note 5)	69,694,538	–	69,694,538	–	57,785,321	11,909,217
	P177,834,257	P107,390,520	P70,443,737	P37,098	P57,785,321	P12,621,318
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

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		Net exposure [c-d]
				Financial instruments	Fair value of Financial collateral	
	[a]	[b]	[c]		[d]	[e]
(In Thousands)						
December 31, 2023:						
Derivative liabilities (Notes 16 and 21)	P65,163,569	P64,607,758	P555,811	P196,010	P–	P359,801
Securities sold under agreements to repurchase (Note 8)*	10,053,531	–	10,053,531	–	11,972,805	–
Total	P75,217,100	P64,607,758	P10,609,342	P196,010	P11,972,805	P359,801
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

* 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, excluding the extent of over-collateralization.

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.

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

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:

	2023		2022	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In Thousands)			
Financial Assets:				
Financial assets at amortized cost	P123,200,427	P123,571,272	P110,467,960	P111,403,001
Loans and receivables:				
Receivables from customers	608,727,856	623,817,129	597,198,888	629,572,434
	P731,928,283	P747,388,401	P707,666,848	P740,975,435
Financial Liabilities:				
Financial liabilities at amortized cost:				
Deposit liabilities:				
Time deposits	P145,752,061	P145,538,240	P112,113,308	P112,113,308
Bills payables	10,607,626	10,559,411	7,702,325	7,625,229
Long-term debts:				
Unsecured term loan	2,611,422	2,611,422	3,255,346	3,255,346
Bonds payable	41,490,871	40,625,938	58,439,097	56,833,468
LTNCD	12,803,543	12,586,489	19,130,012	18,922,562
Other liabilities:				
Payable to landowners	1,061,191	1,061,191	1,061,191	1,061,191
Tenants' rental deposits	554,552	554,552	487,342	487,342
	P214,881,266	P213,537,243	P202,188,621	P200,298,446

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:

2023					
	Carrying Value	Level 1	Level 2	Level 3	Total
Measured at fair value:					
Financial Assets					
Financial assets at FVTPL:					
Government securities	P8,174,405	P2,633,602	P5,540,803	P–	P8,174,405
Private debt securities	1,590,489	914,210	676,279	–	1,590,489
Derivative assets	749,199	–	749,199	–	749,199
Equity securities	2,771	2,771	–	–	2,771
Financial assets at FVOCI:					
Government securities	124,372,410	46,682,566	77,689,844	–	124,372,410
Equity securities	25,978,530	200,709	1,014,081	24,763,740	25,978,530
Private debt securities	14,180,552	6,944,140	7,236,412	–	14,180,552
	P175,048,356	P57,377,998	P92,906,618	P24,763,740	P175,048,356
Financial Liabilities					
Financial liabilities at FVTPL:					
Derivative liabilities	P555,811	P–	P555,811	P–	P555,811
Fair values are disclosed:					
Financial Assets					
Financial assets at amortized cost:					
Investment securities at amortized cost*	P123,200,427	P24,840,676	P98,730,596	P–	P123,571,272
Receivables from customers**	604,188,788	–	–	623,817,129	623,817,129
	P727,389,215	P24,840,676	P98,730,596	P623,817,129	P747,388,401
Nonfinancial Assets					
Investment property:					
Land***	P12,359,795	P–	P–	P26,228,453	P26,228,453
Buildings and improvements***	2,219,763	–	–	7,975,404	7,975,404
	P14,579,558	P–	P–	P34,203,857	P34,203,857

2023					
	Carrying Value	Level 1	Level 2	Level 3	Total
Financial Liabilities					
Financial liabilities at amortized cost:					
Time deposits	P145,752,061	P–	P–	P145,538,240	P145,538,240
LTNCDs	12,803,543	–	12,586,489	–	12,586,489
Bonds payable	41,490,871	–	40,625,938	–	40,625,938
Bills payable	10,607,626	–	–	10,559,411	10,559,411
	P210,654,101	P–	P53,212,427	P156,097,651	P209,310,078

* Net of expected credit losses
** Net of expected credit losses and unearned and other deferred income
*** Net of impairment losses

2022					
	Carrying Value	Level 1	Level 2	Level 3	Total
Measured at fair value:					
Financial Assets					
Financial assets at FVTPL:					
Government securities	P4,371,671	P27,009	P4,344,662	P–	P4,371,671
Private debt securities	1,610,681	146,495	1,464,186	–	1,610,681
Derivative assets	1,361,951	–	1,361,951	–	1,361,951
Equity securities	2,898	2,898	–	–	2,898
Financial assets at FVOCI:					
Government securities	117,939,783	55,867,413	62,072,370	–	117,939,783
Equity securities	24,812,872	233,298	1,128,254	23,451,320	24,812,872
Private debt securities	15,430,870	244,224	15,186,646	–	15,430,870
	P165,530,726	P56,521,337	P85,558,069	P23,451,320	P165,530,726
Financial Liabilities					
Financial liabilities at FVTPL:					
Derivative liabilities	P1,039,776	P–	P1,039,776	P–	P1,039,776
Fair values are disclosed:					
Financial Assets					
Financial assets at amortized cost:					
Investment securities at amortized cost*	P110,467,960	P14,695,749	P96,707,252	P–	P111,403,001
Receivables from customers**	578,120,332	–	–	610,493,878	610,493,878
	P688,588,292	P14,695,749	P96,707,252	P610,493,878	P721,896,879

(Forward)



	2022				
	Carrying Value	Level 1	Level 2	Level 3	Total
Nonfinancial Assets					
Investment property:					
Land***	P12,508,051	P—	P—	P29,868,859	P29,868,859
Buildings and improvements***	1,286,935	—	—	3,510,670	3,510,670
	P13,794,986	P—	P—	P33,379,529	P33,379,529
Financial Liabilities					
Financial liabilities at amortized cost:					
Time deposits	P112,113,308	P—	P—	P112,113,308	P112,113,308
LTNCDs	19,130,012	—	18,922,562	—	18,922,562
Bonds payable	58,439,097	39,955,398	16,878,070	—	56,833,468
Bills payable	7,702,325	—	—	7,625,229	7,625,229
	P197,384,742	P39,955,398	P35,800,632	P119,738,537	P195,494,567

* Net of expected credit losses

** Net of expected credit losses and unearned and other deferred income

*** Net of impairment losses

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, 2023 and 2022, 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	=6,000 - =6,200
Plant buildings and building improvements			
Building	Replaceable Fixed Asset Valuation Approach	Replacement cost Estimated total floor area	=4,287 - =10,000 24 - 1548 sq.m
Building improvements	Replaceable Fixed Asset Valuation Approach	Replacement cost Estimated number of components	=2.8 million - =26.5 million 315 - 723 components
Machineries and equipment	Replaceable Fixed Asset Valuation Approach	Replacement cost Estimated number of components	=3,200 - =8.6 million 465 - 1,162 components
Investment properties:			
Land	Market Data Approach	Price per square meter, size, location, shape, time element and corner influence	=800 - =100,000
Land and building	Market Data Approach and Replacement Cost Approach	New Reproduction Cost	

Significant favorable (unfavorable) adjustments to the aforementioned

factors based on the professional judgment of the independent appraisers would increase (decrease) the fair value of land. Significant increases (decreases) in the current replacement cost would result in significantly higher (lower) appraised values whereas significant increase (decrease) in the remaining useful life of the property, plant and equipment over their total useful life would result in significantly higher (lower) appraised values.

Description of the valuation techniques and significant unobservable inputs used in the valuation of the Group's property, plant and equipment and investment properties are as follows:

	Description
Valuation Techniques	
Market Data Approach	A process of comparing the subject property being appraised to similar comparable properties recently sold or being offered for sale.
Replaceable Fixed Asset Valuation Approach	This method requires an analysis of the buildings and other land improvements by breaking them down into major components. Bills of quantities for each component using the appropriate basic unit are prepared and related to the unit cost for each component developed on the basis of current costs of materials, labor, plant and equipment prevailing in the locality to arrive at the direct costs of the components. Accrued depreciation was based on the observed condition. 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.
Replacement Cost Approach	
Reproduction Cost New	The cost to create a virtual replica of the existing structure, employing the same design and similar building materials.
Size	Size of lot in terms of area. Evaluate if the lot size of property or comparable conforms to the average cut of the lots in the area and estimate the impact of lot size differences on land value.
Shape	Particular form or configuration of the lot. A highly irregular shape limits the usable area whereas an ideal lot configuration maximizes the usable area of the lot which is associated in designing an improvement which conforms with the highest and best use of the property.
Location	Location of comparative properties whether on a main road, or secondary road. Road width could also be a consideration if data is available. As a rule, properties located along a main road are superior to properties located along a secondary road.
Time Element	"An adjustment for market conditions is made if general property values have appreciated or depreciated since the transaction dates due to inflation or deflation or a change in investors' perceptions of the market over time". In which case, the current data is superior to historic data.
Discount	Generally, asking prices in ads posted for sale are negotiable. Discount is the amount the seller or developer is willing to deduct from the posted selling price if the transaction will be in cash or equivalent.
Corner influence	Bounded by two (2) roads.

35. Notes to Consolidated Statements of Cash Flows

Cash Flows from Financing Activities

The changes in liabilities arising from financing activities in 2023 and 2022 follow:

	2023			
	Beginning balance	Net cash flows	Others	Ending balance
Bills and acceptances payable (Note 17)	P14,980,373	P5,670,131	(P487,901)	P20,162,603
Short-term debts (Note 19)	4,490,000	(210,000)	–	4,280,000
Bonds payable and unsecured loans (Note 19)	61,694,443	(15,886,773)	(1,705,377)	44,102,293
Lease liabilities (Note 19, 37)	5,017,860	(1,314,516)	1,705,376	5,408,720
	P86,182,676	(P11,741,158)	P487,902	P73,953,616

	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	(1,363,928)	61,694,443
Lease liabilities	5,144,046	(1,490,114)	1,363,928	5,017,860
	P119,537,131	(P32,541,640)	(P7,323,507)	P79,671,984

Others include the effects of foreign exchange revaluations, amortization of transaction costs, and accretion of interest.

Non-cash Transactions

The Group applied creditable withholding taxes against its income tax payable amounting to P1.2 billion, P2.4 billion and P1.6 billion in 2023, 2022 and 2021, respectively.

The Group acquired investment properties through foreclosure and rescission amounting to P5.3 billion, P4.3 billion, and P0.5 billion in 2023, 2022 and 2021, respectively.

Non-cash Investing Activities

As of December 31, 2023 and 2022, unpaid additions to property, plant and equipment amounted to P1.4 million and P1.4 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 2023 and 2022.

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 2023 and 2022.

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:

	2023	2022
	(In Thousands, except ratios)	
Total liabilities	P1,027,160,456	P991,455,893
Total equity	300,235,820	276,661,676
Total liabilities and equity	P1,327,396,276	P1,268,117,569
Debt ratio	0.77:1	0.78:1
Debt-to-equity ratio	3.42:1	3.58:1

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.

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.

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

	2023	2022
	(In Thousands)	
Within one year	P7	P446,485
After one year but not more than five years	2,734	196,987
More than five years	—	—
	P2,741	P643,472

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 P264.1 million, P270.2 million and P251.5 million in 2023, 2022 and 2021, respectively, for the Group, of which P187.0 million, P201.6 million and P223.2 million in 2023, 2022, and 2021, respectively, pertain to the PNB. Rent expense in 2023 and 2022 pertains to expenses from short-term leases and leases of low-value assets.

As of December 31, 2023 and 2022, the Group has no contingent rent payable.

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

	2023	2022
	(In Thousands)	
Balance at beginning of year	P5,017,860	P5,144,046
Additions	1,348,412	1,059,931
Interest expense	225,284	290,671
Payments	(1,418,768)	(1,490,114)
Transfers	235,933	13,326
Balance at end of year	P5,408,721	P5,017,860

Future minimum lease receivables under finance leases are as follows:

	2023	2022
	(In Thousands)	
Within one year	P1,170,733	P1,087,134
Beyond one year but not more than five years	3,540,885	3,460,037
More than five years	1,078,119	1,066,927
Total	5,789,737	5,614,098
Less amounts representing finance charges	—	—
Present value of minimum lease payments	P5,789,737	P5,614,098

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 P168.0 billion and P152.7 billion as of December 31, 2023 and 2022, 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, 2023 and 2022, 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 P29.9 million, P24.7 million and P23.2 million in 2023, 2022 and 2021, 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 2, 2023, SC upheld the CTA decision denying the Company's claim for refund. The Company filed a Motion for Reconsideration to the SC on April 19, 2023 which was also denied on August 14, 2023. TDI and its legal counsel believe that any losses arising from these, will not have a material effect on its 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 General Insurers Co. Inc. (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. 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 in 2021 are presented below:

Interest Income on	
Loans and receivables	P35
Investment securities at amortized cost and FVOCI	19,830
Deposits with banks and others	34
	19,899
Interest Expense on Lease Liabilities	530
Net Interest Income	19,369
Net Service Fees and Commission Income	110
Insurance premium	202,543
Insurance benefits and claims	143,605
(Forward)	

Net Insurance Premium	P58,938
Other Income - Foreign exchange gains (losses) - net	1,804
Total Operating Income	80,221
Operating Expenses	
Compensation and fringe benefits	37,040
Depreciation and amortization	6,592
Provision for credit losses	1,174
Occupancy and equipment-related costs	903
Taxes and licenses	290
Miscellaneous	8,832
Total Operating Expenses	54,831
Income Before Income Tax	25,390
Provision for Income Tax	4,775
Net Income from Discontinued Operations	P20,615

Net Insurance Premium in 2021 consists of:

Net insurance premiums	
Gross earned premium	P385,904
Reinsurer's share of gross earned premiums	(183,361)
	202,543
Less net insurance benefits and claims	
Gross insurance contract benefits and claims paid	207,003
Reinsurer's share of gross insurance contract benefits and claims paid	(130,493)
Gross change in insurance contract liabilities	48,017
Reinsurer's share of change in insurance contract liabilities	19,078
	143,605
	P58,938

Net cash flows of PNB Gen in 2021 follow:

Net cash flows from operating activities	(P36,288)
Net cash flows from investing activities	18,740
Net cash flows from financing activities	(1,912)
	(P19,460)

BOARD OF DIRECTORS



Lucio C. Tan III
Director, President
and Chief Operating Officer



Juanita T. Tan Lee
Director and Treasurer



Dr. Lucio C. Tan
Chairman and Chief Executive Officer

EXECUTIVE OFFICERS



Jose Gabriel D. Olives
Chief Financial Officer



Nestor C. Mendones
Deputy Chief Financial
Officer



Atty. Ma. Cecilia L. Pesayco
Corporate Secretary



Dioscoro Teodorico L. Lim
Chief Audit Executive



Atty. Marivic T. Moya
Assistant Corporate
Secretary



Carmen K. Tan
Vice Chairman



Johnip G. Cua
Independent Director



Mary G. Ng
Independent Director



Wilfrido E. Sanchez
Independent Director



Karlu T. Say
Director



Michael G. Tan
Director



Vivienne K. Tan
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For matters concerning dividend payments,
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or change of address,
please write or call:

Philippine National Bank – Trust Banking Group

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