C O V E R S H E E T
for
SEC FORM 17-A

SEC Registration Number

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C O M P A N Y N A M E

LT GROUP, INC.

PRINCIPAL OFFICE *(No. / Street / Barangay / City / Town / Province)*

11th Fl., Unit 3 Bench Tower,
30th St. corner Rizal Drive
Crescent Park West 5 Bonifacio
Global CIty, Taguig City

Form Type	Department requiring the report	Secondary License Type, If Applicable
17-A	SEC	N/A

C O M P A N Y I N F O R M A T I O N

Company's Email Address	Company's Telephone Number	Mobile Number
info@ltg.com.ph	**(632) 8808-1266**	**+639278375844**

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
377	**May 5**	**December 31**

CONTACT PERSON INFORMATION

The designated contact person ***MUST*** be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Jose Gabriel D. Olives	**josegabriel.olives@ltg.com.ph**	**N/A**	**N/A**

CONTACT PERSON's ADDRESS

11th Floor, Unit 3 Bench Tower, 30th St. corner Rizal Drive Crescent Park West 5 Bonifacio Global City, Taguig City

NOTE1: *In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.*

2: *All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.*

LT GROUP, INC.

SEC FORM 17-A

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

ANNUAL REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SECTION 141 OF CORPORATION CODE OF THE PHILIPPINES

1. For the calendar year ended **December 31, 2021**

2. SEC Identification Number PW**-343**

3. BIR Tax Identification No. **121-145-650-000**

4. Exact name of registrant as specified in its charter **LT Group, Inc.**

5. **Philippines**
   Province, Country or other jurisdiction of incorporation or organization

6. (SEC Use Only)
   Industry Classification Code:

7. **11th Floor Unit 3 Bench Tower, 30th St. corner Rizal drive Crescent Park West 5 Bonifacio Global City Taguig City** **1634**
   Address of principal office Postal Code

8. **(632) 8808-1266**
   Registrant's telephone number, including area code

9. **N/A**
   Former name, former address, and former fiscal year, if changed since last report.

10. Securities registered pursuant to Sections 8 and 12 of the SRC, or 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common shares, P1.00 par value	**10,821,388,889**

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

    Yes [☒] No [ ]

    Name of Stock Exchange: **Philippine Stock Exchange**
    Class of securities listed: **Common shares**

    10,821,388,889 common shares have been listed with the Philippine Stock Exchange

12. Check whether the registrant:

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

Yes [☒] No [ ]

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

Yes [☒] No [ ]

13. Aggregate market value of the voting stock held by non-affiliates of the registrant: **₱27,456,401,610** as of December 31, 2021.

APPLICABLE ONLY TO ISSUERS INVOLVED IN INSOLVENCY/SUSPENSION OF PAYMENT PROCEEDINGS DURING THE PRECEDING FIVE YEARS

14. Check whether the issuer has filed all documents and reports required to be filed by Section 17 of the Code subsequent to the distribution of securities under a plan confirmed by a court or the commission.

Yes [ ] No [ ] **Not applicable**

DOCUMENTS INCORPORATED BY REFERENCE

15. If any of the following documents are incorporated by reference, briefly describe them and identify the part of SEC Form 17-A into which the document is incorporated:

(a) Any annual report to security holders; **2021 Audited Consolidated Financial Statements of LT Group, Inc. and Subsidiaries**

(b) Any information statement filed pursuant to SRC Rule 20; **Not applicable**

(c) Any prospectus filed pursuant to SRC Rule 8.1. **Not applicable**

PART I – BUSINESS AND GENERAL INFORMATION

Item 1. Business

Corporate History

LT Group, Inc. ("LTG" or the "Company") was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on May 25, 1937 under the name "The Manila Wine Merchants, Inc. 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 Company's name to "Asian Pacific Equity Corporation" and the change in its primary purpose to that of a holding company. On July 30, 1999, the Company acquired Twin Ace Holdings Corp., now known as Tanduay Distillers, Inc. (TDI), a producer of distilled spirits, through a share swap with Tangent Holdings Corporation ("Tangent" or the "Parent Company"). The share swap resulted in LTG wholly owning TDI and Tangent increasing its ownership in LTG to 97.0%. On November 10, 1999, the Philippine SEC approved the change in the Company's corporate name from "Asian Pacific Equity Corporation" to "Tanduay Holdings, Inc". On September 24, 2012, LTG's stockholders approved the amendment in its Articles of Incorporation and By-Laws to reflect the change in its corporate name from "Tanduay Holdings, Inc." to "LT Group, Inc." which was approved by the Philippine SEC on September 28, 2012. The Company's primary purpose is to engage in the acquisition by purchase, exchange, assignment, gift or otherwise; and to hold, own and use for investment or otherwise; and to sell, assign, transfer, exchange, lease, let, develop, mortgage, enjoy and dispose of any and all properties of every kind and description and wherever situated, as to and to the extent permitted by law.

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

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

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

The Company has interests in the following businesses:

* **Distilled Spirits**—the Company conducts its distilled spirits business through its 100%-owned subsidiary TDI. TDI is the third-largest distilled spirits producer in the Philippines according to Nielsen Philippines, with an approximate 27% share of the Philippine spirits market in 2021.

* **Beverages**— the Company conducts its beverage business through its 99.9%-owned subsidiary, Asia Brewery, Incorporated (ABI). ABI is one of the Philippines' leading beverage manufacturers, producing energy drinks, bottled water, and soymilk.

* **Tobacco**—the Company conducts its tobacco business through its 99.6% ownership in Fortune Tobacco Corporation (FTC), which in turn owns 49.6% of PMFTC. PMFTC is the leading tobacco manufacturer and distributor in the Philippines with an estimated 62% market share in the year 2021.

* **Banking—**the Company conducts its banking business through Philippine National Bank (PNB). PNB is the country's first universal bank and is currently listed in the Philippine Stock Exchange (PSE). The Company's indirect ownership in PNB is approximately 56.47%. PNB is one of the largest local private commercial banks in terms of assets, net loans and receivables, capital and deposits.

* **Property Development—** the Company conducts its property development business through Paramount Landequities, Inc. and Saturn Holdings, Inc., with an effective indirect ownership of 99.6% in Eton Properties Philippines, Inc. (Eton). Eton has a diverse portfolio of property development projects in various areas throughout the Philippines, primarily in Metro Manila and surrounding areas, and access to the large land bank of the Lucio Tan Companies. Eton's project portfolio mainly comprises residential real estate projects (including large-scale township projects. Eton also develops and leases out commercial properties to retail and BPO tenants.

Description of Subsidiaries

Distilled Spirits

Tanduay Distillers, Inc. (TDI)

TDI was incorporated in the Philippines on May 10, 1988 and is primarily engaged in, operates, conducts, and maintains the business of manufacturing, compounding, bottling, importing, exporting, buying, selling or otherwise dealing in, at wholesale and retail, such finished goods as rhum, brandy, whiskey, gin and other liquor products, and any and all equipment, materials, supplies used and/or employed in or related to the manufacture of such finished goods.

The following companies are majority owned by TDI:

* **Asian Alcohol Corporation (AAC) – 95%**
  AAC is a domestic corporation registered with the Philippine Securities and Exchange Commission (SEC) on September 27, 1973. The company is primarily involved in the manufacture of refined and/or denatured alcohol and in the production of fodder yeast, and to market, sell, distribute, and generally deal in any or all of such liquids or products.

* **Absolut Distillers, Inc. (ADI) – 96%**
  ADI was incorporated in the Philippines on September 14, 1990, to engage in, operate, conduct and maintain the business of manufacturing, distilling, importing, exporting, buying, selling or otherwise deal in chemicals including but not limited to alcohol, molasses, bioethanol, biogas and biomass for renewable energy at wholesale and retail and to engage in the business of generating, transmitting and or distributing renewable energy derived from solar power for lighting and power purposes.

* **Tanduay Brands International, Inc. (TBI) – 100%**
  On May 6, 2003, TBI was incorporated in the Philippines to handle the marketing of TDI's products. On December 20, 2016, LTG sold its 100% ownership interest in TBI to TDI. In October 2017, the Company started its commercial operations and opened its first store "Tanduay" in Century Park Hotel in Manila.

Beverage

Asia Brewery, Incorporated (ABI)

ABI. was incorporated in the Philippines on March 28, 1979. The company is primarily engaged in the business of manufacturing, selling, importing, exporting and assembly of all kinds of products, supplies, dies, tools, appliances, plants and machineries.

The following companies are 100%-owned by ABI:

* **Agua Vida Systems, Inc. (AVSI)**
  AVSI was incorporated in the Philippines on August 15, 1994. Its primary business is the distribution and refilling of purified water and water dispensers for use primarily in homes and offices.

* **Waterich Resources Corp. (WRC)**
  WRC was incorporated in the Philippines on September 25, 1997. Its primary business is the toll manufacturing for ABI of *Absolute Pure Distilled Drinking Water* and *Summit Water*.

* **Packageworld, Inc. (PWI)**
  PWI was incorporated in the Philippines on January 15, 1998. Its primary business is the manufacturing of corrugated cartons and trade the same on a wholesale basis.

* **Interbev Philippines, Inc. (IPI)**
  IPI was incorporated in the Philippines on April 28, 2003. Its primary business is the production and distribution of *Cobra* and *energy drinks*.

* **AB Nutribev Corp. (ABNC)**
  ABNC was incorporated in the Philippines on April 22, 2014. Its primary business is the manufacturing and trading of dairy and soy milk-based beverages.

* **Asia Pacific Beverages Pte. Ltd. (APBPL)**
  APBPL was incorporated on August 21, 2014 under the laws of Singapore. It was established as an investment holding company for business opportunities in the region. ABPBL acquired 90% of Asia Pacific Beverages Myanmar Co. Ltd. (APBM) in April 2017. APBM is a company incorporated in the Republic of the Union of Myanmar. APBM's primary purpose is to manufacture, market, sell and distribute non-alcoholic ready-to-drink beverage products in Myanmar.

In February 2012, ABI, in partnership with Corporacion Empresarial Pascual S. L. of Spain, also formed ABI Pascual Holdings Pte. Ltd., a jointly controlled entity organized and domiciled in Singapore. In November of that year, the joint venture established ABI Pascual Foods Incorporated (APFI), an operating company in the Philippines engaged in the marketing and distribution of yogurt products in the country.

<u>Tobacco</u>
Fortune Tobacco Corporation (FTC)
FTC was incorporated in the Philippines on April 29, 1965. The Company was organized primarily to engage in cigarette manufacturing, selling, importing and exporting. FTC was responsible for introducing some of the most successful local cigarette brands in the Philippines, including the *Fortune*, *Champion* and *Hope* menthol brands. Prior to the creation of PMFTC, FTC was the largest domestic tobacco business in the Philippines.

FTC currently has an effective 49.6% stake in PMFTC, the business combination between the Philippine operations of Philip Morris International and the operations of FTC. The brands currently produced by PMFTC include the FTC brands and Philip Morris' Marlboro.

<u>Banking</u>
Philippine National Bank (PNB)
PNB was incorporated in the Philippines on July 22, 1916. PNB is the country's first universal bank and the fourth largest private local commercial bank in terms of assets as of December 31, 2021. PNB has celebrated its Centennial Year of serving the Filipino people in July 2016. For 100 years, PNB stands proud as an institution of stability and security for many Filipinos. With its century of banking history and experience, PNB is poised to move forward to becoming a more dynamic, innovative and service-focused

bank, providing service excellence to Filipinos all over the world. PNB provides a full range of banking and other financial services to diversified customer bases including government entities, large corporate, middle market, SME and retail customers, with PNB having the distinction of being one of the only five authorized Government depository banks in the Philippines. The current PNB is a result of the merger between PNB and Allied Banking Corp., which was completed on February 9, 2013.

The following companies are owned by PNB:

	Industry	Principal Place of Business/Country of Incorporation	Functional Currency	Percentage of Ownership Direct	Indirect
Subsidiaries					
Allied Integrated Holdings, Inc. (AIHI)	Holding Company	Philippines	Php	**100.00**	–
PNB Capital and Investment Corporation (PNB Capital)	Investment	- do -	Php	**100.00**	–
PNB Securities, Inc. (PNB Securities)	Securities Brokerage	- do -	Php	**100.00**	–
PNB Corporation – Guam [(a)]	Remittance	USA	USD	**100.00**	–
PNB International Investments Corporation (PNB IIC)	Investment	- do -	USD	**100.00**	–
PNB Remittance Centers, Inc. (PNB RCI) [(b)]	Remittance	- do -	USD	–	**100.00**
PNB Remittance Co. (Nevada) [(c)]	Remittance	-do-	USD	–	**100.00**
PNB RCI Holding Co. Ltd. (PNB RHCL)	Holding Company	- do -	USD	–	**100.00**
PNB Remittance Co. (Canada) [(d)]	Remittance	Canada	CAD	–	**100.00**
PNB Europe PLC	Banking	United Kingdom	GBP	**100.00**	–
Allied Commercial Bank (ACB)	Banking	China	CNY	**99.04**	–
PNB-Mizuho Leasing and Finance Corporation (PMLFC)	Leasing/Financing	Philippines	Php	**75.00**	–
PNB-Mizuho Equipment Rentals Corporation [(e)]	Rental	- do -	Php	–	**75.00**
PNB Global Remittance & Financial Co. (HK) Ltd. (PNB GRF)	Remittance	Hong Kong	HKD	**100.00**	–
Allied Banking Corporation (Hong Kong) Limited (ABCHKL)	Banking	- do -	HKD	**51.00**	–
ACR Nominees Limited [(f)]	Service	- do -	HKD	–	**51.00**
Oceanic Holding (BVI) Ltd.	Holding Company	British Virgin Islands	USD	**27.78**	–
Associate					
Allianz-PNB Life Insurance, Inc. (APLII)	Insurance	- do -	Php	**44.00**	–

[(a)] *Ceased operations on June 30, 2012 and license status became dormant thereafter*
[(b)] *Owned through PNB IIC*
[(c)] *Owned through PNB RCI*
[(d)] *Owned through PNB RHCL*
[(e)] *Owned through PMLFC*
[(f)] *Owned through ABCHKL*

Bank Holding Companies

On February 11, 2013, LTG's Board of Directors (BOD) approved the acquisition of indirect ownership in the merged PNB through the investment in the 27 holding companies which have collective ownership interest in PNB of 59.83% (collectively referred to as "Bank Holding Companies"). LTG's acquisition was effected by way of subscription to the increase in authorized capital shares of 22 Bank Holding Companies direct buy-out of shares of 5 Bank Holding Companies. As of December 31, 2021, LTG has majority ownership over the Bank Holding Companies which translates to an indirect 56.47% ownership of PNB.

The following are the 27 bank holding companies:

1. Allmark Holdings Corporation
2. Dunmore Development Corp.
3. Kenrock Holdings Corp.
4. Leadway Holdings, Inc.
5. Multiple Star Holdings Corporation
6. Pioneer Holdings Equities, Inc.
7. Donfar Management Ltd.
8. Fast Return Enterprises, Ltd.
9. Mavelstone International Ltd.
10. Uttermost Success, Ltd.
11. Ivory Holdings, Inc.
12. Merit Holdings & Equities Corporation
13. True Success Profits Ltd.
14. Key Landmark Investments Ltd.
15. Fragile Touch Investment, Ltd.
16. Caravan Holdings Corporation
17. Solar Holdings Corporation
18. All Seasons Realty Corporation

19. Dynaworld Holdings, Inc.
20. Fil-Care Holdings, Inc.
21. Kentwood Development Corporation
22. La Vida Development Corporation
23. Profound Holdings, Inc.
24. Purple Crystal Holdings, Inc.
25. Safeway Holdings Corporation
26. Society Holdings Corporation
27. Total Holdings Corporation

Property Development

Saturn Holdings, Inc. (Saturn)

Saturn Holdings, Inc. was incorporated in the Philippines on February 18, 1997. Saturn's primary purpose is to engage in the purchase, retention, possession or in any other manner to acquire legally constituted within or outside the Philippines and to issue shares of stocks, bonds, or other obligations for the payment of articles or properties acquired by the corporation or for other legal consideration, all to the extent permitted by law.

Paramount Landequities, Inc. (Paramount)

Paramount was incorporated in the Philippines on July 25, 1988. Its primary purpose is that of a real estate development company.

Eton Properties Philippines, Inc. (ETON)

Eton was incorporated and registered in the Philippines on April 2, 1971 under the name "Balabac Oil Exploration & Drilling Co., Inc." to engage in oil exploration and mineral development projects in the Philippines. It became a holding company on August 19, 1996 and included real estate development and oil exploration as its secondary purposes. However, on February 21, 2007, the Company changed its name to Eton Properties Philippines, Inc. with real estate development as its primary business.

The following companies are 100%-owned by ETON:

* **Belton Communities, Inc. (BCI)**
  BCI was incorporated and registered with the SEC on November 5, 2007 and is engaged to deal and engage in land or real estate business.

* **Eton City, Inc. (ECI)**
  ECI was incorporated and registered with the SEC on October 8, 2008 and is engaged to own, use, improve, develop, subdivide, sell, exchange, lease and hold for investment or otherwise, real estate of all kinds, including buildings, houses, apartments and other structures.

* **Eton Hotels and Leisure, Inc. (EHLI) (formerly FirstHomes, Inc. (FHI)**
  On October 15, 2010, FHI was incorporated and registered with Philippine SEC as a wholly owned subsidiary of Eton and is engaged in real estate development.

* **Eton Properties Management Corporation (EPMC)**
  EPMC was incorporated and registered with the SEC on November 25, 2011 to manage, operate, lease, in whole or in part, real estate of all kinds, including buildings, houses, apartments and other structures of the Corporation or of other persons provided that they shall not engage as property manager of a real estate investment trust. EPMC has started its commercial operations in 2016.

<u>Products</u>

<u>Distilled Spirits</u>
Rum Products

1. Tanduay Five Years Fine Dark Rhum
2. Tanduay Rhum 65 Fine Dark Rhum (“Rhum 65”)
3. Tanduay E.S.Q. Fine Dark Rhum (“E.S.Q.”)
4. Tanduay White Premium Rhum
5. Tanduay Superior Dark Rhum
6. Tanduay Rhum Light
7. Boracay Rum
8. Tanduay Asian Rum Gold
9. Tanduay Asian Rum Silver
10. Tanduay 1854 Rhum
11. Tanduay Select
12. Tanduay CLX Rum
13. Tanduay Cane Spirit
14. Tanduay Centennial Rhum
15. Especia Spiced Rhum
16. Tanduay Double Rum
17. Tanduay Rum Dark

Gin Products

1. London Gin
2. Gin Kapitan
3. Gin Kapitan Light
4. Ginto Barrel Gin

Vodka Products

1. Cossack Vodka Red
2. Cossack Vodka Blue
3. Mardi Gras Vodka Schnapps

Whiskey Products

1. Embassy Whiskey

Cocktails

1. Tanduay Cocktails
2. Barman

Medicinal Wine

1. Vino Agila

Bioethanol
The Company’s distillery subsidiaries, ADI and AAC, are registered with the Sugar Regulatory Administration (SRA) as bioethanol producers with a registered capacity per year of 30 million liters each. Under RA 9367 of 2006, otherwise known as the Biofuels Law, all liquid fuels for motors and engines sold in the Philippines shall contain locally-source biofuels components. Effective 2010, the mandated blend of bioethanol by volume into all gasoline fuel distributed and sold by local oil companies is 10%.

ADI started commercial operation of its bioethanol plant in 2016. AACs bioethanol plant is still non-operational

Solar Power
ADI operates a 2-megawatt solar power generating facility, licensed under RA 9513, also known as the “Renewable Energy Act of 2008”. The entire electric power generated by ADIs solar power system is sold to the National Grid Corporation of the Philippines (NGCP) at the approved Feed-In-Tariff rate of PhP8.69 per kilowatt-hour under a 25-year solar energy supply contract.

Other Products
The Company's distillery companies also manufacture and sell denatured alcohol, liquid carbon dioxide and dry ice which are the main by-products from the distillation process.

Beverage
Energy Drinks
1. Cobra

Drinking Water
1. Absolute Pure Distilled Drinking Water
2. Summit Natural Drinking Water
3. Summit Still
4. Summit Sparkling Water

Beer
1. Heineken
2. Tiger Black
3. Tiger Crystal
4. Colt 45 Malt Liquor
5. Beer na Beer
6. Asahi Super Dry
7. Brew Kettle

Alcopop
1. Tanduay Ice
2. Tanduay Ice Zero
3. Tanduay Ice Signature Vodka
4. Spritz Hard Seltzer

Others
1. Vitamilk
2. Sunkist carbonated soft drinks
3. Nestea ready-to-drink iced tea

Commercial Glass
Packaging Materials
1. Corrugated cartons
2. Metal crowns

APFI products include:
1. Pascual Yogurt
2. Pascual Chocolate Pudding

APBM products sold in Myanmar include:
1. Sunkist carbonated soft drinks
2. Sunkist juice drink
3. Air Soda

Tobacco
FTC has no products in the market but its associate, PMFTC has the following cigarette products:
1. Marlboro
2. Fortune
3. Philip Morris
4. Jackpot
5. More
6. Hope
7. Champion
8. Mark
9. Boss
10. Chesterfield

Banking
PNB provides a full range of banking and financial services to large corporate, middle-market, small medium enterprises (SMEs) and retail customers, including OFWs, as well as to the Philippine National Government, national government agencies (NGAs), local government units (LGUs) and GOCCs in the Philippines. PNB's principal commercial banking activities include the following:

1. Deposit taking
2. Lending
3. Trade financing
4. Foreign exchange dealings
5. Bills discounting
6. Fund transfers/remittance servicing
7. Asset management
8. Treasury operations
9. Comprehensive trust services
10. Retail banking
11. Other related financial services

Property Development
Completed Developments:

High-rise
1. Eton Baypark Manila
2. Eton Parkview Greenbelt
3. Eton Emerald Lofts
4. Eton Residences Greenbelt
5. One Archers Place
6. Belton Place
7. 8 Adriatico
8. Eton Tower Makati

Mid-rise
1. The Manors at North Belton Communities

Residential Subdivisions
1. South Lake Village at Eton City
2. Riverbend at Eton City
3. West Wing Residences at North Belton Communities
4. 68 Roces
5. Tiera Bela
6. Villagewalk
7. West Wing Residences at Eton City
8. West Wing Villas

Commercial
1. Centris Walk
2. Centris Walk Extension
3. Centris Steel Parking Buildings
4. Centris Station
5. Green Podium
6. Eton Square Ortigas

BPO Office
1. Cyberpod Centris One
2. Cyberpod Centris Two
3. Cyberpod Centris Three
4. Cyberpod Centris Five
5. Eton Cyberpod Corinthian

Mixed Use
1. WestEnd Square

Events Venue
1. Elements at Centris

Serviced Residences
1. Mini Suites at Eton Tower Makati

Ongoing Developments:

Mixed Use
1. WestEnd Square

BPO Office
1. NXTower I

Commercial
1. Eton City Square

<u>Distribution method of the products</u>

<u>Distilled Spirits</u>

Liquor Products
As of December 31, 2021, TDI serves more than 215,000 points of sale throughout the Philippines through fifteen (15) exclusive distributors, who in turn may work with a large number of sub-distributors. TDI has generally maintained good business relationships with its distributors since 1988. TDI's distributors operated 40 sales offices and 48 warehouses located throughout the Philippines. TDI through TBI employs in-house sales staffs who provide marketing and general administrative support to TDI's distributors. TDI's products are transported from the production facilities to distributors' warehouses by third party transportation companies for the account of the distributors.

Bioethanol and distillery by-products
These are either delivered by distillery tankers to the customers or picked-up by the customers at the distillery plants.

<u>Beverage</u>
ABI markets, sells and distributes its products throughout the Philippines through 13 exclusive major distributors. ABI's exclusive distributors have a network of 39 sales offices, 20 warehouses and 12 depots. This extensive network assures product availability to ABI consumers and also provides ABI expeditious nationwide placement of new products. ABI's products are transported to distributors' warehouses by third party transportation companies, with the costs for the account of such distributors.

<u>Tobacco</u>
PMFTC distributes through wholesalers and retailers directly to approximately 295,000 points of sale throughout the Philippines. PMFTC segments its distribution into two separate channels:

(i) key accounts—including hypermarkets and supermarkets, tobacconists, convenience stores and gasoline stations; and
(ii) general trade—including sari-sari stores, market stalls, kiosks and eateries.

<u>Banking</u>
PNB, through its Head Office and 670 domestic branches/offices, 1,731 ATM's nationwide and 70 overseas branches, representative offices, remittance centers and subsidiaries, provides a full range of banking and financial services to large corporate, middle-market, small medium enterprises (SMEs) and retail customers, including OFWs, as well as to the Philippine National Government, national government agencies (NGAs), local government units (LGUs) and GOCCs in the Philippines. PNB's principal commercial banking activities include deposit-taking, lending, trade financing, foreign exchange dealings,

bills discounting, fund transfers/remittance servicing, asset management, treasury operations, comprehensive trust services, retail banking and other related financial services.
Its banking activities are undertaken through the following groups within the Bank, namely:

Retail Banking Sector
The core business of Retail Banking Sector (RBS) principally focuses on the Bank's deposit-taking activities by offering a wide array of deposit products and services such as peso accounts and its variants like interest-bearing savings and time deposit accounts, current accounts, and US dollar and other third-foreign currency accounts. The Sector also provides its broad customer base with other retail products like credit cards, consumer loans, remittance services, and other bank services. While the main purpose is the generation of lower cost funding for the Bank's operations, RBS also concentrates on the cross-selling of trust products, treasury products, and bancassurance products (both life and non-life) to existing customers as well as referrals of customers by transforming its domestic and overseas branch distribution channels into a sales-focused organization.

Cards Banking Solutions Group
The Cards Banking Solutions Group (CBSG) under RBS provides convenient, safe, and secure cashless payment solutions in the form of card products. It likewise extends installment loans that caters to the Bank's diverse retail and corporate clients with varying payment needs. CBSG is also responsible in forging new partnerships, onboarding additional merchants and strengthening its relationship for in-store and online promotions as well as installment programs to ensure that the customers get the best experience in using PNB cards.

Retail Lending Group
The Retail Lending Group (RLG) was established in mid-2019 under the umbrella of RBS. It serves as the Bank's full consumer lending arm following the full integration of its wholly-owned thrift bank subsidiary, PNB Savings Bank, into the Parent Bank in March 2020. RLG is at the forefront of providing housing loans, home flexi-loans, and auto/car loans to the retail clients of the Bank through its extensive domestic branch network. In addition, the group extends consumer financing solutions to the buyers of its accredited car dealers and real estate developers in the country.

International Banking and Remittance Group
The International Banking and Remittance Group (IBRG) covers the Bank's overseas offices across Asia, Middle East, North America, and Europe. As part of RBS, the Group ensures that overseas Filipinos are provided with an array of services to suit their needs - from convenient and safe remittance to full banking services in selected jurisdictions, bills payment, deposit account opening, corporate credit and trade, and consumer financing with the Own a Philippine Home Loan (OPHL), which makes it easier even for non-Filipinos to acquire their dream homes in the Philippines. IBRG is also responsible for establishing and strengthening partnerships with remittance agents and tie-ups to further extend the Bank's market reach beyond its brick-and-mortar presence worldwide.

Institutional Banking Sector
The Institutional Banking Sector (IBS) is responsible for the establishment, expansion, and overall management of banking relationships with large corporate clients and government entities under its Corporate Banking Group as well as middle market and small and medium-sized entities (SME) customers through its Commercial Banking Group. IBS is also complemented by the Institutional Transaction Banking Group (ITBG) which assists the Sector in capturing the entire value chains of the Bank's anchor clients by offering a comprehensive network of tailor fit, end-to-end financial solutions. Through ITBG, clients are provided with cash management, innovative solutions, credit programs, and trade products.

In 2020, IBS repositioned its Deal Execution Team to the Structuring and Execution Division (SED) as the Sector's priorities shifted from deal-making to remedial management amidst the impact of the COVID-19 pandemic. SED's primary objectives are to triage COVID-impacted accounts, assist on accounts that require more intensive workouts and cash flow analysis, and serve as specialists for new regulations.

Global Banking and Markets Sector
The Global Banking and Markets Sector (GBMS) oversees the management of the Bank's liquidity and regulatory reserves as well as the risk positions on interest rates and foreign exchange arising from the daily inherent operations in deposit-taking and lending, and from proprietary trading. Likewise, GBMS provides a wide range of banking products and services to corporates, governments, financial institutions, and high net worth individuals. Its functions also include carrying forward the Bank's wealth management proposition, providing corporate and middle market clients with access to the financial markets, and building partnerships with multinationals, financial institutions, and non-bank financial institutions by offering them banking solutions to address their needs and help attain their objectives.

Trust Banking Group
The Trust Banking Group (TBG) provides a full range of Trust, Agency, and Fiduciary products and services designed to serve a broad spectrum of market segments. Its personal trust products and services include personal management trust, investment management, estate planning, guardianship, life insurance trust, and escrow. Corporate trust services and products include corporate trusteeship, securitization, portfolio management, administration of employee benefit plans, pension and retirement plans, and trust indenture services. Other fiduciary services include roles such as bond registrar, collecting and paying agent, loan facility agent, escrow agent, share transfer agent, and receiving bank. TBG manages thirteen Philippine Peso and US dollar-denominated Unit Investment Trust Funds. These include money market funds, bond funds, balanced funds, local equity funds and global equity feeder funds.

Digital Innovations Group
The Digital Innovations Group is tasked to drive the consumer digital strategy of PNB, working with business lines and subsidiaries, support groups and Information Technology Group (ITG) to provide innovative digital experiences and products for retail consumers. The group provides end-to-end digital business and product development, covering market scoping and assessment, ideation of business models, customer experience definition, and coordination with marketing and business groups to promote the acquisition of digital customers and usage of digital products. It is likewise tasked to execute, deliver and implement digital products and solutions, and manages and provides support to the Bank's mobile, internet banking and other digital platforms, in coordination with PNB ITG and external solutions providers.

Property Development
The Company markets its projects to residential market segments, office locators and commercial tenants through internal and external sales and marketing channels. For its leasing business, the Company employs a dedicated team who coordinates with business entities for leasing opportunities in the company's various projects.

Status of any publicly announced new product or services

Distilled spirits
There were no publicly announced new projects for the distilled spirits, bioethanol and power and property development segments.

Beverage
In 2021, ABI launched Vitamilk Double Milky, expanding its multi-serve soymilk offerings. ABI also introduced V-Soy, a premium line of soymilk made from all –natural, plant-based ingredients that unlock a rich taste and pleasant aroma fit for those with sophisticated tastes.

Cobra added Immuniplus+ to its formulation addressing consumers' need for increased protection amidst the surging COVID-19 pandemic.

Rounding up the additions to ABI's product portfolio in 2021 is the introduction of the first hard seltzer in the Philippines, Spritz, a blend of sparkling water and alcohol with a refreshing fruity flavor.

Banking
The Bank has launched the following products and services in 2021:

a. PNB Global Feeder Funds
Two new global feeder funds, namely the PNB World Perspectives Equity Feeder Fund and the PNB US Equity Sustainability Leaders Feeder Fund will allow Filipino investors to invest in US and other globally-traded shares of stocks to further diversify their investments.

b. PNB PERA Bond Fund
In support of the BSP's bid to grow the Personal Equity Retirement Account (PERA), PNB, as a product provider, launched its first digital PERA fund, the PNB PERA Bond Fund. Established via Republic Act 9505 (PERA Act of 2008), PERA is a voluntary retirement program that allows investors to accumulate additional funds for retirement. It supplements the national government's pension programs like the GSIS or SSS as well as the retirement programs of private companies.

c. PNB Singapore Mobile App
The PNB Singapore Mobile App makes banking easier for Filipinos in Singapore. The app enables a fully-automated remittance process for all registered clients and potential clients (subject to one-time onsite Know-Your-Customer) based in Singapore. Users can register in three easy steps and send money to any Philippine-based bank account, to electronic money issuers (including GCash and other service providers), and to over 7,000 cash pick-up locations nationwide. Users can avail of real-time crediting to PNB accounts, authorized payout partners, and all major banks and non-banks in the Philippines.

Tobacco
In 2021, the following were the product innovations and upgrades:

1. Chesterfield Menthol 100 (New Product Launch)
2. Chesterfield Remix Cool (New Product Launch)
3. Chesterfield Full Flavor (New Product Launch)
4. Fortune Menthol Special Green (New Product Launch)
5. Marlboro Sustainability (Limited Pack Edition)
6. Marlboro Vista (New Product Launch)
7. Marlboro Black Menthol Mega 100 (New Product Launch)

Competitive business condition/position in the industry

Distilled Spirits

Liquor Products
The Philippine liquor market increased by 0.9% in 2021 based on the retail audit of Nielsen with Vismin outgrowing the other regions with its +8.8% growth. With its strong performance in the Vismin region, TDI gained 1.3ppts to end the year with 27% national market share. TDI posted a strong performance in Visayas (+6% in volume). In Mindanao, TDI had a 2.8% increase in volume of sales resulting in a decrease in market share by +2 ppts due to faster decline in volume of sales of competitors.

Bio-Ethanol Fuel
There are presently fifteen registered local bioethanol producers in the country with a total registered capacity of 455 million liters (ML) per year. In 2021, only 13 bioethanol producers (AAC was the latest inclusion) with a combined capacity of 380 ML were operational as against the country's total ethanol requirement of around 550ML. Due to the shortage in local bioethanol supply, oil companies were being allowed to import bio-ethanol to cover the deficiency. The intent of the law however is that all locally produced ethanol must be consumed first before any importation is allowed. Presently, the Department of Energy controls the importation of ethanol through the Notice of Value of Bioethanol Importation Allowed (NAVBI).The increase in ethanol production created a huge demand for locally produced molasses resulting to higher prices.

Beverage

ABI competes against leading Philippine and international beverage brands across all of its product categories. Its main competitors for each product category include the following:

* Energy drinks - ABI competes with Pepsico's *Sting* energy drink, Coca-Cola's *Thunder*, and *Extra Joss*, *Lipovitan* and others;
* Bottled water - ABI's main competitors are Philippine Spring Water Resources' *Nature's Spring* and Coca-Cola's *Wilkins*, among others; and
* Soymilk - ABI competes with *Vitasoy*, *Lactasoy* and *Soyfresh*.
* Beer – ABI competes mainly with *San Miguel Beer*, *San Mig Light*, *Red Horse Beer*, *San Miguel Premium All-Malt Beer* and *Gold Eagle Beer*, all of which are brands of the San Miguel Corporation; and
* Alcopop - ABI's main competitors include *Antonov*, *Vodka Ice, Smirnoff* and *Infinit*.

Tobacco

PMFTC's main competitors are JTI Philippines and Associated Anglo-American Tobacco (AAATC). JTI offers a number of well-known brands such as *Mighty*, *Winston, Camel* and *Mevius*. Key brands of AAATC, a local manufacturer, are *Winnsboro* and *Dallas*.

Banking

In the Philippines, the Bank faces competition in all its principal areas of business, from both Philippine (private and government-owned) and foreign banks, as well as finance companies, mutual funds and investment banks. The competition that the Bank faces from both domestic and foreign banks was in part a result of the liberalization of the banking industry with the entry of foreign banks under Republic Act (R.A.) 7721 in 1994 and R.A. 10641 in 2014, as well as the recent mergers and consolidations in the banking industry. As of the latest available data from the BSP, there were 46 universal and commercial banks, of which 17 are private domestic banks, 3 are government banks and 26 are branches or subsidiaries of foreign banks. Some competitor banks have greater financial resources, wider networks and greater market share than PNB. Said banks also offer a wider range of commercial banking services and products; have larger lending limits; and stronger balance sheets than PNB. To maintain its market position in the industry, the Bank offers diverse products and services, invests in technology, leverages on the synergies within the Lucio Tan Group of Companies and with its government customers, as well as builds onrelationships with the Bank's other key customers.

The Bank also faces competition in its operations overseas. In particular, the Bank's stronghold in the remittance business in 17 countries in North America, Europe, the Middle East and Asia is being challenged by competitor banks and non-banks. As of December 31, 2021, the Bank has a distribution network of 670 domestic branches and offices and 1,713 ATMs nationwide. The Bank is one of the largest local private commercial banks in the Philippines in terms of consolidated total assets, net loans and receivables, capital and deposits as well as with regard to branch network. In addition, it has the widest international footprint among Philippine banks spanning Asia, Europe, the Middle East and North America with its overseas branches, representative offices, remittance centers and subsidiaries.

Property Development

Location is the main differentiator for Eton's projects. As showcased in its various developments, location played a major role in land development. All of the Company's residential, township, commercial centers and BPO offices are set in prime locations in the country's major cities and growth areas, offering more value for communities surrounding the project, outsourcing firms and office locators and retail tenants. Ayala Land, Megaworld, Filinvest Land and Robinsons Land are the Company's main competitors.

Raw Materials and Principal Suppliers

Distilled Spirits

* **Alcohol**
  TDI uses ethyl alcohol, which is distilled from sugarcane molasses. In 2021 TDI imported most of its alcohol requirements due to high cost of locally produced alcohol. AAC and ADI now provides only around 7% of TDI's requirement.

  Alcohol is delivered directly to the plant by tankers. The quality of alcohol is checked prior to acceptance. In 2021, alcohol accounted for 44% of product cost while excise tax accounted for 51% of the total costs. The tax is paid upon withdrawal of the full goods from the production sites.

  The distillery companies obtain their molasses from sugar mills and traders. Major suppliers are Universal Robina Corporation, Victorias Milling Corporation, Binalbagan Sugar Company, LYL Marketing, Shuurmans & Van Ginneken Phils., Inc., Grandcane Company, Inc., and Tate & Lyle Corp.

* **Sugar**
  This is added when deemed necessary to enhance the taste and aroma of a particular product.

* **Water**
  The plants use significant amounts of demineralized water for blending liquor products. The water is supplied by the local utility. Each plant has its own water storage and demineralization facilities.

* **Flavoring Agents**
  For some products, essences and other flavoring agents are added to attain the desired color, flavor and aroma as well as to reinforce the natural quality of rum as derived from molasses and ageing in oak barrels.

* **Bottles**
  TDI's liquor products are packaged in glass bottles. Glass bottles account for approximately 14% of cost of goods sold for TDI's products. The cost is managed in part by recycling the bottles. TDI maintains a network of secondhand bottle dealers across the nation that retrieve the bottles from the market and sell them back to TDI. The cost of the secondhand bottles including the cost of cleaning is 50% lower than the cost of purchasing new bottles.

* **Caps**
  All products are sealed with tamper-proof resealable aluminum caps, which average at 3% of total product cost.

* **Labels**
  The labels being used are made from imported base coated paper. Label cost accounts for 1% of product cost.

There are no long-term purchase commitments as purchases are made through purchase orders on a per need basis from a list of accredited suppliers.

Beverage
The Company has a wide network of suppliers, both local and foreign. ABI's energy drinks consist of a base of flavor concentrate, which is diluted with water and sweetened with sugar. Carbon dioxide is then added to provide carbonation. ABI's energy drink concentrates are sourced primarily from well-known international suppliers. Sugar is procured from third-party and related party local suppliers including Victorias Milling Corporation, generally under supply contracts of up to one year. ABI also purchases carbon dioxide and other additives from local producers. Water is sourced from sources near ABI's production plants.

Quality of water is the primary ingredient in the water bottling business of ABI. Water is sourced primarily from sites near the bottling plants and undergoes several purifying steps to ensure it meets standards.

ABI manufactures the majority of the bottles used for its beverage products. These are manufactured at ABI's Cabuyao plant in Laguna. Bottling and packaging materials, including aluminum closures, crowns and corrugated cartons are produced by ABI's subsidiary, PWI, which purchases any required raw materials from multiple suppliers in the Philippines and internationally.

Tobacco

FTC's main source of income is dividends from PMFTC.

FTC has no long-term purchase commitments as purchases are made through purchase orders on a per need basis from a list of accredited suppliers.

With the expiration of the CMA between FTC and JTI, the Company no longer buys raw materials.

Banking

This is not applicable for banks.

Property Development
The Company has a wide network of suppliers, both local and foreign.

Dependence on one or two major customers

Distilled Spirits

Liquor Products
TDI markets, sells, and distributes its products throughout the Philippines. In the year ended December 31, 2021, sales volume in the Visayas and Mindanao regions accounted for approximately 49% and 51% of TDI's gross sales volume, respectively. TDI attributes its leading position in the distilled spirits industry to strong brand equity, utilization of diverse marketing channels and an established distribution network.

TDI presently buys most of its alcohol from a network of suppliers locally and abroad due to high cost of locally produced alcohol.

Bioethanol
ADIs principal customers for its bioethanol are local oil companies on a purchase order basis and there are no long-term supply commitments/ arrangements.

Beverage
ABI has stable relationships with its 13 exclusive distributors for its beverage business.For its commercial glass business, ABI supplies to several established beverage and food manufacturers in the Philippines. In both its beverage and commercial glass businesses, ABI's financial well-being is not dependent on only one or two major customers.

Tobacco
PMFTC directly sells its products primarily to local wholesalers, which then sell products to retailers or directly to adult consumers. These wholesalers are typically family-owned and operated local stores, such as sari-sari stores, that are also a source of goods for smaller traditional retailers such as kiosks, eateries and sidewalk vendors. Such stores and vendors often sell cigarettes to adult consumers by the stick as opposed to selling by the pack. Due to their presence across a wide networkof localities and their financial capacity, these wholesalers offer a means for manufacturers such as PMFTC to reach a large number of retailers and customers without having to sell to each individual point of sale.

Banking
PNB offers a wide range of financial services in the Philippines. The Bank has foreign operations and has a stronghold in the remittance business in 17 countries in North America, Europe, the Middle East and Asia thus, its financial well-being is not dependent on only one or two major customers.

Property Development
The Company has a wide customer base and is not dependent on one or a limited number of customers.

Transactions with and/or dependence on related parties

The Company has various transactions with its subsidiaries and associates and other related parties. These are enumerated in detail in Note 22 of the Notes to Consolidated Financial Statements.

Patents, trademarks, licenses, franchises, concessions, royalty agreements or labor contracts

Distilled Spirits
All product names, devices and logos used by TDI are registered with or are covered by a pending Application for Registration with the Intellectual Property Office of the Philippines.

TDIs bottling and distillery plants have current Environmental Compliance Certificate issued by the DENR. TDI has a license to operate from the Bureau of Food and Drugs and all liquor products currently being produced are registered with the Bureau of Food and Drugs and the BIR.

TDI has existing agreement with London Birmingham Distillers, Ltd. London, England for the use of the London Gin brand.

ADI and AAC are registered with the Sugar Regulatory Administration as producer of bioethanol.

ADI entered into a 25-year solar energy service contract with the DOE for the right to explore solar energy resources in agreed areas in Lian, Batangas, renewable for another 25 years at the option of the parties.

ADI’s bioethanol and solar power plant are registered with the Board of Investments (BOI) under the Omnibus Investment Code of 1987.

TDI and its subsidiaries have existing service agreements with two (2) service contracting agencies and two (2) labor cooperatives.

Beverage
ABI has caused the registration with the Philippine Intellectual Property Office of a variety of marks including “Asia Brewery, Inc.,” the ABI logo, *Cobra Energy Drink*, *Absolute Pure Distilled Drinking Water*, *Summit Water, Creamy Delight*, *Colt 45*, *Beer na Beer*, *Manila Beer Light*, and *Brew Kettle*. These exclusive distribution licenses are registered with the IPO and the equivalent regulatory agencies in various other countries.

ABI and its subsidiaries have existing license agreements with Switzerland's Nestle, the U.S.'s Sunkist Growers, Inc., Thailand's Green Spot Company Limited, Netherland's Heineken Brouwerijen B.V., and Singapore's Heineken Asia Pacific Pte. Ltd. for the manufacture and distribution of Nestea, Sunkist, Vitamilk, Heineken and Tiger Crystal and Tiger Black, respectively.

Tobacco
Under the terms of the business combination, both FTC and PMPMI transferred the intellectual property rights to their local brands to PMFTC. PMI has licensed its international trademarks to PMFTC for so long as the business combination exists and for which PMFTC makes regular royalty payments to PMI.

Banking
The Bank's operations are not dependent on any patents, trademarks, copyrights, franchises, concessions, and royalty agreements.

Property Development
The trademark of the following names and devices were approved by the Intellectual Property Office (IPO):

Year	Names and/or Devices
2008	a. Eton City b. Eton corporate name and device c. The Eton Residences Greenbelt d. Eton Baypark Manila e. Eton Centris f. Move-in Ready labels
2009	a. The Makati of the South b. Eton Emerald Lofts
2011	a. Centris Walk b. Eton Tower Makati c. Riverbend d. Eton Parkview Greenbelt e. Southlake Village f. Eton Cyberpod g. Centris Station h. 8 Adriatico i. Belton Place j. E-life k. West Wing Villas l. Green Podium m. Aurora Heights Residences n. West Wing Residences o. One Archers Place p. 68 Roces
2012	a. West Wing Tropics b. One Centris Place
2016	a. The Mini Suites b. Eton WestEnd Square
2017	a. Station Alley at Centris b. Arcada c. Eton Nexus Tower d. NXTower e. Eton "NXT" Tower f. The Courtyard at Eton City

In 2018, the following names and devices were applied with the IPO:

a. Centris Cyberpod
b. Centris Elements
c. Cyberpod Centris
d. Cyberpod Centris One
e. Cyberpod Centris Two
f. Cyberpod Centris Three
g. Cyberpod Centris Five
h. Eton Cyberpod Corinthian
i. Elements at Centris
j. Cyberpod One
k. Cyberpod Two
l. Cyberpod Three
m. Cyberpod Five
n. Eton Centris with different graphical representations
o. Centris Walk with different graphical representation
p. Centris Station with different graphical representation
q. Eton City with different graphical representation

Eton corporate name and device, Eton Residences Greenbelt, and Eton Baypark Manila were reapplied with the IPO.

These trademarks shall be valid for a period of ten (10) years from notice of approval.

Need for any government approval of principal products

Distilled Spirits & Beverages
The approval of the Food & Drugs Administration and Bureau of Internal Revenue is required before selling and/or advertising a new product. In addition, all new products must be registered with the BIR prior to production. ADI and AAC are registered bio-ethanol producers with the Sugar Regulatory Administration.

Tobacco
The company files with the BIR its Manufacturer's declaration for the production of its products.

Banking
Generally, e-banking products and services require Bangko Sentral ng Pilipinas (BSP) approval. New deposit products require notification to the BSP. The Bank has complied with the aforementioned BSP requirements.

Property Development
The Company complies with all government agencies in securing licenses to sell, development permits, Environmental Compliance Certificate (ECC) and all other mandated requirements of the industry.

Effect of existing or probable governmental regulations on the business

Distilled Spirits
The increase in value-added and excise taxes will affect manufacturing costs, which may require increase in selling prices. Higher selling prices can lower volume of sales.

The foreign alcohol market, coupled with new technologies on alcohol production and lower tariffs, can make the price of imported alcohol cheaper than those produced locally.

TDI and its subsidiaries are subject to various laws promulgated to protect the environment such as the Environment Impact Statement System (EIS), Clean Air Act, Clean Water Act Law, Laguna Lake Development Act. Compliance with these laws is mandatory for the continued operation of TDI and its subsidiaries.

The pricing for local bioethanol products is based on the reference rate as set by the SRA.

Beverage
Regulatory decisions or changes in the legal and regulatory requirements in a number of areas related to the beverage industry may have adverse effect on ABI's business. In particular, governmental bodies may subject ABI to actions such as product recall, seizure of products and other sanctions, any of which could have an adverse effect on ABI's sales. Any of these and other legal or regulatory changes could materially and adversely affect ABI's financial condition and results of operations.

ABI's products are subject to value added taxes ("VAT"). Any increases in VAT may reduce the overall consumption of ABI's products. Beer and other alcoholic beverages of ABHP, including alcopop products such as Tanduay Ice, are subject to an excise tax in addition to VAT. Starting January 2018, a tax on sugar-sweetened beverages was imposed, subjecting several ABI products – Cobra, Sunkist, and Nestea – to excise taxes. Any increases in the rate and scope of excise taxes imposed by the taxing authorities may likewise reduce consumption.

There is no guarantee that the increased taxes can be shouldered by ABI; subsequently, it may be passed on by ABI to its consumers, which may result in lower demand for its products and have an adverse effect on ABI's business, financial condition and results of operations

Tobacco
On December 19, 2012, President Benigno Aquino III signed R.A. 10351 into law which modified the applicable excise tax rates on alcohol and tobacco products, including cigarettes effective January 1, 2013.

During the first year of R.A. 10351's implementation, high-priced cigarettes were taxed at a rate of ₱25.00 per pack and low-priced cigarettes will be taxed at ₱12.00 per pack. In the second year, the rates were increased to ₱27.00 and ₱17.00 per pack, respectively. In 2015, the high-priced cigarettes were taxed at ₱28.00 per pack and the low-priced cigarettes at ₱21.00 per pack. Said rates were increased in 2016 at ₱29.00 and ₱25.00 per pack, respectively. In 2017, all cigarettes were taxed with a unitary rate of ₱30.00 per pack.

On December 19, 2017, the President of the Philippines signed into law Republic Act (RA) No. 10963 or the Tax Reform for Acceleration and Inclusion (TRAIN), which increased the unitary excise tax higher than the RA 10351. The excise tax rate per pack was at ₱ 32.50 from January until June 2018, ₱35.00 until December 2019, ₱ 37.50 until 2021, then ₱ 40.00 until 2023, with an increase of four percent annually from 2023 onwards.

From the regulatory standpoint, Executive Order No. 26 (Providing for the establishment of smoke-free environments in public and enclosed places) was also signed by the President and became effective last July 23, 2017.

On December 19, 2017, the President Rodrigo Duterte signed into law R.A. No. 10963 or the Tax Reform for Acceleration and Inclusion (TRAIN), which increased the unitary excise tax. The excise tax rate per pack was at ₱32.50 from January until June 2018, ₱35.00 from July 2018 until December 2019.

On July 25, 2019, President Rodrigo Duterte signed into law R.A. No. 11346, which further increased the excise tax on tobacco products to ₱45.00 from January 2020 until December 2020, then ₱50.00 from January 2021 until December 2021, ₱55.00 from January 2022 until December 2022, ₱60.00 from January 2023 until December 2023, with an increase of 5 percent annually from 2024 onwards.

Banking
The Philippines' banking industry is highly regulated by the BSP (Bangko Sentral ng Pilipinas). The bank through its compliance division ensures adoption and adherence to recent regulatory pronouncements and rulings.

Property Development
The Company strictly complies with, and adheres to, existing and probable government regulations in the conduct of its business.

Research and development activities

The research and development activities of the Group for the past three years did not amount to a significant percentage of revenues.

Costs and effects of compliance with environmental laws

Distilled Spirits
TDI regards occupational health and safety as one of its most important corporate and social responsibilities and it is TDI's corporate policy to comply with existing environmental laws and regulations. TDI maintains various environmental protection systems which have been favorably cited by the environmental regulators. Since TDI's operations are subject to a broad range of health, safety and environmental laws and regulations, TDI convenes a quarterly strategic meeting among its department leaders to review, discuss and develop goals surrounding health, safety and environmental compliance and awareness.

Environmental Management Facilities
TDI places critical importance on environmental protection. To further this aim, TDI invests in facilities which it believes will reduce the impact of its operations on the environment, as well as reduce its operating costs. On November 22, 2012, the Federation of Philippine Industries named Tanduay as the most outstanding company in the Philippines in relation to its optimum use and recycling of resources.

Bottle Recycling
A major component of TDI's operations is the retrieval of secondhand bottles and the reuse of these bottles in TDI's production process. The cost of a used bottle, including washing costs, is approximately 50% less than the cost of a new bottle. Apart from the reduced cost, TDI also benefits from the reduced waste in reusing bottles as a bottle can be reused an average of three to four times. TDI relies on a nationwide network of junk shops throughout the Philippines for purchasing secondhand bottles. Repurchasing bottles also helps TDI in marketing its products, as customers can sell their bottles after consuming the contents. TDI has also invested in automated bottle washing facilities in all its bottling plants.

Wastewater Treatment Plants

Bottling Plants
TDI has wastewater treatment facilities in all its bottling plants that screen, collect and neutralize all wastes from the bottling process before these are discharged. The wastes generally emanate from the bottle washing process that uses certain chemicals to thoroughly clean the bottles. Philippine regulatory agencies such as the DENR and Laguna Lake Development Authority (LLDA) conduct annual inspections of TDI's wastewater treatment process.

Distillation Plants
Wastewater is collected in lagoons where it undergoes a treatment process to minimize adverse effects on the environment. Treated wastewater, along with other distillery wastes, is also usable as liquid fertilizer. ADI has wastewater treatment digestor and methane gas collector that reduces carbon emissions and serves as secondary source of power for the distillation plant.

ADI has also installed a Biomenthanated Spent Wash Evaporation plant that will be usedfor the evaporation of wastewater in its Batangas distillation plant. The project aims to save on liquid fertilization costs

Beverage
ABI regards occupational health and safety as one of its important corporate and social responsibilities. ABI's policy is to comply with existing environmental laws and regulations. ABI has made significant investments in its physical facilities to comply with its environmental policy, including investments in environmental protection systems, such as wastewater treatment which have been cited favorably by environmental regulators. Since ABI's operations are subject to a broad range of safety, health and environmental laws and regulations, ABI convenes a quarterly strategic program among its department leaders to review, discuss and develop goals surrounding health, safety and environmental compliance and awareness. ABI has also appointed a safety compliance officer for its operations and facilities.

Tobacco
PMFTC's goal is to manufacture quality products while recognizing performance in environmental, health and safety (EHS) as an integral part of the business. Therefore, PMFTC is committed to reduce the environmental impact of its activities and promote the sustainability of the environment (upon which it depends), to prevent occupational injuries and illnesses in the workplace by addressing any foreseeable hazards while improving and protecting its physical assets, and to comply with all laws and regulations related to EHS.

PMFTC has continuously allocated significant investments in EHS improvements and upgrades in its Batangas factory, and Marikina facilities. Rigorous monitoring and reporting systems are put in place in parallel to training to all employees, resulting in maintaining the certification by Bureau Vertias of the Batangas and Marikina factories as compliant in accordance with ISO 9001 (Quality), ISO 45001 (Environment) AND ISO 45001 (Occupational Safety & Health).

Banking
This is not applicable to banks.

Property Development
The Company's development plans provide for full compliance with environmental safety and protection in accordance with law. The Company provides the necessary sewage systems and ecological enhancements such as open space landscaping with greenery.

The Company complies with the various government approvals such as ECC, development permit and licenses to sell, among others, and incurs expenses for complying with the environment laws. This consists mainly of payments of government regulatory fees which are standard in the industry and are minimal.

Human Resources and Labor Matters
LTG had 28 regular monthly employees as of December 31, 2021. The total workforce of the Group inclusive of contractual employees was as follows:

Distilled Spirits	2,037
Beverage	4,088
Tobacco	53
Banking	8,656
Property development	381
Total	15,215

Distilled Spirits
TDI has 1,597 employees as of December 31, 2021. With the exception of the Cagayan De Oro Plant, all regular daily employees of the TDI plants are unionized. TDI-Cabuyao's regular daily employees has a Collective Bargaining Agreement (CBA) with the NAGKAKAISANG LAKAS MANGGAGAWA NG TDI-FSM, which is effective up to 2022. TDI Negros' regular daily employees assigned in its bottling operations has a CBA with the Labor Union of Tanduay Employees (LUTE) effective up to 2022.

AAC has 200 employees with no existing Union.

As of December 31, 2021, ADI has 240 employees. ADI's registered labor union is Absolut Distillers, Inc. Employees Union-Olalia-KMU. Current CBA is effective up to 2024.

TDI and subsidiaries expect to maintain its average number of employees in the next (12) twelve months.

There are no supplemental benefits or incentive arrangements that the Group has or will have with its employees.

Beverage

As of December 31, 2021, approximately out of the 4,088 (including contractual employees) ABI and its subsidiaries directly employed 3,030 people, of which about 76% were employed in manufacturing and logistics, 19% had general and administrative functions, 4% were in sales and distribution, and 1% were in marketing.

ABI and its subsidiaries generally employ a number of outsourced laborers from third-party service providers. ABI contracts with these manpower and services firms for the supply of additional laborers.

ABI is a party to a collective bargaining agreement (CBA) for its employees at its Cabuyao and El Salvador plants. The CBA with its Cabuyao employees was signed on July 12, 2019 and was effective until December 31, 2021. Negotiations for a new CBA is underway. The CBA for ABI’s El Salvador plant has been concluded effective February 16, 2022.

ABI believes that its relations with both its unionized and non-unionized employees are good. ABI has not experienced any work stoppages due to industrial disputes since 1999.

Tobacco

FTC had 53 regular monthly employees as of December 31, 2021. Effective January 1, 2012, FTC ceased to have daily (regular or casual) employees because of the business combination of FTC and PMPMI effective on February 25, 2010.

Banking

The banking group has a total of 8,656 employees as of December 31, 2021. Comprised of 4,644 officers (121 – Vice President and up and 4,523 – Senior Assistant Vice President to Assistant Manager) and 4,012 rank and file employees. The Bank shall continue to pursue selective and purposive hiring strictly based on business requirements. The Bank has embarked on a number of initiatives to improve operational efficiency.

With regard to the Collective Bargaining Agreement (CBA), the Bank’s regular rank and file employees are represented by a Union. Total union membership is 3,495 out of 4,012 rank and file employees or 87% of the total rank and file population. The CBA has been renewed for a two-year period from July 1, 2020 to June 30, 2022.

The Bank has not suffered any strikes, and the Management of the Bank considers its relations with its employees and the Union as harmonious and mutually beneficial. Industrial peace is continuously being enjoyed by both Management and the organized Union.

Property Development
The Company had 381 and 379 employees at the close of the calendar year December 31, 2021 and 2020, respectively. The breakdown of the Company employees as of December 31, 2021, according to type are as follows:

Executive	27
Managers	49
Officers	74
Supervisors	84
Rank and File	147
Total	381

The Company will continue to hire qualified and competent employees for the next twelve months to support its plans and programs to achieve revenue, growth and efficiency targets. The Company's employees do not belong to any labor union or federation.

At present, its employees receive compensation and benefits in accordance with the Labor Code of the Philippines.

Major risk/s and Procedures Being Taken to Address the Risks

Distilled Spirits

Market / Competitor Risk
TDI's core consumer base for its products are lower-income consumers. Customers are classified into "economy" and "standard" markets, with monthly income levels of up to ₱10,000 and ₱100,000, respectively. According to the 2006 Philippine National Statistics Coordination Board (NSCB) Family Expenditure Survey and a 2009 Usage, Attitude and Image Survey conducted by the Philippine Survey Research Council, this consumer base comprises approximately 80% of the Philippine population and likewise accounts for approximately 90% of liquor consumption. The preferences of these consumers change for various reasons driven largely by demographics, social trends in leisure activities and health effects. Entry of new competitive and substitute products to address these customers' preferences may adversely affect the business prospects of TDI if it does not adapt or respond to these changes.

In addition, the market of TDI is highly sensitive to price changes given the purchasing power and disposable income of its customers. Any adverse change in the economic environment of the Philippines may affect the purchasing power of the consumers and adversely affect TDI's financial position and performance.

TDI responds to customer preferences by continuing to monitor market trends and consumer needs to identify potential opportunities. Its existing product portfolio covers all major liquor categories and price ranges enabling it to respond quickly to any change in consumer preference. Development of new products and brands is continuously being undertaken to address the current and emerging requirements of the customers.

Raw Material Supply Risk
The main raw material that TDI and subsidiaries use for the production of its liquor products and bioethanol is molasses which is subject to price volatility caused by changes in global supply and demand, weather conditions, agricultural uncertainty or governmental controls. A shortage in the local supply of molasses and the volatility in its price may adversely affect the operations and financial performance of TDI and its subsidiaries.

TDI addresses this risk by regularly monitoring its molasses and alcohol requirements. At the start of each annual sugar milling season, TDI normally negotiates with major sugar millers for the purchase in advance of the mill's molasses output at agreed upon prices and terms. It also imports ethyl alcohol in the event that the local supply is not sufficient or if prices are not favorable. Furthermore, TDI's parent company owns a 30.9% stake in Victorias Milling Company, Inc. (VMC) as of December 31, 2021. VMC is the largest sugar producer in the Philippines and currently one of TDI's major supplier of molasses.

Furthermore, the acquisition of AAC and ADI was designed to control alcohol cost and minimize the chances of a shortage in supply. Adequate storage facilities have been constructed to enable TDI to buy and stock molasses at the time when sugar centrals are at their production peaks. To address any disruption in supply from AAC and ADI, TDI also maintains a network of local and foreign alcohol suppliers.

Credit Risk

TDI relies on 16 exclusive distributors for the sale of its liquor products. Any disruption or deterioration in the credit worthiness of these distributors may adversely affect their ability to satisfy their obligations to TDI.

The operations and financial condition of distributors are monitored daily and directly supervised by TDI's sales and marketing group. Credit dealings with these distributors for the past twenty years have been generally satisfactory and TDI does not expect any deterioration in credit worthiness. The 16 distributors also have a wide range of retail outlets and there is no significant concentration of risk with any counterparty.

Trademark Infringement Risk

TDI's image and sales may be affected by counterfeit products with inferior quality. Its new product development efforts may also be hampered by the unavailability of certain desired brand names. TDI safeguards its brand names, trademarks and other intellectual property rights by registering them with the IPO and in all countries where it sells or plans to sell its products. Brand names for future development are also being registered in advance of use to ensure that these are available once TDI decides to use them. Except for companies belonging to the LT Group, TDI also does not license any third party to use its brand names and trademarks.

The risk of counterfeiting is constantly being monitored and legal action is undertaken against any violators. The use of tamper proof caps is also seen as a major deterrent to counterfeiting.

Regulatory Risk

TDI is subject to extensive regulatory requirements regarding production, distribution, marketing, advertising and labeling both in the Philippines and in the countries where it distributes its products. Specifically, in the Philippines, these include the Bureau of Food and Drugs, Department of Environment and Natural Resources, Bureau of Internal Revenue and Intellectual Property Office.

Decisions and changes in the legal and regulatory environment in the domestic market and in the countries in which it operates or seeks to operate could limit its business activities or increase its operating costs. The government may impose regulations such as increases in sales or specific taxes which may materially and adversely affect TDI's operations and financial performance.

To address regulatory risks like the imposition of higher excise taxes, TDI would increase its selling prices and make efforts to reduce costs. Other regulatory risks are managed through close monitoring and coordination with the regulatory agencies on the application and renewal of permits. TDI closely liaises with appropriate regulatory agencies to anticipate any potential problems and directional shifts in policy. TDI is a member of the Distilled Spirits Association of the Philippines and the Bioethanol Producers Association which acts as the medium for the presentation of the industry position in case of major changes in regulations.

Safety, health and environmental laws risk

The operation of TDI's existing and future plants are subject to a broad range of safety, health and environmental laws and regulations. These laws and regulations impose controls on air and water discharges, on the storage, handling, employee exposure to hazardous substances and other aspects of the operations of these facilities and businesses. TDI has incurred, and expects to continue to incur, operating costs to comply with such laws and regulations. The discharge of hazardous substances or other pollutants into the air, soil or water may cause TDI to be liable to third parties, the Philippine government or to the local government units with jurisdiction over the areas where TDI's facilities are located. TDI may be required to incur costs to remedy the damage caused by such discharges or pay fines or other penalties for non-compliance.

There is no assurance that TDI will not become involved in future litigation or other proceedings or be held responsible in any such future litigation or proceedings relating to safety, health and environmental matters, the costs of which could be material. Clean-up and remediation costs of the sites in which its facilities are located and related litigation could materially and adversely affect TDI's cash flow, results of operations and financial condition.

It is the policy of TDI to comply with existing environmental laws and regulations. A major portion of its investment in physical facilities was allocated to environmental protection systems which have been favorably cited as compliant by the environmental regulators.

Counterfeiting risk
TDI's success is partly driven by the public's perception of its various brands. Any fault in the processing or manufacturing, either deliberately or accidentally, of the products may give rise to product liability claims. These claims may adversely affect the reputation and the financial performance of TDI.

The risk of counterfeiting is constantly being monitored and legal action is undertaken against any violators. The use of tamper proof caps also helps prevent counterfeiting. All brand names, devices, marks and logos are registered in the Philippines and foreign markets.

The Quality Program of TDI ensures that its people and physical processes strictly comply with prescribed product and process standards. It has a Customer Complaint System that gathers, analyzes and corrects all defects noted in its products. Employees are directed to be observant of any defects in the Company's products on display in sales outlets and buy the items with defects and surrender these to TDI for reprocessing.

Last July 21, 2014, Tanduay Cabuyao Plant successfully passed the ISO 9001:2008 Certification Audit while the Negros Plant was certified last December 31, 2014. This was an achievement for Tanduay since the Company was able to certify 2 plants in a year. ISO 9001:2008 specifies requirements for a quality management system where an organization needs to demonstrate its ability to consistently provide product that meets customer and applicable statutory and regulatory requirements and aims to enhance customer satisfaction through the effective application of the system including processes for continues improvement of the system and the assurance of conformity to customer and applicable statutory and regulatory requirements.

Beverage

Market / Competitor Risk
The substantial majority of ABI's customers in the Philippines belong to the lower socio-economic classes, where discretionary income is limited. Accordingly, the market for beverages such as energy drinks, beer and other ABI products is price elastic. If ABI raises the prices of its products, sales volumes will likely decline, and the decline may not be offset by the increase in prices, which may result in a lower level of net sales.

The ability of ABI to successfully launch new products and maintain demand for its existing products depends on the acceptance of these products by consumers, as well as the purchasing power of consumers. Consumer preferences may shift because of a variety of reasons, including changes in demographic and social trends or changes in leisure activity patterns.

To address such risks, ABI expects younger consumers to be a key driver of the demand for ABI's products and its growth, notably for energy drinks and alcopops. ABI plans to focus its product development and marketing efforts in these segments on such consumers. ABI intends to use marketing channels such as social media to improve product communication with its target customers.

In addition, ABI has the most diverse beverage portfolio in the Philippines and is one of the few beverage companies in the Philippines with a well-established and leading presence across multiple segments in the beverage industry. ABI believes that its ability to offer a strong portfolio of brands across multiple categories is a key competitive advantage and allows for significant leverage over its distributors.

Raw Material Supply Risk
The manufacture of ABI's products depends on raw materials that ABI sources from third-party and related suppliers. Sugar used to produce energy drinks and other sweetened beverages is generally purchased under supply contracts of up to one year. Hops and barley used in beer production are primarily sourced abroad. Raw materials used by ABI and its related companies are subject to price volatility caused by changes in global supply and demand, foreign exchange rate fluctuations, weather conditions and governmental controls.

ABI addresses this risk by actively monitoring the availability and prices of raw materials. ABI may also shift to alternative raw materials used in the production of its products. Apart from these, ABI also monitors the market for hedging opportunities to lock in the price of raw materials such as bunker fuel used in the production of commercial bottles.

Regulatory Risk
Regulatory decisions or changes in the legal and regulatory requirements in a number of areas related to the beverage industry may have adverse effect on ABI's business. Governmental bodies may subject ABI to actions such as product recall, seizure of products and other sanctions, any of which could have an adverse effect on ABI's sales. Also, any increases in excise taxes or VAT may reduce overall consumption and demand for ABI's products, as consumers prioritize basic necessities in view of higher living costs.

ABI may increase its selling prices and make efforts to reduce costs to address such risks. Close monitoring and coordination with the regulatory agencies on the application and renewal of permits are implemented to manage other regulatory risks.

Safety, health and environmental laws risk
Various environmental laws and regulations govern the operations of ABI including the management of solid wastes, water and air quality, toxic substances and hazardous wastes at ABI's breweries. Non-compliance with the legal requirements or violations of prescribed standards and limits under these laws could expose ABI to potential liabilities, including both administrative penalties in the form of fines and criminal liability. Violations of environmental laws could also result in the suspension and/or revocation of permits or licenses held by ABI or required suspension or closure of operations.

Strict compliance with environmental laws and regulations is continuously implemented by ABI to address the risk.

The tobacco or cigarette industry generally has the following risks:

Market / Competitor Risk
PMFTC competes primarily on the basis of product quality, brand recognition, brand loyalty, taste, innovation, packaging, service, marketing, advertising and price. Although PMFTC has historically been able to maintain its leadership position in the Philippine tobacco market, the Company believes that the market landscape is constantly evolving, and market players can gain or lose market share very quickly.

The competitive environment and PMFTC's competitive position can be significantly influenced by erosion of consumer confidence, competitors' introduction of lower-priced products or innovative products, as well as product regulation that diminishes the ability to differentiate tobacco products.
To address the risk, PMFTC employs improvement in product penetration and distribution channels that will further strengthen its leadership position in the Philippine cigarette market. In addition, PMFTC will continue to focus on consumer research to assess adult consumer insight, trends, behavior and preferences in order to develop marketing campaigns that improve customer engagement.

Regulatory Risk
Tax regimes, including excise taxes, sales taxes and import duties, can disproportionately affect the retail price of manufactured cigarettes versus other tobacco products. The Company believes that general increases in cigarette taxes are expected to continue to have an adverse impact on PMFTC's sales of cigarettes, such as a possible decline in the overall sales volume of its products or a shift in adult consumer preferences from manufactured cigarettes to other tobacco products, from purchases of high-end tobacco products to low-end products, from purchases of local tobacco products to legal cross-border purchases of lower priced products, or the purchases of illicit products, whether counterfeit or deemed contraband items.

PMFTC closely liaises with appropriate regulatory agencies to anticipate any potential problems and directional shifts in policy. PMFTC is a member of the Philippine Tobacco Institute which acts as the medium for the presentation of the industry position in case of major changes in regulations.

Safety, health and environmental laws risk
PMFTC's existing and future operations are subject to a broad range of occupation safety and health standards, and environmental laws and regulations. These laws and regulations impose controls on air and water discharges, on storage, handling, employee exposure to hazardous substances and other aspects of the operations of PMFTC's facilities. Failure to properly manage the environmental risks and the operational, health and safety laws and regulations to which PMFTC is subject could also have a negative impact on its reputation.

It is the policy of the company to comply with existing environmental laws and regulations. PMFTC expects to incur operating costs to comply with such laws and regulations. PMFTC has continuously allocated significant investment in environmental, health and safety improvements and upgrades.

Counterfeiting risk
The risk of counterfeiting is constantly being monitored and legal action will be undertaken against any violators. All brand names, marks and logos are registered in the Philippines and foreign markets.

<u>Banking</u>
As a financial institution with various allied undertakings with an international footprint, PNB continues to comply with an evolving and regulatory and legislative framework in each of the jurisdictions in which it operates. The nature and the impact of future changes in laws and regulations are not always predictable. These changes have implications on the way business is conducted and corresponding potential impact to capital and liquidity.

Effective risk management is essential to consistent and sustainable performance for all the Bank's stakeholders and is therefore a central part of the financial and operational management of the PNB Group. PNB adds value to clients and therefore the communities in which it operates, generating returns for stockholders by taking and managing risk.

Through its Risk Management Framework, the Bank manages enterprise-wide risks, with the objective of maximizing risk-adjusted returns while remaining within its risk appetite. The BOD of the Bank plays a pivotal role and has the ultimate responsibility in bank governance through their focus on two factors that will ultimately determine the success of the Bank, viz: (1) responsibility for the Bank's strategic objectives; and (2) assurance that such will be executed by choice of talents.

Strong independent oversight has been established at all levels within the Bank. The Bank's BOD has delegated specific responsibilities to various Board Committees, which are integral to PNB's risk governance framework and allow executive management, through management committees, to evaluate the risks inherent in the business and to manage them effectively.

There are eight (8) Board Committees:

* Board Audit & Compliance Committee (BACC)
* Board Information Technology Governance Committee (BITGC)
* Board Oversight Related Party Transaction Committee (BORC)
* Board Strategy & Policy Committee (BSPC)
* Corporate Governance and Sustainability Committee (CorGov)
* Executive Committee (EXCOM)
* Risk Oversight Committee (ROC)
* Trust Committee (TrustCom)

A sound, robust and effective Enterprise Risk Management (ERM) coupled with global best practices were recognized as a necessity and are the prime responsibility of the BOD and senior management. The approach to risk is founded on strong corporate governance practices that are intended to strengthen the enterprise risk management of PNB, while positioning the Group to manage the changing regulatory environment in an effective and efficient manner.

Approved by the BOD in 2020, the Management Risk Committee (MRC) was created as a forum ensuring that the Bank's Enterprise Risk Management Framework (ERMF) is operationalized and that Senior Management has an enterprise-level view of all material risks and that risk-mitigating actions properly determined and effectively executed.

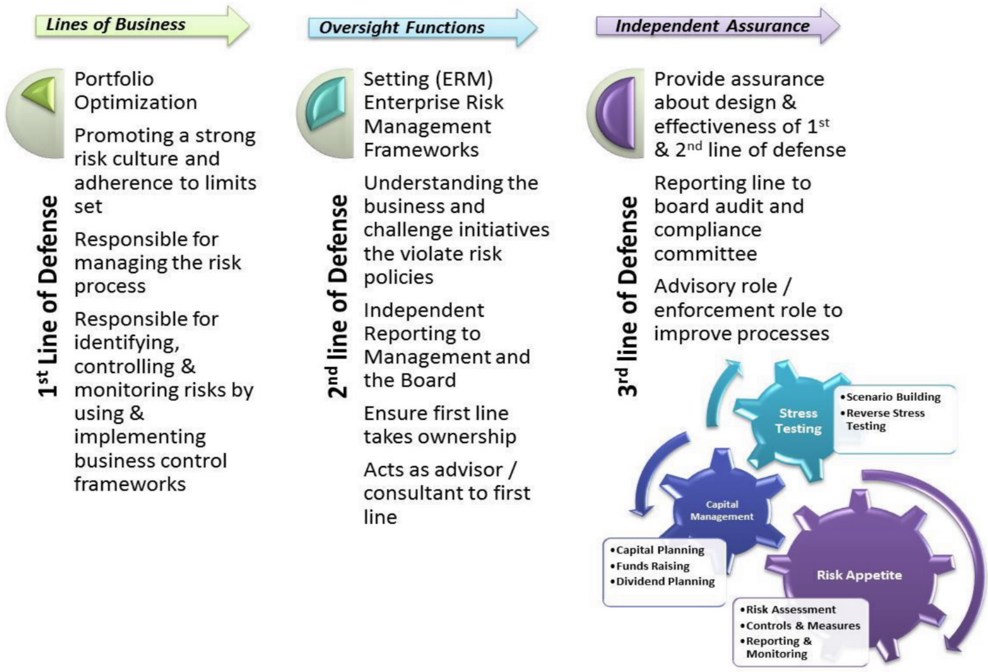
Mainly composed of the Bank's Sector and Group heads, the MRC will be responsible for reviewing and monitoring enterprise level risks and assessing risk responses proposed or taken by the relevant risk owner, and for providing inputs to the ERMF process. The committee shall periodically assess that the Bank's risk appetite statements are aligned with the business strategy and the overall objectives.

The approach to managing risk is outlined in the Bank's ERMF which creates the context for setting policies, standards, and establishing the right practices throughout the Group. It defines the risk management processes and sets out the activities, tools, and organizational structure to ensure material risks are identified, measured, monitored and managed.

PNB's ERMF, with regular reviews and updates, has served the Bank well and has been resilient through economic cycles. The organization has placed a strong reliance on this risk governance framework and the three lines-of-defense model, which are fundamental to PNB's aspiration to be world-class at managing risk.

While the first line of defense in risk management lies primarily on the Bank's risk taking units as well as the Bank's support units, the Risk Management Group is primarily responsible for the monitoring of risk management functions to ensure that a robust risk-oriented organization is maintained.

The risk management framework of the Bank is under the direct oversight of the Chief Risk Officer (CRO) who reports directly to the ROC. The CRO is supported by Division Heads with specialized risk management functions to ensure that a robust organization is maintained. The Risk Management Group is independent from the business lines and organized into the following divisions: Credit Risk Division, BASEL/ICAAP/Operational Risk Management Division, Market & ALM Division, Business Continuity Management and Vendor Risk Monitoring Division, Data Privacy & Technology Risk Management Division, Trust Risk Division, Business Intelligence & Warehouse Division, Model Validation Division and Administrative & Support Department.



Each division monitors the implementation of the processes and procedures that support the policies for risk management applicable to the organization. These board approved policies clearly define the kinds of risks to be managed, set forth the organizational structure and provide appropriate training necessary to manage and control risks.

The Bank's governance policies also provide for the validation, audits & compliance testing, to measure the effectiveness and suitability of the risk management structure. The Risk Management Group also functions as the Secretariat to both the ROC and the MRC which meets monthly to discuss the immediate previous month's total risk profile according to the material risks defined by the Bank in its internal capital adequacy assessment process (ICAAP) document.

Further, each risk division engages with all levels of the organization among its business and support groups. This ensures that the risk management and monitoring is embedded at origination.

The risk management system and the directors' criteria for assessing its effectiveness are revisited on an annual basis and limit settings are discussed with the business units and presented to the ROC for endorsement for final BOD Approval.

In line with the integration of the BSP required ICAAP and risk management processes, PNB currently monitors 10 Material Risks (3 for Pillar 1 and 8 for Pillar 2). These material risks are as follows:

Pillar 1 Risks:

* Credit Risk (includes Counterparty and Country Risks);
* Market Risk; and
* Operational Risk.

Pillar 2 Risks:

* Credit Concentration Risk;
* Interest Rate Risk in Banking Book (IRRBB);
* Liquidity Risk;
* Reputational Risk;
* Strategic Business Risk;
* Information Security/ Cyber Security / Data Privacy Risk; and

* Information Technology Risk
* Human Resource Risk

Pillar 1 Risk Weighted Assets are computed based on the guidelines set forth in BSP Circular No. 538, Series of 2006 using the Standard Approach for Credit and Market Risks and Basic Indicator Approach for Operational Risks. Discussions that follow below are for Pillar 1 Risks with specific discussions relating to Pillar 2 risks mentioned above:

Risk Categories and Definitions
We broadly classify and define risks into the following categories and manage the risks according to their characteristics. These are monitored accordingly under the enterprise ICAAP 2021 program:

Risk Category	Risk Definition	Risk Monitoring Process	Risk Management Tools
Credit Risk (including Credit Concentration Risks and Counterparty Risks)	Credit risk is the risk to earnings or capital that arises from an obligor/s, customer/s or counterparty's failure to perform and meet the terms of its contract. Credit concentration risk arises from excessive exposures to individual counterparties, groups of related counterparties and groups of counterparties with similar characteristics (e.g., counterparties in specific geographical locations, economic or industry sector). Its potential loss implications are large enough relative to a bank's capital, total assets, or overall risk level, to threaten a financial institution's health or ability to maintain its core operations. It is inherent in a bank's assets, liabilities or off-balance sheet items, through the execution or processing of transactions (either product or service), or through a combination of exposures across these broad categories. The potential for loss reflects the size of the position and the extent of loss given a particular adverse circumstance. (BSP MORB Sec 301.6, Series of 2009; BCBS)	Loan Portfolio Analysis Credit Dashboards Credit Review Credit Model Validation	Trend Analysis (Portfolio / Past Due and NPL Levels Regulatory and Internal Limits Stress Testing Rapid Portfolio Review CRR Migration Movement of Portfolio Concentrations and Demographics Review Large Exposure Report Counterparty Limits Monitoring Adequacy of Loan Loss Reserves Review Specialized Credit Monitoring (Power, Real Estate)
Market Risk	Market risk is the risk to earnings or capital arising from adverse movements in factors that affect the market value of financial instruments, products and transactions in an institution's overall portfolio, both on or off-	Value at Risk Utilization Results of Marking to Market Risks Sensitivity/ Duration Report	VaR Limits Stop Loss Limits Management Triggers Duration Report ROP Exposure Limit Limit to Structured Products

Risk Category	Risk Definition	Risk Monitoring Process	Risk Management Tools
	balance sheet and contingent financial contracts. Market risk arises from market-making, dealing and position taking in interest rate, foreign exchange, equity, and commodities market. (BSP Cir. No. 544, Series of 2006)	Exposure to Derivative/ Structured Products	Exception Report on Traders' Limit Exception Report on Rate Tolerance Stress Testing BSP Uniform Stress Testing
Liquidity Risk	Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from an FI's inability to meet its obligations when they come due. Liquidity risk includes the inability to manage unplanned decreases or changes in funding sources. Liquidity risk also arises from the failure to recognize or address changes in market conditions that affect the Bank's ability to liquidate assets quickly and with minimal loss in value. (BSP Cir. No. 510/545).	Funding Liquidity Plan Liquidity Ratios Large Fund Providers Maximum Cumulative Outflow (MCO) Liquid Gap Analysis	MCO Limits Liquid Assets Monitoring Stress testing Large Fund Provider Analysis Contingency Planning
Interest Rate Risk in the Banking Books (IRRBB)	Interest rate risk is the current and prospective risk to earnings or capital arising from movements in interest rates. It arises from differences between the timing of rate changes and the timing of cash flows (repricing risk); from changing rate relationships among different yield curves affecting financial institution (FI) activities (basis risk); from changing rate relationships across the spectrum of maturities (yield curve risk); and from interest-related options embedded in FI products (options risk). The amount at risk is a function of the magnitude and direction of interest rate changes and the size and maturity structure of the mismatch position. (BSP Circ 1044, Series of 2019)	Interest Rate Gap Analysis Earnings at Risk (EaR) Measurement Cashflow based Economic Value of Equity	EAR Limits Balance Sheet Profiling Repricing Gap Analysis Cashflow based Economic Value of Equity (EVE) Stress testing BSP Uniform Stress Testing
Operational Risk	Operational Risk refers to the risk of loss resulting from inadequate or failed internal processes, people and systems; or from external events. This definition includes Legal Risk but excludes Strategic and Reputational Risk.	Risk Identification Risk Measurement Risk Evaluation (i.e. Analysis of Risk) Risk Management (i.e. Monitor,	Internal Control Board Approved Operating Policies and Procedures Manuals Board Approved Product Manuals Loss Events Report (LER)

Risk Category	Risk Definition	Risk Monitoring Process	Risk Management Tools
	Operational Risk is inherent in all activities, products and services, and cuts across multiple activities and business lines within the financial institution and across the different entities in a banking group or conglomerate where the financial institution belongs. (BSP Circular 900, dated 18 January 2016)	Control or Mitigate Risk) Monitoring of Pillar II Risks fall under the purview of Operational Risk Management: Risk Identification – Risk Maps Risk Measurement and Analysis – ICAAP Risk Assessment	Risk and Control Self-Assessment (RCSA) Key Risk Indicators (KRI) Business Continuity Management (BCM) Statistical Analysis
Included in the Operational Risks:			
Reputational Risk	Reputational risk is the current and prospective impact on earnings or capital arising from negative public opinion. This affects the Bank's ability to establish new relationships or services or continue servicing existing relationships. This risk may expose the Bank to litigation, financial loss, or a decline in its customer base. In extreme cases, the Bank loses its reputation and may suffer a run on deposits. (BSP Cir. No. 510, dated 03 Feb 2006). Reputational Risk also covers Customer Franchise Risk and Consumer Protection Risk. Customer Franchise Risk is defined in the Bank's Policy on ICAAP, as the failure to find, attract, and win new clients, nurture and retain those the Bank already has, and entice former clients back into the fold as well as the failure to meet client's expectation in delivering the Bank's products and services. Consumer Protection Risk is defined as failure of the bank to deliver its mandate to provide appropriate service and protection to its financial consumers.	Risk Identification Risk Measurement Risk Evaluation (i.e. Analysis of Risk) Risk Management (i.e. Monitor, Control or Mitigate Risk) Monitoring of Pillar II Risks fall under the purview of Operational Risk Management: Risk Identification – Risk Maps Risk Measurement and Analysis – ICAAP Risk Assessment Major Factors considered: Products Technology People Policies and Processes Stakeholders (including customer and regulators)	Account Closures Report Consolidated Complaints Report Mystery Caller/Shopper Evaluation/ Risk Mitigation of negative media coverage Public Relations Campaign Profiling on the mobile and internet banking users Review of Stock Price performance Fraud Management Program Social Media Management Framework Social Media Risk Management Use of Social Media metrics Media monitoring tool Screening and Recruitment Process of Personnel Internal Audit Risk Based Work Program Compliance Testing and Review
Strategic Business Risks	Strategic business risk is the current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of		Regular ALCO Financial Updates Seminars and Economic briefings

Risk Category	Risk Definition	Risk Monitoring Process	Risk Management Tools
	decisions, or lack of responsiveness to industry changes. This risk is a function of the compatibility of the firm's strategic goals, the business strategies developed to achieve those goals, the resources deployed against these goals, and the quality of implementation. (BSP Cir. No. 510, dated 03 Feb 2006).		Banking industry reports and industry research studies Research Division's economic reports and forecasting and equities reports Management Profitability Reports Compliance Updates on new, revised regulations Retail Bank / Corporate Bank / Retail Lending weekly updates on performance/ volume levels Annual Strategic Planning Exercise
Information Security/ Cyber Security Risk	Information Security (Infosec) risk is the risk to organizational operations (including mission, functions, image, and reputation), organizational assets, and individuals due to the potential for unauthorized access, use, disclosure, disruption, modification or destruction of information or information assets that will compromise the Confidentiality, Integrity, and Availability (CIA). This covers data or information being processed, in storage or in transit. Cyber Risk is the risk associated with financial loss, disruption or damage to the reputation of an organization from failure, unauthorized or erroneous use of its information systems. (NIST IR 7298 Revision 2, Glossary of Key Information Security Terms, Page Numbers 98 & 100)		Incident Reporting Management Information Security Policy Formulation Risk Assessment Information Security Management System Implementation Continuous InfoSec / cyber risk awareness campaigns Network Security Protection Limits on Access Privileges Scanning of outbound and inbound digital traffic
Data Privacy Risk	Data Privacy Risks are those that could lead to the unauthorized collection, use, disclosure or access of personal data. It includes risks that the confidentiality, integrity and availability of personal data will not be maintained, or the risk that processing will violate the rights of data subjects or the privacy principles (transparency,		Installation of firewalls, IPS/IDS, enterprise security solution (anti-virus for endpoint, email and internet). Enterprise–wide Implementation of the Information Security Management Systems

Risk Category	Risk Definition	Risk Monitoring Process	Risk Management Tools
	legitimacy and proportionality). Consequently, the data privacy risks may negatively impact the Bank's reputation and may result to noncompliance issue and financial losses. (Data Privacy Act of 2012 or RA 10173).		Education / InfoSec Awareness is also constantly conducted Conduct of internal and 3rd party vulnerability assessments and penetration testing (to include social engineering tests) and follow through on remediation of threats and risks Implementing the enterprise-wide data privacy risk management framework which complies with both domestic and global requirements Institutionalization of data protection culture within the group through regular awareness programs
Information Technology Risk	Information Technology Risk is any potential adverse outcome, damage, loss, violation, failure or disruption associated with the use of or reliance on computer hardware, software, devices, systems, applications and networks. (BSP Circular 808) It is also a business risk that is associated with the use, ownership, operation, involvement, influence and adoption of IT within the Bank [2]. It consists of IT-related events that could potentially impact the business. IT Risk includes Information Security Risk that could result from non-preservation of any or all of the domains of information security; that is, confidentiality, integrity and availability of information asset. (ISACA Risk IT Framework).	Risk Identification Risk Measurement Risk Evaluation (i.e. Analysis of Risk) Risk Management (i.e. Monitor, Control or Mitigate Risk)	Risk Awareness Campaigns IT Risk Assessments Formal Project Management Program adoption Vulnerability Assessment and Penetration Testing Maintenance and upgrades of disaster recovery sites Business Users / IT joint engagement for problem resolution Technology Operations Management Policies & Guidelines IT Risk Monitoring IT Risk Assessment Project Risk Assessment
Human Resource Risk	Human Resource Risk covers the Bank's risk of financial loss due to the inadequate training, inexperience or illegal activities of risk-taking behavior of personnel. This risk is closely related to operations risk and its	Risk Identification Risk Measurement Risk Evaluation (i.e. Analysis of Risk) Risk Management (i.e. Monitor,	Institutionalize policies covering Talent Acquisition/Retention and Career Management; Remuneration Management;

Risk Category	Risk Definition	Risk Monitoring Process	Risk Management Tools
	internal control aspects. It highlights the human side of risk-taking and the role and adequacy of code of conduct, personnel policies, training and development programs, ability to recruit and retain employees through adequate compensation and benefits and ability to sustain adequate workforce through succession planning.	Control or Mitigate Risk)	Performance Appraisal System covering the following main tools: Sourcing and Screening of Candidates General Qualification Requirements for Applicants Screening and Pre-employment Assessment Exams Selection Interviews Candidate Matching – ensuring "job fit" through person/position review Competitive compensation and employee benefits; Compliance with Labor Law on payment of benefits and salaries Institutionalize the Bank's Performance Appraisal System (e.g., targets versus achievements) Provide training and/or issue guidelines to ensure that the process is done objectively.

Regulatory Capital Requirements under BASEL III – PILLAR 1 Capital Adequacy Ratio

The Bank's Capital Adequacy Ratio as of December 31, 2021 stood at 13.66% on a consolidated basis while the Risk Weighted Assets (RWA) as of the end of 2021 amounted to Php 804.903 billion composed of Php 677.704 billion (Credit Risk Weighted Assets – CRWA), Php 53.792 billion (Market Risk Weighted Assets – MRWA) and Php73.407 billion (Operations Risk Weighted Assets – ORWA).

The Bank's total regulatory requirements for the four (4) quarters for 2021 are as follows:

Consolidated	Weighted Exposures (As of End of Every Quarter of 2021)			
(Amounts in P millions)	Dec 31	Sept 30	June 30	Mar 31
CRWA	677,704	676,924	677,889	702,240
MRWA	53,792	64,442	58,107	47,445
ORWA	73,407	73,407	73,407	73,407
Total Risk-Weighted Asset	804,903	814,773	809,403	823,092
Common Equity Tier 1 Ratio	12.96%	12.06%	11.82%	14.11%
Capital Conservation Buffer	6.96%	6.06%	5.82%	8.11%
Total Capital Adequacy Ratio	13.66%	12.75%	12.52%	14.77%

Presented below is the full reconciliation of all regulatory capital elements back to the balance sheet in the audited financial statements as at December 31, 2021 attributable to the Bank (amounts in Php thousands):

Accounts	Balance in FRP	Accounting differences and other adjustments	Balance in audited financial statements
Capital stock	P61,030,594	P–	P61,030,594
Additional paid-in capital	32,106,560	–	32,106,560
Surplus reserves	5,147,871	(431)	5,147,440
Surplus	59,842,132	2,327,261	62,169,393
Net unrealized loss on available-for-Sale investments	3,847,727	(4,551,464)	(703,737)
Remeasurement losses on retirement plan	(3,014,084)	289,017	(2,725,067)
Accumulated translation adjustment	761,920	741,476	1,503,396
Other equity reserves	390,517	–	390,517
Share in aggregate reserves on life insurance policies	–	(626,394)	(626,394)
TOTAL	P160,113,237	(P1,820,535)	P158,292,702

Credit Risk-Weighted Assets as of December 31, 2021

The Bank adopts the standardized approach in quantifying the risk-weighted assets. Credit risk exposures are risk weighted based on third party credit assessments of Fitch, Moody's, Standard & Poor's and PhilRatings agencies. The ratings of these agencies are mapped in accordance with the BSP's standards. The following are the consolidated credit exposures of the Bank and the corresponding risk weights:

In P Millions	Exposure, Net of Specific Provision	Exposures covered by Credit Risk Mitigants*	Net Exposure	0%	20%	50%	75%	100%	150%
Cash & Cash Items	27,501	–	27,501	27,458	43	–	–	–	–
Due from BSP	161,019	–	161,019	161,019	–	–	–	–	–
Due from Other Banks	28,731	–	28,731	–	14,011	14,030	–	689	–
Financial Asset at FVPL	–	–	–	–	–	–	–	–	–
Available for Sale	1,428	–	1,428	–	–	–	–	1,428	–
Held to Maturity (HTM)	90,176	4,653	85,523	18,286	7,846	50,342	–	9,049	–
Unquoted Debt Securities	–	–	–	–	–	–	–	–	–
Loans & Receivables	628,470	4,806	623,664	621	70,013	54,626	–	470,982	27,421
Loans and Receivables Arising from Repurchase Agreements, Securities Lending and Borrowing Transactions	15,797	–	15,797	15,797	–	–	–	–	–
Sales Contracts Receivable	4,470	–	4,470	–	–	–	–	4,074	396
Real & Other Properties Acquired	8,810	–	8,810	–	–	–	–	–	8,810

In P Millions	Exposure, Net of Specific Provision	Exposures covered by Credit Risk Mitigants*	Net Exposure	0%	20%	50%	75%	100%	150%
Other Assets	27,054	–	27,054	–	–	–	–	27,054	–
Total On-Balance Sheet Asset	993,456	9,459	983,997	223,181	91,913	118,999	–	513,276	36,627
Total Risk Weighted Asset - On-Balance Sheet	–	–	–	–	18,383	59,499	–	513,276	54,940
Total Risk Weighted Asset - Off-Balance Sheet Asset	–	–	–	–	–	609	–	28,480	–
Counterparty Risk Weighted Asset in Banking Book	–	–	–	–	–	446	–	–	–
Counterparty Risk Weighted Asset in Trading Book	–	–	–	–	–	1,774	–	297	–

* Credit Risk Mitigants used are cash, guarantees and warrants.

Market Risk-Weighted Assets as of December 31, 2021

The Bank's regulatory capital requirements for market risks of the trading portfolio aredetermined using the standardized approach ("TSA"). Under this approach, interest rate exposures are charged both for specific risks and general market risk. The general market risk charge for trading and Fair Value through Other Comprehensive Income (FVOCI) portfolio is calculated based on the instrument's coupon and remaining maturity with risk weights ranging from 0% for items with very low market risk (i.e., tenor of less than 30 days) to a high of 12.5% for high risk-items (i.e., tenor greater than 20 years) while capital requirements for specific risk are also calculated for exposures with risk weights ranging from 0% to 8% depending on the issuer's credit rating. On the other hand, equities portfolio is charged 8% for both specific and general market risk while foreign exchange (FX) exposures are charged 8% for general market risks only.

Capital Requirements by Market Risk Type under the Standardized Approach

(Amounts in P Million)	Capital Charge (a)	Adjusted Capital Charge (b) b= a*125% 1/	Market Risk Weighted Exposures (c) c= b*10 2/
Interest Rate Exposures	3,663.643	4,579.554	45,795.542
Specific Risk	1,375.964	1,719.956	17,199.556
General Market Risk	2,287.678	2,859.599	28,595.985
Equity Exposures	0.807	1.009	10.089
Foreign Exchange Exposures	638.873	798.591	7,985.914
Total	4,303.32	5,379.15	53,791.55

Notes:

1/ Capital charge is multiplied by 125% to be consistent with BSP required minimum Capital Adequacy Ratio (CAR) of 10%, which is 25% higher than the Basel minimum of 8%.

2/ Adjusted capital charge is multiplied by 10 (i.e. the reciprocal of the minimum capital ratio of 10%)

The following are the Bank's exposure with assigned market risk capital charge.

Interest Rate Exposures consist of specific risk and general market risk.

Specific Risk

Specific Risk which reflects the type of issuer of the combined portfolio of financial assets designated at Fair Value through Profit or Loss (FVTPL) and FVOCI is Php 152,575.826 billion and is composed of securities with various tenors that are subjected to risk weight ranging from 0% to 8%. Five percent (5%) of these securities are issued by Republic of the Philippines (ROP) while 7% is attributable to debt securities rated AAA to BBB- issued by other entities. The remaining portfolio consists of all other debt securities that are issued by other entities. Eight percent (8%) of this combined portfolio is composed of USD-denominated debt securities issued by the Philippines with applicable risk weight of 0.25% to 1.6%. On the other hand, the Bank's holding in peso denominated securities which are estimated at seventy two percent (72%) of the portfolio have zero risk weight.

Part IV.1a INTEREST RATE EXPOSURES – SPECIFIC RISK (Amounts in P million)							
	Positions	Risk Weight					
		0.00%	0.25%	1.00%	1.60%	8.00%	Total
PHP-denominated debt securities issued by the Philippine National Government (NG) and BSP	Long	109,120.159					
	Short						
FCY-denominated debt securities issued by the Philippine NG/BSP	Long			1,582.059	5,391.339		
	Short						
Debt securities/derivatives with credit rating BBB- and above issued by other sovereigns	Long		8,089.895	1,661.566	1,750.094		
	Short						
Debt securities/derivatives with credit rating of AAA to BBB-issued by other entities	Long		5,135.862	993.301	5,029.002		
	Short						
All other debt securities/derivatives that are below BBB- and unrated	Long					13,822.549	
	Short						
Subtotal	Long	109,120.159	13,225.757	4,236.926	12,170.434	13,822.549	–
	Short	–	–	–	–	–	–
Risk Weighted Exposures [Sum of long and short positions times the risk weight]		–	33.064	42.369	194.727	1,105.804	1,375.964
Specific Risk Capital Charge for Credit-Linked Notes and Similar Products							
Specific Risk Capital Charge for Credit Default Swaps and Total Return Swaps							

Part IV.1a INTEREST RATE EXPOSURES – SPECIFIC RISK (Amounts in P million)							
	Positions	Risk Weight					
		0.00%	0.25%	1.00%	1.60%	8.00%	Total
SPECIFIC RISK CAPITAL CHARGE FOR DEBT SECURITIES AND DEBT DERIVATIVES		–	33.064	42.369	194.727	1,105.804	1,375.964

General Market Risk – Peso

The Bank's total General Market Risk of its Peso debt securities and interest rate derivative exposure is Php109,323.096 million. In terms of weighted positions, the greater portion (21%) of the Bank's capital charge comes from the Over 4 years to 5 years bucket at Php 23,325.873 million as well as Over 2 years to 3 years bucket (19%) at Php 21,033.495 million or a combined capital charge of Php 1,009.548 million. The remaining weighted positions (59%) are distributed over the remaining buckets.

Currency: PESO							
PART IV.1d GENERAL MARKET RISK (Amounts in P million)							
Zone	Time Bands		Debt Securities & Debt Derivatives/Interest Rate Derivatives		Risk Weight	Weighted Positions	
			Total Individual Positions				
	Coupon 3% or more	Coupon less than 3%	Long	Short		Long	Short
1	1 month or less	1 month or less	50,671.088	46,178.141	0.00%	0.000	0.000
	Over 1M to 3M	Over 1M to 3M	32,359.919	12,772.534	0.20%	64.720	25.545
	Over 3M to 6M	Over 3M to 6M	21,988.436	6,930.285	0.40%	87.954	27.721
	Over 6M to 12M	Over 6M to 12M	5,888.388	4,636.520	0.70%	41.219	32.456
2	Over 1Y to 2Y	Over 1.0Y to 1.9Y	9,941.224	0.000	1.25%	124.265	0.000
	Over 2Y to 3Y	Over 1.9Y to 2.8Y	21,033.495	0.000	1.75%	368.086	0.000
	Over 3Y to 4Y	Over 2.8Y to 3.6Y	4,971.915	0.000	2.25%	111.868	0.000
3	Over 4Y to 5Y	Over 3.6Y to 4.3Y	23,325.873	0.000	2.75%	641.462	0.000
	Over 5Y to 7Y	Over 4.3Y to 5.7Y	9,620.855	0.000	3.25%	312.678	0.000
	Over 7Y to 10Y	Over 5.7Y to 7.3Y	1.520	0.000	3.75%	0.057	0.000
	Over 10Y to 15Y	Over 7.3Y to 9.3Y	34.121	0.000	4.50%	1.535	0.000
	Over 15Y to 20Y	Over 9.3Y to 10.6Y	3.742	0.000	5.25%	0.196	0.000
	Over 20Y	Over 10.6Y to 12Y	0.000	0.000	6.00%	0.000	0.000
		Over 12Y to 20Y	0.000	0.000	8.00%	0.000	0.000
		Over 20Y	0.000	0.000	12.50%	0.000	0.000
Total			179,840.577	70,517.481		1.754.040	85.722
Overall Net Open Position							1,668.318
Vertical Disallowance							8.572
Horizontal Disallowance							0.00
TOTAL GENERAL MARKET RISK CAPITAL CHARGE							1,676.890

General Market Risk – US Dollar

The capital charge on the Bank's General Market Risk from dollar-denominated exposures is Php 545.379 million. The exposure is concentrated under the Over 5 year to 7 years' time bucket with risk weight of 3.25% resulting in a capital charge of Php 220.026 million. The balance is distributed across other time buckets up to over 20 years with capital charge ranging from Php 0.154 million to PHP 109.669 million.

Currency: USD							
PART IV.1d GENERAL MARKET RISK (Amounts in P0.000 million)							
Zone	Time Bands		Debt Securities & Debt Derivatives/Interest Rate Derivatives Total Individual Positions		Risk Weight	Weighted Positions	
	Coupon 3% or more	Coupon less than 3%	Long	Short		Long	Short
1	1 month or less	1 month or less	49,995.661	12,450.216	0.00%	0.000	0.000
	Over 1M to 3M	Over 1M to 3M	17,495.995	32,359.919	0.20%	34.992	64.720
	Over 3M to 6M	Over 3M to 6M	10,056.972	18,712.625	0.40%	40.228	74.851
	Over 6M to 12M	Over 6M to 12M	5,032.415	257.275	0.70%	35.227	1.801
2	Over 1Y to 2Y	Over 1.0Y to 1.9Y	7,135.330	0.000	1.25%	89.192	0.000
	Over 2Y to 3Y	Over 1.9Y to 2.8Y	4,183.566	0.000	1.75%	73.212	0.000
	Over 3Y to 4Y	Over 2.8Y to 3.6Y	4,874.164	0.000	2.25%	109.669	0.000
3	Over 4Y to 5Y	Over 3.6Y to 4.3Y	2,559.936	0.000	2.75%	70.398	0.000
	Over 5Y to 7Y	Over 4.3Y to 5.7Y	6,770.021	0.000	3.25%	220.026	0.000
	Over 7Y to 10Y	Over 5.7Y to 7.3Y	59.517	0.000	3.75%	2.232	0.000
	Over 10Y to 15Y	Over 7.3Y to 9.3Y	3.416	0.000	4.50%	0.154	0.000
	Over 15Y to 20Y	Over 9.3Y to 10.6Y	189.674	0.000	5.25%	9.958	0.000
	Over 20Y	Over 10.6Y to 12Y	4.764	0.000	6.00%	0.286	0.000
		Over 12Y to 20Y	0.000	0.000	8.00%	0.000	0.000
		Over 20Y	9.416	0.000	12.50%	1.177	0.000
Total			108,370.848	63,780.036		686.750	141.371
Overall Net Open Position							545.379
Vertical Disallowance							7.702
Horizontal Disallowance							56.664
TOTAL GENERAL MARKET RISK CAPITAL CHARGE							609.745

General Market Risk – Third currencies

The Bank is likewise exposed to various third currencies contracts most of them are in less than 30 days thus carries a 0% risk weight. The combined general market risk charge for contracts in Australian Dollar (AUD), Singaporean Dollar (SGD), Hong Kong Dollar (HKD), New Zealand Dollar (NZD), Euro (EUR), and Pound Sterling (GBP) is Php 1.043 million with risk weight of 0.20%.

PART IV.1d GENERAL MARKET RISK (Amounts in P million)										
Currency	Time Bands	Total Debt Securities & Debt Derivatives/Interest Rate Derivatives		Risk Weight	Weighted Positions		Overall Net Open Position	Vertical dis allowance	Horizontal dis allowance within	Total General Market Risk Capital Charge
		Long	Short		Long	Short				
AUD	1 month or less	–	–	0.00%	–	–				
	Over 1M to 3M	–	18.257	0.20%	–	0.036				
TOTAL		–	18.257		–	0.036	0.036	–	–	0.036
SGD	1 month or less	–	255.057	0.00%	–	–				
	Over 1M to 3M	–	37.295	0.20%	–	0.075				
TOTAL		–	292.352		–	0.075	0.075	–	–	0.075
JPY	1 month or less	–	471.526	0.00%	–	–				
	Over 1M to 3M	–	–	0.20%	–	–				
TOTAL		–	471.526		–	–	–	–	–	–

PART IV.1d GENERAL MARKET RISK (Amounts in P million)										
Currency	Time Bands	Total Debt Securities & Debt Derivatives/Interest Rate Derivatives		Risk Weight	Weighted Positions		Overall Net Open Position	Vertical dis allowance	Horizontal dis allowance within	Total General Market Risk Capital Charge
		Long	Short		Long	Short				
HKD	1 month or less	–		0.00%	–	–				
	Over 1M to 3M	–	142.078	0.20%	–	0.284				
TOTAL		–	142.078		–	0.284	0.284	–	–	0.284
KRW	1 month or less	204.082	204.082	0.00%	–	–				
	Over 1M to 3M	–		0.20%	–					
TOTAL		204.082	204.082		–					
NZD	1 month or less			0.00%	–	–				
	Over 1M to 3M	–	13.894	0.20%	–	0.028				
TOTAL			13.894		–	0.028	0.028	–	–	0.028
EUR	1 month or less	–	28.776	0.00%	–	–				
	Over 1M to 3M	–	173.264	0.20%	–	0.346				
TOTAL		–	202,040		–	0.346	0.346	–	–	0.346
GBP	1 month or less	–	–	0.00%	–	–				
	Over 1M to 3M	–	136.795	0.20%	–	0.274				
TOTAL		–	136.795		–	0.274	0.274	–	–	0.274
CAD	1 month or less	–	61.199	0.00%	–	–				
	Over 1M to 3M	–	–	0.20%	–	–				
TOTAL		–	61.199		–	–	–	–	–	–
TOTAL THIRD CURRENCIES										1.043

Equity Exposures

The Bank's holdings are in the form of preferred stocks traded in the Philippine Stock Exchange, with 8% risk weight both for specific and general market risk. The Bank's capital charge for equity weighted positions is Php 807.122 million or total risk-weighted equity exposures of Php 10,089.021 million.

Item	Nature of Item	Positions	Stock Markets
			Philippines
A.1	Common Stocks	Long	–
		Short	–
A.9	Others	Long	5,044.511
		Short	–
A.10	TOTAL	Long	5,044,511
		Short	–
B.	Gross (long plus short) positions (A.10)		5,044.511
C.	Risk Weights		8%
D.	Specific risk capital (B. times C.)		403.561
E.	Net long or short positions		5,044.511
F.	Risk Weights		8%
G.	General market risk capital charges (E. times F.)		403.561
H.	Total Capital Charge For Equity Exposures (sum of D. and G.)		807.122
I.	Adjusted Capital Charge For Equity Exposures (H. times 125%)		1,008.902
J.	TOTAL RISK-WEIGHTED EQUITY EXPOSURES (I. X 10)		10,089.021

Foreign Exchange Exposures

The Bank's exposure to FX Risk carries a capital charge of Php 7,985.914 million. This includes Php 6,476.873million arising from exposure in Non-Deliverable Forwards (NDFs) which carries a 4% risk weight while Php1,509.041 million is from FX Exposures with 8% risk weight in FX assets and FX liabilities in USD, and third currencies not limited to Japanese Yen (JPY), Swiss Franc (CHF), Pound Sterling (GBP), EUR, CAD, AUD, Singapore Dollar (SGD) and other minor currencies.

Part IV. 3 FOREIGN EXCHANGE EXPOSURES (as of December 31, 2021)						
	Closing Rate USD/P:					50.999
Nature of Item	Currency	In Million USD Equivalent				In Million Pesos
		Net Long/(Short) Position (excluding options)		Net Delta-Weighted Positions of FX Options	Total Net Long/(Short) Positions	Total Net Long/(Short) Position
		Banks	Subsidiaries /Affiliates			
		1	2	3	4=1+2+3	5
Currency						
A.1 U.S. Dollar	USD	15.687	5.219		20.905	1,066.152
A.2 Japanese Yen	JPY	3.014	0.365		3.379	172.329
A.3 Swiss Franc	CHF	0.368	0.000		0.368	18.759
A.4 Pound Sterling	GBP	0.073	(0.031)		0.041	2.106
A.5 Euro	EUR	0.937	0.038		0.974	49.683
A.6 Canadian Dollar	CAD	0.080	0.000		0.080	4.085
A.7 Australian Dollar	AUD	0.022	0.000		0.022	1.106
A.8 Singapore Dollar	SGD	2.476	0.000		2.476	126.269
A.9 Foreign currencies not separately specified above						
Arab Emirates Dirham	AED	0.049			0.049	2.494
Bahrain Dinar	BHD	0.002			0.002	0.097
Brunei Dollar	BND	0.001			0.000	0.024
Yuan Renminbi	CNY	(0.067)			-0.067	-3.428
Hongkong Dollar	HKD	0.618	0.357		0.975	49.715
Korean Won	KRW	0.035			0.035	1.806
Malaysian Ringgit	MYR	0.001			0.001	0.035

Part IV. 3 FOREIGN EXCHANGE EXPOSURES (as of December 31, 2021)						
	Closing Rate USD/P:					50.999
Nature of Item	Currency	In Million USD Equivalent				In Million Pesos
		Net Long/(Short) Position (excluding options)		Net Delta-Weighted Positions of FX Options	Total Net Long/(Short) Positions	Total Net Long/(Short) Position
		Banks	Subsidiaries /Affiliates			
		1	2	3	4=1+2+3	5
Norwegian Krone	NOK	0.000			0.000	0.000
New Zealand Dollar	NZD	(0.013)			-0.013	-0.641
Saudi Riyal	SAR	0.209			0.209	10.656
Thai Baht	THB	0.028			0.028	1.414
Taiwan Dollar	TWD	0.045			0.045	2.293
Indo Rupiah	INR	0.000			0.000	0.017
A.10 Sum of net long positions						1,509.041
A.11 Sum of net short positions						(4.069)
B. Overall net open positions 1/						1,509.041
C. Risk Weight						8%
D. Total Capital Charge for Foreign Exchange Exposures (B. times C.)						120.723
E. Adjusted Capital Charge for Foreign Exchange Exposures (D. times 125%)						150.904
F. Total Risk-Weighted Foreign Exchange Exposures, Excluding Incremental Risk-Weighted Foreign Exchange Exposures Arising from NDF Transactions (E. times 10)						1,509.041
G. INCREMENTAL RISK-WEIGHTED FOREIGN EXCHANGE EXPOSURES ARISING FROM NDF TRANSACTIONS (Part IV.3A, Item F.)						6,476.873
H. TOTAL RISK WEIGHTED FOREIGN EXCHANGE EXPOSURES (Sum of F. and G.)						7,985.914

Operational Risk – Weighted Assets

The Bank uses the Basic Indicator Approach in quantifying the risk-weighted assets for Operational Risk. Under the Basic Indicator Approach, the Bank is required to hold capital for operational risk equal to the average over the previous three years of a fixed percentage (15% for this approach) of positive annual gross income (figures in respect of any year in which annual gross income was negative or zero are excluded).

(Amounts in P Million) Consolidated as of December 31, 2021	Gross Income	Capital Requirement (15% x Gross Income)
2018 (Year 3)	32,473	4,871
2019 (Year 2)	41,827	6,274
2020 (Last Year)	43,151	6,473
Average for 3 Years		5,872
Adjusted Capital Charge	Average x 125%	7,341
Total Operational Risk Weighted Asset		73,407

Property Development

Competitor Risk

The Philippine real estate development industry is highly competitive. The Company believes that it is a strong competitor in this industry due to its product offerings and the location of its projects. The Company strives to provide real estate developments which are innovative and customer-focused to ensure that requirements of its clients are fulfilled on all fronts. Likewise, the Company believes that the prime locations of its developments allow it to effectively compete in the industry and this will continue in the coming years due to the Company's significant landholdings in prime locations within and outside of Metro Manila.

Market Risk
Currently, majority of the Company's commercial spaces are leased-out to entities in the BPO industry. Should the country experience a slowdown in performance and growth of this sector of the economy, the Company is exposed to the risk of lower occupancy, reduction in rental rates and late or non-payment of rentals.

While forecast for the BPO industry remains bullish, the industry is sensitive to changes in government policies particularly with respect to the tax holidays it currently enjoys. Political uncertainty and peace and order problems may likewise affect the growth of this industry as experienced in the past. Despite this, the outlook for the BPO industry continues to be positive as the country remains to be one of top BPO destinations in the world.

The Company's residential sales on the other hand is exposed to the cyclical nature of the real estate industry. As seen in the past, the real estate industry has the tendency to expand and contract depending on the movement of interest rate and the confidence in the Philippine economy.

Regulatory Risk
The Company operates in a highly regulated environment and it is affected by the development and application of regulations in the Philippines. The development of condominium projects, subdivision and other residential projects is subject to a wide range of government regulations, which, while varying from one locality to another, typically include zoning considerations as well as the requirements to procure a variety of environmental and construction-related permits.

The Company closely monitors all government regulatory requirements and institute measures to strictly comply with them.

Credit Risk
The Company is exposed to credit risk from its leasing and residential sales. To manage the credit risk from residential sales, the Company has ceased to offer in-house financing to its buyers. Instead, buyers are encouraged to either pay in cash, avail of a deferred cash payment term or secure financing from banks to finance their property acquisition.

Credit risk from leasing, on the other hand, is minimal given the profile of the Company's tenants. The terms of the Company's leases are likewise structured to mitigate credit risks.

Financial Risk
Fluctuations in interest rates, changes in Government borrowing patterns and Government regulations could have a material adverse effect in the Company's and its customers' ability to obtain financing. Higher interest rates make it more expensive for the Company to borrow funds to finance its ongoing projects or to obtain financing for new projects. In addition, the Company's access to capital and its cost of financing are also affected by restrictions, such as single borrower limits, imposed by Bangko Sentral of the Philippines (BSP) on bank lending. These could materially and adversely affect the Company's business, financial condition and results of operations.

In order to reduce its earnings volatility, the Company has targeted to significantly increase revenues from recurring sources primarily through rentals from its BPO properties and retail malls. The Company believes this will complement its overall growth strategy by providing recurring cash flows to support its development capital expenditure requirements.

Data Privacy Risk
Data Privacy Risk is an operational risk involving the possible unauthorized access, disclosure and/or destruction by the Company's employees and consultants of sensitive personal information belonging to the Company's clients, suppliers, consultants and employees. The Data Privacy Act of 2012 (Republic Act 10173) requires that due protection and caution must be employed by the Company in handling such sensitive personal information.

To manage this risk, the Company ensures that adequate physical, organizational, and system controls on processes involving the gathering, access, processing, storage and destruction of customers' sensitive personal information are in place. Likewise, continuous improvement on the Company's existing information security is implemented to prevent misuse of personal data. The culture of data protection is also institutionalized within the Company through continuous awareness programs and campaigns.

The Company has also appointed the Data Protection Officer (DPO) to strengthen management of risks relating to the confidentiality and integrity of information while ensuring strict measures to enhance cybersecurity and in compliance with Data Privacy Act of 2012 (Republic Act 10173) and its related regulations on data privacy and security. More details about the Eton Privacy Policy including DPO contact information is available in the company website at https://eton.com.ph/privacy-policy.

Item 2. Properties

Distilled Spirits

TDI and its subsidiaries own the following real estate properties:

Location	Area (sqm)	Present Use
Owned by TDI		
Quiapo, Manila	26,587	Office
Makati City	71	Investment/Condo
Talisay, Neg. Occ.	3,813	Bottle Storage
Davao City	3,000	Investment
Owned by AAC		
Pulupandan, Neg. Occ.	119,082	Distillation Plant
San Mateo, Rizal	11,401	Investment
Talisay, Batangas	139,299	Investment
Tanza, Cavite	53,156	Investment
Owned by ADI		
Ayala Ave., Makati City	89	Investment/Condo
Lian, Batangas	91,722	Distillation Plant

The following are the leased properties of TDI and its subsidiaries:

Location	Present Use	Area (sqm)	Monthly Rental	Lease Expiry Date
Leased by TDI				
Cabuyao, Laguna	Production Plant	170,887	2,155,881	2033
Pinamucan, Batangas	Land rental	18,522	367,500	2033
Calaca, Batangas	Tank rental		555,915	2033
Murcia, Neg. Occ.	Production Plant	51,448	322,615	2033
El Salvador, Mis. Or.	Production Plant	108,843	755,395	2033
Leased by ADI				
Lian, Batangas	Distillation Plant	50,000	50,000	2029
	Totals	**399,700**	**4,207,306**	

Except for the Distillation Plant in Lian Batangas, all lease contracts have a term of fifteen years.

TDIs bottling plant and equipment are located in Cabuyao, Laguna, Murcia, Negros Occidental and El Salvador, Misamis Oriental. The plant equipment and storage facilities are all in good condition. TDIs land in Quiapo, Manila is presently mortgaged to PNB as collateral to TDIs credit line.

AACs distillery plant is located at Pulupandan, Negros Occidental. AAC owns the buildings, machinery and equipment and other structures in it. AAC also has alcohol, molasses and alcohol ageing storage, power generation and wastewater treatment facilities at Pulupandan. Office furniture and fixtures and office equipment are found in its offices in Bacolod and Pulupandan. Lands owned by AAC are located in Pulupandan and Cebu. The Plant and equipment located in Negros plant and the storage facilities are all in good condition.

ADIs distillery plant is in Lian, Batangas. ADI has two distillation plants that produces ethyl alcohol. It also has a 100 kiloliters per day (KLPD) Dehydration Plant started its operation, that is composed of Classical Twin Bed Molecular Sieves which removes water from rectified spirit to produce bioethanol. Likewise, it has alcohol and molasses storage, power generation and wastewater treatment facilities. In 2015, a two (2) megawatt solar power generating facility was also put up in ADIs plant. All transportation equipment owned by ADI are in good condition. The land, building, and building improvements is under mortgage at Philippine National Bank.

Beverage

ABI and its subsidiaries own the following real estate properties:

Location	Area (sqm)	Present Use
Owned by ABI		
Bacoor, Cavite	459	Investment property
Cabuyao, Laguna	302	Investment property
Camarines Norte	3,215	Investment property
General Trias, Cavite	3,200	Investment property
Poblacion, Iloilo	3,782	Investment property
Owned by IPI		
Toril, Davao City	75,734	Production Plant

The following are the leased properties of ABI and its subsidiaries:

Location	Present Use	Area (sqm)	Monthly Rental	Lease Expiry Date
Leased by ABI				
Ayala Ave., Makati City	Head Office	1,677	1,067,092	August 2022
Cabuyao, Laguna	Production Plant	542,989	2,079,771	March 2022
El Salvador, Mis. Or.	Production Plant	1,063,103	275,932	December 2022
Leased by IPI				
San Fernando, Pampanga	Production Plant	85,000	729,304	December 2021
Leased by PWI				
Cabuyao, Laguna	Production Plant	82,600	588,610	December 2021
Leased by APBM				
Myanmar	Production Plant	9,318	US$27,790	December 2036
Myanmar	Warehouse	2,602	6,672	June 2022
Myanmar	Warehouse	2,007	6,505	November 2022
Myanmar	Staff House	372	3,831	February 2022

All lease contracts are renewable at the end of the lease term. In addition to monthly rentals, ABI pays Real Property Taxes on the El Salvador, Misamis Oriental Plant.

The plant and equipment are located at the following areas:

Location	**Condition**
Cabuyao plant	In good condition
El Salvador plant	In good condition
Davao plant	In good condition
Pampanga plant	In good condition
Myanmar	In good condition

Tobacco

The following comprises properties of FTC:

LOCATION	AREA (sq. m)	Present Use
Brgy. Punta, Calamba, Laguna	49,701	Investment
Bacoor, Cavite	132,294	Investment
Balagtas, Int.Malate, Manila	5,084	Investment
Brgy. Niugan, Cabuyao, Laguna	469,758	Investment
Cabuyao, Laguna	17,438	Investment
Dna Natividad, Quezon Ave., Quezon City	800	Investment
Dna. Natividad, Quezon Ave., Quezon City	1,626	Investment
Dna. Natividad, Quezon Ave., Quezon City	800	Investment
Dna. Natividad, Quezon Ave., Quezon City	1,118	Investment
Concepcion, Marikina	313	Investment
Tagdalit St., Brgy.Manresa, Quezon City	5,165	Warehouse Bldg.
Mandaue City	1,025	Investment
Baybay, Roxas City	2,396	Investment
Baybay, Roxas City	80	Investment
Filinvest Homes, Pagsanjan Cainta, Rizal	474	Investment
Marikina Greenheights, Brgy. Nangka	225	Investment
Antipolo, Rizal	400	Investment
Bo. Mayamot, Antipolo, Rizal	311	Investment
Pasay City	2,222	Investment

FTC leases its office located in Brgy. Kapitolyo, Pasig with a montly rental of ₱2,000,000 and lease contract will expire on December 31, 2022.

All properties are in good condition and are not covered by any existing mortagages, liens or encumbrances.

Banking

PNB’s corporate headquarters is located at the PNB Financial Center southwest side of Roxas Boulevard, Pasay City, Metro Manila, bounded on the west side by the Pres. Diosdado P. Macapagal Boulevard and on the north side by the World Trade Center building. The Bank leases the premises occupying its Head Office and also houses some of PNB’s domestic subsidiaries.

Disclosed in Exhibit I is the list of Bank-owned properties as of December 31, 2021.

The Bank leases the premises occupied by some of its branches. Lease contracts are generally for periods ranging from one year up to 30 years based on original tenor and are renewable upon mutual agreement of both parties under certain terms and conditions.

Disclosed in Exhibit II is the list of Bank’s branches that are under lease as of December 31, 2021.

The Bank does not have any current plans to acquire any property within the next twelve (12) months.

Information related to Property and Equipment is shown under Note 12 of the Audited Financial Statements of the Bank and Subsidiaries.

Property Development
The Company's investment properties consist of:

Description	Location
Buildings	Eton Centris, Quezon Ave., Cor. EDSA, Diliman, Quezon City; Eton Cyberpod Corinthian, Ortigas Ctr., Pasig City (land under lease agreement) WestEnd Square, Yakal St., cor. Malugay St., Makati City Eton Square Ortigas, Oritgas Avenue, San Juan City
Office condominium unit	6th Floor, Sagittarius Condominium, H. V. dela Costa Street, Salcedo Village, Makati City
Residential unit	Ocean Villa, Ternate, Cavite
Land	EDSA Cor. Quezon Avenue, Diliman, Quezon City; Meralco Avenue, Brgy. Ugong, Pasig City Emerald Ruby, Ortigas, Pasig City Roxas Blvd. Cor. Cuneta Avenue., San Rafael, Pasay City Corta Street, Addition Hills, San Juan, Metro Manila Brgy. Malitlit, Sta. Rosa City, Laguna, Mactan Island Cebu, Loyola Heights, Quezon City

The above properties are owned by the Company and are in good condition. These properties are not covered by any existing mortgage, liens or encumbrances except for the structures at Eton Cyberpod Corinthian and a portion of the land in Brgy. Malitlit, Sta. Rosa City, Laguna.

The Company also entered into various lease agreements as follows:

a. Lease agreements with third parties for the lease of parcels of land in Ortigas Avenue, Quezon City where one of the Parent Company's projects is located. The lease agreement shall be for the period of 20 years which commenced on January 1, 2011 renewable for another 20 years at the option of the lessee, the Parent Company, with lease payment subject to 5% escalation annually.

b. Lease agreement for the lease of parcels of land in San Juan City where one of the Parent Company's projects is located. The lease agreement shall be for the period of 15 years commencing on June 1, 2017 renewable at the option of the lessor with lease payment subject to 5% escalation annually.

The Company's real estate properties consist of :

ETON PROPERTIES PHILIPPINES, INC.	
Eton Baypark Manila	*Corner Roxas Boulevard and Kalaw Street, Manila City*
Eton Parkview Greenbelt	*Gamboa St., Greenbelt, Makati City*
Eton Residences Greenbelt	*Legaspi St., Greenbelt, Makati City*
Eton Emerald Lofts	*Corner of Emerald Avenue, Sapphire and Garnet Streets, Ortigas Center, Pasig City*
One Archers Place	*Taft Avenue beside De La Salle University, Manila City*
68 Roces	*Don Alejandro Roces Avenue, Quezon City*
Belton Place	*Yakal St., cor. Malugay St., Makati City*
8 Adriatico	*Pedro Gil corner Bocobo Extension, Manila City*
Eton Tower Makati	*Corner Dela Rosa and V.A. Rufino Streets (formerly Herrera Street) in Legazpi Village, Makati City*
Tierrabela	*Sta. Rosa, Laguna*
Riverbend	*Sta. Rosa, Laguna*
Land	*Manggahan, Pasig City*

BELTON COMMUNITIES, INC.	
NBC Manors	*Quirino Highway, Quezon City*
West Wing Residences @ Eton City	*Eton City, Sta. Rosa, Laguna*
West Wing Residences @ NBC	*Quirino Highway, Quezon City*
West Wing Villas @ NBC	*Quirino Highway, Quezon City*

ETON CITY INC.	
South Lake Village	*Sta. Rosa, Laguna*
Riverbend	*Sta. Rosa, Laguna*
Tierrabela	*Sta. Rosa, Laguna*
Village Walk	*Sta. Rosa, Laguna*
Land	*Sta. Rosa, Laguna*

Eton Emerald Lofts, NBC Manors and West Wing Residences at NBC are under a joint venture arrangement with the Company as the project developer. The Company acts as both landowner and developer with respect to its other developments. All properties listed above are in good condition and are not covered by any mortgage, liens or encumbrances except for certain undeveloped land located in Sta. Rosa, Laguna and an office building in EDSA corner Ortigas Avenue, Quezon City are used as collateral for a loan secured from Philippine National Bank.

The Company's property and equipment, which consist of transportation equipment, furniture, fixtures and equipment, and leasehold improvements, are mainly used in operations and are located in the main office in Allied Bank Center, 6754 Ayala Avenue, Makati City, Metro Manila, Philippines.

The Company entered into a renewable cancellable lease agreement with PNB, which generally provides for a fixed monthly rent for the Group's office spaces. In 2021, PNB assigned all the rights and interests in the lease agreement to PNB Holdings Corporation. In the same year, the Group and PNB Holdings Corporation executed a lease agreement to increase the lease payments beginning 2021. As a result, the Group recognized gain on lease contract modification amounting to ₱2.6 million.

Item 3. Legal Proceedings

Distilled Spirits

In the ordinary course of business, TDI is contingently liable for lawsuits and claims, which are either pending with the courts or are being contested, the outcomes of which are not presently determinable. In the opinion of the Group's management and legal counsel, the eventual liability under these lawsuits and claims, if any, would not have a material or adverse effect on the Group's financial position and results of operations.

Trademark Infringement Suit

To date, the pending legal proceedings to which TDI is a party thereto is the ₱100 million civil infringementsuit filed against TDI last August 2003 by Ginebra San Miguel, Inc. (GSMI) for the launching of Ginebra Kapitan, a gin product that allegedly has a "confusing similarity" with GSMI's principal gin product. On September 23, 2003, the Mandaluyong Regional Trial Court (RTC) issued a TRO preventing TDI from manufacturing, selling and advertising Ginebra Kapitan.

On November 11, 2003, the Court of Appeals issued a 60-day TRO versus the Mandaluyong RTC, effectively allowing TDI to resume making and selling Ginebra Kapitan. The Court of Appeals however subsequently affirmed the Mandaluyong RTC TRO on January 9, 2004. On January 28, 2004, the Company filed a motion for reconsideration with the Court of Appeals. The Court of Appeals denied the TDI motion for reconsideration on July 2, 2004. On December 28, 2004, TDI then filed a petition for review on certiorari before the Supreme Court. On August 17, 2009, the Supreme Court reversed the decision of the Court of Appeals and nullified the writ of preliminary injunction issued by the Mandaluyong RTC. GSMI filed a motion for reconsideration but the Supreme Court denied the GSMIs motion with finality on November 25, 2009.

On July 25, 2012, the Mandaluyong RTC issued its decision in favor of TDI and dismissing the instant complaint for trademark infringement and unfair competition for lack of merit. GSMI filed a Motion for Reconsideration with the Mandaluyong RTC on September 3, 2012. On October 5, 2012, the Mandaluyong RTC denied the Motion for Reconsideration of GSMI. GSMI filed an appeal with the Court of Appeals (CA). On August 15, 2013, the CA rendered a decision in favor of GSMI ordering TDI to recall all gin products bearing the Ginebra brand name, cease and desist from using GINEBRA in any of its gin products, pay GSMI 50% of the gross sales of GINEBRA KAPITAN and₱2 million as exemplary fees. TDI filed its appeal on October 18, 2013. On November 22, 2013, the CA sustained its decision in favor of GSMI.

On December 18, 2013, the Company filed a petition before the Supreme Court questioning the decision of the CA. In 2014, the Company filed a motion for reconsideration with the Court of Appeals. But such motion was denied. On September 29, 2015 the Company filed another petition for review before the Supreme Court. The Company is currently waiting for the Supreme Court's resolution as of December 31, 2021.

Opposition to Registration of Brand Name

On August 9, 2006, GSMI also filed an opposition to TDIs application for registration of the brand name Ginebra Kapitan with the Intellectual Property Office (IPO). The Bureau of Legal Affairs (BLA) of the IPO ruled on April 23, 2008 that the word "GINEBRA" is a generic term that is not capable of exclusive appropriation. The decision paved the way for the registration with the IPO of TDI's brand name "GINEBRA KAPITAN". GSMI sought for the reconsideration of this April 23, 2008 Decision of the BLA, which motion was however denied in a Resolution dated March 4, 2009. From this denial, GSMI filed an appeal memorandum with the Office of the Director General of the IPO raising as an issue, among others, the damage it would sustain with the registration of the mark GINEBRA KAPITAN.

On September 24, 2013, the Office of the Director General of IPO promulgated a Decision affirming the ruling of the BLA of the IPO, which in effect gave due course to the application that was filed by TDI for the registration of the aforesaid brand name. GSMI thereafter filed a Petition for Review with the Court of Appeals, seeking for the reversal of said September 24, 2013 Decision.

On July 23, 2014, the Court of Appeals (13th Division) granted the petition of GSMI, consequently reversing and setting aside the Decision of the Office of the Director General of the IPO.

On August 22, 2014, TDI filed a Motion for Reconsideration with the Court of Appeals. On November 13, 2014, the Court of Appeals sustained its decision dated July 23, 2014. On December 12, 2014, TDI filed a Petition for Review with the Supreme Court to reverse the decision of Court of Appeals and reinstate the findings of IPO. TDI is currently awaiting Supreme Court's decision as of December 31, 2021.

Beverage

ABI maintains a legal department whose main function is to pursue collection cases and handle litigation arising from labor disputes. As of December 31, 2021, ABI does not have any significant legal proceedings either against it or in pursuit of another party besides those arising from the ordinary course of business.

Tobacco

Sandiganbayan case against Tan Companies

On June 6, 2011, a motion was submitted by the Government seeking to include PMFTC and its directors/officers as additional defendants in the forfeiture case pending before the Sandiganbayan against Mr. Lucio C. Tan, FTC, et al. since 1987. The Government claims that by transferring the assets owned by FTC to PMFTC as a result of the business combination, the FTC assets have been removed beyond the reach of the Government and the court. The Sandiganbayan denied this motion with finality in August 2011, ruling that they are not necessary or indispensable parties under the law. In a decision in June 2012, the Sandiganbayan also dismissed the forfeiture case against all the defendants for failure of the Government to prove that the assets that formed the subject of the case were ill-gotten wealth. The Government's motion for reconsideration was likewise denied in September 2012. On October 29, 2014, FTC received a resolution from the Supreme Court requiring it to submit its memorandum which was subsequently filed on January 30, 2015.

Banking

The Bank is a party to various legal proceedings which arise in the ordinary course of its operations. The Bank 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 Consolidated Financial Statements.

Property Development
The Company does not have any pending legal proceeding as of calendar year 2021.

Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

PART II - OPERATIONAL AND FINANCIAL INFORMATION

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

(a) Market Price of and Dividends on Registrant's Common Equity and Related Stockholder Matters.

1. Market Information

The principal market for the registrant's common equity is the Philippine Stock Exchange.

STOCK PRICES

	CLOSE	**HIGH**	**LOW**
2019			
1st Quarter	16.10	17.60	14.60
2nd Quarter	15.20	17.20	14.68
3rd Quarter	13.94	16.40	13.40
4th Quarter	11.98	14.40	11.00
2020			
1st Quarter	8.30	12.24	5.50
2nd Quarter	8.00	9.77	7.11
3rd Quarter	9.00	9.05	7.11
4th Quarter	13.10	14.08	8.64
2021			
1st Quarter	13.50	15.50	12.50
2nd Quarter	12.90	14.10	12.70
3rd Quarter	10.10	13.00	8.50
4th Quarter	9.90	11.30	9.03
2022			
March 18, 2022*	9.30	9.47	9.11

*Latest practicable trading date

2. Holders

The number of shareholders of record as of December 31, 2021 was 377. Common shares outstanding as of December 31, 2021 were 10,821,388,889. The top 20 stockholders as of December 31, 2021 are as follows:

Stockholders' Name	No. of Common Shares Held	% to Total
Tangent Holdings Corp.	8,046,318,193	74.3557
PCD Nominee Corporation (Filipino)	1,006,643,643	9.3024
PCD Nominee Corporation (Non-Filipino)	1,006,558,363	9.3016
Dragon Castle Holdings Ltd.	198,535,900	1.8347
Hinner Resources Ltd.	157,195,600	1.4526
Advance Goal Ltd.	152,812,600	1.4121
Absolute Classic Ltd.	95,811,000	0.8854
Conqueror Vision Ltd.	81,913,000	0.7570
Conway Equities, Inc.	35,000,000	0.3234
Pan Asia Securities Corp.	24,481,600	0.2262
Goldlabel Equities Corp.	5,039,800	0.0466
All Seasons Realty Corp.	4,974,794	0.0460

Dragonstar Management Corp.	1,773,900	0.0164
Kentron Holdings & Equities Corp.	569,800	0.0053
Luys Securities Co., Inc.	501,000	0.0046
Mandarin Securities Corp.	358,000	0.0033
Atlas Agricultural & Mercantile & Dev.	299,475	0.0028
Honorio Poblador Jr.	295,230	0.0027
Donald J.D. Nye	272,250	0.0025
Anil Amarnani ITF: Anika Amarnani	170,000	0.0016

* LTG has no preferred shares.

3. Dividends

a.) Dividend declarations

BOD Approval Date	Amount of Dividend Per Share		Record Date	Payment Date
	Regular	**Special**		
April 10, 2019	₱0.15	₱0.15	April 29, 2019	May 8, 2019
May 22, 2020	0.15	0.28	June 8, 2020	June 17, 2020
August 14, 2020	-	0.23	September 2, 2020	September 8, 2020
November 23, 2020	-	0.15	December 9, 2020	December 14, 2020
March 17, 2021	0.15	0.09	March 31, 2021	April 12, 2021
June 11, 2021	-	0.24	June 25, 2021	July 7, 2021
November 19, 2021	-	0.60	December 6, 2021	December 13, 2021

b.) Restrictions that limit the ability to pay dividends on common equity or that are likely to happen in the future.

a. "To declare dividends out of the surplus profits when such profit shall, in the opinion of the directors, warrant the same." (par. 3, Article V (Duties of directors, Amended By-Laws).

b. " In lieu of closing the stock transfer book of the Corporation, The Board of Directors may fix in advance an appropriate date consistent with the relevant regulations as may have been issued by the Securities and Exchange Commission and/or the Philippine Stock Exchange, preceding the date of any annual or special meeting of the stockholders or the date for the allotment or rights, or the date when any change or conversion or exchange of capital stock shall go into effect, or a date in connection with obtaining the consent of stockholders for any purpose, as record date for the determination of the stockholders entitled to vote, to notice at any such meeting and adjournment thereof, or to any such allotment of rights, or to give such consent, as the case may be notwithstanding any transfer of any stock on the books of the Corporation after such record date fixed as aforesaid, provided, however, that for purposes of declaring dividends, The Board of Directors may fix in advance a date to be determined in accordance with law, for the payment or distribution of such dividend as a record date for the determination of stockholders entitled to such dividend."(par C, Article XIX(Transfer of Stock, Amended By-Laws).

4. Recent Sales of Unregistered Securities (For the Past Three Years)

There was no recorded sale of unregistered securities during the past three years.

ITEM 6. Management's Discussion and Analysis or Plan of Operation

RESULTS OF OPERATIONS

The following discussion and analysis of the Group's financial condition and results of operations should be read in conjunction with the consolidated financial statements as at December 31, 2021, 2020 and 2019 included in this report.

2021 vs 2020

CONSOLIDATED RESULTS OF OPERATIONS

(In millions)	2021	2020
Revenues	₱91,173	₱94,428
Cost of Sales	42,957	42,859
Equity in Net Earnings of Associates and Joint Ventures	18,021	17,615
Operating Expenses	42,227	49,948
Operating Income	24,011	19,236
Other income-net	3,252	2,351
Income Before Income Tax	27,262	21,587
Total Net Income	20,861	22,326
Net Income Attributable to Equity Holders of the Parent Company	20,246	21,022

LT Group, Inc. (LTG) posted a consolidated net income of ₱20.9 billion for the year ended December 31, 2021, lower than the ₱22.3 billion net income reported for the same period last year.

The consolidated net income attributable to equity holders of LTG was ₱20.2 billion for 2021, 3.7% lower than 2020's ₱21.0 billion. The banking segment's net income increased from ₱2.8 billion for the twelve months ended December 31, 2020 to ₱34.0 billion in the same period of 2021. Part of the bank's income included a ₱33.4 billion gain for PNB Holdings Corporation (PHC) related transaction (which comprised of the gain on remeasurement of the retained interest in PHC of ₱16.5 billion; and gain on loss of control over PHC as a subsidiary of ₱16.9 billion in accordance with PFRS 10, *Consolidated Financial Statements*), that was eliminated at the consolidated level because PHC is still owned and controlled ultimately by LTG. LTG's share of the gain, at ₱18.9 billion was eliminated from LTG's attributable net income from PNB, bringing the bank's 2021 contribution to ₱308 million. The property development segment's net income was ₱550 million in 2021, lower than 2020's ₱802 million. The beverage segment's net income of ₱475 million in 2021 was lower compared to the reported income of ₱591 million in the same period last year. This was partly offset by the improvements in the operating results of the tobacco anddistilled spirits segments. The tobacco segment's net income was ₱17.5 billion for 2021, 3.6% higher than 2020's ₱16.9 billion. Distilled spirits segment's net income was ₱1.2 billion, higher than the ₱1.1 billion recognized for the period ended December 31, 2020. Equity in net earnings from VMC amounted to ₱258 million.

Consolidated revenues amounted to ₱91.2 billion for the year ended December 31, 2021, ₱3.2 billion lower than the ₱94.4 billion earned in 2020 mainly on account of the decreased revenues in the banking and property development segments, partially offset by the higher distilled spirits and beverage segments revenues.

Cost of sales and services were flat at ₱42.9 billion year-on-year (y-o-y).

Operating expenses amounted to ₱42.2 billion in 2021 from ₱49.9 billion in 2020 or a 15.5% decrease. This was as a result of lower general and administrative expenses by 15.8%, from ₱47.9 billion in 2020 to

₱40.3 billion in 2021 and is mainly due to the reduction in provisions for impairment and credit losses by the banking segment. Selling expenses decreased to ₱1.9 billion in 2021 from ₱2.1 billion in 2020 as lower advertising and related expenses were incurred.

SEGMENT OPERATIONS

Banking

The banking segment's net income was ₱34.0 billion in 2021, higher than the ₱2.8 billion recorded in 2020.

Interest income in the current period of ₱42.4 billion was 9.7% lower compared to the same period last year on account of lower yields on loans and receivables, trading and investment securities, deposit with banks and interbank receivables. Total interest expense's significant reduction of 32.1% or ₱3.6 billion was primarily due to the decline in the levels of high-cost deposits as compared to last year. Net interest income of ₱34.8 billion was 2.7% lower y-o-y as net interest margin declined to 3.1% from 3.3%.

Net service fees and commission income increased to ₱5.3 billion in 2021 compared to 2020's ₱3.7 billion due to higher loan-related and deposit-related fees, as well as significant bancassurance and underwriting fees recognized during the year.

Trading and investment securities and net foreign exchange gains were lower at ₱1.5 billion in 2021 compared to 2020's ₱4.3 billion mainly due to the decline in net gains on trading and investments securities and loss on sale of non-financial assets.

Other income was higher at ₱36.9 billion for 2021 mainly due to the recognition of the ₱33.4 billion gain recognized for PHC related transaction (which comprised of the gain on remeasurement of the retained interest in PHC of ₱16.5 billion; and gain on loss of control over PHC as a subsidiary of ₱16.9 billion in accordance with PFRS 10, *Consolidated Financial Statements*).

Operating expenses decreased by 17.8% to ₱36.7 billion from ₱44.6 billion due to lower provisions for impairment, credit and other losses by ₱6.2 billion compared last year.

Tobacco

The tobacco segment's net income was at ₱17.5 billion for 2021, 3.6% higher than 2020's ₱16.9 billion largely due to recognized equity in net earnings from PMFTC (FTC's 49.6% owned associate).

Distilled Spirits

The distilled spirits segment posted a net income of ₱1.2 billion in 2021, higher than the ₱1.1 billion reported last year.

Net revenues increased by 6.7% y-o-y to ₱26.7 billion in 2021 mainly due to the improvement in the sales volume of bioethanol coupled with higher selling prices of liquor products.

Cost of sales increased by 9.8% to ₱23.5 billion in the current period as against ₱21.4 billion in the same period last year primarily due to higher sales volume and higher excise taxes. Gross profit margin was at 12.2% in 2021, lower than the 14.7% in 2020 due to higher liquor production costs and lower gross profit margin on bioethanol products as a result of lower average selling prices.

Operating expenses were lower at ₱1.5 billion in 2021 compared ₱1.8 billion in 2020 as lower advertising, other selling-related and administrative expenses were incurred in the current period.

Property Development

The property development segment reported a net income of ₱550 million in 2021, lower than the ₱802 million last year.

Rental revenues for the current period accounted for ₱1.6 billion or 92.2% of revenues, representing an 8.2% decline as compared to the previous year, due to lower occupancy for retail and residential. Real estate sales were 78.7% lower y-o-y to ₱137 million.

Operating expenses were higher by 16.3% from ₱742 million in 2020 to ₱863 million in 2021 as general and administrative expenses incurred increased.

Beverage

The beverage segment's net income was lower at ₱475 million for the year ended December 31, 2021 from ₱591 million in 2020.

Revenues of the beverage segment were higher at ₱13.9 billion in 2021 compared to 2020's ₱13.3 billion, largely on account of alcoholic beverage sales. Sales volume on Cobra Energy drink were higher while bottled water and Vitamilk soymilk registered lower sales volumes. Sales continue to be adversely affected by the various forms of lockdowns imposed since March 2020 up to the current period. Overall gross profit margin declined to 23.5% from 26.0% as a result of higher input costs, such as sugar and fuel, and shift in sales mix.

Operating expenses of ₱2.4 billion in 2021 was higher than the ₱2.3 billion in 2020 due to higher marketing and depreciation expenses.

2020 vs 2019

CONSOLIDATED RESULTS OF OPERATIONS

(In millions)	2020	2019
Revenues	₱94,428	₱94,151
Cost of Sales	42,859	46,802
Equity in Net Earnings of Associates and Joint Ventures	17,615	14,813
Operating Expenses	49,948	34,608
Operating Income	19,236	27,554
Other income-net	2,351	3,589
Income Before Income Tax	21,587	31,143
Total Net Income	22,326	27,566
Net Income Attributable to Equity Holders of the Parent Company	21,022	23,118

LT Group, Inc. (LTG) posted consolidated net income of ₱22.3 billion for the year ended December 31, 2020, 19.0% lower than the ₱27.6 billion reported for 2019.

The consolidated net income attributable to equity holders of LTG was ₱21.0 billion for 2020, 9.1% lower than 2019's ₱23.1 billion. This was on account of the decline in the operating results of the banking and property development segments, which offset the improvements in the net incomes of the tobacco, distilled spirits and beverage segments. The banking segment's net income decreased from ₱9.9 billion for the year ended December 31, 2019 to ₱2.8 billion in the same period of 2020. Property development segment's net income was ₱802 million in 2020 and ₱900 million for 2019. The tobacco segment's net income increased by ₱1.3 billion from ₱15.6 billion in 2019 to ₱16.9 billion in 2020. Distilled spirits segment's net income was ₱1.1 billion significantly better than the ₱676 million for 2019. The beverage segment's net income of ₱591 million in 2020 was higher compared to the reported income of ₱398 million in 2019. Equity in net earnings in VMC amounted to ₱264 million.

Consolidated revenues amounted to ₱94.4 billion for the year ended December 31, 2020 slightly higher than the ₱94.2 billion earned in 2019 mainly on account of the increased revenues in the distilled spirits segment which outweighs the decline in all other business segments revenues.

Cost of sales and services decreased by 8.4% from ₱46.8 billion for the year ended December 31, 2019 to ₱42.9 billion in the same period in 2020, primarily attributable to the lower interest expense incurred on deposits and other borrowings by the banking segment, lower sales volume by the beverage segment and decline in sales of the property development segment.

Operating expenses amounted to ₱49.9 billion in 2020 from ₱34.6 billion in 2019 or an increase of 44.3%. This was as a result of higher general and administrative expenses by 51.6%, from ₱31.6 billion in 2019 to ₱47.9 billion in 2020 and is mainly due to the additional provisions for impairment and credit losses for the anticipated impact of the Corona Virus Disease 2019 (COVID-19) pandemic to the bank's loan portfolio. Selling expenses slightly decreased to ₱2.1 billion in 2020 from ₱3.0 billion in 2019 as lower advertising and related expenses were incurred.

SEGMENT OPERATIONS

Tobacco

The tobacco segment's net income was ₱16.9 billion for the year ended December 31, 2020, higher than the ₱15.6 billion for 2019 primarily on account of the increase in equity in net earnings from PMFTC (FTC's 49.6% owned associate) from ₱15.4 billion in 2019 to ₱17.1 billion in 2020.

Banking

The banking segment's net income was ₱2.8 billion in 2020, lower than the ₱9.9 billion recorded in 2019 as the bank recognized significant provisions for impairment, credit and other losses of ₱16.9 billion for 2020. On the other hand, there was a substantial improvement in the 2020's net interest income and net gains from trading and investment securities.

Interest income in the current period of ₱47.0 billion was 7.1% lower compared last year on account of the net decrease in interest income from loans and receivables, trading and investment securities and interbank receivables. Total interest expense's significant reduction of 38.7% or ₱7.0 billion was primarily due to the decline in interest expense from high-cost deposit liabilities, bills and acceptances payable and other borrowings partially offset by the increase in interest from bonds payable. This resulted to net interest income of ₱35.8 billion, 10.6% higher year-on-year.

Net service fees and commission income were lower at ₱3.7 billion in 2020 compared to 2019's ₱4.2 billion due to lower volume of banking transactions and waived fees on bank transfers and overseas remittances in compliance with Bayanihan to Heal as One Act.

Trading and investment securities and net foreign exchange gains were higher at ₱4.3 billion in 2020 compared to 2019's ₱2.2 billion as the bank took advantage to dispose of securities with high fair market values.

Operating expenses increased by 56.7% mainly due to larger provisions for impairment, credit and other losses amounting to ₱16.9 billion in 2020 in anticipation of the impact of the COVID-19 pandemic to the bank's loan portfolio compared to ₱2.9 billion that was provided in 2019.

Distilled Spirits

The distilled spirits segment posted a net income of ₱1.1 billion for the year ended December 31, 2020, significantly greater than the ₱676 million reported in 2019.

Net revenues were higher by 29.8% y-o-y to ₱25.0 billion in 2020 mainly due to higher pricing and improvement in the sales volume of liquor.

Cost of sales increased by 32.9% to ₱21.4 billion in 2020 as against ₱16.1 billion in 2019, primarily due to sales volume and higher excise taxes. Gross profit margin was at 14.7% in 2020 lower than the 16.7% in 2019.

Operating expenses were lower at ₱1.8 billion in 2020 compared ₱2.2 billion in 2019 as lower advertising and other related expenses were incurred.

Property Development

The property development segment reported a net income of ₱802 million in 2020 lower than the ₱900 million in 2019.

Rental revenue for 2020 accounted for ₱1.8 billion or 73.3% of revenues, representing an 2.9% growth over the same period in 2019, as lease contracts were renewed at higher rates for the BPO offices. On the other hand, real estate sales were 54.9% lower y-o-y to ₱642 million.

Operating expenses were lower by 19.3% from ₱919 million in 2019 to ₱742 million in 2020 as commissions, advertising and promotional expenses and general and administrative expenses decreased.

Beverage

The beverage segment's net income was higher at ₱591 million for the year ended December 31, 2020 from ₱398 million for 2019.

Revenues of the beverage segment were lower at ₱13.3 billion in 2020 compared to 2019's ₱15.9 billion largely on account of lower sales volume from bottled water and the packaging business. Overall gross profit margin declined to 26.0% from 26.9% as a result of the unfavorable sales mix.

Operating expenses decreased by 10.1% to ₱2.3 billion in 2020 from ₱2.6 billion in 2019 on account of lower advertising and promotional expenses.

In 2020, ABI stopped recording share in losses of its affiliate ABHP as recognition of losses should only be to the extent of investment cost and is consistent with the changes in the plan for the alcoholic beverage business. Equity in net losses from ABHP recognized in 2019 amounted to ₱717 million.

2019 vs 2018

CONSOLIDATED RESULTS OF OPERATIONS

(In millions)	2019	2018
Revenues	₱94,151	₱75,559
Cost of Sales	46,802	35,965
Equity in Net Earnings of Associates and Joint Ventures	14,813	7,967
Operating Expenses	34,608	31,003
Operating Income	27,554	16,558
Other income-net	3,589	8,990
Income Before Income Tax	31,143	25,548
Total Net Income	27,566	20,558
Net Income Attributable to Equity Holders of the Parent Company	23,118	16,195

LT Group, Inc. (LTG) reported a consolidated net income attributable to equity holders of ₱23.1 billion for the year ended December 31, 2019, 42.7% higher than the ₱16.2 billion recorded for the same in 2018. This was on account of the improvement in the operating results of the tobacco, banking and property development segments, which more than offset the lower net income of the distilled spirits and beverage segments. The tobacco segment's net income increased by ₱6.8 billion from ₱8.8 billion in 2018 to ₱15.6 billion in 2019. The banking segment's net income improved by 1.6% from ₱9.8 billion for 2018 to ₱9.9 billion in 2019 on account of the recorded increase in the bank's core income comprising primarily of net interest income and net service fees and commission. Property development segment's net income was ₱900 million, 87.9% higher than the ₱479 million in 2018. Distilled spirits segment's net income was ₱676 million, 25.6% less than the ₱909 million recognized for the period ended December 31, 2018. The beverage segment's net income decreased to ₱398 million in the current period from ₱421 million in 2018. Equitized earnings from the 30.9% owned VMC contributed ₱251 million in 2019 compared to ₱247 million in 2018.

Consolidated revenues amounted to ₱94.2 billion for the year ended December 31, 2019, 24.6% more than the ₱75.6 billion recognized in 2018 as banking, beverage and distilled spirits revenues increased.

Cost of sales and services increased by 30.1% from ₱36.0 billion for 2018 to ₱46.8 billion in 2019, primarily attributable to higher interest expense incurred in deposit liabilities and increased cost of sales of the distilled spirits and beverage segments due to higher volume and raw materials cost.

Operating expenses amounted to ₱35.7 billion in 2019 from ₱32.5 billion in 2018 or an increase of 9.9%. This was as a result of increased general and administrative expenses by 9.8%, from ₱29.8 billion in 2018 to ₱32.7 billion in 2019 and higher selling expenses by 11.5%.

SEGMENT OPERATIONS

Tobacco

The tobacco segment's net income was ₱15.6 billion for the year ended December 31, 2019, significantly higher than the ₱8.8 billion for 2018 on account of the increase in equity in net earnings from PMFTC (49.6% owned associate) from ₱8.5 billion in 2018 to ₱15.4 billion in 2019. PMFTC's income increased due to favorable mix with premium Marlboro accounting for a higher portion of sales volume and price increases implemented in late August 2019.

Banking

The banking segment's net income was ₱9.9 billion for the year ended December 31, 2019 higher than the ₱9.8 billion recorded in 2018.

Interest income from banking operations was at ₱50.5 billion in 2019, 40.3% higher than the ₱36.0 billion earned in 2018, mainly on account of the expansion in loans, interbank loans and trading and investment securities portfolios. Interest expense was at ₱18.2 billion for the period ended December 31, 2019, up 101.5% from ₱9.0 billion in 2018 primarily due to growth in deposit liabilities and other borrowings resulting to a net interest income of ₱32.4 billion, 19.9% higher year-on-year.

Net service fees and commission income improved from 2018's ₱3.5 billion to ₱4.2 billion in 2019 driven by the growth in deposit and credit card related fees.

Trading and investment securities and net foreign exchange gains were higher at ₱2.2 billion in 2019 compared to 2018's ₱1.1 billion. On the other hand, miscellaneous income decreased by 72.2% to ₱2.1 billion from ₱7.4 billion, due to lower gain from the sale of ROPA.

Operating expenses increased by 12.7% as growth in revenues particularly in interest income and trading gains translated to higher business taxes and other related administrative expenses.

Distilled Spirits

The distilled spirits segment posted a net income of ₱676 million for the year ended December 31, 2019, lower than the net income of ₱909 million reported in 2018.

Net revenues were higher by 6.3% y-o-y to ₱19.3 billion in 2019 mainly due to the improvement in liquor and bioethanol revenues.

Cost of sales increased by 8.2% to ₱16.1 billion in 2019 as against ₱14.8 billion in 2018 primarily due to higher volume and raw material costs. Gross profit margin was lower at 16.7% in 2019 compared to 18.1% in 2018.

Operating expenses were higher at ₱2.2 billion in 2019 from ₱2.1 billion in 2018, due to higher advertising, repairs and maintenance and other administrative expenses.

Property Development

The property development segment reported a net income of ₱900 million for the year 2019, 87.9% greater than the ₱479 million for 2018.

Leasing revenues in 2019 accounted for ₱1.7 billion or 54.5% of revenues, representing a 14.2% increase compared to 2018, as lease contracts were renewed at higher rates for the BPO offices as well as the additional retail space at Eton Square Ortigas that was completed in 2018. Real estate sales were 16.4% lower y-o-y to ₱1.4 billion, but gross profit margin improved to 53% from 29%.

Operating expenses were slightly lower at ₱919 million in 2019 compared to 2018's ₱947 million.

Beverage

The beverage segment's net income was lower by 5.5% to ₱398 million for the year ended December 31, 2019 from ₱421 million in the same period last year.

Revenues of the beverage segment were higher by 5.5% to ₱15.9 billion in 2019 from ₱15.1 billion in 2018. This was driven by the growth in revenues in energy drinks, bottled water and soymilk. Overall gross profit margin was flat at 27%.

Operating expenses increased by 9.5% to ₱2.6 billion in 2019 from ₱2.4 billion in 2018 on account of higher advertising, personnel, outside services, selling materials and freight and handling expenses.

FINANCIAL CONDITION

2021

The Company's consolidated Total Assets as of December 31, 2021 and December 31, 2020 amounted to ₱1.3 trillion and ₱1.4 trillion, respectively. Current Assets decreased by 5.6% or ₱38.3 billion and Noncurrent Assets were lower by ₱3.0 billion or 0.4%.

The consolidated Current Assets decreased by 5.6% from ₱684.8 billion as of December 31, 2020 to ₱646.5 billion. Cash and Cash Equivalents decreased from ₱304.1 billion as of end-2020 to ₱265.1 billion as of December 31, 2021 on account of lower Due from BSP, Interbank Loans Receivables and Securities under Agreement to Resell of the banking segment. Financial Assets at Fair Value through Profit or Loss decreased from ₱23.9 billion to ₱11.2 billion due to disposals and lower fair values. Assets of disposal group classified as held for sale declined by ₱7.9 billion due to sale of the bank's remaining stake in PNB Gen. Current portion of Financial Assets at Fair Value through Other Comprehensive income (FVTOCI) and Financial Assets at amortized cost increased due to purchases and reclassifications. Due from related parties increased from ₱2.0 billion to ₱7.7 billion as of end-2021 due mainly on the advances made to the ultimate parent company - Tangent. Inventories as of December 31, 2021 amounted to ₱14.3 billion, 8.4% higher than end-2020 due to increased inventory levels of the distilled spirits and beverage segments.

The 0.4% decrease in consolidated Noncurrent Assets was mainly due to the movements in the Noncurrent portion of Financial Assets at Amortized Cost and Financial Assets at FVTOCI. Financial Assets at Amortized Cost were lower by ₱11.5 billion on account of disposal of various investment securities, net of purchases made as of December 31, 2021. The noncurrent portion of Financial Assets at FVTOCI were lower at ₱71.5 billion versus end-2020 of ₱76.6 billion due to disposal of various securities, net of purchases, decline in the fair values and reclassifications to current portion of the investments. Deferred income tax assets decreased mainly due to enactment of the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act, which lowers the regular corporate income tax rate from 30% to 25%. Investment in associates and joint ventures decreased on account of higher dividends received from PMFTC over the equitized earnings in the current period. Property, plant and equipment and Investment properties were higher by ₱2.6 billion and ₱1.6 billion, respectively, due to acquisitions made by the group for the current period.

Consolidated Total Liabilities decreased by 4.5% to ₱1.0 trillion as of December 31, 2021 from ₱1.1 trillion as of December 31, 2020. This was on account of the decrease in Total Current Liabilities by 2.7% from ₱953.5 billion in December 31, 2020 to ₱928.2 billion as of the end of the current period and decline in Noncurrent Liabilities by 16.6% from ₱144.0 billion to ₱120.0 billion.

Current portion of Bills and Acceptances Payable decreased by 31.8% brought by net settlements of short-term interbank borrowing and repurchase agreement. Current portion of long-term debts were lower by 75.2% as the bank paid currently maturing bonds. Liabilities of disposal group classified as held for sale decreased by ₱6.4 billion due to the sale of the bank's remaining stake in PNB Gen. Accounts payable and accrued expenses decreased due to payments made as of December 31, 2021. Short-term debts as of December 31, 2021 amounted to ₱3.9 billion, 16.9% lower than end-2020 on account of payments made by ABI. Other current liabilities and Income tax payable were lower due to payments made in current period. Financial liabilities at fair value through profit or loss increased to ₱892 million mainly due to mark-to-market adjustments for the period.

The decrease in the Noncurrent Liabilities was on account of the bank's lower levels of Noncurrent Deposit Liabilities from ₱58.4 billion as of end-2020 to ₱38.5 billion as of December 31, 2021 as well as lower Noncurrent portion of Bills and Acceptances Payable from ₱14.2 billion as of end-2020 to ₱3.2 billion as of end-2021 brought by net settlements of interbank borrowing and repurchase agreements. Accrued retirement benefits decreased due to remeasurements of liabilities and various settlements during the year. Long-term debts-net of current portion increased by ₱3.8 billion due to remeasurement and reclassification on bond debts by the banking segment. Other noncurrent liabilities increased due to various accruals made for the period.

LTG's consolidated Total Equity improved by 3.1% to ₱263.5 billion as of December 31, 2021, on account of the net increase in the retained earnings brought about by the income earned for the period ended December 31, 2021 of ₱20.2 billion less dividends declared amounting to ₱11.7 billion. Other comprehensive income decreased due to the lower fair values of Financial Assets at FVTOCI.

2020

The Company's consolidated Total Assets as of December 31, 2020 and 2019 amounted to ₱1.4 trillion and ₱1.3 trillion, respectively. Current Assets increased by 29.9% or ₱157.7 billion and Noncurrent Assets were lower by ₱70.4 billion or 9.5%.

The consolidated Current Assets increased by 29.9% from ₱527.1 billion as of December 31, 2019 to ₱684.8 billion as of end-2020. Cash and Cash Equivalents increased level from ₱184.9 billion as of end-2019 to ₱304.1 billion as of December 31, 2020 on account of higher Due from BSP, Interbank Loans Receivables, Securities Held Under Agreement to Resell and Due from Other banks of the banking segment. Financial Assets at Fair Value through Other Comprehensive income increased due to purchases of various securities, net of disposal. Financial Assets at Amortized Cost-current increased due to reclassification of currently maturing investments. Current portion of Loans and Receivables declined by ₱37.9 billion from end-2019 balance of ₱260.9 billion on account of lower current loans receivables by the banking segment. Inventories as of December 31, 2020 amounted to ₱13.2 billion, 8.0% higher than end-2019 due to higher ending inventory levels of the distilled spirits segment. On December 11 and October 9, 2020, PNB approved the sale of all its shareholdings in PNB General Insurers Co., Inc. (PNB Gen) to Alliedbankers Insurance Corporation, an affiliate. 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 9.5% decrease in consolidated Noncurrent Assets was mainly due to the movements in the Noncurrent portion of Loans and Receivables, Financial Assets FVTOCI, Financial Assets at Amortized Cost, as well as Investment in associates and joint ventures. Noncurrent portion of Loans and Receivables amounted to ₱393.6 billion, ₱17.7 billion lower than end-2019 level on account of the banking segments net paydowns of loans and receivables and additional provision for impairment, credit and other losses. Financial Assets at FVTOCI and Financial Assets at Amortized Cost were lower by ₱33.9 billion and ₱20.2 billion, respectively on account of disposal of various investment securities, net of purchases made as ofDecember 31, 2020. Investment in associates and joint venture decline of ₱3.5 billion was due to higher dividends received from PMFTC than equitized earnings in 2020. Other noncurrent assets were lower at ₱6.0 billion as of end-2020. Deferred income tax assets (DTA) were higher by ₱6.5 billion, from ₱2.4 billion as of end-2019 to ₱8.9 billion as of December 31, 2020 as additional DTA was recognized on allowance for expected credit losses, for which the bank has the benefit of tax deductions against future taxable income only upon actual write-offs.

Consolidated Total Liabilities increased by 8.5% to ₱1.1 trillion as of December 31, 2020 from ₱1.0 trillion as of December 31, 2019. This was on account of the increase in Total Current Liabilities by 8.8% from ₱876.7 billion in December 31, 2019 to ₱953.5 billion as of the end-2020 and higher Noncurrent Liabilities by 6.6% from ₱135.2 billion to ₱144.0 billion.

Current portion of the banking segment's Deposit Liabilities amounted to ₱822.1 billion as of December 31, 2020, 6.5% higher than end-2019. Current portion of Bills and Acceptances Payable increased by 40.8% brought by increase in the level of interbank borrowing and repurchase agreements. Accounts payable and accrued expenses were lower due to the settlements made in 2020. Short-term debts as of December 31, 2020 amounted to ₱4.7 billion, 8.0% lower than end-2019 on account of payments made by the parent company. Current portion of long-term debts outstanding of ₱1.0 billion as of December 31, 2019 increased to ₱14.5 billion as of December 31, 2020 to recognize the bank's maturing bonds payable. Other current liabilities decreased from ₱18.8 billion as of end-2019 to ₱10.2 billion as of end-2020 due to settlements made. Financial liabilities at fair value through profit or loss increased to ₱701 million mainly from the increase in the volume of transactions for the period. Income tax payable was higher by 46.0% versus the December 31, 2019 level due to the income tax provisions made in 2020.

The increase in the Noncurrent Liabilities was on account of the higher Noncurrent Deposit Liabilities, Bills and Acceptances Payable net of current portion by ₱12.3 billion and ₱10.0 billion, respectively as of December 31, 2020, as the bank had higher levels of deposit and bills and acceptances payable were higher due to increased interbank borrowings and repurchased agreements transactions. Long-term debts net of current portion decreased by ₱16.4 billion due mainly on the reclassification from noncurrent to current of the maturing bonds payable. Other Noncurrent liabilities increased by 75.6% to ₱5.5 billion as of December 31, 2020 from ₱3.1 billion due to various accruals in 2020. Accrued retirement benefits increased due to accruals made for the year 2020.

LTG's consolidated Total Equity slightly increased by 0.6% to ₱255.5 billion as of December 31, 2020, on account of the net increase in the retained earnings brought about by the income earned for the period ended December 31, 2020 of ₱21.0 billion less dividends declared and paid amounting to ₱8.8 billion, which offset the decrease in the other comprehensive income due to lower net unrealized gain in fair value of investments and payment to fully settle the Preferred shares of subsidiaries issued to Parent company amounting to ₱8.5 billion.

2019

The Company's consolidated Total Assets as of December 31, 2019 and December 31, 2018 amounted to ₱1.3 trillion and ₱1.1 trillion, respectively. Current Assets increased by 15.0% or ₱68.8 billion and Noncurrent Assets were higher by ₱99.3 billion or 15.5%.

The increase in consolidated Current Assets by 15.0% from ₱458.4 billion as of December 31, 2018 to ₱527.1 billion was primarily due to higher Cash and Cash Equivalents level from ₱177.0 billion as of end-2018 to ₱184.9 billion as of December 31, 2019 on account of higher deposits received, Loans and Receivables – Current Portion of the banking segment. Current portion of Loans and Receivables was greater than end-2018 level by 24.2% at ₱260.9 billion as the banking segment was able to lend out more corporate loans in 2019. Financial Assets at Fair Value through Other Comprehensive Income (FVTOCI) and Financial Assets at Fair Value through Profit or Loss increased due to acquisitions in 2019 and favorable hike in the fair values of the various investment portfolio. Inventories as of December 31, 2019 amounted to ₱12.2 billion, 7.0% lower than end-2018 due to lower ending inventory levels of the property development and distilled spirits segments. Other Current Assets amounted to ₱11.4 billion as of December 31, 2019, 8.6% increase from ₱10.5 billion as of December 31, 2018.

The 15.5% increase in consolidated Noncurrent Assets was mainly due to the movements in the Noncurrent portion of Loans and Receivables and Financial Assets at FVTOCI. Noncurrent portion of Loans and Receivables were higher by ₱22.6 billion due to the growth in booked loans by the banking segment. Financial Assets at FVTOCI were higher by ₱62.4 billion on account of acquisitions of various investment securities made as of December 31, 2019. Investments in associates and joint ventures increased by 34.2%

on account of equitized earnings recorded for the year ended December 2019. Property, plant and equipment – at cost was higher by ₱4.3 billion due to various acquisitions during the year 2019 and recognition of Right of Use of Assets. Investment properties were higher by 7.6% due to various acquisitions during the year 2019. Deferred income tax assets were higher by 24.0% on account of adjustments on temporary tax differences recorded in 2019. Other noncurrent assets were higher by ₱1.1 billion, from ₱6.4 billion as of end-2018 to ₱7.5 billion as of December 31, 2019.

Consolidated Total Liabilities increased by 16.8% to ₱1.0 trillion as of December 31, 2019 from ₱866.6 billion as of December 31, 2018. This was on account of the increase in Total Current Liabilities by 13.0% from ₱775.8 billion in December 31, 2018 to ₱876.7 billion as of end-2019 and increase in Noncurrent Liabilities of 48.9% from ₱90.8 billion to ₱135.2 billion.

Current portion of the banking segment's Deposit Liabilities amounted to ₱772.1 billion as of December 31, 2019, 14.8% higher than end-2018 balance. Accounts Payable and Accrued Expenses increased to ₱26.7 billion or 17.5% higher than ₱22.7 billion as of December 31, 2018 due to the various accruals in 2019. Short-term debts as of December 31, 2019 amounted to₱5.2 billion, 151.2% higher than end-2018 on account of availments by the beverage segment and parent company. Current portion of long-term debts outstanding of ₱91 million as of December 31, 2018 increased to ₱1.0 billion as of December 31, 2019 due to reclassification from noncurrent to current for the nearly maturing debt and recognition of current portion of lease liability along with the recording of the right of use of asset account for the adoption of PFRS 16 - Leases. Other current liabilities increased from ₱16.5 billion as of end-2018 to ₱18.8 billion in current period due to additional accrual of transactions during the year 2019. Current portion of Bills and Acceptances Payable decreased by 14.4% due to settlement of interbank loans from the BSP and local banks. Current Financial Liabilities at Fair Value through Profit or Loss were lower by 47.8% to ₱246 million as of end-2019. Income tax payable was lower by 31.8% versus the December 31, 2018 level due to the income tax payments made in 2019. Current portion of Due to related parties decreased from ₱80 million to ₱65 million as payments were made in 2019.

The increase in the Noncurrent Liabilities was on account of the higher Long-Term debts net of current portion of the banking segment by ₱53.0 billion as of December 31, 2019, as the bank issued fixed-rate bonds and Euro Medium Term Notes (EMTN) partially offset by Noncurrent Bills and Acceptances Payable which decreased by ₱5.4 billion. Other Noncurrent liabilities declined by 37.1% to ₱3.1 billion as of December 31, 2019 from ₱5.0 billion due to various settlements in 2019.

LTG's consolidated Total Equity grew 9.9% to ₱254.0 billion as of December 31, 2019, on account of the increase in Retained Earnings coming from the net earnings in 2019 and increase in the other comprehensive income from the unrealized gain in fair value of investments. The increase in the noncontrolling interests were relative to the increase in the other comprehensive income and issuance of stock rights by the banking segment. This was partially offset by the partial redemption of the Preferred shares of subsidiaries issued to Parent company amounting to ₱9.5 billion.

KEY PERFORMANCE INDICATORS

LTG uses the following major performance measures. The analyses are based on comparisons and measurements on financial data of the current period against the same period of the previous year. The discussion on the computed key performance indicators can be found in the "Results of Operations" in the MD&A above.

1.) **Gross Profit Ratio**

Gross profit ratio in 2021 was 52.9% versus 54.6% in 2020.

2.) **Return on Equity**

Consolidated Net Income Attributable to Equity Holders of the Parent Company for 2021 amounted to ₱20.2 billion; lower by 3.7% from last year's ₱21.0 billion. Ratio of net income to equity is 10.7% in 2021 and 11.3% in 2020.

3.) **Current Ratio**

Current Ratio for 2021 is 0.70:1 while last year's was 0.72:1.

4.) **Debt-to-equity ratio**

Debt-to-equity ratio for 2021 is 3.98:1 as compared to last year's 4.30:1.

5.) **Earnings per share**

Earnings per share attributable to holders of the parent company for 2021 is ₱1.87 and ₱1.94 in 2020.

The manner by which LTG calculates the indicators above is as follows:

Gross profit ratio	= Gross profit/Net sales
Return on Equity	= Net Income Attributable to Equity Holders of the LTG/Stockholders' equity
Current Ratio	= Current assets/Current liabilities
Debt-to-equity ratio	= Total liabilities/Total equity
Earnings per share	= Net income attributable to holders of the parent company/weighted average number of shares

OTHER MATTERS

(i) The COVID-19 pandemic has affected the overall economy since the government declared an Enhanced Community Quarantine (ECQ) starting mid-March 2020. This affected the industries that LTG operates in particularly the bank, tobacco and the alcoholic and non-alcoholic businesses. Interest rate fluctuations may likewise affect the different businesses of the Group. Aside from this, there are no other trends or any known demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in the Group's increasing or decreasing liquidity in any material way. The Group is not in default or breach of any note, loan, lease or other indebtedness or financing arrangement requiring it to make payments. The Company does not have any liquidity problems.

(ii) There are no events that will trigger direct or contingent financial obligation that is material to LTG, including any default or acceleration of an obligation.

(iii) There are no known material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of LTG with unconsolidated entities or other persons created during the reporting period.

(iv) The Group has various on-going and planned capital expenditure projects as follows:

Distilled spirits

TDI has major capex on bottling lines and replenishment of pallets inventory.

Asian Alcohol Corporation (AAC) Bio-Ethanol is already operating, there are plans to upgrade and rehabilitate the steam and power generation facilities.

Absolut Distillers Inc. has a long range plans to invest in Sugar Mills to boost bioethanol production.

Beverage

ABI continuously makes investments that enhance production safety, improve manufacturing efficiency, and improve the impact of its production processes to the environment.

Apart from investments in the production process, ABI is in the process of re-fleeting its delivery trucks and upgrading its handling equipment to better control its repairs and maintenance costs and ensure safety in the transport of materials and products.

Investments in returnable containers were also made to replace bottles and crates used in the production of Cobra, Vitamilk and alcoholic beverages in returnable glass format.

International Bottled Water Association Certificate of Membership
ABI's bottled water plant in Cabuyao has been a member of the International Bottled Water Association (IBWA) since it started its bottled water business in 1992. IBWA in reference to U.S. FDA regulations of the Code of Federal Regulations prescribes the Good Manufacturing Practices for Processing and Bottling of Bottled Drinking Water. This includes specific design and performance requirements for determining whether the facilities, methods, practices, and controls used in the processing, bottling, holding and shipping of bottled drinking water are in conformance with or are operated or administered in conformity with good manufacturing practices to assure that bottled drinking water is safe and has been processed, bottled, held and transported under sanitary conditions.

ISO 9001:2015 Quality Management System Certification
ISO is a standard setting body that provides requirements, specifications, guidelines or characteristics that ensure that products and services are safe, reliable and are of good quality. To be ISO 9001:2015 certified, an organization must demonstrate its ability to consistently provide products that meets customer and applicable statutory and regulatory requirements. ABI's manufacturing sites were re-certified in 2019 with validity through 2022 and 2023.

HACCP Certification
Hazard Analysis and Critical Control Point (HACCP) is a systematic preventive approach to food safety, which addresses physical, chemical, and biological hazards rather than finished product inspection. HACCP is used in the food industry to identify potential food safety hazards, so that key actions, known as Critical Control Points (CCPs) can be created to reduce or eliminate the risks. With its increasing adoption worldwide, HACCP helps the food and beverage industry to put in place, an effective integrated food safety management system, which drives growth in productivity, safety and traceability. ABI's bottled water plant and soy milk plants are HACCP certified through 2023.

Food Safety System Certification
Food Safety System Certification (FSSC 22000) contains a complete certification Scheme for Food Safety Management Systems based on existing standards for certification (ISO 22000, ISO 22003 and technical specifications for sector PRPs). FSSC 22000 is a Global Food Safety Initiative (GFSI) recognized standard. GFSI recognition demonstrates that the FSSC 22000 Scheme meets the highest standards globally, leading to international food industry acceptance. Furthermore, the FSSC 22000 Scheme is widely accepted by accreditation bodies worldwide and supported by essential stakeholders like FoodDrinkEurope and the Consumer Brands Association. ABI's alcoholic beverage plant in Cabuyao is FSSC certified through 2023.

National Sanitation Foundation (NSF) International Certificate of Compliance
NSF International protects and improves global human health. Manufacturers, regulators and consumers look to NSF to facilitate the development of public health standards and provide certifications that help protect food, water, consumer products and the environment. From extensive product testing and material analyses to plant inspections, every aspect of a product's development is thoroughly evaluated before it can earn NSF Certification. ABI's Cabuyao and Sta. Rosa bottled water plants are NSF certified through 2022.

HALAL Product Certification
Halal is an Arabic word that means permissible. A Halal certified product means that the product is permissible or acceptable in accordance with Islamic law. In order for products to receive this certification, they must be from an acceptable source such as a cow or chicken and slaughtered according to Islamic laws. Offering Halal certified products allows Muslim consumers to be confident that the products they use are in alignment with their culture and beliefs. Absolute, Summit and locally produced Vitamilk are HALAL certified products.

Safety Seal Certification
The Safety Seal Certification is a voluntary certification scheme that affirms that an establishment is compliant with the minimum public health standards set by the government. The Department of Labor and Employment issues the Safety Seal for manufacturing, construction sites, utilities, information and communication companies, warehouses and information technology - business process management establishments. The Safety Seal for ABI and PWI's manufacturing facilities in Cabuyao was issued on November 2, 2021. IPI and ABN's Cabuyao plants were issued Safety Seals on November 3, 2021.

(v) The Group recognizes the COVID-19 pandemic effect on the overall Philippine economy. Interest rate fluctuations may likewise affect the different businesses of the Group. Apart from this, there are no known other trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales, revenue or income from continuing operations.

(vi) There are no significant elements of income or loss that did not arise from the Company's continuing operations.

(vii) The causes for any material change from period to period which shall include vertical and horizontal analyses of any material item;

Results of our Horizontal (H) and Vertical (V) analyses showed the following material changes (+/- 5% and above) as of and for the years ended December 31, 2021 and 2020 (negative movement in parenthesis):

1. Cash and cash equivalents – H, (13%)
2. Financial assets at fair value through profit or loss – H, (53%)
3. Financial assets at fair value through other comprehensive income (FVTOCI) - current – H, 27%
4. Financial assets at amortized cost – current – H, 14%
5. Due from related parties – H, 293%
6. Inventories – H, 8%
7. Other current assets – H, (6%)
8. Assets of disposal group classified as held for sale – H, (100%)
9. Financial assets at FVTOCI - noncurrent – H, (7%)
10. Financial assets at amortized cost – noncurrent – H, (21%)
11. Investment in associates and joint ventures – H, (7%)
12. Property, plant and equipment at cost – net – H, 18%
13. Investment properties – H, 5%
14. Deferred income tax assets – H, (29%)

15. Other noncurrent assets- H, (5%)
16. Financial liabilities at fair value through profit or loss – current – H, 27%
17. Bills and acceptances payable - current – H, (32%)
18. Short-term debts – H, (17%)
19. Accounts payable and accrued expenses – H, (13%)
20. Income tax payable – H, (62%)
21. Long-term debts-current – H, (75%)
22. Other current liabilities – H, (8%)
23. Liabilities of disposal group classified as held for sale – H, (100%)
24. Deposit liabilities – noncurrent – H, (34%)
25. Bills and acceptances payable - noncurrent – H, (78%)
26. Long-term debt – net of current portion – H, 7%
27. Accrued retirement benefits – H, (25%)
28. Other noncurrent liabilities- H, 64%
29. Other comprehensive income – H, (30%)
30. Reserves of disposal group classified as held for sale – H, (100%)
31. Retained earnings- H, 7%
32. Noncontrolling interests – H, 5%
33. Banking revenue – H, (10%)
34. Beverage revenue – H, 8%
35. Distilled spirits revenue – H, 7%
36. Property development revenue – H, (15%)
37. Selling expenses – H, (7%)
38. General and administrative expenses – V, (6%); H, (16%)
39. Finance costs – H, 7%
40. Foreign exchange gains – net – H, 9%
41. Others-net – H, 45%
42. Provision for income tax – current – H, (31%)
43. Provision for income tax – deferred – V, 10%; H, (135%)
44. Net income- continuing operations – H, (6%)
45. Net income- discontinued operations – H, (70%)
46. Total Net Income – H, (7%)
47. Net income attributable to noncontrolling interests – H, (53%)

The causes for these material changes in the balance sheet and income statement accounts are all explained in the Management's Discussion and Analysis (MDA)–Results of Operations and Financial Condition above.

(viii) There are no seasonal aspects that have a material effect on the financial condition or results of operations of LTG.

A. Information on Independent Accountant and other Related Matters

(1) External Audit Fees and Services

a.) Audit and Audit-Related Fees

1. The Audit of the Group's annual financial statements and other services that are normally provided by the external auditor in connection with statutory and regulatory filings or engagements for 2021 and 2020.

	2021	2020
LT Group, Inc.	₱1,320,000	₱1,320,000
Distilled Spirits	3,102,000	3,147,000
Beverage	5,000,000	5,000,000
Tobacco	550,000	550,000
Banking	22,383,000	20,740,000
Property Development	2,450,000	2,450,000
Total	₱34,805,000	₱33,207,000

Other assurance and related services by the external auditor that are reasonably related to the performance of the audit or review of the registrants' financial statements:

none

b.) Tax Fees

none

c.) All Other Fees

LT Group, Inc. and its subsidiaries incurred ₱1,916,500 and ₱6,332,500 in 2021 and 2020, respectively for consultancy services engagement.

d.) The audit committee's approval policies and procedures for the above services:

Upon recommendation and approval of the audit committee, the appointment of the external auditor is being confirmed in the annual stockholders' meeting. On the other hand, financial statements should be approved by the Board of Directors before these are released.

Item 7. Financial Statements

The consolidated financial statements and schedules listed in the accompanying Index to Financial Statements and Supplementary Schedules are filed as part of this Form 17-A.

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures

There are no changes in and disagreements with accountants on any accounting and financial disclosures during the past two years ended December 31, 2021 or during any subsequent interim period.

PART III – CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers

1. Directors

Name	Age	Citizenship	Business Experience/Other Directorship within the Last five (5) years	Position/Term of Office/Period Served
Lucio C. Tan	87	Filipino	Chairman of Absolut Distillers, Inc., Alliedbankers Insiéranse Corporation, Allianz PNB Life Insurance, Air Philippines Corporation, Asia Brewery, Inc., Asian Alcohol Corporation, Basic Holdings Corporation, Buona Sorte Holdings, Inc., Eton Properties Philippines, Inc., Fortune Tobacco Corporation, Foremost Farms, Inc., Grandspan Development Corporation, Himmel Industries, Inc., Mabuhay Maritime Express Transport, Inc., **MacroAsia Corporation,** Philippine Airlines, Inc., PMFTC Inc., Progressive Farms, Inc., **PAL Holdings, Inc.,** Tanduay Distillers, Inc., Tanduay Brands International, Inc., Tangent Holdings Corporation, The Charter House, Inc., Trustmark Holdings Corporation, University of the East, Zuma Holdings and Management Corporation. He is also a Director of **Philippine National Bank.**	Chairman/ 1Year/ July 2,1999 to present
Carmen K. Tan	81	Filipino	Vice Chairman of Philippine Airlines, Inc. and Director of Air Philippines Corporation, Asia Brewery, Inc., Buona Sorte Holdings, Inc., Foremost Farms, Inc., Dynamic Holdings, Ltd, Eton City, Inc., Fortune Tobacco Corporation, Himmel Industries, Inc., **MacroAsia Corporation, PAL Holdings, Inc., Philippine National Bank,** PMFTC Inc., Progressive Farms, Inc., Tanduay Distillers, Inc., Manufacturing Services and Trade Corporation, Sipalay Trading Corporation, Saturn Holdings, Inc., Tangent Holdings Corporation, Trustmark Holdings Corporation and Zuma Holdings and Management Corporation.	Vice Chairman/ 1 Year/ October 23, 2020 to present Director/ 1 Year/ May 5, 2010 to present

Karlu T. Say	52	Filipino	Founder and Director of Dong-A Pharma Phils., Inc., Director and Chief Operating Officer of Eton Properties Philippines, Inc., PNB Holdings Corporation, Director of Alliedbankers Insurance Corporation.	Director/ 1 Year/ May 5, 2021 to and present
Michael G. Tan	56	Filipino	Director, President and Chief Operating Officer of Asia Brewery, Inc.; Director of Tangent Holdings Corp., **MacroAsia Corporation, Philippine National Bank,** Eton Properties Philippines, Inc., PMFTC Inc., Tanduay Distillers, Inc., **Victorias Milling Company, Inc**., Maranaw Hotel (Century Park Hotel), and Pan-Asia Securities Corp.	President/ 1 Year/ 05 May 5, 2010 to present (Director since February 21, 2003)
Lucio C. Tan, III	29	Filipino	Director, President and Chief Operating Officer of Tanduay Distillers, Inc. and Director of PMFTC, Inc., Fortune Landequities and Resources, Inc., **MacroAsia Corporation, PAL Holdings, Inc.,** Philippine Airlines, Inc., Air Philippines Corporation, and **Philippine National Bank.**	Director/ 1 Year/ December 17, 2019 to present
Vivienne K. Tan	54	Filipino	Director of **Philippine National Bank** and Air Philippines Corporation, Member of the Board of Trustees of University of the East and University of the East Ramon Magsaysay Memorial Medical Center, Founding Chairperson of Entrepreneurs School of Asia and Founding Trustee of Philippine Center for Entrepreneurship (Go Negosyo).	Director/ 1 Year/ May 7, 2019 to present
Juanita T. Tan Lee	79	Filipino	Director of Asia Brewery, Inc., Eton Properties Philippines, Inc., and Tanduay Distillers, Inc.; Director and Corporate Secretary of Fortune Tobacco Corporation, Corporate Secretary of Absolut Distillers, Inc., Asian Alcohol Corporation, The Charter House, Inc., Foremost Farms, Inc., Grandspan Development Corporation, Himmel Industries, Inc., Landcom Realty Corporation, PMFTC Inc., Progressive Farms, Inc. and Total Bulk Corporation; Assistant Corporate Secretary of Basic Holdings Corporation; Treasurer of **PAL Holdings, Inc.** and Philippine Airlines, Inc., and a member of the Board of Trustees of the University of the East.	Director/ 1 Year/ May 2, 2012 to present Assistant Corporate Secretary/ 1 Year/ September 13, 2000 to September 17, 2012 Treasurer/ 1 year/ April 8, 2014 to present

Johnip G. Cua	65	**Filipino**	Former President of Procter & Gamble Philippines, Inc., currently the Chairman of the Board of Trustees of the P&Gers Fund, Inc. and Xavier School, Inc., and the Chairman & President of Taibrews Corporation. He is an Independent Director of First Aviation Academy, Century Pacific Food, Inc., PhilPlans First, Inc., Eton Properties Philippines, Inc., ALI-Eton Property Development Corporation, Asia Brewery, Inc., Tanduay Distillers, Inc., **MacroAsia Corporation,** Macroasia Properties Development Corporation, MacroAsia Catering Services, Inc., MacroAsia Airport Services Corporation, Macroasia SATS Food Industries Corporation, **PAL Holdings, Inc**. and Philippine Airlines, Inc. He is also a member of the Board of Directors of Interbake Marketing Corporation, Teambake Marketing Corporation, Bakerson Corporation, Lartizan Corporation, Allied Botanical Corporation, and Zenori Corporation.	Independent Director / 1 Year/ 08 May 2018 to present
Mary G. Ng	69	**Filipino**	Chief Executive Officer of H&E Group of Companies; an Independent Director of Alliedbankers Insurance Corporation and Eton Properties Philippines, Inc.; Honorary President of the Packaging Institute of the Philippines, the Philippine Plastics Industry Association, Inc., and the Association of Volunteer Fire Chiefs and Firefighters of the Philippines; First woman Chairman of the ASEAN Federation of Plastic Industries (AFPI); Executive Vice President of Federation of Filipino-Chinese Chamber of Commerce and Industries; Tripartite Board member of the Department of Labor and Employment; Board member of Technical Educational and Skills Development Authority (TESDA); Vice President of the Philippine Piak O Eng Chamber of Commerce and Philippine Piak O Eng Uy's Association; and Director of Philippine Dongshi Townmate Association, Inc.	Independent Director / 1 Year/ May 7, 2019 to present

Wilfrido E. Sanchez	85	**Filipino**	Tax Counsel of Quiason Makalintal Barot Torres Ibarra Sison & Damaso Law Offices; Independent Director of **EEI Corporation**, **House of Investments, Inc.**, JVR Foundation, Inc., Kawasaki Motor Corporation, Magellan Capital Holdings Corporation, Transnational Financial Services, Inc., Eton Properties Philippines, Inc., Asia Brewery, Inc., **Philippine National Bank**, and Tanduay Distillers, Inc.; Director of Asiabest Group International, Inc. (ABG), Asian Institute of Management (AIM), EMCOR, Inc., Gokongwei Brothers Foundation, J-DEL Investments and Management Corporation, K-Servico, Inc.	Independent Director/ 1 year/July 31, 2012 to present
Florencia G. Tarriela	75	**Filipino**	Independent Director of PNB Capital and Investment Corporation, PNB International Investments Corporation and Eton Properties Philippines, Inc.; Director/Vice President of Tarriela Management Company and Director/Vice President/Assistant Treasurer of Gozon Development Corporation; Board of Advisor of **Philippine National Bank;** Member of the Board of Trustees of Financial Executives of the Philippines (FINEX),Tulay sa Pag-unlad, Inc. (TSPI) Development Corporation, TSPI MBA, Philippine Bible Society and Makati Garden Club; and a former Undersecretary of Finance.	Independent Director/ 1 year/August 09, 2012 to present

2. Executive Officers

Name/Position	Age	Citizenship	Current Affiliations and Business Experiences in the last 5 years	Term of Office/ Period Served
Lucio C. Tan/ Chairman	87	Filipino	See above	1 Year/July 2, 1999 to present
Carmen K. Tan/ Vice Chairman	81	Filipino	See above	1 Year/October 23, 2020 to present
Michael G. Tan/ President and Chief Operating Officer	56	Filipino	See above	1 Year/May 5, 2010 to present
Juanita T. Tan Lee/ Treasurer	79	Filipino	See above	1 Year/April 8, 2014 to present

Ma. Cecilia L. Pesayco/ Corporate Secretary	69	Filipino	Corporate Secretary of Asia Brewery, Inc., **PAL Holdings, Inc.**, Trustmark Holdings Corporation, Zuma Holdings and Management Corporation. She is likewise the Chief Legal Counsel of the Tan Yan Kee Foundation.	1 Year/March 31, 1998 to present
Jose Gabriel D. Olives/ Chief Financial Officer and Chief Risk Officer	75	Filipino	Former Senior Vice President – Finance & Chief Financial Officer of Philippine Airlines, Inc., and Former Chief Finance Officer of Asia Brewery, Inc.	1 Year/August 09, 2012 to present
Dioscoro Teodorico L. Lim/Chief Audit Executive	67	Filipino	Former Chief Audit Executive of Philippine National Bank.	1 Year/July 11, 2017 to present
Nestor C. Mendones/ Deputy Chief Financial Officer	67	Filipino	Senior Vice President-Finance and Chief Finance Officer of Tanduay Distillers, Inc.	1 Year/August 09, 2012 to present
Marivic T. Moya/ Assistant Corporate Secretary and Compliance Officer	61	Filipino	Corporate Secretary of Philippine Airlines, Inc., Cavite Business Resources, Inc. MacroAsia Catering Services Inc., MacroAsia Airport Services Corporation, and Watergy Business Solutions Inc., Director and Corporate Secretary of MacroAsia Properties Development Corporation, MacroAsia Air Taxi Services, Inc., and MacroAsia Mining Corporation	1 Year/June 09, 2014 to present

Independent Directors and their qualifications:

1. Johnip G. Cua, elected as Independent Director since May 8, 2018.

Term of office – 1 year
Period served – 4 years

Educational attainment:
Bachelor of Science in Chemical Engineer, University of the Philippines

Positions held in the last 5 years:
- P&Gers Fund, Inc. – Chairman of the Board of Trustees
- Xavier School, Inc. – Chairman of the Board of Trustees
- Taibrews Corporation – Chairman and President
- Century Pacific Food, Inc. – Independent Director
- First Aviation Academy – Independent Director
- PhilPlans First, Inc. – Independent Director
- Asia Brewery, Inc. – Independent Director
- ALI Eton Property Development Corporation – Independent Director
- Eton Properties Philippines, Inc. – Independent Director
- MacroAsia Corp. – Independent Director
- MacroAsia Catering Services, Inc. – Independent Director
- MacroAsia Airport Services Corp. – Independent Director
- MacroAsia Properties Development Corporation – Independent Director
- MacroAsia SATS Food Industries Corporation – Independent Director

- PAL Holdings, Inc. – Independent Director
- Philippine Airlines, Inc. – Independent Director
- Tanduay Distillers, Inc. – Independent Director
- Interbake Marketing Corp. – Director
- Teambake Marketing Corp. – Director
- Bakerson Corp. – Director
- Lartizan Corp. – Director
- Allied Botanical Corp. – Director
- Xavier School Educational & Trust Fund – Member of the Board of Trustees

2. Mary G. Ng, elected as Independent Director since May 7, 2019.

Term of office – 1 year
Period served – 3 year

Positions held in the last 5 years:

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

3. Wilfrido E. Sanchez, elected as an Independent Director since July 31, 2012.

Term of office – 1 year
Period served – 10 years

Educational attainment:
Bachelor of Arts, Ateneo de Manila University
Bachelor of Laws, Ateneo de Manila University
Master of Laws, Yale Law School

Positions held in the last 5 years:

- Quiason Makalintal Barot Torres & Ibarra Law Offices – Tax Counsel
- Asia Brewery, Inc. – Independent Director
- EEI Corporation – Independent Director
- Eton Properties Philippines, Inc. – Independent Director
- House of Investments, Inc. –Independent Director
- JVR Foundation, Inc. – Independent Director
- Kawasaki Motor Corp. – Independent Director
- Magellan Capital Holdings Corp. – Independent Director
- Philippine National Bank – Independent Director
- Tanduay Distillers, Inc. – Independent Director
- Transnational Financial Services, Inc. – Independent Director
- Asiabest Group International – Director

- Asian Institute Management – Director
- EMCOR Inc. – Director
- Gokongwei Brothers Foundation – Director
- J-DEL Investments and Management Corporation – Director
- K Servico, Inc. – Director

4. Florencia G. Tarriela, elected as Independent Director since August 9, 2012.

Term of office – 1 year
Period served – 10 years

Educational Attainment:
BSBA major in Economics, University of the Philippines
Master of Arts in Economics, University of California, Los Angeles (UCLA), USA
(Topped the Master's Comprehensive Exams and completed the M.A. Degree with an "A" average in three Quarters)

Positions held in the last 5 years:
- PNB Capital and Investment Corporation – Director
- PNB International Investments Corp. – Director
- Eton Properties Philippines Inc. – Independent Director
- Tarriela Management Company - Director/Vice President
- Gozon Development Corporation - Director/Vice President/Assistant Treasurer
- Philippine National Bank – Board of Advisor
- Trustee of Tulay sa Pag-unlad, Inc. (TSPI) Development Corporation - Trustee
- TSPI MBA - Trustee
- Financial Executive Institute of the Philippines (FINEX) – Trustee
- Philippine Bible Society – Trustee
- Makati Garden Club – Trustee

The Independent Directors are duly qualified and suffer from no disqualification under Section 11(5) of the Code of Corporate Governance. Independent director refers to a person other than an officer or employee of the corporation, its parent or subsidiaries, or any other individual having any relationship with the corporation, which would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. This means that apart from the director's fees and shareholdings, he should be independent of management and free from any business or other relationship which could materially interfere with the exercise of his independent judgment (SEC Memorandum Circular No. 2, Code of Corporate Governance).

4. Significant Employees

All employees of the Group are similarly situated and expected to contribute for the betterment of the Company.

5. Family Relationship

Dr. Lucio C. Tan, married to Ms. Carmen K. Tan, is the father of Ms. Karlu T. Say, Mr. Michael G. Tan and Ms. Vivienne K. Tan, and the grandfather of Mr. Lucio C. Tan III.

6. Involvement in Certain Legal Proceedings during the past 5 years

The Directors and Executive Officers of LTG are not involved in (a) any bankruptcy petition by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time; (b) any conviction by final judgment in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses; (c) being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities; and (d) being found by a domestic or foreign court of competent jurisdiction (in a civil action), the Commission or comparable foreign body, or a domestic or foreign Exchange or other organized trading market or self-regulatory organization, to have violated a securities or commodities law or regulation, and the judgment has not been reversed, suspended, or vacated.

Item 10. Executive Compensation

The following compensation was given to officers and directors for the reporting year.

Summary Compensation Table

Annual Compensation

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

The following constitute LTG's four (4) most highly compensated executive officers (on a consolidated basis):

1. Mr. Lucio C. Tan is the Chairman of the Board of Directors and Chief Executive Officer (CEO).
2. Mr. Michael Tan is the President and Chief Operating Officer.
3. Atty. Ma. Cecilia L. Pesayco is the Corporate Secretary.
4. Ms. Juanita T. Tan Lee is the Treasurer.

a) Standard Arrangements – The Directors of LTG receive a Director's allowance of P30,000.00 a month and a per diem of P25,000.00 for every board meeting and P15,000.00 for every committee meeting attended. Other than the stated allowance and the per diem of the Directors, there are no other standard arrangements to which the Directors of LTG are compensated, or are to be compensated, directly or indirectly, for any services provided as a Director, including any additional amounts payable for Committee participation or special assignments, for the last completed fiscal year and the ensuing year.

b) Other Arrangements – None
c) Employment contract or compensatory plan or arrangement – None

Warrants and Options Outstanding: Repricing

a.) There are no outstanding warrants or options held by LTG's CEO, the named executive officers, and all officers and directors as a group.

b.) This is not applicable since there are no outstanding warrants or options held by LTG's CEO, executive officers and all officers and directors as a group.

Item 11. Security Ownership of Certain Beneficial Owners and Management as of December 31, 2021.

1. Security Ownership of Certain Record and Beneficial Owners of more than 5%

Title of Class	Name and Address of Record Owner and relationship with Issuer	Name of Beneficial Ownership and relationship with Record Owner	Citizenship	No. of Shares	Percent of Class
Common	Tangent Holdings Corporation (THC) Unit 3, 11/F, Bench Tower, 30th Street corner Rizal Drive, Crescent Park West, Bonifacio Global City, Taguig City Controlling Stockholder	Lucio C. Tan Majority Shareholder	Filipino	8,046,318,193/ Record Owner	74.36%

Each shareholder of the Company is entitled to vote only to the extent of the number of shares registered in his/her/its name. The Board of Directors of THC, comprised of Dr. Lucio C. Tan, Ms. Carmen K. Tan, Ms. Sheila T. Pascual and Messrs. Harry C. Tan, and Michael G. Tan, has the right to vote or direct the voting or disposition of LTG's shares held by THC.

2. Security Ownership of Management as of December 31, 2021

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	Karlu T. Say	1,000 R (direct) and 530,000 (indirect)	Filipino	Nil
Common	Michael G. Tan	1,151,996 R (direct)	Filipino	Nil
Common	Lucio C. Tan III	1,100 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	Wilfrido 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 LTG's total outstanding capital stock.

*There are no additional shares which the listed beneficial and record owners have the right to acquire within 30 days from any warrants, options, rights and conversion privileges or similar obligations or otherwise.

3. Voting Trust Holders of 5% or more

There are no voting trust holders of 5% or more of the common shares.

4. Changes in Control

None

Item 12. Certain Relationships and Related Transactions

The Group, in their regular conduct of business, have entered into transactions with associates and other related parties principally consisting of purchase and sale of inventories, advances, management, leasing and administrative service agreements. Sales and purchases of goods and services to and from related parties are made on an arm's length basis and at current market prices at the time of the transactions.

There are no other transactions undertaken or to be undertaken by the Group in which any director or executive officer, any nominee for election as director, any beneficial owner of more than 5% of the Company's outstanding shares (direct or indirect) or any member of his immediately family was involved or had a direct or indirect material interest.

The Group's employees are required to promptly disclose any business and family-related transactions with the Group to ensure that potential conflicts of interest are surfaced and brought to the attention of management.

The effects of the related party transactions on the financial statements have been identified in Note 22 of the Notes to Consolidated Financial Statements.

PART IV – CORPORATE GOVERNANCE AND SUSTAINABILITY REPORT

Item 13. Corporate Governance Report

This will be filed separately.

Item 14. Sustainability Report

Please refer to the attached 2021 Sustainability Report.

PART V – EXHIBITS AND SCHEDULES

Item 15. Exhibits and Reports on SEC Form 17-C

a. Exhibits - see accompanying Index to Exhibits (page 88)

The other exhibits, as indicated in the Index to Exhibits are either not applicable to the Group or require no answer

b. Reports on SEC Form 17-C

SEC Form 17-C (Current Reports), which has been filed during the year, is no longer filed as part of the exhibits.

LIST OF ITEMS REPORTED UNDER SEC FORM 17-C
(from January 2021 to December 2021)

Date of Report	Subject Matter Disclosed
January 22, 2021	Material Information: PMFTC, Inc. merged with Philip Morris Manufacturing Philippines Inc.
February 9, 2021	Calling of the Annual Stockholders' Meeting
March 15, 2021	Approval of the Audited Consolidated Financial Statements for the Year 2020
March 17, 2021	Declaration of Regular Cash Dividend of ₱0.15 per share and Special Cash Dividend of ₱0.09 per share to all its Stockholders as of March 31, 2021
March 19, 2021	Press Release: LTG Reports 2020 Unaudited Attributable Net Income of Php21.0 Billion, 9% Lower than 2019's Php23.1 Billion.
May 5, 2021	Result of Annual Stockholders' Meeting and Organizational Meeting of the Board of Directors
May 5, 2021	Press Release: Outlook for 2021
May 11, 2021	Press Release: LTG Reports First Quarter 2021 Attributable Net Income of Php6.49 Billion, 4% Higher than 1Q20's Php6.21 Billion.
June 11, 2021	Declaration of Special cash dividend of ₱0.24 per share to all stockholders o record as of June 25, 2021
August 11, 2021	Press Release: LTG Reports First Half 2021 Attributable Net Income of Php3.73 Billion, 63% Lower than 1H20's Php10.03 Billion
October 12, 2021	Appointment of Mr. Wilfrido E. Sanchez as Lead Independent Director of the Company
October 12, 2021	Creation of Risk Management Committee
November 12, 2021	Press Release: LTG Reports an Attributable Net Income of Php9.95Billion for the First Nine Months of 2021, 38% Lower than 9M20's Php16.10 Billion
November 19, 2021	Declaration of Special cash dividend of ₱0.60 per share to all stockholders o record as of December 6, 2021

SIGNATURES

Pursuant to the requirements of Section 17 of the Securities Regulation Code (SRC) and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned thereunto duly authorized in the City of Makati on MAR 15 2021.

By:

Lucio C. Tan Chairman and Chief Executive Officer	Nestor C. Mendones Deputy Chief Financial Officer
Michael G. Tan President and Chief Operating Officer	Susan T. Lee Principal Accounting Officer
Jose Gabriel D. Olives Chief Financial Officer	Ma. Cecilia L. Pesayco Corporate Secretary

SUBSCRIBED AND SWORN to before me this MAR 15 2021 affiants exhibiting to me their Passports/SSS ID, as follows:

NAMES	PASSPORT NO.	DATE OF ISSUE	PLACE OF ISSUE
Lucio C. Tan	P8176878B	16-Nov-21	Manila, Philippines
Michael G. Tan	P6647242B	14-Apr-21	PE Singapore
Jose Gabriel D. Olives	P7769394A	02-Jul-18	Manila, Philippines
Nestor C. Mendones	P3103903B	06-Sep-19	NCR West, Philippine
Susan T. Lee	P3633584B	25-Oct-19	NCR West, Philippine
Ma. Cecilia L. Pesayco	SSS ID: 03-5684103-6		

Doc. No. 484
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Book No. LXXII
Series of 2022

Julie O. Cua
Notary Public for Makati City
Roll of Attorneys No. 35358
PTR No. 8852208/1-3-2022/Makati City
IBP Lifetime Member No. 00104
6/F 6754 Ayala Avenue, Makati City
MCLE Compliance No. VI-0017668/01-31-2019
Commission No. M-16 until 31 December 2022

LT GROUP, INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES
SEC FORM 17-A

* These schedules which are required by part IV(e) of SRC Rule 68, have been omitted because they are either not required, not applicable or the information required to be presented is included in the Consolidated Financial Statements.

LT GROUP, INC.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

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

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

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

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

Signed under oath by the following:

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

SUBSCRIBED AND SWORN to before me this MAR 15 2021 at Makati City, affiants exhibiting to me their Passport numbers, as follows:

Name	Passport No.	Date Issue	Place of Issue
Lucio C. Tan	P8176878B	11/16/2021	Manila, Philippines
Michael G. Tan	P6647242B	04/14/2021	PE, Singapore
Jose Gabriel D. Olives	P7769394A	07/02/2018	Manila, Philippines

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Page No. 97
Book No. CXLI
Series of 2022

Julie O. Cua
Notary Public for Makati City
Roll of Attorneys No. 35358
PTR No. 8852208/1-3-2022/Makati City
IBP Lifetime Member No. 00104
6/F 6754 Ayala Avenue, Makati City
MCLE Compliance No. VI-0017668/01-31-2019
Commission No. M-16 until 31 December 2022

COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

P	W	-	0	0	0	0	0	3	4	3

COMPANY NAME

LT GROUP, INC. AND
SUBSIDIARIES

PRINCIPAL OFFICE *(No. / Street / Barangay / City / Town / Province)*

11th Floor, Unit 3 Bench
Tower, 30th St. corner Rizal
Drive Crescent Park West 5
Bonifacio Global City,
Taguig City

Form Type	Department requiring the report	Secondary License Type, If Applicable
17-A	N/A	N/A

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number	Mobile Number
info@ltg.com.ph	(02) 8808-1266	+639278375844

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
377	May 5	December 31

CONTACT PERSON INFORMATION

The designated contact person *MUST* be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Jose Gabriel D. Olives	josegabriel.olives@ltg.com.ph	8808-1266	N/A

CONTACT PERSON's ADDRESS

11th Floor, Unit 3 Bench Tower, 30th St. corner Rizal Drive Crescent Park West 5 Bonifacio Global City, Taguig City

NOTE 1: In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

2: All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.

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

Tel: (632) 8891 0307
Fax: (632) 8819 0872
ey.com/ph

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the consolidated financial statements of LT Group, Inc. and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2021 and 2020, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2021, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Key Audit Matters

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

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

Adequacy of Allowance for Credit Losses on Finance Receivables

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

Allowance for credit losses on finance receivables as of December 31, 2021 and the provision for credit losses in 2021 amounted to ₱39.3 billion and ₱11.0 billion, respectively.

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

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

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

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

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

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

Recognition of Deferred Tax Assets

As of December 31, 2021, the deferred tax assets of PNB amounted to ₱5.8 billion. The recognition of deferred tax assets is significant to our audit because the assessment process is complex and involves judgment and is based on assumptions that are affected by expected future market or economic conditions and the expected performance of PNB. The estimation uncertainty on PNB's expected performance has increased as a result of uncertainties brought about by the coronavirus pandemic.

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

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

Accounting for Investment in PMFTC, Inc.

The Group has an investment in PMFTC. Inc. (PMFTC, an associate) that is accounted for under the equity method. For the year ended December 31, 2021, the Group's share in the net income of PMFTC amounted to ₱17.6 billion and accounts for 84% of the Group's consolidated net income. This matter is significant to our audit because of the materiality of the amount being equitized to the Group.

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

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

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2021, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2021 are expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

SYCIP GORRES VELAYO & CO.

Aileen L. Saringan

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

March 15, 2022

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LT GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Amounts in Thousands)

	December 31	
	2021	2020
ASSETS		
Current Assets		
Cash and cash equivalents (Note 5)	**₱265,139,174**	₱304,061,222
Financial assets at fair value through profit or loss (FVTPL) [Notes 6 and 21]	**11,205,269**	23,858,324
Financial assets at fair value through other comprehensive income (FVTOCI) [Notes 7 and 17]	**75,800,753**	59,680,618
Financial assets at amortized cost (Notes 7 and 17)	**45,931,953**	40,216,142
Loans and receivables (Notes 8 and 17)	**216,143,944**	223,006,163
Inventories (Note 9)	**14,286,523**	13,175,605
Due from related parties (Note 22)	**7,685,534**	1,954,502
Other current assets (Note 10)	**10,298,762**	10,908,904
	646,491,912	676,861,480
Assets of disposal group classified as held for sale (Note 37)	–	7,945,945
Total Current Assets	**646,491,912**	684,807,425
Noncurrent Assets		
Loans and receivables - net of current portion (Notes 8 and 17)	**407,515,357**	393,592,324
Financial assets at FVTOCI (Notes 7 and 17)	**71,468,657**	76,644,306
Financial assets at amortized cost (Notes 7 and 17)	**43,523,890**	55,019,851
Investments in associates and joint ventures (Note 11)	**22,208,309**	23,777,783
Property, plant and equipment (Note 12):		
At appraised values	**60,468,871**	59,918,473
At cost	**13,642,782**	11,586,799
Investment properties (Note 13)	**34,447,353**	32,837,375
Deferred income tax assets - net (Note 29)	**6,291,847**	8,889,031
Other noncurrent assets (Notes 14, 23 and 37)	**5,777,386**	6,049,087
Total Noncurrent Assets	**665,344,452**	668,315,029
TOTAL ASSETS	**₱1,311,836,364**	₱1,353,122,454
LIABILITIES AND EQUITY		
Current Liabilities		
Deposit liabilities (Note 15)	**₱842,061,358**	₱822,131,355
Financial liabilities at FVTPL (Notes 16 and 21)	**891,531**	701,239
Bills and acceptances payable (Note 17)	**49,780,354**	72,978,082
Accounts payable and accrued expenses (Note 18)	**18,115,661**	20,849,044
Short-term debts (Note 19)	**3,940,000**	4,740,000
Current portion of long-term debts (Note 19)	**3,597,299**	14,527,082
Income tax payable	**381,539**	1,008,067
Due to related parties (Note 22)	**65,325**	65,325
Other current liabilities (Notes 20 and 37)	**9,381,064**	10,180,106
	928,214,131	947,180,300
Liabilities of disposal group classified as held for sale (Note 37)	–	6,353,964
Total Current Liabilities (Carried Forward)	**928,214,131**	953,534,264

	December 31	
	2021	2020
Total Current Liabilities (Brought Forward)	**₱928,214,131**	₱953,534,264
Noncurrent Liabilities		
Deposit liabilities - net of current portion (Note 15)	**38,508,755**	58,380,208
Bills and acceptances payable (Note 17)	**3,173,443**	14,181,368
Long-term debts - net of current portion (Note 19)	**59,046,035**	55,215,562
Net retirement benefits liability (Note 23)	**1,817,657**	2,418,637
Deferred income tax liabilities - net (Note 29)	**8,499,173**	8,327,412
Other noncurrent liabilities (Note 20)	**9,040,491**	5,526,724
Total Noncurrent Liabilities	**120,085,554**	144,049,911
Total Liabilities	**1,048,299,685**	1,097,584,175
Equity		
Attributable to equity holders of the Company (Notes 1, 7, 12, 23, 24, 30 and 36):		
Capital stock	**10,821,389**	10,821,389
Capital in excess of par	**35,906,231**	35,906,231
Other comprehensive income, net of deferred income tax effect	**14,410,914**	15,056,237
Other equity reserves	**(5,959,881)**	(2,058,370)
Reserves of disposal group classified as held for sale (Note 37)	–	88,616
Retained earnings	**134,905,274**	125,612,353
Shares of stock of the Company held by subsidiaries	**(12,519)**	(12,519)
	190,071,408	185,413,937
Non-controlling interests (Notes 1, 7, 12 and 30)	**73,465,271**	70,124,342
Total Equity	**263,536,679**	255,538,279
TOTAL LIABILITIES AND EQUITY	**₱1,311,836,364**	₱1,353,122,454

See accompanying Notes to Consolidated Financial Statements.

LT GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

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

	Years Ended December 31		
	2021	2020	2019
REVENUE (Note 24)			
Banking	**₱49,319,441**	₱54,800,902	₱56,522,642
Distilled spirits	**26,648,772**	25,000,110	19,261,735
Beverage	**13,173,729**	12,227,532	15,234,051
Property development	**2,031,373**	2,399,390	3,132,431
	91,173,315	94,427,934	94,150,859
COST OF GOODS SOLD AND SERVICES (Note 24)	**42,957,014**	42,858,864	46,802,440
GROSS INCOME	**48,216,301**	51,569,070	47,348,419
EQUITY IN NET EARNINGS OF ASSOCIATES AND JOINT VENTURES (Note 11)	**18,021,180**	17,614,907	14,813,251
	66,237,481	69,183,977	62,161,670
OPERATING EXPENSES			
Selling expenses (Note 25)	**1,905,020**	2,051,114	3,011,424
General and administrative expenses (Note 26)	**40,321,877**	47,897,268	31,596,421
	42,226,897	49,948,382	34,607,845
OPERATING INCOME	**24,010,584**	19,235,595	27,553,825
OTHER INCOME (CHARGES)			
Foreign exchange gains - net	**816,015**	747,095	1,049,965
Finance costs (Note 27)	**(364,873)**	(341,467)	(450,841)
Finance income (Note 27)	**41,663**	42,421	146,253
Others - net (Note 28)	**2,758,831**	1,902,969	2,843,597
	3,251,636	2,351,018	3,588,974
INCOME BEFORE INCOME TAX	**27,262,220**	21,586,613	31,142,799
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 29)			
Current	**4,112,063**	5,976,621	4,192,172
Deferred	**2,309,683**	(6,648,541)	(513,537)
	6,421,746	(671,920)	3,678,635
NET INCOME FROM CONTINUING OPERATIONS	**20,840,474**	22,258,533	27,464,164
NET INCOME FROM DISCONTINUED OPERATIONS (Note 37)	**20,615**	67,583	101,593
NET INCOME	**₱20,861,089**	₱22,326,116	₱27,565,757

(Forward)

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	Years Ended December 31		
	2021	2020	2019
NET INCOME ATTRIBUTABLE TO:			
Equity holders of the Company	**₱20,246,467**	₱21,021,996	₱23,117,524
Non-controlling interests	**614,622**	1,304,120	4,448,233
	₱20,861,089	₱22,326,116	₱27,565,757
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Company (Note 31)	**₱1.87**	₱1.94	₱2.14
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Company from Continuing Operations (Note 31)	**₱1.87**	₱1.94	₱2.13

See accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31		
	2021	2020	2019
NET INCOME	**₱20,861,089**	₱22,326,116	₱27,565,757
OTHER COMPREHENSIVE INCOME (LOSS)			
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:			
Net changes in fair value of financial assets at FVTOCI, net of tax (Note 7)	**(3,178,301)**	(734,748)	2,260,682
Translation adjustments	**684,700**	(275,320)	(916,208)
Net other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods	**(2,493,601)**	(1,010,068)	1,344,474
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:			
Share in aggregate gains (losses) on life insurance policies	**412,444**	(1,051,118)	–
Net changes in fair value of financial assets at FVTOCI (Note 7)	**(971,776)**	(1,616,606)	4,974,003
Income tax effect	**242,944**	484,982	(1,492,201)
	(728,832)	(1,131,624)	3,481,802
Remeasurement gains (losses) on defined benefit plans (Note 23)	**573,756**	(1,516,399)	(1,448,458)
Income tax effect	**(143,439)**	454,920	276,868
	430,317	(1,061,479)	(1,171,590)
Share in remeasurement gain on defined benefit plans of associates (Note 11)	**290,433**	203,269	1,001,641
Net revaluation increase on property, plant and equipment (Note 12)	**1,569,183**	39,444	858,633
Income tax effect	**(392,296)**	(11,833)	(257,590)
	1,176,887	27,611	601,043
Net other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods	**1,581,249**	(3,013,341)	3,912,896
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	**(912,352)**	(4,023,409)	5,257,370
TOTAL COMPREHENSIVE INCOME	**₱19,948,737**	₱18,302,707	₱32,823,127
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Equity holders of the Company	**₱20,618,903**	₱18,286,014	₱26,501,864
Non-controlling interests	**(670,166)**	16,693	6,321,263
	₱19,948,737	₱18,302,707	₱32,823,127

See accompanying Notes to Consolidated Financial Statements.

LT GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2021, 2020 AND 2019

(Amounts in Thousands)

	Attributable to Equity Holders of the Company (Notes 1, 7, 12, 23, 24, 30 and 36)															
						Other Comprehensive Income (Loss)										
	Capital Stock	Capital in Excess of Par	Preferred Shares of Subsidiaries Issued to Parent Company	Other Equity Reserves	Reserves of Disposal Group Classified as Held for Sale	Cumulative Translation Adjustments	Net Changes in Financial Assets at FVTOCI (Note 7)	Remeasurement Gains (Losses) on Defined Benefit Plans (Note 23)	Revaluation Increment on Property, Plant and Equipment (Note 12)	Remeasurement Gains on Defined Benefit Plans of an Associate (Note 11)	Total Other Comprehensive Income (Loss), Net of Deferred Income Tax Effect	Retained Earnings	Shares of Stock of the Company Held by Subsidiaries	Total	Non-controlling Interests (Notes 2, 7, 12 and 30)	Total
BALANCES AT JANUARY 1, 2019	**₱10,821,389**	**₱35,906,231**	**₱18,060,000**	**₱804,095**	**₱–**	**₱1,152,659**	**₱1,682,196**	**(₱337,998)**	**₱12,689,666**	**₱202,066**	**₱15,388,589**	**₱91,998,914**	**(₱12,519)**	**₱172,966,699**	**₱58,223,689**	**₱231,190,388**
Net income for the year	–	–	–	–	–	–	–	–	–	–	–	23,117,524	–	23,117,524	4,448,233	27,565,757
Other comprehensive income (loss)	–	–	–	–	–	(460,107)	2,937,249	(865,709)	771,266	1,001,641	3,384,340	–	–	3,384,340	1,873,030	5,257,370
Total comprehensive income (loss) for the year	–	–	–	–	–	(460,107)	2,937,249	(865,709)	771,266	1,001,641	3,384,340	23,117,524	–	26,501,864	6,321,263	32,823,127
Cash dividends declared	–	–	–	–	–	–	–	–	–	–	–	(3,326,908)	–	(3,326,908)	(3,372)	(3,330,280)
Early redemption of preferred shares	–	–	(9,521,163)	–	–	–	–	–	–	–	–	–	–	(9,521,163)	–	(9,521,163)
Increase in noncontrolling interest without loss of control	–	–	–	–	–	–	–	–	–	–	–	–	–	–	2,539,185	2,539,185
Other equity reserve	–	–	–	220,558	–	–	–	–	–	–	–	215,915	–	436,473	5,265	441,738
Effect of change in accounting policy on borrowing costs (Note 2)	–	–	–	–	–	–	–	–	–	–	–	(135,424)	–	(135,424)	–	(135,424)
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	–	–	–	–	–	–	–	–	(734,614)	–	(734,614)	734,614	–	–	–	–
BALANCES AT DECEMBER 31, 2019	**10,821,389**	**35,906,231**	**8,538,837**	**1,024,653**	**–**	**692,552**	**4,619,445**	**(1,203,707)**	**12,726,318**	**1,203,707**	**18,038,315**	**112,604,635**	**(12,519)**	**186,921,541**	**67,086,030**	**254,007,571**
Net income for the year	–	–	–	–	–	–	–	–	–	–	–	21,021,996	–	21,021,996	1,304,120	22,326,116
Other comprehensive income (loss)	–	–	–	(593,566)	–	(147,788)	(1,780,973)	(718,599)	301,675	203,269	(2,142,416)	–	–	(2,735,982)	(1,287,427)	(4,023,409)
Total comprehensive income (loss) for the year	–	–	–	(593,566)	–	(147,788)	(1,780,973)	(718,599)	301,675	203,269	(2,142,416)	21,021,996	–	18,286,014	16,693	18,302,707
Cash dividends declared	–	–	–	–	–	–	–	–	–	–	–	(8,765,324)	–	(8,765,324)	(85,645)	(8,850,969)
Early redemption of preferred shares	–	–	(8,538,837)	–	–	–	–	–	–	–	–	–	–	(8,538,837)	–	(8,538,837)
Increase in noncontrolling interest without loss of control	–	–	–	–	–	–	–	–	–	–	–	–	–	–	2,376,784	2,376,784
Other equity reserve	–	–	–	(2,489,457)	–	–	–	–	–	–	–	–	–	(2,489,457)	336,283	(2,153,174)
Effect of disposal group classified as held for sale	–	–	–	–	88,616	–	(29,209)	(59,407)	–	–	(88,616)	–	–	–	394,197	394,197
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	–	–	–	–	–	–	–	–	(751,046)	–	(751,046)	751,046	–	–	–	–
BALANCES AT DECEMBER 31, 2020	**10,821,389**	**35,906,231**	**–**	**(2,058,370)**	**88,616**	**544,764**	**2,809,263**	**(1,981,713)**	**12,276,947**	**1,406,976**	**15,056,237**	**125,612,353**	**(12,519)**	**185,413,937**	**70,124,342**	**255,538,279**

(Forward)

	Attributable to Equity Holders of the Company (Notes 1, 7, 12, 23, 24, 30 and 36)															
						Other Comprehensive Income (Loss)										
	Capital Stock	Capital in Excess of Par	Preferred Shares of Subsidiaries Issued to Parent Company	Other Equity Reserves	Reserves of Disposal Group Classified as Held for Sale	Cumulative Translation Adjustments	Net Changes in Financial Assets at FVTOCI (Note 7)	Remeasurement Gains (Losses) on Defined Benefit Plans (Note 23)	Revaluation Increment on Property, Plant and Equipment (Note 12)	Remeasurement Gains on Defined Benefit Plans of an Associate (Note 11)	Total Other Comprehensive Income (Loss), Net of Deferred Income Tax Effect	Retained Earnings	Shares of Stock of the Company Held by Subsidiaries	Total	Non-controlling Interests (Notes 1, 7, 12 and 30)	Total
BALANCES AT DECEMBER 31, 2020	**₱10,821,389**	**₱35,906,231**	**₱–**	**(₱2,058,370)**	**₱88,616**	**₱544,764**	**₱2,809,263**	**(₱1,981,713)**	**₱12,276,947**	**₱1,406,976**	**₱15,056,237**	**₱125,612,353**	**(₱12,519)**	**₱185,413,937**	**₱70,124,342**	**₱255,538,279**
Net income for the year	–	–	–	–	–	–	–	–	–	–	–	20,246,467	–	20,246,467	614,622	20,861,089
Other comprehensive income (loss)	–	–	–	284,205	–	342,761	(2,271,272)	305,525	1,420,784	290,433	88,231	–	–	372,436	(1,284,788)	(912,352)
Total comprehensive income (loss) for the year	–	–	–	284,205	–	342,761	(2,271,272)	305,525	1,420,784	290,433	88,231	20,246,467	–	20,618,903	(670,166)	19,948,737
Cash dividends declared	–	–	–	–	–	–	–	–	–	–	–	(11,687,100)	–	(11,687,100)	–	(11,687,100)
Increase in noncontrolling interest without loss of control	–	–	–	–	–	–	–	–	–	–	–	–	–	–	441,157	441,157
Other equity reserve	–	–	–	(4,185,716)	–	–	–	–	–	–	–	–	–	(4,185,716)	3,569,938	(615,778)
Reversal of reserves of disposal group classified as held for sale	–	–	–	–	(88,616)	–	–	–	–	–	–	–	–	(88,616)	–	(88,616)
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	–	–	–	–	–	–	–	–	(733,554)	–	(733,554)	733,554	–	–	–	–
BALANCES AT DECEMBER 31, 2021	**₱10,821,389**	**₱35,906,231**	**₱–**	**(₱5,959,881)**	**₱–**	**₱887,525**	**₱537,991**	**(₱1,676,188)**	**₱12,964,177**	**₱1,697,409**	**₱14,410,914**	**₱134,905,274**	**(₱12,519)**	**₱190,071,408**	**₱73,465,271**	**₱263,536,679**

See accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31		
	2021	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax from continuing operations	**₱27,262,220**	₱21,586,613	₱31,142,799
Income before income tax from discontinued operations (Note 37)	**20,615**	88,001	120,272
Income before income tax	**27,282,835**	21,674,614	31,263,071
Adjustments for:			
Equity in net earnings of associates (Note 11)	**(18,021,180)**	(17,614,907)	(14,857,739)
Provision for losses (Notes 8 and 26)	**10,816,497**	16,883,793	2,862,442
Depreciation and amortization (Notes 12, 13 and 14)	**5,741,054**	5,677,820	5,235,817
Movement in accrued retirement benefits (Note 23)	**492,593**	(583,714)	(1,153,690)
Finance costs (Note 27)	**364,873**	341,467	450,841
Gain on disposal of other noncurrent assets (Notes 12, 13 and 28)	**–**	(196,019)	(829,758)
Finance income (Note 27)	**(41,663)**	(42,421)	(146,253)
Dividend income (Note 28)	**(5,679)**	(5,679)	(145,704)
Share in losses of joint venture (Notes 11 and 28)	**–**	–	44,488
Mark-to-market gain on financial assets at FVTPL (Note 28)	**–**	–	(10,018)
Operating income before changes in working capital	**26,629,330**	26,134,954	22,713,497
Decrease (increase) in:			
Financial assets at FVTPL	**12,653,055**	(10,388,944)	(2,675,012)
Receivables	**(17,880,364)**	38,698,806	(76,418,419)
Inventories	**(1,110,918)**	(978,734)	628,416
Other current assets	**8,556,087**	(7,081,387)	(899,998)
Increase (decrease) in:			
Deposit liabilities	**58,550**	62,272,608	92,702,273
Financial liabilities at FVTPL	**190,292**	455,620	(225,029)
Accounts payable and accrued expenses	**(1,935,196)**	(4,554,291)	3,878,633
Other current and noncurrent liabilities	**(3,043,155)**	(204,012)	17,638,100
Cash generated from operations	**24,117,681**	104,354,620	57,342,461
Income taxes paid, including creditable withholding and final taxes	**(4,738,591)**	(5,679,490)	(4,016,112)
Interest paid	**(619,856)**	(1,241,781)	(348,849)
Interest received	**44,716**	41,683	183,812
Dividends received (Notes 11, 22 and 28)	**5,679**	5,679	201,880
Net cash from operating activities	**18,809,629**	97,480,711	53,363,192

(Forward)

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	Years Ended December 31		
	2021	2020	2019
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of:			
Financial assets at FVTOCI (Note 7)	**(₱224,263,439)**	(₱169,859,472)	(₱100,926,015)
Financial assets at amortized cost	**(34,009,921)**	(56,130,885)	(81,024,195)
Property, plant and equipment (Note 12)	**(7,136,148)**	(4,879,544)	(7,324,348)
Software (Note 14)	**(283,472)**	(283,472)	(659,818)
Investment properties (Note 13)	**(1,609,978)**	(205,934)	(2,557,645)
Investment in joint venture and associates (Note 11)	**20,003,098**	20,707,865	8,818,578
Proceeds from sale of:			
Financial assets at FVTOCI (Note 7)	**249,268,857**	220,296,251	33,742,338
Other assets (Notes 12 and 13)	**652,329**	1,299,817	(810,809)
Advances (extended to) received from affiliates	**(5,731,032)**	74,934	(804)
Net cash from (used in) investing activities	**(3,109,706)**	11,019,560	(150,742,718)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from availment of:			
Bill and acceptance payable (Note 17)	**237,327,616**	168,973,402	1,465,130,227
Short-term debts (Note 19)	**–**	1,850,000	3,100,000
Long-term debts (Note 19)	**–**	–	51,899,720
Proceeds from issuance of stocks	**–**	–	11,850,316
Payments of:			
Bill and acceptance payable (Note 17)	**(271,058,488)**	(145,443,067)	(1,422,555,288)
Dividends (Note 30)	**(11,687,100)**	(8,850,969)	(3,330,741)
Long-term debts (Note 19)	**(7,099,310)**	(2,826,812)	–
Short-term debts (Note 19)	**(800,000)**	(2,260,000)	–
Principal portion of lease liabilities	**(1,304,689)**	(794,735)	(775,341)
Net cash from (used in) financing activities	**(54,621,971)**	10,647,819	105,318,893
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(38,922,048)**	119,148,090	7,939,367
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**304,061,222**	184,913,132	176,973,765
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	**₱265,139,174**	₱304,061,222	₱184,913,132

See accompanying Notes to Consolidated Financial Statements.

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

Corporate Information

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

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

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

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

Authorization for Issue of the Consolidated Financial Statements

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

2. Summary of Significant Accounting and Financial Reporting Policies

Basis of Preparation

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

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

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

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

	Percentage of Ownership						
	2021		2020		2019		Country of
	Direct	**Indirect**	Direct	Indirect	Direct	Indirect	Incorporation
Distilled Spirits							
Tanduay Distillers, Inc. (TDI) and subsidiaries	**100.0**	–	100.0	–	100.0	–	Philippines
Absolut Distillers, Inc. (ADI)	–	**96.0**	–	96.0	–	96.0	Philippines
Asian Alcohol Corporation (AAC)	–	**95.0**	–	95.0	–	95.0	Philippines
Tanduay Brands International, Inc. (TBI)(1)	–	**100.0**	–	100.0	–	100.0	Philippines
Beverages							
Asia Brewery, Incorporated (ABI) and subsidiaries	**99.9**	–	99.9	–	99.9	–	Philippines
Agua Vida Systems, Inc.	–	**99.9**	–	99.9	–	99.9	Philippines
Interbev Philippines, Inc.	–	**99.9**	–	99.9	–	99.9	Philippines
Waterich Resources Corp.	–	**99.9**	–	99.9	–	99.9	Philippines
Packageworld, Inc.	–	**99.9**	–	99.9	–	99.9	Philippines
AB Nutribev Corp.	–	**99.9**	–	99.9	–	99.9	Philippines
Asia Pacific Beverage Pte. Ltd. (APB Singapore)	–	**99.9**	–	99.9	–	99.9	Singapore
Asia Pacific Beverages Myanmar Company Limited (APB Myanmar) (2)	–	**90.0**	–	90.0	–	90.0	Myanmar
Tobacco							
Shareholdings, Inc. (Shareholdings)	**97.7**	–	97.7	–	97.7	–	Philippines
Fortune Tobacco Corporation (FTC)	**82.7**	**16.9**	82.7	16.9	82.7	16.9	Philippines
Property Development							
Saturn Holdings, Inc.	**100.0**	–	100.0	–	100.0	–	Philippines
Paramount Landequities, Inc. (PLI) and Subsidiaries	**100.0**	–	100.0	–	100.0	–	Philippines
Eton Properties Philippines, Inc. (Eton)	–	**99.6**	–	99.6	–	99.6	Philippines
Belton Communities, Inc. (BCI)	–	**99.6**	–	99.6	–	99.6	Philippines
Eton City, Inc. (ECI)	–	**99.6**	–	99.6	–	99.6	Philippines
FirstHomes, Inc. (FHI)	–	**99.6**	–	99.6	–	99.6	Philippines
Eton Properties Management Corporation (EPMC)	–	**99.6**	–	99.6	–	99.6	Philippines
Banking							
Bank Holding Companies (Note 22) (3)	**80-100**	–	80-100	–	80-100	–	Various
Philippine National Bank (PNB) and Subsidiaries(4)	–	**56.5**	–	56.5	–	56.5	Philippines
PNB Capital and Investment Corporation (PNB Capital)	–	**56.5**	–	56.5	–	56.5	Philippines
PNB Securities, Inc. (PNB Securities)	–	**56.5**	–	56.5	–	56.5	Philippines
PNB Forex, Inc.	–	**56.5**	–	56.5	–	56.5	Philippines
PNB Holdings Corporation (PNB Holdings) (5)	–	**56.5**	–	56.5	–	56.5	Philippines
PNB General Insurers, Inc. (PNB Gen)	–	**56.5**	–	56.5	–	56.5	Philippines
PNB Corporation - Guam (PNB Guam)	–	**56.5**	–	56.5	–	56.5	United States of America (USA)
PNB International Investments Corporation (PNB IIC)	–	**56.5**	–	56.5	–	56.5	USA
PNB Remittance Centers, Inc. (PNB RCI)	–	**56.5**	–	56.5	–	56.5	USA
PNB RCI Holding Co. Ltd.	–	**56.5**	–	56.5	–	56.5	USA
PNB Remittance Co. (Canada)	–	**56.5**	–	56.5	–	56.5	Canada

	Percentage of Ownership						
	2021		2020		2019		Country of
	Direct	**Indirect**	Direct	Indirect	Direct	Indirect	Incorporation
PNB Europe PLC	–	**56.5**	–	56.5	–	56.5	United Kingdom
PNB Global Remittance & Financial Co. (HK) Ltd. (PNB GRF)	–	**56.5**	–	56.5	–	56.5	Hong Kong
Japan-PNB Leasing and Finance Corporation (Japan-PNB Leasing)	–	**50.8**	–	50.8	–	50.8	Philippines
Japan - PNB Equipment Rentals Corporation	–	**50.8**	–	50.8	–	50.8	Philippines
PNB Savings Bank	–	**56.5**	–	56.5	–	56.5	Philippines
Allied Bank Philippines (UK) Plc (ABUK)	–	**56.5**	–	56.5	–	56.5	United Kingdom
Allied Commercial Bank (ACB)	–	**55.9**	–	55.9	–	55.9	Republic of China
Allianz-PNB Life Insurance, Inc. (APLII) (formerly PNB LII)	–	**44.0**	–	44.0	–	44.0	Philippines
Allied Leasing and Finance Corporation (ALFC)	–	**57.2**	–	57.2	–	57.2	Philippines
Allied Banking Corporation (Hongkong) Limited (ABCHKL)	–	**51.0**	–	51.0	–	51.0	Hong Kong
ACR Nominees Limited	–	**51.0**	–	51.0	–	51.0	Hong Kong
Oceanic Holdings (BVI) Ltd. (OHBVI)	–	**27.8**	–	27.8	–	27.8	USA
Mabuhay Global Holding Company Pte. Ltd. (MGHCPL) [(6)]	–	–	100.0	–	100.0	–	Singapore
Mabuhay Digital Technologies, Inc. (MDTI)	**100.0**	–	–	100.0	–	100.0	Philippines
Mabuhay Digital Philippines, Inc. (MDPI)	**100.0**	–	–	100.0	–	100.0	Philippines
Asia's Emerging Dragon Corporation	**60.0**	**40.0**	60.0	40.0	60.0	40.0	Philippines

(1) *Incorporated on May 6, 2003 to handle the marketing of TDI's products in the export market, TBI started its commercial operations in October 2017. On December 20, 2016, the Company sold its 100% ownership interest in TBI to TDI through an execution of a Deed of Sale of Shares of Stocks.*

(2) *On March 16, 2015, the Joint Venture Agreement was entered into by Asia Pacific Beverages Pte. Ltd., a subsidiary of ABI, and Aung Maw Thein (NICK), a citizen of the Union of Myanmar, to establish a private company limited by shares which will manufacture, market, sell and distribute non-alcoholic ready-to-drink or powdered mix beverage products in Myanmar. On March 26, 2016, APB Singapore and NICK incorporated APB Myanmar under the laws of Myanmar, owning 90% and 10% of the shares, respectively. Its commercial operations formally commenced on April 1, 2017.*

(3) *As of December 31, 2021, 2020 and 2019, the Bank Holding Companies consist of 27 entities with aggregate direct ownership interest of 59.83% in PNB, of which 20 companies are incorporated in the Philippines and seven (7) companies are incorporated in the British Virgin Islands (see Note 22).*

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

(5) *In 2021, PNB declared its 51% ownership interest in PNB Holdings as property dividends to its stockholders. Effective ownership of the Group after the declaration of property dividends is stil at 56.5% (i.e., 28.8% indirect ownership through the Bank Holding Companies and 27.7% indirect ownership through PNB).*

(6) *Incorporated on May 17, 2018, MGHCPL holds direct ownership interest in MDTI, incorporated on September 28, 2018, to offer shared services for technology infrastructure across the Group, and MDPI, incorporated on November 7, 2018 to engage business of electronic money, including payment and remittance services. In 2021, the Company acquired the 100% ownership interest in MDTI and MDPI from MGHCPL.*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Changes in Accounting Policies and Disclosures

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

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

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

  - The rent concession is a direct consequence of COVID-19;
  - The change in lease payments results in a revised lease consideration that is substantially the same as, or less than, the lease consideration immediately preceding the change;
  - Any reduction in lease payments affects only payments originally due on or before June 30, 2022; and
  - There is no substantive change to other terms and conditions of the lease.

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

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

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

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

  The amendments provide the following temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR):
  - Practical expedient for changes in the basis for determining the contractual cash flows as a result of IBOR reform

- Relief from discontinuing hedging relationships
- Relief from the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

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

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

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

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

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

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

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

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

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

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

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

Effective beginning on or after January 1, 2022

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

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

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

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

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

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

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

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

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

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

- *Annual Improvements to PFRSs* 2018-2020 Cycle

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

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

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

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

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

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

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

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

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

Effective beginning on or after January 1, 2023

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

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

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

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

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

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

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

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

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

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

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

Effective beginning on or after January 1, 2024

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

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

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

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

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

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

Effective beginning on or after January 1, 2025

- PFRS 17, *Insurance Contracts*

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

  The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:
  - A specific adaptation for contracts with direct participation features (the variable fee approach)
  - A simplified approach (the premium allocation approach) mainly for short-duration contracts

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

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

Deferred effectivity

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

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

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

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

Significant Accounting Policies Applicable to the Group

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

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

All other assets are classified as noncurrent.

A liability is current when:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Derecognition of Financial Assets and Liabilities

Financial assets

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

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

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

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

Financial liabilities

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

Impairment of Financial Assets

ECL methodology

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

Staging assessment

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

- Stage 1 - comprised of all non-impaired financial instruments which have not experienced an SICR since initial recognition. The Group recognizes 12-month ECL for Stage 1 financial instruments.
- Stage 2 - comprised of all non-impaired financial instruments which have experienced an SICR since initial recognition. The Group recognizes Lifetime ECL for Stage 2 financial instruments.

- Stage 3 - comprised of financial instruments which have objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on their estimated future cash flows. The Group recognizes Lifetime ECL for Stage 3 (credit-impaired) financial instruments.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ROU assets are subject to impairment.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Impairment of Noncurrent Nonfinancial Assets

Property, plant and equipment, investment properties, other properties, investments in associates and joint ventures, and software costs

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

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

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

Goodwill

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

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

Revenue

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

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

Costs and Expenses

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

Selling and general and administrative expenses

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

Taxes and licenses

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

Retirement Benefits

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

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

Defined benefit costs comprise the following:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- Right-of-use assets

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

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

- Lease liabilities

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

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

- Short-term leases and leases of low-value assets

  The Group applies the short-term lease recognition exemption to its leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option, and the leases of low-value assets recognition exemption to its leases of ATM offsite locations and other equipment that are considered of low value (i.e., below ₱250,000). Lease payments on short-term leases and leases of low-value assets are recognized as expense under 'Occupancy and equipment-related costs' on a straight-line basis over the lease term.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Value-added Tax (VAT)

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

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

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

Provisions and Contingencies

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. When the Group expects a provision or loss to be reimbursed, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain and its amount is estimable. The expense relating to any provision is presented in the consolidated statement of income, net of any reimbursement.

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the consolidated financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the consolidated financial statements.

Equity

Capital stock is measured at par value for all shares issued by the Group. When the Group issue more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax.

Capital in excess of par is the portion of the paid-in capital representing excess over the par or stated value.

Preferred shares of subsidiaries issued to Parent Company are own-equity instruments by the Bank Holding Companies that are issued to Tangent (see Note 30).

Other equity reserves include effect of transactions with non-controlling interest and equity adjustments arising from business combination under common control and other group restructuring transactions.

Other comprehensive income (loss) comprises items of income and expense (including items previously presented under the consolidated statement of changes in equity) that are not recognized in the consolidated statement of income for the year in accordance with PFRSs. Other comprehensive income (loss) of the Group includes cumulative translation adjustments, net changes in fair values of financial assets at FVTOCI, remeasurement gains (losses) on defined benefit plans, revaluation increment in property, plant and equipment and share in other comprehensive income of associates.

Retained earnings represent the cumulative balance of net income or loss, dividend distributions, prior period adjustments, effects of the changes in accounting policies and other capital adjustments. Unappropriated retained earnings represent that portion which can be declared as dividends to stockholders after adjustments for any unrealized items which are considered not available for dividend declaration. Appropriated retained earnings represent that portion which has been restricted and therefore is not available for any dividend declaration.

Treasury shares are owned equity instruments that are reacquired. Where any member of the Group purchases the Company's capital stock (presented as "Shares of stock of the Company held by subsidiaries"), the consideration paid, including any directly attributable incremental costs (net of related taxes), is deducted from equity until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transactions costs and the related income tax effect, is included in equity attributable to the equity holders of the Company.

Earnings Per Share
Basic earnings per share (EPS) is computed by dividing net income for the period attributable to common shareholders by the weighted average number of common shares outstanding during the period after giving retroactive effect to stock dividends declared and stock rights exercised during the period, if any.

Diluted EPS is calculated by dividing the aggregate of net income attributable to common shareholders by the weighted average number of common shares outstanding during the period adjusted for the effects of any dilutive shares.

Dividends on Common Shares
Cash dividends on common shares are recognized as a liability and deducted from equity when approved by the BOD of the Company. Stock dividends are treated as transfers from retained earnings to capital stock. Dividends for the year that are approved after the end of reporting period are dealt with as a non-adjusting event after the end of reporting period.

Events After the Reporting Period
Events after the end of reporting period that provides additional information about the Group's position at the end of reporting period (adjusting event) are reflected in the consolidated financial statements. Events after the end of reporting period that are not adjusting events, if any, are disclosed when material to the consolidated financial statements.

Segment Reporting
The Group's operating segments are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on operating segments is presented in Note 4 to the consolidated financial statements.

Significant Accounting Policies Generally Applicable to Banking

Banking Revenue
Revenue from contracts with customers is recognized upon transfer of services to the customer at an amount that reflects the consideration to which the banking segment expects to be entitled in exchange for those services.

The banking segment assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The banking segment has concluded that it is acting as a principal in all of its revenue arrangements except for brokerage transactions. The following specific recognition criteria must also be met before revenue is recognized within the scope of PFRS 15:

Service fees and commission income
The banking segment earns fee and commission income from diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

a) *Fee income earned from services that are provided over a certain period of time*
The banking segment accrues fees earned for the provision of services over a period of time. These fees include investment fund fees, custodian fees, fiduciary fees, credit-related fees, trust fees, portfolio and other management fees, and advisory fees.

b) *Bancassurance fees*
The banking segment recognizes non-refundable access fees on a straight-line basis over the term of the period of the provision of the access. Milestone fees or variable and fixed earn-out fees are recognized in reference to the stage of achievement of the milestones.

c) *Fee income from providing transaction services*
The banking segment recognizes the fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, only upon completion of the underlying transaction. For fees or components of fees that are linked to a certain performance, the banking segment recognizes revenue after fulfilling the corresponding criteria. These fees include underwriting fees, corporate finance fees, remittance fees, brokerage fees, commissions, deposit-related and other credit-related fees.

The banking segment recognizes loan syndication fees as revenue when the syndication has been completed and the banking segment retains no part of the loans for itself or retains part at the same EIR as the other participants.

Interchange fee and revenue from rewards redeemed
The banking segment takes up as income the interchange fees under 'Service fees and commission income' upon receipt from member establishments of charges arising from credit availments by the banking segment's cardholders. These discounts are computed based on certain agreed rates and are deducted from amounts remitted to the member establishments.

The banking segment operates a loyalty points program which allows customers to accumulate points when they purchase from member establishments using the issued card of the banking segment. The points can then be redeemed for free products subject to a minimum number of points being redeemed.

The banking segment allocates a portion of the consideration received from discounts earned and interchange fees from credit cards to the reward points based on the estimated stand-alone selling prices. The banking segment defers the amount allocated to the loyalty program and recognizes revenue only when the loyalty points are redeemed or the likelihood of the credit cardholder redeeming the loyalty points becomes remote. The banking segment includes the deferred balance under 'Other liabilities' in the consolidated statement of financial position.

Commissions on credit cards
The banking segment recognizes commissions earned as revenue upon receipt from member establishments of charges arising from credit availments by credit cardholders. These commissions are computed based on certain agreed rates and are deducted from amounts remittable to member establishments.

Other income
The banking segment recognizes income from sale of properties upon completion of the earning process upon transfer of control and when the collectability of the sales price is reasonably assured.

The following are revenue streams of the banking segment, which are covered by accounting standards other than PFRS 15:

Interest income
Interest on interest-bearing financial assets at FVTPL and held-for-trading investments is recognized based on contractual rate. Interest on financial instruments measured at amortized cost and FVTOCI are recognized based on effective interest method of accounting to calculates the amortized cost of a financial asset or a financial liability and allocate the interest income or interest expense.

The banking segment records interest income using the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. In calculating EIR, the banking segment considers all contractual terms of the financial instrument (for example, prepayment options), and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses. The banking segment adjusts the carrying amount of the financial instrument through 'Interest income' in the consolidated statement of income based on the original EIR.

When a financial asset becomes credit-impaired and is, therefore, regarded as Stage 3, the banking segment calculates interest income by applying the EIR to the net amortized cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the banking segment reverts to calculating interest income on a gross basis.

Commitment fees
The banking segment defers the commitment fees for loans that are likely to be drawn down (together with any incremental costs) and includes them as part of the EIR of the loan. These are amortized using EIR and recognized as revenue over the expected life of the loan.

Commissions on installment credit sales
The banking segment records the purchases by the credit cardholders, collectible on installment basis, at the cost of the items purchased plus certain percentage of cost. The banking segment recognizes the

excess over cost as 'Unearned and other deferred income', which is shown as a deduction from 'Loans and receivables' in the consolidated statement of financial position. The banking segment amortizes and recognizes as revenue the unearned and other deferred income over the installment terms using the effective interest method.

Insurance premiums and commissions on reinsurance
Gross insurance written premiums comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the accounting period. Premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior periods. The banking segment recognizes premiums from short-duration insurance contracts and reinsurance commissions as revenue over the period of the contracts using the 24th method, except for marine cargo where the provision for unearned premiums pertain to the premiums for the last two months of the year. The banking segment recognizes in the consolidated statement of income for the period the net changes in provisions for unearned premiums and deferred reinsurance premiums.

Dividend income
The banking segment recognizes dividend income when the Group's right to receive payment is established.

Trading and investment securities gains - net
The banking segment recognizes in 'Trading and investment securities gains - net' the results arising from trading activities, all gains and losses from changes in fair value of financial assets and financial liabilities at FVTPL, and gains and losses from disposal of debt securities at FVTOCI.

Rental income
The banking segment accounts for rental income arising on leased properties on a straight-line basis over the lease terms of ongoing leases, which is recorded in the consolidated statement of income under 'Miscellaneous income'.

Income on direct financing leases and receivables financed
The banking segment recognizes income on direct financing leases and receivables financed using the effective interest method and any unearned discounts are shown as deduction against 'Loans and receivables'.

Unearned discounts are amortized over the term of the note or lease using the effective interest method and consist of:

- transaction and finance fees on finance leases and loans and receivables financed with long-term maturities; and
- excess of the aggregate lease rentals plus the estimated residual value of the leased equipment over its cost.

<u>Financial Guarantees and Undrawn Loan Commitments</u>
The Group gives loan commitments and financial guarantees consisting of letters of credit, letters of guarantees, and acceptances.

Financial guarantees are contracts that require the Group as issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument. The Group initially recognizes financial guarantees on trade receivables at fair value under 'Bills and acceptances payable' or 'Other liabilities' in the consolidated statement of financial position.

Subsequent to initial recognition, the Group measures these financial guarantees at the higher of:

- the initial fair value less any cumulative amount of income or amortization recognized in the consolidated statement of income; and
- the ECL determined under PFRS 9.

Undrawn loan commitments and letters of credit are commitments under which, over the duration of the commitment, the Group is required to provide a loan with pre-specified terms to the customer.

The nominal contractual value of financial guarantees and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded in the consolidated statement of financial position.

The Group estimates the expected portion of the undrawn loan commitments that will be drawn over their expected life. The ECL related to financial guarantees and loan commitments without outstanding drawn amounts is recognized in 'Allowance for credit losses' under 'Loans and receivables'.

Fiduciary Activities
The Group excludes from these financial statements the assets and income arising from fiduciary activities, together with related undertakings to return such assets to customers, where the Group acts in a fiduciary capacity such as nominee, trustee or agent.

Significant Accounting Policies Generally Applicable to Consumer Products

Sale of Consumer Goods
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements.

The Group enters into a marketing and distributorship agreement in which the Group undertakes to sell the products specified including its quantity indicated in an approved purchased order exclusively to the marketing distributors. No other promised goods or services was specified in the contract or provided based on the customary business practice. This is considered as one performance obligation; hence, no allocation of transaction price is needed. The Group recognizes revenue at a point in time, once the goods are delivered.

- *Sale of goods*
  Revenue from sale of goods is recognized at a point in time, once the goods are sold and delivered.

- *Sale of commercial bottles*
  Revenue from sale of commercial bottles is recognized at a point in time, once goods are sold and delivered.

- *Revenue from services and tolling fees*
  Revenue from services and tolling fees is recognized by the Group at a point in time when the services have been rendered.

Cost of Consumer Goods Sold
Cost of consumer goods sold is recognized as expense where the related goods are sold.

Consumer Goods Inventories
Inventories are valued at the lower of cost and net realizable value (NRV). Costs incurred in bringing the inventory to its present location and condition are accounted for as follows:

Finished goods and work in process include direct materials, direct labor, and manufacturing overhead costs. Raw materials include purchase cost. The cost of these inventories is determined using the following:

	Distilled Spirits	Beverage
Finished goods	Moving-average	Weighted-average
Work in process	Moving-average	Weighted-average
Raw materials and materials and supplies	Moving-average	Moving-average

NRV of finished goods is the estimated selling price less the estimated costs of marketing and distribution. NRV of work in process is the estimated selling price less estimated costs of completion and the estimated costs necessary to make the sale. For raw materials and materials and supplies, NRV is current replacement cost.

Significant Accounting Policies Generally Applicable to Property Development

Property Development Revenue and Cost Recognition
Real estate sales
The Group derives its real estate sales from sale of residential lots and condominium units. Revenue from the sale of these real estate projects under pre-completion stage are recognized over time during the construction period (or percentage of completion) since based on the terms and conditions of its contract with the buyers, the Group's performance does not create an asset with an alternative use and the Group has an enforceable right to payment for performance completed to date.

In measuring the progress of its performance obligation over time, the Group uses the output method. This method measures progress based on the physical proportion of work done on the real estate project which requires technical determination by the Group's project engineers. Based on the monthly project accomplishment report approved by the site project manager which integrates the surveys of performance to date of the construction activities.

Rental income
Rental income under non-cancellable leases of investment properties is recognized in the consolidated statement of income on a straight-line basis over the lease term or based on the terms of the lease contract or certain percentage of the gross revenue of the tenants, as applicable.

Charges and expenses recoverable from tenants
Income arising from expenses recharged to tenants in "Other income" account is recognized in the period in which the compensation becomes receivable.

Cost of real estate sales
Cost of real estate sales is recognized consistent with the revenue recognition method applied. Cost of subdivision land and condominium units sold before the completion of the development is determined on the basis of the acquisition cost of the land plus its full development costs, which include estimated costs for future development works, as determined by the Group's in-house technical staff.

The cost of real estate sales recognized in the consolidated statement of income on disposal is determined with reference to the specific costs incurred on the property, allocated to saleable area based on relative size and takes into account the percentage-of-completion used for revenue recognition purposes.

Costs to obtain contract
The incremental costs of obtaining a contract with a customer are recognized as an asset if the Group expects to recover them. The Group has determined that commissions paid to brokers and marketing agents on the sale of pre-completed real estate units are deferred when recovery is reasonably expected and are charged to expense in the period in which the related revenue is recognized as earned. Commission expense is included in the "Selling expenses" account in the consolidated statement of income.

Costs incurred prior to obtaining contract with customer are not capitalized but are expensed as incurred.

Cost of rental income
Cost of rental income is recognized in relation to the leasing activities of the Group. This includes general, administrative and selling expenses allocated to the leasing activities, rental expense on the property leased to tenants and depreciation of the investment properties.

Rooms and other operated departments
Revenue from room rentals and other ancillary services are recognized at point in time or when the services are rendered. Revenue from other ancillary services include, among others, business center related services and car rentals, food packages, laundry service, telephone service, and spa/gym services.

Costs of services
Costs of services include expenses incurred by the Group for the generation of revenue from room rentals and other ancillary services. Costs of services are expensed as incurred.

Real Estate Inventories
Real estate inventories consist of subdivision land, residential houses and lots and condominium units for sale and development. These are properties acquired or being constructed for sale in the ordinary course of business rather than to be held for rental or capital appreciation. These are held as inventory and are measured at the lower of cost and net realizable value (NRV).

Cost includes: (a) acquisition cost of subdivision land; (b) amounts paid to contractors for construction and development of subdivision land, residential houses and lots and condominium units; (c) planning and design costs, cost of site preparation, professional fees for legal services, property transfer taxes, construction overheads and other related costs; and (d) borrowing costs capitalized prior to start of pre-selling activities for the real estate project.

NRV is the estimated selling price in the ordinary course of the business, based on market prices at the reporting date, less estimated costs of completion and the estimated costs of sale. The carrying amount of inventories is reduced through the use of allowance account and the amount of loss is charged to profit or loss.

The cost of inventory recognized in profit or loss on disposal is determined with reference to the specific costs incurred on the property sold and an allocation of any non-specific costs. The total costs are allocated pro-rata based on the relative size of the property sold.

Customers' Deposits including Excess of Collections over Recognized Receivables
Customers' deposits represent payments from buyers of property development segment which will be applied against the related contracts receivables. This account also includes the excess of collections over the recognized contracts receivables, which is based on the revenue recognition policy of the Group.

Security Deposits
Security deposits, included in the "Other current liabilities" and "Other noncurrent liabilities" accounts in the liabilities section of the consolidated statement of financial position, are measured initially at fair value and are subsequently measured at amortized cost using the effective interest method.

3. Significant Judgments, Accounting Estimates and Assumptions

The preparation of the consolidated financial statements requires the Group to exercise judgments, make accounting estimates and use assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the accounting estimates to change. The effects of any change in accounting estimates are reflected in the consolidated financial statements as they become reasonably determinable.

Accounting estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments
In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effects on amounts recognized in the consolidated financial statements:

Classification of financial assets
The Group classifies its financial assets depending on the results of the SPPI tests and on the business model used for managing those financial assets.

When performing the SPPI test, the Group applies judgment and evaluates relevant factors and characteristics such as the behavior and nature of contractual cash flows, its original currency denomination, the timing and frequency of interest rate repricing, contingent events that would alter the amount and/or timing of cash flows, leverage features, prepayment or extension options and other features that may modify the consideration for the time value of money.

As a second step, the Group performs business model assessment to reflect how financial assets are managed in order to generate net cash inflows based on the following factors:

- Business objectives and strategies for holding financial assets
- Performance measures and benchmarks being used to evaluate the Group's key management personnel accountable to the financial assets
- Attendant risks and the tools applied in managing them
- Compensation structure, including whether based on fair value changes of the investments managed or on the generated cash flows from transactions
- Frequency and timing of disposals

In applying judgment, the Group also considers the circumstances surrounding the transaction as well as the prudential requirements of the BSP.

Determination of functional currency
PAS 21, *The Effects of Changes in Foreign Exchange Rates*, requires the Group to use its judgment to determine the functional currency of the Group, including its foreign operations, such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to each entity or reporting unit.

In making this judgment, the Group considers the following:

- the currency that mainly influences prices for financial instruments and services (this will often be the currency in which prices for its financial instruments and services are denominated and settled);
- the currency in which funds from financing activities are generated; and
- the currency in which receipts from operating activities are usually retained.

Revenue recognition on real estate sales
Revenue recognition under PFRS 15 involves the application of significant judgment and estimation in the: (a) identification of the contract for sale of real estate property that would meet the requirements of PFRS 15; (b) assessment of the probability that the entity will collect the consideration from the buyer; (c) determination of the transaction price; (d) application of the output/input method as the measure of progress in determining real estate revenue; (e) determination of the actual costs incurred as cost of goods sold; and (f) recognition of cost to obtain a contract.

a) *Existence of a contract*
The Group's primary document for a contract with a customer is a signed contract to sell. In addition, part of the assessment process of the Group before revenue recognition is to assess the probability that the Group will collect the consideration to which it will be entitled in exchange for the real estate property that will be transferred to the customer. In evaluating whether collectability of an amount of consideration is probable, an entity considers the significance of the customer's initial payments in relation to the total contract price. Collectability is also assessed by considering factors such as past history customer, age and pricing of the property. Management regularly evaluates the historical cancellations and back-outs if it would still support its current threshold of customers' equity before commencing revenue recognition.

b) *Revenue recognition method and measure of progress*
The Group concluded that revenue for real estate sales is to be recognized over time because (a) the Group's performance does not create an asset with an alternative use and; (b) the Group has an enforceable right for performance completed to date. The promised property is specifically identified in the contract and the contractual restriction on the Group's ability to direct the promised property for another use is substantive. This is because the property promised to the customer is not interchangeable with other properties without breaching the contract and without incurring significant costs that otherwise would not have been incurred in relation to that contract. In addition, under the current legal framework, the customer is contractually obliged to make payments to the developer up to the performance completed to date.

The Group has determined that the output method used in measuring the progress of the performance obligation faithfully depicts the Group's performance in transferring control of real estate development to the customer.

c) *Identifying performance obligation*
The Group has various contracts to sell covering residential lots and condominium units. The Group concluded that there is one performance obligation in each of these contracts because: (i) for residential lots, the developer integrates the plots it sells with the associated infrastructure to be able to transfer the serviced land promised in the contract; (ii) for the contract covering condominium units, the developer has the obligation to deliver the house or condominium unit duly constructed on a specific lot and fully integrated into the serviced land in accordance with the approved plan. Included also in this performance obligation is the Group's service to transfer the title of the real estate unit to the customer.

Revenue recognition on sale of consumer goods
Revenue recognition under PFRS 15 involves the application of significant judgment and estimation in the: (a) identification of the contract for sale of goods that would meet the requirements of PFRS 15; (b) assessment of performance obligation and the probability that the entity will collect the consideration from the buyer; (c) determining method to estimate variable consideration and assessing the constraint. (d) recognition of revenue as the Group satisfies the performance obligation.

a) *Existence of a contract*
The Group's primary document for a contract with a customer for each type of revenue stream is:

- *Sale of goods.* The Group determined that an approved purchase order related to a signed marketing and distributorship agreement qualifies as a contract provided that each of the party's rights regarding the goods to be transferred is clearly identified including the product specification and payment terms.

- *Sale of commercial bottles.* The Group determined that an approved purchase order with terms clearly identified including the product specification and payment terms qualifies as a contract.

The Group also considers the probability that it will be able to collect the consideration to which it will be entitled in exchange for the goods sold or services rendered in determining if a contract exists.

b) *Determining the method to estimate variable consideration and assessing the constraint*
The Group includes some or all the amounts of variable consideration estimated but only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The Group considers both the likelihood and magnitude of the revenue reversal in evaluating the extent of variable consideration the Group will be subjected to constraint.

Factors such as the following are considered:

- high susceptibility to factors outside the Group's influence;
- timing of the resolution of the uncertainty, and
- having a large number and broad range of possible outcomes.

Contracts from sale of goods and commercial bottles allow the customer to return spoiled or damaged goods which will be segregated and replaced. No adjustment to the amount originally billed to the customer. The right of return will be constrained since the amount of consideration is highly susceptible to factors outside of the Group's influence and the contract has a large number and broad range of possible consideration amounts.

c) *Recognition of revenue as the Group satisfies the performance obligation*
   The Group recognizes its revenue for all revenue streams at a point in time, where the goods are sold and delivered and when services were already rendered.

Operating lease commitments - the Group as lessor
The Group has entered into commercial property leases on its investment properties and certain motor vehicles and items of machinery. The Group has determined, based on an evaluation of the terms and conditions of the lease agreements (i.e., the lease does not transfer ownership of the asset to the lessee by the end of the lease term, the lessee has no option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option is exercisable and the lease term is not for the major part of the asset's economic life), that it retains all the significant risks and rewards of ownership of these properties and so accounts for these leases as operating leases (see Note 37).

Determination of lease term for lease contracts with renewal and termination options
The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has several lease contracts that include extension and termination options. The Group applies judgment in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control that affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customization of the leased asset).

Determination of taxable profit, tax bases, unused tax losses, unused tax credits and tax rates
Upon adoption of the Philippine Interpretation IFRIC 23, the Group has assessed whether it has any uncertain tax position. The Group applies significant judgement in identifying uncertainties over its income tax treatments. Since the Group operates in a complex multinational environment, it assessed whether the Interpretation had an impact on its consolidated financial statements. The Group determined, based on its tax assessment, in consultation with its tax counsel, that it is probable that its uncertain tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. Accordingly, the interpretation did not have significant impact on the consolidated financial statements of the Group.

Classification of properties
The Group determines whether a property is classified as real estate inventory, investment property or owner-occupied property. In making its judgment, the Group considers whether the property generates cash flow largely independent of the other assets held by an entity.

Real estate inventory comprises of property that is held for sale in the ordinary course of business. Principally, this is residential property that the Group develops and intends to sell before or on completion of construction. Investment property comprises land and buildings (principally offices, commercial and retail property) which are not occupied substantially for use by, or in the operations of the Group, nor for sale in the ordinary course of business, but are held primarily to earn rental income and for capital appreciation. Owner-occupied properties classified and presented as property, plant and equipment, generate cash flows that are attributable not only to property but also to the other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions cannot be sold separately as of the financial reporting date, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgment.

Determination of fair value of financial instruments
When the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, the Group uses valuation techniques and mathematical models. The Group derives the inputs to these models from observable markets where possible, otherwise, a degree of judgment is required in establishing fair values. The judgments include considerations of liquidity and model inputs such as correlation and volatility for longer-dated derivatives.

Contingencies
The Group is currently involved in legal proceedings. The estimate of the probable cost for the resolution of claims has been developed in consultation with the aid of the outside legal counsels handling the Group's defense in these matters and is based upon an analysis of potential results. Management does not believe that the outcome of these matters will affect the results of operations. It is probable, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to the proceedings (Note 37).

Estimates and Assumptions
The key assumptions concerning the future and other key sources of estimation uncertainties at the end of reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

Provision for expected credit losses of financial assets
For banking segment, the Group's ECL calculations are mainly derived from outputs of complex statistical models and expert judgment, with a number of underlying assumptions regarding the choice of variable inputs as well as their independencies. The Group considers the following elements of the ECL models, among others, as significant accounting judgments and estimates:

- Segmentation of the portfolio, where the appropriate ECL approach and/or model is used, including whether assessments should be done individually or collectively.
- Quantitative and qualitative criteria for determining whether there has been SICR as at a given reporting date and the corresponding transfers between stages.
- Determination of expected life of the financial asset and expected recoveries from defaulted accounts.
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of correlations and interdependencies between risk factors, macroeconomic scenarios and economic inputs, such as inflation, policy rates and collateral values, and the resulting impact to PDs, LGDs and EADs.
- Selection of forward-looking information and determination of probability weightings to derive the ECL.

The ongoing COVID-19 outbreak is widely expected to adversely affect the global economy and financial markets for the foreseeable future. The economic impact of COVID-19 depends on the mutation of the virus and the response of the authorities and the global community. The situation continues to evolve and the impact on the global and Philippine economy and the related government responses and measures depend on future developments that are highly uncertain. In light of the COVID-19 pandemic, the Group reviewed the conduct of its impairment assessment and ECL methodologies. The Group revisited the segmentation of its portfolio based on industry vulnerability and resiliency assessment. The Group also reassessed the framework for macroeconomic overlay, incorporating pandemic scenarios to ensure that changes in economic conditions are captured in the ECL calculations. In assessing forecast conditions to estimate the PDs and LGDs, the Group also considered the significant government measures and plans to support affected and/or vulnerable entities, as well as the impact on the collateral values.

For the other segments, provision matrix was used to calculate ECLs. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, property collaterals and coverage by letters of credit and other forms of credit insurance).

The assessment of the correlation between historical observed default rates, forecast economic conditions (i.e., gross domestic product and inflation rate) and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of the customer's actual default in the future.

Refer to Notes 8 and 14 for the carrying values of loans and receivables and receivables from Special Purpose Vehicle (SPV), respectively.

Recognition of deferred income tax assets
Deferred tax assets are recognized for all unused tax losses and temporary differences to the extent that it is probable that future taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the availability of future taxable income in reference to financial forecast and tax strategies. The Group takes into consideration the loan portfolio and deposit growth rates. As the COVID-19 pandemic affected the Group's normal operations, the Group reassessed its business plan, as well as tax strategies, in the next three to five years, considering various economic scenarios including recovery outlook, effect of the pandemic on specific industries and trade, travel restrictions, and government relief efforts.

Details of the Group's recognized and unrecognized deferred income tax assets is disclosed in Note 29.

Present value of lease liabilities
The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate to measure lease liabilities. The incremental borrowing rate reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency).

The Group estimates the incremental borrowing rate using observable inputs (such as market interest rates) when available and is required to make certain entity-specific adjustments (such as the subsidiary's stand-alone credit rating, or to reflect the terms and conditions of the lease).

The carrying amount of lease liabilities as of December 31, 2021 and 2020 is disclosed in Note 37.

Present value of retirement obligation
The Group determines the cost of defined benefit pension plan and other post-employment benefits using actuarial valuations, which involve making assumptions about discount rates, future salary increases, mortality rates and employee turnover. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. The Group reviews all assumptions at each reporting date.

The discount rate is based on zero-coupon yield of government bonds with remaining maturity approximating the estimated average duration of benefit payment. Future salary increases are based on the Group's policy considering the prevailing inflation rate. The mortality rate used is based on publicly available mortality table modified accordingly with estimates of mortality improvements. The employee turnover is based on the Group's most recent experience.

The fair value of plan assets is based on market price information. When no market price is available, the Group estimates the fair value of plan assets by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets.

The present value of retirement obligation and fair value of plan assets are disclosed in Note 23.

Revenue and cost recognition on real estate sales
The Group's revenue and cost recognition policies on real estate sales require management to make use of estimates and assumptions that may affect the reported amounts of revenue and costs. The Group's revenue and cost of real estate sales are recognized based on the percentage of completion which is measured principally on the basis of the estimated completion of a physical proportion of the contract work.

The Group recognized revenue from real estate sales amounting to ₱0.1 billion, ₱0.6 billion and ₱1.4 billion and cost of real estate sales amounting to ₱0.05 billion, ₱0.2 billion and ₱0.6 billion in 2021, 2020 and 2019, respectively (see Note 24).

Measurement of NRV of inventories
The Group's estimates of the NRV of its consumer goods inventories and materials and supplies are based on the most reliable evidence available at the time the estimates are made, of the amount that the inventories are expected to be realized. These estimates consider the fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period. A new assessment is made of NRV in each subsequent period. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is a clear evidence of an increase in NRV because of change in economic circumstances, the amount of the write-down is reversed so that the new carrying amount is the lower of the cost and the revised NRV.

With respect to the Group's real estate inventories, the Group adjusts the cost of its real estate inventories to NRV based on its assessment of the recoverability of cost of the inventories. NRV for completed real estate inventories is assessed with reference to market conditions and prices existing at the reporting date and is determined by the Group in the light of recent market transactions. NRV in respect of real estate inventories under construction is assessed with reference to market prices at the reporting date for similar completed property, less estimated costs to complete construction and less estimated costs to sell. The amount and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized.

The Group's inventories carried at cost as of December 31, 2021 and 2020 amounted to ₱13.1 billion and ₱11.9 billion, respectively. Certain materials and supplies amounting to ₱1.2 billion and ₱1.3 billion as of December 31, 2021 and 2020, respectively, are carried at NRV (see Note 9).

Valuation of property, plant and equipment under revaluation basis
The Group's land and land improvements, plant buildings and building improvements, and machineries and equipment are carried at revalued amounts, which approximate their fair values at the date of the revaluation, less any subsequent accumulated depreciation and amortization and accumulated impairment losses. The valuations of property, plant and equipment are performed by independent appraisers. Revaluations are made every three to five years to ensure that the carrying amounts do not differ materially from those which would be determined using fair values at the end of reporting period.

Property, plant and equipment at appraised values amounted to ₱60.5 billion and ₱59.9 billion as of December 31, 2021 and 2020, respectively (see Note 12).

Estimation of useful lives of property, plant and equipment and investment properties
The Group estimates the useful lives and residual values of property, plant and equipment and investment properties based on internal technical evaluation and experience with similar assets. Estimated useful lives and residual values of property, plant and equipment and investment properties are reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical and commercial obsolescence and other limits on the use of the assets. It is possible, however, that future results of operations could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. A reduction in the estimated useful life of any item of property, plant and equipment and investment properties would increase the recorded depreciation expenses and decrease the carrying value of property, plant and equipment and investment properties. In 2021 and 2020, there were no significant changes made in the useful lives and residual values of the property, plant and equipment and investment properties (see Notes 12 and 13).

The total carrying amount of depreciable property, plant and equipment as of December 31, 2021 and 2020 amounted to ₱25.0 billion and ₱29.7 billion, respectively (see Note 12). The carrying amount of depreciable investment properties as of December 31, 2021 and 2020 amounted to ₱14.1 billion and ₱9.9 billion, respectively (see Note 13).

Assessment of impairment of nonfinancial assets and estimation of recoverable amount
The Group assesses impairment on its investments in joint ventures and associates whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Among others, the Group considers the following triggers for an impairment review on its investments in joint ventures and associates:

- deteriorating or poor financial condition;
- recurring net losses; and
- significant changes on the technological, market, economic, or legal environment which had an adverse effect on the subsidiary or associate during the period or in the near future, in which the subsidiary or associate operates.

The Group also assesses impairment on its property, plant and equipment, investment properties and chattel properties, and intangibles with finite useful lives and considers the following impairment indicators:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

Except for investment properties and land and building where recoverable amount is determined based on fair value less cost to sell, the recoverable amount of all other nonfinancial assets is determined based on the asset's value-in-use (VIU), which considers the present value of estimated future cash flows expected to be generated from the continued use of the asset or group of assets. The VIU calculation is most sensitive to the following assumptions: production volume, price, exchange rates, capital expenditures, and long-term growth-rates.

The carrying values of the Group's investments in joint ventures and associates, property, plant and equipment, investment properties, intangible assets, and other nonfinancial assets are disclosed in Notes 11, 12, 13 and 14, respectively.

Assessment of whether the Company's purchase of fixed assets and inventories from AB HPI constitute an acquisition of business or asset
The Company determined that the purchase of fixed assets and inventories from AB HPI constitutes an acquisition of group of assets since (a) the Company did not acquire control over any processes needed to manufacture the existing products of AB HPI nor did it acquire an organized workforce; and (b) the Company did not obtain any carryover rights to produce and sell the existing products of AB HPI as of December 31, 2020.

Refer to Note 11 for the details of the purchase of fixed assets and inventories from AB HPI.

4. **Segment Information**

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

The Group's identified operating segments classified as business groups, which are consistent with the segments reported to LTG's BOD, its Chief Operating Decision Maker (CODM), are as follows:

- Banking, provides full range of banking and other financial services to corporate, middle-market and retail customers, the National Government (NG), local government units (LGUs) and government-owned and controlled corporations (GOCCs) and various government agencies, including deposit-taking, lending, bills discounting, foreign exchange dealing, investment banking, fund transfers or remittance servicing and full range of retail banking and trust services and other insurance services. The Group conducts its banking business through PNB and its subsidiaries.

- Distilled Spirits, which is involved in manufacturing, compounding, bottling, importing, buying and selling of rum, spirit beverages, liquor and bioethanol products. The Group conducts its distilled spirits business through TDI and its subsidiaries.

- Beverage, which is engaged in brewing and soft drinks and bottled water manufacturing in the Philippines. It also operates other plants, which includes commercial glass division and corrugated cartons and metal closures production facility, to support the requirements of its brewing, bottled water, non-beer products operations and to act as a service contractor and enter into service agreements for the supply of services. The Group conducts its beverage business through ABI and its subsidiaries, associate and joint venture.

- Tobacco, which is a supplier and manufacturer of cigarettes, casings, tobacco, packaging, labels and filters. The Group conducts its tobacco business through FTC's interest in PMFTC, Inc. (PMFTC).

- Property Development, which is engaged in ownership, development, leasing and management of residential properties, including but not limited to, all kinds of housing projects, commercial, industrial, urban or other kinds of real property; acquisition, purchasing, development and selling of subdivision lots. The Group conducts its property development business through Eton and its subsidiaries.
- Others, consist of various holding companies (LTG, AEDC, Paramount, Saturn, Shareholdings, and Bank Holding Companies) that provide financing for working capital and capital expenditure requirements of the operating businesses of the Group.

The BOD of LTG reviews the operating results of the business units to make decisions on resource allocation and assesses performance. Segment revenue and segment expenses are measured in accordance with PFRSs. The presentation and classification of segment revenues and segment expenses are consistent with the consolidated statements of income. Finance costs (including interest expense) and income taxes are managed per business segment.

The Group's assets are located mainly in the Philippines. The Group operates and derives principally all of its revenue from domestic operations. The Group's banking segment operates in key cities in the USA, Canada, Western Europe, Middle East and Asia. The distribution of assets and revenues of the banking segment outside the Philippines constitute 0.2% and 2.8% as of December 31, 2021, respectively, and 17.4% and 2.5% as of December 31, 2020 of the Group's consolidated assets and revenues, respectively.

Further, the measurement of the segments is the same as those described in the summary of significant accounting and financial reporting policies. TDI's investment property is adjusted at the consolidated level to carry it at cost in accordance with the Group's policy. Certain assets and liabilities of PNB are also adjusted at the consolidated level of LTG to reflect the original carrying values prior to the merger of PNB and ABC.

Segment assets are resources owned and segment liabilities are obligations incurred by each of the operating segments excluding intersegment balances which are eliminated.

Segment revenue and expenses are those directly attributable to the segment except that intersegment revenue and expense are eliminated only at the consolidated level. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

The components of capital expenditures reported to the CODM are the acquisitions of property, plant and equipment during the period.

The Group's distilled spirits segment derives revenue from two major distributors which averaged 92%, 99% and 79% of the segment's total revenue in 2021, 2020 and 2019, respectively. The other segments of the Group have no significant customer that contributes 10% or more of their segment revenues.

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

For the year ended December 31, 2021:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
				(In Thousands)			
Segment revenue:							
External customers	₱49,319,441	₱26,648,772	₱13,173,729	₱-	₱888,536	₱1,142,837	₱91,173,315
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
	₱34,022,745	₱1,242,260	₱475,174	₱17,502,950	₱550,182	(₱32,932,222)	₱20,861,089
Segment profit attributable to:							
Equity holders of the Company	₱33,963,333	₱1,237,830	₱469,268	₱17,502,950	₱550,182	(₱33,477,096)	₱20,246,467
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	**₱599,353,375**	**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**
	₱1,185,410,837	**27,533,643**	**33,582,862**	**29,232,082**	**32,446,315**	**3,630,625**	**1,311,836,364**
Liabilities:							
Current liabilities	**₱925,534,374**	**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**
	₱1,031,317,920	**6,430,659**	**9,373,709**	**396,307**	**13,222,656**	**(12,441,566)**	**1,048,299,685**
Investments in associates and joint ventures	**₱2,468,107**	**-**	**103,527**	**11,729,777**	**-**	**7,906,898**	**22,208,309**
Equity attributable to:							
Equity holders of the Company	**150,873,774**	**20,893,287**	**24,171,404**	**28,835,775**	**19,223,659**	**(53,926,491)**	**190,071,408**
Non-controlling interests	**3,219,143**	**209,697**	**37,749**	**-**	**-**	**69,998,682**	**73,465,271**
Additions to noncurrent assets:							
Property, plant and equipment	**21,231,002**	**9,413,571**	**14,528,673**	**85,530**	**1,008,420**	**27,844,457**	**74,111,653**
Investment properties	**9,633,839**	**245,728**	**14,002**	**2,108,595**	**21,291,373**	**1,153,816**	**34,447,353**
Short-term debts	**-**	**895,000**	**3,940,000**	**-**	**-**	**(895,000)**	**3,940,000**
Long-term debts	**57,148,812**	**390,497**	**584,163**	**-**	**6,644,964**	**(2,125,102)**	**62,643,334**

For the year ended December 31, 2020:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
				(In Thousands)			
Segment revenue:							
External customers	₱54,800,902	₱25,000,110	₱12,227,532	₱–	₱2,399,390	₱–	₱94,427,934
Inter-segment	172,341	31,674	1,052,637	–	–	(1,256,652)	–
	54,973,243	25,031,784	13,280,169	–	2,399,390	(1,256,652)	94,427,934
Cost of goods sold and services	12,113,434	21,361,215	9,829,697	–	706,116	(1,151,598)	42,858,864
Gross profit	42,859,809	3,670,569	3,450,472	–	1,693,274	(105,054)	51,569,070
Equity in net earnings of associates and joint ventures	88,476	–	35,575	17,106,456	–	384,400	17,614,907
	42,948,285	3,670,569	3,486,047	17,106,456	1,693,274	279,346	69,183,977
Selling expenses	–	1,030,449	988,609	–	32,056	–	2,051,114
General and administrative expenses	44,655,737	765,772	1,335,837	172,095	710,002	257,825	47,897,268
Operating income	(1,707,452)	1,874,348	1,161,601	16,934,361	951,216	21,521	19,235,595
Foreign exchange gains - net	919,555	(43,043)	(21,535)	(97,786)	(4,293)	(5,803)	747,095
Finance income	–	1,146	21,390	56,642	19,847	(56,604)	42,421
Finance costs	–	(97,293)	(185,900)	–	(272,686)	214,412	(341,467)
Others - net	1,684,400	(203,438)	(74,511)	31,551	469,738	(4,771)	1,902,969
Income before income tax	896,503	1,531,720	901,045	16,924,768	1,163,822	168,755	21,586,613
Provision for (benefit from) income tax	(1,798,238)	414,164	310,299	31,448	361,721	8,686	(671,920)
Segment profit from:							
Continuing operations	2,694,741	1,117,556	590,746	16,893,320	802,101	160,069	22,258,533
Discontinued operations	67,583	–	–	–	–	–	67,583
	₱2,762,324	₱1,117,556	₱590,746	₱16,893,320	₱802,101	₱160,069	₱22,326,116
Segment profit attributable to:							
Equity holders of the Company	₱2,751,489	₱1,103,128	₱583,793	₱16,893,320	₱802,101	(₱1,111,835)	₱21,021,996
Non-controlling interests	10,835	14,428	6,953	–	–	1,271,904	1,304,120
Depreciation and amortization expense	3,047,381	564,556	1,613,481	50,702	404,088	(2,389)	5,677,819

Other financial information of the operating segments as of December 31, 2020 is as follows:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
				(In Thousands)			
Assets:							
Current assets	₱644,182,968	₱15,205,078	₱17,743,633	₱5,627,322	₱8,832,453	(₱6,784,029)	₱684,807,425
Noncurrent assets	599,009,724	9,263,659	16,304,213	18,062,891	22,989,484	2,685,058	668,315,029
	₱1,243,192,692	₱24,468,737	₱34,047,846	₱23,690,213	₱31,821,937	(₱4,098,971)	₱1,353,122,454
Liabilities:							
Current liabilities	₱946,187,119	₱5,042,772	₱8,894,934	₱296,163	₱5,555,961	(₱12,442,685)	₱953,534,264
Noncurrent liabilities	136,649,515	769,034	1,669,777	89,023	7,624,513	(2,751,951)	144,049,911
	₱1,082,836,634	₱5,811,806	₱10,564,711	₱385,186	₱13,180,474	(₱15,194,636)	₱1,097,584,175
Investments in associates and joint ventures	₱2,310,410	₱–	₱56,746	₱14,558,923	₱–	₱6,851,704	₱23,777,783
Equity attributable to:							
Equity holders of the Company	157,154,782	18,463,080	23,440,873	23,305,027	18,641,464	(55,591,289)	185,413,937
Non-controlling interests	3,201,276	193,849	42,262	–	–	66,686,955	70,124,342
Additions to noncurrent assets:							
Property, plant and equipment	2,545,427	768,244	2,557,243	35,937	56,933	5,342	5,969,126
Investment properties	86,693	–	–	–	906,080	–	992,773
Short-term debts	–	400,000	4,740,000	–	–	(400,000)	4,740,000
Long-term debts	65,422,351	383,404	591,373	–	6,585,776	(3,240,260)	69,742,644

For the year ended December 31, 2019:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
				(In Thousands)			
Segment revenue:							
External customers	₱56,522,642	₱19,261,735	₱15,234,051	₱–	₱3,132,431	₱-	₱94,150,859
Inter-segment	249,877	17,460	696,240	–	–	(963,577)	–
	56,772,519	19,279,195	15,930,291	–	3,132,431	(963,577)	94,150,859
Cost of goods sold and services	19,143,478	16,068,978	11,643,204	–	1,107,876	(1,161,096)	46,802,440
Gross profit	37,629,041	3,210,217	4,287,087	–	2,024,555	197,519	47,348,419
Equity in net earnings (loss) of associates and joint ventures	(97,608)	–	(725,985)	15,396,194	–	240,650	14,813,251
	37,531,433	3,210,217	3,561,102	15,396,194	2,024,555	438,169	62,161,670
Selling expenses	–	1,561,758	1,338,050	–	111,616	–	3,011,424
General and administrative expenses	28,503,520	661,940	1,248,334	205,045	807,684	169,898	31,596,421
Operating income	9,027,913	986,519	974,718	15,191,149	1,105,255	268,271	27,553,825
Foreign exchange gains (losses) - net	1,105,903	1,599	6,064	(51,889)	(2,228)	(9,484)	1,049,965
Finance income	–	1,060	27,006	369,459	105,948	(357,220)	146,253
Finance costs	–	(98,948)	(166,018)	–	(364,340)	178,465	(450,841)
Others - net	2,155,167	(9,900)	96,036	150,900	434,107	17,287	2,843,597
Income before income tax	12,288,983	880,330	937,806	15,659,619	1,278,742	97,319	31,142,799
Provision for income tax	2,452,307	204,549	539,567	98,530	378,358	5,324	3,678,635
Segment profit							
Continuing operations	9,836,676	675,781	398,239	15,561,089	900,384	91,995	27,464,164
Discontinued operations	101,593	–	–	–	–	–	101,593
	₱9,938,269	₱675,781	₱398,239	₱15,561,089	₱900,384	₱91,995	₱27,565,757
Segment profit attributable to:							
Equity holders of the Company	₱9,858,543	₱666,507	₱399,380	₱15,561,089	₱900,384	(₱4,268,379)	₱23,117,524
Non-controlling interests	79,726	9,274	(1,141)	–	–	4,360,374	4,448,233
Depreciation and amortization expense	2,660,409	575,294	1,546,624	38,220	386,300	28,971	5,235,818

Other financial information of the operating segments as of December 31, 2019 is as follows:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
				(In Thousands)			
Assets:							
Current assets	₱488,857,140	₱12,923,043	₱16,840,868	₱5,180,278	₱9,237,156	(₱5,902,547)	₱527,135,938
Noncurrent assets	665,367,850	9,193,536	15,700,574	22,718,539	22,590,537	3,123,579	738,694,615
	₱1,154,224,990	₱22,116,579	₱32,541,442	₱27,898,817	₱31,827,693	(₱2,778,968)	₱1,265,830,553
Liabilities:							
Current liabilities	₱865,580,704	₱3,719,389	₱7,764,522	₱1,317,834	₱7,743,432	(₱9,464,258)	₱876,661,623
Noncurrent liabilities	129,363,371	875,491	1,606,108	103,082	6,248,863	(3,035,556)	135,161,359
	₱994,944,075	₱4,594,880	₱9,370,630	₱1,420,916	₱13,992,295	(₱12,499,814)	₱1,011,822,982
Investments in associates and joint ventures	₱2,605,473	₱–	₱21,171	₱19,193,993	₱–	₱5,433,641	₱27,254,278
Equity attributable to:							
Equity holders of the Company	156,398,876	17,341,825	23,133,222	26,477,901	17,835,398	(54,265,681)	186,921,541
Non-controlling interests	2,882,039	179,874	37,590	–	–	63,986,527	67,086,030
Additions to noncurrent assets:							
Property, plant and equipment	2,761,203	2,878,969	794,790	80,689	20,526	(32,479)	6,503,698
Investment properties	967,611	5,814	–	–	1,651,591	2,111	2,627,127
Short-term debts	–	200,000	2,850,000	–	–	2,100,000	5,150,000
Long-term debts	68,421,487	433,209	596,589	–	6,764,380	(3,646,209)	72,569,456

5. **Cash and Cash Equivalents**

Cash and cash equivalents consist of:

	2021	2020
	(In Thousands)	
Cash and other cash items	**₱29,012,418**	₱26,678,312
Cash equivalents:		
Due from BSP	**161,001,912**	202,129,356
Interbank loans receivables*	**32,106,088**	39,700,981
Due from other banks	**27,222,083**	19,733,300
Securities held under agreements to resell	**15,796,673**	15,819,273
	₱265,139,174	₱304,061,222

**net of allowance for ECL*

a. Cash and other cash items consist of cash on hand and in banks and short-term investments. Cash in banks earn interest at bank deposit rates. Cash equivalents represent money market placements made for varying periods depending on the immediate cash requirements of the Group.

b. Due from BSP is composed of interest-bearing short-term placements with BSP and a demand deposit account to support the regular operations of PNB, which consists of:

	2021	2020
	(In Thousands)	
Demand deposit	**₱81,273,307**	₱80,029,356
Term deposit facility (TDF)	**79,728,605**	122,100,000
	₱161,001,912	₱202,129,356

TDFs bear annual interest rates ranging from 1.50% to 1.88% in 2021 and 1.62% to 3.80% in 2020.

c. Interbank loans receivables bear annual interest ranging from 1.0% to 2.0% in 2021 for peso-denominated interbank loans receivables and from 0.0% to 1.5% and from 0.0% to 2.2% in 2021 and 2020, respectively, for foreign currency-denominated interbank loans receivables.

d. Securities held under agreements to resell bear interest ranging from 1.50% to 2.50%, from and 2.00% to 3.25% in 2021 and 2020, respectively.

The fair value of the treasury bills pledged under these agreements as of December 31, 2021 and 2020 amounted to ₱15.8 billion and ₱16.5 billion, respectively, for the Group (Note 33).

e. Interest earned on cash and other cash items and cash equivalents are presented under “Banking revenue” and “Finance income”, respectively (see Notes 24 and 27).

6. Financial Assets at FVTPL

Financial assets at FVTPL consist of:

	2021	2020
	(In Thousands)	
Government securities	**₱7,956,013**	₱18,136,391
Private debt securities	**1,841,548**	4,296,100
Derivative assets (Notes 21 and 33)	**1,365,051**	370,653
Unit investment trust fund (UITF)	**37,612**	35,554
Equity securities	**5,045**	1,019,626
	₱11,205,269	₱23,858,324

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

	2021	2020
Government securities	**1.4% - 9.5%**	2.6% - 8.0%
Private debt securities	**4.9% - 6.9%**	4.9% - 7.0%

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

Financial Assets at FVTOCI

This account consists of:

	2021	2020
	(in thousands)	
Government securities (Note 17)	**₱120,764,925**	₱111,351,402
Other debt securities	**23,115,480**	21,418,534
Equity securities:		
Quoted	**2,052,667**	2,352,669
Unquoted	**1,336,338**	1,202,319
	147,269,410	136,324,924
Noncurrent portion	**(71,468,657)**	(76,644,306)
	₱75,800,753	₱59,680,618

a. For the years ended December 31, 2021, 2020 and 2019, the nominal interest rates of government securities range from 0.1% to 18.3%, 0.2% to 18.3% and 0.2% to 18.3%, respectively.

b. For the years ended December 31, 2021, 2020 and 2019, the nominal interest rates of private debt securities range from 0.4% to 6.9%, 2.0% to 6.9% and 3.5% to 6.9%, respectively.

c. As of December 31, 2021 and 2020, the fair value of financial assets at FVTOCI in the form of government and private bonds pledged to fulfill its collateral requirements with securities sold under repurchase agreement transactions with foreign banks amounted to ₱32.8 billion and ₱44.6 billion, respectively (see Note 17). The counterparties have an obligation to return the securities to PNB once the obligations have been settled. In case of default, the foreign banks have the right to hold the securities and sell them as settlement of the repurchase agreement.

d. Other debt securities consist of notes issued by private entities. As of December 31, 2021 and 2020, the ECL on debt securities at FVOCI (included in 'Net unrealized gain (loss) on financial assets at FVOCI') amounted to ₱131.5 million and ₱67.4 million, respectively. Movements in ECL on debt securities at FVOCI are mostly driven by movements in the corresponding gross figures.

The net unrealized gains on financial assets at FVTOCI amounted to ₱3.1 billion for the Group, net of deferred income tax effect amounting to ₱413.1 million and ₱412.9 million in 2021 and 2020, respectively.

Financial Assets at Amortized Cost

This account consists of:

	2021	2020
Private debt securities	**₱59,144,715**	₱56,504,757
Government securities	**34,133,294**	42,713,634
	93,278,009	99,218,391
Less allowance for expected credit losses	**(3,822,166)**	(3,982,398)
	89,455,843	95,235,993
Noncurrent portion	**(43,523,890)**	(55,019,851)
	₱45,931,953	₱40,216,142

In 2021 and 2020, movements in allowance for expected credit losses on investment securities at amortized cost are mostly driven by newly originated assets which remained in Stage 1.

As of December 31, 2021 and 2020, the carrying value of investment securities at amortized cost in the form of government bonds pledged to fulfill its collateral requirements with securities sold under repurchase agreements transactions amounted to ₱5.3 billion and ₱26.1 billion, respectively (see Note 17).

8. Loans and Receivables

Loans and receivables consist of:

	2021	2020
	(In Thousands)	
Finance receivables (Notes 17 and 22)	**₱644,557,364**	₱630,805,715
Trade receivables	**15,651,207**	17,097,546
Other receivables	**3,312,442**	3,421,422
	663,521,013	651,324,683
Allowance for credit losses	**(39,861,712)**	(34,726,196)
	623,659,301	616,598,487
Noncurrent portion	**(407,515,357)**	(393,592,324)
	₱216,143,944	₱223,006,163

Finance Receivables

	2021	2020
	(In Thousands)	
Receivables from customers:		
Loans and discounts	**₱597,979,601**	₱585,526,367
Customers' liabilities on acceptances, letters of credit and trust receipts	**15,425,196**	11,235,946
Credit card receivables	**11,407,608**	12,530,569
Bills purchased (Note 20)	**1,364,543**	1,832,423
Lease contract receivable	**2,628,289**	3,014,003
	628,805,237	614,139,308
Other receivables:		
Accrued interest receivable	**6,053,656**	6,812,491
Sales contract receivables	**6,029,384**	6,548,301
Accounts receivable	**4,191,402**	4,338,698
Miscellaneous	**595,929**	431,704
	16,870,371	18,131,194
	645,675,608	632,270,502
Unearned and other deferred income	**(1,118,244)**	(1,464,787)
	644,557,364	630,805,715
Allowance for credit losses	**(39,340,761)**	(34,411,405)
	605,216,603	596,394,310
Noncurrent portion	**(407,515,357)**	(392,960,220)
	₱197,701,246	₱203,434,090

a. Lease contract receivable

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

	2021	2020
	(In Thousands)	
Gross investment in lease contract receivable		
Due within one year	**₱1,245,258**	₱1,377,666
Due beyond one year but not over five years	**643,821**	906,513
Due beyond five years	**14,344**	31,845
	1,903,423	2,316,024
Residual value of leased equipment		
Due within one year	**₱505,784**	₱374,959
Due beyond one year but not over five years	**219,082**	323,020
	724,866	697,979
Total lease contract receivable	**₱2,628,289**	₱3,014,003

b. Interest income on loans and receivables amounted to ₱34.2 billion, ₱37.2 billion and ₱39.6 billion in 2021, 2020 and 2019, respectively.

As of December 31, 2021 and 2020, 69.4% and 68.8%, respectively, of the total receivable from customers of PNB were subject to interest repricing. As of December 31, 2021 and 2020, 68.3% and 68.7%, respectively, of the total receivables from customers of PNB were subject to interest repricing. Remaining receivables carry annual fixed interest rates ranging from 1.0% to 9.0% in 2021, from 1.1% to 9.0% in 2020 and from 1.0% to 9.0% in 2019 for foreign currency-denominated receivables, and from 1.1% to 31.5% in 2021, from 1.1% to 21.0% in 2020 and from 1.5% to 19.4% in 2019 for peso-denominated receivables.

Sales contract receivables bear fixed interest rate per annum ranging from 3.3% to 21.0% in 2021, 2020 and 2019.

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

	2021				2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	Stage 1	Stage 2	Stage 3	Total
Corporate Loans								
Beginning Balance	**₱437,633**	**₱690,482**	**₱18,092,141**	**₱19,220,256**	₱1,351,699	₱862,403	₱5,838,830	₱8,052,932
Newly originated assets which remained in Stage 1 at yearend	**535,724**	**–**	**–**	**535,724**	248,412	–	–	248,412
Newly originated assets which moved to Stages 2 and 3 at yearend	**–**	**1,295,838**	**5,541,119**	**6,836,957**	–	311,136	255,094	566,230
Transfers to Stage 1	**1,416,274**	**(92,256)**	**(1,324,018)**	**–**	127,422	(104,193)	(23,229)	–
Transfers to Stage 2	**(21,414)**	**977,643**	**(956,229)**	**–**	(49,891)	74,188	(24,297)	–
Transfers to Stage 3	**(39,357)**	**(97,569)**	**136,926**	**–**	(201,545)	(65,790)	267,335	–
Accounts charged off	**–**	**–**	**(1,100)**	**(1,100)**	–	–	–	–
Provisions (reversals)	**1,485,158**	**1,699,323**	**6,332,823**	**9,517,304**	(741,893)	(77,013)	12,041,160	11,222,254
Effect of collections and other movements	**(3,001,267)**	**(1,506,392)**	**(5,989,454)**	**(10,497,113)**	(296,571)	(310,249)	(262,752)	(869,572)
Ending Balance	**812,751**	**2,967,069**	**21,832,208**	**25,612,028**	437,633	690,482	18,092,141	19,220,256
LGU								
Beginning Balance	**24,040**	**1,737**	**24,916**	**50,693**	30,089	11,092	26,469	67,650
Newly originated assets which remained in Stage 1 at yearend	**7**	**–**	**–**	**7**	2,399	–	–	2,399
Reversals	**22,642**	**3,902**	**2,296**	**28,840**	(1,196)	(1,226)	–	(2,422)
Effect of collections and other movements	**(46,424)**	**4,993**	**40,586**	**(845)**	(7,252)	(8,129)	(1,553)	(16,934)
Ending Balance	**265**	**10,632**	**67,798**	**78,695**	24,040	1,737	24,916	50,693
Credit Cards								
Beginning Balance	**38,224**	**26,246**	**2,523,198**	**2,587,668**	37,867	41,397	1,526,487	1,605,751
Newly originated assets which remained in Stage 1 at yearend	**3,159**	**–**	**–**	**3,159**	4,272	–	–	4,272
Newly originated assets which moved to Stages 2 and 3 at yearend	**–**	**2,430**	**18,756**	**21,186**	–	3,017	33,363	36,380
Transfers to Stage 1	**39,251**	**(6,432)**	**(32,819)**	**–**	14,459	(8,245)	(6,214)	–
Transfers to Stage 2	**(2,254)**	**5,721**	**(3,467)**	**–**	(631)	701	(70)	–
Transfers to Stage 3	**(9,135)**	**(9,282)**	**18,417**	**–**	(5,473)	(28,914)	34,387	–
Accounts charged off	**–**	**–**	**(1,399,465)**	**(1,399,465)**	(1,077)	(4,023)	(603,693)	(608,793)
Provisions	**(98,840)**	**17,705**	**1,085,746**	**1,004,611**	61,271	21,095	1,495,684	1,578,050
Effect of collections and other movements	**91,067**	**(9,702)**	**109,403**	**190,768**	(72,464)	1,218	43,254	(27,992)
Ending Balance	**61,472**	**26,686**	**2,319,769**	**2,407,927**	38,224	26,246	2,523,198	2,587,668
Retail SMEs								
Beginning Balance	**361,274**	**20,786**	**1,426,132**	**1,808,192**	377,435	73,581	1,031,436	1,482,452
Newly originated assets which remained in Stage 1 at yearend	**91,610**	**–**	**–**	**91,610**	2,609	–	–	2,609
Newly originated assets which moved to Stages 2 and 3 at yearend	**–**	**2,308**	**37,201**	**39,509**	–	1,482	171	1,653
Transfers to Stage 1	**7,502**	**(1,634)**	**(5,868)**	**–**	13,826	(706)	(13,120)	–
Transfers to Stage 2	**(351)**	**2,151**	**(1,800)**	**–**	(20,257)	31,634	(11,377)	–
Transfers to Stage 3	**(5,680)**	**(6,204)**	**11,884**	**–**	(3,530)	(3,036)	6,566	–
Accounts charged off	**–**	**–**	**–**	**–**	–	–	(2,477)	(2,477)
Provisions (reversals)	**13,693**	**(1,617)**	**42,831**	**54,907**	249,043	(7,814)	305,381	546,610
Effect of collections and other movements	**(292,980)**	**212**	**132,875**	**(159,893)**	(257,852)	(74,355)	109,552	(222,655)
Ending Balance	**175,068**	**16,002**	**1,643,255**	**1,834,325**	361,274	20,786	1,426,132	1,808,192

(Forward)

	2021				2020			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Housing Loans								
Beginning Balance	₱99,896	₱107,786	₱2,166,204	₱2,373,886	₱889,425	₱547,589	₱114,407	₱1,551,421
Newly originated assets which remained in Stage 1 at yearend	11,385	–	–	11,385	1,048	–	–	1,048
Newly originated assets which moved to Stages 2 and 3 at yearend	–	6,605	8,083	14,688	–	7,586	42,555	50,141
Transfers to Stage 1	395,713	(45,005)	(350,708)	–	24,929	(6,896)	(18,033)	–
Transfers to Stage 2	(2,061)	35,012	(32,951)	–	(1,780)	5,252	(3,472)	–
Transfers to Stage 3	(11,394)	(53,478)	64,872	–	(5,524)	(12,767)	18,291	–
Accounts charged off	–	–	–	–	–	–	–	–
Provisions (reversals)	391,794	(7,381)	(888,382)	(503,969)	(66,831)	83,538	1,109,858	1,126,565
Effect of collections and other movements	(628,380)	10,828	2,154,328	1,536,776	(741,371)	(516,516)	2,899,354	1,641,467
Ending Balance	256,953	54,367	3,121,446	3,432,766	99,896	107,786	4,162,960	4,370,642
Auto Loans								
Beginning Balance	146,165	43,152	843,487	1,032,804	154,130	45,312	44,401	243,843
Newly originated assets which remained in Stage 1 at yearend	1,466	–	–	1,466	540	–	–	540
Newly originated assets which moved to Stages 2 and 3 at yearend	–	182	4,029	4,211	–	872	13,885	14,757
Transfers to Stage 1	58,625	(2,965)	(55,660)	–	4,234	(800)	(3,434)	–
Transfers to Stage 2	(113)	8,396	(8,283)	–	(1,876)	2,199	(323)	–
Transfers to Stage 3	(615)	(3,229)	3,844	–	(4,139)	(3,506)	7,645	–
Accounts charged off	–	–	(9,133)	(9,133)	–	–	(1,488)	(1,488)
Provisions (reversals)	73,402	6,628	(708,378)	(628,348)	(6,271)	2,916	770,300	766,945
Effect of collections and other movements	(269,934)	(49,998)	1,397,678	1,077,746	(453)	(3,841)	12,501	8,207
Ending Balance	8,996	2,166	1,467,584	1,478,746	146,165	43,152	843,487	1,032,804
Other Loans								
Beginning Balance	72,427	59,443	1,922,895	2,054,765	8,924	62,189	998,074	1,069,187
Newly originated assets which remained in Stage 1 at yearend	12,738	–	–	12,738	7,017	–	–	7,017
Newly originated assets which moved to Stages 2 and 3 at yearend	–	207	53,913	54,120	–	7,649	101,603	109,252
Transfers to Stage 1	222,313	(12,979)	(209,334)	–	10,769	(2,287)	(8,482)	–
Transfers to Stage 2	(875)	90,473	(89,598)	–	(958)	15,050	(14,092)	–
Transfers to Stage 3	(4,109)	(20,370)	24,479	–	(1,817)	(7,764)	9,581	–
Accounts charged off	–	–	(20,328)	(20,328)	–	–	(136,732)	(136,732)
Provisions (reversals)	(131,066)	(583)	(333,647)	(465,296)	(26,947)	29,844	(141,644)	(138,747)
Effect of collections and other movements	71,512	(107,955)	(632,348)	(668,791)	75,439	(45,238)	1,114,587	1,144,788
Ending Balance	242,940	8,236	716,032	967,208	72,427	59,443	1,922,895	2,054,765
Other Receivables								
Beginning Balance	69,326	19,486	3,197,574	3,286,386	77,497	21,915	4,240,580	4,339,992
Newly originated assets which remained in Stage 1 at yearend	1,505	–	–	1,505	2,449	–	–	2,449
Newly originated assets which moved to Stages 2 and 3 at yearend	–	429	13,226	13,655	–	922	20,632	21,554
Transfers to Stage 1	1,295	(15)	(1,280)	–	186	(23)	(163)	–
Transfers to Stage 2	(967)	22,649	(21,682)	–	(1,739)	1,741	(2)	–
Transfers to Stage 3	(12,748)	(67,882)	80,630	–	(51,149)	(2,811)	53,960	–
Accounts charged off	–	–	(9,287)	(9,287)	–	–	336	336
Provisions (reversals)	(598,194)	(13,427)	131,248	(480,373)	44,946	12,167	674,107	731,220
Effect of collections and other movements	621,290	72,119	23,771	717,180	(2,864)	(14,425)	(1,791,877)	(1,809,166)
Ending Balance	81,507	33,359	3,414,200	3,529,066	69,326	19,486	3,197,573	3,286,385
Total Loans and Receivables								
Beginning Balance	1,248,985	969,118	30,196,547	32,414,650	2,927,066	1,665,478	13,820,684	18,413,228
Newly originated assets which remained in Stage 1 at yearend	657,594	–	–	657,594	268,746	–	–	268,746
Newly originated assets which moved to Stages 2 and 3 at yearend	–	1,307,999	5,676,327	6,984,326	–	332,664	467,303	799,967
Transfers to Stage 1	2,140,973	(161,286)	(1,979,687)	–	195,825	(123,150)	(72,675)	–
Transfers to Stage 2	(28,035)	1,142,045	(1,114,010)	–	(77,132)	130,765	(53,633)	–
Transfers to Stage 3	(83,038)	(258,014)	341,052	–	(273,177)	(124,588)	397,765	–
Accounts charged off	–	–	(1,439,313)	(1,439,313)	(1,077)	(4,023)	(744,054)	(749,154)
Provisions (reversals)	1,158,589	1,704,550	5,664,537	8,527,676	(487,878)	63,507	16,254,846	15,830,475
Effect of collections and other movements	(3,455,116)	(1,585,895)	(2,763,161)	(7,804,172)	(1,303,388)	(971,535)	2,123,066	(151,857)
Ending Balance	₱1,639,952	₱3,118,517	₱34,582,292	₱39,340,761	₱1,248,985	₱969,118	₱32,193,302	₱34,411,405

Trade Receivables

Trade receivables consist of:

	2021	2020
	(In Thousands)	
Consumer goods	**₱15,591,720**	₱15,615,021
Contract receivables	**59,487**	1,168,440
Lease receivables	**–**	314,085
	15,651,207	17,097,546
Allowance for credit losses	**(246,122)**	(303,551)
	15,405,085	16,793,995
Noncurrent portion of contract receivables	**–**	(632,104)
	₱15,405,085	₱16,161,891

Trade receivables on consumer goods pertain to receivables from various customers of distilled spirits, beverages and tobacco segments, which are noninterest-bearing and generally have 30 to 90 days' terms.

Other Receivables

Other receivables are due and demandable and include accrued interest receivable pertaining to interest earned on cash and cash equivalents and unpaid utility charges to tenants and receivables from sale of various assets.

Movements of Allowance for Credit Losses

Details and movements of allowance for credit losses as follows:

	December 31, 2021			
	Finance Receivables	**Trade Receivables**	**Other Receivables**	**Total**
	(In Thousands)			
Balance at beginning of year	**₱34,411,405**	**₱303,551**	**₱11,240**	**₱34,726,196**
Provisions during the year (Note 26)				
Continuing operations	**11,047,912**	**10,264**	**274,829**	**11,333,005**
Accounts charged off, transfers and others	**(6,118,556)**	**(67,693)**	**(11,240)**	**(6,197,489)**
Balance at end of year	**₱39,340,761**	**₱246,122**	**₱274,829**	**₱39,861,712**

	December 31, 2020			
	Finance Receivables	Trade Receivables	Other Receivables	Total
	(In Thousands)			
Balance at beginning of year	₱18,413,228	₱322,710	₱11,240	₱18,747,178
Provisions during the year (Note 26)				
Continuing operations	15,830,475	17,274	–	15,847,749
Discontinued operations	30,280	–	–	30,280
Reversals during the year	(12,132)	(33,841)	–	(45,973)
Accounts charged off, transfers and others	409,722	(2,592)	–	407,130
Effect of discontinued operations	(260,168)	–	–	(260,168)
Balance at end of year	₱34,411,405	₱303,551	₱11,240	₱34,726,196

9. **Inventories**

Inventories consist of:

	2021	2020
	(In Thousands)	
At Cost:		
Consumer goods:		
Alcohol	**₱4,819,501**	₱4,001,287
Beverage	**2,904,499**	2,427,870
	7,724,000	6,429,157
Real estate inventories:		
Condominium and residential units for sale	**422,183**	419,238
Land held for future development	**217,542**	217,542
Subdivision land under development	**3,758,806**	3,745,583
	4,398,531	4,382,363
Fuel, materials and supplies	**974,767**	1,096,490
	13,097,298	11,908,010
At NRV - Materials and supplies	**1,189,225**	1,267,595
	₱14,286,523	₱13,175,605

Allowance for inventory obsolescence on materials and supplies amounted to ₱4.1 million as of December 31, 2021 and 2020.

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

	2021	2020
	(In Thousands)	
Finished goods	**₱1,206,369**	₱873,625
Work in process	**1,536,504**	1,362,453
Raw materials	**4,981,127**	4,193,079
	₱7,724,000	₱6,429,157

Cost of consumer goods inventories recognized as expenses under cost of goods sold amounted to ₱14.6 billion, ₱14.1 billion and ₱14.3 billion in 2021, 2020 and 2019, respectively (see Note 24).

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

	2021	2020
	(In Thousands)	
Balance at beginning of year	**₱4,382,363**	₱4,602,630
Construction/development costs incurred	**71,222**	19,257
Disposals and others	**(55,053)**	(239,524)
Balance at end of year	**₱4,398,531**	₱4,382,363

10. Other Current Assets

	2021	2020
	(In Thousands)	
Prepaid expenses	**₱2,658,143**	₱2,074,966
Creditable withholding taxes (CWT)	**1,876,158**	2,589,436
Input VAT	**1,644,556**	1,800,352
Advances to suppliers	**1,507,586**	1,770,204
Deferred charges	**1,065,090**	856,788
Excise tax	**649,482**	779,123
Miscellaneous cash and other cash items	**201,956**	29,246
Stationeries, office supplies and stamps on hand	**87,476**	81,110
Others	**608,315**	927,679
	₱10,298,762	₱10,908,904

a. 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.

b. Prepaid expenses include prepaid importation charges amounting to ₱1,221.5 million and ₱945.6 million as of December 31, 2021 and 2020, respectively. Prepaid importation charges pertain to the purchases of raw materials by the distilled spirits.

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

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

e. Others include interoffice floats and advances to contractors.

11. Investment in Associates and Joint Ventures

Investments in Associates and Joint Ventures
The Group has the power to participate in the financial and operating policy decisions of PMFTC, Victorias Milling Company, Inc. (VMC), AB HPI, and APLII. The Group also has 50% interest in ABI Pascual Holdings Private Limited (ABI Pascual Holdings) and ALI-Eton Property Development Corporation (AEPDC) which are jointly controlled entities.

	Ownership		Amount	
	2021	2020	**2021**	2020
			(In Thousands)	
Associates:				
PMFTC	**49.6%**	49.6%	**₱10,883,513**	₱13,741,750
VMC	**30.9%**	30.9%	**3,340,834**	3,153,972
APLII	**44.0%**	44.0%	**2,468,107**	2,310,410
AB HPI	**50.0%**	50.0%	–	–

(Forward)

	Ownership		Amount	
	2021	2020	**2021**	2020
Joint Ventures:				
AEPDC	**50.0%**	50.0%	**₱5,412,328**	₱4,514,905
ABI Pascual Holdings	**50.0%**	50.0%	**103,527**	56,746
			₱22,208,309	₱23,777,783

Equity in net earnings (losses) consists of:

	2021	2020	2019
		(In Thousands)	
PMFTC	**₱17,600,810**	₱16,932,501	₱15,936,195
Others	**420,370**	682,406	(1,122,944)
	18,021,180	17,614,907	14,813,251

Investment in PMFTC
Details of investment in PMFTC are as follows:

	2021	2020
	(In Thousands)	
Acquisition cost	**₱13,483,541**	₱13,483,541
Accumulated equity in net earnings:		
Balance at beginning of year	**(110,881)**	4,708,603
Equity in net earnings	**17,600,810**	16,932,501
Cash dividends (Note 22)	**(20,749,480)**	(21,751,985)
Balance at end of year	**(3,259,551)**	(110,881)
Accumulated share in other comprehensive income	**659,523**	369,090
	₱10,883,513	₱13,741,750

On February 25, 2010, FTC and PMPMI combined their respective domestic business operations by transferring selected assets and liabilities to PMFTC in accordance with the provisions of the Asset Purchase Agreement (APA) between FTC and its related parties and PMPMI. The establishment of PMFTC allows FTC and PMPMI to benefit from their respective, complementary brand portfolios as well as cost synergies from the resulting integration of manufacturing, distribution and procurement, and the further development and advancement of tobacco industry growing in the Philippines. FTC and PMPMI hold equal economic interest in PMFTC. Since PMPMI has majority of the members of the BOD, it has control over PMFTC. FTC considers PMFTC as an associate.

As a result of FTC's divestment of its cigarette business to PMFTC, FTC initially recognized the investment amounting to ₱13.5 billion, representing the fair value of the net assets contributed by FTC, net of unrealized gain of ₱5.1 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 ₱5.1 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 ₱293.0 million each year starting 2011 until 2017 and an outright loss of ₱2.0 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 ₱1.9 billion was transferred to retained earnings.

Also, as a result of the transaction, FTC has obtained the right to sell (put option) its interest in PMFTC to PMPMI, except in certain circumstances, during the period from February 25, 2015 through February 24, 2018, at an agreed-upon value. On December 10, 2013, the BOD of LTG approved the waiver by FTC of its rights under the Exit Rights Agreement entered into with PMI and confirmed the execution of the Termination Agreement.

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

	2021	2020
	(In Thousands)	
Current assets	**₱50,381,367**	₱45,515,749
Noncurrent assets	**29,622,125**	26,952,835
Current liabilities	**22,236,683**	14,791,824
Noncurrent liabilities	**5,253,090**	5,713,996
Equity	**52,513,719**	51,962,764
Equity interest of the Parent Company	**49.6%**	49.6%
Share in net assets of the acquiree	**26,046,805**	25,773,531
Acquisition-related fair value adjustments, adjustments relating to differences in accounting policies and others	**(15,163,292)**	(12,031,781)
Carrying value of investment	**₱10,883,513**	₱13,741,750

Summarized financial information of PMFTC, based on its financial statements as at December 31, 2021 and 2020 and reconciliation with the carrying amount of the investment in consolidated financial statements are set out below:

	2021	2020	2019
		(In Thousands)	
Revenue	**₱172,762,533**	₱174,956,574	₱170,872,448
Costs and expenses	**(127,882,015)**	(125,822,537)	(126,819,405)
Income before income tax	**44,880,518**	49,134,037	44,053,043
Provision for income tax	**(9,661,727)**	(14,911,929)	(13,252,072)
Net income	**35,218,791**	34,222,108	30,800,971
Other comprehensive income (loss)	**585,549**	(63,186)	(35,854)
Total comprehensive income	**₱35,804,340**	₱34,158,922	₱30,765,117
Group's share of total comprehensive income for the year	**₱17,758,953**	₱16,942,825	₱16,305,060

Investment in VMC
Details of investment in VMC are as follows:

	2021	2020
	(In Thousands)	
Acquisition cost	**₱1,459,768**	₱1,459,768
Accumulated equity in net earnings:		
Balance at beginning of year	**1,654,091**	1,390,291
Equity in net earnings	**258,376**	263,800
Cash dividends (Note 22)	**(84,736)**	–
Balance at end of year	**1,827,731**	1,654,091
Share in remeasurement gain on defined benefit plans	**(5,125)**	(18,347)
Balance of convertible notes	**58,460**	58,460
	₱3,340,834	₱3,153,972

On February 15, 2016, VMC approved the acquisition of its own shares. The sale agreement had been executed on February 18, 2016 and led to the acquisition of 300.0 million treasury shares. This resulted in an increase in the Parent Company's percentage of ownership from 22.5% to 25.1%. On the same date, the Group, through FTC, acquired additional shares of stock of VMC amounting to ₱660.3 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 ₱58.94 million were converted to shares of stock of VMC resulting to an increase in the Group's percentage of ownership to 30.9% as of December 31, 2017.

The summarized financial information of VMC as of August 31, 2021 and 2020 and reconciliation with the carrying amount of the investment in consolidated financial statements are set out below:

	2021	2020
	(In Thousands)	
Current assets	**₱3,851,240**	₱3,137,861
Noncurrent assets	**6,498,798**	6,420,198
Current liabilities	**588,046**	543,262
Noncurrent liabilities	**862,428**	944,259
Equity	**8,899,564**	8,070,538
Equity interest of the Parent Company	**30.9%**	30.9%
Share in net assets of the acquiree	**2,749,965**	2,493,796
Fair value adjustments and others	**590,869**	660,176
Carrying value of investment	**₱3,340,834**	₱3,153,972

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

	2021	2020	2019
		(In Thousands)	
Revenue	**₱7,468,247**	₱7,437,424	₱6,343,290
Costs and expenses	**(6,607,202)**	(6,431,233)	(5,296,131)
Income before income tax	**861,045**	1,006,191	1,047,159
Provision for income tax	**(74,809)**	(152,468)	(234,308)
Net income	**786,236**	853,723	812,851
Other comprehensive income (loss)	**42,790**	(26,009)	(3,285)
Total comprehensive income	**₱829,026**	₱827,714	₱809,566
Group's share of total comprehensive income for the year	**₱256,169**	₱255,764	₱250,156

Investment in APLII
On December 21, 2015, PNB entered into a 15-year exclusive partnership with Allianz SE under the following arrangements, subject to regulatory approvals:

- Allianz SE will acquire 12,750 shares representing 51% stockholdings of APLII and will have management control over the new joint venture company;
- The new joint venture company will operate under the name of "Allianz-PNB Life Insurance, Inc.";
- A 15-year distribution agreement which will provide Allianz an exclusive access to the branch network of PNB and PNB Savings Bank.

The sale of APLII was completed on June 6, 2016 for a total consideration of US$66.0 million (₱3.1 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 (₱3.1 billion) was allocated between the sale of the 51% interest in APLII and the Exclusive Distribution Rights (EDR) amounting to US$44.9 million (₱2.1 billion) and US$21.1 million (₱1.0 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 ₱400.3 million, net of taxes and transaction costs amounting to ₱276.7 million and ₱153.3 million, respectively. The deferred revenue amounting to ₱976.2 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 ₱36.5 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 ₱292.4 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 ₱2.7 billion based on the fair value of its retained equity. PNB recognized gain on remeasurement amounting to ₱1.6 billion in the 2016 consolidated statement of income.

The fair value of the retained equity was based on a combination of the income approach and market approach.

On September 21, 2016, the Philippine SEC approved the amendment of PNB Life Insurance, Inc.'s article of incorporation to reflect the change in corporate name to Allianz-PNB Life Insurance, Inc.

Summarized financial information of APLII as of December 31, 2021 and 2020 follows:

	2021	2020
	(In thousands)	
Current assets	**₱2,189,208**	₱1,697,490
Noncurrent assets	**76,895,902**	50,584,277
Current liabilities	**3,217,567**	2,636,733
Noncurrent liabilities	**73,827,220**	47,905,927
Equity	**2,040,323**	1,739,107
Equity interest of the Parent Company	**44%**	44%
Share in net assets of the acquiree	**897,742**	765,207
Premium on acquisition	**1,570,365**	1,545,203
Carrying value of investment	**₱2,468,107**	₱2,310,410

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

	2021	2020
	(In Thousands)	
Revenue	**₱3,732,388**	₱3,132,745
Costs and expenses	**(3,624,691)**	(2,846,825)
Net income (loss)	**107,697**	285,920
Other comprehensive income	–	297,096
Total comprehensive income	**₱107,697**	₱583,016
Group's share of total comprehensive income for the year	**₱47,387**	₱256,527

Investment in AB HPI
On May 6, 2016, AB HPI was incorporated and registered with the Philippine SEC for 1,000 authorized shares at ₱1,000 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 ₱4,750,000. On November 15, 2016, the Group purchased additional 782,400 common shares at ₱1,000 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 ₱782.4 million. The nonmonetary assets were sold at their carrying amounts, except for the brands which resulted to a gain of ₱46.3 million. The Group also recognized the investment amounting to ₱1,843.6 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 ₱31.3 million to support the operations of AB HPI.

On December 21, 2020, the Group entered into an amended Shareholders' Agreement contemporaneously with the Termination Deed with Heineken and AB HPI, to wind down the business and operations of AB HPI effective on December 31, 2020. The amended Shareholders' Agreement was entered into to amend, restate and eventually terminate the Shareholders' Agreement entered into on May 27, 2016 in its entirety, including the other agreements covered by the said agreement.

Furthermore, in accordance with the Termination Deed, the Group acquired fixed assets, including beer equipment, inventories and spare parts, from AB Heineken for proceeds totaling to ₱1.6 billion. The Group accounted for the purchase of these assets as an acquisition of group of assets and recognized these assets based on their acquisition cost.

On December 22, 2020, additional capital infusion amounting to ₱361.1 million was made to cover for AB HPI's outstanding debts, winding up and maintenance costs, consultant fees and taxes.

Details of the investment in an associate as of December 31 are as follows:

	2021	2020
	(In Thousands)	
Acquisition cost:		
Beginning balance	**₱1,179,754**	₱787,400
Additional investments	**–**	392,354
Balance at end of year	**1,179,754**	1,179,754
Accumulated equity in net earnings:		
Balance at the beginning of the year	**(1,196,585)**	(1,229,143)
Share in net loss of an associate	**–**	32,558
Balance at end of year	**(1,196,585)**	(1,196,585)
Excess of share in net losses in an associate over the cost of investment in an associate	**₱16,831**	₱16,831

In 2021 and 2020, the Group recorded a provision for excess of share in net losses of the associate over the cost of investment in and advance to an associate amounting to ₱16.8 million and ₱441.7 million, respectively. This was recorded as part of "Other noncurrent liabilities" account on the consolidated balance sheet.

Pursuant to the Termination Deed, ABI recorded reversal of share in net losses of AB HPI to the extent of its legal obligation to further contribute in case of insufficient funding of AB HPI to settle its liabilities in 2020, proportionate to its ownership in AB HPI, amounting to ₱32.6 million.

The reconciliation of the net assets of the foregoing material associate to the carrying amount of the interest in this associate recognized in the consolidated balance sheets is as follows:

	2021	2020
Net assets	**₱13,425**	₱13,425
Proportionate ownership	**50%**	50%
	₱6,713	₱6,713

Summarized financial information of AB HPI as of December 31, 2021 and 2020 and reconciliation with the carrying amount of the investment in consolidated financial statements are set out below:

	2021	2020
	(In Thousands)	
Current assets	**₱935,967**	₱935,967
Current liabilities	**922,542**	922,542
Equity	**₱13,425**	₱13,425

Summarized statements of comprehensive income of AB HPI for the years ended December 31 are as follows:

	2021	2020
	(In Thousands)	
Revenue	**₱789,518**	₱2,668,605
Costs and expenses	**(1,545,082)**	(3,810,276)
Total comprehensive loss	**₱755,564**	₱1,141,671
Group's share of total comprehensive loss for the year	**–**	₱–

Investment in AEPDC
On January 21, 2016, the Company entered into an agreement with Ayala Land Inc. (ALI) to jointly develop a project along the C5 corridor. The project is envisioned to be a township development that spans portion of Pasig City and Quezon City. On April 15, 2016, the Company infused ₱20.0 million to the joint project with ALI.

On July 5, 2017, the Company subscribed to additional 25,200,000 common shares and 226,800,000 preferred shares from AEPDC's increase in authorized capital stock for a consideration totaling to ₱252.0 million.

On November 20, 2017, the Company made additional capital infusion amounting to ₱370.0 million for the joint venture's initial purchase of land in exchange for 370,000,000 common shares.

In 2018, the Company made additional capital infusion totaling to ₱1.5 billion for the joint venture's project planning and development and direct operating expenses.

On July 16 and November 19, 2019, the Company infused additional capital totaling to ₱1,195.0 million for subscription of remaining unsubscribed shares and for increase in authorized capital stock.

On April 28 and July 27, 2020, the Company infused additional capital totaling ₱1,083.5 million for the joint venture's capital expenditure on construction projects and working capital.

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

	2021	2020
	(In Thousands)	
Acquisition cost:		
Balance at beginning of year	**₱4,454,500**	₱3,371,000
Additional capital infusion during the year	**833,000**	1,083,500
Balance at end of year	**5,287,500**	4,454,500
Accumulated equity in net earnings:		
Balance at the beginning of the year	**60,405**	(58,647)
Share in net income (loss) of a joint venture*	**64,423**	119,052
Balance at end of year	**124,828**	60,405
Ending balance	**₱5,412,328**	₱4,514,905

**Includes catch-up adjustment of share in net loss in 2019*

Summarized financial information of AEPDC as of December 31, 2021 and 2020 follows:

	2021	2020
	(In thousands)	
Current assets	**₱13,677,474**	₱12,838,898
Noncurrent assets	**4,506,255**	3,985,368
Current liabilities	**6,249,887**	8,394,044
Noncurrent liabilities	**862,949**	3,390,318
Equity	**11,070,893**	5,039,904

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

	2021	2020
	(In Thousands)	
Revenue	**₱844,572**	₱974,411
Costs and expenses	**(690,112)**	(629,969)
Income before income tax	**154,460**	344,442
Provision for income tax	**(25,614)**	(103,243)
Total comprehensive income (loss)	**₱128,846**	₱241,199
Group's share of total comprehensive income (loss) for the year	**₱64,423**	₱120,599

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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 ₱20.1 million, while ABI Pascual Holdings has an investment in ABI Pascual Foods amounting to ₱40.2 million. The joint venture has started operations in September 2013.

The Group determined that its advances to ABI Pascual Foods represents the Group's long-term interest in ABI Pascual Holdings and its subsidiary that, in substance, form part of the Group's net investment in the joint venture.

The summarized financial information of ABI Pascual Holdings as of December 31 follows:

	2021	2020
	(In thousands)	
Current assets	**₱529,034**	₱529,034
Noncurrent assets	**3,151**	3,151
Current liabilities	**404,092**	404,092
Noncurrent liabilities	**13,285**	13,285
Total equity	**114,808**	114,808

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

	2021	2020
	(In Thousands)	
Revenue	**₱398,464**	₱385,710
Costs and expenses	**274,241**	288,875
Income before income tax	**124,223**	96,835
Provision for income tax	**30,937**	9,192
Net loss	**93,286**	87,643
Other comprehensive income	**7,731**	3,184
Total comprehensive income	**₱101,017**	₱90,827
Group's share of total comprehensive income for the year	**₱39,566**	₱35,575

Disclosures on Subsidiary with Material Non-controlling Interest
Following is the financial information of PNB, which has material non-controlling interests of 43.53% as of and for the years ended December 31:

	2021	2020	2019
		(In Thousands)	
Accumulated balances of material non-controlling interest	**₱2,694,741**	₱3,201,276	₱2,882,038
Net income allocated to material non-controlling interest	**59,412**	10,835	79,726
Total comprehensive income (loss) allocated to material non-controlling interest	**282,293**	319,237	(14,705)

On February 9, 2013, PNB acquired 100% of the voting common stock of ABC. PNB accounted for the business combination with ABC under the acquisition method of PFRS 3. In the LTG consolidated financial statements, the merger of PNB and ABC and the acquisition of PNB through the Bank Holding Companies are accounted for under the pooling-of-interests method. Thus, the summarized financial information of PNB below is based on the amounts in the consolidated financial statements of PNB prepared under the pooling-of-interests method before the Group's intercompany eliminations.

Statements of Comprehensive Income:

	2021	2020	2019
		(In Thousands)	
Revenue	**₱49,474,321**	₱54,973,243	₱56,772,519
Cost of services	**(8,608,926)**	(12,113,434)	(19,143,478)
General and administrative expenses	**(34,172,945)**	(44,655,737)	(28,503,520)
Foreign exchange gains - net	**743,549**	919,555	1,105,903
Other income - net	**32,867,305**	1,772,876	2,057,559
Income before income tax	**40,303,304**	896,503	12,288,983
Benefit from (provision for) income tax	**(5,545,194)**	1,798,238	(2,452,307)
Net income from continuing operations	**34,758,110**	2,694,741	9,836,676
Net income (loss) from discontinued operations	**(735,365)**	67,583	101,593
Net income	**34,022,745**	2,762,324	9,938,269
Other comprehensive income (loss)	**(2,052,906)**	(2,023,525)	4,821,405
Total comprehensive income	**₱31,969,839**	₱738,799	₱14,759,674
Net income attributable to:			
Equity holders of the Parent Company	**₱33,963,333**	₱2,751,489	₱9,858,543
Non-controlling interests	**59,412**	10,835	79,726
Total comprehensive income (loss) attributable to:			
Equity holders of the Parent Company	**31,687,546**	756,023	14,774,379
Non-controlling interests	**282,293**	(17,224)	(14,705)
Dividends declared to non-controlling interests	**4,705**	19,161	3,372

Statements of Financial Position:

	2021	2020
	(In Thousands)	
Current assets	**₱599,353,375**	₱644,182,968
Noncurrent assets	**586,057,462**	599,009,724
Current liabilities	**925,534,374**	946,187,119
Noncurrent liabilities	**105,783,546**	136,649,515
Equity attributable to:		
Equity holders of the Parent Company	**150,873,774**	157,154,782
Non-controlling interest	**3,219,143**	3,201,276

Statements of Cash Flows:

	2021	2020	2019
		(In Thousands)	
Operating	**₱18,675,489**	₱97,190,366	₱22,079,130
Investing	**(6,878,382)**	(6,726,929)	(66,100,996)
Financing	**(51,527,513)**	30,464,746	51,891,720
Net increase (decrease) in cash and cash equivalents	**(₱39,730,406)**	₱120,928,183	₱7,869,854

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12. **Property, Plant and Equipment**

December 31, 2021

	At Appraised Values				At Cost							
	Land and Land Improvements	Plant Buildings and Building Improvements	Machineries and Equipment	Subtotal	Office and Administration Buildings and Improvements	Transportation Equipment	Returnable Containers	Furniture, Fixtures and Other Equipment	Construction in Progress	Subtotal	Right-of-Use Assets	Total
						(In Thousands)						
Cost												
Balance at beginning of year	**₱40,574,827**	**₱20,576,200**	**₱25,039,674**	**₱86,190,701**	**₱8,249,265**	**₱3,082,311**	**₱5,294,316**	**₱14,228,945**	**₱1,144,170**	**₱31,999,007**	**₱3,746,868**	**₱121,936,576**
Additions/transfers (Note 13)	**3,472,964**	**579,792**	**1,865,674**	**5,918,430**	**176,372**	**80,699**	**592,364**	**1,082,956**	**514,910**	**2,447,301**	**3,431,709**	**11,797,440**
Net increment in appraised value	**523,755**	**245,635**	**391,120**	**1,160,510**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,160,510**
Disposals/transfers/others (Note 28)	**–**	**(9,175,538)**	**(1,325,959)**	**(10,501,497)**	**(3,174,255)**	**(51,915)**	**(58,323)**	**(7,573,439)**	**(952,417)**	**(11,810,349)**	**(371,138)**	**(22,682,984)**
Balance at end of year	**44,571,546**	**12,226,089**	**25,970,509**	**82,768,144**	**5,251,382**	**3,111,095**	**5,828,357**	**7,738,462**	**706,663**	**22,635,959**	**6,807,439**	**112,211,542**
Accumulated Depreciation, Amortization and Impairment Losses												
Balance at beginning of year	**2,038,064**	**7,318,915**	**16,915,249**	**26,272,228**	**5,220,113**	**2,167,104**	**3,805,343**	**11,629,876**	**–**	**22,822,436**	**1,336,640**	**50,431,304**
Depreciation and amortization	**–**	**393,456**	**1,087,971**	**1,481,427**	**1,796,880**	**513,160**	**281,914**	**104,146**	**–**	**2,696,100**	**643,849**	**4,821,376**
Disposals/transfers/others (Note 28)	**543,175**	**(419,738)**	**(5,577,819)**	**(5,454,382)**	**(6,495,274)**	**(149,200)**	**124,362**	**(5,082,650)**	**–**	**(11,602,762)**	**(95,647)**	**(17,152,792)**
Balance at end of year	**2,581,239**	**7,292,633**	**12,425,401**	**22,299,273**	**521,719**	**2,531,064**	**4,211,619**	**6,651,372**	**–**	**13,915,774**	**1,884,842**	**38,099,889**
Net Book Value	**41,990,307**	**4,933,456**	**13,545,108**	**60,468,871**	**4,729,663**	**580,031**	**1,616,738**	**1,087,090**	**706,663**	**8,720,185**	**4,922,597**	**74,111,653**

December 31, 2020

	At Appraised Values				At Cost							
	Land and Land Improvements	Plant Buildings and Building Improvements	Machineries and Equipment	Subtotal	Office and Administration Buildings and Improvements	Transportation Equipment	Returnable Containers	Furniture, Fixtures and Other Equipment	Construction in Progress	Subtotal	Right-of-Use Assets	Total
						(In Thousands)						
Cost												
Balance at beginning of year	₱40,731,214	₱21,913,754	₱28,578,363	₱91,223,331	₱7,656,583	₱2,773,472	₱4,607,717	₱13,611,341	₱1,382,293	₱30,031,406	₱3,588,074	₱124,842,811
Additions/transfers (Note 13)	24,854	592,817	1,615,261	2,232,932	447,903	329,106	686,599	1,238,638	132,653	2,834,899	157,573	5,225,404
Net decrement in appraised value	(799,156)	(477,644)	(5,552,997)	(6,829,797)	–	–	–	–	–	–	–	(6,829,797)
Disposals/transfers/others (Note 28)	617,915	(1,452,727)	399,047	(435,765)	151,018	(20,267)	–	(574,765)	(370,776)	(814,790)	67,054	(1,183,501)
Effect of disposal group classified as held for sale (Note 37)	–	–	–	–	(6,239)	–	–	(46,269)	–	(52,508)	(65,833)	(118,341)
Balance at end of year	40,574,827	20,576,200	25,039,674	86,190,701	8,249,265	3,082,311	5,294,316	14,228,945	1,144,170	31,999,007	3,746,868	121,936,576
Accumulated Depreciation, Amortization and Impairment Losses												
Balance at beginning of year	2,212,172	7,962,240	21,237,008	31,411,420	4,546,841	1,939,265	3,476,141	10,915,688	–	20,877,935	654,329	52,943,684
Depreciation and amortization	93,187	598,694	987,154	1,679,035	451,302	233,069	304,809	757,716	–	1,746,896	1,233,524	4,659,455
Net decrement in appraised value	(885,602)	(399,247)	(5,569,390)	(6,854,239)	–	–	–	–	–	–	–	(6,854,239)
Disposals/transfers/others (Note 28)	618,307	(842,772)	260,477	36,012	227,787	(5,230)	24,393	(3,316)	–	243,634	(527,337)	(247,691)
Effect of disposal group classified as held for sale (Note 37)	–	–	–	–	(5,817)	–	–	(40,212)	–	(46,029)	(23,876)	(69,905)
Balance at end of year	2,038,064	7,318,915	16,915,249	26,272,228	5,220,113	2,167,104	3,805,343	11,629,876	–	22,822,436	1,336,640	50,431,304
Net Book Value	₱38,536,763	₱13,257,285	₱8,124,425	₱59,918,473	₱3,029,152	₱915,207	₱1,488,973	₱2,599,069	₱1,144,170	₱9,176,571	₱2,410,228	₱71,505,272

Right-of-use assets

December 31, 2021

	Bank Premises	Land and Land Improvements	Plant Buildings and Building Improvements	Machineries and Equipment	Total
Cost					
Balance at beginning of year	**₱2,402,908**	**₱1,219,878**	**₱74,544**	**₱49,538**	**₱3,746,868**
Additions/transfers	**3,352,354**	**25,836**	**53,519**	–	**3,431,709**
Transfers/others	**(371,138)**	–	–	–	**(371,138)**
Balance at end of year	**5,384,124**	**1,245,714**	**128,063**	**49,538**	**6,807,439**
Accumulated Depreciation, Amortization and Impairment Losses					
Balance at beginning of year	**1,176,303**	**115,605**	**22,258**	**22,474**	**1,336,640**
Depreciation and amortization	**564,168**	**41,784**	**26,232**	**11,665**	**643,849**
Transfers/others	**(95,647)**	–	–	–	**(95,647)**
Balance at end of year	**1,644,824**	**157,389**	**48,490**	**34,139**	**1,884,842**
Net Book Value	**₱3,739,300**	**₱1,088,325**	**₱79,573**	**₱15,399**	**₱4,922,597**

December 31, 2020

	Bank Premises	Land and Land Improvements	Plant Buildings and Building Improvements	Machineries and Equipment	Total
Cost					
Balance at beginning of year	₱2,279,267	₱1,185,608	₱73,661	₱49,538	₱3,588,074
Additions/transfers	122,420	34,270	883	–	157,573
Transfers/others	67,054	–	–	–	67,054
Effect of disposal group classified as held for sale (Note 37)	(65,833)	–	–	–	(65,833)
Balance at end of year	2,402,908	1,219,878	74,544	49,538	3,746,868
Accumulated Depreciation, Amortization and Impairment Losses					
Balance at beginning of year	568,067	70,542	4,911	10,809	654,329
Depreciation and amortization	1,159,449	45,063	17,347	11,665	1,233,524
Transfers/others	(527,337)	–	–	–	(527,337)
Effect of disposal group classified as held for sale (Note 37)	(23,876)	–	–	–	(23,876)
Balance at end of year	1,176,303	115,605	22,258	22,474	1,336,640
Net Book Value	₱1,226,605	₱1,104,273	₱52,286	₱27,064	₱2,410,228

Revaluation of Land and Land Improvements, Plant Buildings and Machineries and Equipment

The corresponding fair values of land and land improvements, plant buildings and building improvements, and machineries and equipment are determined based on valuation performed by Philippine SEC-accredited and independent appraisers. The fair value of the land was determined using the market data approach based on available market evidence and the fair values for land improvements, plant buildings, and machineries and equipment were derived using the depreciated replacement cost. The dates of the latest appraisal valuations were December 31, 2021, 2020, and 2018 (see Note 34).

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

	2021	2020
	(In Thousands)	
Revaluation increment on the property, plant and equipment, net of deferred income tax effect:		
Balance at beginning of year	**₱20,207,236**	₱20,930,672
Net revaluation increase	**1,176,887**	27,610
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	**(733,554)**	(751,046)
Balance at end of year	**₱20,650,569**	₱20,207,236
Attributable to:		
Equity holders of the Company	**₱12,964,177**	₱12,276,947
Non-controlling interests	**7,686,392**	7,930,289
	₱20,650,569	₱20,207,236

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

	2021	2020
	(In Thousands)	
Cost		
Land and land improvements	**₱9,425,784**	₱8,989,134
Plant buildings and improvements	**21,019,350**	17,730,503
Machineries and equipment	**32,328,420**	34,756,304
	62,773,554	61,475,941
Accumulated depreciation		
Land and land improvements	**(3,863,021)**	(3,574,926)
Plant buildings and improvements	**(13,080,488)**	(11,058,925)
Machineries and equipment	**(14,490,043)**	(15,791,097)
	(31,433,550)	(30,424,948)
	₱31,340,004	₱31,050,993

<u>Depreciation</u>
Depreciation of property, plant and equipment charged to operations is as follows:

	2021	2020	2019
		(In Thousands)	
Continuing operations:			
Cost of goods sold and services (Note 24)	**₱1,718,078**	₱1,611,117	₱1,490,522
Selling expenses (Note 25)	**476,052**	328,123	292,805
General and administrative expenses (Note 26)	**2,627,246**	2,720,215	2,548,348
	₱4,821,376	₱4,659,455	₱4,331,675

As of December 31, 2021 and 2020, the Group's "Construction in progress" under the "Property, plant and equipment" account pertains to AAC's major rehabilitation of plant facilities and PNB's construction of building.

Out of the total additions in 2021 and 2020, ₱34.4 million and ₱154.3 million remain to be unpaid as of December 31, 2021 and 2020, respectively, which represent non-cash investing activities.

Certain property and equipment of the Group with carrying amount of ₱92.6 million are temporarily idle as of December 31, 2021 and 2020, respectively.

Borrowing Costs

Unamortized capitalized borrowing costs amounted to ₱9.2 million and ₱9.9 million as of December 31, 2021 and 2020, respectively. The average capitalization rate used to determine the amount of borrowing costs eligible for capitalization was 4.5% in 2015. There was no borrowing cost capitalized in 2021, 2020 and 2019.

13. Investment Properties

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

	December 31, 2021				
	Land	**Buildings and Improvements**	**Residential Unit**	**Construction in Progress**	**Total**
Cost					
Balance at beginning of year	**₱22,151,980**	**₱14,845,043**	**₱42,096**	**₱3,322,539**	**₱40,361,658**
Additions	**280,030**	**304,609**	**5,839,117**	**644,309**	**7,068,065**
Disposals/transfers/others	**(3,588,873)**	**(1,472,926)**	–	–	**(5,061,799)**
Balance at end of year	**18,843,137**	**13,676,726**	**5,881,213**	**3,966,848**	**42,367,924**
Accumulated Depreciation and Impairment Losses					
Balance at beginning of year	**2,501,903**	**4,981,889**	**40,491**	–	**7,524,283**
Depreciation	–	**326,229**	**122,510**	–	**448,739**
Disposals/transfers/others	–	**(52,451)**	–	–	**(52,451)**
Balance at end of year	**2,501,903**	**5,255,667**	**163,001**	–	**7,920,571**
Net Book Value	**₱16,341,234**	**₱8,421,059**	**₱5,718,212**	**₱3,966,848**	**₱34,447,353**

	December 31, 2020				
	Land	Buildings and Improvements	Residential Unit	Construction in Progress	Total
Cost					
Balance at beginning of year	₱22,150,005	₱14,830,264	₱42,096	₱2,464,471	₱39,486,836
Additions	55,430	79,275	–	858,068	992,773
Disposals/transfers/others	(53,455)	(64,496)	–	–	(117,951)
Balance at end of year	22,151,980	14,845,043	42,096	3,322,539	40,361,658
Accumulated Depreciation and Impairment Losses					
Balance at beginning of year	2,501,903	4,313,001	40,491	–	6,855,395
Depreciation	–	556,356	–	–	556,356
Disposals/transfers/others	–	112,532	–	–	112,532
Balance at end of year	2,501,903	4,981,889	40,491	–	7,524,283
Net Book Value	₱19,650,077	₱9,863,154	₱1,605	₱3,322,539	₱32,837,375

The Group's investment properties consist of parcels of land for appreciation, residential and condominium units for lease and for sale, and real properties foreclosed or acquired in settlement of loans which are all valued at cost. Foreclosed investment properties still subject to redemption period by the borrowers amounted to ₱229.8 million and ₱181.2 million as of December 31, 2021 and 2020, respectively. The Group is exerting continuing efforts to dispose these properties.

In 2016, the Group reclassified certain properties from “property, plant and equipment” to “Investment property” with aggregate carrying amount of ₱4.7 billion. These properties mainly consist of the office spaces in the Allied Bank Center in Makati City leased out and land in Buendia, Makati City being held for future development.

As of December 31, 2021 and 2020, the Group’s “Construction in progress” under the “Investment property” account pertains to the construction of building intended for leasing and which is expected to be completed in 2025.

Fair Values of Investment Properties

Below are the fair values of the investment properties as of December 31, 2021, which were determined by professionally qualified, SEC-accredited and independent appraisers based on market values *(in thousands)*:

Property	Approach	Fair Value	Valuation Report Date
Land	Market approach	₱37,297,522	December 31, 2021
Building and improvements	Market approach	20,036,189	December 31, 2021
		₱57,333,711	

The estimated fair value of the land and building and improvements was arrived at using the Market Approach. In this approach, the value of the land and building were based on sales and listings of comparable property registered within the vicinity. The approach requires the adjustments of comparable property by reducing reasonable comparative sales and listings to a common denominator.

The valuations were performed by Philippine SEC-accredited and independent valuer. The valuation model used in accordance with that recommended by the International Valuation Standards Council has been applied. These valuation models are consistent with the principles in PFRS 13.

The fair values of land and building and improvements were updated to reflect the value of comparable property registered within the vicinity as of December 31, 2021.

The fair value of investment properties of the Group was determined using acceptable valuation approaches and both observable and unobservable inputs (see Note 34).

Rent Income and Direct Operating Expenses of Investment Properties

Rental income and direct operating expenses arising from the investment properties of property development segment amounted to ₱1,893.7 million and ₱724.1 million in 2021, ₱1,757.7 million and ₱466.6 million in 2020 and ₱1,707.8 million and ₱444.1 million in 2019, respectively (see Note 24). Rental income of the banking segment on its investment properties is presented under “Other income (charges)” (see Note 28).

Depreciation of investment properties charged to operations follows:

	2021	2020	2019
		(In Thousands)	
Cost of rental income (Note 24)	**₱295,588**	₱296,517	₱400,369
General and administrative expenses (Note 26)	**153,151**	259,839	127,654
	₱448,739	₱556,356	₱528,023

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14. **Other Noncurrent Assets**

Other noncurrent assets consist of:

	2021	2020
	(In Thousands)	
Software costs	**₱2,538,411**	₱2,680,548
Deferred charges	**1,065,090**	859,031
Prepaid excise taxes (Note 37)	**801,820**	801,820
Creditable withholding taxes	**449,842**	396,550
Net retirement plan assets (Note 23)	**268,910**	249,437
Distribution network access	**229,401**	243,738
Chattel properties - net	**227,187**	115,356
Goodwill	**163,735**	163,735
Advances to suppliers	**147,016**	207,828
Deferred input VAT	**136,399**	496,205
Refundable and security deposits	**8,370**	206,931
Others - net	**1,220,637**	941,915
	7,256,818	7,363,094
Allowance for probable losses	**(1,479,432)**	(1,314,007)
	₱5,777,386	₱6,049,087

a. Movements in software costs are as follows:

	2021	2020
	(In Thousands)	
Balance at beginning of year	**₱2,680,548**	₱2,326,055
Additions	**661,544**	786,764
Amortization (Note 26)	**(461,630)**	(418,958)
Effect of disposal group classified as held for sale (Note 37)	**–**	(5,134)
Other adjustments	**(342,051)**	(8,179)
Balance at end of year	**₱2,538,411**	₱2,680,548

Additions to software costs pertain primarily to the upgrade of the core banking system of the banking segment.

b. In 2018, the Group reclassified the prepaid excise taxes of TDI from “Other current assets” to “Other noncurrent assets” in light of the Court of Tax Appeals decision dated February 7, 2019.

c. Deferred input VAT arises mainly from the acquisition of capital goods.

d. The distribution network access, which was acquired on March 31, 2017, covers APB Myanmar’s relations with Myanmar Distribution Group, its exclusive distributor.

e. Refundable deposits consist principally of amounts paid by the property development segment to its utility providers for service applications and guarantee deposit to Makati Commercial Estate Association (MACEA) for plans processing, monitoring fee and development charge of the Group’s projects. Deposits paid to utility companies will be refunded upon termination of the service contract while guarantee deposit paid to MACEA will be refunded upon project completion.

f. The Group recognized goodwill which pertains mainly to ADI amounting to ₱144.7 million, respectively. As of December 31, 2021 and 2020, the Group performed its annual impairment testing of goodwill related to its CGUs, ADI.

The recoverable amount of ADI is determined based on value-in-use calculations using cash flow projections from financial budgets approved by management covering a five-year period. The projected cash flows have been updated to reflect the increase in demand for products based on TDI's projected sales volume increase, selling price increase and cost and expenses increase. The pre-tax discount rate applied to the cash flow projection is 10.5% and 9.8% in 2021 and 2020, respectively. The growth rate used to extrapolate the cash flows of until beyond the five-year period is 6.0% as of December 31, 2021 and 6.5% as of December 31, 2020. Management assessed that this growth rate is comparable with the average growth for the industry in which ADI operates. Management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of ADI to exceed its recoverable amount, which is based on value-in-use. As of December 31, 2021 and 2020, the recoverable amount of ADI is higher than its carrying value.

g. As of December 31, 2021 and 2020, accumulated depreciation on chattel mortgage properties acquired by the Group in settlement of loans amounted to ₱241.8 million and ₱140.1 million, respectively. As of December 31, 2021 and 2020, the total recoverable value of certain chattel mortgage properties of PNB that were impaired is at ₱0.9 million.

h. The Group has receivable from an SPV amounting to ₱500 million. This represents fully provisioned subordinated notes received by the Group from Golden Dragon Star Equities and its assignee, Opal Portfolio Investing, Inc. (an SPV), relative to the sale of certain non-performing assets of the Group.

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

j. Movements in the allowance for probable losses on non-current assets follow:

	2021	2020
	(In Thousands)	
Balance at beginning of year	**₱1,314,007**	₱1,058,123
Provisions:		
Continuing operations (Note 28)	**165,425**	677,089
Discontinued operation	–	(527)
Transfers and others	–	(391,085)
Effect of discontinued operations	–	(29,593)
	₱1,479,432	₱1,314,007

15. **Deposit Liabilities**

	2021	2020
	(In Thousands)	
Demand	**₱216,367,830**	₱199,770,048
Savings	**484,227,339**	415,835,439
Time	**179,974,944**	264,906,076
	880,570,113	880,511,563
Presented as noncurrent	**(38,508,755)**	(58,380,208)
	₱842,061,358	₱822,131,355

Of the total deposit liabilities of the Group, ₱28.6 billion and ₱30.0 billion are non-interest bearing as of December 31, 2021 and 2020, respectively. Annual interest rates of the remaining deposit liabilities follow:

	2021	2020
Foreign-currency denominated deposit liabilities	**0.01% to 3.00%**	0.01% to 4.75%
Peso-denominated deposit liabilities	**0.10% to 6.75%**	0.10% to 10.00%

Under existing BSP regulations, non-FCDU deposit liabilities of PNB is subject to reserves equivalent to 12.00%. As of December 31, 2021 and 2020, available reserves booked under "Due from BSP" amounted to ₱81.3 billion and ₱80.0 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 2021**	**Carrying Value** 2020
October 11, 2019	April 11, 2025	₱4,600,000	4.38%	Quarterly	**₱4,578,946**	₱4,573,124
February 27, 2019	August 27, 2024	8,220,000	5.75%	Quarterly	**8,187,523**	8,176,616
October 26, 2017	April 26, 2023	6,350,000	3.88%	Quarterly	**6,339,910**	6,332,653
April 27, 2017	October 27, 2022	3,765,000	3.75%	Quarterly	**3,761,261**	3,756,911
December 6, 2016	June 6, 2022	5,380,000	3.25%	Quarterly	**5,377,750**	5,372,730
		₱1,274,175,000			**₱28,245,390**	₱28,212,034

Other significant terms and conditions of the above LTNCDs follow:

a. Issue price at 100.00% of the face value of each LTNCD.

b. The LTNCDs bear interest rate per annum on its principal amount from and including the Issue Date thereof, up to but excluding the Early Redemption Date or Maturity Date (as the case may be). Interest in respect of the LTNCD will be calculated on an annual basis and will be paid in arrears quarterly on the last day of each successive Interest Period.

c. Unless earlier redeemed, the LTNCDs shall be redeemed by PNB on maturity date at an amount equal to one hundred percent (100%) of the aggregate issue price thereof, plus any accrued and unpaid interest thereon. The LTNCDs may not be redeemed at the option of the holders.

d. The LTNCDs constitute direct, unconditional, unsecured, and unsubordinated obligations of PNB, enforceable according to the related Terms and Conditions, and shall at all times rank paripassu and without any preference or priority among themselves and at least paripassu with all other present and future direct, unconditional, unsecured, and unsubordinated obligations of the Issuer, except for any obligation enjoying a statutory preference or priority established under Philippine laws.

e. Subject to the "Events of Default" in the Terms and Conditions, the LTNCDs cannot be pre-terminated at the instance of any CD Holder before Maturity Date. In the case of an event of default, none of the CD Holders may accelerate the CDs on behalf of other CD Holders, and a CD Holder may only collect from PNB to the extent of his holdings in the CDs. However, PNB may, subject to the General Banking Law of 2000, Section X233.9 of the Manual of Regulations for Banks, Circular No. 304 Series of 2001 of the BSP and other related circulars and issuances, as may be amended from time to time, redeem all and not only part of the outstanding CDs on any Interest Payment Date prior to Maturity Date, at an Early Redemption Amount equal to the Issue Price plus interest accrued and unpaid up to but excluding the Early Redemption Date.

f. The LTNCDs are insured by the PDIC up to a maximum amount of ₱0.5 million subject to applicable laws, rules and regulations, as the same may be amended from time to time.

g. Each Holder, by accepting the LTNCDs, irrevocably agrees and acknowledges that: (a) it may not exercise or claim any right of set-off in respect of any amount owed to it by PNB arising under or in connection with the LTNCDs; and (b) it shall, to the fullest extent permitted by applicable law, waive and be deemed to have waived all such rights of set-off.

Interest expense on deposit liabilities presented under "Cost of banking services" amounted to ₱4.8 billion, ₱7.3 billion and ₱13.6 billion in 2021, 2020 and 2019, respectively (see Note 24).

In 2021, 2020 and 2019, interest expense on LTNCDs of the Group includes amortization of transaction costs amounting to ₱33.4 million, ₱59.9 million and ₱40.5 million, respectively. Unamortized transaction costs of the LTNCDs amounted to ₱69.6 million and ₱103.0 million as of December 31, 2021 and 2020, respectively.

16. Financial Liabilities at Fair Value through Profit or Loss (FVTPL)

Financial liabilities at fair value through profit or loss consist of derivatives liabilities amounting to ₱891.5 million and ₱701.2 million as of December 31, 2021 and 2020, respectively (see Notes 21 and 33).

17. Bills and Acceptances Payable

Bills and acceptances payable consist of:

	2021	2020
	(In Thousands)	
Bills payable to:		
BSP and local banks	**₱37,482,381**	₱33,116,145
Foreign banks	**8,263,434**	50,482,387
Others	**98,086**	–
	45,843,901	83,598,532
Acceptances outstanding	**7,109,896**	3,560,918
	52,953,797	87,159,450
Presented as noncurrent	**(3,173,443)**	(14,181,368)
	₱49,780,354	₱72,978,082

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Annual interest rates are shown below:

	2021	2020	2019
Foreign currency-denominated borrowings	**0.1% to 1.2%**	0.1% to 4.4%	0.2% to 4.4%
Peso-denominated borrowings	**1.0% to 2.0%**	4.0% to 6.5%	4.0% to 5.4%

As of December 31, 2021 and 2020, bills payable with a carrying amount of ₱38.5 billion and ₱69.9 billion are secured by a pledge of financial assets at FVTOCI with fair values of ₱32.8 billion and ₱44.6 billion, respectively, and investment securities at amortized cost with carrying values of ₱5.3 billion and ₱26.1 billion, respectively, and fair values of ₱5.6 billion and ₱27.6 billion, respectively (see Note 7).

Interest expense on bills payable is included under "Cost of banking services" amounting to ₱0.5 billion in 2021, ₱2.9 billion in 2020 and ₱2.2 billion in 2019 (see Note 24).

18. **Accounts Payable and Accrued Expenses**

Accounts payable and accrued expenses consist of:

	2021	2020
	(In Thousands)	
Trade payables	**₱3,154,756**	₱7,821,737
Nontrade payables	**506,615**	637,021
Accrued expenses:		
Other benefits - monetary value of leave credits	**2,358,716**	1,859,275
Purchase of materials and supplies and others	**2,154,293**	2,253,204
PDIC insurance premiums	**1,191,720**	832,069
Project development costs	**1,167,420**	1,290,090
Advertising and promotional expenses	**985,735**	905,604
Taxes and licenses	**905,539**	979,412
Accrued nterest	**816,859**	1,071,842
Information technology-related expenses	**665,191**	331,627
Retention payable	**613,124**	1,538,458
Rent and utilities payable	**178**	185,695
Due to government agencies	**457,006**	223,225
Output VAT	**395,637**	151,801
Other payables	**2,742,872**	767,984
	₱18,115,661	₱20,849,044

Trade Payables

Trade payables are non-interest bearing and are normally settled on 30 to 60 days terms. Trade payables arise mostly from trade purchases of the banking group and purchases of inventories, which include raw materials and indirect materials (i.e., packaging materials) and supplies, for use in manufacturing and other operations.

Trade payables also include importation charges related to raw materials purchases, as well as occasional acquisitions of production equipment and spare parts.

Retention Payable
Retention payable is the amount deducted from the total billing of the contractor which will be paid upon completion of the contracted services of Eton.

Accrued Project Development Costs
Accrued project development costs represent costs incurred by the Property Development segment in the development and construction of real estate projects.

Other Payables
Other payables include outside services, travel and transportation, employee benefits, management, director and other professional fees of the Group which are not individually material

19. Short-term and Long-term Debts

Short-term Debts
As of December 31, 2021 and 2020, outstanding unsecured short-term debts amounted to ₱3,940.0 million and ₱4,740.0 million, respectively. The loans, which are subject to annual interest rates ranging from 3.3% to 5.0% in 2021 and 3.7% to 7.0% in 2020, are payable lump-sum on various dates within one year and subject to renewal upon agreement by the Group and counterparty banks.

Long-term Debts

	2021	2020
	(In Thousands)	
Bonds payable	**₱53,383,421**	₱64,056,335
Lease liabilities (Note 37)	**5,144,046**	2,775,256
Unsecured term loans	**4,115,867**	2,911,053
	62,643,334	69,742,644
Current portion	**(3,597,299)**	(14,527,082)
	₱59,046,035	₱55,215,562

PNB's Bonds Payable
The fixed rate medium term senior notes are drawdowns from PNB's Medium Term Note Programme (the MTN Programme), which was established on April 13, 2018 with an initial nominal size of US$1.0 billion. On June 14, 2019, PNB increased the size of its MTN Programme to US$2.0 billion. Both issued fixed rate medium term senior notes are listed in the Singapore Exchange Securities Trading Limited.

The fixed rate bonds represent PNB's maiden issuance of Philippine peso-denominated bonds in Philippine Dealing & Exchange Corp.

As of December 31, 2021 and 2020, the unamortized transaction cost of bonds payable amounted to ₱168.7 million and ₱252.2 million. Amortization of transaction costs amounting to ₱83.5 million and ₱169.5 million was charged to 'Interest expenses - bonds payable' in the consolidated statement of income (Note 19).

Unsecured term loans of Eton
On January 28, 2013, Eton entered into an unsecured term loan agreement with Banco de Oro (BDO) amounting to ₱2.0 billion to finance the construction of Eton projects. The term loan bears a nominal interest rate of 5.53% and will mature on January 26, 2018. Principal repayments will start one year from the date of availment and are due annually while interest payments are due quarterly starting April 28, 2014. Effective on October 28, 2013, Eton and BDO agreed to the new interest rate of 4.75%. Eton settled the outstanding loans upon their maturity in January 2018.

In 2016, Eton entered into an unsecured term loan agreement with Asia United Bank (AUB) amounting to ₱1.5 billion, to finance the construction of Eton's projects. The term loan bears a nominal interest rate of 5% and will mature on September 28, 2023. Principal repayments will commence two years from the date of availment and are due quarterly while interest payments are due quarterly starting December 28, 2016.

In 2018, Eton entered into an unsecured term loan agreement with Bank of the Philippine Islands (BPI) amounting to ₱5.0 billion to finance the construction of the Eton's projects. On July 31, 2018, ₱0.5 billion was initially drawn and an additional ₱1.0 billion on September 26, 2018. The term loan with BPI has a nominal rate of 6.8% and 7.9% for the first and second drawdown, respectively. In 2021 and 2020, Eton availed loan drawdowns totaling to ₱1,700.0 million and ₱1,800.0 million, respectively, with a nominal rate of 5% for each of the drawdown. Principal repayments will commence a year from the date of initial borrowing and due quarterly, while interest payments are due quarterly.

Finance costs
Interest recognized on short-term and long-term debts, except for subordinated debts, are presented under "Finance costs" in the consolidated statements of income (see Note 27). Interest costs from subordinated debts are included in the "Cost of banking services" (see Note 24).

Compliance with debt covenants
As of December 31, 2021 and 2020, the Group has complied with the financial and non-financial covenants of its long-term debts.

20. **Other Liabilities**

	2021	2020
	(In Thousands)	
Customers' deposits	**₱1,475,684**	₱997,714
Deferred revenue	**1,391,578**	1,136,585
Dormant credits	**1,303,713**	1,258,502
Managers' checks and demand drafts outstanding	**1,256,121**	1,302,745
Provisions (Note 37)	**1,095,325**	979,067
Payable to landowners	**1,061,191**	1,061,191
Bills purchased - contra (Note 8)	**1,053,517**	1,548,226
Due to Treasurer of the Philippines	**882,769**	675,835
Deposit on lease contracts	**593,903**	878,193
Interoffice floats	**537,628**	537,628
Tenants' rental deposits	**411,502**	428,191
Margin deposits and cash letters of credit	**325,829**	329,432
Withholding taxes payable	**309,897**	265,884

(Forward)

	2021	2020
	(In Thousands)	
Advance rentals	**₱217,857**	₱71,607
Due to other banks	**213,257**	537,116
Payment order payable	**196,718**	263,959
Miscellaneous tax securities	**131,875**	223,204
Others	**5,963,191**	3,211,751
	18,421,555	15,706,830
Noncurrent portion	**(9,040,491)**	(5,526,724)
	₱9,381,064	₱10,180,106

Payables to Landowners
In various dates in 2014, Eton executed a ₱1,061.2 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 ₱1.3 billion. In June 2017, the payment of the various promissory notes were extended for another three years.

Interest expense related to payables to landowners amounted to ₱50.3 million and ₱62.7 million, net of capitalized portion of ₱10.1 million and ₱13.5 million in 2020 and 2019, respectively (nil in 2021) [see Notes 12, 13 and 27].

Customers' Deposits
Customers' deposits represent payments from buyers of residential units which will be applied against the corresponding contracts receivables which are recognized based on the revenue recognition policy of the Group. This account includes the excess of collections over the recognized receivables amounting to ₱995.1 million and ₱997.7 million as of December 31, 2021 and 2020, respectively.

Deposits and Deferred Credits
Other liabilities of the property development segment include tenants' rental deposits, advance rentals and other deferred credits. Security deposits pertain to the amounts paid by the tenants at the inception of the lease which is refundable at the end of the lease term. Advance rentals pertain to deposits from tenants which will be applied against receivables either at the beginning or at the end of lease term depending on the lease contract. Deferred credits represent the excess of the principal amount of the security deposits over its fair value. Amortization of deferred credits is included in "Rental income" in the consolidated statements of income (see Note 14).

Others
Other liabilities pertains to banking segment's liabilities which include insurance contract liabilities, accounts payable, bills purchased - contra, remittance-related payables, overages, advance rentals and sundry accounts.

21. Derivative Financial Instruments

The table in the next page show the fair values of derivative financial instruments entered into by the Group, recorded as derivative assets or derivative liabilities (included under "Financial assets and liabilities at FVTPL") , together with the notional amounts. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding as of December 31, 2021 and 2020 and are not indicative of either market risk or credit risk (amounts in thousands, except average forward rate).

	December 31, 2021				December 31, 2020			
	Assets	**Liabilities**	**Average Forward Rate**	**Notional Amount***	Assets	Liabilities	Average Forward Rate	Notional Amount*
				(In Thousands)				
Freestanding derivatives:								
Currency forwards								
BUY:								
USD	**₱1,355,660**	**₱274**	**51.00**	**₱3,861,673**	₱3,819	₱556,154	48.02	₱3,088,554
JPY	–	–	–	–	–	–	–	–
HKD	–	–	–	–	163	–	0.13	1,584,875
CNY	–	–	–	–	–	–	–	–
GBP	**47**	**16**	**1.35**	**6,325**	–	186	1.35	800
EUR	**6**	**5**	**1.13**	**12,645**	11	30	1.22	8,216
SGD	**31**	–	**0.74**	**1**	–	–	–	–
AUD	–	–	–	–	2,373	–	0.76	68,028
PHP	–	**1,544**	**1.00**	**1,788,750**	123	–	1.00	2,401,273
SELL:								
USD	**990**	**887,819**	**51.00**	**1,374,345**	212,405	120	48.02	877,320
CAD	**141**	**11**	**0.78**	**2,125**	91	84	0.78	9,461
GBP	**30**	**884**	**1.35**	**8,500**	1,163	–	1.35	2,500
HKD	**1,714**	**108**	**0.13**	**2,217,580**	19	51	0.13	726,829
EUR	**2**	**153**	**1.13**	**19,443**	–	3,823	1.22	16,700
JPY	**6,124**	**9**	**0.01**	**1,080,000**	12	665	0.01	1,170,000
SGD	**16**	**436**	**0.74**	**1,400**	–	440	0.75	708
AUD	–	**228**	**0.72**	**500**	–	200	0.76	400
NZD	–	**36**	**0.68**	**400**	63	–	0.71	350
PHP	**290**	**8**	**1.00**	**509,708**	3	23	1.00	7,023
Interest rate swaps	–	–	–	–	150,408	139,463	–	–
	₱1,365,051	**₱891,531**			₱370,653	₱701,239		

** The notional amounts pertain to the original currency except for the embedded derivatives, which represent the equivalent to USD amount.*

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

	2021	2020
	(In Thousands)	
Balance at beginning of year		
Derivative assets	**₱370,653**	₱373,040
Derivative liabilities	**701,239**	245,619
	(330,586)	127,421
Changes in fair value		
Currency forwards and spots*	**805,748**	(459,964)
Interest rate swaps and warrants**	**(23,472)**	(2,532)
	782,276	(462,496)
Availments	**21,830**	4,489
Balance at end of year		
Derivative assets	**1,365,051**	370,653
Derivative liabilities	**891,531**	701,239
	₱473,520	(₱330,586)

** Presented as part of "Foreign exchange gains".*
*** Presented as part of "Trading and investment securities gains-net"*

The changes in fair value of the derivatives are included in "Trading and securities gains - net" presented as part of "Banking revenues" in the consolidated statements of income (see Note 24).

22. Related Party Transactions

The Company has transacted with its subsidiaries, associates and other related parties as follows:

Parent Company, Subsidiaries, Associates and Joint Ventures

Parent Company
Tangent

Subsidiaries
TDI and Subsidiaries
AAC
ADI
TBI
ABI and Subsidiaries
AB Nutribev
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.

Associates
APLII
AB HPI
PMFTC
VMC

Joint Ventures
ABI Pascual Holdings
ABI Pascual Foods
AEPDC

Entities Under Common Control
Ascot Holdings, Inc.
Basic Holdings Corporation
Billinge 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.
Grandspan 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	2021	2020	2019
			(In Thousands)	
Associates	Dividend income	**₱20,749,480**	₱21,751,985	₱9,778,726
	Purchases of inventories	**(794,530)**	(427,183)	(547,273)
	Sales	**–**	418,772	516,812
	Leases	**35,100**	35,100	35,100
Entities Under Common Control	Banking revenue - interest on loans and receivables	**575,833**	1,895,183	1,255,819
	Rent income	**35,719**	28,001	17,968
	Interest income on loans and advances	**51,737**	22,688	23,090
	Sales of consumer products	**7,405**	7,331	30,656
	Other income	**86,856**	96,523	73,199
	Freight and handling	**(8,676)**	(17,517)	(13,802)
	Purchases of inventories	**(6,785)**	(6,479)	(6,336)
Entities Under Common Control	Management and professional fees	**(558,372)**	(558,372)	(581,793)
	Cost of banking services - interest expense on deposit liabilities	**(211,108)**	(99,403)	(246,104)
	Outside services	**–**	(71,771)	(71,668)
	Rent expense	**–**	(23,710)	(23,698)
	Cost of goods sold and services	**(866)**	(1,213)	(2,035)
	Advertising expense	**–**	–	(130)
Key Management	Short-term employee benefits	**(460,711)**	(587,077)	(572,547)
	Post-employment benefits	**(50,629)**	(70,204)	(77,652)

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

	Financial Statement Account	Terms and Conditions	Amount/Volume 2021	Amount/Volume 2020	Outstanding Balance 2021	Outstanding Balance 2020
			(In Thousands)			
Parent Company	Due to related parties	On demand; non-interest bearing	**₱–**	₱–	**(₱15,325)**	(₱15,325)
	Due from related parties	120 days term; 2.5% interest per annum	**5,729,300**	–	**6,238,300**	509,000
Associates	Other receivables - dividends	Payable monthly	**20,749,480**	21,751,985	**–**	–
	Trade receivables	- do -	**–**	418,772	**121,253**	141,405
	Nontrade receivables	- do -	**–**	258,057	**8,928**	8,928
	Account payable and other liabilities	30 to 60 days terms; non-interest bearing	**794,530**	(427,183)	**–**	(352,912)
Entities Under Common Control	Finance receivables	Secured by hold-out on deposits, government securities, real estate and mortgage trust indenture; Unimpaired; With interest rates ranging from 2.20% to 9.70% with maturity terms ranging from 60 days to 12 years and payment terms of ranging from monthly to quarterly payments; with aggregate allowance for credit losses of ₱9.6 billion	**575,833**	1,895,183	**57,580,429**	41,772,870
	Trade receivables	- do -	**7,405**	7,331	**21,665**	19,456
	Other receivables	- do -	**86,856**	96,523	**27,480**	11,675
	Due from related parties	On demand; non-interest bearing	**1,732**	100,000	**1,447,234**	1,445,502
	Advances to suppliers	- do -	**866**	(2,525)	**501**	501
	Deposit liabilities	With annual rates ranging from 0.10% to 1.50% and maturity ranging from 30 days to 365 days	**15,060,480**	5,918,653	**36,117,192**	21,056,712
	Account payable and other liabilitites	30 to 90 days terms; non-interest bearing	**(139,703)**	(37,852)	**478,265**	(338,562)
	Due to related parties	On demand; non-interest bearing	**–**	–	**(50,000)**	(50,000)
	Other payables	30 to 90 days terms; non-interest bearing	**–**	–	**–**	–

As of December 31, 2021 and 2020, the outstanding related party balances are unsecured and settlement occurs in cash, unless otherwise indicated. The Group has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related parties and the market in which these related parties operate.

Other terms and conditions related to the above related party balances and transactions are as follows:

Transactions with Tangent, parent company

- In December 2021, Tangent obtained interest-bearing loans from the Group totaling ₱5.7 billion with a term of 120 days.

- In 2021 and 2020, the Group declared cash dividends to stockholders of which ₱8.7 billion and ₱6.5 billion, respectively were paid to Tangent.

Transactions with Associates

- Dividend income from PMFTC amounted to ₱20.7 billion in 2021 and ₱21.8 billion in 2020 (see Note 11).

- The Group purchases raw materials such as raw and refined sugar and molasses from VMC.

- ABI entered into an operating lease agreement with AB HPI to lease portions of its two breweries, in Cabuyao, Laguna and El Salvador, Misamis Oriental, subject to the terms and conditions of an asset lease agreement signed last November 15, 2016. The lease has a fixed yearly increase as specified in the contract.

- ABI sold inventories to AB HPI aside from the nonmonetary assets sold on November 15, 2016, including work in progress, amounting to ₱423.3 million. In 2021 and 2020, ABI rendered services in favor of AB HPI related to supplies, both imported and locally-purchased, advertising expense, promotions, professional fees, engineering fee and shared expenses in the plant.

  In 2020, in accordance with the Termination Deed, ABI acquired fixed assets, including beer equipment, inventories and spare parts, from AB HPI for purchase price totaling to ₱1.6 billion.

Transactions with Entities under Common Control

- Due to related parties include cash advances provided to the Group to support its working capital requirements.

- Several subsidiaries of the Group entered into management services agreements with Basic Holdings Corporation for certain considerations. Management fees are recorded under "Outside services" in "Cost of goods sold" and "Professional fees" in the "General and administrative expenses".

- The property development segment purchases parcels of land from other related parties for use in its various projects.

- Several entities under common control maintain peso and foreign currency denominated deposits and short-term and long-term loans with PNB. Interest income and financing charges related to these transactions are reported under “Banking revenue” and “Cost of banking services”, respectively (see Note 24).

23. Retirement Benefits

The Group has funded, noncontributory defined benefit retirement plans, administered by a trustee, covering all of its permanent employees. As of December 31, 2021 and 2020, the Group is in compliance with Article 287 of the Labor Code, as amended by Republic Act No. 7641.

Details of the Group’s net retirement plan assets and liabilities are as follows:

	2021	2020
	(In Thousands)	
Net retirement plan assets:		
FTC	**₱256,485**	₱241,252
LTG	**1,940**	6,068
TBI	**10,485**	2,117
	₱268,910	₱249,437
Net retirement benefits liabilities:		
PNB and subsidiaries	**₱920,581**	₱1,206,350
ABI and subsidiaries	**640,422**	984,644
Eton and subsidiaries	**141,134**	143,733
ADI	**46,556**	39,661
AAC	**56,184**	38,628
TDI	**12,780**	5,621
	₱1,817,657	₱2,418,637

The following tables summarize the components of net retirement plan assets and net retirement benefits liability recognized in the consolidated statements of financial position, the net benefit expenses recognized in the consolidated statements of income and the remeasurement losses (gains) recognized in consolidated statements of comprehensive income.

Net retirement plan assets:

	2021			2020			2019		
	Defined Benefit Obligations	**Fair Value of Plan Assets**	**Net Retirement Plan Assets**	Defined Benefit Obligations	Fair Value of Plan Assets	Net Retirement Plan Assets	Defined Benefit Obligations	Fair Value of Plan Assets	Net Retirement Plan Assets
					(In Thousands)				
Beginning balance	**₱125,747**	**(₱375,184)**	**(₱249,437)**	₱157,751	(₱417,710)	(₱259,959)	₱201,030	(₱481,494)	(₱280,464)
Change in status of retirement plan	**–**	**–**	**–**	(62,878)	65,525	2,647	–	–	–
Net retirement benefits expense (income) in profit or loss:									
Current service cost	**6,577**	**–**	**6,577**	16,934	(1,465)	15,469	10,478	(1,380)	9,098
Net interest cost	**4,851**	**(14,520)**	**(9,669)**	5,040	(16,381)	(11,341)	7,389	(26,178)	(18,789)
	11,428	**(14,520)**	**(3,092)**	21,974	(17,846)	4,128	17,867	(27,558)	(9,691)
Contributions	**–**	**(8,030)**	**(8,030)**	–	(8,030)	(8,030)	(655)	(3,620)	(4,275)
Benefits paid	**(4,835)**	**4,835**	**–**	–	–	–	(3,995)	3,995	–
Remeasurement losses (gains) in other comprehensive income - actuarial changes arising from changes in:									
Financial assumptions	**4,256**	**–**	**4,256**	19,040	–	19,040	32,296	–	32,296
Demographic assumptions	**–**	**11,088**	**11,088**	–	894	894	–	(8,841)	(8,841)
Experience adjustments	**(25,510)**	**1,815**	**(23,695)**	(10,140)	1,983	(8,157)	11,927	(911)	11,016
	(21,254)	**12,903**	**(8,351)**	8,900	2,877	11,777	44,223	(9,752)	34,471
Ending balance	**₱111,086**	**(₱379,996)**	**(₱268,910)**	₱125,747	(₱375,184)	(₱249,437)	₱258,470	(₱518,429)	(₱259,959)

Net retirement benefits liabilities:

	2021			2020			2019		
	Defined Benefit Obligations	**Fair Value of Plan Assets**	**Accrued Retirement Benefits**	Defined Benefit Obligations	Fair Value of Plan Assets	Accrued Retirement Benefits	Defined Benefit Obligations	Fair Value of Plan Assets	Accrued Retirement Benefits
					(In Thousands)				
Beginning balance	**₱11,130,110**	**(₱8,711,473)**	**₱2,418,637**	₱11,334,593	(₱9,634,850)	₱1,699,743	₱9,239,745	(₱7,601,607)	₱1,638,138
Change in status of retirement plan	–	–	–	62,878	(65,525)	(2,647)	–	–	–
Net retirement benefits cost in profit or loss:									
Current service cost	**970,694**	–	**970,694**	832,107	–	832,107	625,316	–	625,316
Net interest cost	**385,429**	**(300,486)**	**84,943**	445,783	(325,044)	120,739	542,042	(431,789)	110,253
Past service cost	–	–	–	25,454	–	25,454	3,774	–	3,774
	1,356,123	**(300,486)**	**1,055,637**	1,303,344	(325,044)	978,300	1,171,132	(431,789)	739,343
Contributions	**(750,120)**	**(209,028)**	**(959,148)**	–	(1,117,108)	(1,117,108)	(1,000)	(1,904,683)	(1,905,683)
Benefits paid from plan assets	**(686,967)**	**686,967**	–	(537,982)	537,982	–	(419,579)	419,579	–
Benefits paid directly from book reserves	–	–	–	(1,440)	–	(1,440)	(20,590)	–	(20,590)
Settlement benefits paid directly by the Company	–	–	–	(6,092)	–	(6,092)	–	–	–
Remeasurement losses (gains) in other comprehensive income - actuarial changes arising from changes in:									
Financial assumptions	**(647,100)**	–	**(647,100)**	1,052,016	–	1,052,016	1,322,604	–	1,322,604
Demographic assumptions	–	–	**-**	(55,142)	–	(55,142)	(26,893)	–	(26,893)
Experience adjustments	**(294,650)**	**244,281**	**(50,369)**	(243,410)	128,580	(114,830)	69,174	(116,350)	(47,176)
	(941,750)	**244,281**	**(697,469)**	753,464	128,580	882,044	1,364,885	(116,350)	1,248,535
Effect of disposal group classified as held for sale	–	–	–	(62,899)	48,736	(14,163)	–	–	–
Ending balance	**₱10,107,396**	**(₱8,289,739)**	**₱1,817,657**	₱12,845,866	(₱10,427,229)	₱2,418,637	₱11,334,593	(₱9,634,850)	₱1,699,743

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

	2021	2020
	(In Thousands)	
Cash and cash equivalents	**₱3,934,168**	₱4,030,216
Receivables	**84,364**	230,309
Equity investments:		
Financial institutions	**1,017,676**	748,372
Other	**953,003**	844,956
Debt investments:		
Investment in private debt securities	**587,954**	2,542,429
Investments in government securities	**2,011,167**	1,745,693
Others	**81,403**	660,440
Fair value of plan assets	**₱8,669,735**	₱10,802,415

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

	2021	2020
Cash and cash equivalents	**45%**	37%
Receivables	**1%**	2%
Equity investments	**23%**	15%
Debt investments	**30%**	40%
Others	**1%**	6%
Fair value of plan assets	**100%**	100%

The overall investment policy and strategy of the Group's defined benefit plans is guided by the objective of achieving an investment return which, together with contributions, ensures that there will be sufficient assets to pay pension benefits as they fall due while also mitigating the various risk of the plans. The plan assets have diverse investments and do not have concentration risk.

The Group's defined pension plan are funded through the contributions made by the Group to the trust.

The principal assumptions used in determining pension benefit obligations for the Group's plans as of January 1 are shown below:

	2021	2020	2019
Discount rate	**3.45%-7.37%**	3.4%-3.8%	4.7%-5.1%
Future salary increases	**3.0%-10.0%**	3.0%-10.0%	4.0%-8.0%

As of December 31, 2021, the discount and future salary increase rates are 4.7%-5.1% and 4-8%, respectively.

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

	2021		2020	
	Change in rate	**Increase (Decrease) in Present Value of Defined Benefit Obligations**	Change in rate	Increase (Decrease) in Present Value of Defined Benefit Obligations
Discount rates	**0.50%**	**(₱729,343)**	0.50%	(₱788,245)
	-0.50%	**799,196**	-0.50%	854,060
Future salary increases	**1.00%**	**895,656**	1.00%	986,359
	-1.00%	**(785,500)**	-1.00%	(537,972)

Full actuarial valuations were performed to test the sensitivity of the defined benefit obligation to a 1% increment in salary increase rate, 0.5% decrement in the discount rate and a 10% improvement in the employee turnover rate. The results also provide a good estimate of the sensitivity of the defined benefit obligation to a 1% decrement in salary increase rate, 0.5% increment in the discount rate and a 10% increase in the employee turnover rate but with reverse impact.

The Group employs asset-liability matching strategies to maximize investment returns at the least risk to reduce contribution requirements while maintaining a stable retirement plan. Retirement plans are invested to ensure that liquid funds are available when benefits become due, to minimize losses due to investment pre-terminations and maximize opportunities for higher potential returns at the least risk.

The current plan asset of the Group is allocated to cover benefit payments in the order of their proximity to the present time. Expected benefit payments are projected and classified into short-term or long-term liabilities. Investment instruments that would match the liabilities are identified. This strategy minimizes the possibility of the asset-liability match being distorted due to the Group’s failure to contribute in accordance with its general funding strategy.

Shown below is the maturity analysis of the undiscounted benefit payments of the Group *(in thousands)*:

	2021	2020
One year and less	**₱1,585,137**	₱1,569,917
More than one year up to five years	**5,321,019**	4,807,642
More than five years up to 10 years	**4,981,493**	4,801,580
More than 10 years up to 15 years	**4,702,291**	4,081,876
More than 15 years	**52,357,497**	51,558,308

The Group expects to contribute ₱1.3 billion to the defined benefit pension plan in 2022. The average duration of the defined benefit obligations at the end of the reporting period range from 14.0 years as of December 31, 2021 and 2020.

<u>Transactions with Retirement Plans</u>
Management of the retirement funds of the banking segment is handled by the PNB Trust Banking Group (TBG). The fair value of the plan assets as of December 31, 2021 and 2020 for the Group includes investments in the PNB shares of stock with fair value amounting to ₱165.2 million and ₱250.2 million classified as financial assets at FVTPL. No limitations and restrictions are provided and voting rights over these shares are exercised by a trust officer or any of its designated alternate officer of TBG.

As of December 31, 2021 and 2020, financial assets at FVTPL and at amortized costs include government and private debt securities and various funds. Deposits with other banks pertain to Special Deposit Accounts placement with BSP.

The retirement funds of the other companies in the Group are maintained by PNB, as the trustee bank. PNB’s retirement funds have no investments in debt or equity securities of the companies in the Group.

24. **Revenue and Cost of Goods Sold and Services**

Revenue consist of:

	2021	2020	2019
	(In Thousands)		
Banking revenue (Note 5)	**₱49,319,441**	₱54,800,902	₱56,522,642
Sale of consumer goods	**39,822,501**	37,227,642	34,495,786
Rental income (Note 13)	**1,893,706**	1,757,701	1,707,833
Real estate sales	**137,667**	641,689	1,424,598
	₱91,173,315	₱94,427,934	₱94,150,859

<u>Disaggregated revenue information</u>
Set out below is the disaggregation of the Group's revenues from contracts with customers and revenues not covered under PFRS 15 for the year ended December 31, 2021 *(in thousands)*:

	Goods/Services transferred at a point in time	Services transferred over time	Revenues outside the scope of PFRS 15	Total
Sale of consumer goods	₱39,822,501	₱–	₱–	₱39,822,501
Service fees and commission income	6,340,326	–	–	6,340,326
Real estate sales	–	137,667	–	137,667
Interest income	–	–	42,247,543	42,247,543
Rental income	–	–	1,893,706	1,893,706
Trading and securities gains - net	–	–	731,572	731,572
	₱46,162,827	₱137,667	₱44,872,821	₱91,173,315

Banking revenue consists of:

	2021	2020	2019
	(In Thousands)		
Interest income on:			
Loans and receivables	**₱34,157,780**	₱37,180,110	₱39,618,364
Trading and investment securities (Note 21)	**6,913,237**	7,162,523	9,357,556
Deposits with banks and others	**1,093,275**	2,192,050	635,086
Interbank loans receivable	**83,251**	244,007	668,211
	42,247,543	46,778,690	50,279,217
Service fees and commission income	**6,340,326**	4,684,572	5,176,406
Trading and securities gains - net	**731,572**	3,337,640	1,067,019
	₱49,319,441	₱54,800,902	₱56,522,642

Sale of consumer goods consists of:

	2021	2020	2019
	(In Thousands)		
Gross sales	**₱42,421,388**	₱39,638,196	₱37,323,117
Less sales returns, discounts and allowances	**2,598,887**	2,410,554	2,827,331
	₱39,822,501	₱37,227,642	₱34,495,786

Cost of goods sold and services consists of:

	2021	2020	2019
		(In Thousands)	
Cost of consumer goods sold:			
Materials used and changes in inventories (Note 9)	**₱14,580,312**	₱14,071,399	₱14,326,602
Taxes and licenses	**11,385,173**	9,874,192	6,141,929
Depreciation and amortization (Notes 12, 13 and 14)	**2,147,685**	1,589,194	1,578,423
Fuel and power	**1,293,306**	1,037,620	1,192,723
Personnel costs	**1,240,849**	1,094,204	959,764
Freight and handling	**1,031,483**	499,292	435,428
Communication, light and water	**551,256**	562,574	820,024
Repairs and maintenance	**525,384**	480,955	512,175
Outside services	**507,311**	471,877	501,097
Others	**341,850**	425,294	530,317
	33,604,609	30,106,601	26,998,482
Cost of banking services	**8,573,207**	12,046,147	18,696,082
Cost of real estate sales (Note 9)	**55,053**	239,524	663,789
Cost of rental income (Note 13)	**724,145**	466,592	444,087
Cost of goods sold and services	**₱42,957,014**	₱42,858,864	₱46,802,440

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

Cost of banking services consist of:

	2021	2020	2019
		(In Thousands)	
Interest expense on:			
Deposit liabilities (Note 15)	**₱4,778,047**	₱7,311,731	₱13,577,503
Bills payable and other borrowings (Notes 7 and 17)	**511,921**	846,642	2,184,918
Bonds payable	**2,231,863**	2,904,528	1,945,497
	7,521,831	11,062,901	17,707,918
Services fees and commission expense	**1,051,376**	983,246	988,164
	₱8,573,207	₱12,046,147	₱18,696,082

25. Selling Expenses

	2021	2020	2019
		(In Thousands)	
Advertising and promotions	**₱896,479**	₱719,197	₱1,458,151
Depreciation and amortization (Note 12)	**476,052**	328,123	292,805
Personnel costs	**151,125**	143,312	130,180
Management, consulting and professional fees	**107,910**	109,230	170,507
Royalties	**78,149**	60,439	72,239
Commissions	**23,594**	28,568	101,545
Communication, light and water	**16,542**	15,009	14,271

(Forward)

	2021	2020	2019
		(In Thousands)	
Materials and consumables	**₱15,139**	₱19,820	₱37,901
Fuel and oil	**2,656**	2,287	28,939
Freight and handling	**–**	526,280	560,738
Others	**137,374**	98,849	144,148
	₱1,905,020	₱2,051,114	₱3,011,424

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

26. General and Administrative Expenses

	2021	2020	2019
		(In Thousands)	
Personnel costs	**₱10,924,480**	₱11,057,462	₱10,265,619
Provision for credit losses (Note 8)	**11,333,005**	15,878,029	2,921,197
Taxes and licenses	**4,499,491**	4,993,514	5,108,681
Depreciation and amortization (Notes 12, 13 and 14)	**3,110,725**	3,413,200	3,186,759
Insurance	**2,014,664**	1,853,290	1,874,045
Outside services	**1,888,113**	1,823,620	1,849,011
Information technology	**1,304,930**	1,448,623	811,574
Occupancy	**1,067,404**	1,000,948	1,023,915
Management, consulting and professional fees	**936,946**	993,329	1,030,234
Marketing and promotional	**719,070**	738,387	1,137,757
Litigation	**395,386**	37,271	326,588
Travel and transportation	**383,935**	375,254	449,091
Materials and consumables	**318,241**	304,952	286,716
Communication, light and water	**208,541**	216,714	310,958
Repairs and maintenance	**173,200**	164,065	230,192
Freight and handling	**42,418**	30,973	78,884
Fuel and oil	**21,517**	20,333	30,438
Loss on loan modifications	**–**	1,587,605	–
Others	**979,811**	1,959,699	674,762
	₱40,321,877	₱47,897,268	₱31,596,421

'Loss on loan modifications' pertains to the adjustment for the changes in expected cash flows of credit exposures, as a result of modifications in the original terms and conditions of the loan which include, but not limited to, changes in interest rates, principal amount, maturity date, and payment terms. In 2020, PNB accommodated modifications in the terms and conditions of certain loans of borrowers, which have been directly impacted by the COVID-19 pandemic. The loss is computed as the difference between the gross carrying amount of the loan and the present value of the modified contractual cash flows, discounted at the original effective interest rate of the loan. Subsequent accretion to interest income in 2021 and 2020 amounted to ₱525.7 million and ₱901.7 million, respectively.

Others include expense items mainly relating to banking operations, which are individually not significant as to amounts.

27. Finance Costs and Finance Income

Details of finance costs and finance income (other than the banking segment) are as follows:

	2021	2020	2019
		(In Thousands)	
Finance costs (Note 19):			
Short-term debts	**₱201,616**	₱185,900	₱166,018
Unsecured term loan and notes payable (Note 20)	**163,257**	155,567	284,823
	₱364,873	₱341,467	₱450,841
Finance income:			
Cash and other cash items (Note 5)	**₱41,663**	₱37,892	₱138,630
Interest-bearing contracts receivable (Note 8)	–	4,529	7,623
	₱41,663	₱42,421	₱146,253

28. Other Income (Charges)

	2021	2020	2019
		(In Thousands)	
Rental income and dues (Note 13)	**₱1,357,043**	₱664,229	₱892,391
Rooms and other operated departments	**220,186**	205,183	181,862
Income from assets acquired	**183,173**	258,708	100,214
Management fees	**163,322**	31,916	24,170
Recoveries from charged off assets	**85,164**	203,750	76,362
Dividend income	**69,015**	51,815	145,704
Net gains (losses) on sale or exchange of assets	**(19,979)**	196,019	814,920
Provision for probable losses (Notes 14 and 38)	**165,425**	677,089	–
Marketing allowance and income from wire transfers	–	241,353	344,090
Reversal of provision for expected credit loss (Note 8)	–	(45,974)	(142,017)
Gain on retirement	–	17,853	14,838
Mark-to-market gain on financial assets designated at FVTPL (Note 6)	–	–	17,800
Others	**535,482**	(598,972)	373,263
	₱2,758,831	₱1,902,969	₱2,843,597

a. Rental income and dues significantly pertain to income arising from charges and expenses recharged to tenants. Loss on cancelled contracts represents the loss incurred by the Group as a result of cancellation of contracts to sell by the buyer or the Group in general.

b. Net gains on sale or exchange of assets include sale of investment properties of the banking segment in 2021, 2020 and 2019 amounting to ₱15.2 million, ₱11.7 million and ₱48.6 million, respectively.

c. Others include income and expense items mainly relating to banking operations, which are individually not significant as to amounts.

29. Income Taxes

Income taxes include the corporate income tax, which is discussed below, and final taxes paid, which represents final withholding tax on gross interest income from government securities and other deposit substitutes and income from the FCDU transactions. These income taxes, as well as the deferred tax benefits and provisions, are presented as "Provision for income tax" in the consolidated statements of income.

Under Philippine tax laws, PNB and its certain subsidiaries are subject to percentage and other taxes (presented as "Taxes and Licenses" in the consolidated statements of income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax and documentary stamp tax.

FCDU offshore income (income from non-residents) is tax-exempt while gross onshore income (income from residents) is generally subject to 10% income tax. In addition, interest income on deposit placement with other FCDUs and offshore banking units (OBUs) is taxed at 7.50%. Republic Act No. 9294, an act restoring the tax exemption of OBUs and FCDUs, provides that the income derived by the FCDU from foreign currency transactions with non-residents, OBUs, local commercial banks including branches of foreign banks is tax-exempt while interest income on foreign currency loans from residents other than OBUs or other depository banks under the expanded system is subject to 10% income tax.

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

	2021		2020	
	Net Deferred Income Tax Assets[(1)]	**Net Deferred Income Tax Liabilities[(2)]**	Net Deferred Income Tax Assets[(3)]	Net Deferred Income Tax Liabilities[(4)]
		(In Thousands)		
Recognized directly in the consolidated statements of income:				
Deferred income tax assets on:				
Allowance for impairment loss on:				
Receivables	**₱8,562,723**	**₱104,593**	₱11,150,369	₱93,393
Inventories	**31,488**	**10,538**	4,273	10,742
Property, plant and equipment	**4,976**	**–**	–	–
Allowance for probable losses on excise taxes	–	**104,164**	–	87,899
Accumulated depreciation on investment properties	**495,884**	**–**	729,869	–
Unrealized losses on:				
Inventories on hand	**–**	**4,656**	–	7,199
Sale of property to a subsidiary	**395,542**	**5,491**	384,523	4,529
Deferred rent income	**129,050**	**10,599**	130,213	13,481
Net retirement benefits liabilities	**121,399**	**214,275**	912,507	289,093
Reserves and others	**51,981**	**288,314**	545,126	343,402
Advance rentals	**–**	**21,744**	–	17,747
Accrued expenses	**469,714**	**14,879**	580,572	25,965
Difference between accounting and tax carrying amount of property, plant and equipment	**–**	**–**	30,289	–
Unamortized past service cost	**7,316**	**7,479**	9,009	4,793
Unrealized forex losses	**–**	**1,160**	5,067	2,996
Difference between right-of-use assets and lease liabilities	**80,425**	**75,592**	7,458	79,489
	10,350,498	**863,484**	14,489,275	980,728

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	2021		2020	
	Net Deferred Income Tax Assets[(1)]	**Net Deferred Income Tax Liabilities[(2)]**	Net Deferred Income Tax Assets[(3)]	Net Deferred Income Tax Liabilities[(4)]
		(In Thousands)		
Deferred income tax liabilities on:				
Fair value gain on investment properties	**(₱918,043)**	**₱–**	(₱1,043,165)	₱–
Excess of fair values over carrying values of property, plant and equipment acquired through business combination	**(210,574)**	**(36,556)**	(329,723)	(33,472)
Gain on re-measurement of a previously held interest	**(246,651)**	**–**	(246,651)	–
Unrealized foreign exchange gains	**(346,586)**	**(2,582)**	(97,033)	(153)
Borrowing cost capitalized to property, plant, and equipment	**(73,703)**	**(175,087)**	(2,983)	(171,826)
Deferred rental income	**(42,073)**	**(60,116)**	–	(91,488)
Difference between tax and book basis of accounting for real estate transactions	**–**	**(61,631)**	(3,157)	(111,376)
Unamortized debt cost	**(2,325)**	**(1,048)**	–	(4,751)
Gain on asset share swap	**–**	**(443,110)**	–	(443,110)
Net retirement plan assets	**(3,380)**	**(99,624)**	(1,912)	(116,336)
Net changes in fair values of FVTPL financial assets	**(51,247)**	**(34,527)**	(56,931)	(7)
Others	**(605,606)**	**(30,217)**	(110,388)	(19,270)
	(2,500,188)	**(944,498)**	(1,891,943)	(991,789)
	7,850,310	**(81,014)**	12,597,332	(11,061)
Recognized directly in equity:				
Deferred income tax assets on:				
Remeasurement losses on retirement benefits	**6,713**	**40,478**	5,233	56,304
Deferred income tax liabilities on:				
Revaluation increment on property, plant and equipment	**(1,536,629)**	**(8,395,132)**	(3,711,174)	(8,309,673)
Remeasurement gains on defined benefit plans	**(28,547)**	**(21,460)**	(2,360)	(16,502)
Unrealized gains on changes in fair value of financial assets at FVTOCI	**–**	**(42,045)**	–	(46,480)
	(1,565,176)	**(8,458,637)**	(3,713,534)	(8,372,655)
	(1,558,463)	**(8,418,159)**	(3,708,301)	(8,316,351)
	₱6,291,847	**(₱8,499,173)**	₱8,889,031	(₱8,327,412)

(1) Pertain to IPI, PWI, ABNC, AVSI, ADI, Eton and PNB
(2) Pertain to LTG, Saturn, PLI, AAC, TDI, ABI and FTC
(3) Pertain to IPI, ADI, Eton and PNB
(4) Pertain to LTG, Saturn, PLI, AAC, TDI, ABI, PWI and FTC

Details of the Group's net deferred income tax assets and liabilities are as follows:

	2021	2020
	(In Thousands)	
Net deferred income tax assets:		
PNB and subsidiaries	**₱5,806,384**	₱8,437,787
Eton and subsidiaries	**395,542**	393,256
Bank holding companies	**59,340**	1,526
ABI and subsidiaries	**21,026**	38,382
TDI and subsidiaries	**9,555**	18,080
	₱6,291,847	₱8,889,031
Net deferred income tax liabilities:		
PNB and subsidiaries	**₱7,310,014**	₱7,305,940
Paramount	**443,110**	443,110
TDI and subsidiaries	**393,072**	327,321
ABI and subsidiaries	**115,531**	106,537
FTC	**88,735**	89,023
Eton and subsidiaries	**105,877**	35,724
Saturn	**3,035**	3,035
LTG	**5,278**	1,009
Bank holding companies	**34,521**	15,713
	₱8,499,173	₱8,327,412

b. Provision for current income tax consists of:

	2021	2020	2019
		(In Thousands)	
RCIT	**₱2,660,808**	₱4,481,774	₱2,711,115
MCIT	**14,197**	2,080	2,251
Final tax	**1,437,058**	1,513,953	1,497,703
Provision for current income tax	**₱4,112,063**	₱5,997,807	₱4,211,069

c. As of December 31, 2021 and 2020, the Group has not recognized deferred income tax assets on certain deductible temporary differences such as NOLCO, excess MCIT and other items based on the assessment that sufficient taxable profit will not be available to allow the deferred income tax assets to be utilized as follows:

	2021	2020
	(In Thousands)	
Net retirement benefits liability	**₱1,199,030**	₱1,213,544
Allowance for credit losses	**14,507,309**	509,482
Derivative liabilities	**891,346**	558,220
Unamortized past service cost	**2,541,881**	338,594
NOLCO	**1,485,229**	704,639
Excess MCIT	**27,593**	30,422
Allowance for inventory obsolescence	**16,848**	–
Others	**380,049**	190,070

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

Year Incurred	Amount	Applied	Expired	Balance	Expiry Year
2014	₱48,163	₱–	(₱48,163)	₱–	N/A
2018	217,439	–	(217,439)	–	2021
2019	157,938	–	–	157,938	2022
2020	281,099	–	–	281,099	2025
2021	–	1,046,192	–	1,046,192	2026
	₱704,639	₱1,046,192	(₱265,602)	₱1,485,229	

On September 30, 2020, the BIR issues Revenue Regulations No. 25-2020 implementing Section 4(bbbb) of "Bayanihan to Recover As One Act" which states that the NOLCO incurred for taxable years 2020 and 2021 can be carried over and claimed as a deduction from gross income for the next five (5) consecutive taxable years immediately following the year of such loss.

As of December 31, 2021, the Group has incurred NOLCO in taxable years 2021 and 2020 which can be claimed as deduction from the regular taxable income for the next five (5) consecutive taxable years pursuant to the Bayanihan to Recover As One Act

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

Year Incurred	Amount	Applied	Expired	Balance	Expiry Year
2018	₱3,404	₱–	(₱3,404)	₱–	2021
2019	925	–	–	925	2022
2020	26,093	–	–	26,093	2023
2021	–	525	–	525	2024
	₱30,422	₱525	(₱3,404)	₱27,593	

d. A reconciliation of the Group's provision for income tax computed based on income before income tax at the statutory income tax rates to the provision for income tax shown in the consolidated statements of income is as follows:

	2021	2020	2019
		(In Thousands)	
Provision for income tax at statutory income tax rate from:			
Continuing operations	**₱6,815,555**	₱6,475,984	₱9,342,840
Discontinued operations	–	26,400	36,082
	6,815,555	6,502,384	9,378,922
Adjustments resulting from:			
Non-deductible expenses	**8,694,202**	5,936,027	1,803,030
Equity in net earnings of associates	**(4,505,295)**	(5,284,472)	(1,539,675)
Nontaxable income	**(3,524,312)**	(643,033)	(3,743,152)
Income subjected to final tax	**(2,581,817)**	(6,424,101)	(1,151,482)

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	2021	2020	2019
		(In Thousands)	
NOLCO and other deductible temporary differences for which no deferred income tax assets were recognized in current year	**₱2,592,694**	(₱582,527)	(₱916,440)
Change in tax rate	**(77,224)**	−	−
Effect of availment of ITH	**(35,963)**	(47,490)	(51,911)
Difference of itemized deduction against 40% of taxable income	−	−	(53,648)
Non-deductible deficiency taxes	−	−	25,904
Application of NOLCO and other deductible temporary differences for which no deferred income tax assets were recognized in prior years	−	−	(24,949)
Others	**(956,094)**	(108,290)	(29,285)
Provision for income tax	**₱6,421,746**	(₱651,502)	₱3,697,314

e. Impact of CREATE Law

Applying the provisions of the CREATE Law, the Group is subjected to lower regular corporate income tax rate of 25.00% effective July 1, 2020. The following are the impact of CREATE in the 2021 financial statements of the Group:

- Based on the provisions of Revenue Regulations (RR) No. 5-2021 dated April 8, 2021 issued by the BIR, the transitory RCIT and MCIT rates applicable to the Group for the taxable year 2020 is 27.50% and 1.50%, respectively. This resulted in reduction in the current income tax due for the taxable year 2020 amounting to ₱374.0 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 ₱508.1 million for the Group, reduced the provision for deferred tax by ₱507.8 million for the Group, and other comprehensive income by ₱0.3 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 ₱1 par value	
At beginning and end of year	25,000,000,000 shares
Issued capital stock at ₱1 par value:	
At beginning and end of year	₱10,821,388,889

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a. Capital stock is held by a total of 373 and 374 stockholders as of December 31, 2020 and 2019, respectively.

b. Track record of registration:

Date	Number of Shares Licensed	Issue/Offer Price
August 1948	100,000	₱1.00
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 ₱37.7 billion, where excess over par value amounting to ₱35.9 billion was recorded as capital in excess of par. Stock issue costs amounting to ₱1.1 billion were charged against capital in excess of par in 2013. Other offering-related expenses amounting to ₱59.0 million were charged directly to "General and administrative expenses".

Retained Earnings and Dividends

a. The Company's BOD approved the declaration and distribution of the following cash dividends:

Date of declaration	Date of record	Date of payment	Dividend per share	Amount
2021:				
November 19, 2021	December 6, 2021	December 13, 2021	₱0.60	₱6,492,833,333
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
				₱11,687,100,000
2020:				
November 23, 2020	December 9, 2020	December 14, 2020	₱0.15	₱1,623,208,334
August 14, 2020	September 2, 2020	September 8, 2020	0.23	2,488,919,445
May 22, 2020	June 8, 2020	June 17, 2020	0.43	4,653,197,222
				₱8,765,325,001
2019:				
April 10, 2019	April 29, 2019	May 8, 2019	0.31	₱3,326,908,000

b. Retained earnings include undistributed earnings amounting to ₱141.7 billion, ₱98.1 billion and ₱76.4 billion as of December 31, 2021, 2020 and 2019, respectively, representing accumulated earnings of subsidiaries and equity in net earnings of associates and joint ventures, which are not available for dividend declaration until received in the form of dividends from the combining entities and associates. Retained earnings available for dividend declaration as at December 31, 2021 amounted to ₱41.8 billion.

Retained earnings are further restricted for the payment of dividends to the extent of the cost of the shares held in treasury (shares of stock of the company held by subsidiaries), unrealized foreign exchange gains except those attributable to cash and cash equivalents, fair value adjustment or gains arising from mark-to-market valuation, deferred income tax assets recognized that reduced the income tax expense and increased net income and retained earnings, and other unrealized gains or adjustments as of December 31, 2021 and 2020.

Preferred Shares of Subsidiaries issued to Parent Company
On March 20, 2013, the respective BOD's and stockholders of various Bank Holding Companies approved the increase in their authorized capital stocks comprising of common shares and preferred shares with par value of ₱1.00 per share. The preferred shares were subscribed by Tangent through conversion of its advances into investments in certain Bank Holding Companies (see Note 22).

Upon approval of the Philippine SEC of the increase in authorized capital stock of Bank Holding Companies on various dates in October, November and December 2013, preferred shares amounting to ₱7.4 billion presented under "Preferred shares of subsidiary issued to Parent Company" were issued to Tangent. Unissued preferred shares amounting to ₱6.0 billion which are pending approval of the Philippine SEC are presented under "Deposit for future stock subscription" as of December 31, 2013. Upon approval of the Philippine SEC on various dates in 2014, the remaining preferred shares of ₱6.0 billion and additional conversion of advances to preferred shares during the year of ₱4.7 billion were issued to Tangent.

In 2020, preferred shares of the subsidiary issued to Tangent amounting to ₱18.1 billion were redeemed.

The preferred shares have the following features: non-voting, non-cumulative and non-participating as to dividends, non-redeemable for a period of seven years from the issuance and redeemable at the option of the Bank Holding Companies after seven years from the issuance thereof.

Other Equity Reserves
Other equity reserves as at December 31 consist of:

	2021	2020
	(In Thousands)	
Equity adjustments arising from business combination under common control (Note 1)	**₱445,113**	₱445,113
Equity adjustments from sale of the Company's shares of stock held by a subsidiary	**(6,448,518)**	(2,262,606)
Equity adjustment in aggregate reserves on life insurance policies	**(309,361)**	(593,566)
Effect of transaction with non-controlling interest	**66,658**	66,658
Effect of sale of a subsidiary to Company	**99,655**	99,655
Effect of sale of direct interest in a subsidiary	**186,572**	186,376
	(₱5,959,881)	(₱2,058,370)

Shares of Stock of the Company Held by Subsidiaries
Shares held by subsidiaries include 4.9 million shares owned by All Seasons amounting to ₱12.5 million as of December 31, 2020 and 2019 and 76.5 million shares owned by Saturn amounting to ₱150.9 million as of December 31, 2011. On July 25, 2012, the shares of stocks owned by Saturn were sold to Tangent at ₱4.50 per share. As a result, the excess of the selling price over the cost of the treasury shares amounting to ₱193.2 million is presented as an addition to other equity reserves.

Non-controlling Interests
Below are the changes in non-controlling interests:

	2021	2020	2019
		(In Thousands)	
Balance as of January 1	**₱70,124,342**	₱67,086,030	₱58,223,689
Net income attributable to non-controlling interests	**614,622**	1,304,120	4,448,233
Share in other comprehensive income, net of deferred income tax effect:			
Net change in aggregate reserves on life insurance policies	**128,239**	(457,555)	–
Remeasurement gains (losses) on defined benefit plans (Notes 2 and 23)	**124,792**	(342,880)	(305,881)
Revaluation increment on property plant and equipment	**(243,897)**	(274,064)	(170,223)
Cumulative translation adjustments	**341,939**	(127,530)	(456,101)
Net changes in financial assets at FVOCI (Note 7)	**(1,635,861)**	(85,398)	2,805,235
Reserves of disposal group classified as held for sale	–	394,197	–
Dividends received	–	(85,645)	(3,372)
Acquisition of shares of subsidiaries from the Controlling Shareholders	**441,157**	2,376,784	2,539,185
Other equity reserves	**3,569,938**	336,283	5,265
Balance as of December 31	**₱73,465,271**	₱70,124,342	₱67,086,030

31. **Basic/Diluted Earnings Per Share**

The following tables reflect the net income and share data used in the earnings per share computations:

Basic/diluted earnings per share were calculated as follows:

	2021	2020	2019
		(In Thousands)	
Net income attributable to equity holders of the Company	**₱20,246,467**	₱21,021,996	₱23,117,524
Divided by weighted-average number of shares	**10,821,389**	10,821,389	10,821,389
Basic/diluted EPS for net income attributable to equity holders of the Company	**₱1.87**	₱1.94	₱2.14

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

	2021	2020	2019
		(In Thousands)	
Net income from continuing operations attributable to equity holders of the Company	**₱20,234,820**	₱20,983,832	₱23,060,154
Divided by weighted-average number of shares	**10,821,389**	10,821,389	10,821,389
Basic/diluted EPS for net income from continuing operations attributable to equity holders of the Company	**₱1.87**	₱1.94	₱2.13

There are no potential common shares with dilutive effect on the basic earnings per share in 2021, 2020 and 2019.

32. Financial Risk Management Objectives and Policies

The Group's financial risk management strategies are handled on a group-wide basis, side by side with those of the other related companies within the Group. The Group's management and the BOD of the various companies comprising the Group review and approve policies for managing these risks. Management closely monitors the funds and financial transactions of the Group.

Financial Risk Management Objectives and Policies of the Banking Segment

Risk Management Strategies

The Group's banking activities are principally related to the development, delivery, servicing and use of financial instruments. Risk is inherent in these activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's banking segment continuing profitability.

The Group monitors its processes associated with the following overall risk categories:
- Credit Risk
- Market Risk
- Liquidity Risk
- Operational Risk

Further, the Group is also cognizant of the need to address various other risks through the primary divisions presented above. The following are also taken into consideration as part of the overall Enterprise Risk Management (ERM) Framework:

- Interest Rate Risk in Banking Book (IRRBB)
- Strategic Business Risk
- Reputational Risk
- Credit Concentration Risk
- Cyber Security Risk

The banking segment's BOD has overall responsibility for the establishment and oversight of the Group's risk management framework. As delegated by the banking segment's BOD, the Risk Oversight Committee (ROC) is mandated to set risk appetite, approve frameworks, policies and processes for managing risk, and accept risks beyond the approval discretion provided to management. The ROC advises on the overall current and future risk appetite and strategy and assists in overseeing the implementation of those strategies and business plans by the banking segment's senior management.

The Risk Management Group (RMG) provides the legwork for the ROC in its role of formulating the risk management strategy, the development and maintenance of the internal risk management framework, and the definition of the governing risk management principles. The RMG provides assistance to the Assets and Liabilities Committee (ALCO) on capital management and the Board Policy Committee on the management of regulatory capital.

The mandate of the RMG involves:

- implementing the risk management framework of identifying, measuring, controlling and monitoring the various risk taking activities of the Group, inherent in all financial institutions;
- providing services to the risk-taking units and personnel in the implementation of risk mitigation strategies; and
- establishing recommended limits based on the results of its analysis of exposures.

Credit Risk

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

The credit risk management of the entire loan portfolio is under the direct oversight of the ROC and Executive Committee. Credit risk assessment of individual borrower is performed by the business sector, remedial sector and credit management sector. Risk management is embedded in the entire credit process, i.e., from credit origination to remedial management (if needed).

Among the tools used by the bank segment in identifying, assessing and managing credit risk include:

- Documented credit policies and procedures: sound credit granting process, risk asset acceptance criteria, target market and approving authorities;
- System for administration and monitoring of exposure;
- Pre-approval review of loan proposals;
- Post approval review of implemented loans;
- Work out system for managing problem credits;
- Regular review of the sufficiency of valuation reserves;
- Monitoring of the adequacy of capital for credit risk via the Capital Adequacy Ratio (CAR) report;
- Monitoring of breaches in regulatory and internal limits;
- Credit Risk Management Dashboard;
- Diversification;
- Internal Risk Rating System for corporate accounts;
- Credit Scoring for retail accounts; and
- Active loan portfolio management undertaken to determine the quality of the loan portfolio and identify the following:
  a. portfolio growth
  b. movement of loan portfolio

c. adequacy of loan loss reserves
d. trend of nonperforming loans (NPLs)
e. concentration risk (per classified account, per industry, clean exposure, large exposure, contingent exposure, currency, security, facility, demographic, etc.)

The bank segment follows the BOD approved policy on the generic classification of loans based on the type of borrowers and the purpose of the loan.

Credit-related commitments
The exposures represent guarantees, standby letters of credit (LCs) issued by PNB and documentary/commercial LCs which are written undertakings by PNB.

To mitigate this risk PNB requires hard collaterals, as discussed under *Collateral and other credit enhancement*, for standby LCs lines while commercial LCs are collateralized by the underlying shipments of goods to which they relate.

Derivative financial instruments
Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the consolidated statement of financial position.

Collateral and other credit enhancement
As a general rule, character is the single most important consideration in granting loans. However, collaterals are requested to mitigate risk. The loan value and type of collateral required depend on the assessment of the credit risk of the borrower or counterparty. The banking segment follows guidelines on the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For corporate accounts - deposit hold outs, guarantees, securities, physical collaterals (e.g., real estate, chattels, inventory, etc.); as a general rule, commercial, industrial and residential lots are preferred
- For retail lending - mortgages on residential properties and vehicles financed
- For securities lending and reverse repurchase transactions - cash or securities

The disposal of the foreclosed properties is handled by the Asset Management Sector which adheres to the general policy of disposing assets at the highest possible market value.

Management regularly monitors the market value of the collateral and requests additional collateral in accordance with the underlying agreement. The existing market value of the collateral is considered during the review of the adequacy of the allowance for credit losses. Generally, collateral is not held over loans and advances to banks except for reverse repurchase agreements. The banking segment is not permitted to sell or repledge the collateral held over loans and advances to counterparty banks and BSP in the absence of default by the owner of the collateral.

Maximum exposure to credit risk after collateral held or other credit enhancements
An analysis of the maximum exposure to credit risk after taking into account any collateral held or other credit enhancements for the Group's banking segment is shown below:

	2021			
	Maximum Exposure	**Fair Value of Collateral**	**Net Exposure**	**Financial Effect of Collateral**
		(In Millions)		
Securities held under agreements to resell	**₱15,797**	**₱15,800**	**₱–**	**₱15,797**
Loans and receivables:				
Receivables from customers*:				
Corporates	**527,719**	**247,962**	**429,892**	**97,827**
Local government units (LGU)	**4,241**	**–**	**4,241**	**–**
Credit Cards	**10,749**	**–**	**10,749**	**–**
Retail small and medium enterprises (SME)	**7,523**	**6,972**	**5,716**	**1,807**
Housing Loans	**27,485**	**7,264**	**25,913**	**1,572**
Auto Loans	**7,286**	**6,739**	**3,946**	**3,340**
Others	**7,887**	**7,711**	**6,632**	**1,255**
Other receivables	**13,339**	**–**	**13,339**	**–**
	₱622,026	**₱292,448**	**₱500,428**	**₱121,598**

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

	2020			
	Maximum Exposure	Fair Value of Collateral	Net Exposure	Financial Effect of Collateral
		(In Millions)		
Securities held under agreements to resell	₱15,819	₱16,499	₱–	₱15,819
Loans and receivables:				
Receivables from customers*:				
Corporates	505,180	193,781	412,862	92,318
LGU	6,372	–	6,372	–
Credit Cards	9,943	–	9,943	–
Retail SME	10,631	9,884	6,123	4,508
Housing Loans	22,738	5,586	19,267	3,471
Auto Loans	10,055	4,907	7,119	2,936
Others	19,871	17,974	14,025	5,846
Other receivables	14,507	–	14,507	–
	₱615,116	₱248,631	₱490,218	₱124,898

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

The maximum credit risk, without taking into account the fair value of any collateral and netting agreements, is limited to the amounts on the statement of financial position plus commitments to customers such as unused commercial letters of credit, outstanding guarantees and others as disclosed in Note 37 to the financial statements.

Excessive risk concentration
The banking segment's credit risk concentrations can arise whenever a significant number of borrowers have similar characteristics. The banking segment analyzes the credit risk concentration to an individual borrower, related group of accounts, industry, geographic, internal rating buckets, currency, term and security. For risk concentration monitoring purposes, the financial assets are broadly categorized into (1) loans and receivables and (2) trading and financial investment securities. To mitigate risk concentration, the banking segment constantly checks for breaches in regulatory and internal limits. Clear escalation process and override procedures are in place, whereby any excess in limits are covered by appropriate approving authority to regularize and monitor breaches in limits.

a. Limit per Client or Counterparty
For each CRR, the banking segment sets limits per client or counterparty based on the regulatory Single Borrowers Limit.

For trading and investment securities, the banking segment limits investments to government issues and securities issued by entities with high-quality investment ratings.

b. Geographic Concentration
The table below shows the banking segment's credit risk exposures, before taking into account any collateral held or other credit enhancements, categorized by geographic location:

	2021	2020
	(In Millions)	
Philippines	**₱934,529**	₱970,054
Asia (excluding the Philippines)	**109,521**	92,583
USA and Canada	**46,294**	35,404
Other European Union Countries	**9,434**	11,606
United Kingdom	**9,632**	18,198
Middle East	**1,069**	1,797
Oceania	**637**	613
	₱1,111,116	₱1,130,255

c. Concentration by Industry
The table below show the industry sector analysis of the banking segment's financial assets at amounts before taking into account the fair value of the loan collateral held or other credit enhancements:

	2021			
	Loans and receivables*	**Trading and investment securities**	**Other financial assets*** **	**Total**
	(In Millions)			
Primary target industry:				
Financial intermediaries	**₱118,588**	**₱43,483**	**₱53,561**	**₱215,632**
Wholesale and retail	**86,189**	–	–	**86,189**
Electricity, gas and water	**₱68,666**	**₱10,303**	**₱–**	**₱78,969**
Transport, storage and communication	**51,708**	**4**	–	**51,712**
Manufacturing	**47,944**	**130**	–	**48,074**
Public administration and defense	**8,270**	–	–	**8,270**
Agriculture, hunting and forestry	**6,383**	–	–	**6,383**
Secondary target industry:				
Government	**₱4,241**	**₱159,001**	**₱182,319**	**₱345,561**
Real estate, renting and business activities	**95,635**	**13,730**	–	**109,365**
Construction	**26,369**	–	–	**26,369**
Others**	**92,235**	**41,961**	**396**	**134,592**
	₱606,228	**₱268,612**	**₱236,276**	**₱1,111,116**

* *Loans and receivables exclude residual value of the leased asset (Note 8).*
** *Others include the following sectors - Other community, social and personal services, private household, hotel and restaurant, education, mining and quarrying, and health and social work.*
*** *Other financial assets include the following financial assets: "Due from BSP", "Due from other banks", "Interbank loans receivable", "Securities held under agreements to resell" and other financial assets booked under "Other Assets".*

	2020			
	Loans and receivables*	Trading and investment securities	Other financial assets***	Total
	(In Millions)			
Primary target industry:				
Financial intermediaries	₱91,848	₱41,346	₱60,169	₱193,363
Wholesale and retail	82,953	–	–	82,953
Electricity, gas and water	72,566	4,081	–	76,647
Transport, storage and communication	54,836	51	–	54,887
Manufacturing	46,797	1,579	–	48,376
Public administration and defense	12,463	–	–	12,463
Agriculture, hunting and forestry	9,056	–	–	9,056
Secondary target industry:				
Government	5,714	170,983	217,089	393,786
Real estate, renting and business activities	97,007	14,858	–	111,865
Construction	34,184	–	–	34,184
Others**	92,570	19,880	225	112,675
	₱599,994	₱252,778	₱277,483	₱1,130,255

* *Loans and receivables exclude residual value of the leased asset (Note 8).*
** *Others include the following sectors - Other community, social and personal services, private household, hotel and restaurant, education, mining and quarrying, and health and social work.*
*** *Other financial assets include the following financial assets: "Due from BSP", "Due from other banks", "Interbank loans receivable", "Securities held under agreements to resell" and other financial assets booked under "Other Assets".*

The internal limit of the banking segment based on the Philippine Standard Industry Classification sub-industry is 12% for priority industry, 8% for regular industry, 30% for power industry and 25% for activities of holding companies versus total loan portfolio.

Credit quality per class of financial assets
In 2018, the banking segment re-evaluated the segmentation of its loan portfolio so that it is grouped based on the underlying risk characteristics that are expected to respond in a similar manner to macroeconomic factors and forward looking conditions. Moreover, the banking segment has aligned the portfolio segmentation to sound practice guidelines of internal ratings-based banks.

Generally, the banking segment's exposures can be categorized as either Non-Retail and Retail. Non-Retail segment of the banking segment may be defined as debt obligation of a sovereign, financial intuition, corporation, partnership, or proprietorship. In particular, the banking segment's Non-retail portfolio segments are as follows: Sovereigns, Financial Institutions, Specialised Lending (e.g., Project Finance), Large Corporates, Middle Market and Commercial SME, GOCCs, LGUs. Retail exposures are exposures to individual person or persons or to a small business and are not usually managed on an individual basis but as groups of exposures with similar risk characteristics. This includes Credit Cards, Consumer Loans and Retail SME, among others.

<u>Loans and Receivables</u>
The credit quality of Non-Retail portfolio is evaluated and monitored using external ratings and internal credit risk rating system. The banking segment maintains a two-dimensional risk rating structure: that is, there is a borrower risk rating (BRR) and a facility risk rating (FRR).

The banking segment uses a single scale with 26 risk grades for all its borrower risk rating models. The 26-risk grade internal default masterscale is a representation of a common measure of relative default risk associated with the obligors/counterparties. The internal default masterscale is mapped to a global rating scale.

FRR, on the other hand, assesses potential loss of the banking segment in case of default, which considers collateral type and level of collateralization of the facility. The FRR has 9-grades, i.e., FRR A to FRR I.

The CRR or final credit risk rating shall be expressed in alphanumeric terms, e.g., CRR 1A which is a combination of the general creditworthiness of the borrower (BRR 1) and the potential loss of the banking segment in the event of the borrower's default (FRR A).

The credit quality and corresponding BRRs of the banking segment's receivables from customers are defined below:

Credit quality	26-grade CRR system
High S&P Equivalent Global Rating: AAA to BBB-	*BRR 1 Excellent* Borrower has an exceptionally strong capacity to meet its financial commitments. No existing disruptions or future disruptions are highly unlikely. Probability of going into default in the coming year is very minimal/low. *BRR 2 Very Strong* Borrower has a very strong capacity to meet its financial commitments. No existing disruptions or future disruptions are unlikely. It differs from BRR 1 borrowers only to a small degree. Probability of going into default in the coming year is very minimal/low. *BRR 3 Strong* Borrower has a strong capacity to meet its financial commitments. No existing disruptions or future disruptions are unlikely. However, adverse economic conditions or changing circumstances could lead to somewhat lesser capacity to meet financial obligations than in higher-rated borrowers. Probability of going into default in the coming year is very minimal/low. *BRR 4-6 Good* Borrower has an adequate capacity to meet its financial commitments in the normal course of its business. With identified disruptions from external factors but company has or will likely overcome. Default possibility is minimal/low. *BRR 7-9 Satisfactory* Borrower under this rating scale basically possesses the characteristics of borrowers rated as BRR 4 to BRR 6 with slightly lesser quality. Default possibility is minimal/low. *BRR 10-12 Adequate* Borrower has an adequate capacity to meet its financial commitments under the normal course of business. However, adverse economic conditions and changing circumstances are more likely to weaken the borrower's capacity to meet its financial commitments. Default possibility is minimal/low.
Standard S&P Equivalent Global Rating: BB+ to BB-	*BRR 13-15 Average* Borrower still has the capacity to meet its financial commitments and withstand normal business cycles, however, any prolonged unfavorable economic and/or market conditions would create an immediate deterioration beyond acceptable levels. With identified disruptions from external forces, impact on the borrower is uncertain. Default is a possibility. *BRR 16-18 Acceptable* Borrower under this rating scale basically possesses the characteristics of borrowers rated as BRR 13 to BRR 15 with slightly lesser quality. Default is a possibility. *BRR 19-20 Vulnerable* Borrower is less vulnerable in the near term than other low-rated borrowers. However, it faces major ongoing uncertainties and exposure to adverse business, financial or economic conditions that could lead to the borrower's inadequate capacity to meet its financial commitment. Default is a possibility.

Credit quality	26-grade CRR system
Substandard S&P Equivalent Global Rating: B+ to CCC-	*BRR 21-22 Weak* Borrower is more vulnerable than the borrowers rated BRR 19 and BRR 20 but the borrower currently has the capacity to meet its financial commitments. Adverse business, financial, or economic conditions will likely impair the borrower's capacity or willingness to meet its financial commitments. Default is more than a possibility. *BRR 23-25 Watchlist* Borrower is currently vulnerable and is dependent upon favorable business, financial, and economic conditions to meet its financial commitments. Borrower may already be experiencing losses and impaired capital in the case of BRR 25.
Impaired S&P Equivalent Global Rating: D	*BRR 26 Default* Default will be a general default. Borrower will fail to pay all or substantially all of its obligations as they come due.

For the Retail segment of the portfolio, such as Retail SME, Credit Cards, Housing and Auto Loans, credit scoring is being used in evaluating the creditworthiness of the borrower.

The table below shows the credit quality of the banking segment's receivables from customers, gross of allowance for credit losses and unearned and other deferred income, but net of residual values of leased assets, as of December 31:

	2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
		(In Millions)		
Subject to CRR				
Non-Retail - Corporate				
High	**₱213,839**	**₱–**	**₱–**	**₱213,839**
Standard	**224,477**	**3,844**	**–**	**228,321**
Substandard	**40,872**	**18,770**	**–**	**59,642**
Impaired	**–**	**–**	**47,479**	**47,479**
	479,188	**22,614**	**47,479**	**549,281**
Subject to Scoring & Unrated				
Non-Retail	**₱10,136**	**₱158**	**₱2,367**	**₱12,661**
Corporate	**5,919**	**110**	**2,299**	**8,328**
LGU	**4,217**	**48**	**68**	**4,333**
Retail	**42,252**	**987**	**16,909**	**60,148**
Auto Loans	**5,943**	**163**	**2,733**	**8,839**
Housing Loans	**20,048**	**487**	**10,429**	**30,964**
Retail SME	**5,792**	**68**	**1,328**	**7,188**
Credit Card	**10,469**	**269**	**2,419**	**13,157**
Others	**6,168**	**375**	**1,186**	**7,729**
	58,556	**1,520**	**20,462**	**80,538**
	₱537,744	**₱24,134**	**₱67,941**	**₱629,819**

	2020			
	Stage 1	Stage 2	Stage 3	Total
		(In Millions)		
Subject to CRR				
Non-Retail - Corporate				
High	₱147,485	₱84	₱–	₱147,569
Standard	252,549	11,015	–	263,564
Substandard	46,658	18,884	–	65,542
Impaired	95	297	50,516	50,908
	446,787	30,280	50,516	527,583

(Forward)

	2020			
	Stage 1	Stage 2	Stage 3	Total
		(In Millions)		
Subject to Scoring & Unrated				
Non-Retail	₱8,077	₱7	₱25	₱8,109
Corporate	1,687	–	–	1,687
LGU	6,390	7	25	6,422
Retail	40,640	2,161	15,326	58,127
Auto Loans	7,792	600	2,693	11,085
Housing Loans	16,040	1,042	8,073	25,155
Retail SME	7,609	319	1,428	9,356
Credit Card	9,199	200	3,132	12,531
Others	14,239	1,532	5,338	21,109
	62,956	3,700	20,689	87,345
	₱509,743	₱33,980	₱71,205	₱614,928

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

	2021				
	Less than 30 days	**31 to 90 days**	**91 to 180 days**	**More than 180 days**	**Total**
			(In Millions)		
LGU	**₱–**	**₱–**	**₱–**	**₱25**	**₱25**
Credit Card	**2**	**77**	**264**	**2,093**	**2,436**
Retail SME	**293**	**147**	**73**	**965**	**1,478**
Housing Loans	**464**	**366**	**798**	**9,454**	**11,082**
Auto Loans	**107**	**112**	**180**	**2,500**	**2,899**
Others	**247**	**107**	**112**	**1,543**	**2,009**
Total	**₱1,113**	**₱809**	**₱1,427**	**₱16,580**	**₱19,929**

	2020				
	Less than 30 days	31 to 90 days	91 to 180 days	More than 180 days	Total
			(In Millions)		
LGU	₱25	₱–	₱–	₱–	₱25
Credit Card	6	103	1,150	1,930	3,189
Retail SME	1,017	57	118	472	1,664
Housing Loans	171	24	50	8,755	9,000
Auto Loans	252	65	103	2,863	3,283
Others	1,914	58	67	5,190	7,229
Total	₱3,385	₱307	₱1,488	₱19,210	₱24,390

Trading and Investment Securities and Other Financial Assets

In ensuring quality investment portfolio, PNB uses the credit risk rating based on the external ratings of eligible external credit rating institutions (i.e., Moody's Investors Service) as follows:

Aaa to Aa3 - fixed income are judged to be of high quality and are subject to very low credit risk, but their susceptibility to long-term risks appears somewhat greater.

A1 to A3 - fixed income obligations are considered upper-medium grade and are subject to low credit risk, but have elements present that suggest a susceptibility to impairment over the long term.

Baa1 and below - represents those investments which fall under any of the following grade:

- Baa1, Baa2, Baa3 - fixed income obligations are subject to moderate credit risk. They are considered medium grade and as such protective elements may be lacking or may be characteristically unreliable.
- Ba1, Ba2, Ba3 - obligations are judged to have speculative elements and are subject to substantial credit risk.
- B1, B2, B3 - obligations are considered speculative and are subject to high credit risk.
- Caa1, Caa2, Caa3 - are judged to be of poor standing and are subject to very high credit risk.
- Ca - are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest.
- C - are the lowest rated class of bonds and are typically in default, with little prospect for recovery of principal or interest.

Below are the financial assets of the banking segment, excluding receivables from customers, which are monitored using external ratings.

	December 31, 2021					
	Rated					
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal	Unrated	Total
	(In Millions)					
Due from BSP[1/]	**₱–**	**₱–**	**₱–**	**₱–**	**₱161,002**	**₱161,002**
Due from other banks	**3,267**	**17,610**	**4,274**	**25,151**	**2,082**	**27,233**
Interbank loans receivables	**1,840**	**24,082**	**1,224**	**27,146**	**4,967**	**32,113**
Securities held under agreements to resell	**–**	**–**	**–**	**–**	**15,797**	**15,797**
Financial assets at FVTOCI						
Government securities	**6,882**	**2,789**	**110,624**	**120,295**	**159**	**120,454**
Private debt securities	**577**	**–**	**590**	**1,167**	**21,948**	**23,115**
Quoted equity securities	**–**	**–**	**48**	**48**	**559**	**607**
Unquoted equity securities	**–**	**–**	**406**	**406**	**23,404**	**23,810**
Investment securities at amortized cost:						
Government securities	**128**	**201**	**33,748**	**34,077**	**237**	**34,314**
Private debt securities	**670**	**26,131**	**2,804**	**29,605**	**29,358**	**58,963**
Financial asset at amortized cost:						
Others[2/]	**–**	**–**	**–**	**–**	**16,870**	**16,870**

[1/] *'Due from BSP' is composed of interest-earning short-term placements with the BSP and a demand deposit account to support the regular operations of PNB.*

[2/] *Loans and receivables - Others is composed of accrued interest receivable, accounts receivable, sales contracts receivable and other miscellaneous receivables, net of allowances (see Note 8)*

	December 31, 2020					
	Rated					
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal	Unrated	Total
	(In Millions)					
Due from BSP[1/]	₱–	₱–	₱–	₱–	₱202,129	₱202,129
Due from other banks	5,814	10,124	1,792	17,730	2,003	19,733
Interbank loans receivables	13,867	24,308	1,526	39,701	–	39,701
Securities held under agreements to resell	–	–	–	–	15,819	15,819
Financial assets at FVTOCI						
Government securities	85	–	90,824	90,909	20,442	111,351
Private debt securities	405	3,232	1,976	5,613	15,806	21,419
Quoted equity securities	–	–	119	119	588	707
Unquoted equity securities	–	–	421	421	321	742
Investment securities at amortized cost:						
Government securities	120	188	42,541	42,849	227	43,076
Private debt securities	1,114	25,551	7,650	34,315	22,190	56,505
Financial asset at amortized cost:						
Others[4/]	–	–	–	–	17,813	17,813

1/ 'Due from BSP' is composed of interest-earning short-term placements with the BSP and a demand deposit account to support the regular operations of PNB.

2/ Loans and receivables - Others is composed of accrued interest receivable, accounts receivable, sales contracts receivable and other miscellaneous receivables, net of allowances (see Note 8)

<u>Liquidity Risk and Funding Management</u>

The banking segment's liquidity management involves maintaining funding capacity to accommodate fluctuations in asset and liability levels due to changes in the banking segment's business operations or unanticipated events created by customer behavior or capital market conditions. The banking segment seeks to ensure liquidity through a combination of active management of liabilities, a liquid asset portfolio composed substantially of deposits in primary and secondary reserves, and the securing of money market lines and the maintenance of repurchase facilities to address any unexpected liquidity situations.

Liquidity risk is monitored and controlled primarily by a gap analysis of maturities of relevant assets and liabilities reflected in the maximum cumulative outflow (MCO) report, as well as an analysis of available liquid assets. The MCO focuses on a 12-month period wherein the 12-month cumulative outflow is compared to the acceptable MCO limit set by the BOD. Furthermore, an internal liquidity ratio has been set to determine sufficiency of liquid assets over deposit liabilities.

Liquidity is monitored by the banking segment on a daily basis through the Treasury Group. Likewise, the RMG monitors the static liquidity via the MCO under normal and stressed scenarios.

The table below shows the banking segment's financial assets and financial liabilities' liquidity information which includes coupon cash flows categorized based on the expected date on which the asset will be realized and the liability will be settled. For other assets, the analysis into maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date or if earlier, the expected date the assets will be realized.

	December 31, 2021					
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	Total
			(In Millions)			
Financial Assets						
COCI	**₱27,553**	**₱–**	**₱–**	**₱–**	**₱–**	**₱27,553**
Due from BSP and other banks	**198,068**	**–**	**–**	**–**	**–**	**198,068**
Interbank loans receivable	**19,806**	**10,716**	**1,067**	**568**	**–**	**32,157**
Securities held under agreements to resell	**15,803**	**–**	**–**	**–**	**–**	**15,803**
Financial assets at FVTPL:						
Government securities	**57**	**18**	**35**	**11,386**	**4,781**	**16,277**
Private debt securities	**–**	**18**	**176**	**31**	**2,580**	**2,805**
Equity securities	**17**	**–**	**12**	**24**	**1,515**	**1,568**
Derivative assets:						
Gross contractual receivable	**61,532**	**14,897**	**7,910**	**4,590**	**13**	**88,942**
Gross contractual payable	**(60,680)**	**(14,705)**	**(7,645)**	**(4,535)**	**–**	**(87,565)**
	852	**192**	**265**	**55**	**13**	**1,377**
Financial Assets at FVTOCI:						
Government securities	**78,745**	**4,637**	**3,109**	**1,614**	**148,755**	**236,860**
Private debt securities	**3,445**	**1,412**	**8,989**	**854**	**45,107**	**59,807**
Equity securities	**–**	**8**	**8**	**23,006**	**1,749**	**24,771**
Investment securities at amortized cost						
Government securities	**6,362**	**215**	**6,969**	**6,158**	**54,936**	**74,640**
Private debt securities	**5,270**	**2,318**	**25,945**	**33,115**	**61,667**	**128,315**
Financial assets at amortized cost:						
Receivables from customers	**90,898**	**79,058**	**45,428**	**19,183**	**528,784**	**763,351**
Other receivables	**5,776**	**194**	**749**	**163**	**9,786**	**16,668**
Other assets	**136**	**–**	**–**	**1**	**14**	**151**
Total financial assets	**₱452,788**	**₱98,786**	**₱92,752**	**₱96,158**	**₱859,687**	**₱1,600,171**
Financial Liabilities						
Deposit liabilities:						
Demand	**₱219,091**	**₱–**	**₱–**	**₱–**	**₱–**	**₱219,091**
Savings	**332,015**	**–**	**–**	**–**	**–**	**332,015**
Time and LTNCDs	**184,258**	**98,415**	**19,410**	**22,530**	**30,400**	**355,013**
Financial liabilities at FVTPL:						
Derivative liabilities:						
Gross contractual payable	**20,905**	**30,667**	**17,595**	**255**	**–**	**69,422**
Gross contractual receivable	**(20,620)**	**(30,260)**	**(17,395)**	**(255)**	**–**	**(68,530)**
	285	**407**	**200**	**–**	**–**	**892**
Bills and acceptances payable	**26,965**	**7,654**	**13,197**	**210**	**3,207**	**51,233**
Bonds payable	**–**	**–**	**952**	**952**	**55,263**	**57,167**
Accrued interest payable and accrued other expenses payable	**773**	**420**	**439**	**75**	**1,030**	**2,737**
Other liabilities	**6,023**	**1,092**	**277**	**314**	**2,389**	**10,095**
Total financial liabilities	**₱769,410**	**₱107,988**	**₱34,475**	**₱24,081**	**₱92,289**	**₱1,028,243**

	December 31, 2020					
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	Total
			(In Millions)			
Financial Assets						
COCI	₱25,136	₱–	₱–	₱–	₱–	₱25,136
Due from BSP and other banks	227,072	–	–	–	–	227,072
Interbank loans receivable	33,212	4,405	10	748	1,128	39,503
Securities held under agreements to resell	15,825	–	–	–	–	15,825
Financial assets at FVTPL:						
Government securities	77	180	219	365	21,496	22,337
Private debt securities	–	19	79	98	5,098	5,294
Equity securities	8	17	5	22	1,156	1,208
Investment in UITFs	3	–	–	–	–	3
Derivative assets:						
Gross contractual receivable	44,836	9,158	354	28	143	54,519
Gross contractual payable	(44,728)	(9,045)	(347)	(36)	(165)	(54,321)
	108	113	7	(8)	(22)	198
Financial Assets at FVTOCI:						
Government securities	46,310	4,117	499	4,497	66,559	121,982
Private debt securities	507	424	1,486	3,328	18,901	24,646
Equity securities	–	8	8	16	1,008	1,040
Investment securities at amortized cost						
Government securities	4,877	743	5,578	2,249	32,109	45,556
Private debt securities	133	3,995	4,245	16,981	43,692	69,046
Financial assets at amortized cost:						
Receivables from customers	95,695	77,648	33,398	23,273	484,755	714,769
Other receivables	9,815	186	703	188	7,507	18,399
Other assets	84	–	–	2	14	100
Total financial assets	₱458,862	₱91,855	46,237	₱51,759	₱683,401	₱1,332,114
Financial Liabilities						
Deposit liabilities:						
Demand	₱203,250	₱–	₱–	₱–	₱–	₱203,250
Savings	291,773	–	–	–	–	291,773
Time and LTNCDs	218,590	93,746	15,130	17,667	60,033	405,166
Financial liabilities at FVTPL:						
Derivative liabilities:						
Gross contractual payable	35,770	12,482	11,301	1,517	122	61,192
Gross contractual receivable	(35,497)	(12,426)	(11,063)	(1,476)	(165)	(60,627)
	273	56	238	41	(43)	565
Bills and acceptances payable	45,293	25,985	237	1,553	14,242	87,310
Bonds payable	–	218	15,148	1,057	58,700	75,123
Accrued interest payable and accrued other expenses payable	222	668	416	501	775	2,582
Other liabilities	9,342	208	509	461	1,878	12,398
Total financial liabilities	₱768,743	₱120,881	₱31,678	₱21,280	₱135,585	₱1,078,167

Market Risks

Market risk is the risk to earnings or capital arising from adverse movements in factors that affect the market value of instruments, products, and transactions in an institutions' overall portfolio. Market risk arises from market making, dealing, and position taking in interest rate, foreign exchange and equity markets.

The succeeding sections provide discussion on the impact of market risk on the banking segment's trading and structural portfolios.

Trading market risk

Trading market risk exists in the banking segment as the values of its trading positions are sensitive to changes in market rates such as interest rates, foreign exchange rates and equity prices. PNB is exposed to trading market risk in the course of market making as well as from taking advantage of market opportunities. For internal monitoring of the risk in the trading portfolio, the banking segment uses the Value-at-Risk (VaR) as a primary risk measurement tool. It adopts both the Parametric VaR methodology and Historical Simulation methodology (with 99% confidence level) models were validated by an external independent validator. Volatilities used in the parametric are updated on a daily basis and are based on historical data for a rolling 261-day period while yields and prices in the historical VaR approach are also updated daily. The RMG reports the VaR utilization and breaches to limits to the risk taking personnel on a daily basis and to the ALCO and ROC on a monthly basis. All risk reports discussed in the ROC meeting are noted by the banking segment's BOD. The VaR figures are back-tested to validate the robustness of the VaR model. Results of backtesting on a rolling one year period are also reported to the ROC. Below are the objectives and limitations of the VaR methodology, VaR assumptions/parameters, backtesting, stress testing and VaR limits.

a. Objectives and limitations of the VaR methodology

   The VaR models are designed to measure market risk in a normal market environment. The models assume that any changes occurring in the risk factors affecting the normal market environment will follow a normal distribution. The use of VaR has limitations because it is based on historical volatilities in market prices and assumes that future price movements will follow a statistical distribution. Due to the fact that VaR relies heavily on historical data to provide information and may not clearly predict the future changes and modifications of the risk factors, the probability of large market moves may be under estimated if changes in risk factors fail to align with the normal distribution assumption. VaR may also be under- or over- estimated due to the assumptions placed on risk factors and the relationship between such factors for specific instruments. Even though positions may change throughout the day, the VaR only represents the risk of the portfolios at the close of each business day, and it does not account for any losses that may occur beyond the 99.00% confidence level.

b. VaR assumptions/parameters

   VaR estimates the potential loss on the current portfolio assuming a specified time horizon and level of confidence at 99.00%. The use of a 99.00% confidence level means that, within a one day horizon, losses exceeding the VaR figure should occur, on average, not more than once every one hundred days.

c. Backtesting

   The validity of the assumptions underlying the banking segment's VaR models can only be checked by appropriate backtesting procedures. Backtesting is a formal statistical framework that consists of verifying that actual losses are within the projected VaR approximations. The banking segment adopts both the clean backtesting and dirty backtesting approaches approach in backtesting. Clean backtesting, consists of comparing the VaR estimates with some hypothetical P&L values of the portfolio, having kept its composition unchanged. In this case, the same portfolio is repriced or marked-to-market at the end of the time interval and the hypothetical P&L is then compared with the VaR. The other method, called dirty backtesting, consists of comparing the VaR estimates with the actual P&L values at the end of the time horizon. This method, however, may pose a problem if the portfolio has changed drastically because of trading activities between the beginning and the end of the time horizon since VaR models assume that the portfolio is "frozen" over the horizon. The banking segment uses the regulatory 3-zone (green, yellow and red) boundaries in evaluating the backtesting results. For the years 2016 and 2015, the number of observations which fell outside the VaR is within the allowable number of exceptions in the green and yellow zones to conclude that there is no problem with the quality and accuracy of the VaR models at 99.00% confidence level. Nonetheless, closer monitoring and regular review of the model's parameters and assumptions are being conducted.

d. Stress Testing
To complement the VaR approximations, the banking segment conducts stress testing on a quarterly basis, the results of which are being reported to the banking segment's BOD. Scenarios used in the conduct of stress test are event driven and represent the worst one-off event of a specific risk factor. Results of stress testing are analyzed in terms of the impact to earnings and capital.

e. VaR Limits
Since VaR is an integral part of the banking segment's market risk management, VaR limits have been established annually for all financial trading activities and exposures. Calculated VaR compared against the VaR limits are monitored. Limits are based on the tolerable risk appetite of the banking segment. VaR is computed on an undiversified basis; hence, the banking segment does not consider the correlation effects of the three trading portfolios.

Trading Portfolio	**Foreign Exchange***	**Interest Rate**	**Equities Price**	**Total VaR****
		(In Millions)		
December 29, 2021	**₱3.67**	**₱87.21**	**₱42.28**	**₱133.17**
Average Daily	**6.93**	**401.78**	**39.50**	**448.21**
Highest	**24.90**	**670.75**	**48.48**	**701.79**
Lowest	**0.88**	**87.21**	**23.49**	**133.17**
December 29, 2020	₱9.85	₱491.44	₱22.92	₱524.21
Average Daily	9.92	245.63	28.16	283.71
Highest	26.22	608.54	36.81	671.57
Lowest	1.40	46.64	22.92	70.96

** FX VaR is the bankwide foreign exchange risk*
*** The high and low for the total portfolio may not equal the sum of the individual components as the highs and lows of the individual trading portfolios may have occurred on different trading days*

Structural Market Risk of the Banking Segment

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:

	2021					
	Up to 1 Month	**More than 1 Month to 3 Months**	**More than 3 Months to 6 Months**	**More than 6 Months to 1 Year**	**Beyond 1 year**	**Total**
			(In Millions)			
Financial Assets*						
Due from BSP and other banks	**₱125,574**	**₱12,581**	**₱4,001**	**₱7,196**	**₱38,758**	**₱188,110**
Interbank loans receivable and securities held under agreements to resell	**34,549**	**10,772**	**1,466**	**1,115**	**–**	**47,902**
Receivables from customers and other receivables - gross**	**128,716**	**64,305**	**18,405**	**30,948**	**103,945**	**346,319**
Total financial assets	**288,839**	**87,658**	**23,872**	**39,259**	**142,703**	**582,331**
Financial Liabilities*						
Deposit liabilities:						
Savings	**135,672**	**68,263**	**23,806**	**49,986**	**220,894**	**498,621**
Time***	**93,532**	**43,040**	**4,788**	**3,236**	**7,134**	**151,730**
Bonds payable	**–**	**–**	**–**	**–**	**53,383**	**53,383**
Bills and acceptances payable	**42,931**	**8,030**	**44**	**260**	**1,689**	**52,954**
Total financial liabilities	**₱272,135**	**₱119,333**	**₱28,638**	**₱53,482**	**₱283,100**	**₱756,688**
Repricing gap	**₱16,704**	**(₱31,676)**	**(₱4,566)**	**(₱14,222)**	**(₱140,397)**	**(₱174,157)**
Cumulative gap	**16,704**	**(14,972)**	**(19,537)**	**(33,760)**	**(174,156)**	

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

	2020					
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	Total
			(In Millions)			
Financial Assets*						
Due from BSP and other banks	₱138,408	₱1,393	₱441	₱461	₱81,324	₱222,027
Interbank loans receivable and securities held under agreements to resell	49,389	4,272	1,107	751	–	55,519
Receivables from customers and other receivables - gross**	118,843	79,871	18,557	15,140	129,524	361,935
Total financial assets	₱306,640	₱85,536	₱20,105	₱16,352	₱210,848	₱639,481
Financial Liabilities*						
Deposit liabilities:						
Savings	₱79,342	₱46,277	₱13,998	₱20,351	₱265,643	₱425,611
Time***	158,209	60,634	5,073	4,600	8,179	236,695
Bonds payable	–	–	13,853	–	50,204	64,057
Bills and acceptances payable	53,199	32,134	354	225	1,248	87,160
Total financial liabilities	₱290,750	₱139,045	₱33,278	₱25,176	₱325,274	₱813,523
Repricing gap	₱15,890	(₱53,509)	(₱13,173)	(₱8,824)	(₱114,426)	(₱174,042)
Cumulative gap	15,890	(37,617)	(50,790)	(59,612)	(174,038)	–

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

The following table sets forth, for the year indicated, the impact of changes in interest rates on the banking segment's repricing gap for the years ended December 31:

	2021		2020	
	Income Before Income Tax	**Equity**	Income Before Income Tax	Equity
		(In Millions)		
+50bps	**(₱76)**	**(₱76)**	(₱189)	(₱189)
-50bps	**76**	**76**	189	189
+100bps	**(152)**	**(152)**	(378)	(378)
-100bps	**152**	**152**	378	378

As one of the long-term goals in the risk management process, the banking segment has also implemented the adoption of the economic value approach in measuring the impact of the interest rate risk in the banking books to complement the earnings at risk approach using the modified duration approach. Cognizant of this requirement, the PNB has undertaken the initial activities such as identification of the business requirement and design of templates for each account and the inclusion of this requirement in the Asset Liability Management business requirement definition.

Foreign currency risk
Foreign exchange is the risk to earnings or capital arising from changes in foreign exchange rates. The banking segment takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financials and cash flows.

Foreign currency liabilities generally consist of foreign currency deposits in PNB's FCDU books, accounts made in the Philippines or which are generated from remittances to the Philippines by Filipino expatriates and overseas Filipino workers who retain for their own benefit or for the benefit of a third party, foreign currency deposit accounts with PNB and foreign currency-denominated borrowings appearing in the regular books of PNB.

Foreign currency deposits are generally used to fund PNB's foreign currency-denominated loan and investment portfolio in the FCDU. Banks are required by the BSP to match the foreign currency liabilities with the foreign currency assets held through FCDUs. In addition, the BSP requires a 30.00% liquidity reserve on all foreign currency liabilities held through FCDUs. Outside the FCDU, PNB has additional foreign currency assets and liabilities in its foreign branch network.

The banking segment's policy is to maintain foreign currency exposure within acceptable limits and within existing regulatory guidelines. The banking segment believes that its profile of foreign currency exposure on its assets and liabilities is within conservative limits for a financial institution engaged in the type of business in which the banking segment is involved.

The table below summarizes the banking segment's exposure to foreign exchange rate risk. Included in the table are the financial assets and liabilities at carrying amounts, categorized by currency (amounts in Philippine peso equivalent).

	December 31, 2021			December 31, 2020		
	USD	**Others***	**Total**	USD	Others	Total
			(In Millions)			
Assets						
COCI and due from BSP	**₱215**	**₱494**	**₱709**	₱151	₱467	₱618
Due from other banks	**14,160**	**4,403**	**18,563**	10,191	5,296	15,487
Interbank loans and securities held under agreements to resell	**1,824**	**2,314**	**4,138**	4,135	430	4,565
Loans and receivables	**27,523**	**11,002**	**38,525**	24,026	11,426	35,452
Financial Assets at FVTPL	**171**	**2**	**173**	177	–	177
Financial Assets at FVTOCI	**520**	**1,570**	**2,090**	1,948	1,302	3,250
Financial assets at amortized cost	**134**	**175**	**309**	126	1,085	1,211
Other assets	**17,128**	**1,224**	**18,352**	11,342	1,175	12,517
Total assets	**61,675**	**21,184**	**82,859**	52,096	21,181	73,277
Liabilities						
Deposit liabilities	**8,006**	**7,778**	**15,784**	7,198	7,474	14,672
Derivative liabilities	–	–	–	7	7	14
Bills and acceptances payable	**49,118**	**277**	**49,395**	62,015	286	62,301
Accrued taxes, interest and other expenses	**53**	**14**	**67**	95	10	105
Other liabilities	**1,115**	**2,211**	**3,326**	3,952	2,011	5,963
Total liabilities	**58,292**	**10,280**	**68,572**	73,267	9,788	83,055
Net Exposure	**₱3,383**	**₱10,904**	**₱14,287**	(₱21,171)	₱11,393	(₱9,778)

* *Other currencies include UAE Dirham (AED,) Australia dollar (AUD), Bahrain dollar (BHD), Brunei dollar (BND), Canada dollar (CAD), Swiss franc (CHF), China Yuan (CNY), Denmark kroner (DKK), Euro (EUR), UK pound (GBP), Hong Kong dollar (HKD), Indonesia rupiah (IDR), Japanese yen (JPY), New Zealand dollar (NZD), PHP, Saudi Arabia riyal (SAR), Sweden kroner (SEK), Singapore dollar (SGD), South Korean won (SKW), Thailand baht (THB) and Taiwan dollar (TWD).*

Information relating to the banking segment's currency derivatives is contained in Note 21.

Financial Risk Management Objectives and Policies of the Companies in the Group other than the Banking Segment

Risk Management Strategies

The Group's principal financial instruments comprise of short-term and long-term debts and COCI. The main purpose of these financial instruments is to ensure adequate funds for the Group's operations and capital expansion. Excess funds are invested in available-for-sale financial assets with a view to liquidate these to meet various operational requirements when needed. The Group has various other financial assets and financial liabilities such as receivables and accounts payable and accrued expenses which arise directly from its operations.

The main risks arising from the use of financial instruments are credit risk, liquidity risk and market risks (consisting of foreign exchange risk, interest rate risk and equity price risk).

Credit Risk

The Group manages its credit risk by transacting with counterparties of good financial condition and selecting investment grade securities. The Group trades only with recognized, creditworthy third parties. In addition, receivable balances are monitored on an on-going basis with the result that the Group's exposure to bad debts is not significant. Management closely monitors the fund and financial condition of the Group.

In addition, credit risk of property development segment is managed primarily through analysis of receivables on a continuous basis. The credit risk for contracts receivables is mitigated as the Group has the right to cancel the sales contract without the risk for any court action and can take possession of the subject property in case of refusal by the buyer to pay on time the contracts receivables due. This risk is further mitigated because the corresponding title to the property sold under this arrangement is transferred to the buyers only upon full payment of the contract price.

Concentration risk

Concentrations arise when a number of counterparties are engaged in similar business activities having similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location. Such credit risk concentrations, if not properly managed, may cause significant losses that could threaten the Group's financial strength and undermine public confidence. Concentration risk per business segment could arise on the following:

- Distilled spirits segment's annual sales pertain mainly to two trusted parties with sales to them comprising about 84% of the total segment revenue.
- Beverage segment annual sales pertain mainly to 13 parties with sales to them comprising about 100% of the total beverage sales.
- Tobacco and property development segments are not exposed to concentration risk because it has diverse base of counterparties.

Credit quality per class of financial assets

"Standard grade" accounts consist of financial assets from trusted parties with good financial condition. "Substandard grade" accounts, on the other hand, are financial assets from other counterparties with relatively low defaults. The Group did not regard any financial asset as "high grade" in view of the erratic cash flows or uncertainty associated with the financial instruments. "Past due but not impaired" are items with history of frequent default, nevertheless, the amount due are still collectible. Lastly, "Impaired financial assets" are those that are long-outstanding and have been provided with allowance for doubtful accounts.

Set out below is the information about the credit risk exposure on the Company's financial assets using provision matrix (in millions):

As of December 31, 2021:

	Cash in Banks	Due from related parties	Trade and other receivables: Current	Days past due: < 30 days	30-60 days	61-90 days	> 90 days	Total
Expected credit loss rate	**–%**	**–%**	**0.13% - 82.00%**	**0.13% - 78.9%**	**0.13% - 36.00%**	**0.13% - 93.06%**	**5.00% - 47.00%**	
Estimated total gross carrying amount at default	**₱265.1**	**₱7,685.5**	**₱6,760.4**	**₱2,160.7**	**₱2,335.4**	**₱1,398.3**	**₱2,996.4**	**₱15,651.2**
Expected credit loss	**₱–**	**₱–**	**₱0.5**	**₱10.0**	**₱8.4**	**₱36.6**	**₱190.6**	**₱246.1**

As of December 31, 2020:

	Cash in banks	Due from related parties	Trade and other receivables: Current	Days past due: < 30 days	30-60 days	61-90 days	> 90 days	Total
Expected credit loss rate	–%	–%	0.13% - 82.00%	0.13% - 78.9%	0.13% - 36.00%	0.13% - 93.06%	5.00% - 47.00%	
Estimated total gross carrying amount at default	₱1,542.6	₱1,954.5	₱7,737.1	₱2,472.8	₱2,672.8	₱1,600.3	₱3,429.3	₱17,912.3
Expected credit loss	₱–	₱–	₱0.6	₱12.3	₱10.4	₱45.2	₱235.0	₱303.6

<u>Liquidity Risk and Funding Management</u>
Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from the Group's inability to meet its obligations when they come due without incurring unacceptable losses or costs.

The Group's objective is to maintain a balance between continuity of funding and sourcing flexibility through the use of available financial instruments. The Group manages its liquidity profile to meet its working and capital expenditure requirements and service debt obligations. As part of the liquidity risk management program, the Group regularly evaluates and considers the maturity of its financial assets (e.g., trade receivables, other financial assets) and resorts to short-term borrowings whenever its available cash or matured placements is not enough to meet its daily working capital requirements. To ensure availability of short-term borrowings, the Group maintains credit lines with banks on a continuing basis.

The Group relies on budgeting and forecasting techniques to monitor cash flow concerns. The Group also keeps its liquidity risk minimum by prepaying, to the extent possible, interest bearing debt using operating cash flows.

The following tables show the maturity profile of the Group's other financial liabilities (undiscounted amounts of principal and related interest) as well as the financial assets used for liquidity management *(in millions)*:

	2021 Less than one year	**2021** 1 to less than 3 years	**2021** Total	2020 Less than one year	2020 1 to less than 3 years	2020 Total
Cash and other cash items	**₱265**	₱–	**₱265**	₱1,542	₱–	₱1,542
Trade receivables	**15,405**	–	**15,405**	16,794	–	16,794
Other receivables	**3,312**	–	**3,312**	3,421	–	3,421
Due from related parties	**7,686**	–	**7,686**	1,955	–	1,955
Refundable deposits	**181**	–	**181**	181	–	181
Financial assets at FVTPL	**11**	–	**11**	33	–	33
	₱26,860	₱–	**₱26,860**	₱23,926	₱–	₱23,926

	2021			2020		
	Less than one year	**1 to less than 3 years**	**Total**	Less than one year	1 to less than 3 years	Total
Short term debts	**₱3,940**	**₱–**	**₱3,940**	₱4,740	₱–	₱4,740
Accounts payable and other liabilities*	**16,357**	**–**	**16,357**	9,893	–	9,893
Long-term debts	**3,597**	**59,046**	**62,643**	565	3,755	4,320
Due to related parties	**65**	**–**	**65**	65	–	65
Other liabilities	**18,422**	**–**	**18,422**	1,561	1,676	3,237
	₱42,381	**₱59,046**	**₱101,427**	₱16,824	₱5,431	₱22,255

**Excluding non-financial liabilities amounting to ₱1,758 million and ₱223.2 million as of December 31, 2021 and 2020, respectively.*

Market Risks of the Group other than the Banking Segment

The Group's operating, investing, and financing activities are directly affected by changes in foreign exchange rates and interest rates. Increasing market fluctuations in these variables may result in significant equity, cash flow and profit volatility risks for the Group. For this reason, the Group seeks to manage and control these risks primarily through its regular operating and financing activities.

Management of financial market risk is a key priority for the Group. The Group generally applies sensitivity analysis in assessing and monitoring its market risks. Sensitivity analysis enables management to identify the risk position of the Group as well as provide an approximate quantification of the risk exposures. Estimates provided for foreign exchange risk, cash flow interest rate risk, price interest rate risk and equity price risk are based on the historical volatility for each market factor, with adjustments being made to arrive at what the Group considers to be reasonably possible.

Equity price risk

Equity price risk is the risk that the fair value of equities will decrease as a result of changes in the levels of equity indices and value of individual stocks. In 2021, 2020 and 2019, changes in fair value of equity instruments held as equity instruments at FVTOCI due to a reasonable possible change in equity interest, with all other variables held constant, will increase profit by ₱108.8 million, ₱209.7 million and ₱310.4 million, respectively, if equity prices will increase by 5.3%, 14.8% and 19.4%, respectively. An equal change in the opposite direction would have decrease equity by the same amount.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates would unfavorably affect future cash flows from financial instruments. As of December 31, 2021 and 2020, the Group's long-term debts are not exposed to the risk in changes in market interest rates since the debts are issued at fixed rates. Fixed rate financial instruments are subject to fair value interest rate risk while floating rate financial instruments are subject to cash flow interest rate risk. Repricing of floating rate financial instruments is mostly at interval of three months or six months.

Foreign currency risk

The non-banking segment of the Group is not significantly affected by foreign currency risk since the Group has no significant foreign currency transactions.

33. **Offsetting of Financial Assets and Financial Liabilities**

The Group is required to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreements or similar arrangements. The effects of these arrangements are disclosed in the succeeding tables.

Financial assets

December 31, 2021						
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)			
Derivative assets (Notes 6 and 21)	**₱88,929,845**	**(₱87,564,794)**	**₱1,365,051**	**₱240,111**	**₱–**	**₱1,605,162**
Securities sold under agreements to repurchase (Note 8)	**15,796,673**	**–**	**15,796,673**	**–**	**(15,800,317)**	**–**
	₱104,726,518	**(₱87,564,794)**	**₱17,161,724**	**₱240,111**	**(₱15,800,317)**	**₱1,605,162**

December 31, 2020						
Financial assets recognized at end of reporting period by type	Gross carrying Amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in the consolidated statement of financial position [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure [c-d]
				Financial instruments	Fair value of Financial collateral	
	[a]	[b]	[c]	[d]		[e]
			(In Thousands)			
Derivative assets (Notes 6 and 21)	₱58,317,718	(₱57,947,065)	₱370,653	(₱58,699)	₱–	₱311,954
Securities sold under agreements to repurchase (Note 8)	15,819,273	–	15,819,273	–	(16,499,434)	–
	₱74,136,991	(₱57,947,065)	₱16,189,926	(₱58,699)	(₱16,499,434)	₱311,954

Financial liabilities

Financial assets recognized at end of reporting period by type	**Gross carrying Amounts (before offsetting)**	**Gross amounts offset in accordance with the offsetting criteria**	**Net amount presented in the consolidated statement of financial position [a-b]**	**Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria: Financial instruments**	**Fair value of Financial collateral**	**Net exposure [c-d]**
December 31, 2021						
	[a]	**[b]**	**[c]**	**[d]**		**[e]**
			(In Thousands)			
Derivative liabilities (Notes 16 and 21)	**₱70,313,430**	**(₱69,421,899)**	**₱891,531**	**₱49,120**	**₱-**	**₱842,411**
Securities sold under agreements to repurchase (Note 8)*	**38,494,178**	**–**	**38,494,178**	**–**	**(30,619,104)**	**–**
Total	**₱108,807,608**	**(₱69,421,899)**	**₱39,385,709**	**₱49,120**	**(₱30,619,104)**	**₱842,411**

** Included in bills and acceptances payable in the consolidated statement of financial position.*

Financial assets recognized at end of reporting period by type	Gross carrying Amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in the consolidated statement of financial position [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria: Financial instruments	Fair value of Financial collateral	Net exposure [c-d]
December 31, 2020						
	[a]	[b]	[c]	[d]		[e]
			(In Thousands)			
Derivative liabilities (Notes 16 and 21)	₱65,641,080	(₱64,939,841)	₱701,239	(₱85,540)	₱–	₱615,699
Securities sold under agreements to repurchase (Note 17)*	69,906,979	–	69,906,979	–	(72,585,497)	–
Total	₱135,548,059	(₱64,939,841)	₱70,608,218	(₱85,540)	(₱72,585,497)	₱615,699

** Included in bills and acceptances payable in the consolidated statement of financial position.*

The amounts disclosed in column (d) include those rights to set-off amounts that are only enforceable and exercisable in the event of default, insolvency or bankruptcy. This includes amounts related to financial collateral both received and pledged, whether cash or non-cash collateral, excluding the extent of over-collateralization.

34. Fair Value Measurement

The Group has assets and liabilities that are measured at fair value on a recurring and non-recurring basis in the consolidated statements of financial position after initial recognition. Recurring fair value measurements are those that another PFRSs requires or permits to be recognized in the consolidated statements of financial position at the end of each reporting period. These include financial assets and liabilities at FVTPL and FVTOCI. Non-recurring fair value measurements are those that another PFRSs requires or permits to be recognized in the consolidated statement of financial position in particular circumstances. These include land and land improvements, buildings and building improvements and machineries and equipment measured at revalued amount and investment properties measured at cost but with fair value measurement disclosure.

The Group's management determines the policies and procedures for both recurring and non-recurring fair value measurement.

External valuers are involved for valuation of significant assets, such as investment properties, land and land improvements, plant buildings and building improvements and machineries and equipment. Involvement of external valuers is decided upon annually by management. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Management decides, after discussions with the Group's external valuers, which valuation techniques and inputs to use for each case.

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

As of December 31, 2021 and 2020, the carrying values of the Group's financial assets and liabilities approximate their respective fair values, except for the following financial instruments:

	December 31, 2021		December, 31, 2020	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
		(In Thousands)		
Financial Assets:				
Financial assets at amortized cost	**₱89,455,843**	**₱94,871,927**	₱95,235,993	₱99,368,418
Loans and receivables:				
Receivables from customers	**597,979,601**	**635,709,624**	585,855,937	622,821,007
	₱687,435,444	**₱730,581,551**	₱681,091,930	₱722,189,425
Financial Liabilities:				
Financial liabilities at amortized cost:				
Deposit liabilities:				
Time deposits	**₱151,729,554**	**₱151,729,554**	₱236,694,042	₱236,694,042
Bills payables	**45,843,901**	**45,860,995**	83,598,532	83,600,018
Long-term debts:				
Unsecured term loan	**4,115,867**	**4,115,867**	2,911,053	2,911,053
Bonds payable	**53,383,421**	**54,724,962**	64,056,335	67,728,954
LTNCD	**28,245,390**	**28,314,622**	28,212,034	28,541,261
Other liabilities:				
Payable to landowners	**1,061,191**	**1,061,191**	1,061,191	1,061,191
Tenants' rental deposits	**411,502**	**411,502**	428,191	428,191
	₱284,790,826	**₱286,218,693**	₱416,961,378	₱420,964,710

The methods and assumptions used by the Group in estimating the fair value of the financial instruments are:

Cash equivalents - Carrying amounts approximate fair values due to the relatively short-term maturity of these investments.

Debt securities - Fair values are generally based upon quoted market prices. If the market prices are not readily available, fair values are obtained from independent parties offering pricing services, estimated using adjusted quoted market prices of comparable investments or using the discounted cash flow methodology.

Equity securities - fair values of quoted equity securities are based on quoted market prices. While fair values of unquoted equity securities are the same as the carrying value since the fair value could not be reliably determined due to the unpredictable nature of future cash flows and the lack of suitable methods of arriving at a reliable fair value.

Loans and receivables - For loans with fixed interest rates, fair values are estimated by discounted cash flow methodology, using the Group's current market lending rates for similar types of loans. For loans with floating interest rates, with repricing frequencies on a quarterly basis, the Group assumes that the carrying amount approximates fair value.

Liabilities - Except for time deposit liabilities, subordinated debt, bonds payable, unsecured term loans, notes payable, payable to landowners, tenants' rental deposits and advance rentals, the carrying values approximate fair values due to either the presence of a demand feature or the relatively short-term maturities of these liabilities.

Derivative instruments - Fair values are estimated based on quoted market prices or acceptable valuation models.

Time deposit liabilities, bills payable with long term maturity and subordinated debt including designated at FVTPL - Fair value is determined using the discounted cash flow methodology.

Fair value hierarchy
The Group uses the following hierarchy for determining and disclosing the fair value of assets and liabilities by valuation technique. These levels are based in the inputs that are used to determine the fair value and can be summarized in:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The Group held the following assets and liabilities measured at fair value and at cost but which fair values are disclosed and their corresponding level in fair value hierarchy:

	December 31, 2021			
	Level 1	**Level 2**	**Level 3**	**Total**
		(In Thousands)		
Assets measured at fair value:				
Financial Assets				
Financial assets at FVTPL:				
Held-for-trading:				
Government securities	**₱3,309,163**	**₱4,646,850**	**₱–**	**₱7,956,013**
Derivative assets	**949,208**	**892,340**	**–**	**1,841,548**
Private debt securities	**–**	**1,365,051**	**–**	**1,365,051**
Equity securities	**5,045**	**–**	**–**	**5,045**
Designated at FVTPL:				
Investment in UITFs	**–**	**37,612**	**–**	**37,612**
	₱4,263,416	**₱6,941,853**	**₱–**	**₱11,205,269**
Financial assets at FVTOCI:				
Government securities	**₱63,357,650**	**₱57,407,275**	**₱–**	**₱120,764,925**
Private debt securities	**252,902**	**500,259**	**22,362,318**	**23,115,479**
Equity securities**	**903,611**	**1,149,056**	**–**	**2,052,667**
	₱64,514,163	**₱59,056,590**	**₱22,362,318**	**₱145,933,071**

	December 31, 2021			
	Level 1	**Level 2**	**Level 3**	**Total**
		(In Thousands)		
Non-financial assets				
Property, plant and equipment***				
Land and land improvements	**₱–**	**₱–**	**₱41,990,307**	**₱41,990,307**
Plant buildings and building improvements	**–**	**–**	**4,933,456**	**4,933,456**
Machineries and equipment	**–**	**–**	**13,545,108**	**13,545,108**
	₱–	**₱–**	**₱60,468,871**	**₱60,468,871**
Liabilities measured at fair value:				
Financial liabilities				
Financial liabilities at FVTPL:				
Designated at FVTPL:				
Derivative liabilities	**₱–**	**₱891,531**	**₱–**	**₱891,531**
Assets for which fair values are disclosed:				
Financial Assets				
Financial assets at amortized cost	**17,676,548**	**77,195,379**	**–**	**94,871,927**
Loans and receivables:				
Receivables from customers			**635,709,624**	**635,709,624**
	₱17,676,548	**₱78,086,910**	**₱635,709,624**	**₱731,473,082**
Non-financial Assets				
Investment properties***				
Land	**₱–**	**₱–**	**₱26,914,713**	**₱26,914,713**
Buildings and improvements	**–**	**–**	**3,030,859**	**3,030,859**
	₱–	**₱–**	**₱29,945,572**	**₱29,945,572**
Liabilities for which fair values are disclosed:				
Financial liabilities				
Financial liabilities at amortized cost:				
Deposit liabilities:				
Time deposits	**₱–**	**₱–**	**₱151,729,554**	**₱151,729,554**
Long term debts:				
Bills payable	**–**	**–**	**45,860,995**	**45,860,995**
Unsecured term loan	**–**	**–**	**4,115,867**	**4,115,867**
Bonds payable	**38,997,788**	**15,727,174**	**–**	**54,724,962**
LTNCD	**–**	**28,314,622**	**–**	**28,314,622**
Other liabilities:				
Payable to landowners	**–**	**–**	**1,061,191**	**1,061,191**
Tenants' rental deposits	**–**	**–**	**411,502**	**411,502**
	₱38,997,788	**₱44,041,796**	**₱203,179,109**	**₱286,218,693**

* *Excludes cash component*
** *Excludes unquoted available-for-sale securities*
*** *Based on the fair values from appraisal reports which are different from their carrying amounts which are carried at cost.*

	December 31, 2020			
	Level 1	Level 2	Level 3	Total
		(In Thousands)		
Assets measured at fair value:				
Financial Assets				
Financial assets at FVTPL:				
Held-for-trading:				
Government securities	₱17,657,777	₱478,614	₱–	₱18,136,391
Derivative assets	–	370,653	–	370,653
Private debt securities	3,198,949	1,097,151	–	4,296,100
Equity securities	1,019,626	–	–	1,019,626
Designated at FVTPL:				
Investment in UITFs	–	35,554	–	35,554
	₱21,876,352	₱1,981,972	₱–	₱23,858,324
Financial assets at FVTOCI:				
Government securities	₱67,513,412	₱43,333,354	₱–	₱110,846,766
Private debt securities	9,773,253	11,645,281	–	21,418,534
Equity securities**	302,340	540,109	607,603	1,450,052
	₱77,589,005	₱55,518,744	₱607,603	₱133,715,352

	December 31, 2020			
	Level 1	Level 2	Level 3	Total
	(In Thousands)			
Non-financial assets				
Property, plant and equipment***				
Land and land improvements	₱–	₱–	₱38,269,468	₱38,269,468
Plant buildings and building improvements	–	–	13,408,573	13,408,573
Machineries and equipment	–	–	8,240,432	8,240,432
	₱–	₱–	₱59,918,473	₱59,918,473
Liabilities measured at fair value:				
Financial liabilities				
Financial liabilities at FVTPL:				
Designated at FVTPL:				
Derivative liabilities	₱–	₱701,239	₱–	₱701,239
Assets for which fair values are disclosed:				
Financial Assets				
Financial assets at amortized cost	₱12,712,144	₱86,656,274	₱–	₱99,368,418
Loans and receivables:				
Receivables from customers	–	–	622,821,007	622,821,007
	₱12,712,144	₱86,656,274	₱622,821,007	₱722,189,425
Non-financial Assets				
Investment properties***				
Land	₱–	₱–	₱26,970,597	₱26,970,597
Buildings and improvements	–	–	3,947,077	3,947,077
	₱–	₱–	₱30,917,674	₱30,917,674
Liabilities for which fair values are disclosed:				
Financial liabilities				
Financial liabilities at amortized cost:				
Deposit liabilities:				
Time deposits	₱–	₱–	₱236,694,042	₱236,694,042
Long term debts:				
Bills payable	–	–	83,600,018	83,600,018
Unsecured term loan	–	–	2,911,053	2,911,053
Bonds payable	38,225,468	29,503,486	–	67,728,954
LTNCD	–	28,541,261	–	28,541,261
Other liabilities:				
Payable to landowners	–	–	1,061,191	1,061,191
Tenants' rental deposits	–	–	428,191	428,191
	₱38,225,468	₱58,044,747	₱324,694,495	₱420,964,710

* *Excludes cash component*
** *Excludes unquoted available-for-sale securities*
*** *Based on the fair values from appraisal reports which are different from their carrying amounts which are carried at cost.*

When fair values of listed equity and debt securities, as well as publicly traded derivatives at the reporting date are based on quoted market prices or binding dealer price quotations, without any deduction for transaction costs, the instruments are included within Level 1 of the hierarchy.

The unquoted debt securities fair values are estimated based on the market data approach that makes use of market multiples derived from a set of comparable. Multiples were determined that is most relevant to assessing the value of the unquoted securities (e.g., earnings, book value). The selection of the appropriate multiple within the range is based on qualitative and quantitative factors specific to the measurement.

For all other financial instruments, fair value is determined using valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist and other revaluation models.

Significant input used in determining fair values of financial instruments under Level 2 comprises of interpolated market rates of benchmark securities. For investments in UITFs, fair values are determined based on published NAVPU as of reporting date.

As of December 31, 2021 and 2020, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of level 3 fair value measurements.

The table below summarizes the valuation techniques used and the significant unobservable inputs valuation for each type of property, plant and equipment and investment properties held by the Group:

	Valuation Techniques	**Significant Unobservable Inputs**	**Range of Estimates**
Property, plant and equipment:			
Land and land improvements	Market Data Approach	Price per square meter	₱6,000 - ₱6,200
Plant buildings and building improvements			
Building	Replaceable Fixed Asset Valuation Approach	Replacement cost	₱4,287 - ₱10,000
		Estimated total floor area	24 - 1548 sq.m
Building improvements	Replaceable Fixed Asset Valuation Approach	Replacement cost	₱2.8 million - ₱26.5 million
		Estimated number of components	315 - 723 components
Machineries and equipment	Replaceable Fixed Asset Valuation Approach	Replacement cost	₱3,200 - ₱8.6 million
		Estimated number of components	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
<u>Valuation Techniques</u>	
Market Data Approach	A process of comparing the subject property being appraised to similar comparable properties recently sold or being offered for sale.
Replaceable Fixed Asset Valuation Approach	This method requires an analysis of the buildings and other land improvements by breaking them down into major components. Bills of quantities for each component using the appropriate basic unit are prepared and related to the unit cost for each component developed on the basis of current costs of materials, labor, plant and equipment prevailing in the locality to arrive at the direct costs of the components. Accrued depreciation was based on the observed condition.
Replacement Cost Approach	It is an estimate of the investment required to duplicate the property in its present condition. It is reached by estimating the value of the building "as if new" and then deducting the depreciated cost. Fundamental to the Cost Approach is the estimate of Reproduction Cost New of the improvements.

Valuation Techniques	Description
Reproduction Cost New	The cost to create a virtual replica of the existing structure, employing the same design and similar building materials.
Size	Size of lot in terms of area. Evaluate if the lot size of property or comparable conforms to the average cut of the lots in the area and estimate the impact of lot size differences on land value.
Shape	Particular form or configuration of the lot. A highly irregular shape limits the usable area whereas an ideal lot configuration maximizes the usable area of the lot which is associated in designing an improvement which conforms with the highest and best use of the property.
Location	Location of comparative properties whether on a main road, or secondary road. Road width could also be a consideration if data is available. As a rule, properties located along a main road are superior to properties located along a secondary road.
Time Element	"An adjustment for market conditions is made if general property values have appreciated or depreciated since the transaction dates due to inflation or deflation or a change in investors' perceptions of the market over time". In which case, the current data is superior to historic data.
Discount	Generally, asking prices in ads posted for sale are negotiable. Discount is the amount the seller or developer is willing to deduct from the posted selling price if the transaction will be in cash or equivalent.
Corner influence	Bounded by two (2) roads.

35. Notes to Consolidated Statements of Cash Flows

Cash Flows from Financing Activities

The changes in liabilities arising from financing activities in 2021 and 2020 follow:

	2021			
	Beginning balance	**Net cash flows**	**Others**	**Ending balance**
Bills and acceptances payable	**₱87,159,450**	**(₱36,426,226)**	**₱2,220,573**	**₱52,953,797**
Bonds payable	**64,056,335**	**(13,870,000)**	**3,197,086**	**53,383,421**
Lease liabilities	**2,775,256**	**(1,304,689)**	**3,673,479**	**5,144,046**
	₱153,991,041	**(₱51,600,915)**	**₱9,091,138**	**₱111,481,264**

	2020			
	Beginning balance	Net cash flows	Others	Ending balance
Bills and acceptances payable	₱55,963,290	₱32,255,780	(₱1,059,619)	₱87,159,451
Bonds payable	66,615,078	–	(2,558,743)	64,056,335
Lease liabilities	3,247,876	(794,735)	322,115	2,775,256
	₱125,826,244	₱31,461,045	(₱3,296,247)	₱153,991,042

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

Non-cash Transactions
The Group applied creditable withholding taxes against its income tax payable amounting to ₱1.6 billion, ₱2.8 billion and ₱1.3 billion in 2021, 2020 and 2019, respectively.

The Group acquired investment properties through foreclosure and rescission amounting to ₱0.5 billion, ₱0.1 billion, and ₱1.0 billion in 2021, 2020 and 2019, respectively.

Non-cash Investing Activities

As of December 31, 2021 and 2020, unpaid additions to property, plant and equipment amounted to ₱34.4 million and ₱154.3 million, respectively, which is included as part of "Accounts payable and accrued expenses".

36. Capital Management

The main thrust of the Group's capital management policy is to ensure that the Group complies with externally imposed capital requirements, maintains a good credit standing and has a sound capital ratio to be able to support its business and maximize the value of its shareholders equity. The Group is also required to maintain debt-to-equity ratios to comply with certain loan agreements and covenants in 2021 and 2020.

The Group's dividend declaration is dependent on the availability of earnings and operating requirements. The Group manages its capital structure and makes adjustment to it, in light of changes in economic conditions. To maintain or adjust capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No change were made in the objectives, policies or processes in 2021 and 2020.

The Group considers its total equity reflected in the consolidated statements of financial position as its capital. The Group monitors its use of capital and the Group's capital adequacy by using leverage ratios, specifically, debt ratio (total debt/total equity and total debt) and debt-to-equity ratio (total debt/total equity). Included as debt are the Group's total liabilities while equity pertains to total equity as shown in the consolidated statements of financial position.

The table below shows the leverage ratios of the Group:

	2021	2020
	(In Thousands, except ratios)	
Total liabilities	**₱1,048,299,685**	₱1,097,584,175
Total equity	**263,536,679**	255,538,279
Total liabilities and equity	**₱1,311,836,364**	₱1,353,122,454
Debt ratio	**0.80:1**	0.81:1
Debt-to-equity ratio	**3.98:1**	4.30:1

Regulatory Qualifying Capital for the Banking Segment
Under existing BSP regulations, the determination of PNB's compliance with regulatory requirements and ratios is based on the amount of PNB's unimpaired capital (regulatory net worth) reported to the BSP, which is determined on the basis of regulatory policies, which differ from PFRSs in some respects.

In addition, the risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10.00% for both solo basis (head office and branches) and consolidated basis (parent bank and subsidiaries engaged in financial allied undertakings but excluding insurance companies). Qualifying capital and risk-weighted assets are computed based on BSP regulations. Risk-weighted assets consist of total assets less cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits and other non-risk items determined by the MB of the BSP.

PNB and its individually regulated subsidiaries/operations have complied with all externally imposed capital requirement throughout the year.

On January 15, 2013, the BSP issued Circular No. 781, Basel III Implementing Guidelines on Minimum Capital Requirements, which provides the implementing guidelines on the revised risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards. The circular is effective on January 1, 2014.

The Circular No. 781 sets out a minimum Common Equity Tier 1 (CET1) ratio of 6.0% and Tier 1 capital ratio of 7.5%. It also introduces a capital conservation buffer of 2.5% comprised of CET1 capital. The BSP's existing requirement for Total CAR remains unchanged at 10% and these ratios shall be maintained at all times.

Further, existing capital instruments as of December 31, 2010 which do not meet the eligibility criteria for capital instruments under the revised capital framework shall no longer be recognized as capital upon the effectivity of Basel III. Capital instruments issued under BSP Circular Nos. 709 and 716 (the circulars amending the definition of qualifying capital particularly on Hybrid Tier 1 and Lower Tier 2 capitals), starting January 1, 2011 and before the effectivity of BSP Circular No. 781, shall be recognized as qualifying capital until December 31, 2015. In addition to changes in minimum capital requirements, this Circular also requires various regulatory adjustments in the calculation of qualifying capital.

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

<u>Internal Capital Adequacy Assessment Process (ICAAP) Implementation</u>
In compliance with BSP Circular 639, PNB has adopted its live ICAAP Document for 2011 to 2013. However, the BOD and the Management recognized that ICAAP is beyond compliance, i.e., it is about how to effectively run PNB's operations by ensuring that PNB maintains at all times an appropriate level and quality of capital to meet its business objective and commensurate to its risk profile. In line with its ICAAP principles, PNB shall maintain a capital level that will not only meet the BSP CAR requirement but will also cover all material risks that it may encounter in the course of its business. The ICAAP process highlights close integration of capital planning/strategic management with risk management. PNB has in place a risk management framework that involves a collaborative process for assessing and managing identified Pillar 1 and Pillar 2 risks. PNB complies with the required annual submission of updated ICAAP.

BSP also requires the Basel III Leverage Ratio (BLR), which is designed to act as a supplementary measure to the risk-based capital requirements. BLR intends to restrict the build-up of leverage in the banking sector to avoid destabilizing deleveraging processes, which can damage the broader financial system and the economy. Likewise, it reinforces the risk-based requirements with a simple, non-risk based "backstop" measure. BLR is computed as the capital measure (Tier 1 capital) divided by the total exposure measure and should not be less than 5.00%.

Capital build-up plan
In 2021, PNB prepared its capital build-up plan which aims to increase its qualifying capital for the succeeding three years. Further, while PNB is executing its capital build-up plan, it intends to apply the regulatory reliefs provided under BSP Memoranda M-2021-055 and M-2021-056 in calculating its CAR in 2022.

37. Leases, Provision and Contingencies and Other Matters

Leases
The Group as lessor
The Group entered into lease agreements with third parties covering its investment property portfolio, certain motor vehicles and items of machinery. These leases generally provide for either (a) fixed monthly rent, or (b) minimum rent or a certain percentage of gross revenues, whichever is higher. The Group records rental income on a straight-line basis over less non-cancellable lease term. Any difference between the calculated rental income and amount actually received is recognized as "Deferred rent" (see Note 8).

The Group has tenants' rental deposits and advance rentals which are presented under "Other noncurrent liabilities". Tenants' rental deposits pertain to the amounts paid by the tenants at the inception of the lease which is refundable at the end of the lease term. Advance rentals pertain to deposits from tenants which will be applied against receivables either at the beginning or at the end of lease term depending on the lease contract.

In May and November 2020, Eton granted discounts to its lessees totaling to ₱107.2 million.

Future minimum rental receivables under non-cancellable operating leases as of December 31 are as follows:

	2021	2020
	(In Thousands)	
Within one year	**₱1,467,172**	₱1,437,821
After one year but not more than five years	**3,012,918**	2,981,337
More than five years	**48,036**	208,351
	₱4,528,126	₱4,627,509

The Group as lessee
The Group has entered into commercial leases for its branch sites/premises, land where the related investment property or property, plant and equipment is build/constructed, warehouse and warehouse equipment, ATM offsite location and other equipment. These non-cancellable leases have lease terms of 1 to 40 years. Most of these lease contracts include escalation clauses, an annual rent increase of 2.00% to 10.00%. The Group ROU asset is composed of the PNB's branch sites and its subsidiaries offices under lease arrangements.

The Group has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Group's business needs. Management exercises judgement in determining whether these extension and termination options are reasonably certain to be exercised.

Rent expense charged against current operations (included in ‘Occupancy’ in the consolidated statements of income) amounted to ₱251.5 million, ₱580.6 million and ₱581.1 million in 2021, 2020 and 2019, respectively, for the Group, of which ₱223.2 million, ₱532.9 million and ₱454.1 million in 2021, 2020, and 2019, respectively, pertain to the PNB. Rent expense in 2021 and 2020 pertains to expenses from short-term leases and leases of low-value assets.

As of December 31, 2021 and 2020, the Group has no contingent rent payable.

As of December 31, 2021, the carrying amounts of ‘Lease liabilities’ are as follows:

Balance at beginning of year	₱2,775,256
Additions	3,462,536
Interest expense	210,943
Payments	(1,304,689)
	₱5,144,046

Future minimum lease receivables under finance leases are as follows:

	2021	2020
	(In Thousands)	
Within one year	**₱1,232,961**	₱1,364,058
Beyond one year but not more than five years	**643,821**	906,513
More than five years	**14,344**	31,845
Total	**1,891,126**	2,302,416
Less amounts representing finance charges	**13,770**	13,770
Present value of minimum lease payments	**₱1,877,356**	₱2,288,646

Trust Operations
Securities and other properties held by PNB in fiduciary or agency capacities for its customers are not included in the accompanying statements of financial position since these are not assets of PNB. Such assets held in trust were carried at a value of ₱143.3 billion and ₱154.4 billion as of December 31, 2021 and 2020, respectively. In connection with the trust functions of PNB, government securities amounting to ₱1.6 billion and ₱1.9 billion (included under ‘Financial assets at amortized cost’) as of December 31, 2021 and 2020, respectively, are deposited with the BSP in compliance with trust regulations.

In compliance with existing banking regulations, PNB transferred from surplus to surplus reserves the amounts of ₱23.2 million, ₱20.4 million and ₱21.4 million in 2021, 2020 and 2019, respectively, which correspond to 10% of the net income realized in the preceding years from its trust, investment management and other fiduciary business until such related surplus reserve constitutes 20% of its regulatory capital.

Provisions and Contingencies
In the normal course of business, the Group makes various commitments and incurs certain contingent liabilities that are not presented in the consolidated financial statements including several suits and claims which remain unsettled. No specific disclosures on such unsettled assets and claims are made because any such specific disclosures would prejudice the Group’s position with the other parties with whom it is in dispute. Such exemption from disclosures is allowed under PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. The Group and its legal counsel believe that any losses arising from these contingencies which are not specifically provided for will not have a material adverse effect on the financial statements.

Excise Tax Refund Claim
The new excise tax law or RA 10351 became effective on January 1, 2013, and increased the excise tax rates of, among others, distilled spirits. Another change that was brought in by the new law is the shift in the tax burden of distilled spirits from raw materials to the finished product.

To implement the said law, the Secretary of Finance issued Revenue Regulations No. 17-2012 (RR 17-2012), which, in one of its transitory provisions, disallowed the tax crediting of the excise taxes that were already paid under the old law on the raw materials inventory by end of the year 2012 or by the effectivity of RA 10351 in favor of the excise taxes due on the finished goods inventory.

The Commissioner of Internal Revenue issued on January 9, 2013 Revenue Memorandum Circular (RMC) No. 3-2013. This RMC sought to clarify further certain provisions of RR No. 17-2012 but in effect extended the imposition of the excise tax on both the (1) ethyl alcohol as raw materials in the production of compounded liquors and (2) the manufactured finished product. Per the RMC, both ethyl alcohol and compounded liquor are considered as distinct distilled spirits products and are thus separate taxable items under the new law. This interpretation of the law was however modified with the issuance of RMC No. 18-2013. The new RMC allowed the non-payment of excise tax on ethyl alcohol that were purchased after the issuance of RMC No. 3-2013 to be used as raw materials in the manufacture of compounded liquors provided certain requirements such as posting of surety bonds are complied with. RMC No. 18-2013, however, still maintained that taxes previously paid on the raw materials, i.e., ethyl alcohol/ethanol inventory, at the time of the effectivity of the new excise tax law are still not subject to refund/tax credit to the manufacturers.

Under RR No. 17-2012, the amount of excise tax that was disallowed for tax credit was ₱725.8 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 ₱45.9 million in excise taxes for the raw materials that were purchased/imported for purposes of compounding during the subsistence of RMC No. 3-2013. TDI also would claim this amount on the basis that the RMC was issued without basis and beyond the authority granted by law to the administrative agency.

On February 8, 2019, TDI received the decision of the Court of Tax Appeals (CTA) Second Division denying TDI's claim for refund since TDI failed to prove that there is actual payment of the excise tax being claimed. On February 22, 2019, TDI filed a Motion for Reconsideration. On July 28, 2019, the motion was denied by the CTA Second Division. TDI filed a Petition for Review to the CTA En Banc on August 1, 2019. On October 28, 2020, the petition was denied, affirming the decisions and resolutions made by CTA Second Division. On November 16, 2020, a Motion for Reconsideration was filed by the legal counsel before the CTA En Banc which was also denied on March 22, 2021 for lack of merit.

On July 29, 2021, TDI filed a Petition for Review on Certiorari at the Supreme Court. As of March 15, 2022, TDI is awaiting for the Supreme Court's decision.

<u>Assets and Liabilities of Disposal Group Classified as Held for Sale and Discontinued Operations</u>
On various dates in 2020, the respective BODs of PNB and PNB Holdings approved the sale of all their holdings in PNB Gen for cash. As a result, the Group reclassified all the assets and liabilities of PNB Gen to 'Assets of disposal group classified as held for sale' and 'Liabilities of disposal group classified as held for sale', respectively, in the consolidated statement of financial position as of December 31, 2020. The business of PNB Gen represented the entirety of the PNB's non-life insurance business.

The results of PNB Gen were previously presented in the 'Others' section of the business segment disclosure.

The results of operation of PNB Gen are presented below:

	2021	2020	2019
Interest Income on			
Loans and receivables	**₱35**	₱202	₱275
Investment securities at amortized cost and FVOCI	**19,830**	81,734	67,708
Deposits with banks and others	**34**	5,087	17,453
	19,899	87,023	85,436
Interest Expense on			
Lease liabilities	**530**	2,698	128
Net Interest Income	**19,369**	84,325	85,308
Net Service Fees and Commission Income	**110**	19,718	7,460
Insurance premium	**202,543**	955,640	1,151,704
Insurance benefits and claims	**143,605**	716,820	909,974
Net Insurance Premium	**58,938**	238,820	241,730
Other Income			
Foreign exchange gains (losses) - net	**1,804**	(2,878)	15
Trading and investment securities gains - net	**–**	9,123	94
Total Operating Income	**80,221**	349,108	334,607
Operating Expenses			
Compensation and fringe benefits	**37,040**	152,265	133,896
Depreciation and amortization	**6,592**	28,862	8,901
Provision for (reversal of) credit losses	**1,174**	29,781	(324)
Occupancy and equipment-related costs	**903**	1,910	17,074
Taxes and licenses	**290**	4,750	4,878
Miscellaneous	**8,832**	43,539	49,910
Total Operating Expenses	**54,831**	261,107	214,335
Income Before Income Tax	**25,390**	88,001	120,272
Provision for Income Tax	**4,775**	20,418	18,679
Net Income from Discontinued Operations	**₱20,615**	₱67,583	₱101,593

Net Insurance Premium

This account consists of:

	2021	2020	2019
Net insurance premiums			
Gross earned premium	**₱385,904**	₱2,385,857	₱2,764,108
Reinsurer's share of gross earned premiums	**(183,361)**	(1,430,217)	(1,612,404)
	202,543	955,640	1,151,704
Less net insurance benefits and claims			
Gross insurance contract benefits and claims paid	**207,003**	2,241,488	1,598,129
Reinsurer's share of gross insurance contract benefits and claims paid	**(130,493)**	(1,983,736)	(1,262,884)
Gross change in insurance contract liabilities	**48,017**	1,410,172	(65,571)
Reinsurer's share of change in insurance contract liabilities	**19,078**	(951,104)	640,300
	143,605	716,820	909,974
	₱58,938	₱238,820	₱241,730

The major classes of assets and liabilities of PNB Gen classified as disposal group as of December 31, 2020 follow:

Assets	
Due from other banks	₱164,894
Financial assets at FVTPL	1,387
Financial assets at FVOCI	1,183,355
Investment securities at amortized cost	788,430
Loans and other receivables - net	4,232,047
Deferred reinsurance premium	901,623
Property and equipment - net	48,436
Deferred tax assets	36,475
Intangible assets - net	5,134
Other assets	584,164
	₱7,945,945
Liabilities	
Accrued taxes, interest and other expenses	₱269,100
Insurance contract liabilities	4,360,733
Reserved for unearned reinsurance premium	1,196,273
Accounts payable	142,513
Other liabilities	385,345
	₱6,353,964
Net assets of disposal group held for sale	₱1,591,981
Amounts included in accumulated OCI:	
Remeasurement gain on retirement plan	₱59,407
Net unrealized gain on financial assets at FVOCI	29,209
	₱88,616

Net cash flows of PNB Gen follow:

	2021	2020	2019
Net cash flows from operating activities	**(₱36,288)**	(₱27,016)	(₱298,984)
Net cash flows from investing activities	**18,740**	(242,063)	(8,619)
Net cash flows from financing activities	**(1,912)**	(22,648)	292,789
	(₱19,460)	(₱291,727)	(₱14,814)

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**INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY SCHEDULES**

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

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of LT Group, Inc. and Subsidiaries as at December 31, 2021 and 2020 and for each of the three years in the period ended December 31, 2021, included in this Form 17-A, and have issued our report thereon dated March 15, 2022. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for purposes of complying with the Revised Securities Regulation Code Rule 68, and are not part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly state, in all material respects, the financial data required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Aileen L. Saringan

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

March 15, 2022

SGVFS162724

LT GROUP, INC. AND SUBSIDIARIES
SCHEDULE A. – Financial Assets
DECEMBER 31, 2021
(in thousands Php)

(1) Financial Assets at Fair Value through Profit or Loss
(Amounts in thousands except for Number of Shares)

Name of Issuing Entity and Association of each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on bid prices on the balance sheet date	Income received and accrued
Government securities				
Treasury Bills	-	5,224,542	5,166,008	-
Republic of the Philippines (ROP) Bonds	-	1,213,970	1,248,319	22,339
Retail Treasury Bonds	-	1,174,922	1,193,972	133,664
Fixed Rate Treasury Notes	-	354,824	347,714	305,028
	-	**7,968,257**	**7,956,012**	**461,031**
Private debt securities				
Petron	827,030	703,880	703,881	50,491
Sm Prime Holdings Inc.	-	501,950	512,615	24,431
San Miguel Global Power Holdings Corp	-	280,950	293,496	22,702
Del Monte	367,504	3,537	169,572	2,764
Vista Land & Lifestyle	-	148,000	149,323	67,045
Ayala Land Inc	-	12,550	12,661	861
	1,194,534	**1,650,867**	**1,841,549**	**168,293**
Equity securities				
San Miguel Corp - Pref 2I	25,970	1,909	2,069	-
San Miguel Corp - Pref 2H	26,000	1,937	1,976	-
GT Capital Pref Series B	1,000	824	1,000	-
	52,970	**4,670**	**5,045**	**-**

Name of Issuing Entity and Association of each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on bid prices on the balance sheet date	Income received and accrued
Derivatives				
JPMorgan Chase Bank Manila	-	18,566,096	338,684	-
Security Bank Corporation	-	10,454,795	218,735	-
Banco de Oro Universal Bank	-	15,707,692	186,715	-
Rizal Commercial Banking Corporation	-	3,215,397	100,358	-
Standard Chartered Bank Manila	-	7,250,298	88,207	-
Metropolitan Bank & Trust Company	-	3,416,933	60,485	-
Deutsche Bank AG London	-	3,059,940	56,331	-
Bank of the Philippine Islands	-	4,589,910	45,433	-
Hongkong and Shanghai Banking Corp. Hongkong	-	2,219,082	44,966	-
East West Banking Corporation	-	3,569,930	41,762	-
Deutsche Bank AG Manila Branch	-	2,243,956	35,265	-
Union Bank of the Philippines	-	2,549,950	31,473	-
Hongkong and Shanghai Banking Corp. Manila	-	2,804,945	30,080	-
UBS AG Zurich	-	1,656,802	20,757	-
JPMorgan Chase Bank Singapore	-	1,761,169	20,328	-
Asia United Bank	-	1,019,980	17,878	-
Internationale Nederlanden Bank Manila	-	713,986	15,292	-
Australia and New Zealand Bank-Melbourne	-	254,995	4,915	-
Allied Bank Hongkong	-	-	3,011	-
Australia and New Zealand Bank- Manila	-	1,274,977	2,206	-
Chinatrust Commercial Bank (Philippines) Corp.	-	356,993	825	-
Bank of Commerce	-	815,984	650	-
Bangko Sentral ng Pilipinas	-	509,990	290	-
China Banking Corporation	-	305,994	89	-
Land Bank of the Philippines	-	203,996	87	-
Xchanged Inc.	-	12,750	66	-
Philippine Bank of Communication	-	101,998	48	-
Philippine National Bank- Singapore	-	5,100	39	-

Name of Issuing Entity and Association of each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on bid prices on the balance sheet date	Income received and accrued
Citibank N.A. Manila Branch	-	101,998	38	-
United Coconut Planters Bank	-	25,500	20	-
Wells Fargo Bank N.A.	-	15,104	16	-
Philippine National Bank- Europe PLC	-	2,888	2	-
Republic of the Philippines	-	13,210	0	-
Goldman Sachs International	-	137,678	-	-
	-	**88,940,015**	**1,365,051**	**-**
Investment in UITFs				
Prime Peso MMF	-	31,751	37,612	-
Total Financial Assets at Fair Value through Profit or Loss	**1,247,504**	**98,563,809**	**11,205,269**	**629,324**

(2) Financial Assets at Fair Value through Other Comprehensive Income
(Amounts in thousands except for Number of Shares)

Name of Issuing Entity and Association of each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on bid prices on the balance sheet date	Income received and accrued
Government securities				
Retail Treasury Bonds	-	42,491,000	41,520,843	1,012,704
Bangko Sentral ng Pilipinas	-	38,208,000	38,194,821	317,105
Fixed Rate Treasury Notes	-	23,671,592	23,539,859	633,153
Treasury Bills	-	6,652,264	6,650,954	273,336
Republic of the Philippines (ROP) Bonds	-	4,131,644	4,343,418	138,995
Kingdom of Saudi Arabia	-	1,376,973	1,478,374	15,730
Power Sector Asset Liabilities Management (PSALM)	-	1,172,977	1,381,661	1,517
China National Offshore Oil Corp. Ltd	-	1,291,856	1,310,779	14,432
Republic of Indonesia	-	901,091	925,047	8,854
US Treasury Notes	-	436,347	436,123	1,316

Name of Issuing Entity and Association of each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on bid prices on the balance sheet date	Income received and accrued
Treasury Bills - Singapore	-	301,575	301,575	-
Treasury Gilts	-	159,179	294,542	-
US Government	-	254,997	253,112	1,517
Small Business Loan Asset-backed Securities	-	152,742	5,807	-
	-	**121,202,235**	**120,636,914**	**2,418,659**
Private debt securities				
Aboitiz Power Corporation	-	562,300	574,621	29,665
AC Energy Finance International Limited	-	2,700,397	2,748,740	141,004
Ayala Land Inc	-	563,590	590,995	40,243
Banco De Oro	-	560,734	572,072	24,994
Bank of the Philippine Island	-	150,447	156,392	1,256
Energy Development Corp	-	9,640	9,864	850
Export-Import Bank of Korea	-	560,989	577,330	2,617
First Pacific Company Limited	-	501,932	528,533	4,991
Hutchison Whampoa Limited	-	1,216,836	1,265,434	3,577
International Container Terminal Services Inc.	-	4,431,405	4,752,549	136,141
Megaworld Corporation	-	860,000	873,537	46,040
Metropolitan Bank & Trust Company	-	3,000,000	3,021,200	189,000
Petron Corporation	-	2,186,786	2,258,601	64,391
Rizal Commercial Banking Corporation	-	362,093	372,855	7,865
San Miguel Corporporation	-	2,644,850	2,598,018	82,472
Sinopec Corp	-	1,283,339	1,304,049	34,818
SM Investments Corporation	-	212,387	225,171	9,333
SM Prime Holdings	-	15,000	15,602	945
South Luzon Tollway Corporation	-	153,340	153,381	8,132
State Bank of India	-	433,492	433,994	12,148
STI Education	-	50,000	47,085	2,904
Union Bank	-	34,679	35,454	201
	-	**22,494,236**	**23,115,477**	**843,587**

Name of Issuing Entity and Association of each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on bid prices on the balance sheet date	Income received and accrued
Equity securities				
Allied Banker Insurance	200,000	20,000	20,000	-
Alphaland Balesin Island Resort Corp.	1	2,500	2,500	-
Apo Golf & Country Club	1	100	315	-
APTRUDEV	-	1,500	-	-
Bacnotan Steel Industries	-	-	-	-
Baguio City Country Club	1	60	4,051	-
Bancnet, Inc.	49,999	5,000	5,000	-
BAP Credit Guaranty Corp.	29,800	1,138	1,138	-
BAYANTEL	-	8	-	-
Bayantel 31% Tranche B. CONV EQTY 83997SHS BOD APPRVL 112414	-	14,851	-	-
BULAWAN MINING (BUMICO)	2,500,000	20,492	-	-
Camp John Hay	3	650	250	-
Camp John Hay Golf Club	3	160	500	-
Capitol Hills Golf and Country Club, Inc. -CHGCCI	11	412	700	-
Cebu Country Club, Inc.	1	29	8,000	-
Club Filipino	31	103	300	-
CRUZ TEL CO.	-	1,500	-	-
Development Academy Of the Philippnes	30	3,450	4,500	-
Eagle Ridge Golf & Country Club	-	1,800	425	-
EASTRIDGE GOLF COURSE & VILLAGE (A)	2	500	-	-
Evercrest Golf	2	1,000	1,000	-
Evercrest Golf Club-A	-	-	-	-
Fairways & Bluewater Resort	294	359,695	49,200	-
FASTECH SYNERGY	-	8,519	-	-
Fil-Am Resources	-	27	-	-
Forest Hills Golf and Country Club	1	170	170	-
Heavenly Garden Dev't Corp.	5,000	500	500	-
ILIGAN GOLF & COUNTRY CLUB	1	1	-	-

Name of Issuing Entity and Association of each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on bid prices on the balance sheet date	Income received and accrued
Iloilo Golf & Country Club	-	88	14	-
Inco Mining	-	2	-	-
Infanta Minerals	-	10	-	-
Investment in Management Account	-	-	48,575	-
Lepanto Consolidated Mining Co."A"	4,973	1	1	-
Lepanto Consolidated Mining Co."B"	1,776	0	0	-
LGU Guarante Corp	-	-	-	-
LGU Guarantee Corporation	100,000	10,000	2	-
Luisita Golf & Country Club	-	840	250	-
Makati Sports Club-A	1	210	750	-
Manila Electric Cooperative	2,873	89	1	-
Manila Golf & Country Club Inc-Corporate	104	39,107	407,000	-
Manila Polo Club	-	2,600	22,819	-
Manila Southwoods Golf & Country Club A	1	850	1,754	-
Manila Southwoods Golf & Country Club B	2	3,500	4,182	-
MARIKUDO COUNTRY CLUB OF ILOILO CITY	-	18	-	-
Mimosa Golf & Country Club	1	827	400	-
Mount Malarayat Golf Club-C	17	35,380	4,500	-
Mount Malarayat I	18	1,512	600	-
Negros Occidental Golf & Country Club	1	100	150	-
Northern Tel Co.	1,800	18	-	-
Orchard Golf & Country Club	2	2,200	1,400	-
PA Alvarez Perpetual Notes	1	386,250	406,151	-
PAL Holdings Inc.	-	49,944	27,194	-
PAL Holdings Inc.	-	99	99	-
Paper Ind.Corp. of the Phils.	-	19	-	-
Phil Tel Corp (Piltel)	-	10	-	-
Phil. Electric Corp Shares	-	95	-	-

Name of Issuing Entity and Association of each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on bid prices on the balance sheet date	Income received and accrued
Phil.Oil Dev't Co., Inc.	-	13	-	-
Philex Mining	151	-	1	-
Philippine Central Depository Inc.	3,855	23	36	-
Philippine Clearing House Corporation	42,000	4,200	2,101	-
Philippine Columbian Association	1	40	40	-
Philippine Dealing System	73,000	7,300	14,813	-
Philippine Depository & Trust Corp.	153,562	13,361	31,943	-
Philippine Long Distance Company	2,879	44	1	-
Philippine Overseas Drilling & Oil Development	695,625	31	7	-
Philippine Racing Club	30,331,103	319,083	174,707	-
PICOP Resources	19,021,252	55,356	-	-
PLDT Communation & Energy Veture	20	9	-	-
PLDT Preferred Shares	-	1,084	-	-
Primo Oleo Chemicals	-	66,382	66,382	-
Proton Chemical Industries Common Shares	44,419	-	-	-
PT&T	5,000,000	-	-	-
Pueblo De Oro Golf Country Club	2	1,411	718	-
Puerto Azul Sports & Beach Club	-	170	600	-
Quezon City Sports Club	1	32	600	-
RETELCO	20	5	-	-
Riviera Golf & Country Club	4	2,627	533	-
Rural Bank of Ibajay	1	11	16	-
Santa Elena Golf & Country Club	6	5,452	18,000	-
Sierra Grande Country Club, Inc.	100	32	32	-
Small Business Guarantee	400,000	-	-	-
Southern Iloilo Telephone Co.	1	2	-	-
Subic Bay Golf & Country Club	-	950	-	-
Subic Bay Yatch Club	58	93,000	14,500	-

Name of Issuing Entity and Association of each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on bid prices on the balance sheet date	Income received and accrued
Tagaytay Highlands	268	950	254,626	-
Tagaytay Midlands	1	500	950	-
Tayud Golf & Country Club	-	6	-	-
Ternate Dev't Corporation	2	170	170	-
Universal Rightfield Prop. Inc.	-	69	-	-
Valley Golf & Country Club	1	231	9,506	-
Victoria Golf & Country Club	-	110	120	-
Wack Wack Golf & Country Club	18	26,653	176,000	-
Wack Wack Golf & Country Club	8	218,337	488,500	-
Western Minolco Corp.	-	17	-	-
	323,381,338	**2,248,876**	**3,431,565**	**-**
Total Financial Assets at Fair Value Through Other Comprehensive Income	**323,381,338**	**145,945,347**	**147,183,957**	**3,262,246**

(3) Financial Assets at Amortized Cost
(Amounts in thousands except for Number of Shares)

Name of Issuing Entity and Association of each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on bid prices on the balance sheet date	Income received and accrued
Government securities				
Bangko Sentral ng Pilipinas	-	203,996	255,523	8,753
China National Offshore Oil Corp Limited	-	203,996	200,671	7,752
Federal Reserve	-	-	5,870	-
Fixed Rate Treasury Notes	-	10,553,409	11,107,779	593,605
Home Guaranty Corp	-	1,490	1,490	86
Landbank of the Phils	-	198,422	180,605	35,272
Power Sector Assets and Liabilities Management Corporation	-	625,248	743,470	18,229
Republic of Indonesia	-	8,246,186	8,281,153	256,493
Republic of the Philippines (ROP) Bonds	-	6,202,600	6,607,499	123,377
Retail Treasury Bonds	-	6,172,915	6,615,011	332,349
Treasury Bills	-	59,940	59,545	15,137
US Treasury Notes	-	127,498	127,949	1,176
	-	**32,595,700**	**34,186,565**	**1,392,229**
Private debt securities				
AC Energy Finance International Limited	-	611,988	612,585	82,548
Agricultural Bank of China LTD HK	-	10,199,800	10,178,852	53,036
AT&T Inc.	-	815,984	816,826	21,885
Ayala Land Inc	-	641,900	640,677	43,114
Banco de Oro	-	3,273,218	3,271,514	92,947
Bank of China	-	12,902,747	12,893,841	68,965
Bank of the Philippine Island	-	1,035,280	1,092,691	4,196
China Constuction Bank	-	1,529,970	1,528,556	21,647
Export- Import Bank of Korea	-	458,991	461,004	11,300
Filinvest Development Cayman Islands	-	1,784,965	1,776,992	72,910
Filinvest Land Inc	-	1,200,270	1,200,322	61,670

Name of Issuing Entity and Association of each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on bid prices on the balance sheet date	Income received and accrued
First Pacific Company Limited- Capital	-	451,341	449,229	103,344
First Pacific Company Limited- Tresury	-	-	14	20,439
Hutchison Whampao	-	1,029,160	1,029,573	24,526
ICICI Bank Limited	-	892,992	894,770	25,458
Industrial & Commercial Bank of China Limited Sydney	-	1,529,970	1,529,523	9,294
International Container Terminal Services Inc.	-	151,467	152,925	5,729
Jollibee Foods Corporation	-	5,038,701	5,022,627	189,847
Korea Development Bank	-	203,996	209,294	4,599
Rizal Commercial Banking Corp	-	1,654,306	1,656,803	62,158
Security Bank Corporation Comm	-	150,345	153,098	5,063
Sinopec Corp	-	1,480,501	1,507,523	18,879
SM Prime Holdings	-	300,000	299,999	15,505
Union Bank	-	2,883,483	2,890,756	83,452
Vista Land and Lifescapes	-	5,000,000	4,999,284	405,000
		55,221,375	**55,269,278**	**1,507,511**
Total Investment Securities at Amortized Cost	**-**	**87,817,075**	**89,455,843**	**2,899,740**

LT GROUP, INC. AND SUBSIDIARIES
SCHEDULE B. – Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)
DECEMBER 31, 2021
(in thousands Php)

Name and Designation of Debtor	Balance at beginning of period	Additions	Amounts collected	Amounts written off	Current	Non-current	Balance at end of period
Related party:							
Tangent Holdings Corporation	509,000	5,754,300	-	-	6,263,300	-	6,263,300
	509,000	**5,754,300**	**-**	**-**	**6,263,300**	**-**	**6,263,300**

Other than the above related party, all amounts receivable from Directors, Officers, Employees, other Related Parties and Principal Stockholders pertained to purchases subject to usual terms, for ordinary travel and expense advances and for other such items arose in the ordinary course of business were excluded.

LT GROUP, INC. AND SUBSIDIARIES
SCHEDULE C. – Amounts Receivable from Related Parties which are eliminated during the consolidation of financial statements
DECEMBER 31, 2021
(in thousands Php)

Name and Designation of Debtor	Balance at beginning of period	Additions	Amounts collected	Amounts written off	Current	Non-current	Balance at end of period
Allmark Holdings Corp.	7,535	-	-	-	7,535	-	7,535
Caravan Holdings Corp.	12,830	-	-	-	12,830	-	12,830
Fil-Care Holdings, Inc.	12,930	-	-	-	12,930	-	12,930
Ivory Holdings, Inc.	8,945	-	-	-	8,945	-	8,945
Kenrock Holdings Corp.	14,110	-	-	-	14,110	-	14,110
Leadway Holdings, Inc.	36,500	-	(36,500)	-	-	-	-
LT Group, Inc.	-	306,000	-	-	306,000	-	306,000
Mabuhay Digital Philippines Inc.	-	22,417	-	-	22,417	-	22,417
Mabuhay Digital Technologies, Inc.	-	1,902	-	-	1,902	-	1,902
Society Holdings Corp.	9,600	-	-	-	9,600	-	9,600
Solar Holdings Corp.	20,300	-	-	-	20,300	-	20,300
Tanduay Distillers, Inc.	950,315	-	(23)	-	950,292	-	950,292
	1,073,065	**330,319**	**(36,523)**	**-**	**1,366,861**	**-**	**1,366,861**

LT GROUP, INC. AND SUBSIDIARIES
SCHEDULE D. – Intangible Assets – Other Assets
DECEMBER 31, 2021
(in thousands Php)

Description	Beginning balance	Additions at cost	Charged to costs and expenses	Disposals	Other changes, additions (deductions)	Ending Balance
Goodwill	₱163,735	*	*	*	*	₱163,735
Software	2,680,548	659,954	(632,370)	*	(169,721)	2,538,411

Intangibles are presented in “Other noncurrent assets” in the consolidated balance sheets.

LT GROUP, INC. AND SUBSIDIARIES
SCHEDULE E. – Long term debts
DECEMBER 31, 2021
(in thousands Php)

Title of Issue and type of obligation	**Amount authorized by indenture**	**Amount shown under caption "Current portion of long-term debts" in related balance sheet**	**Amount shown under caption "Long-term debts net of current portion" in related balance sheet**
1. Bonds payable		₱-	₱53,383,421
2. Lease liabilities (PFRS 16)		2,745,407	2,398,639
3. Unsecured term loan		851,892	3,263,975
TOTAL		**₱3,597,299**	**₱59,046,035**

LT GROUP, INC. AND SUBSIDIARIES
SCHEDULE F. – Indebtedness to Related Parties (Long-term Loans from Related Parties)
DECEMBER 31, 2021
(in thousands Php)

Name of related party (i)	Balance at beginning of period	Balance at end of period
	NONE	

LT GROUP, INC. AND SUBSIDIARIES
SCHEDULE G. – Guarantees of Securities of Other Issuers
DECEMBER 31, 2021
(in thousands Php)

Name of issuing entity of securities guaranteed by the Company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount of guaranteed and outstanding (i)	Amount owned by person for which statements if filed	Nature of guarantee (ii)
		NONE		

LT GROUP, INC. AND SUBSIDIARIES
SCHEDULE H - Capital Stock
DECEMBER 31, 2021

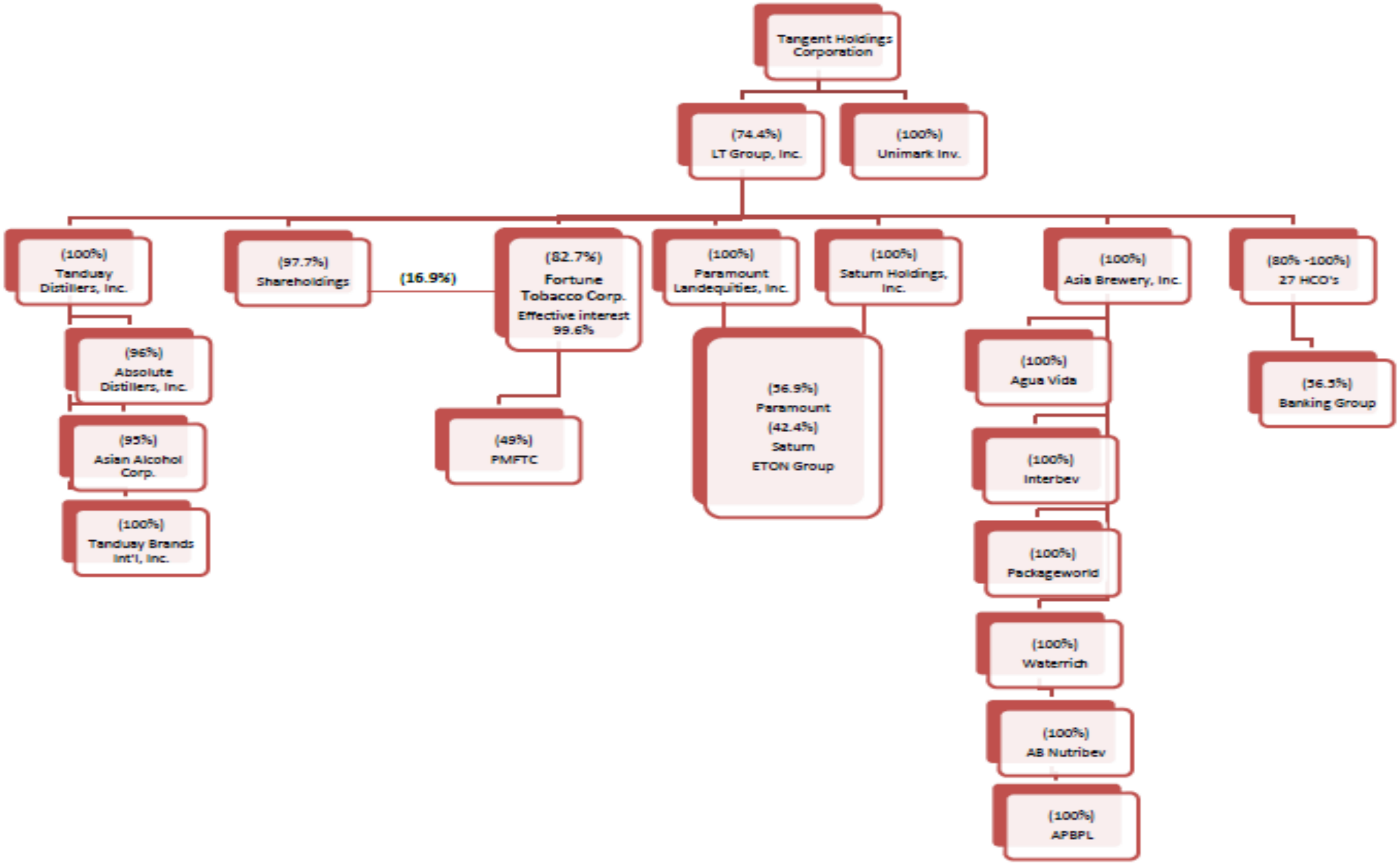
Title of Issue	Number of Shares Authorized	Number of Shares Issued And Outstanding as Shown under Related Balance Sheet caption	Number of shares Reserved for Options, Warrants, Conversions, and Other Rights	Number of shares Held by related Parties	Directors, Officers and Employees	Others
Common Stock	25,000,000,000	10,821,388,889	-	8,046,318,193	1,696,796	2,773,373,900

LT GROUP, INC.
SCHEDULE I - Reconciliation of Parent Company Retained Earnings
Available for Dividend Declaration
As of DECEMBER 31, 2021

RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION AS AT DECEMBER 31, 20 20	**₱41,518,400,299**
Add: Net income actually earned during the year	
Net income closed to retained earnings	11,959,879,091
Provision for deferred income tax assets	2,431,877
Less: Dividend declarations during the year	(11,687,100,000)
	275,210,968
RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION AS AT DECEMBER 31, 202 1	**₱41,793,611,267**

Note: In accordance with SEC Financial Reporting Bulletin No. 14, the reconciliation is based on the separate/parent company financial statements of LT Group, Inc.

LT GROUP, INC. AND SUBSIDIARIES
SCHEDULE J – Map Showing the Relationships Between and Among the Company and its Ultimate Parent Company, Middle Parent, Subsidiaries or Co-subsidiaries, Associates, Wherever Located or Registered
DECEMBER 31, 2021



LT GROUP, INC. AND SUBSIDIARIES
SCHEDULE K – Index to Exhibits
SEC FORM 17-A

These exhibits are either not applicable to the Group or require no answer.

SyCip Gorres Velayo & Co.
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INDEPENDENT AUDITOR'S REPORT ON
COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS

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

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of LT Group, Inc. and Subsidiaries (the Group) as at December 31, 2021 and 2020 and for each of the three years in the period ended December 31, 2021, and have issued our report thereon dated March 15, 2022. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The Supplementary Schedule on Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Group's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRSs) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for the purpose of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission, and is not a required part of the basic consolidated financial statements prepared in accordance with PFRSs. The components of these financial soundness indicators have been traced to the Group's consolidated financial statements as at December 31, 2021 and 2020 and for each of the three years in the period ended December 31, 2021 and no material exceptions were noted.

SYCIP GORRES VELAYO & CO.

Aileen L. Saringan

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

March 15, 2022

SGVFS162724

LT GROUP, INC. AND SUBSIDIARIES
ANNEX 68-E

SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS
as of December 31, 2021 and 2020

Ratio	Formula	2021	2020
Current ratio	Current Assets / Current Liabilities	0.70	0.72
Acid test ratio	(Current Assets – Inventories – Prepaid Expenses) / Current Liabilities	0.68	0.72
Solvency ratios	(Net income after tax + Depreciation) / (Short term debt + Long-term Debt)	0.40	0.38
Debt-to-equity ratio	(Short term debt + Long-term Debt) / Equity attributable to equity holders of the Parent Company	0.35	0.40
Asset-to-equity ratio	Total Assets / Total Equity	4.98	5.30
Interest rate coverage ratio	EBITDA / Interest expense	91.45	80.85
Return on equity	Net income attributable to equity holders of the Company / Equity attributable to equity holders of the Parent Company	0.107	0.113
Return on asset	Net income attributable to equity holders of the Parent Company / Total Assets	0.015	0.016
Net profit margin	Net income attributable to equity holders of the Parent Company / Revenues	0.22	0.22

EXHIBIT 18 Subsidiaries of the Registrant

LT GROUP, Inc. has the following subsidiaries as of December 31, 2021:

Distilled Spirits	Jurisdiction
1. TDI and subsidiaries	Philippines
a. Absolut Distillers, Inc.	
b. Asian Alcohol Corp	
c. Tanduay Brands Int'l Inc.	
Beverages	
ABI and subsidiaries	Philippines
a. Agua Vida Systems, Inc.	
b. Interbev Philippines, Inc.	
c. Waterich Resources Corporation	
d. Packageworld, Inc.	
e. AB Nutribev, Inc.	
f. Asia Pacific Beverage Pte. Ltd.	
Tobacco	
Fortune Tobacco Corp.	Philippines
Banking	
a. PNB and subsidiaries (see page 7)	Philippines
b. Bank Holding Companies (see page 8)	Philippines
Property Development	
a. Saturn	Philippines
b. Paramount	Philippines
1. Eton	Philippines
i. Belton Communities, Inc. (BCI)	
ii. Eton City, Inc. (ECI)	
iii. FirstHomes, Inc. (FHI)	

LT GROUP, INC.

SUSTAINABILITY REPORT 2021

Averting Difficulties

Table of Contents

Message from the Chairman

In these unprecedented times, we have seen the critical role that businesses like ours play in the lives of many Filipinos. With the COVID-19 pandemic and other calamities worldwide, our commitment to help in rebuilding the Philippine economy and uplifting our fellowmen remains stronger than ever. And as we transition to a post-pandemic world, we will continue to work together by leveraging on each other's strengths and synergies in our journey to a sustainable future.

This year, despite some challenges, we have remained optimistic and motivated to improving the way we work and giving back more to the communities we operate in. Our theme for this year's sustainability report, *'Averting Difficulties'*, captures our commitment to perseverance and resiliency, creating shared value and stability despite shared crises.

With the gradual reopening of the global economy, we shall continue our transformative growth and steady on forward to making our businesses more sustainable. We are determined to continue doing our best for our people, our partners, and the communities.

With a renewed sense of purpose, we will continue to rise to the challenges of the future safe in knowing that a brighter tomorrow is nearly at hand.

Dr. Lucio C. Tan
Chairman and Chief Executive Officer

Message from the President

Sustainability is an essential aspect of the way we work and operate at LT Group, Inc. It is not just a buzzword to us but an important element in our strategy into the future of our business. We work hard to execute our mission and vision while contributing positively to the economy and society. Now in the third year of our sustainability journey, our commitment to embedding sustainability remains strong as we create shared value and shared successes for our stakeholders. Albeit presented by challenges this year, we were able to efficiently balance the interests of the business alongside that of our stakeholders, shareholders, customers, suppliers, partners, the government and the community.

Despite the challenges in some business areas this year, we were able to avert difficulty and are continuing our efforts to incorporate sustainability practices in our businesses. Our outlook for 2021 allowed us to manage the financial aspect of our companies positively despite some challenges driven by the pandemic's continued economic impact. Our 2021 total revenue is Php112.81 billion, a decrease of 1.7% from the previous year's total revenue. Of this amount, we spent Php103.66 billion on operating costs, employee wages and benefits, payment to government and providers of capital, and community investments.

We have successfully continued to decrease our consumption of resources. Our water consumption for 2021 has dropped to 7,037.64ML, and we have successfully reduced our waste generated to 6.06KT. Although the overall resource reduction in our operations was due to pandemic-led restrictions, we are picking up on the lessons learned from this experience to strengthen our drive to decrease our consumption of resources and generation of waste. We understand the value this would bring to our businesses and the positive impact on our environment and society. We have also continued our commitment to reforestation, resulting in 86,748 tree seedlings planted.

This year, we are proud to have provided continuous fair employment opportunities for our 12,951 employees, composed of 48% male and 52% female. We do our best to provide stability to our employees: job security and a safe, healthy workplace. We have implemented alternative work arrangements for our employees in response to the pandemic, and we are looking at ways to incorporate such in our regular work arrangements moving forward. We also value gender balance and protect workers' rights so that all our employees have equitable access to opportunities for success, regardless of gender or affiliation.

We support the Philippines' battle to COVID-19 pandemic through our continuous collaboration with communities, hospitals and frontliners. We have donated 42,000 doses of COVID-19 vaccines, 15,000 pieces of disposable face masks, 3,500 pairs of examination gloves, 30 thermometers, and 30 gallons of rubbing alcohol to the areas that most needed it. We have donated 13,000 liters of beverages for frontliners across multiple hospitals in the country. We have also provided 150 sacks of rice and 30,000 relief food packs for quarantined families.

We reaffirm our deep commitment to saving the environment and helping the communities we operate in as we work to deliver positive change for our customers, employees, investors, and community.

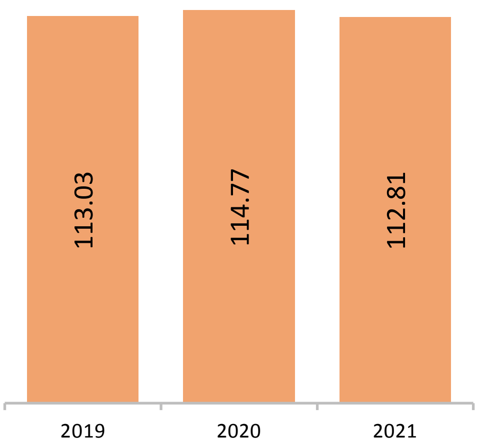
Through collective action, we can face tomorrow with a certainty that whatever challenges it may hold, we will be able to brace through it and look to a brighter, sustainable future.

Michael G. Tan
President and Chief Operating Officer

2021 Highlights

Economics and Governance

Direct economic value generated
in billion Pesos



Gender balance
LTG Board of Directors

45%

55%

Male

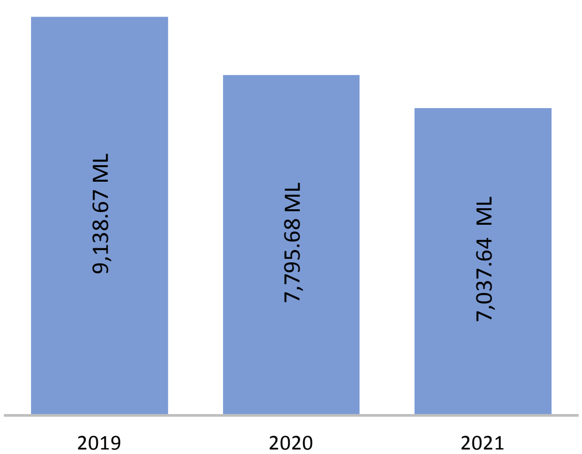
Female

100%

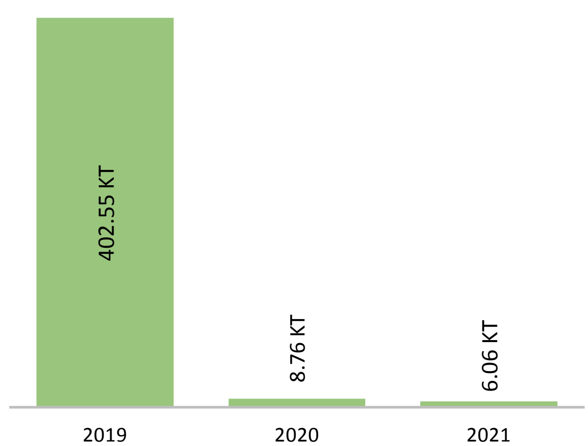
of our employees, business partners and governance body members know of our anti-corruption policies

Environment

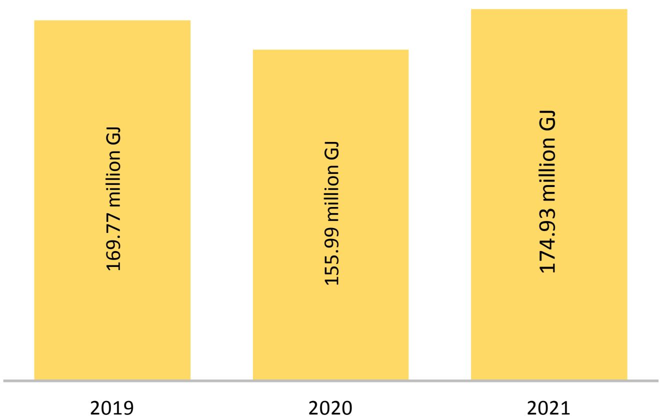
Water withdrawal
in megaliters (ML)



Waste generated and disposed
in kilotons (KT)



Overall energy consumption
in gigajoules (GJ)

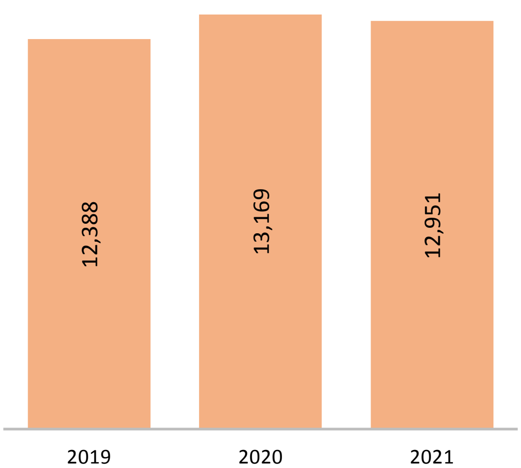


86,748

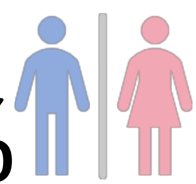
tree seedlings planted

Employees

Total employee workforce



Gender balance
Total employee workforce



48% Male

52% Female

38%

of our employees are covered by a Collective Bargaining Agreement

Society

Anti-COVID-19 Campaign

42,000
doses of COVID-19 Vaccines

15,000
pieces of disposable face masks donated

30
Thermometers donated

3,500
pairs of examination gloves donated

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

30 gallons
rubbing alcohol donated

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

30,000
relief food packs distributed

20
boxes of Food Supplement Syrup donated

Our Business Strategy

Our Long-term Strategic Objectives

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, Inc. 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 our employees and the communities where we live and work.

The Vision and Mission Statements are reviewed and approved annually by the Board of Directors. The latest reviews were on February 9, 2021 and February 8, 2022.

The LT Group, Inc. logo

The LT Group, Inc. logo is a symbol of strength and solidarity, the essence of our logo. The clean balanced lines and curves are central elements that form 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 — the inner circle for continuity, the outer circle for solidarity.

Our Organizational Profile

LT GROUP, INC.

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 Corporation, now known as Tanduay Distillers, Inc. (Tanduay), a producer of distilled spirits, through a share swap with Tangent Holdings Corporation (Tangent). The share swap resulted in LTG wholly owning Tanduay and Tangent increasing its ownership in LTG to 97%. 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 Dr. Lucio C. Tan and his family and assignees. These business segments that are comprised of the subsidiaries, as well as LTG, are collectively referred to as the "Group" in this report.

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

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

Our Group's diversified portfolio of consumer-focused businesses is well-positioned to benefit from broad-based growth in the Philippine economy. The Group is guided by its over-all aim to be a leading and innovative player in all businesses it is engaged in, continuously improving the value of its products and services. Building its synergistic opportunities between its current businesses, we aim to develop the widest and most effective distribution network in the country.

Our Businesses

Beverages

Asia Brewery, Inc. (Asia Brewery) began operating as a beer company in 1982 with the inauguration of its first brewery in Cabuyao, Laguna. It has since diversified to become one of the largest beverage groups in the country offering both alcoholic and non-alcoholic beverages and yogurt as well as glass bottle and packaging materials manufacturing. Asia Brewery has leading brands in several categories which include Asahi, Brew Kettle, Colt 45, Heineken and Tiger (beer); Tanduay Ice (alcopop); Spritz (hard seltzer); Cobra (energy drink); Absolute and Summit (bottled water); V-Soy and Vitamilk (soymilk drink); Sunkist (soft drink); Nestea (ready-to-drink tea); and Pascual (yogurt).

Property Development

Eton Properties Philippines, Inc. (Eton) was established in 2007 as the real estate arm of the Group. Eton carries a diversified portfolio and is involved in both the development and sale of residential subdivisions, high-rise towers and mid-rise buildings as well as in the development and leasing of condominiums, offices, commercial spaces, serviced residences, and land.

Tobacco

In 2010, Philip Morris Philippines Manufacturing Inc. (PMPMI) and Fortune Tobacco Corporation (FTC) entered into an agreement to combine their businesses and formed PMFTC Inc. (PMFTC). PMPMI traces its roots from the licensing agreement entered into by Philip Morris International with La Suerte Cigar and

Cigarette Factory to manufacture and sell Marlboro in 1955. Meanwhile, FTC was established in 1965 by Dr. Lucio C. Tan to produce cigarettes for the Philippine market. FTC achieved market success early on and was responsible for introducing some of the most successful local cigarette brands in the Philippines, including the Fortune, Champion and Hope menthol brands. Prior to the creation of PMFTC, FTC was the largest domestic tobacco company in the Philippines.

Today PMFTC has a diverse portfolio of international and domestic brands covering all price points in the Philippines. PMFTC manufactures 6 out of the top 10 brands available in the market today.

Banking

Philippine National Bank (PNB or the Bank), the country's first universal bank, is one of the largest privately-owned Philippine commercial banks. PNB was established by the Government of the Philippines in 1916 and became fully privatized in 2007. As an instrument of economic development, PNB led the industry through the years with its agricultural modernization program and trade finance support for the country's agricultural exports. In addition, the Bank pioneered efforts in the Overseas Filipino Worker (OFW) remittance business and introduced many innovations such as Bank on Wheels, computerized banking, Automated Teller Machine (ATM) banking, mobile money changing, domestic traveler's checks, electronic filing and payment system for large taxpayers, and Unit Investment Trust Fund (UITF) ATMs. PNB has the largest number of overseas offices and one of the largest domestic branch networks among local banks.

Distilled Spirits

Tanduay Distillers, Inc. (Tanduay) is a leading distilled spirits producer in the Philippines which started in 1854. Tanduay produces rum as well as other distilled spirits. The brand and assets of Tanduay Distillery, Inc. were acquired by Dr. Lucio Tan in 1988 from Elizalde & Company, Inc. In 2020, Tanduay was named by Drinks International as the World's Number One Rum based on sales volume and was announced as number four among all distilled spirits.

Tanduay diversified into the production and sale of bioethanol in 2016.

Our Corporate Structure

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[1] Owns 50% less 1 share

[2] Voting control at 59.83%

[3] At 30.17% as of end-2016; increase in stake from conversion of convertible notes

Our Markets and Geographical Reach

As a Group, we are able to reach and serve numerous customers and markets across the Philippines and around the world. The diversity of our products and services, coupled with the excellence that we maintain, ensures the continued patronage of our customers and stakeholders.

LT Group, Inc.

LTG, as the parent/holding company, is domiciled and operates within the Philippines.

Asia Brewery, Inc.

Asia Brewery markets, sells and distributes its products throughout the Philippines through 13 exclusive major distributors. Asia Brewery's exclusive distributors have a network of 39 sales offices, 20 warehouses and 12 depots. This extensive network assures product availability to Asia Brewery consumers and also provides the business with an expeditious nationwide placement of new products. Asia Brewery's products are transported to distributors' warehouses by third-party transportation companies, with the costs for the account of such distributors. Asia Brewery, through its subsidiary Asia Pacific Beverages Pte Ltd., also has operations in Myanmar.

Eton Properties Philippines, Inc.

Eton has a full range of projects including offices, commercial spaces, serviced residences, and residential developments in key cities in Metro Manila, Laguna, and Cebu. Eton markets its projects to residential market segments, office locators, and commercial tenants through internal and external sales and marketing channels.

Philippine National Bank

The Bank provides a full range of banking and other financial services to its customers through its Head Office, 670 domestic branches/offices and 70 overseas branches, representative offices, remittance centers, and subsidiaries in 17 locations in the United States, Canada, Europe, the Middle East, and Asia & Oceania.

The Bank's customers include corporations, small and medium markets, retail customers, the National Government, local government units, government-owned and controlled corporations, and various government agencies.

Tanduay Distillers, Inc.

Tanduay serves more than 215,000 points of sale throughout the Philippines through 15 exclusive distributors, who in turn work with a large number of sub-distributors. Tanduay has generally maintained good business relationships with its distributors since 1988. Tanduay's distributors operate 40 sales offices and 48 warehouses located throughout the Philippines. Tanduay through Tanduay Brands International, Inc. employs in-house sales staff who provide marketing and general administrative support to Tanduay's distributors. Tanduay's products are transported from the production facilities to distributors' warehouses by third-party transportation companies for the account of the distributors.

In 2021, Tanduay was noted to have 99% market share of rum in the Philippines and 27% in the distilled spirits industry per Nielsen Market Survey. Tanduay Rhum has also been ranked as the number one rum in the world in terms of volume by Drinks International.

Governance

Corporate Governance

To assist the Board of Directors in its oversight function over LTG and its subsidiaries, the Group has five (5) Committees—the *Audit Committee, the Risk Management Committee*, *the Executive Committee*, *the Nomination and Compensation Committee*, and *the Corporate Governance Committee*. Created to address specific mandates and tasks, these Committees oversee company operations and ensure that transactions are entered into with fairness and transparency in compliance with our principles on good governance.

In 2021, as a response to our changing needs and the dynamic business landscape within which we operate in, our Audit and Risk Management Committee was formally split, with Board approval, into two (2) separate Committees—the Audit Committee and the Risk Committee. The Group's Audit Committee is composed of five (5) Directors with Mr. Johnip G. Cua as Chairman, and Ms. Juanita T. Tan Lee, Ms. Florencia G. Tarriela, Mr. Wilfrido E. Sanchez, and Ms. Mary G. Ng as its members. Out of the five (5) Committee members, four (4), including the Chairman, are Independent Directors. The Audit Committee was created to assist the Board in the fulfilment of its oversight responsibilities over the financial reporting process, the system of internal control, the audit process, and the Group's process for monitoring compliance with laws and regulations. On the other hand, the Group's new Risk Committee is composed of five (5) Directors with Ms. Mary G. Ng as Chairman, and Mr. Johnip G. Cua, Ms. Juanita T. Tan Lee, Ms. Florencia G. Tarriela, and Mr. Wilfrido E. Sanchez as its members. Four (4) are Independent Directors, including the Chairman. The Risk Committee is tasked with the overseeing the management of the Group's financial and non-financial risks including related party transactions towards improving the way we operate and informing our strategy.

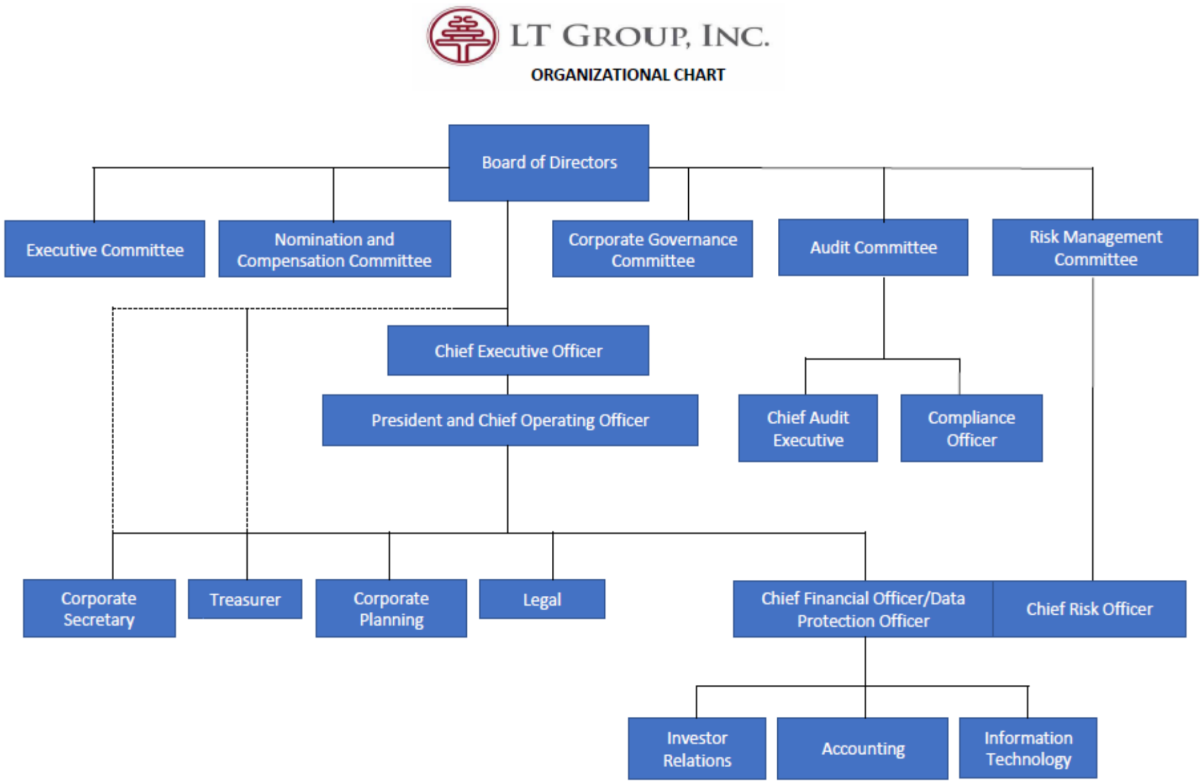
The Executive Committee is composed of seven (7) Directors with Dr. Lucio C. Tan as Chairman and Ms. Karlu T. Say, Mr. Michael G. Tan, Ms. Vivienne K. Tan, Ms. Juanita T. Tan Lee, Mr. Johnip G. Cua, and Ms. Florencia G. Tarriela as its members. As provided in its Charter, the Committee is vested with the powers of the Board only insofar as managing the business and affairs of the Company. However, it is excluded from exercising any powers which are expressly reserved to the Board of Directors under the laws of the Philippines, the corporate By- Laws and the Group's Revised Corporate Governance Manual.

The Group's Nomination and Compensation Committee is composed of six (6) Directors with Dr. Lucio C. Tan as Chairman, and Ms. Karlu T. Say, Mr. Michael G. Tan, Ms. Juanita T. Tan Lee, Ms. Mary G. Ng and Mr. Wilfrido E. Sanchez as its members. The Committee meets at least once a year in compliance with its charter for purposes of ensuring a formal and transparent Board nomination process in selecting, compensating, monitoring and, when necessary, replacing key executives as well as overseeing succession planning.

The Group believes that good corporate governance is vital in its pursuit of becoming a world-class conglomerate, able to stay "at the forefront of the Philippine economic growth and 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." To do so, it has created a Corporate Governance Committee composed of five (5) Directors with Ms. Florencia G. Tarriela as its Chairman and Mr. Michael G. Tan, Ms. Juanita T. Tan Lee, Mr. Johnip G. Cua and Mr. Wilfrido E. Sanchez as its members. The Committee was created precisely to oversee the periodic performance evaluation of the Board, its committees, and the executive management, among others. It must make sure, through these periodic evaluations, that a Director is capable of fulfilling and has been adequately carrying out his duties and responsibilities as such. Pursuant to the Group's Revised Manual on Corporate Governance, the Committee meets at least twice a year or as often as may be necessary.

As of this reporting period, there has been no significant changes to the Group's size, structure, and ownership.

Organizational Chart



Supply Chain Management

The Group is engaged in a wide range of industries and sectors. We maintain quality and excellence in our products and services through a reliable supply chain. As of this reporting period, there has been no significant changes to the Group's supply chain.

Asia Brewery, Inc.

Asia Brewery's energy drink concentrates are sourced primarily from well-known international suppliers. Sugar is procured from third and related parties and local suppliers including Victorias Milling Company, Inc., generally under supply contracts of up to one year. Asia Brewery also purchases carbon dioxide and other additives from local producers. Quality water is the primary ingredient in the water bottling business of Asia Brewery. Water is sourced primarily from sites near the bottling plants and undergoes several purifying steps to ensure it meets standards.

Asia Brewery manufactures the majority of the bottles used for its beverage produc ts using recycled glass cullet and recycles old crates to make new ones. These are manufactured at Asia Brewery's Cabuyao plant in Laguna. Bottling and packaging materials, including aluminum closures, crowns and corrugated cartons are produced by Asia Brewery's subsidiary, Packageworld, Inc., which sources any required raw materials from multiple suppliers in the Philippines and internationally.

As of 2019, we have a total of 1,067 local and international suppliers. Over the last couple of years, we have steadily increased our local supplier base, which comprise most of our suppliers at 85%, along the way supporting local businesses. Our local suppliers are primarily based in Metro Manila, Pampanga, CALABARZON, Negros Occidental, Bukidnon and Surigao. Our international suppliers, comprising 15% of our overall supplier base, are in Thailand, China, Malaysia, Singapore, the United States of America, South Korea, Taiwan, Germany, Australia, Turkey, Canada, and France.

Eton Properties Philippines, Inc.

Eton has a wide network of local suppliers. Most suppliers and contractors are based in the National Capital Region. For the construction of its buildings, a dedicated department conducts canvassing and bidding and enforces an accreditation process for all contractors. All items for procurement likewise must undergo the canvassing, bidding, and accreditation process before being recommended for purchase. All suppliers must have complete regulatory registration and incorporation documents to be accredited.

Philippine National Bank

PNB has developed its Outsourcing and Vendor Management Policy consistent with existing statutory, regulatory, and supervisory requirements. This policy sets out the framework for engaging with suppliers, along with the responsibilities of the Board of Directors and Management Committee in the review and evaluation of all new and existing outsourcing arrangement and vendor relationships. Dedicated vendor relationship managers, who actively build and maintain commercial relationships wit h vendors and service providers, are appointed across all Business Units. PNB employs a comprehensive onboarding process which encompasses risk assessment, elaborate due diligence procedures, contract structuring and review, and continuous monitoring and oversight. Committees have also been organized for the effective management of relationships with third parties. As with any aspect of the Bank's business, PNB believes that continuous monitoring and appraisal of performance is important to evaluate the overall effectiveness of the vendor relationship and the consistency of the relationship with the Bank's strategic goals. Mechanisms are in place for the development of relevant performance metrics, vendor performance management, and competency evaluation.

The Bank's Procurement Committee, which is composed of senior management officers from different sectors, convene regularly to review and deliberate on all bids of accredited suppliers and vendors. The Bank, through the Corporate Services Division, follows this process: (1) sourcing from accredited suppliers and vendors; (2) canvassing and bidding; (3) review/assessment of bids; (4) and awarding of contracts. However, there are also instances when non-accredited suppliers and vendors are engaged by the Corporate Services Division. This is only allowed when the purchase/sourcing is seasonal/occasional, one-time, or considered an emergency. To ensure consistency of standard and specification across all our offices and branches, the Bank sources its purchases and services from Metro Manila-based suppliers and vendors. Some purchases and services, however, are sourced from local suppliers and vendors (province-based and overseas based) to minimize logistical costs.

Tanduay Distillers, Inc.

Tanduay uses ethyl alcohol, which is distilled from sugarcane molasses. Tanduay obtains ethyl alcohol from its two subsidiaries, Asian Alcohol Corporation and Absolut Distillers, Inc., and foreign suppliers.

The distillery companies obtain their molasses from sugar mills and traders. Major suppliers are Universal Robina Corporation, Victorias Milling Company, Inc., Binalbagan Sugar Company, LYL Marketing, Shuurmans & Van Ginneken Phils., Inc., Grandcane Company, Inc., and Tate & Lyle Corporation.

Membership of Associations

Asia Brewery, Inc.

Asia Brewery is a member of the People Management Association of the Philippines (PMAP), the Employers Confederation of the Philippines (ECOP), the Philippine Society for Training and Development (PSTD), and the Semiconductor and Electronics Industries in the Philippines (SEIPI). Asia Brewery's EHS Officers are members of the Advocates, Leaders and Professionals in Environment, Safety and Health (ALPrESH) formerly known as Association of Safety, Health and Environment Officers of Laguna, Inc. (AOSHEOLI). Asia Brewery is also a member of the Cabuyao River Protection Advocates (CaRPA) organization where Dr. Alberto D. Rivera, Asia Brewery Senior Vice President/Supply Chain Head, currently serves as president. Asia Brewery's bottled water plant in Cabuyao has been a member of the International Bottled Water Association (IBWA) since it started its bottled water business in 1992.

Eton Properties Philippines, Inc.

Eton is a member of the Credit Management Association of the Philippines (CMAP), the Philippine Association of National Advertisers (PANA), the Subdivision and Housing Developers Association (SHDA), the Chamber of Real Estate Brokers' Association (CREBA), the Philippine Tour Operators Association, Inc., the Executive Housekeepers Association of the Philippines, the Association of Credit Executives in the Tourism Industry, Inc., Employers Confederation of the Philippines (ECOP) and the Philippine Society for Training and Development (PSTD).

For SHDA, we view membership as strategic and desirable for Eton because it keeps us abreast on current developments in the Housing sector, plus it gives us an avenue, as developer, to air our issues with our regulator, the Department of Human Settlements and Urban Development (DHSUD) [formerly the Housing and Land Use Regulatory Board (HLURB)], and lobby for changes in regulations adversely affecting Eton as developer.

Philippine National Bank

PNB has the following industry memberships: ACI Philippines; Association of Certified Fraud Examiners; Association of Certified Public Accountants in Commerce; Association of AML Officers (AMLO); Association of Bank Compliance Officers (ABCOMP); Agusan Chamber; Asian Bankers Institute; Asian Bankers Association; Bankers Institute of the Philippines; Bankers Association of the Philippines; Bank Marketing Association of the Philippines; Bank Security Management Association; British Chamber of Commerce in the Philippines; Business for Sustainable Development (BSD); Credit Management Association of the Philippines; Credit Card Association of the Philippines; Executives Finance Management Association; Federation of the Philippine Industries, Inc.; Financial Executive Institute of the Philippines; Financial Technology of the Philippines; Good Governance Advocates and Practitioners of the Philippines (GGAPP); Information Systems, Audit and Control Association; Institute of Corporate Directors; Institute of Internal Auditors of the Philippines; Integrated Bar of the Philippines; International Association for Business Communicators (IABC); Japanese Chamber; Korean Chamber; Mabuhay Miles; Makati Commercial Estate Association, Inc.; Management Association of the Philippines; Money Market Association of the Philippines, Inc; People Management Association of the Philippines; Philippine Association of National Advertisers, Inc.;

Philippine Chamber of Commerce and Industries, Inc.; Philippine Business Coalition for Women Empowerment; Philippine Payments Management, Inc.; Public Relations Society of the Philippines (PRSP); Rotary Club; Tax Management Association of the Philippines; The Financial Markets Association, Inc.; Trust Officers Association of the Philippines; Women's Business World.

Tanduay Distillers, Inc.

Tanduay is a member of the Employers Confederation of the Philippines (ECOP) and the Distilled Spirits Association of the Philippines (DSAP). Its distillery subsidiaries are members of the Center for Alcohol Research and Development Foundation, Inc. (CARD) and the Bioethanol Producers Association. These associations serve as the medium for presenting the industry position in case of major changes in regulations.

About this Report

Reporting Scope and Boundary

We started our sustainability reporting journey in 2019 as part of our efforts to drive further our thrust towards a more sustainable business model and in alignment with the SEC Memorandum Circular no. 4 series of 2019. This memorandum provides guidelines that assists publicly listed companies (PLCs) like us in assessing and managing our non-financial performance across economic, environmental and social aspects that would enable us to measure and monitor our contributions towards achieving universal sustainability targets.

We believe that sustainable development practices are integral to our journey as a Group. It allows us to not only save on resources that enable operational efficiency, but it also helps us build a better, brighter future for generations ahead.

As in previous years, our 2021 Sustainability Report features our sustainability performance for the year ended December 31, 2021, unless otherwise indicated. The information presented herein complements our Annual Report for the same period.

This sustainability report covers LTG, as the holding company, and our subsidiaries operating within the Philippines, composed of Asia Brewery, Eton, PNB and Tanduay. PNB will, however, not be covered in full detail in this report as the Bank has prepared its own sustainability report containing fuller disclosures on our banking business to complement this report. PMFTC will also not be covered in full detail in this report as it was not included in the materiality assessment process. It is under the management of Philip Morris International Inc. (PMI) and will be included in PMI's sustainability report.

Our readers may observe differences in material topics and context as our Group is engaged in various industries including beverages, property development, tobacco, banking and distilled spirits. To address these differences and to offer a better understanding, we have consolidated these material topics for the Group and provided a separate listing of unique material topics per subsidiary.

All financial data and general business information in this report have been disclosed in our 2021 Annual Report. No external assurance has been sought for the non-financial disclosures presented in this report. We have, however, conducted internal review and verification procedures to ensure the accuracy of non-financial information presented in this report.

Economic Performance Boundary

The economic performance data presented in this report is from the consolidated financial statements as of and for the year ended December 31, 2021 covering LTG, as the parent company, and all its subsidiaries and associates operating in the Philippines and abroad. For more information, please refer to the 2021 LTG Annual Report.

Reporting Approach

We developed a framework using the principle of Materiality to determine our key material topics and came up with a long list of potential material topics gathered from internal and external sources. We prioritized these according to input from internal stakeholders via both quantitative and qualitative metrics to identify which material topics have the capacity to impact the Group and our operations, and its impact to our various stakeholders.

Sustainability Reporting Guidelines and Standards

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

Stakeholder Engagement Mechanisms

Our Board of Directors is tasked with identifying our stakeholders in the communities where the Group operates in or those that are directly affected by our operations. The Board then formulates a clear policy of accurate, timely and effective communication with identified stakeholders. Our stakeholders include our *stockholders*, *employees*, *customers*, *trade partners*, *joint venture partners*, *suppliers*, *government and regulatory bodies and instrumentalities*, and *communities where the Group operates in for both business and non-business programs*.

We engage with our stakeholders in through a number of ways including but not limited to:

1. Annual Shareholders' Meeting
2. Annual Press Briefing
3. Quarterly Analysts' Briefing
4. Consultation Meetings with the Congress
5. Investors' Conference (as needed)
6. Private Meetings (as needed)
7. Conference Calls (as needed)
8. Plant Visits (as requested)

The Group also maintains open communications with the investing community to promote greater understanding of our businesses. Reports to the SEC and PSE are disclosed on time, and are available for viewing and downloading in the Group's website. There is also a dedicated Investor Relations Officer and the Group may also be corresponded with through email and/or telephone calls.

Across our subsidiaries, Asia Brewery maintains a Customer Complaint Report and conducts a regular Customer Satisfaction Survey. Eton's Property Management Group and Customer Support Team manage on-site concerns and concerns from existing clients, respectively. PNB's Customer Experience Division manages all client concerns and complaints through a variety of channels 24 hours a day, 7 days a week. Tanduay maintains a number of channels including their website, email address, phone numbers and social media profiles through which customers may relay any issues and concerns.

The key topics and concerns raised during the Annual Shareholders' Meeting, Annual Press Briefing and Quarterly Analysts' Briefings are related to the financial results of the Group, future plans of operations, and other significant changes on the operations of the Group. As for the meetings with the government, significant updates on regulatory compliance, especially on taxes, are discussed.

Sustainability Report Feedback

To help us achieve our goal of improving our sustainability reporting practices, we would appreciate your comments, feedback, and suggestions. You may contact us at sustainability@ltg.com.ph.

Our Approach to Materiality

In 2019, we conducted a materiality assessment process to determine material sustainability topics to our business. We reviewed a variety of sources and conducted workshops to assess and determine the most critical material topics that have the highest capacity to impact the Group, internally, and its stakeholders, externally.

Scan

- Global standards, issues and mega trends that affect the industries we are engaged in
- Regulatory requirements
- Material topics identified by our peers
- Media coverage around the Group and potential material topics identified
- Review of internal policies and board papers identifying potential material topics

Prioritize

- Collected data analyzed quantitatively and qualitatively
- List of identified potential material topics voted according to order of importance to stakeholders and impact on and of the business

Validate

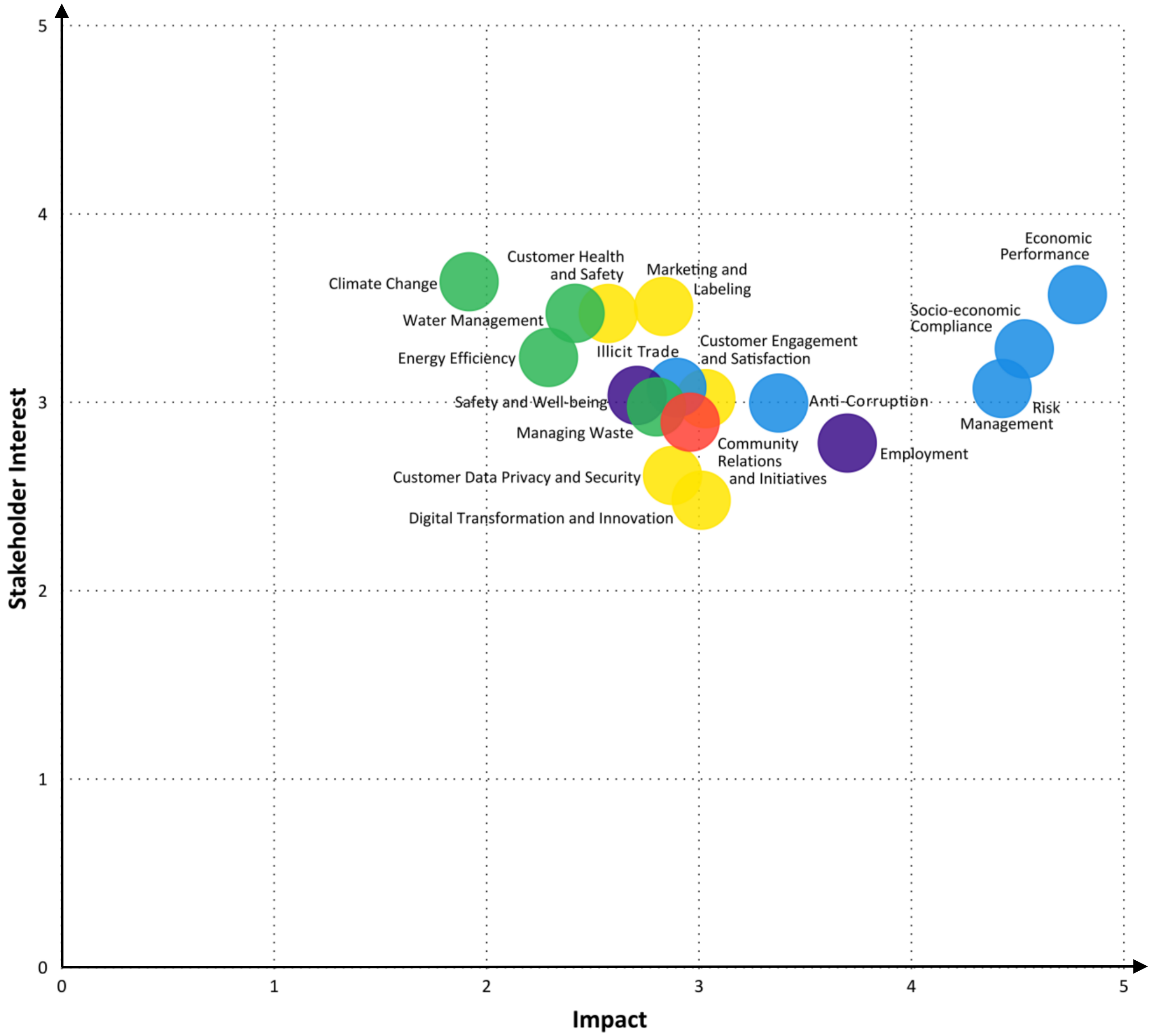
- Meeting and discussion with key management executives on prioritized material topics to see alignment with group strategy

From a long list of 44 material topics, we were able to prioritize 17 material topics and these were validated by key Management Officers.

For 2021, after a series of discussions and consultations with key Management Officers, the same 17 material topics remain to be the most important to the Group and our stakeholders.

Materiality Matrix

Our materiality matrix shows the 17 key material topics that were identified to have the most significant impact and stakeholder interest.



CATEGORY	KEY MATERIAL TOPIC	CATEGORY	KEY MATERIAL TOPIC
ECONOMICS AND GOVERNANCE	Economic Performance	ENVIRONMENT	Water Management
ECONOMICS AND GOVERNANCE	Socioeconomic Compliance	SOCIETY	Community Relations and Initiatives
ECONOMICS AND GOVERNANCE	Risk Management	EMPLOYEES	Safety and Well-being
EMPLOYEES	Employment	ENVIRONMENT	Managing Waste
ECONOMICS AND GOVERNANCE	Anti-Corruption	ENVIRONMENT	Energy Efficiency and Emissions
CUSTOMERS	Marketing and Labeling	ENVIRONMENT	Climate Change
CUSTOMERS	Customer Health and Safety	CUSTOMERS	Digital Transformation and Innovation
CUSTOMERS	Customer Engagement and Satisfaction	CUSTOMERS	Customer Data Privacy and Security
ECONOMICS AND GOVERNANCE	Illicit Trade		

Our Key Material Topics

	Material Topic	Relevant SDGs
1	Economic Performance *Maintaining profitability to return a dividend and re-invest in products and services. This also covers stable revenues in the midst of political and economic uncertainties, market competition, pressure from regulatory bodies and employing strategies to increase market share.*	8 DECENT WORK AND ECONOMIC GROWTH 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
2	Socioeconomic Compliance *Complying with socioeconomic laws and regulations, as well as regulatory changes in both financial and non-financial reporting.*	16 PEACE, JUSTICE AND STRONG INSTITUTIONS
3	Risk Management *Managing risks that may greatly impact the Group's operations and performance. This includes systems and policies in place to address potential credit, market, interest rate, liquidity, security, reputation and other risks relevant to the operations of its subsidiaries.*	16 PEACE, JUSTICE AND STRONG INSTITUTIONS
4	Employment *Attracting and retaining highly capable individuals to support high performance, covering employee wages and other forms of compensation such as bonuses and executive remuneration, as well as fostering gender equality in the workplace.*	5 GENDER EQUALITY 8 DECENT WORK AND ECONOMIC GROWTH
5	Anti-Corruption *Demonstrating integrity, transparency, governance, and responsible business practices, as expected by the marketplace, international norms and stakeholders.*	16 PEACE, JUSTICE AND STRONG INSTITUTIONS
6	Marketing and Labeling *Providing customers access to accurate and adequate information on the positive and negative economic, environmental and social impacts of the products and services they use–both from a product and service labeling and a marketing communications perspective. This also includes communication of customer protection policies and laws.*	12 RESPONSIBLE CONSUMPTION AND PRODUCTION
7	Customer Health and Safety *Protecting and promoting health and safety of our customers through assurance of product quality, effective safety risk management and promotion of a safety culture. This also refers to ensuring that products are free from toxic or hazardous contents that may endanger customer safety.*	3 GOOD HEALTH AND WELL-BEING 6 CLEAN WATER AND SANITATION

8	Customer Engagement and Satisfaction *Meeting customer expectations and needs in delivery of our products, services and experiences. This also ensures that customer complaints are recorded, monitored, resolved and reported to regulatory bodies, as applicable.*	
9	Illicit Trade *Implementing policies and measures to ensure the security of aspects in the supply chain which could be most susceptible to illegal trading and counterfeiting. This entails full cooperation with law enforcement agencies, and engagement with policymakers for a more effective and balanced regulation.*	
10	Water Management *Optimizing the use of water resources, including management of water treatment of drinking water, industrial water, sewage or wastewater, water resources and flood protection.*	
11	Community Relations and Initiatives *Maintaining our social license to operate through engagements with the community.*	
12	Safety and Well-being *Protecting and promoting health, safety and well-being of our employees and contractors through effective safety risk management and promoting a safety culture.*	
13	Managing Waste *Managing and minimizing waste, including responsible waste management by resource reduction, reuse, recycling and reprocessing, waste treatment and waste disposal.*	
14	Energy Efficiency and Emissions *Managing and minimizing energy use, increasing efficiency measures, and using low-carbon emission energy sources.*	
15	Climate Change *Ensuring that the Group is prepared to anticipate, address and recover from impacts of climate change that might pose risks to the workforce, cause disruption to operations and/or loss of property.*	
16	Digital Transformation and Innovation *Implementing digitalization of products and services to streamline customer experience. This also refers to other innovations that capitalize on current trends on blockchain, artificial intelligence, etc. This also includes cybersecurity and cyber resilience measures within the Group.*	

17	Customer Data Privacy and Security *Managing the privacy of customer information and ensuring personal information is secure against fraud and theft.*	16 PEACE, JUSTICE AND STRONG INSTITUTIONS

Unique Material Topics across Subsidiaries

Our materiality assessment process allowed us to determine unique key material topics for our subsidiaries. Although we did not include specific disclosures for these material topics in this report, we have included them here for information.

Material Topic	Relevant SDGs
Asia Brewery and PNB	
Learning and Development *Developing our workforce capabilities, skills and competencies to create a positive and sustainable organizational culture.*	4 QUALITY EDUCATION; 5 GENDER EQUALITY; 8 DECENT WORK AND ECONOMIC GROWTH; 10 REDUCED INEQUALITIES
Asia Brewery and Tanduay	
Environmental Compliance *Complying with environmental laws and regulations.*	16 PEACE, JUSTICE AND STRONG INSTITUTIONS
Asia Brewery	
Greenhouse Gas Emissions *Managing and minimizing emissions to free the air of pollutants – including carbon and other greenhouse gases (GHGs).*	3 GOOD HEALTH AND WELL-BEING; 12 RESPONSIBLE CONSUMPTION AND PRODUCTION; 13 CLIMATE ACTION; 14 LIFE BELOW WATER; 15 LIFE ON LAND
Labor/Management Relations *Using consultative practices with employees and their representatives, including communicating significant operational changes.*	8 DECENT WORK AND ECONOMIC GROWTH
PNB	
Indirect Economic Impact *Supporting infrastructure investments and public services that are additional consequences of the direct impact of financial transactions and the flow of money between PNB and its stakeholders.*	8 DECENT WORK AND ECONOMIC GROWTH
Tanduay	
Materials Stewardship *Using materials efficiently and judiciously, whether renewable or non-renewable, necessary for the provision of products and services.*	8 DECENT WORK AND ECONOMIC GROWTH; 12 RESPONSIBLE CONSUMPTION AND PRODUCTION
Supply Chain Management *Supporting local suppliers, or those owned by women or members of vulnerable groups and assessing procurement practices that may cause or contribute to negative impacts in the supply chain.*	10 REDUCED INEQUALITIES; 12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Our Strategy and Performance

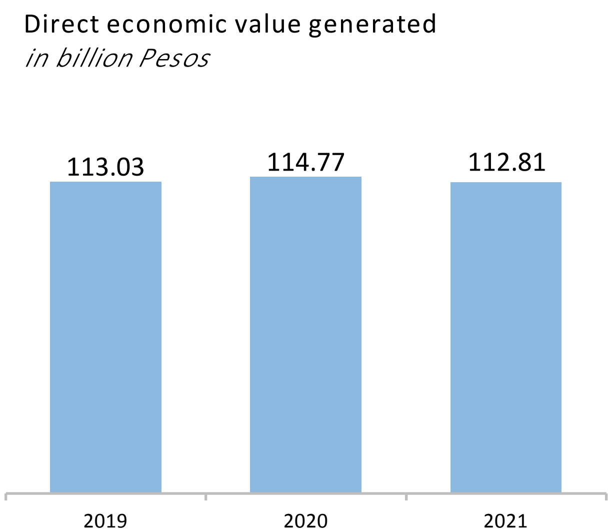
In the following sections, you will find out more about our sustainability journey in 2021. The disclosures have been divided into five categories: Economics and Governance, Environment, Employees, Customers and Society – with the corresponding key material topics contained therein.

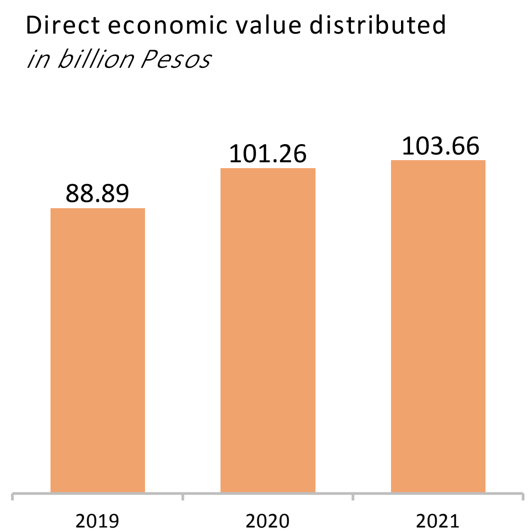
Economics and Governance

Economic Performance

We continued to maintain a guarded outlook to ensure our businesses' viability despite the global COVID-19 pandemic. Our commitment and strong foundations helped us remain resilient and kept us on track to our mission to shared value creation and long-term growth.

For 2021, we reported total economic value generation at Php112.81 billion, a decrease of 1.7% compared to last year. Our total direct economic value distribution is at Php103.66 billion, an increase of 2.4%. Of this value, Php50.72 billion went to operating costs, Php12.32 billion to employee wages and benefits, Php19.91 billion for payments to government, Php20.63 billion for payments to providers of capital and Php0.081 billion in community investments. As of the end of the current reporting period, the economic value retained is at Php9.15 billion.





Direct economic value distributed (in Pesos)			
	2019	2020	2021
Operating costs	39,525,175,222.34	46,868,358,299.45	50,722,493,580.47
Employee wages and benefits	11,355,563,625.72	12,294,976,981.91	12,316,454,296.29
Payments to government	15,444,345,059.13	20,844,610,731.79	19,912,173,628.71
Payments to providers of capital	22,473,831,107.24	21,152,939,722.28	20,625,180,497.49
Community investments	88,926,713.08	97,332,438.72	81,326,782.00
Total direct economic value distributed	88,887,841,727.51	101,258,218,174.15	103,657,628,784.96
Total economic value generated	113,025,097,439.59	114,766,428,692.40	112,811,003,716.19
Economic value retained	24,137,255,712.08	13,508,210,518.25	9,153,374,931.23

Socioeconomic Compliance

We ensure that all our policies are thoroughly reviewed and approved by our respective board committees in our subsidiaries, consistent with our practice of good corporate governance. Our Board of Directors is responsible for the regular review and oversight of the policies we implement across the Group. Together with our Compliance Officer and Corporate Secretary, our Corporate Governance Committee is primarily responsible for all compliance matters to ensure that we consistently comply with all conditions set by Philippine regulatory bodies and legislation and international standards.

Our Manual on Corporate Governance, which contains our Code of Business Conduct and Ethics, mandates that all personnel, regardless of rank or seniority, abide by government laws, rules and regulations. We cascade our Manual to all current and new employees as part of their onboarding and refresher. The management also ensures that the Manual is readily available on our corporate website for easy reference.

A thorough review process vets the integrity and accuracy of our filings as we do our best to avoid penalties and other sanctions due to late submissions of our documents on or before the deadline. After submission, we look at best practices to replicate and evaluate areas that can be improved and learned from in our reporting practice to make the next reporting cycle more efficient. We also take immediate action to effect corrective measures from regulators on possible issues and concerns. In compliance with the SEC recommendations on good governance as provided in the Integrated Annual Corporate Governance Report, we conducted our annual performance self-assessment for Members of the Board and Committees this year, covering 2020 and 2021. It allows us to see how effective our current corporate governance mechanism is, assess the Group's efficiency to meet compliance requirements, and develop solutions to improve weak areas.

Further, we strictly adhere to the regulatory submission requirements of the different regulatory agencies such as the Securities and Exchange Commission (SEC), the Philippine Stock Exchange (PSE) and the Bureau of Internal Revenue (BIR). The Corporate Governance Committee gives their proper guidance and advice to effectively practice good corporate governance, regular updates about the status of filings with agencies, and improvements made by the Group. The management asks guidance from the said Committee when unforeseen or unavoidable circumstances delay our submissions of the regulatory requirements.

Eton mandates that our people comply with all laws and regulations under the Eton Code of Business Conduct and Ethics. For grievances, we have a whistleblower policy where a whistleblower may submit a written report to the Office of the Compliance Officer. The Compliance Office shall then investigate the alleged violation of the Company rules, regulations and policies. All reports shall be treated in confidence and discussed with the Audit Committee for recommendation and action. If grievance mechanism relates to socio-economic compliance, it is different from employee grievance mechanism handled by HR or Legal. We also have an Executive Committee headed by the COO and EVP.

In compliance with BSP Circular 1085, PNB recently developed its Sustainability Policy and 3-Year Transition Plan. Tasks or activities are identified and determined for implementation in the Years 2021-2023. In the enterprise-wide Sustainability Policy, a significant sustainability pillar of the Bank is governance which covers compliance or adherence of the Bank in all policies, laws and regulations ESG-related or otherwise in areas where the Bank has a presence. The Sustainability Policy also identifies tasks indicated in the 3-Year Sustainability Transition Plan of the Bank, which includes identifying, assessing and creating an inventory of ESG-related laws and policies in areas or communities where the Bank has a presence in the country and overseas. We are developing and implementing procedures and controls to detect potential compliance issues regarding E&S legal/regulatory requirements. The Sustainability Transition Plan also reports violations and fines incurred by the Bank on relevant E&S regulations and laws in the country and abroad to the Corporate Sustainability Unit (CSU) for reporting to the Corporate Governance and Sustainability Committee.

We commit to providing a safe, respectful and collaborative work environment for our employees, cultivating personal and professional growth by educating our employees on our Sustainability Policy to encourage and inspire them to contribute positively to their communities. All employees of PNB have a practical skill set as they are required to take skills and development programs relevant to their existing functions and target roles. PNB's hiring process shall be based on the candidate's skills and competencies to provide equal opportunities for successful candidates. Promotions are also given to qualified employees based on performance, potentials and aspirations regardless of their gender and background. The policy promotes diversity, inclusion, and gender equality in employment and the workplace.

We will ensure the continuity of our business through strategic succession planning. We will also support companies and initiatives that foster and enable economic and inclusive growth, environmental protection, social development and nation-building. The program and activities related to our commitment to our clients will also raise awareness on sustainability and the Bank's sustainability thrusts through various information dissemination channels.

We align our plans, programs and activities to the international best practices and standards such as the FATF International Standards on anti-money laundering and combating the financing terrorism and UN Sustainability Development Goals. The Group practices transparency and accountability in all areas of our operations. We have also integrated sustainability principles in our enterprise risk and management system, which requires reporting our progress on our Sustainability initiatives to the Board of Directors at least quarterly. If also necessary, we will update our PNB Sustainability Policy annually.

We also educate and ensure that our suppliers, vendors, outsourced personnel and third-party service providers meet our sustainability policy and standards. Lastly, for our environment, we are committed to reducing the environmental impact of our operations through efficient use and management of natural and artificial resources, adapting eco-friendly technologies, and supporting businesses and projects that are compliant with environmental laws and regulations and contribute to the protection and conservation of the environment through sustainable financing and strategic partnerships.

At Tanduay, the Corporate Governance Committee consistently reminds the business units/ departments responsible for ensuring compliance with the regulatory agencies to aim for a perfect score. As a result of the Tanduay's efforts toward good corporate governance, its score in the ASEAN Corporate Governance Scorecard increased to 72.80 from 53.89 in 2017. Moving forward, we shall continue to comply with further recommendations of the regulatory agencies.

In 2021, we noted no major incident of non-compliance with laws and regulations in the social and economic areas across the Group. All non-compliance issues are dealt with immediately for resolution through the appropriate channels. In the next reporting period, we commit to ensure that no incidents of noncompliance are recorded and that any incident that may arise is resolved immediately.

Risk Management

Risk management is as an essential element that helps organizations like ours identify, assess and control threats to our operations. We use a holistic approach in managing our risks and come up with dynamic strategies and plans that are aligned to our organizational thrust of being a leader in the sectors we do business in. We ensure that our risk management systems remain relevant and dynamic by proactively identifying and managing risks that could impact how we create value for our stakeholders and foster sustainability. Across the Group, we comply with all applicable rules and regulations including the Code of Corporate Governance of the Philippine Securities and Exchange Commission (SEC) which covers the mitigation of various risks present in our businesses.

Across the Group, our Code of Business Conduct and Ethics represents the principles and values that all stakeholders must uphold. The grievances or concerns regarding risk management is overseen by our Chief Risk Officer. The reporting party may utilize the Whistle-Blower policy channel if any risk incidence represents a violation. In our commitment to upholding the highest standards of conduct, our Internal Audit review may also highlight any noncompliance by existing operations. We assess circumstances and relevant risks and take a proactive approach across risk aspects that could negatively impact our businesses.

At LTG, our Enterprise Risk Management (ERM) System helps us mitigate risks in security, operations, reputation, compliance, fraud, law, disaster recovery and others. Our ERM System is regularly updated to address emerging risks coming from volatile market conditions and the ever-changing business landscape based on the Enterprise Risk Management - Integrated Framework of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Our Chief Risk Officer is responsible for overseeing risks, including continued compliance with SEC regulations on implementing risk management activities. We also conduct Internal Audit activities to our ERM System and its implementation as part of our 3-year risk-based audit cycle. In October 2021, LTG created a separate Audit Committee and Risk Management Committee tasked to handle respective audit and risk issues. The creation of these committees complies with the recommendations of the SEC and is in pursuit of good governance.

The Risk Management Committee (RMC) has a charter stating that the Committee shall have Risk Oversight and Related Party Transactions (RPTs) Functions. It is the duty and responsibility of the Committee to monitor the risk environment of the Group and to provide direction for the activities to mitigate to an acceptable level which may affect the ability to achieve its goals. Further, the said Committee is responsible for reviewing and ensuring that RPTs entered into are not undertaken on more favorable economic terms with such related parties than similar transactions with non-Related Parties under similar circumstances.

The Risk Oversight Committee (ROC) of PNB is the highest governing body with risk management function in our banking business. PNB's Board Risk Oversight Committee (ROC) is mandated to set risk appetite; approve frameworks, policies, plans, programs, awareness testing exercises and processes for managing risk; and accept risks beyond the approval discretion provided to Management. Our Risk Management Policy at PNB covers a range of key areas including a comprehensive risk management approach; a detailed structure of limits, guidelines, and other parameters used to govern risk-taking; a clear delineation of lines of responsibilities for managing risk; an adequate system for measuring risk; effective internal controls and a comprehensive monitoring and risk-reporting process; and adherence to standards and regulations.

ROC membership is composed of at least six (6) members of the Board of Directors, majority of whom are Independent Directors including the Chairperson. The Chairperson shall not be the Chairperson of the Board of Directors, or any other Board Committee. The members shall possess a range of expertise as well as adequate knowledge of the Bank's risk exposures. They must also meet the requirements of the Securities and Exchange Commission (SEC), the Bangko Sentral ng Pilipinas (BSP) and other applicable laws, rules, and regulations.

In our Retail Banking Sector, a process of assessing potential risk is engaged to determine whether a relationship with a particular client or entity is amenable and does not pose significant risk as per our Customer Risk Rating (CRR) Policy, crafted in compliance with the Anti-Money Laundering Act of 2001 (RA no. 9160).

We continue to improve the process as we go along and as the need arises. For instance, in October 2021, we further enhanced the risk management process for high-risk accounts with balances of more than Php5M on top of the periodic review of accounts. The Branch Head and Relationship Officer must set an online meeting (if face-to-face is not feasible) after performing Enhanced Due Diligence and review of transactions. It is also part of the Region Head's oversight function to ensure that the review/assessment/updating of HR accounts and the compliance to the quarterly certification is being done.

In June 2020, we required additional information during customer onboarding if the source of fund is allotment. To enhance our customer due diligence, we are capturing the remitter name, its relationship to the account holder, and the expected monthly remittance. Our ERM Framework, reviewed and updated in 2021, provides the overall guidance in the risk management functions and articulates our philosophy that risk management resides at all levels.

For continuous improvement, we continue to improve the policies and procedures as we go along and as the need arises. For instance, in May 2021, one of the key changes made to our Money Laundering and Terrorist Financing and Prevention Program (MTPP) includes a policy devised for the management of Operators of Payment Systems (OPS) and Non-Bank Electronic Money Issuers (EMIs). This includes the list of documentaries evidence to be obtained, approvals to be secured given that the customer segment will have a default risk classification of high risk, and process for ongoing monitoring.

In addition to this, we updated the policy for the management of real estate companies in November 2021. In particular, the process for the customer segment's ongoing monitoring was enhanced to include performing of reverse screening of the list of duly registered real estate companies against PNB's own customer base to determine if the appropriate tagging and due diligence has been applied.

Anti-Corruption

We understand the threat that corruption poses on our businesses and stakeholders. As we continue to commit to fair and equitable business practices, we affirm that we comply with all applicable laws and regulations on anti-corruption. Our employees are bound not to foster corruption through our robust policies and regular training.

Guided by our Group-wide Code of Business Conduct and Ethics, we strictly do not condone any act of bribery or corruption with government officials to facilitate transactions or obtain favors. The Code further ensures that all our Directors, Officers, and employees comply with all government rules, laws and regulations and conduct themselves in a way that avoids conflicts of interest. To supplement the Code, we have a Group-wide Whistle-Blower Policy and Non-Retaliation Policy in place. Any suspected incidents of corruption may also be reported through our established reporting channels and are treated with utmo st confidentiality with a safeguard against retaliation. The Code provides a platform for employees to report suspected corruption to their immediate supervisor, who shall determine the existence of reasonable ground to escalate the matter. Directors and Officers shall report suspected and verified corruption cases to the Chairman of the Corporate Governance Committee, who, alongside the Committee, metes out appropriate sanctions. Alternatively, employees may also anonymously report unethical and corrupt activities.

At LTG, any known or suspected misconduct or violation of the policy are reported to Directors, Officers, and the Chairman of the Corporate Governance Committee. We also update our Code of Business Conduct and Ethics to ensure that our current company practices are written as policies. The updates in the Code include the procedure on handling reports and protecting whistleblowers against any possible act of retaliation (i.e. suspension, demotion, harassment, discrimination, or loss of benefits) . Our Board conducts regular reviews of the Code to ensure its continued relevance and implements updates on time. For the past years, there have been no reports of any known or suspected misconduct or violation of the Company's Policy. In November 2021, LTG conducted its Annual Self-Assessment covering 2020-2021 to ensure that Directors remain aware of the policies, their duties and responsibilities. We also started drafting a separate Manual to govern the conduct of its employees.

To maintain ethical conduct, Asia Brewery maintains a Labor Management Council and a Committee on Right Ethics (CORE) which help manage cases of misconduct and corruption in accordance with the Company's Code of Conduct. Asia Brewery's Executive Committee and AVP for Human Resources manage and monitor the ethical conduct of business in all operations. ABI also uses its Human Resource's "Speak Up" Hotline in receiving reports of misconduct and corruption as well as the Failure Mode, and Effect Analysis (FMEA) as a Risk Assessment Tool for grievance handling.

Eton maintains a Code of Business Conduct and Ethics that it shall not condone any act of bribery or corruption of government officials to facilitate transactions or obtain favors. Eton's HR Employee Manual also provides comprehensive information about violations on bribery and the no -gift policy. Our Audit & Risk Committee is responsible to ensure the integrity of the Company's accounting and financial reporting systems, including the independent audit, and that appropriate systems of control are in place, in particular, systems for monitoring risk, financial control, and compliance with the law, rules, regulations and the Manual. As stated in our Code of Business Conduct and Ethics, Eton follows a whistleblower policy, reporting and investigation procedures and non-retaliation policy.

Approved by the Board of Directors, PNB's Office Decorum that includes the Anti -bribery and Corruption, Policy on Soliciting and Receiving Gifts and Whistleblowing Policy ensure that employees co nduct themselves ethically. PNB ensures that all policies are disseminated and discussed during the employee orientation. We also regularly disseminate good governance reminders and conduct whistleblower webinars and seminars. Employees who violate the policies are sanctioned in accordance with the Bank's Code of Conduct. We also have a Fact-Finding Committee aligned with the Bank's Code of Conduct to report any violations via proper avenue. As part of our commitment and consistent monitoring, we evaluate our measures through Performance Appraisal Report for Officers which includes "adherence to ethical behavior." The Grievance Machinery and regular Labor Management Council of PNB aim to address the misunderstanding, dispute, or controversy arising from the interpretation, application and implementation of any provision of the Collective Bargaining Agreement between the union and the Bank and any covered employee.

In 2021, our anti-corruption policies and related procedures have been communicated to 100% of all our employees, business partners and governance body members. There are 27.7% of our employees and 21% of our governing body members who have received anti-corruption training.

Our ability to keep our workforce committed against corruption is critical in maintaining our record of zero reported cases of suspected and actual corruption for the current reporting period. In 2022, we continue to ensure that we strictly enforce our policies and campaigns to prevent corruption and promote ethical behavior.

Environment

Water Management

We value water's vital role in supporting the maintenance, sustenance and quality of life of every living creature. The country's water resources' significant issue is the rising water demand with limited supplies leading to water scarcity. Water scarcity also happens due to population growth, economic development, climate change and pollution. With the alarming progress of climate change and the current depletion of water supply that supports the continuous growth of society, we strive to strictly implement measures and guidelines to our subsidiaries, thereby managing our impacts and contribution to our water resources.

At LTG, we are not aware of any significant impact we have caused on our water resources. Guided by the policies set by the building management, we implement a periodic check of water pipes within the premises on which we have the responsibilities to oversee. We are also in the process of formalizing our advocacy on judicious use of water through disseminating internal memoranda to all employees and incorporating this as part of our code. We also aim to utilize the water discharged from the Sewage Treatment Plant (STP) through water recycling.

Asia Brewery's primary water source is groundwater. We operate and observe sustainable water withdrawal practices and strict monitoring of water consumption and wastewater management through our Water Treatment Process and Wastewater Treatment Process. We also regulate our activities through the timely submission of our reports to regulators and ensuring that our deep wells have the necessary permits for installation and maintenance. We implement our activities with strict compliance to regulatory requirements from the Local Government Units (LGUs), the Water Code of the Philippines and its other related regulations set by the National Water Resources Boards (NWRB), Department of Environment and National Resources (DENR), and Laguna Lake Development Authority (LLDA). We also follow the International Bottled Water Association (IBWA) mandated industry standards. We continuously ensure that all our manufacturing sites have extensive knowledge on identifying our water-related impacts and concerns through the use of our Failure Mode and Effect Analysis - Risk Assessment tool.

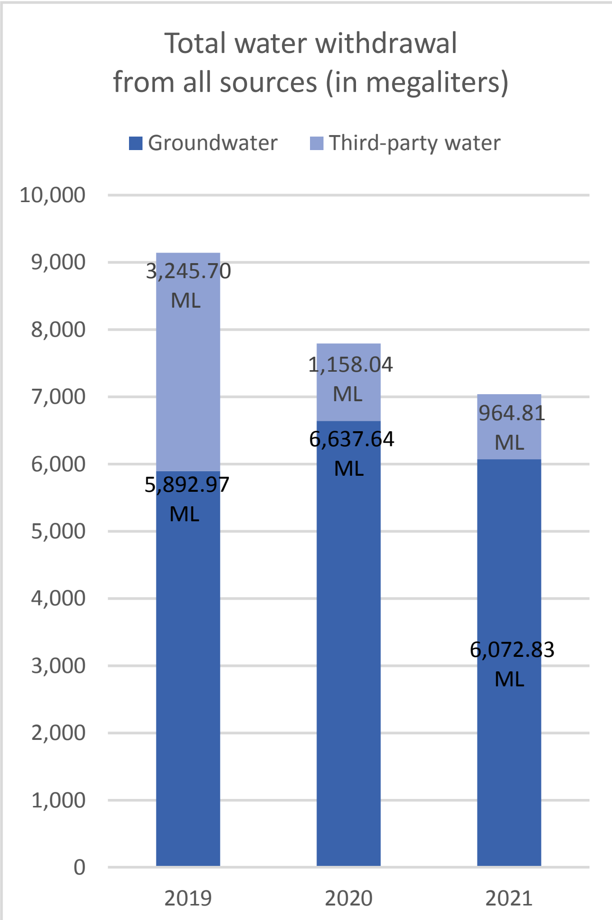
At Eton, we strictly monitor the impact of water use on our entire operations in accordance with our Water Supply Document Code. We source our water primarily through third-party water distributors with a small percentage from groundwater sources. We also take responsibility on our water use where 70% of our wastewater from our properties go through our STPs to treat our wastewater before being discharged to the respective municipal drainage systems. We adhere to the implementing policies and procedures on STP maintenance based on DENR guidelines. Beyond compliance, we also acknowledge the need for a system to identify water-related impacts. At Eton, the assessment of water-related impacts or concerns is part of the KRA of the Building Engineer done through a daily checklist monitoring. In our commitment to address our water-related impacts and communicating it to our stakeholders, we conduct stakeholder engagement activities through our established channels for vendors and third-party partners. We commit to comply with all policies and procedures set by DENR and other government agencies. We extend our environmental responsibility and our water conservation campaign among our tenants and residents through regular advisories and reminders on checking for leaking faucets and showerheads and turning them off when not in use.

The water sources of PNB are from third-party water distributors. We use water to operate the centralized air conditioning system, maintain the cleanliness of the toilets, and provide drinking stations at the general dining area. We recognize the potential impact of our wastewater to our water sources. Our head office in Pasay treats its wastewater using its own STP in compliance with the parameters set by DENR and LLDA before it is discharged in Manila Bay. We also adopt guidelines and cost-effective measures to manage our water usage. PNB has two storage tanks that can support our operation and services for two (2) days during water interruption. With this initiative, the air conditioning system on most building parts and the comfort room usage will not be affected in case of no water supply. The flushing mechanisms of our water closets are also adjusted to reduce the volume of water used. During the implementation of Maynil ad of the water rationing, the bank also coordinates with all the personnel and tenants of the PNB Financial Center to help conserve water especially during the distributor's implementation of water rationing.

At our Makati office, the effluent water is treated in the STP of our third-party water distributor. We ensure that we monitor and conserve our water consumption, and regularly communicate with the building administrator of our Makati office to track our water consumption. We regularly advise our offices to check our flushing mechanisms and the adjustment of water pressure to reduce the volume of water consumption within the premises of PNB.

The primary source of water of Tanduay's operations is groundwater through deep wells. We regulate and monitor the volume consumed by our operations and conduct our business in accordance with the NWRB's permit. We monitor and report monthly our water consumption on all points-of use of our business using sub-meters. Our Cabuyao plant, an ISO 9001 Certified Plant, regularly monitors water use to assess if consumption vs. production ratio (Water Use Ratio) is within the target for efficient water utilization since there are indicators of groundwater depletion in some areas in Cabuyao per NWRB's groundwater leveli ng. Tanduay is committed to deliver exceptional service by setting its WUR targets. In 2022, we target to reduce our WUR by 2.5%, then reduced by 5% from 2023 and 10% from 2027. Generally, WUR targets are set higher every year for continual improvement. The Year-to-Date Value of WUR shall be acquired and EHS committee will agree on the new and lower target in the following year. The EHS committee will perform root cause analysis and corrective action to meet the target the following month if there are three consecutive months of failed WUR.

We are also mindful of our impacts, thereby we strictly comply with DENR General Effluent Standard in treating our wastewater in wastewater treatment facilities before releasing to receiving water body. We have plans to re-lay out our pipes to reduce leakages and unnecessary discharges of water. We also ensure that our liquid chemical and other hazardous wastes are hauled by accredited third party contractor and are treated properly by requiring a Certificate of Treatment. We partner with NGOs like Cabuyao River Protection Advocates, LGU and DENR-EMB to improve and protect the water quality of receiving water



bodies. We regularly engage in activities such as river and creek clean-up, Community Environmental Education, recycling of failed demineralized water as water for gardening, adopt-a-river initiative, installation of trash catchment mechanism, and education of the community regarding environmental stewardship.

Across the Group, in 2021, our total water withdrawal was 7,037.64 megaliters (ML), where 6,072.83 ML is from groundwater sources and 964.81 ML is from third-party water suppliers. While there is an overall 10% decrease in our water consumption compared to 2020, our Tanduay Cabuyao Plant has not been affected by lockdown this year, hence the increase in water consumption and products. The 17% decrease in our use of water from our third-party water providers were due to the COVID-19 pandemic, the temporary closure of our offices during the lockdowns, and the implementation of work-from-home and alternative work schedule arrangements.

Managing Waste

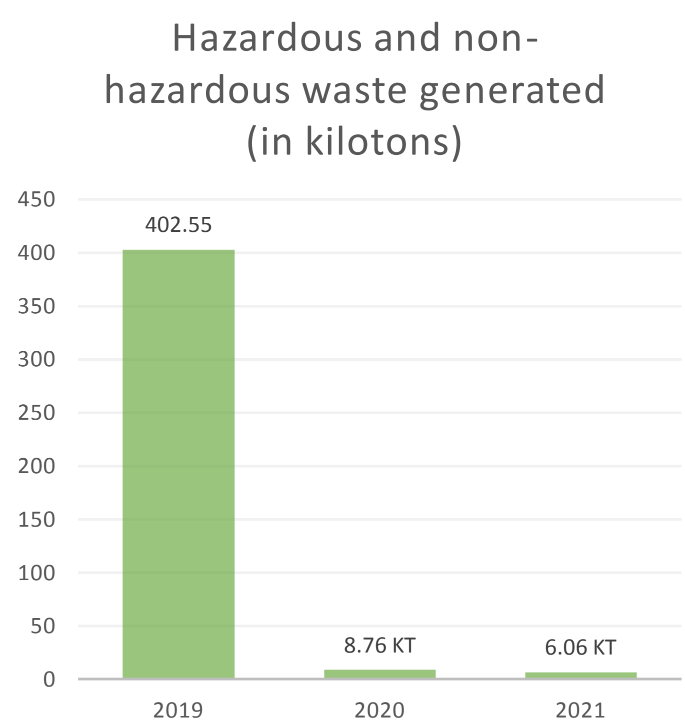
Climate Change has affected all countries worldwide due to the great concentration of greenhouse gases (GHG) in the atmosphere from human activities. At LTG, we aim to find solutions for climate change including the efficient management of our waste generated from our operations. Across the Group, we conduct our waste management activities in compliance with the laws and regulations set by DENR for hazardous waste and the LGU for non-hazardous waste.

We continue to promote our Group-wide programs which help us lessen and ensure that we dispose of our waste in ways that do not cause any harm to the environment. We also promote the use of electronic communication and documents for internal memos to lessen paper waste, repurposing scratch papers for second use as well as two-sided printing. The building management where LTG rents is responsible for the waste we generate, while DENR accredited third-party contractors handle the management of hazardous and non-hazardous waste of our subsidiaries. While we do not have formal commitment, goals and targets yet concerning waste management, we consistently promote reducing, reusing, and recycling of waste to our employees. Our Human Resource team is in the process of integrating our efforts on managing waste into the Group's code for employees. Future housekeeping rules on the use of resources will also be put in place.

Asia Brewery's Environment, Health, and Safety Policy (EHS) ensure to efficient waste management of our waste. Eton and Tanduay have solid waste management plans and documents to ensure that the programs and initiatives are appropriately planned and implemented. We also have Pollution Control Officers across our businesses to monitor and assess business requirements and compliance with the law.

In 2021, Asia Brewery's Medical Team started monitoring the quantity of clinical waste generated from our COVID-19 testing facility which is hauled by DENR-accredited service providers for proper treatment & disposal. ABI's solid waste increased by 14% in 2021 due to an increase in production volume mainly contributed by our glass and bottled water plants as well as an uptake in waste generation at our alcoholic segment operations. We evaluate our effectiveness through performance evaluation and monitoring of group or individual key performance indicators that are reviewed every mid-year review, typically on every month of June.

At Eton, in compliance with DENR, LLDA and LGU requirements, we continuously practice proper waste segregation by providing trash bins intended for biodegradable, non-biodegradable, & recyclable waste in different strategical areas in our office premises. We are also committed to continuously inform and remind our residents and tenants to follow proper waste segregation and disposal. In relation to reducing our paper waste in our offices, we plan to roll out our digitize system and processes. To further demonstrate our progress, we expect to generate a database for qualitative and quantitative information in developing our timeline in achieving our goals and targets. To better convey our purpose and challenge ourselves to outperform our growth in Eton, we target 20% total office waste reduction in 2022. In 2025, we target a 40% total office waste reduction supported by the full implementation of our property management software and our paperless operations. In the long-term, we target 15% additional waste reduction through enhancing our recycling program within the property.



The commitment of PNB in managing and controlling waste is reflected in our significant investments on trainings and seminars for our Pollution Control Officers as well as disposal and/or recycling initiatives and laboratory testing of wastewater effluent to ensure compliance with DENR laws and regulations. At the PNB Financial Center in Pasay, an outsourced contractor handles our solid waste while our Makati Center practices segregation of solid waste through recyclable, non-recyclable, and hazardous waste. Similar with LTG, the building management handles the disposal of solid waste from our PNB Makati Center. PNB centers dispose their hazardous waste through a government accredited third-party hauler.

At Tanduay, we demonstrate our commitment in managing our waste through requiring all our plants to comply with the Environmental Compliance Certificate (ECC) conditions. Our plants contract a third-party service provider and the LGU to haul our solid waste. We also ensure that a government accredited third-party handles our plant's hazardous waste. Part of our approach to monitor our waste generation also involves developing targets. We target to reduce the waste from Tanduay by 10% in 2022, 15% in 2025 and 20% in 2027.

In 2021, there is a significant decrease of total hazardous and non-hazardous wastes due to impact of foot traffic and work from home of set up and IATF protocols for establishments.

	HAZARDOUS AND NON-HAZARDOUS WASTE BY DISPOSAL METHOD (IN KILOTONS)		
WASTE DISPOSAL METHOD	**2019**	**2020**	**2021**
HAZARDOUS WASTE			
DEEP WELL INJECTION	-	0.1490	0.230
INCINERATION	-	0.0003	0.0005
LANDFILL	-	0.0049	0.0047
ON-SITE STORAGE	0.0201	0.0060	0.197
OTHER (HAULED BY THIRD-PARTY CONTRACTOR)	0.0243	-	-
RECOVERY	0.0048	0.0018	0.003
RECYCLING	0.0032	0.0312	0.009
TOTAL HAZARDOUS WASTE DISPOSED	**0.0524**	**0.1932**	**0.4442**
NON-HAZARDOUS WASTE			
LANDFILL	388.43	3.40	2.92
ON-SITE STORAGE	0.000734	0.00002	0.00289
OTHER (HAULED BY THIRD-PARTY CONTRACTOR)	10.35	2.91	0.659
RECYCLING	3.72	2.26	2.036
TOTAL NON-HAZARDOUS WASTE DISPOSED	**402.50**	**8.57**	**5.62**
TOTAL OF ALL WASTE DISPOSED	**402.55**	**8.76**	**6.06**

Energy efficiency and emissions

Energy efficiency and conservation measures throughout the Group create enormous opportunities that help us reduce our overall environmental footprint, increase awareness among our stakeholders on environment-friendly practices, and allow us to achieve operational efficiency. We continuously strive to make an impact from our actions and straightforward solutions in achieving energy efficiency in our businesses.

As part of the LTG's energy-saving efforts, we consistently advocate for responsible and judicious use of electricity to our employees. We implement cost-reduction efforts through maintaining the temperature of our air-conditioning units at 25 degrees Celsius, turning on equipment only when necessary and promoting the use of company car service and carpooling among its employees for their commute. To strengthen our commitment, we are in the p rocess of developing monitoring plans for our consumption levels of energy and petrol and carbon footprint reduction through formalizing a policy and disseminating internal memoranda to reinforce energy-conscious behavior among our employees. Similar with LTG, PNB Pasay and Makati implement energy efficiency measures to save energy within the PNB Offices.

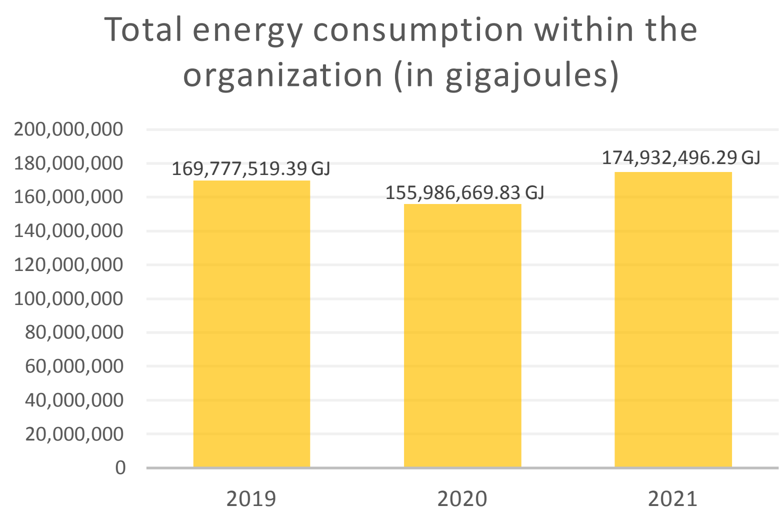
Asia Brewery aims to continuously achieve energy efficiency for our beverage and packaging manufacturing plants. All Asia Brewery manufacturing plants (Beverage and Packaging Division) timely submit annual Energy Efficiency and Utilization Reports in compliance with the Department of Energy (DOE)'s regulations. We also implement an Energy Management System (EMS) Policy and EMS Management Action Plan (MAP) for our Beverage Division Manufacturing and Packaging Division Manufacturing Plants to comply with the ISO 50001:2018 requirement. We aim to decrease our electricity consumption down by 3% in 2022 and 2% in 2025. For our long-term targets, we plan to install a 10-Megawatt Solar Farm for our Cabuyao Luzon Plant, a 1.75 Megawatt Solar Farm for ELSA Mindanao Plant and a 2 Megawatt Solar Farm for Davao Mindanao Plant.

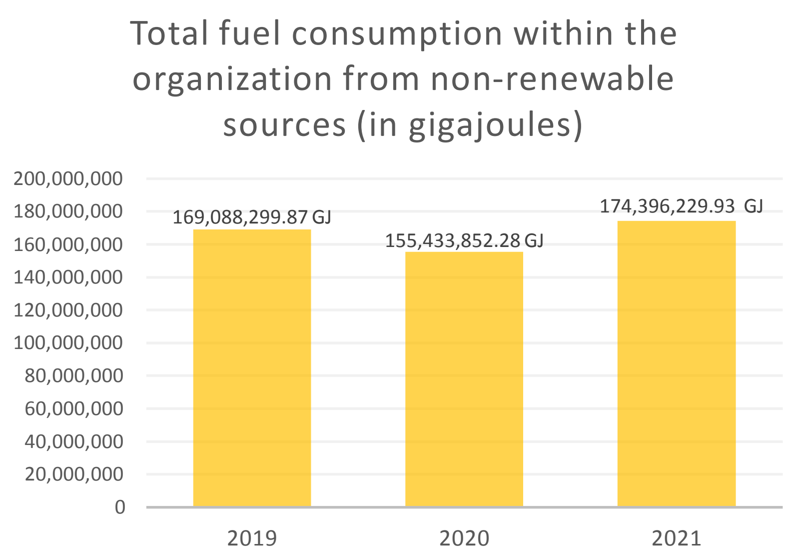
Eton's Power/Energy Management Document and Generator Set Operation and Maintenance Document allow us to understand, evaluate and manage our energy efficiency programs. With the partial implementation of intelligent metering, our goal in 2022 is to have 5% total savings in our electric consumption. By 2025, with the full implementation of intelligent metering and installation of solar panels for all elevator machine rooms, we aim for 20% total savings in our electrical consumption. Our continuing energy efficiency programs seek to achieve 25% total savings in our electrical consumption in five to 10 years.

Despite the increase in production, we continuously monitor our energy consumption and emissions at Tanduay through our energy use ratio (EUR)[4] that is unique for each plant. Our Pollution Control Officer for each plant has the necessary tools to monitor the EUR per plant location. Each plant prepares an Environmental KPI Report submitted to our Group Safety, Environment and Risk Management (GSERM) Department. Any positive or negative deviation from the set EUR target is determined and explained, leading to mitigation or conservation measures. If EUR is higher than the target for a reason beyond the control of the Safety Officer and the Plant Management, the EUR Target will be less stringent than the

[4] Energy Use Ratio (EUR) – Average total amount of electricity and fuel consumed on-site from all sources converted to mega joules (MJ) for every liter of product produced.

previous year or be maintained depending on the data. Our air emission, a by-product of our energy producing equipment, is also being monitored and complied with DENR laws and regulations. We are also planning to use the Energy Regulatory Commission's implementation of Retail Competition and Open Access (RCOP) to achieve lower electricity cost. Likewise, AAC is in the process of establishing an Energy Efficiency and Conservation Management Plan in compliance with the requirements of R.A. 11285 (Energy Efficiency and Conservation Act). We also recognize the need to take responsibility on the areas of our operations that have opportunities for energy conservation and improvement for energy efficiency through technological and process innovations. We will also evaluate the effectiveness of our goals and targets through our energy audit and conduct of Air Emission and Ambient Air Test. Through our established Complaint Verification and Investigation Procedure conducted by AAC CRO in coordination with the *Barangay Captains*, we closely monitor the impacts of air emissions in the affected communities.

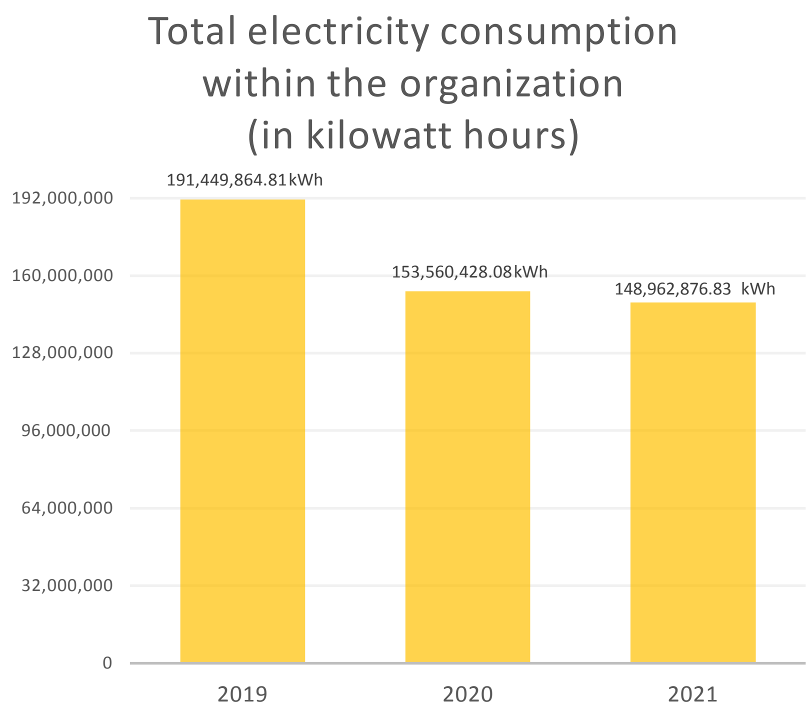




In 2021, our total energy consumption across the Group is 174.93 million gigajoules (GJ), an increase of 11% from 2020 brought by Tanduay's overall increase in production resulting to increase in overall energy consumption. Our total fuel consumption from non-renewable sources is 174.39 million GJ, while our total electricity consumption is 0.536 million GJ (148.96 million kilowatt hours).

TOTAL FUEL CONSUMPTION WITHIN THE ORGANIZATION FROM NON-RENEWABLE SOURCES (IN GIGAJOULES)

FUEL TYPE	2019	2020	2021
BUNKER FUEL	599,979.60	579,955.16	560,374.21
COAL	335,643.28	321,705.02	377,318.52
DIESEL	11,384.51	11,972.65	16,265.14
GASOLINE	2,500,380.63	1,621,950.00	246,741.00
LIQUEFIED PETROLEUM GAS	165,640,911.86	152,898,269.46	173,195,531.06
TOTAL FUEL CONSUMPTION	**169,088,299.87**	**155,433,852.28**	**174,396,229.93**



TOTAL ELECTRICITY CONSUMPTION BY AREA OF OPERATION (IN KILOWATT HOURS)			
AREA OF OPERATION	**2019**	**2020**	**2021**
LUZON AND VISAYAS	179,483,621.92	141,077,062.08	125,203,178.62
MINDANAO	11,966,242.89	12,483,366.00	23,759,698.21
TOTAL ELECTRICITY CONSUMPTION	191,449,864.81	153,560,428.08	148,962,876.83

The Group's efforts on managing our energy consumption and emissions seek to inculcate the significance of sustainability in battling climate change.

Given the impacts of our operations to climate change, we track our emissions using the international standard of GHG Protocol which uses the following scopes measured in tonnes of CO_2e[5]:

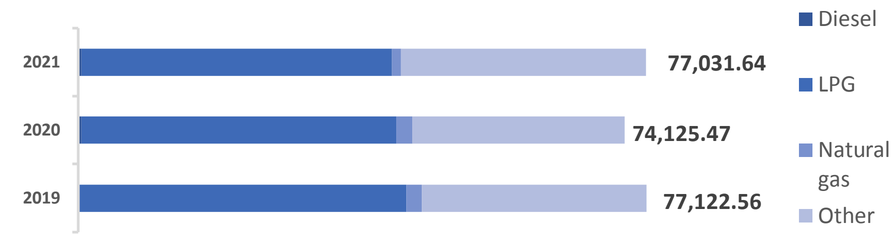
Scope 1 (Stationary Combustion) - Data on the quantity of fuel consumed at each site for stationary machinery and equipment (such as generators, boilers, furnaces, burners, turbines, heaters, incinerators, engines, flares, etc.) owned or controlled by the Company for the period 1 January to 31 December 2021.

Scope 1 (Mobile Combustion) - Data on the amount of fuel consumed by the mobile machinery and equipment (transportation devices such as automobiles, trucks, buses, trains, airplanes, boats, ships, barges, vessels, etc.) owned or controlled by the Company for the period 1 January to 31 December 2021.

[5] Carbon dioxide equivalent is a measure used to compare the emissions from various greenhouse gases based upon their global warming potential (OECD)

Scope 2 (Indirect Energy Consumption) - Data on the quantity of purchased electricity, heating and cooling consumed at each site for the period 1 January to 31 December 2021.

Scope 1 (Stationary Combustion, tonnes of CO_2 e)



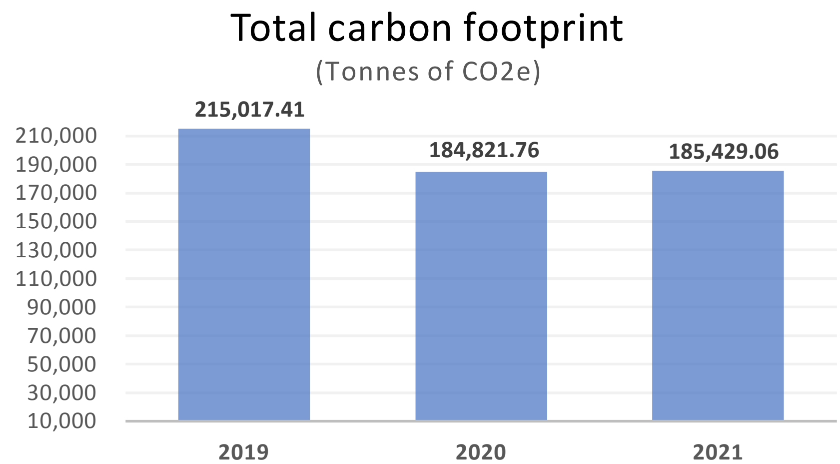
In 2020, the total Scope 1 emissions of the group converted to 74,125.47 tonnes of CO_2 e compared to 77,122.56 tonnes of CO_2 e in 2021. The 4% increase from 2020 was primarily driven by Tanduay's increase on the use of coal instead of bunker fuel for savings.

Scope 1 (Mobile Combustion, tonnes of CO_2 e)

Another driver of emissions is the fuel consumed by our businesses' mobile machinery and equipment. The Group's emissions from our mobile combustion increased by 44%, from 487.93 tonnes of CO_2 e in 2020 to 702.27 tonnes of CO_2 e in 2021. The increase in the emission was mainly from the increased overall diesel consumption for forklifts, trucks, etc. due to Tanduay's increased production in 2021.

Scope 2 (Indirect Energy Consumption, tonnes of CO_2 e)

Electricity is an important resource in our operations especially on our manufacturing and bottling businesses.



We are also closely monitoring our carbon footprint across the group. All the reduction efforts across the Group result to reducing our total carbon footprint.

Climate Change

The Philippines is a developing country that is vulnerable to climate change. It resulted in rising sea levels and extreme weather events such as super typhoons, more heavy rains, more intense heat, prolonged severe droughts, and consequently enormous losses in lives, livelihoods and properties. The immense impacts of climate change also include annual losses in GDP, threats to biodiversity and food security, public health risks, and endangerment of vulnerable groups. Throughout our business, we recognize that climate change is a daunting challenge to our operations. With the support of our people, we commit to climate action through the implementation of policies and measures across our operations alongside continuous development and study of climate responsive measures for the future.

As part of our commitment to finding solutions to climate change, we consistently implement our sustainability initiatives led by our Asia Brewery Sustainability Program "AMORES" - Asia Brewery Manufacturing Operations, Resources and Environment Sustainability Team. At Asia Brewery, we initiate the Manufacturing Continuity Program (MCP) as part of our Business Continuity Plan headed by the Business Unit and Functional Heads. Our MCP seeks to prepare for and operate after a wide variety of potential events or incidents, including natural and physical threats, facility threats, technology threats, operational threats, and social threats. It also includes the prevention, preparedness, response, and recovery that can reduce employee's exposure to health and safety risks, operations downtime, and financial loss. Annually, we conduct a risk assessment review and reporting to our Executive Committee to report on risks and opportunities posed by climate change that can significantly impact our operations. We also use Business Impact Analysis to evaluate the effectiveness of our measures to manage climate change. Our Risk Assessment Categories and Risk Managing Options provide us information on how we can manage our goals and targets involving climate change. Balancing our contributions to manage climate change impacts, we plan to shrink wrap (external packaging) our carton boxes and shift to solar energy use. Likewise, LTG is committed to proactive approach to doing business including the continuous review of our risks and opportunities including but not limited to the aspect of climate change.

Eton's climate initiatives are embedded throughout our business policies. To manage the impacts of our properties, we promote the use of clean and renewable energy in our office buildings in Eton Centris, Quezon City and Eton WestEnd Square through MPower of MERALCO, use of LED lights and variable refrigerant flow system air conditioning.

At PNB, we see that the climate change directly impacts our customers, the stability of the banking system, and the overall economy which may eventually contribute to future financial crises and a more challenging business environment. It is for this reason that we put together a Sustainability Policy and 3-Year Sustainability Transition Plan in compliance with relevant laws and regulations. The Bank's 3-Year Transition Plan also includes ESG-related activities that focus on climate change (i.e. qualitative and quantitative climate scenario analysis, and others). The board oversight on sustainability is currently under the Corporate Governance Committee, while the risk oversight function with the environment and social (E&S) risks is with the Board Risk Oversight Committee.

PNB's enterprise-wide Sustainability Policy includes the Bank's statements on dealing or handling business clients with high E&S risks, subject to enhanced due diligence and close monitoring. The policy also reiterated that we will not support or finance illegal businesses or industries that will cause harmful effects on the environment and society in general.

The policy also states that: (1) the Bank commits to fund or support projects and activities that will contribute to the achievement of the Sustainable Development Goals (SDGs); (2) the Bank will not support or involve itself in any business or activity that is illegal and which might cause harm, directly or indirectly, to people and the environment; (3) the Bank will subject to enhanced due diligence and close monitoring high-risk businesses and activities that are considered to have harmful effects or negative impacts on the society and the environment; (4) the Bank will only support existing businesses with high E&S risk levels provided they have the necessary government approvals and permits, passed the ESG screening of the Bank, and submitted their mitigation action plans to address environmental and social risks; (5) the Bank commits to educate its customers and other stakeholder to align them with PNB's sustainability thrusts. The complete exclusion list and enhanced due diligence list of the Bank are included in the Bank's Board-approved Sustainability Finance Framework.

Our Incident Management Crisis Resolution Procedure (QMS-IMP-B-P-1000) in Tanduay helps us identify the climate risks and opportunities that have financial impacts in our operations, such as warehousing activities. The impending super typhoons or flooding may affect our raw materials, logistics and delivery time. Consequently, the unavailability of materials may cause price hike and may lead to interruption in our operations. If we consider these risks, we must maintain a buffer stock for continuous supply of raw materials. For the opportunities, the costs of these materials may be pegged at a lower price compared to times after the disaster.

We ensure that we comply with DENR guidelines to ensure that our emissions are within the allowable threshold values. We continue to invest on the use of alternative diesel fuel such as low-sulfur fuel oil for some boilers in compliance with local regulatory requirements. Trees can capture carbon and draw down emissions from the atmosphere. Vital to mitigating climate change impacts, Tanduay undertakes tree-planting activities as part of our corporate social initiative.

Due to unprecedented challenges of the pandemic which affected the efficiency of our operations, we moved the mapping and measurement of our CO_2 emissions in the beginning of 2022. In 2023, we will conduct data gathering on our average CO_2 emissions. After the completion of this activity, we will implement CO_2 monitoring procedures in 2024 and reduction measures in 2025.

At Asian Alcohol Corporation (AAC), one of Tanduay's subsidiaries, our policies, and programs to address the impact of climate change is integrated in our Environmental Management Plan (EMP) and the Emergency Preparedness Response Policy (EPRP). We ensure that our EMP includes emergency preparedness and response plan following the Environmental Impact Statement (EIS) System. It is also our priority to equip our emergency response team with the necessary training. The accelerating effects of climate change drive AAC to transform our business through generating biogas as a replacement to coal/bunker used in the generation of steam and power required by the operations; producing Bioethanol as renewable energy; participating on LGU and DENR's greening programs and managing a Mangrove area in Patic, Pulupandan. We constantly track and evaluate the effectiveness of our climate change measures using tools and mechanisms such as GHG emission, EMP, and EPRP.

AAC's Environmental Impact Assessment identifies climate related risks and mitigating measures and response procedures in compliance with the company's Environmental Compliance Certificate (ECC).

Climate change poses risks in our ethanol and alcohol production. The changes in climate conditions affect the growth of our agricultural raw materials (molasses). Alcohol production is water intensive process and requires extraction of large volumes of water. Due to scarcity of water and raw materials brought by changing climate conditions, the cost of production will increase requiring capital for sourcing other sources of water. Occurrence of flooding may also be observed due to increased rainfall in the area. Significantly, whether it is direct or indirect (through the value chain), climate change may increase or decrease our capital and operational costs, demand for product and services, and capital availability and investment opportunities.

Employees

Employment

Sustainable employment is the enduring, mutually beneficial and purposeful working engagement between employer and employees wherein the needs of both parties are clearly defined, balanced and accommodated through a flexible and adaptive relationship. Our employment and employee welfare policies are based on labor laws, industry practice and collective bargaining agreement with rank-and-file employees union. We continuously demonstrate our commitment to creating a work environment that fosters a sense of community and a fervent desire to serve the greater good. We remain steadfast in our commitment to gender equality, diversity and inclusion in the workplace.

The Group has hiring, transfers, promotions, employee benefits, resignation, separation, and learning and development policies. These policies are assessed and updated regularly by Management. We abide by the provisions of the Labor Code of the Philippines and the General Labor Standards of the Department of Labor and Employment (DOLE), which conducts regular inspections and evaluations of our adherence to the law and labor standards.

Our development of the Employee Handbook is in the pipeline, which shall cover policies on vacation, sick leave, and employment attendance. To be included also are policies and health protocols in response to COVID-19. Our efforts in COVID-19 response are also complemented by the recently approved business continuity plan, which is under community quarantine protocols and safety against the coronavirus.

Our Code of Business Conduct and Ethics serves as the principal guide for all Directors, Officers, and employees of our businesses concerning professional and ethical conduct, consistent with the SEC's requirements and industry-recognized standards. Moreover, a Whistle-Blower Policy is incorporated into the Code, enabling us to ensure that all instances of misconduct and unethical activity can be reported anonymously and without fear of retaliation. Throughout the Group, we have a grievance procedure that expeditiously addresses employee grievances, misconduct, disagreements, or controversies involving covered and non-covered workers.

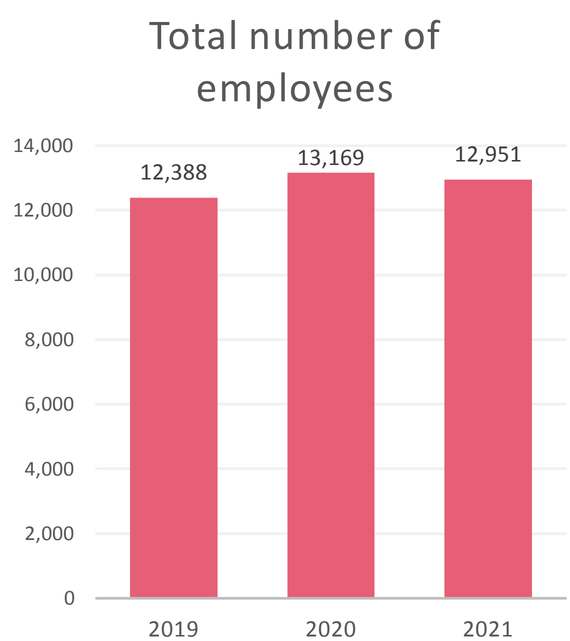
We enhance our Anti-Sexual Harassment Policy and Whistleblower Policy for the protection of our employees of all gender by expanding the definition of what constitutes the act of harassment. We also added anti-retaliation provisions to extend programs, webinars, and even interns through whistleblowing channels. We continue to update and strengthen these policies to their relevance and make sure they are well communicated.

We take our commitment to support gender equality and inclusion to the next level by renewing our membership with the Philippine Business Coalition for Women (PBCWE) and signing the UN Women Empowerment Principles (UN WEP) organized by the UN Women Asia and the Pacific and Women Business Council Philippines March 31, 2021. Launched in 2010 by UN Women and UN Global Compact, the Women Empowerment Principles or WEPs is a roadmap to business sustainability and growth. It is a frame work of seven principles that guide companies to promote transformative change towards gender equality and women empowerment in the workplace, marketplace, and community. These principles will guide companies in evaluating and assessing their policies, projects, and practices and identifying areas for improvement.

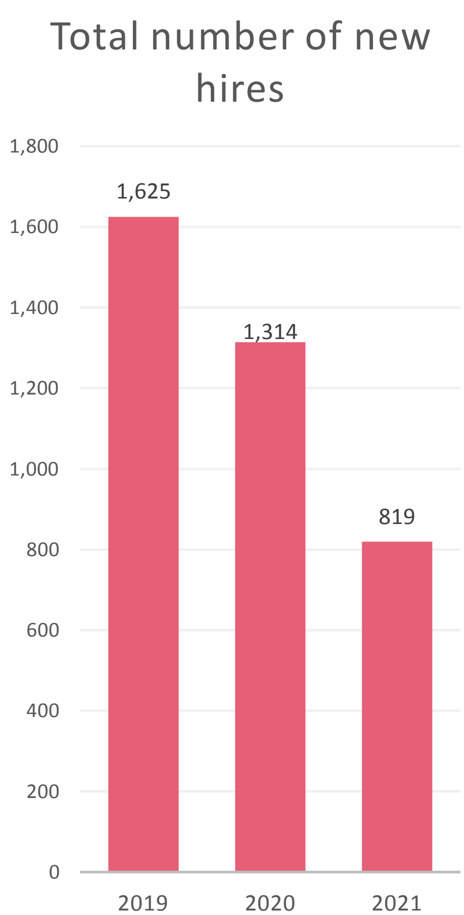
Our gender equality and diversity and inclusion (D&I) practices remain strong as a Group, with women accounting for much of our combined workforce. In 2021, we had 12,951 employees, of which 6,79 0 are women, which comprise around 52.43% of the total workforce. Of our 819 new hires, 314 are women. The current employee turnover rate is 8.06%, while our hiring rate is 6.32%.

On November 22, 2021, PNB and other representatives from Vietnam, Indonesia, & Myanmar shared stories, programs, and experiences on how Gender Equality is ad vancing in their respective workplaces. The program formed part of the 2021 ADB Asia and the Pacifi c Virtual Gender Forum. This development came on the heels of the Bank's recent recognition from Asia money as 'Leader for Women' in 2020 and 2021 and from LinkedIn as 'Best Company for Professionals to Grow their Careers' for 2021. In October 2021, we were honored by a joint program of the European Union and UN Women as Champion for Transparency and Reporting in the UN Women 2021 Philippines Women's Empowerme nt Principles (WEPs) Awards for including gender data and indicators in our reporting.

We hope to go further and improve our gender equality and inclusion policies and practices and align with global standards such as the Sustainable Development Goals on Gender Equality and the UN Women Empowerment Principles. We hope to integrate gender equality and inclusion principles in our business and operations by using a gender lens in financing projects and businesses of clients.



NUMBER OF EMPLOYEES BY AGE GROUP AND GENDER			
Gender & Age	**2019 Total**	**2020 Total**	**2021 Total**
Male			
Under 30	1,691	1,736	1,585
30 to 50	3,349	3,636	3,737
Over 50	748	778	8,39
Female			
Under 30	2,235	2,260	1,963
30 to 50	3,202	3,638	3,656
Over 50	1,163	1,121	1,171
Total	**12,388**	**13,169**	**12,951**



NEW HIRES BY AGE GROUP

AGE GROUP	2019	2020	2021
UNDER 30	1,142	644	471
30 TO 50	456	609	322
OVER 50	27	61	26
TOTAL NUMBER OF NEW HIRES	**1,625**	**1,314**	**819**

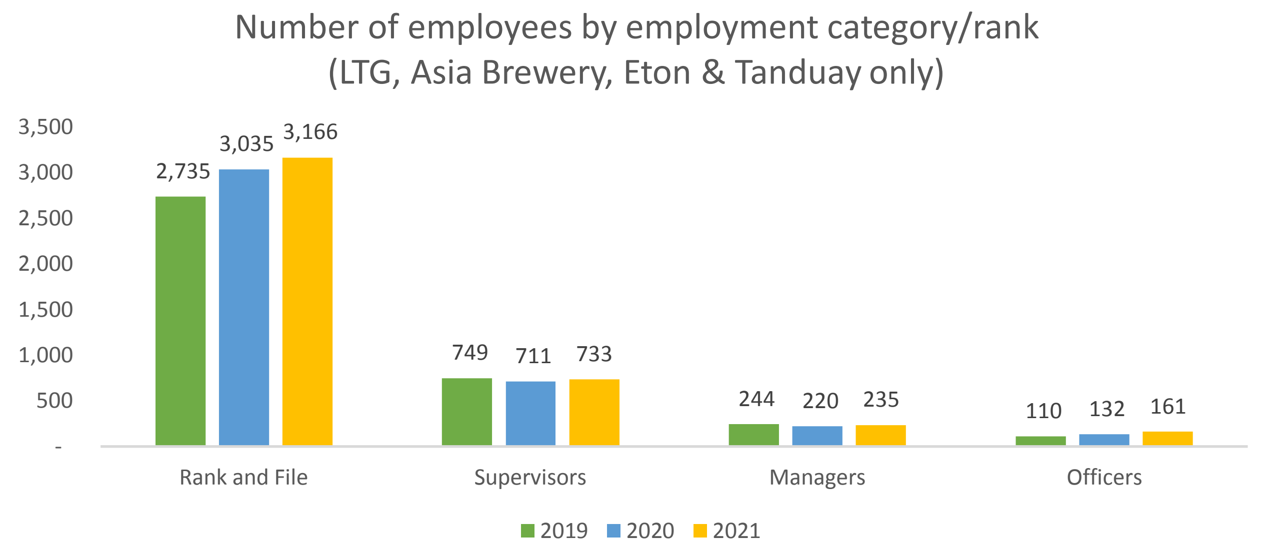
NEW HIRES BY GENDER

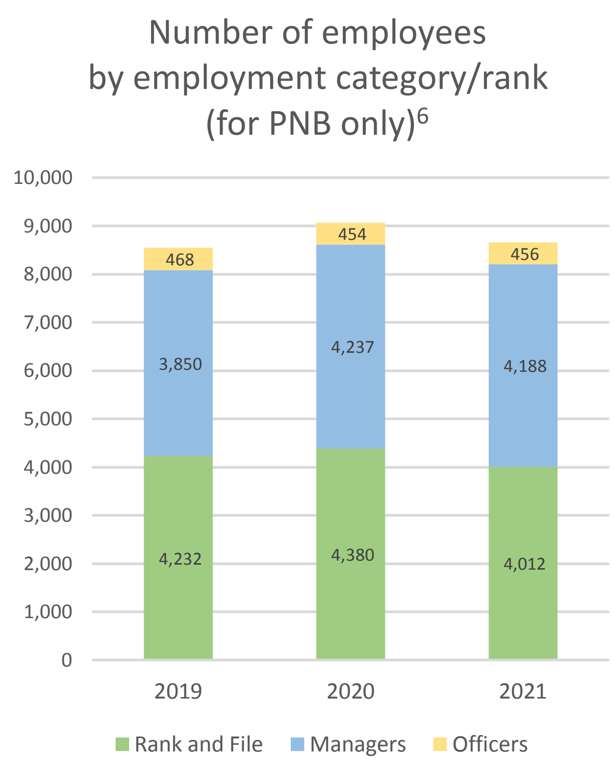
GENDER	2019	2020	2021
MALE	1,007	581	505
FEMALE	618	718	314
TOTAL NUMBER OF NEW HIRES	1,625	1314	819
RATE OF NEW HIRES (%)	13.12%	9.98%	6.32%

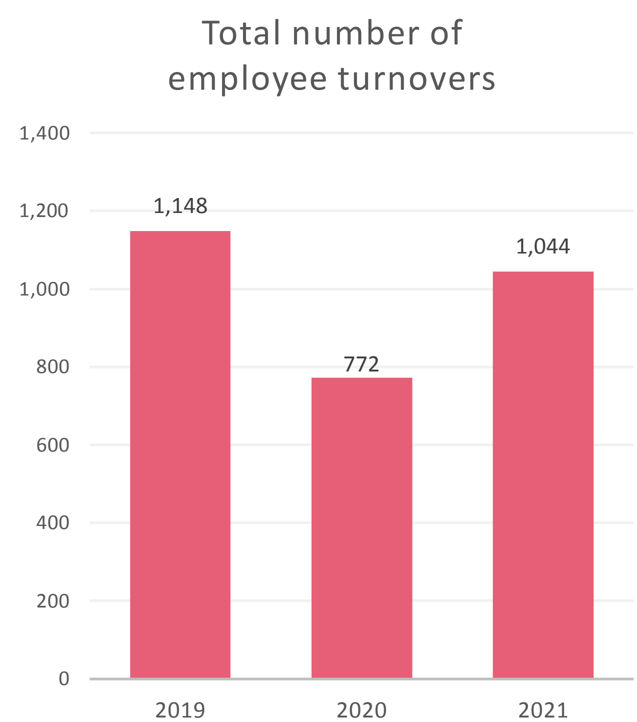
NEW HIRES BY REGION

REGION	2019	2020	2021
LUZON	1,360	1160	685
VISAYAS	113	51	54
MINDANAO	152	88	80
TOTAL NEW HIRES	1,625	1314	819

Employment by Category/ Rank[6]







[6] PNB's employee breakdown by category has been separated from the Group-wide figures as PNB has no corresponding rank for the Supervisor category.

EMPLOYEE TURNOVER BY GENDER

GENDER	2019	2020	2021
MALE	667	370	491
FEMALE	481	402	553
TOTAL TURNOVER	1,148	772	1,044
RATE OF TURNOVER (%)	9.27%	5.86%	8.06%

EMPLOYEE TURNOVER BY REGION

REGION	2019	2020	2021
LUZON	972	656	873
VISAYAS	111	50	72
MINDANAO	65	66	99
TOTAL TURNOVER	1,148	772	1,044

EMPLOYEE TURNOVER BY AGE

AGE GROUP	2019	2020	2021
UNDER 30 YEARS OLD	509	322	423
30 TO 50 YEARS OLD	458	280	409
OVER 50 YEARS OLD	181	170	212
TOTAL TURNOVER	1,148	772	1,044

NUMBER OF EMPLOYEES AVAILING PARENTAL LEAVES

GENDER	2019	2020	2021
MALE			
EMPLOYEES ENTITLED TO PARENTAL LEAVE	491	657	769
EMPLOYEES AVAILING OF PARENTAL LEAVE	41	36	26
FEMALE			
EMPLOYEES ENTITLED TO PARENTAL LEAVE	305	330	360
EMPLOYEES AVAILING OF PARENTAL LEAVE	185	154	163

NUMBER OF EMPLOYEES RETURNING TO WORK AFTER PARENTAL LEAVE

GENDER	2019	2020	2021
MALE			
EMPLOYEES DUE TO RETURN AFTER PARENTAL LEAVE	39	36	26
EMPLOYEES THAT RETURNED TO WORK AFTER PARENTAL LEAVE	39	36	26
RETURN TO WORK RATE (%)	**100%**	**100%**	**100%**
FEMALE			
EMPLOYEES DUE TO RETURN AFTER PARENTAL LEAVE	173	147	159
EMPLOYEES THAT RETURNED TO WORK AFTER PARENTAL LEAVE	173	147	159
RETURN TO WORK RATE (%)	**100%**	**100%**	**100%**

NUMBER OF EMPLOYEES RETURNING TO WORK FROM PARENTAL LEAVE STILL EMPLOYED 12 MONTHS AFTER RETURN

GENDER	2019	2020	2021
MALE			
EMPLOYEES RETURNING FROM PARENTAL LEAVE IN PRIOR PERIODS	16	23	22
EMPLOYEES RETAINED 12 MONTHS AFTER RETURNING TO WORK FOLLOWING PARENTAL LEAVE	16	23	22
RETENTION RATE (%)	**100%**	**100%**	**100%**
FEMALE			
EMPLOYEES RETURNING FROM PARENTAL LEAVE IN PRIOR PERIODS	166	140	150
EMPLOYEES RETAINED 12 MONTHS AFTER RETURNING TO WORK FOLLOWING PARENTAL LEAVE	166	140	150
RETENTION RATE (%)	**100%**	**100%**	**100%**

Safety and Well-being

The safety and well-being of our employees is of the utmost importance to our organization. We provide our staff with a safe and secure working environment so that they may continue their daily operations despite global business disruptions. Consequently, we can ensure that our employees have stable employment and that their families live in safe and healthy environments.

As part of our commitment to excellent corporate governance and compliance with DOLE regulations, our policies regarding the health, safety, and welfare of our employees are designed to protect each employee's rights and access to humane working conditions. We conduct regular reviews and evaluations of these policies to assess the effectiveness and implement updates when needed. Occupational safety and health committees regularly meet throughout the Group to manage work-related hazards, including investigation and incident reporting. DOLE’s guidelines on the Notification and Keeping of Records of Accidents and Occupational Illnesses (Rule 1050, Occupational Safety and Health Standards, As Amended 1989, DOLE) guide the said reporting of the Group. We also ensure that we cover our employees across the Group by a healthcare plan covering occupational health services.

To raise continuous awareness on Occupational Safety and Health (OSH), we conduct regular training programs across the Group through our respective subsidiaries’ Safety Officers, health providers, government agency partners, and third-party providers. As part of our ongoing response to the ongoing pandemic, we have implemented the following measures: safety protocols like wearing masks, using alcohol, social distancing, and others for employees required to report to work in the office; skeletal work arrangements for those needed to report to work with the provision of a shuttle/service; a daily health check questionnaire for those working from home; and providing the full round of COVID -19 vaccines for our employees and third parties for free, including booster shots which are currently underway.

Across the Group, we provide Health Maintenance Organization (HMO) coverage to facilitate our employees’ access to non-occupational medical and healthcare services. This enables our employees’ access to medical clinics, doctors and nurses for in-person or teleconsultations. We also continue to send and promote infographics and health tips/protocols. This is constantly done to keep personnel informed of the latest Department of Health announcements, standards and processes. Additionally, we promote mental health and stress management on a periodic basis via email-based publications.

Our subsidiaries implement a system and process for employees to report work-related hazards and hazardous situations. Asia Brewery identifies work-related risks through unsafe acts and unsafe conditions from near-miss reports. On the other hand, our employees at Eton are being encouraged to report dangerous conditions and actions, including health and safety policy violators. PNB created an Occupational Safety, Health, and Family Welfare Committee (OSHFWC) in compliance with the requirements of the law. OSHFWC has been active for the past years in assisting PNB in health and safety measures and protocols amid the COVID-19 Pandemic. We also elevate any reports on work hazards from HRG subject to formal reportorial requirements and an agenda item during OSHFWC meetings. Our Safety Officers at Tanduay are always available to receive reports regarding unsafe acts and conditions. We conduct investigations after we receive reports through multiple channels. In addition to this, we have placed DOLE hotlines in noticeable areas for easier access. During the mandatory seminar, all officers and employees have been made aware of unsafe reporting, and hazardous conditions are covered by an anti-retaliation policy, as per DOLE policy.

At Eton, we continue to conduct trainings on OSH, Basic Occupational Safety and Health (BOSH), and Construction Safety and Health (COSH). In our property management offi ces, we have implemented a work permitting system with a job hazard analysis in compliance with DOLE requirements and occupational safety and health standards as reflected in our Group -wide policy. We have OSH physicians and nurses at our sites, while Emergency Medical Services (EMS) with ambulatory services are available for our site offices. Our OSH physician and nurses conducting health info-sessions, and employees can access health care services through them.

At PNB, our Occupational Safety, Health, and Family Welfare Committee (OSHFWC) has been spearheading the implementation of health and safety measures and protocols in our banking business. With their efforts, a recent inspection by DOLE has shown that we are compliant with OSH standards, which include a Fire Safety Inspection Certificate (FSIC). Extensive training is provided to our employees for accreditation as first aiders and safety officers. We also have a Family Welfare Program through DOLE which provided an orientation seminar last June 2021.

In 2021, we did not record any instances of high-consequence work-related injuries.[7] We will continue to intensify our efforts to ensure health and safety in the workplace to maintain this record in the next reporting period.

OHS Management System coverage	**2019**		**2020**		**2021**	
	Number of employees	%	Number of employees	%	Number of employees	%
Covered by occupational health and safety management system						
Regular employees	9,265	75	9,561	73	9,415	73
Contract workers[8]	360	100	258	94	213	98
Covered by occupational hea lth and safety management system that has been internally audited						
Regular employees	8,850	96	9,163	96	8,962	95
Contract workers	360	100	258	100	213	100
Covered by occupational health and safety management system that has been audited or certified by an external party						
Regular employees	8,610	97	9,073	99	0	
Contract workers	-	-	-	-	-	-

Work-related injuries	**2019**		**2020**		**2021**	
	Number of cases	Rate	Number of cases	Rate	Number of cases	Rate
For regular employees						
Fatalities as a result of work-related injuries	-	-	-	-	-	-
High-consequence work-related injuries (excluding fatalities)	-	-	-	-	-	-
Recordable work-related injuries	49	5.82	28	3.13	27	2.42
Number of hours worked (hours)	8,413,664.10		8,933,465		11,153,077	
For contract workers						
Fatalities as a result of work-related injury	-	-	-	-	-	-
High-consequence work-related injuries (excluding fatalities)	-	-	-	-	-	-
Recordable work-related injuries	15	5.49	17	4.76	17	3.31
Number of hours worked (hours)	2,730,632		3,572,376		5,128,914	

[7] A high-consequence work-related injury is a work-related injury that results in a fatality or in an injury from which the worker cannot, does not, or is not expected to recover fully to pre-injury health status within 6 months.

[8] Contract workers are not employees of the organization but whose work and/or workplace is controlled by the organization.

Customers

Marketing and Labeling

Trust is essential to everything that we do. Our strict adherence in observing fair and responsible marketing practices through transparent and readily accessible information for our brands and services is a testament to our commitment to serving the 'informed consumer' as we look to new ways for improvement.

Asia Brewery's New Product Development (NPD), Manufacturing Change Control (MCC), and Stock Aging Management (SAM) continue to guide our beverages business when introducing, managing, executing, and implementing changes in raw materials, packaging, operations, promotional activities, and product campaigns of our products. These policies enable us to cover different aspects of how we market and label our products to consumers at different stages including information on sourcing, content, safe use, and proper disposal. These policies also help ensure our compliance with the guidelines set by the Philippine Food and Drug Administration (FDA), the Philippine Ad Standards Council (ASC), and the Department of Trade and Industry (DTI).

At Eton, our Marketing team serves as our brand guardians in our property development business. They continue to ensure that all our marketing-related materials are aligned with our branding guidelines and are compliant with all applicable laws and regulations as set by DHSUD (formerly HLURB) and DTI, among others. We review our branding guidelines on a regular basis to reflect emerging trends in industry branding and to ensure that our brand logos and product names are duly registered with the Intellectual Property Office of the Philippines (IPO).

At PNB, our brand playbook remains to be our primary guide for marketing and brand management in our banking business, alongside Group-wide policies we adopt, as approved by our Board Strategy and Policy Committee. Our Social Media Framework is also in place to help us manage reputational risk within our social media platforms. We continue to ensure that all our marketing tools have undergone internal reviews and have the necessary permits from regulators.

Our Brand Guidance Policy at Tanduay remains to be our main guide for branding in our distilled spirits business. Together with our Quality Policy and Quality Management System (QMS), we continue to ensure that all mandatory requirements set by regulatory bodies such as the ASC, the IPO, and the FDA are met including those of importing countries. Throughout the year, we conduct regular product assessments and evaluations to maintain the highest levels of compliance and to be able to look for new and innovative ways in strengthening brand equity in existing and emerging markets.

In 2021, we have recorded zero incidents of non-compliance with laws and regulations on marketing and labeling. Our commitment to fair and responsible marketing practices remains firm and we hope to maintain this in future periods.

Customer Health and Safety

As one of our top priorities, we continue to uphold the highest possible standards in customer health and safety. By observing the highest quality and safety standards, we ensure that all our products and services are safe and positively contribute to the sustainable lifestyles of our customers.

ABI's Food Safety and Quality Policy is our principal guideline to ensure customer health and safety through food safety, quality excellence, and continual improvement in our beverages business. Our Food Safety and Quality Management System adheres to international standards and local rules on food safety and quality management. The policy is reviewed annually for continuing stability and applicability to our business goals and objectives. We continuously improve and assess the policy's effectiveness through analysis of our goals and objectives, customer feedback, and maintenance of management systems via third-party certification agencies. Our overall commitment follows local and international customer standard requirements as set by the FDA, the National Sanitation Foundation (NSF), and the IBWA as well as our continued compliance with our ISO 9001:2015 Quality Management System and Halal certification.

At Eton, we have already started implementation of our newly created Safety and Security Manual. With our Environment, Health, Safety and Security (EHSS) Committee at the helm, our property development business takes on the challenge of raising the standard in safety and security as we brace forward to a post-pandemic society. We continue to ensure that our employees complete needed trainings and have access to healthcare coverage and vaccinations, alongside their families, to ensure that both them and our customers are equally protected and safe. We maintain safety seals certified by local government units in our commercial properties and we continue to strictly implement all necessary health precautionary measures.

At Tanduay, our Quality Policy and Quality Management System (QMS) continue to help ensure that quality products are free from harmful agents for our customers. Our distilled spirits business guarantees safety for our customers by adhering to a number of quality and satisfaction indices including the Liquid Quality Index, Package Quality Index, and Customer Service Index. We also strictly adhere to the policies set out by the FDA.

In 2021, we recorded zero incidents of non-compliance with regulations on customer health and safety. We continue to reinforce our commitment to ensuring customer health and safety across all our products and services and we will do our best to maintain zero cases in the next reporting period.

Customer Engagement and Satisfaction

Our businesses provide a wide range of services and products that impact the lives of Filipinos. One of the cornerstones of our operations is the overall satisfaction of our customers as we pay close attention to the markets we serve and understand and continuously adapt to our customers' changing needs.

At Asia Brewery, we center our efforts at meeting customer satisfaction and stakeholder expectations primarily in food safety, quality excellence and continuous improvement through our Food Safety and Quality Policy, which we review annually to adapt to our goals and objectives as informed by stakeholder engagement and customer feedback alongside regular reviews of our management systems by third-party certification bodies. Additionally, we also conduct complaint validation and corrective action management for all noted customer concerns.

Eton's mission and vision statement serve as our main guide in dealing with clients. We have policies and procedures in handling customer requests based on real estate industry practices and applicable laws. Our Customer Support team handles existing client concerns, while our Property Management Group handles on-site servicing. We ensure that the processing of client requests is resolved no more than 45 days. In 2021, we continued gathering service feedback from our existing property owners and residential leasing clients through online and written surveys which provided us information on our clients' satisfaction and specific needs.

At PNB, we adhere to the highest service standards and uphold a culture of fair and responsible dealings in the conduct of its business through ethical business practices. To promote quality-driven culture, PNB has programs across all client touchpoints – from account opening to administration and termination- that guarantee customer engagement and satisfaction.

Our dedicated Customer Experience Division (CED) implements a Consumer Protection Policy in response to the feedback mechanism requirement of BSP Circular No. 1048 (Financial Consumer Protection). The CED also rolled out the "After Call Survey for 8573-8888" project, which allows us to quantitatively measure our Customer Service Representatives' service delivery and Net Promoter Score. The result of the survey forms part of the monthly scorecard of the employees. Our Consumer Assistance Management System also provides channels to our customers to report grievances. We consolidate complaints and report monthly to Management and Risk Management Committee and quarterly to the BSP.

Our Retail Banking Sector has geared its improvement activities towards customer engagement and satisfaction, enabling clients to open an account and update their records without going to the branch. We have also ensured that customers can now receive SMS and electronic mail notifications for over-the-counter debit transactions amounting to Php10,000.00 and above. We also measure our client satisfaction through our monthly customer complaints report which provides us quantitative information on the complaints we receive.

Our Institutional and Global Banking Sector maintains good relationship with customers by providing value-creating services and ensuring all needs and concerns are addressed. We are in constant dialogue with our customers through regular meetings where relevant matters are discussed including digitalization, innovative and competitive solutions and pricing, delivery channels, supply chain finance, industry outlook, macro-economic outlook, and opportunities for synergy. We also organize customer events including roundtable discussions on megatrends like building Environmental, Social and Governance (ESG) awareness and capacity building. Amidst the challenges of pandemic, we continuously communicate with our clients through various means such as phone calls, email, MS Teams, Zoom, among others.

While all our PNB sectors have their respective goals and targets, the uniform goal is to consistently serve all clients well. We continuously aim to ensure the longevity of our relationship with our customers to increase customer engagement measured by positive feedback and increased client business flows.

At Tanduay, we remain committed to deliver exceptional service to all customers. In our efforts to continually raise the standard of our service, we strictly comply with our policies and procedures related to complaints handling as well as constant engagement with our customers using our social media and marketing promotions. We also build trust and nurture relationships between our salespeople and customers throughout the year.

Digital Transformation and Innovation

Over the years, digital transformation has been an important agenda for every large corporation. Across the Group, we understand the importance of creating strategic and organizational capabilities that can enable us to compete successfully in the digital game. We acknowledge the need to innovate and give our stakeholders the convenience of digital services. We also commit to streamlining the way we work as we use unified email and online collaboration systems that allow our people the flexibility to work on-site or from home, thereby, ensuring continued operations.

At LTG, we have already completed the computerization of our accounting system, in compliance with BIR regulatory guidelines. We have also moved most of our seminars and meetings to digital platforms to ensure that mandatory events are completed on time, maximizing the use of our available digital tools. Our journey towards digital transformation has also helped us organize our Vaccination Program for the entire conglomerate—from planning to implementation and data analysis. For 2022, we will prioritize the drafting of policy and procedures to manage and embed digital transformation and innovations into our operations.

As Asia Brewery moves towards centralized reporting, our business process automation team works to continuously create innovation to automate our workflow. This will allow us to drive business analytics forward allowing for a dynamic approach to management. Our aim is to allow our people the ability to carry out their duties, whether at home or on-site, which would enable the least amount of disruption to our operations and high levels of protection for our people in the age of COVID-19.

At Eton, we have completed the implementation of our Property Management System, which allows us to digitally manage our property portfolio. This enables for more efficient operations that would greatly benefit our customers. Alongside this, we have also implemented improvements to our cybersecurity infrastructure to ensure that information about our business and clients are secured and protected.

We continue to improve our ways in PNB through our Transformation Journey that outlines the roadmap towards modernization in People and Culture, Digital Infrastructure, Applications, and Transformation Governance. Our Bank adheres to the BSP Policy on Electronic Banking and Financial Services and related regulations such as Guidelines on Electronic Payments, Operations on Payment Systems, and Consumer Protection. We aligned with the BSP Digital Payment Transformation Roadmap, which operates under the National Retail Payment System (NRPS).

We also participate in the InstaPay and PESONet interbank fund transfer ecosystem and is also on track to engage in the other NRPS services, including Person to Merchant and Person to Business payment streams. Another BSP framework that our Bank participates in is the Open Finance Framework, where financial institutions can share data with the consent of their customers to optimize services in the areas of Product and Service Information, Account Onboarding, and Account and Transaction Information.

As of December 2021, we have a total of 1,586 automated teller machines (ATMs), 165 cash accept machines (CAMs), and 6,603 point-of-sales (POS) terminals for the 24-hour banking convenience of our customers. We increased the number of our ATMs and CAMs to make it easy and fast for our customers to access their funds. We reduced the number of our POS terminals as the pandemic impacted the businesses of our clients.

	2019	2020	2021
ATMs	1,577	1,578	1,586
CAMs	81	144	165
POS Terminals	100	7,120	6,603

Source: Digital Innovations Group, PNB

We continue to automate our Bank forms, shift our customers to e-SOA, and migrate our existing customers to the Bank's digital channels. As of December 2021, we have increased the number of our enrolled digital users by 8 percent from the same period last year.

Digital Banking (Mobile and Internet)	2019	2020	2021	% Inc./Dec. (CY2021 vs. CY2020)
Enrolled Users	528,146	749,564	805,906	8%
New Enrollments	188,813	221,418	56,342	-75%

We launched a new mobile banking platform called *"PNB Digital"* in February 2021, intending to improve user experience. Our PNB Digital App's initial roll-out offers mobile banking app users the most used. These include viewing account balances and transaction history, fund transfer between PNB accounts and other local banks with an option to transfer via an account QR Code, and bill payment to common utilities and credit cards. These most frequently used features are presented through an intuitive and updated user interface.

Our drive to undergo digital transformatio n and the need to ensure that the security controls are in place in the system made cyber security management a major business imperative for us. As such, we have taken great measures to strengthen the security features of our Digital App with the introduction of PNB Mobile Key for both login and transactions.

In addition, our Bank plans to leverage the inherent security advantages of our digital mobile app to address recent exposure to phishing incidents involving the Bank's internet banking system. As a result of this initiative, core payments and transfer functions (e.g., InstaPay, PESONet, bills payment, and intrabank fund transfers) will only be available on the mobile app. At the same time, the internet banking facility will be rebranded as an account inquiry, investment, and acquisition portal for UITF customers and applications for credit card products.

We also continue to raise awareness and educate our customers to make them cyber -secure through the release of email advisories and our different social media platforms.

At Tanduay, alongside our implementation of the Enterprise Resource Planning system, we continue to look at more avenues for digital transformation to better serve our customers.

Customer Data Privacy and Security

Our commitment to ensuring the protection of customer data remains robust. Our Group-wide Data Privacy Policy, compliant with the Data Privacy Act of 2012 and professional standards, contains our framework for collecting, storing and processing personal data from an individual. This policy details the measures on how we responsibly use information and how we implement security features and restrictions for enhanced data security and continued protection. The policy is subjected to an independent review and evaluation by our Internal Audit within its 3-year risk-based cycle. Our Group's Data Privacy Officer (DPO) leads our efforts in protecting customer data privacy and security and is responsible for our compliance to relevant privacy and protection requirements. Our Data Privacy Manual is also available on our website for perusal of both our internal and external stakeholders.

At Asia Brewery, our Data Classification Policy is already ongoing review and is expected to be adopted in 2022. This policy will apply to all data or information created, collected, stored, or processed by our beverages business in both electronic and non-electronic formats. To ensure appropriate action in minimizing associated risks in the event of a data breach or an information security incident, our Incident Management Policy and our Information Security Incident Policy and Procedure are in place which utilizes various information systems in compliance with relevant statutory, legal, and contractual requirements.

At Eton, we continue to review and evaluate our Data Privacy Manual to address emerging issues on security and privacy in our property business. Our Data Protection Officer works closely with our Legal Department and leads our efforts at ensuring that our employees are aware of and compliant with all data privacy and security policies and regulations, that all data privacy concerns are resolved in a timely manner, and that all required documentation obtained from our clients are handled responsibly.

At PNB, our Enterprise Data Privacy Policy features our framework for ensuring that customer data remains safe and protected in our banking business. Our Data Privacy and Technology Risk Management Division (DPTRMD), led by our DPO, spearheads our efforts in upholding data privacy standards and procedures by providing trainings on data privacy, information and cyber security, and other relevant topics as part of our learning and development programs. Our Data Privacy Manual for PNB Overseas branches is also in place to ensure overseas branches' compliance with applicable data privacy legislation in their respective areas of operation.

Society

Community Relations and Initiatives

At the heart of what we do, we strive to create shared value and make a positive difference in the lives of those around us. We believe that true success empowers others to live better lives and have a greater sense of purpose. This transformation is made possible through the Tan Yan Kee Foundation, Inc. (TYKFI), the Group's primary corporate social responsibility (CSR) arm. TYKFI allows us to pursue and advocate for health services, education, social welfare and the environment for close to 35 years. The partner of TYKFI is mainly composed of our subsidiaries which support the organization's programs and other social initiatives and conduct activities that directly help communities and support government initiatives.

The COVID-19 pandemic has affected people across the world, and the Philippines is one of the worst-hit countries. The virus has claimed the lives of thousands of Filipinos and drastically affected the country's economic growth. To lessen the impact of the virus and contribute to the recovery of the nation, we have extended assistance to local communities whenever opportunities arise. Despite the face-to-face limits enforced by IATF, lockdowns and social distancing measures, the long-term scholarship program, pocket livelihood projects, and donation programs continue. Through our continued Anti COVID-19 Campaign, LTG, TYKFI and the larger Group augmented government efforts in response to the COVID-19 pandemic through vaccination projects and medical supplies donations, which benefited our employees and various communities and public health institutions nationwide. As of November 2021, we have donated over 42,000 doses of COVID-19 vaccines to different communities nationwide. With TYKFI at the helm, we are also able to vaccinate 357 employees from our sister companies in collaboration with project partners, the Zuellig Pharma medical team and the Philippine National Red Cross. TYKFI also donated medical supplies to Ospital ng Maynila and Sta. Ana Hospital. The donation to each hospital included 15 gallons of alcohol, 7,500 pieces of disposable face masks, 1,750 pairs of examination gloves, 15 thermometers, and 10 boxes of Lola Remedios® Food Supplement Syrup. We also were able to distribute over 150 sacks of rice to quarantined families and residents of Sta. Fe, Nueva Vizcaya.

We remain committed to enabling access to equitable education opportunities for deserving students, skills upgrading for educators and professionals, and activities that foster social cohesion through the various scholarships and education activities we maintain, which include the following:

* Our TYKFI College Scholarship Project, specifically designed for students of Agriculture and Forestry, currently has five (5) new scholars studying forestry at the University of the Philippines Los Baños (UPLB) and six (6) continuing scholars studying agriculture and agricultural engineering at the Nueva Vizcaya State University.
* The UE-TYKFI Scholarship Program, a partnership between TYKFI and the University of the East granting academic scholarships for deserving college students, has benefited over 1,500 scholars in over 23 school years. In 2021, we had 91 continuing scholars and two (2) grantees under the program.

* Providing free private school education for deserving high school students from marginalized farming families in Sta. Teresita's Academy in Aritao, Nueva Vizcaya, the TYKFI-STA Scholarship Program for Farmers' Children currently has 142 scholars from grades 7 to 12.
* Launched in 2016 in partnership with the Foundation for Liberty and Prosperity (FLP), the TYKFI-FLP Legal Scholarship Program for selected junior and senior year law students who are at the top of their class currently has 21 scholars across various law schools in the country.
* TYKFI together with Asia Brewery continues its Medical Specialty Scholarship Program to help Filipino doctors finish specialty training abroad with one (1) doctor finishing the program in 2021.
* We also continued our regular school supplies distribution and food distribution projects. In 2021, our School Supplies Distribution Project distributed 19 printing machines, 172 bottles of ink, and 500 reams of bond paper to five (5) elementary schools in the provinces of Ilocos Sur and Nueva Vizcaya benefiting around 800 schoolchildren. Our Food Distribution Project extended over 16,895 kilograms of free rice to the families of 1,117 pupils and teachers from adopted schools in Nueva Vizcaya.
* The Tan Yan Kee Library continues to conduct online classes and virtual information dissemination activities through the Tank Yan Kee Library Online Summer Class. We held online summer classes from May to June which benefited 30 children and their parents. The videos we sent on COVID-19, healthy habits, and various other subjects designed for children aged three to 12 years also remain accessible through our social media platforms including Facebook.

We have also continued our programs and projects to promote social welfare with the help of our partners, keeping true to our commitment of helping develop communities and improving quality of life, protecting biodiversity and the environment, and being of aid to those in need. Our activities this year included the following:

* TYKFI's Food Security Program and the TYKFI-Eton *Masaganang Palayan* Project help address the issue of food security in the country and support the government's thrust to curb it. We are able to provide livelihood opportunities for farmers and market vendors and at the same time provide training and wellness programs. In 2021, we distributed Palay seeds and fertilizer to farms in Aritao Nueva Vizcaya. We were also able to harvest around 30,000 kilograms of vegetables and conducted over 40 weekly operations which linked farm-fresh produce from our farmers and partner farms reaching over 500 employees and their families and thousands of other customers.
* To foster community and equitable access to food, TYKFI, in partnership with Philippine Airlines, held community pantries for our outsourced service personnel, residents and COVID-19 patients confined at the Hospicio de San Jose. We were able to distribute over 234 kilograms of vegetables, 275 kilograms of rice, and 30 boxes of Lola Remedios® Food Supplement Syrup. In collaboration with Asia Brewery, Allianz PNB Life Insurance, Inc., Eton, and PNB, also conducted a food security response activity for outsourced personnel working across the Group which enabled them to purchase affordable food packs at Php 20 a bundle.
* Through the Dr. Lucio C. Tan Legacy Forest Project, our flagship reforestation program in partnership with PMFTC covering Barangay R.A. Padilla in Carranglan, Nueva Ecija and the UPLB Laguna-Quezon Land Grant (LQLG), we were able to plant 77,748 seedlings of Alibangbang, Narra, and Sampaloc this year. We were also able to start planting around 3,000 seedlings of Falcata in Tanay, Rizal.
* We also maintain a number of agroforestry projects. At our Fortune Farm in Carranglan, Nueva Ecija, we continue to plant assorted vegetables, crops and fruit trees.

* This year, we also continued with our Mangrove Rehabilitation Projects in Barangay Las-Ud in Santa Cruz, Ilocos Sur and in Boracay, Aklan providing livelihood for farmers, fishermen and their families by planting and maintaining mangroves in their respective areas.
* Through our HOPE Caravan, we were able to respond to various needs by different communities all over the country. In partnership with MacroAsia Corporation and PNB, we were able to distribute over 30,000 food packs and 13,000 liters of beverages to frontliners and patients across seven (7) hospitals in Metro Manila. We were also able to distribute food packs and water to over 4,000 families in Marikina, Quezon City, and Nueva Vizcaya during the onslaught of Typhoon Ulysses. In collaboration with Tanduay, we were able to distribute over 500 bottles of water and 150 pieces of cooking ware to residents of Tagbilaran, Bohol as part of our early response efforts to Typhoon Odette.
* The TYKFI-Eton Joint Housing Assistance Project completed the construction and turnover of four (4) houses for the farming families of four (4) scholars under the TYKFI-STA Scholarship Project in Aritao, Nueva Vizcaya.

At Asia Brewery, our Asia Brewery Manufacturing Operations Resources & Environment Sustainability (AMORES) project continues to lead our sustainable initiatives at our beverages business. We have partnered with WWF in their Philippines' flagship program, *"Corporates for a Better Planet Initiative,"* which aims to provide an actionable framework for organizations to operate sustainably within the paradigm of the climate crisis. The program has a three to four-month implementation process that is expected to yield a Scenario Analysis Report for the Science Based Targets initiative (SBTi) and Initial Sustainability Assessments.

At Eton, efforts for 2021 are a combination of direct initiatives as an integral part of nation-building and continuing efforts of goodwill coursed through TYKFI. Our commitment to sustaining the livelihood of the farmers whom we supported through the *"Masaganang Palayan Project"* in the last two years have also aligned us with the communities in which our businesses operate. Since May 2021, we have changed our events venue, Centris Elements in Eton Centris, Quezon City, into a vaccination facility to aid the local government in inoculating the majority of its population to expedite the return to normalcy and support the recovery of the national economy.

As we expand, we make certain that no one is left behind. In addition, we have formed a partnership with the Bureau of Corrections and the art gallery Puesto Manila to provide artists-in-prison with a platform to display their work. We have put their artworks on display at our properties to attract a wider audience. Together with TYKFI, we conducted an outreach program in Hospicio de San Jose to give rice from the *"Masaganang Palayan Project"* and fresh produce from the Lucio Tan Legacy Forest Project.

The commitment of PNB is driven by the Bank's aspirations to make a positive contribution to sustainability efforts and agenda. As proof of its commitment to embedding sustainability in its business DNA, PNB recently developed its sustainability policy statement and 3-Year Sustainability Transition Plan. The Bank believes that sustainability starts from within by helping its employees gain access to relevant training to build skills and capabilities that are critical to success. In addition to its commitments to its employees, the Bank's sustainability policy also includes its obligations to its customers/clients, external communities, vendors/suppliers, outsourced personnel and Third-Party Service Providers, shareholders, regulators, and even to the environment. The Bank commits to educating its internal and external stakeholders and encouraging them to align with PNB's sustainability thrust and performance standards through this policy. For a complete list of our initiatives at PNB which focus on the economy, environment, and society, please refer to the 2021 PNB Annual Report.

At Tanduay, we continue our partnership with Dualtech Training Center to train their students for 18 months, under the Technical Education and Skills Development Authority's (TESDA) dual training system. As part of DENR's National Greening Program under the *Tayo ang Kalikasan* (TAK) platform, Tanduay subsidiary ADI continues to maintain our adopted five (5) hectares of upland plantation in Barangay Puting Kahoy in Lian, Batangas for restoration, rehabilitation, and development. ADI has also adopted a portion of the Palico-Lian River under DENR's Adopt-an-Estero/Waterbody Program and continued our Tilapia Fingerlings Dispersal project in the Palico-Lian riverbank to help improve marine ecosystems and promote the livelihood of local communities. We also continue to give farmers in Lian, Batangas and neighboring towns free access to our distillery effluent from our distillery for use as fertilizer, which ADI delivers to their fields through trucks. We were also able to donate rubbing alcohol and provide assistance to community disinfection efforts of the LGU and larger community of Lian, Batangas.

Community Relations and Initiatives (Group)	2019	2020	2021
Total number of operations with implemented local community engagement, impact assessments and/or development programs	66	38	55
Total number of operations	74	57	82
Percentage of operations with implemented local community engagement, impact assessments and/or development programs	89%	67%	67%

In 2021, despite the challenging circumstances faced by the Group and our businesses, 67% of our local operations continued to implement community initiatives.

LTG's Unique Key Material Topic

Illicit Trade

Across the Group, our fight against illicit trade and all related practices and activities remains strong. With the cigarette industry seeing an uptake in the levels of illicit trade in the country, the collective action between the Philippine government and stakeholders in the cigarette industry reined in illicit trade levels in the country, with a Euromonitor survey projecting illegal trade to hover between 10.8% to 13.9% from 2018 to 2021. Furthermore, a recent survey on the prevalence of illicit cigarettes conducted by Kantar in 2021 showed that Mindanao accounts for the highest incidence in illegal packs (19.0%), with Luzon (4.9%) and Visayas (1.3%) a distant second and third, respectively. In addition to this, the price gap between illicit and legitimate cigarettes ranges from 66% to 200%. Since illegal cigarettes are cheaper than PMFTC's low-priced brands, they become an attractive alternative for legal age smokers, particularly the youth and those with low income. The legislated annual increase of excise taxes on tobacco products further widens price gaps and makes illicit cigarettes even more attractive.

The Group maintains its bilateral relations and close cooperation with other countries to fight against illicit trade. PMFTC supports the objectives and the principles of the WHO Framework Convention on Tobacco Control (FCTC) Protocol to Eliminate Illicit Trade in Tobacco Products. It works closely with other affiliates of PMI and contacts in other countries to share intelligence and resources to fight illicit trade. The company supports the Philippine government and other foreign governments' active monitoring, investigation, and enforcement to address illegal trade, including counterfeit PMI/PMFTC brands.

In line with this, the Group educates and conducts campaigns informing employees, customers, and other stakeholders. PMFTC regularly engages various internal and external stakeholders to raise awareness about the illegal cigarette trade problem, including capacity-building training to spot illicit cigarettes. The Company provides all new employees and partner retailers with a briefing on illegal trade. There is continuing education and information campaign directed at law enforcement agencies focusing on the illicit trade in cigarettes. PMFTC runs anti-illicit trade information campaigns through seminars and social media through partner trade and retailer organizations wherein it educates retailers and consumers about the varieties of illicit cigarettes and the repercussions of purchasing them. The ultimate objective is to make the sale of contraband cigarettes unacceptably commonplace. There have been at least 42 training sessions with 1,197 attendees including retailers, law enforcement officers and internal stakeholders.

We also have programs designed to support the enactment of legislation at the local and national level in fighting illicit trade. We channel our efforts to fight the diversion of our products by continuously improving measures to secure the supply chain with all stakeholders. We collaborate with affected parties to share our knowledge gained through continuous research, analysis, and communication on illicit trade issues and consequences. With the proliferation of unregistered cigarette manufacturing facilities, the Philippine government passed Republic Act Nos. 11346 and 11467, increasing the penalties on unlawful possession of articles subject to excise tax such as tobacco products.

The Group has partnered with Government agencies and other parties with a Memoranda of Agreement to fight illegal trade. The PMFTC is part of a multi-sectoral movement called "Fight IT (Illicit Trade)" led by the Federation of Philippine Industries (FPI) to curb unfair trade and secure national revenues and protect legitimate players in the domestic market. PMFTC is also a founding member of the Alibaba Anti-Counterfeiting Alliance, ultimately aiming to take down sellers peddling counterfeit products. The sectors that support the Fight IT movement share common issues of smuggling and illicit trade in their industries. These industries are rice, sugar, corn, palm oil, tobacco, steel, cement, and ceramic tiles.

The industry works closely with various government enforcement agencies such as the Bureau of Internal Revenue (BIR), Bureau of Customs (BOC), National Bureau of Investigation (NBI), and the Philippine National Police (PNP) to address illicit cigarette trade in the country. There are also talks with government agencies and private e-commerce platforms to take down online resellers of illegal combustible and heated tobacco products. Based on internal monitoring and news articles, there have been 185 enforcements by government agencies relating to illicit tobacco products. The government seized approximately 439 million sticks and 21 machine components and shut down two factories manufacturing illicit cigarettes.

PMI Asia regional office entered a Memorandum of Understanding with the US Department of Homeland Security for information sharing and engaged with United Nations Office on Drugs and Crime - WCO Container Control Programme (CCP) for training with more than 50 customs officials in Asia, including the Philippines. The company's objective is to limit illicit trade incidence to manageable levels at the affiliate level and globally through other PMI affiliates. Accordingly, PMI has established a program called PMI IMPACT, which is a global grant initiative of Philip Morris International to support public, private, and non-governmental organizations to develop and implement projects against illegal trade and related crimes. A council of independent experts evaluates and selects project proposals for the award of grants by PMI. The initiative was launched in 2016 by PMI, which pledged USD 100 million to fund the first three rounds of grants. To date, PMI IMPACT has allocated a combined USD 48 million to implement 60 projects in 30 countries as part of the initiative's first and second funding rounds. However, we also allocate resources and tools to secure our supply chain and ensure that customers undergo proper due diligence. Adequate volumes are delivered by demand through continuous stakeholders' engagements and extending operational support and assistance whenever feasible and appropriate.

Appendix

GRI Content Index

GRI Standard		Disclosure	Page No.	Omissions
GRI 101: Foundation 2016 (GRI 101 does not include any disclosures)				
General Disclosures				
GRI 102: General Disclosures 2016	*Organizational Profile*			
	GRI 102 - 1	Name of the organization	11	-
	GRI 102 - 2	Activities, brands, products, and services	11-14	-
	GRI 102 - 3	Location of headquarters	11	-
	GRI 102 - 4	Location of operations	15-16	-
	GRI 102 - 5	Ownership and legal form	11-14	-
	GRI 102 - 6	Markets served	15-16	-
	GRI 102 - 7	Scale of the organization	15-16, 31, 50-54	-
	GRI 102 - 8	Information on employees and other workers	8, 50-54	-
	GRI 102 - 9	Supply chain	19-20	-
	GRI 102 - 10	Significant changes to the organization and its supply chain	19-20	-
	GRI 102 - 11	Precautionary Principle or approach	34-35	-
	GRI 102 - 12	External initiatives	24	-
	GRI 102 - 13	Membership of associations	21-22	-
	Strategy			
	GRI 102 - 14	Statement from senior decision-maker	4-6	-
	Ethics and Integrity			
	GRI 102 - 16	Values, principles, standards, and norms of behavior	10, 17-18, 34-35	-
	GRI 102 - 17	Mechanisms for advice and concerns about ethics	35-37	-
	Governance			
	GRI 102 - 18	Governance structure	17-18	-
	GRI 102 - 22	Composition of the highest governance body and its committee	17	-
	GRI 102 - 23	Chair of the highest governance body	17-18	-
	GRI 102 - 26	Role of highest governance body in setting purpose, values, and strategy	10, 17-18	-
	Stakeholder Engagement			
	GRI 102 - 40	List of stakeholder groups	24	-

	GRI 102 - 41	Collective bargaining agreements	8, 37, 50	-
	GRI 102 - 42	Identifying and selecting stakeholders	24	-
	GRI 102 - 43	Approach to stakeholder engagement	24-25, 58-60	-
	GRI 102 - 44	Key topics and concerns raised	24-25	-
	Reporting Practice			
	GRI 102 - 45	Entities included in the consolidated financial statements	23	-
	GRI 102 - 46	Defining report content and topic Boundaries	23-26	-
	GRI 102 - 47	List of material topics	27-29	-
	GRI 102 - 48	Restatements of information		For 2021, we restated the following prior-period metrics due to refinements in data reporting: ∗ Total economic value distributed is restated from PhP102,673,861,842.42 to PhP101,258,218,174.15 for 2020, along with the following: ⌧ Total payments to providers of capital from Php22,568,583,390.55 to Php21,152,939,722.28 ∗ Total water withdrawal from all sources in megaliters (ML) is restated from 7,701.65 ML to 7,795.68 ML for 2020 ∗ Total electricity consumption in kilowatt hours (kWh) is restated from 155,430,749 kWh to 153,560,438.08 kWh for 2020 ∗ Liquefied petroleum gas consumption in gigajoules (GJ) is restated from 152,526,216.26 to 152,898,269.46 GJ for 2020 ∗ Diesel consumption in gigajoules (GJ) is restated from 8,590.29 GJ to 11,972.65 GJ for 2020 ∗ Number of new hires by gender for male and female from 585 to 581 and 729 to 718, respectively. ∗ Number of new hires by age group under 30 and over 50

				from 644 to 645 and 61 to 45, respectively. * Number of new hires by region for Luzon, Visayas and Mindanao from 1,173 to 1,160, 52 to 51, and 89 to 88, respectively. * Total waste generated in kilotons (KT) from 104.20 to 8.76 KT for 2020 including the following: ⌧ Total non-hazardous waste generated from 104.01 to 8.57 KT ⌧ Landfill non-hazardous waste generated from 98.84 to 3.40 KT * Number of regular employees covered by occupational health and safety that has been audited or certified by an external party is restated from 9,074 to 9,073 employees for 2020
	GRI 102 - 49	Changes in reporting		For 2021, we have started reporting on our Scope 1 (stationary and mobile combustion) and Scope 2 (indirect energy consumption) emissions and our total carbon footprint in tonnes of CO_2 equivalent (tCO_2e), with corresponding three-year data (2019-2021). To further reflect the change, the *Energy Efficiency* material topic has been renamed *Energy Efficiency and Emissions.* There are no further significant changes to scope, boundary or measurement methods from LTG's 2020 sustainability report.
	GRI 102 - 50	Reporting period	23	
	GRI 102 - 51	Date of most recent report	-	2020
	GRI 102 - 52	Reporting cycle	23	-
	GRI 102 - 53	Contact point for questions regarding the report	25	-
	GRI 102 - 54	Claims of reporting in accordance with the GRI Standards	25	-

	GRI 102 - 55	GRI content index	69-76	-
	GRI 102 - 56	External assurance	23	-
Material Topics				
GRI 201: Economic Performance 2016				
GRI 103: Management Approach 2016	GRI 103 - 1	Explanation of the material topic and its boundary	23, 27, 31	-
	GRI 103 - 2	The management approach and its components	31	-
GRI 201: Economic Performance 2016	GRI 201 - 1	Direct economic value generated and distributed	31	-
GRI 419: Socioeconomic Compliance 2016				
GRI 103: Management Approach 2016	GRI 103 - 1	Explanation of the material topic and its boundary	27, 32	-
	GRI 103 - 2	The management approach and its components	32-33	-
	GRI 103 - 3	Evaluation of the management approach	32-33	-
GRI 419: Socioeconomic Compliance 2016	GRI 419 - 1	Non-compliance with laws and regulations in the social and economic area	33	-
Risk Management				
GRI 103: Management Approach 2016	GRI 103 - 1	Explanation of the material topic and its boundary	27, 34-35	-
	GRI 103 - 2	The management approach and its components	34-35	-
	GRI 103 - 3	Evaluation of the management approach	34-35	-
GRI 102: General Disclosures 2016	GRI 102 - 11	Precautionary principle or approach	34-35, 47-49	-
GRI 205: Anti-Corruption 2016				
GRI 103: Management Approach 2016	GRI 103 - 1	Explanation of the material topic and its boundary	27, 35-37	-
	GRI 103 - 2	The management approach and its components	35-37	-
	GRI 103 - 3	Evaluation of the management approach	35-37	-
GRI 205: Anti-Corruption 2016	GRI 205 - 2	Communication and training about anti-corruption policies and procedures	35-37	-
	GRI 205 - 3	Confirmed incidents of corruption and actions taken	37	-
GRI 303: Water and Effluents 2018				
GRI 103: Management Approach 2016	GRI 103 - 1	Explanation of the material topic and its boundary	28, 38-40	-
	GRI 103 - 2	The management approach and its components	38-40	-

	GRI 103 - 3	Evaluation of the management approach	38-40	-
GRI 303: Water and Effluents 2018	GRI 303 - 1	Interactions with water as a shared resource	38-40	-
	GRI 303 - 2	Management of water discharge-related impacts	38-40	-
	GRI 303 - 3	Water withdrawal	40	-
GRI 306: Effluents and Waste 2016				
GRI 103: Management Approach 2016	GRI 103 - 1	Explanation of the material topic and its boundary	28, 40-42	-
	GRI 103 - 2	The management approach and its components	40-42	-
	GRI 103 - 3	Evaluation of the management approach	40-42	-
GRI 306: Effluents and Waste 2016	GRI 306 - 3	Waste by type and disposal method	42	-
GRI 302: Energy 2016				
GRI 103: Management Approach 2016	GRI 103 - 1	Explanation of the material topic and its boundary	28, 43-47	-
	GRI 103 - 2	The management approach and its components	43-37	-
	GRI 103 - 3	Evaluation of the management approach	43-47	-
GRI 302: Energy 2016	GRI 302 - 1	Energy consumption within the organization	44-47	-
Climate Change				
GRI 103: Management Approach 2016	GRI 103 - 1	Explanation of the material topic and its boundary	28, 47-49	-
	GRI 103 - 2	The management approach and its components	47-49	-
	GRI 103 - 3	Evaluation of the management approach	47-49	-
GRI 201: Economic Performance 2016	GRI 201 - 2	Financial implications and other risks and opportunities due to climate change	47-49	-
GRI 401: Employment 2016				
GRI 103: Management Approach 2016	GRI 103 - 1	Explanation of the material topic and its boundary	27, 50-54	-
	GRI 103 - 2	The management approach and its components	50-54	-
	GRI 103 - 3	Evaluation of the management approach	50-54	-
GRI 401: Employment 2016	GRI 401 - 1	New employee hires and employee turnover	52-54	-
	GRI 401 - 2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	50-51	-
	GRI 401 - 3	Parental leave	54	-

GRI 403: Occupational Health and Safety 2018				
GRI 103: Management Approach 2016	GRI 103 - 1	Explanation of the material topic and its boundary	28, 55-56	-
	GRI 103 - 2	The management approach and its components	55-56	-
	GRI 103 - 3	Evaluation of the management approach	55-56	-
GRI 403: Occupational Health and Safety 2018	GRI 403 - 1	Occupational health and safety management system	55-56	-
	GRI 403 - 2	Hazard identification, risk assessment, and incident investigation	55-56	-
	GRI 403 - 3	Occupational health services	55-56	-
	GRI 403 - 4	Worker participation, consultation, and communication on occupational health and safety	55-56	-
	GRI 403 - 5	Worker training on occupational health and safety	55-56	-
	GRI 403 - 6	Promotion of worker health	50-51, 55-56	-
	GRI 403 - 7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	55-56	-
	GRI 403 - 8	Workers covered by an occupational health and safety management system	56	-
	GRI 403 - 9	Work-related injuries	56	
GRI 417: Marketing and Labeling 2016				
GRI 103: Management Approach 2016	GRI 103 - 1	Explanation of the material topic and its boundary	28, 57	-
	GRI 103 - 2	The management approach and its components	57	-
	GRI 103 - 3	Evaluation of the management approach	57	-
GRI 417: Marketing and Labeling 2016	GRI 417 - 1	Requirements for product and service information and labeling	57	-
	GRI 417 - 2	Incidents of non-compliance concerning product and service information and labeling	57	-
	GRI 417 - 3	Incidents of non-compliance concerning marketing communications	57	-
GRI 416: Customer Health and Safety 2016				
GRI 103: Management Approach 2016	GRI 103 - 1	Explanation of the material topic and its boundary	27, 58	-
	GRI 103 - 2	The management approach and its components	58	-
	GRI 103 - 3	Evaluation of the management approach	58	-

GRI 416: Customer Health and Safety 2016	GRI 416 - 1	Assessment of the health and safety impacts of product and service categories	58	-
	GRI 416 - 2	Incidents of non-compliance concerning the health and safety impacts of products and services	58	-
Customer Engagement and Satisfaction				
GRI 103: Management Approach 2016	GRI 103 - 1	Explanation of the material topic and its boundary	28, 58-60	-
	GRI 103 - 2	The management approach and its components	58-60	-
	GRI 103 - 3	Evaluation of the management approach	58-60	-
GRI 102: General Standard Disclosures 2016	GRI 102 - 43	Approach to stakeholder engagement	24-25, 58-60	-
	GRI 102 - 44	Key topics and concerns raised	24	-
Digital Transformation and Innovation				
GRI 103: Management Approach 2016	GRI 103 - 1	Explanation of the material topic and its boundary	28, 60-61	-
	GRI 103 - 2	The management approach and its components	60-61	-
GRI 418: Customer Privacy 2016				
GRI 103: Management Approach 2016	GRI 103 - 1	Explanation of the material topic and its boundary	29, 62	-
	GRI 103 - 2	The management approach and its components	62	-
	GRI 103 - 3	Evaluation of the management approach	62	-
GRI 418: Customer Privacy 2016	GRI 418 - 1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	62	-
GRI 413: Local Communities 2016				
GRI 103: Management Approach 2016	GRI 103 - 1	Explanation of the material topic and its boundary	28, 63-66	-
	GRI 103 - 2	The management approach and its components	63-66	-
GRI 413: Local Communities 2016	GRI 413 - 1	Operations with local community engagement, impact assessments, and development programs	63-66	-
	GRI 413 - 2	Operations with significant actual and potential negative impacts on local communities	63-66	-
Illicit Trade				
GRI 103: Management Approach 2016	GRI 103 - 1	Explanation of the material topic and its boundary	28, 67-68	-
	GRI 103 - 2	The management approach and its components	67-68	-

Task Force on Climate-related Financial Disclosures (TCFD) Content Index

Recommended Disclosures		LTG SR Disclosure Content (Page No.)
Governance *Disclose the organization's governance around climate-related risks and opportunities.*		
a)	Describe the board's oversight of climate related risks and opportunities.	17, 25, 34-35, 47-49
b)	Describe management's role in assessing and managing climate-related risks and opportunities.	17, 25, 34-35, 47-49
Strategy *Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's business, strategy, and financial planning where such information is material.*		
a)	Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.	Still being studied
b)	Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.	38-49
c)	Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	38-49
Risk Management *Disclose how the organization identifies, assesses, and manages climate-related risks.*		
a)	Describe the organization's processes for identifying and assessing climate-related risks.	17, 34-35
b)	Describe the organization's processes for managing climate-related risks.	34-35, 38-49
c)	Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.	17, 34-35, 38-49
Metrics and Targets *Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.*		
a)	Describe the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.	34-35, 38-49
b)	Disclose Scope 1, Scope 2, and if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.	43-47
c)	Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.	Processes are still to be set up for the future reporting of this metric