

COVER SHEET

SEC Registration Number

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Company Name

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Principal Office (No./Street/Barangay/City/Town/Province)

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Form Type

1	7	Q	
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Department requiring the report

S	E	C	
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Secondary License Type, If Applicable

N	/	A	
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COMPANY INFORMATION

Company's Email Address

info@ltg.com.ph

Company's Telephone Number/s

8808-1266

Mobile Number

N/A

No. of Stockholders

375

Annual Meeting Month/Day

May/5

Fiscal Year Month/Day

December/31

CONTACT PERSON INFORMATION

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

Name of Contact Person

Jose Gabriel D. Olives

Email Address

josegabriel.olives@ltg.com.ph

Telephone Number/s

8808-1266

Mobile Number

N/A

Contact Person's Address

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

**SECURITIES AND EXCHANGE COMMISSION
SEC FORM 17-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SRC AND
SECTION 141 OF THE CORPORATION CODE OF THE PHILIPPINES**

1. For the quarterly period ended September 30, 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. Province, country or other jurisdiction of incorporation or organization Philippines
6. Industry Classification Code: (SEC Use Only)
7. Address of registrant's principal office Postal Code
11th Floor Unit 3 Bench Tower, 30th St. Corner Rizal drive
Crescent Park West 5 Bonifacio Global City Taguig City 1634
8. Registrant's telephone number, including area code (632) 8808-1266
9. Former name, former address, and former fiscal year, if changed since last report.
N/A
10. Securities registered pursuant to Sections 8 and 12 of the SRC, or 4 and 8 of the RSA

<u>Title of Each Class</u>	<u>Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding</u>
Common shares, ₱1.00 par value	10,821,388,889
11. Are any or all of the securities listed on the Philippine Stock Exchange?
Yes ☒ No ☐
12. Indicate by check mark whether the registrant:
 - (a) has filed all reports required to be filed pursuant to Section 17 of the Securities Regulation Code (SRC) and Section 26 and 141 of the Corporation Code of the Philippines, during the preceding 12 months (or for such shorter period 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 ☐

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

The unaudited interim condensed financial statements of LT Group, Inc. (the Company) and its subsidiaries as of and for the period ended September 30, 2021 (with comparative figures as of December 31, 2020 and for the period ended September 30, 2020) are filed as part of this form 17-Q as Annex "A".

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The information required by Part IV, Paragraph a (2) (B) of SRC 12 is attached hereto as Annex "B"

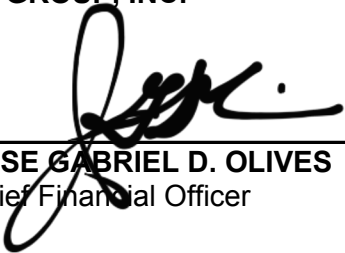
PART II – OTHER INFORMATION

Not Applicable – There are no disclosures not made under SEC form 17-C

SIGNATURES

Pursuant to the requirements of the Securities and Regulation Code, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Issuer/Registrant : **LT GROUP, INC.**

Signature and Title : 
JOSE GABRIEL D. OLIVES
Chief Financial Officer

Signature and Title : 
NESTOR C. MENDONES
Deputy Chief Financial Officer

Date : November 12, 2021

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Annex “A”

LT GROUP, INC. AND SUBSIDIARIES

Interim Condensed Consolidated Financial Statements
As at September 30, 2021 and December 31, 2020
And for the Nine Months Ended September 30, 2021 and 2020

LT Group, Inc. and Subsidiaries

Interim Consolidated Financial Statements

As at September 30, 2021 and December 31, 2020

and for the nine months ended September 30, 2021 and 2020

LT GROUP, INC. AND SUBSIDIARIES
INTERIM CONSOLIDATED BALANCE SHEETS
(Amounts in Thousands)

	September 30, 2021 (Unaudited)	December 31, 2020 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	P229,138,006	P304,061,222
Financial assets at fair value through profit or loss (Notes 5 and 19)	32,457,653	23,858,324
Financial assets at fair value through other comprehensive income (FVTOCI) (Note 6)	41,732,352	59,680,618
Financial assets at amortized cost	38,897,636	40,216,142
Loans and receivables (Note 7)	222,886,378	223,006,163
Inventories (Note 8)	15,200,515	13,175,605
Due from related parties (Note 20)	1,956,193	1,954,502
Other current assets (Note 9)	10,835,485	10,908,904
Assets of disposal group classified as held for sale	—	7,945,945
Total Current Assets	593,104,218	684,807,425
Noncurrent Assets		
Loans and receivables-net of current portion (Note 7)	392,826,329	393,592,324
Financial assets at FVTOCI (Note 6)	73,500,738	76,644,306
Financial assets at amortized cost	50,249,452	55,019,851
Investment in associates and joint ventures (Note 10)	22,213,698	23,777,783
Property, plant and equipment (Note 11):		
At appraised values	58,884,321	59,918,473
At cost	13,971,286	11,586,799
Investment properties (Note 11)	34,149,707	32,837,375
Deferred income tax assets (Note 27)	9,335,661	8,889,031
Other noncurrent assets (Note 12)	5,263,090	6,049,087
Total Noncurrent Assets	660,394,282	668,315,029
TOTAL ASSETS	P1,253,498,500	P1,353,122,454
LIABILITIES AND EQUITY		
Current Liabilities		
Deposit liabilities (Note 13)	P795,975,223	P822,131,355
Financial liabilities at fair value through profit or loss (Notes 14 and 19)	1,690,986	701,239
Bills and acceptances payable (Note 15)	45,296,144	72,978,082
Accounts payable and accrued expenses (Note 16)	19,855,941	20,849,044
Short-term debts (Note 17)	3,940,000	4,740,000
Current portion of long-term debts (Note 17)	1,261,094	14,527,082
Income tax payable	1,216,511	1,008,067
Due to related parties (Note 20)	65,325	65,325
Other current liabilities (Note 18)	10,447,639	10,180,106
Liabilities of disposal group classified as held for sale	—	6,353,964
Total Current Liabilities (Carried Forward)	879,748,863	953,534,264

	September 30, 2021 (Unaudited)	December 31, 2020 (Audited)
Total Current Liabilities (Brought Forward)	₱879,748,863	₱953,534,264
Noncurrent Liabilities		
Deposit liabilities - net of current portion (Note 13)	38,680,952	58,380,208
Bills and acceptances payable (Note 15)	3,228,071	14,181,368
Long-term debts - net of current portion (Note 17)	61,165,439	55,215,562
Net retirement benefits liabilities (Note 21)	2,431,769	2,418,637
Deferred income tax liabilities (Note 27)	8,226,464	8,327,412
Other noncurrent liabilities (Note 18)	6,299,331	5,526,724
Total Noncurrent Liabilities	120,032,026	144,049,911
Total Liabilities	999,780,889	1,097,584,175
Equity		
Attributable to equity holders of the Company (Notes 1 and 28):		
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	8,874,680	15,056,237
Other equity reserves	(2,058,370)	(2,058,370)
Reserves of disposal group classified as held for sale	—	88,616
Retained earnings	130,932,403	125,612,353
Shares of the Company held by subsidiaries	(12,519)	(12,519)
	184,463,814	185,413,937
Non-controlling interests (Notes 1 and 28)	69,253,797	70,124,342
Total Equity	253,717,611	255,538,279
TOTAL LIABILITIES AND EQUITY	₱1,253,498,500	₱1,353,122,454

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

LT GROUP, INC. AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF INCOME

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

	Nine Months Ended September 30		For the Quarter Ended September 30	
	2021 (Unaudited)	2020 (Unaudited)	2021 (Unaudited)	2020 (Unaudited)
REVENUE (Note 22)				
Banking	₱37,069,458	₱41,687,010	₱12,081,094	₱11,975,569
Beverage	9,535,595	9,170,028	3,075,934	2,854,231
Distilled spirits	18,844,075	17,317,092	7,212,415	7,335,187
Property development	1,491,996	1,877,626	430,947	681,303
	66,941,124	70,051,756	22,800,390	22,846,290
COST OF SALES AND SERVICES (Note 22)	30,188,114	31,417,770	10,492,647	10,702,944
GROSS INCOME	36,753,010	38,633,986	12,307,743	12,143,346
EQUITY IN NET EARNINGS OF ASSOCIATES AND JOINT VENTURES (Note 10)	13,764,854	12,052,252	4,369,536	3,980,343
	50,517,864	50,686,238	16,677,279	16,123,689
OPERATING EXPENSES				
Selling expenses (Note 23)	1,811,909	1,462,988	614,686	518,323
General and administrative expenses (Note 24)	42,345,733	31,142,558	8,510,007	7,871,206
	44,157,642	32,605,546	9,124,693	8,389,529
OPERATING INCOME	6,360,222	18,080,692	7,552,586	7,734,160
OTHER INCOME (CHARGES)				
Finance costs (Note 25)	(264,473)	(268,632)	(87,812)	(65,869)
Finance income (Note 25)	41,324	32,782	16,401	927
Foreign exchange gains - net	586,887	790,170	247,036	269,491
Others - net (Note 26)	2,210,994	1,311,176	1,169,908	418,001
	2,574,732	1,865,496	1,345,533	622,550
INCOME BEFORE INCOME TAX	8,934,954	19,946,188	8,898,119	8,356,710
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 27)				
Current	3,263,076	4,075,345	1,267,461	1,294,350
Deferred	(515,771)	(1,974,889)	295,742	(121,369)
	2,747,305	2,100,456	1,563,203	1,172,981
NET INCOME FROM CONTINUING OPERATIONS	6,187,649	17,845,732	7,334,916	7,183,729
NET INCOME FROM DISCONTINUED OPERATIONS	20,616	76,508	—	25,952
NET INCOME	₱6,208,265	₱17,922,240	₱7,334,916	₱7,209,681
NET INCOME (LOSS) ATTRIBUTABLE TO:				
Equity holders of the Company	₱9,945,352	₱16,102,940	₱6,215,480	₱6,075,713
Non-controlling interests	(3,737,087)	1,819,300	1,119,436	1,133,968
	₱6,208,265	₱17,922,240	₱7,334,916	₱7,209,681
Basic/Diluted Earnings Per Share (Note 29)	₱0.92	₱1.49	₱0.57	₱0.56

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

LT GROUP, INC. AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in Thousands)

	Nine Months Ended September 30		For the Quarter Ended September 30	
	2021 (Unaudited)	2020 (Unaudited)	2021 (Unaudited)	2020 (Unaudited)
NET INCOME	₱6,208,265	₱17,922,240	₱7,334,916	₱7,209,681
OTHER COMPREHENSIVE INCOME (LOSS)				
<i>Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:</i>				
Accumulated translation adjustment	338,640	(236,422)	166,626	(51,313)
Net changes in fair value of AFS financial assets, net of deferred income tax effect	(3,165,171)	(4,007,739)	(530,336)	(1,734,907)
	(2,826,531)	(4,244,161)	(363,710)	(1,786,220)
<i>Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:</i>				
Re-measurement gains (losses) on defined benefit plans, net of deferred income tax effect	80,480	(491,929)	—	(106,769)
	80,480	(491,929)	—	(106,769)
OTHER COMPREHENSIVE LOSS - Net of income tax effect	(2,746,051)	(4,736,090)	(363,710)	(1,892,989)
TOTAL COMPREHENSIVE INCOME	₱3,462,214	₱13,186,150	₱6,971,206	₱5,316,692
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:				
Equity holders of the Company	₱4,332,759	₱10,302,946	₱5,823,198	₱4,517,198
Non-controlling interests	(870,545)	2,883,204	1,148,008	799,494
	₱3,462,214	₱13,186,150	₱6,971,206	₱5,316,692

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

LT GROUP, INC. AND SUBSIDIARIES

**INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020
(Amounts in Thousands)**

	Attributable to Equity Holders of the Company (Notes 1 and 28)										Non-controlling Interests (Notes 1 and 28)	Total
	Capital Stock	Capital in Excess of Par	Deposit for Future Stock Subscription	Preferred shares of Subsidiaries Issued to Parent Company	Other Equity Reserves	Reserves of Disposal Group Classified as Held for Sale	Other Comprehensive Income (Loss), Net of Deferred Income Tax Effect	Retained Earnings	Shares of the Company Held by Subsidiaries	Total		
BALANCES AT DECEMBER 31, 2019	P10,821,389	P35,906,231	P-	P8,538,837	P1,024,653	P-	P18,038,315	P112,604,635	(P12,519)	P186,921,541	P67,086,030	P254,007,571
Net income for the period	-	-	-	-	-	-	-	16,102,940	-	16,102,940	1,819,300	17,922,240
Other comprehensive income	-	-	-	-	-	-	(5,799,994)	-	-	(5,799,994)	1,063,904	(4,736,090)
Total comprehensive income for the period	-	-	-	-	-	-	(5,799,994)	16,102,940	-	10,302,946	2,883,204	13,186,150
Redemption of preferred shares	-	-	-	(8,538,837)	-	-	-	-	-	(8,538,837)	-	(8,538,837)
Dividends declared	-	-	-	-	-	-	-	(7,142,118)	-	(7,142,118)	-	(7,142,118)
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	-	-	-	-	-	-	(619,280)	619,280	-	-	-	-
BALANCES AT SEPTEMBER 30, 2020	P10,821,389	P35,906,231	P-	P-	P1,024,653	P-	P11,619,041	P122,184,737	(P12,519)	P181,543,532	P69,969,234	P251,512,766
BALANCES AT DECEMBER 31, 2020	P10,821,389	P35,906,231	P-	P-	(P2,058,370)	P88,616	P15,056,237	P125,612,353	(P12,519)	P185,413,937	P70,124,342	P255,538,279
Net income for the period	-	-	-	-	-	-	-	9,945,352	-	9,945,352	(3,737,087)	6,208,265
Other comprehensive income	-	-	-	-	-	-	(5,612,593)	-	-	(5,612,593)	2,866,542	(2,746,051)
Total comprehensive income for the period	-	-	-	-	-	-	(5,612,593)	9,945,352	-	4,332,759	(870,545)	3,462,214
Dividends declared	-	-	-	-	-	-	-	(5,194,266)	-	(5,194,266)	-	(5,194,266)
Other equity reserve	-	-	-	-	-	(88,616)	-	-	-	(88,616)	-	(88,616)
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	-	-	-	-	-	-	(568,964)	568,964	-	-	-	-
BALANCES AT SEPTEMBER 30, 2021	P10,821,389	P35,906,231	P-	P-	(P2,058,370)	P-	P8,874,680	P124,518,686	(P12,519)	P184,463,814	P69,253,797	P253,717,611

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

LT GROUP, INC. AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

	Nine Months Ended September 30	
	2021	2020
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax from continuing operations	₱8,934,954	₱19,946,188
Income before income tax from discontinued operations	25,390	91,923
Income before income tax	8,960,344	20,038,111
Adjustments for:		
Provision for losses (Note 24)	20,502,214	9,027,575
Equity in net earnings of associates (Note 10)	(13,764,854)	(12,533,200)
Depreciation and amortization (Note 22, 23 and 24)	4,616,786	4,248,377
Gain on disposal of financial assets at FVTOCI (Note 26)	(1,518,888)	(2,298,010)
Gain on disposal of other assets (Note 26)	(939,107)	(12,432)
Finance costs (Note 25)	264,473	268,632
Mark-to-market loss (gain) on financial assets at FVTPL (Note 26)	(162,937)	641,683
Finance income (Note 25)	(41,324)	(32,782)
Movements in accrued retirement benefits (Note 21)	13,132	(65,378)
Share in losses of joint venture	-	480,948
Dividend income (Note 26)	(2,405)	(3,302)
Operating income before changes in working capital	17,927,434	19,760,222
Decrease (increase) in:		
Receivables	(15,097,573)	56,538,604
Financial assets at fair value through profit or loss	(8,436,392)	1,549,860
Other assets	8,032,494	(2,281,611)
Inventories	(2,024,910)	(994,550)
Increase (decrease) in:		
Deposit liabilities	(32,397,930)	(78,999,582)
Other liabilities	(5,414,772)	(3,968,523)
Accounts payable and accrued expenses	4,201,164	4,629,368
Financial liabilities at FVTPL	989,747	502,388
Cash generated (used) in operations	(32,220,738)	(3,263,824)
Dividends received	15,894,771	17,541,609
Income taxes paid, including creditable withholding and final taxes	(3,387,264)	(5,376,779)
Interest paid	(264,473)	(268,632)
Interest received	41,324	32,782
Contributions to retirement plan	(6,395)	(1,730)
Net cash generated (used) in operating activities	(19,942,775)	8,663,426
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of:		
Financial assets at FVTOCI (Note 6)	(148,724,248)	(50,930,720)
Financial assets at amortized cost	(20,468,456)	(50,856,910)
Property, plant and equipment (Note 11)	(1,928,356)	(3,255,565)
Investment properties (Note 11)	(482,232)	(938,623)
Software	(452,370)	(194,566)
Investment in joint venture and associates (Note 10)	(565,832)	(1,065,558)
Proceeds from sale of:		
Financial assets at FVTOCI (Note 6)	148,047,793	88,131,109
Financial assets at amortized cost	27,249,655	54,335,058
Other assets (Note 12)	447,613	160,659
Advances extended to affiliates	(1,691)	-
Net cash generated from investing activities	3,121,876	35,384,884
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Bills and acceptances payable	177,096,840	88,524,017
Long-term debt	2,845,313	-
Payments of:		
Bills and acceptances payable	(218,180,204)	(101,733,132)
Long-term debts (Note 17)	(13,870,000)	(2,441,833)
Short-term debt	(800,000)	(2,110,000)
Matured long-term negotiable certificate of deposit	-	(7,000,000)
Dividends paid	(5,194,266)	(7,142,118)
Net cash used in financing activities	(58,102,317)	(31,903,066)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(74,923,216)	12,145,244
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	304,061,222	184,913,132
CASH AND CASH EQUIVALENTS AT END OF PERIOD (Note 4)	₱229,138,006	₱197,058,376

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

LT GROUP, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

1. 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 25, 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 Tandua 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 Dr. 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 3 to the interim condensed consolidated financial statements.

As of September 30, 2021, and December 31, 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.

2. Summary of Significant Accounting and Financial Reporting Policies

Basis of Preparation

The interim condensed consolidated financial statements have been prepared under the historical cost basis, except for financial assets and liabilities at FVTPL, financial assets at FTVOCI, land and land improvements, plant buildings and building improvements, and machineries and equipment that have been measured at fair value. The interim condensed consolidated financial statements are presented in Philippine peso (Peso), the functional currency of LTG. All values are rounded to the nearest thousand Peso, except when otherwise indicated.

The interim condensed consolidated financial statements of LTG have been prepared in accordance with Philippine Accounting Standards (PAS) 34, *Interim Financial Reporting*. The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's December 31, 2020 annual consolidated financial statements.

The preparation of the financial statements in compliance with Philippine Financial Reporting Standards (PFRSs) requires management to make estimates and assumptions that affect the amounts reported in the interim condensed consolidated financial statements and accompanying notes. The estimates and assumptions used in the accompanying interim condensed consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the interim condensed consolidated financial statements. Actual results could differ from such estimates.

Basis of Consolidation

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

	Percentage of Ownership						Country of Incorporation
	September 30, 2021		December 31, 2020		September 30, 2020		
	Direct	Indirect	Direct	Indirect	Direct	Indirect	
Distilled Spirits							
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, Inc. (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	-	99.9	-	99.9	-	99.9	Singapore
Asia Pacific Beverages Myanmar Company Limited ⁽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 ⁽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)	-	56.5	-	56.5	-	56.5	Philippines
PNB General Insurers, Inc. (PNB Gen)	-	-	-	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. (PNBRCI)	-	56.5	-	56.5	-	56.5	USA
PNB RCI Holding Co. Ltd.	-	56.5	-	56.5	-	56.5	USA
PNB Remittance Co. (Canada)	-	56.5	-	56.5	-	56.5	Canada
PNB Europe PLC	-	56.5	-	56.5	-	56.5	United Kingdom
PNB Global Remittance & Financial Co. (HK) Ltd. (PNB GRF)	-	56.5	-	56.5	-	56.5	Hong Kong
Japan-PNB Leasing and Finance Corporation (Japan-PNB Leasing)	-	50.8	-	50.8	-	50.8	Philippines
Japan - PNB Equipment Rentals Corporation	-	50.8	-	50.8	-	50.8	Philippines
PNB Savings Bank	-	56.5	-	56.5	-	56.5	Philippines
Allied Bank Philippines (UK) Plc (ABUK)	-	56.5	-	56.5	-	56.5	United Kingdom

	Percentage of Ownership						Country of Incorporation
	September 30, 2021		December 31, 2020		September 30, 2020		
	Direct	Indirect	Direct	Indirect	Direct	Indirect	
Allied Commercial Bank (ACB)	-	55.9	-	55.9	-	50.8	Republic of China
Allianz-PNB Life Insurance, Inc. (APLII) (formerly PNB LII) ⁽⁵⁾	-	24.8	-	24.8	-	24.8	Philippines
Allied Leasing and Finance Corporation (ALFC)	-	32.3	-	32.3	-	32.3	Philippines
Allied Banking Corporation (Hongkong) Limited (ABCHKL)	-	28.8	-	28.8	-	28.8	Hong Kong
ACR Nominees Limited	-	28.8	-	28.8	-	28.8	Hong Kong
Oceanic Holdings (BVI) Ltd. (OHBVI)	-	15.7	-	15.7	-	15.7	USA
Mabuhay Global Holding Company Pte. Ltd. (MGHCPL) ⁽⁶⁾	-	-	100.0	-	-	-	Singapore
Mabuhay Digital Technologies, Inc.	100.0	-	-	100.0	-	-	Philippines
Mabuhay Digital Philippines, Inc.	100.0	-	-	100.0	-	-	Philippines
Asia's Emerging Dragon Corp.	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 September 30, 2021 and December 31, 2020, the Bank Holding Companies consist of 27 entities with aggregate direct ownership interest of 59.83% in PNB, of which 20 companies are incorporated in the Philippines and seven (7) companies are incorporated in the British Virgin Islands.

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

(5) Beginning December 18, 2015, assets and liabilities of APLII as of December 31, 2015 have been reclassified as disposal group classified as held for sale and the results of its operations for each of the years ended December 31, 2016 and 2015 have been reclassified as discontinued operations, following the approval of PNB's BOD disposing 51.00% of its ownership interest in APLII to Allianz SE (see Note 37).

(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.

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

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

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

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

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

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

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

Non-controlling interests

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

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

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

Business Combination and Goodwill

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

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

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

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

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

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

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

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

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

Common control business combinations

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

In applying the pooling-of-interests method, the Group follows the Philippine Interpretations Committee Q&A No. 2012-01, PFRS 3.2 - *Application of the Pooling of Interest Method for*

Business Combinations of Entities under Common Control in Consolidated Financial Statements, which provides the following guidance:

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

Noncurrent Assets and Disposal Group Held for Sale and Discontinued Operations

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

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

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

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

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

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

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

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

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

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

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the amendments to existing standards effective as at January 1, 2020. 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.

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

The amendments clarify that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, the amendments clarify that a business can exist without including all of the inputs and processes needed to create outputs.

- * Amendments to PFRS 7, *Financial Instruments: Disclosures* and PFRS 9, *Financial Instruments, Interest Rate Benchmark Reform*

The amendments to PFRS 9 provide a number of reliefs, which apply to all hedging relationships that are directly affected by the interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

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

The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity”. The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

- * Conceptual Framework for Financial Reporting issued on March 29, 2018

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the

Conceptual Framework is to assist the standard-setters in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards.

The revised Conceptual Framework includes new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.

* *Amendments to PFRS 16, COVID-19 Related Rent Concessions*

The amendments provide relief to lessees from applying PFRS 16, *Leases*, guidance on lease modification accounting for rent concessions arising as a direct consequence of the Coronavirus Disease 2019 (COVID-19) pandemic. As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under PFRS 16, if the change were not a lease modification. The amendments had no significant impact on the consolidated financial statements of the Group.

Future Changes in Accounting Policy

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

Effective beginning on or after January 1, 2021

* *Amendments to PFRS 9, Financial Instruments, PFRS 7, Financial Instruments: Disclosures, PFRS 4, Insurance Contracts, and PFRS 16, Leases: 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 amendments also require to disclose information about the nature and extent of risks to which an entity is exposed arising from financial instruments subject to IBOR reform, how the entity manages those risks, their progress in completing the transition to alternative benchmark rates, and how the entity is managing that transition.

Effective beginning on or after January 1, 2022

* *Amendments to PFRS 3, Business Combinations: Reference to the Conceptual Framework*

The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. An exception to the recognition principle of PFRS 3 was also added 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 Interpretation IFRIC 21, *Levies*, if incurred separately. The amendments apply prospectively.

* *Amendments to PAS 16, Property, Plant and Equipment: Proceeds Before Intended Use*

The amendments prohibit entities to deduct 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, entities should recognize the proceeds from selling such items, and the costs of producing those items, in profit or loss. The amendments 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.

* *Amendments to PAS 37, Onerous Contracts: Cost of Fulfilling a Contract*

The amendments apply a "directly related cost approach" to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. Under this 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 apply to contracts for which an entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

* *Annual Improvements to PFRS Standards 2018-2020 Cycle*

- *Amendments to PFRS 1, Subsidiary as a first-time adopter*
- *Amendments to PFRS 9, Fees in the '10 per cent' test for derecognition of financial liabilities*
- *Amendments to PFRS 16, Lease incentives*
- *Amendments to PAS 41, Taxation in fair value measurements*

Effective beginning on or after January 1, 2023

* PFRS 17, *Insurance Contracts*

PFRS 17 is comprehensive new accounting standard for insurance contracts, covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. PFRS 17 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. PFRS 17 is effective for reporting periods beginning on or after January 1, 2023, with comparative figures required. Early application is permitted but only if the entity also applies PFRS 9, *Financial Instruments*, and PFRS 15, *Revenue from Contracts with Customers*.

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

The amendments clarify: (a) what is meant by a right to defer settlement; (b) that a right to defer must exist at the end of the reporting period; (c) that classification is unaffected by the likelihood that an entity will exercise its deferral right; and (d) 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 applied retrospectively.

Deferred effectivity

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

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

On January 13, 2016, the Financial Reporting Standards Council postponed the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board has completed 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.

* Deferral of Certain Provisions of PIC Q&A 2018-12, PFRS 15 Implementation Issues Affecting the Real Estate Industry (as amended by PIC Q&As 2020-02 and 2020-04)

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

	Deferral Period
1. 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
2. Treatment of land in the determination of the POC discussed in PIC Q&A 2018-12-E	Until December 31, 2023
3. Treatment of uninstalled materials in the determination of the POC discussed in PIC Q&A 2018-12-E (as amended by PIC Q&A 2020-02)	Until December 31, 2020
4. Accounting for CUSA Charges discussed in PIC Q&A No. 2018-12-H	Until December 31, 2020

The SEC Memorandum Circulars also provided the mandatory disclosure requirements should an entity decide to avail of any relief. Disclosures should include:

- The accounting policies applied.
- Discussion of the deferral of the subject implementation issues in the PIC Q&A.
- Qualitative discussion of the impact on the financial statements had the concerned application guidelines in the PIC Q&A been adopted.
- Should any of the deferral options result into a change in accounting policy (e.g., when an entity excludes land and/or uninstalled materials in the POC calculation under the previous standard but opted to include such components under the relief provided by the circular), such accounting change will have to be accounted for under PAS 8, i.e., retrospectively, together with the corresponding required quantitative disclosures.

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

After the deferral period, real estate companies would have to adopt PIC Q&A No. 2018-12 and any subsequent amendments thereto retrospectively or as the SEC will later prescribe.

The Group availed of the deferral of adoption of the following specific provisions of PIC Q&A. Had these provisions been adopted, it would have the following impact in the consolidated financial statements:

- The mismatch between the POC of the real estate projects and right to an amount of consideration based on the schedule of payments explicit in the contract to sell would constitute a significant financing component. Interest income would have been recognized for contract assets and interest expense for contract liabilities using the effective interest rate method and this would have impacted retained earnings as at January 1, 2018 and the revenue from real estate sales in 2020, 2019 and 2018.

Currently, any significant financing component arising from the mismatch discussed above is not considered for revenue recognition purposes.

- b. The Group is acting as a principal for the provision of airconditioning services, common usage services and administration and handling services. This would have resulted to the gross presentation of the related revenue and the related cost and expenses. Currently, the related revenue is presented net of costs and expenses. These would not result to any adjustment in the retained earnings as of January 1, 2018 and net income for the years ended December 31, 2020, 2019 and 2018.

The above would have impacted the cash flows from operations and cash flows from financing activities for all years presented.

- * Deferral 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 will 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 Financial Reporting Standards Council which was November 11, 2020.

The Group availed of the SEC relief to defer the adoption of this PIC Q&A until December 31, 2020. Currently, the Group records the repossessed inventory at cost. The Group is still evaluating the approach to be availed among the existing options. Had the relief not been adopted and the current practice would be different from the approach to be implemented, this could have impacted the recording of revenue, cost of sales, valuation of repossessed inventory and gain or loss from repossession in 2020.

The Group continues to assess the impact of the above new and amended accounting standards and Interpretations effective subsequent to 2020 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.

3. 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 consolidated subsidiaries.
- * Distilled Spirits, which is involved in manufacturing, compounding, bottling, importing, buying and selling of rum, spirit beverages, and liquor products. The Group conducts its distilled spirits business through TDI and its consolidated 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 consolidated subsidiaries.
- * 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.
- * 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 consolidated subsidiaries.
- * Others, consist of various holding companies (LTG, Paramount, Saturn, Shareholdings, TBI and Bank Holding Companies) that provide financing for working capital and capital expenditure requirements of the operating businesses of the Group.

The BOD 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 17.4% and 2.5% as of September 30, 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 75% and 73% of the segment's total revenue in September 30, 2021 and December 31, 2020, respectively. The other segments of the Group have no significant customer, which contributes 10% or more of their segment revenues.

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

For the nine months ended September 30, 2021:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
	(In Thousands)						
Segment revenue:							
External customers	₱37,069,458	₱18,844,075	₱9,535,595	₱—	₱1,292,185	₱199,811	₱66,941,124
Inter-segment	136,291	81,821	598,918	—	—	(817,030)	—
	37,205,749	18,925,896	10,134,513	—	1,292,185	(617,219)	66,941,124
Cost of sales and services	6,571,932	16,190,994	7,586,798	—	358,394	(520,004)	30,188,114
Gross profit	30,633,817	2,734,902	2,547,715	—	933,791	(97,215)	36,753,010
Equity in net earnings (loss) of associates and joint ventures	101,482	—	40,462	13,405,906	—	217,004	13,764,854
	30,735,299	2,734,902	2,588,177	13,405,906	933,791	119,789	50,517,864
Selling expenses	—	962,596	840,851	—	8,462	—	1,811,909
General and administrative expenses	40,133,674	538,271	1,037,620	117,454	606,304	(87,590)	42,345,733
Operating income (loss)	(9,398,375)	1,234,035	709,706	13,288,452	319,025	207,379	6,360,222
Finance costs	—	(78,065)	(167,462)	—	(182,527)	163,581	(264,473)
Finance income	—	13,905	9,728	33,779	6,680	(22,768)	41,324
Foreign exchange gains (losses)- net	547,483	27,972	—	—	4,113	7,319	586,887
Other income (charges) – net	35,369,927	13,778	50,691	3,578	341,480	(33,568,460)	2,210,994
Income before income tax	26,519,035	1,211,625	602,663	13,325,809	488,771	(33,212,949)	8,934,954
Provision for income tax	2,103,765	207,830	191,567	6,813	121,984	115,346	2,747,305
Segment profit (loss) from:							
Continuing operations	24,415,270	1,003,795	411,096	13,318,996	366,787	(33,328,295)	6,187,649
Discontinued operations	20,616	—	—	—	—	—	20,616
	₱24,435,886	₱1,003,795	₱411,096	₱13,318,996	₱366,787	(₱33,328,295)	₱6,208,265
Depreciation and amortization expense	₱ 2,307,443	₱496,556	₱1,331,280	₱35,743	₱308,965	₱136,799	₱4,616,786
Segment profit (loss) attributable to:							
Equity holders of the Company	13,761,492	998,065	407,974	13,262,941	365,393	(18,850,513)	9,945,352
Non-controlling interests	10,674,394	5,730	3,122	56,055	1,394	(14,477,782)	(3,737,087)

Other financial information of the operating segments as of September 30, 2021 is as follows:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
	(In Thousands)						
Assets:							
Current assets	₱552,376,334	₱16,382,573	₱17,642,754	₱15,822,525	₱9,122,795	(₱18,242,763)	₱593,104,218
Noncurrent assets	582,936,627	9,235,829	15,669,928	15,570,430	22,951,006	14,030,462	660,394,282
	₱1,135,312,961	₱25,618,402	₱33,312,682	₱31,392,955	₱32,073,801	(₱4,212,301)	₱1,253,498,500
Liabilities:							
Current liabilities	₱884,027,396	₱5,222,245	₱7,694,218	₱290,490	₱6,554,457	(₱24,039,943)	₱879,748,863
Noncurrent liabilities	106,523,340	702,257	1,705,487	89,023	6,511,093	4,500,826	120,032,026
	₱990,550,736	₱5,924,502	₱9,399,705	₱379,513	₱13,065,550	(₱19,539,117)	₱999,780,889
Investments in associates and joint ventures	₱2,438,377	₱—	₱109,554	₱12,097,602	₱—	₱7,568,165	₱22,213,698
Equity attributable to:							
Equity holders of the Company	141,531,861	19,494,321	23,872,479	31,013,442	19,008,251	(50,456,540)	184,463,814
Non-controlling interests	3,230,364	199,579	40,499	—	—	65,783,355	69,253,797
Short-term debts	—	895,000	3,940,000	—	—	(895,000)	3,940,000
Long-term debts	57,663,118	360,785	577,565	—	6,226,425	(2,401,360)	62,426,533

For the nine months ended September 30, 2020:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
	(In Thousands)						
Segment revenue:							
External customers	₱41,687,010	₱17,317,092	₱9,170,028	₱—	₱1,877,626	₱—	₱70,051,756
Inter-segment	147,865	33,943	784,888	—	—	(966,696)	—
	41,834,875	17,351,035	9,954,916	—	1,877,626	(966,696)	70,051,756
Cost of sales	9,837,005	14,531,004	7,365,947	—	553,605	(869,791)	31,417,770
Gross profit	31,997,870	2,820,031	2,588,969	—	1,324,021	(96,905)	38,633,986
Equity in net earnings (loss) of associates and joint ventures	90,698	—	(480,948)	12,238,321	—	204,181	12,052,252
	32,088,568	2,820,031	2,108,021	12,238,321	1,324,021	107,276	50,686,238
Selling expenses	—	725,167	721,008	—	16,813	—	1,462,988
General and administrative expenses	28,756,596	522,870	1,003,972	120,721	515,935	222,464	31,142,558
Operating income	3,331,972	1,571,994	383,041	12,117,600	791,273	(115,188)	18,080,692
Finance costs	—	(79,025)	(154,124)	—	(199,619)	164,136	(268,632)
Finance income	—	1,498	10,641	39,830	13,017	(32,204)	32,782
Foreign exchange gains (losses)- net	801,633	(2,416)	—	—	(3,613)	(5,434)	790,170
Other income (charges) – net	944,379	5,864	5,933	22,745	311,466	20,789	1,311,176
Income before income tax	5,077,984	1,497,915	245,491	12,180,175	912,524	32,099	19,946,188
Provision for income tax	1,156,154	407,644	241,862	8,392	279,398	7,006	2,100,456
Segment profit from:							
Continuing operations	3,921,830	1,090,271	3,629	12,171,783	633,126	25,093	17,845,732
Discontinued operations	76,508	—	—	—	—	—	76,508
Segment profit	₱3,998,338	₱1,090,271	₱3,629	₱12,171,783	₱633,126	₱25,093	₱17,922,240
Depreciation and amortization expense	₱2,235,678	₱410,994	₱1,236,231	₱35,651	₱306,358	₱23,465	₱4,248,377
Segment profit attributable to:							
Equity holders of the Company	2,240,423	1,083,096	3,048	12,120,560	630,720	25,093	16,102,940
Non-controlling interests	1,757,915	7,175	581	51,223	2,406	—	1,819,300

Other financial information of the operating segments as of December 31, 2020 is as follows:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
	(In Thousands)						
Assets:							
Current assets	P644,182,968	P15,205,078	P17,743,633	P5,627,322	P8,832,453	(P6,784,029)	P684,807,425
Noncurrent assets	599,009,724	9,263,659	16,304,213	18,062,891	22,989,484	2,685,058	668,315,029
	P1,243,192,692	P24,468,737	P34,047,846	P23,690,213	P31,821,937	(P4,098,971)	P1,353,122,454
Liabilities:							
Current liabilities	P946,187,119	P5,042,772	P8,894,934	P296,163	P5,555,961	(P12,442,685)	P953,534,264
Noncurrent liabilities	136,649,515	769,034	1,669,777	89,023	7,624,513	(2,751,951)	144,049,911
	P1,082,836,634	P5,811,806	P10,564,711	P385,186	P13,180,474	(P15,194,636)	P1,097,584,175
Investments in associates and joint ventures	P2,310,410	P-	P56,746	P14,558,923	P-	P6,851,704	P23,777,783
Equity attributable to:							
Equity holders of the Company	157,154,782	18,463,080	23,440,873	23,305,027	18,641,464	(55,591,289)	185,413,937
Non-controlling interests	3,201,276	193,849	42,262	-	-	66,686,955	70,124,342
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

4. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	September 30, 2021 (Unaudited)	December 31, 2020 (Audited)
	(In Thousands)	
Cash and other cash items	₱25,335,465	₱26,678,312
Cash equivalents:		
Due from <i>Bangko Sentral ng Pilipinas</i>	126,435,219	202,129,356
Interbank loans receivable	34,191,043	39,700,981
Due from other banks	24,588,380	19,733,300
Securities held under agreements to resell	18,587,899	15,819,273
	₱229,138,006	₱304,061,222

- Cash and other cash items consist of cash on hand and in banks and short-term investments. Cash in banks earn interest at bank deposit rates. Cash equivalents represent money market placements made for varying periods depending on the immediate cash requirements of the Group.
- Due from BSP is composed of interest-bearing short-term placements with BSP and a demand deposit account to support the regular operations of PNB.
- Interest earned on cash and other cash items and cash equivalents are presented under "Finance income" and "Banking revenue", respectively (see Note 22 and 25).

5. Financial Assets at Fair Value through Profit or Loss

Financial assets at fair value through profit or loss consist of:

	September 30, 2021 (Unaudited)	December 31, 2020 (Audited)
	(In Thousands)	
Government securities	₱28,422,226	₱18,136,391
Derivative assets (Note 19)	2,030,360	370,653
Equity securities	1,028,523	1,019,626
Private debt securities	938,880	4,296,100
Unit investment trust fund	37,664	35,554
	₱32,457,653	₱23,858,324

6. Financial assets at fair value through other comprehensive income (FVTOCI)

Financial Assets at FVTOCI consist of:

	September 30, 2021 (Unaudited)	December 31, 2020 (Audited)
	<i>(In Thousands)</i>	
Government securities	₱86,877,611	₱111,351,402
Other debt securities	25,081,204	21,418,534
Equity securities:		
Quoted	2,273,720	2,352,669
Unquoted	1,000,555	1,202,319
	115,233,090	136,324,924
Noncurrent portion	(73,500,738)	(76,644,306)
	₱41,732,352	₱59,680,618

7. Loans and Receivables

Loans and receivables consist of:

	September 30, 2021 (Unaudited)	December 31, 2020 (Audited)
	<i>(In Thousands)</i>	
Finance receivables	₱649,380,528	₱630,805,715
Trade receivables	14,642,448	17,097,546
Other receivables	4,676,247	3,421,422
	668,699,223	651,324,683
Allowance for credit losses	(52,986,516)	(34,726,196)
	615,712,707	616,598,487
Noncurrent portion	(392,826,329)	(393,592,324)
	₱222,886,378	₱223,006,163

Finance Receivables

Finance receivables pertain to receivables of the banking segment which consist of:

	September 30, 2021 (Unaudited)	December 31, 2020 (Audited)
	<i>(In Thousands)</i>	
Receivables from customers:		
Loans and discounts	₱598,389,657	₱585,526,367
Customers' liabilities on acceptances, letters of credit and trust receipts	14,854,439	11,235,946
Credit card receivables	12,238,550	12,530,569

(Forward)

	September 30, 2021 (Unaudited)	December 31, 2020 (Audited)
	<i>(In Thousands)</i>	
Lease contract receivable	2,708,454	3,014,003
Bills purchased	1,303,799	1,832,423
	629,494,899	614,139,308
Other receivables:		
Accounts receivable	7,753,581	4,338,698
Accrued interest receivable	6,769,216	6,812,491
Sales contract receivables	6,194,300	6,548,301
Miscellaneous	375,620	431,704
	21,092,717	18,131,194
	650,587,616	632,270,502
Unearned interest and other deferred income	(1,207,088)	(1,464,787)
	649,380,528	630,805,715
Allowance for credit losses	(52,530,352)	(34,411,405)
	596,850,176	596,394,310
Noncurrent portion	(392,375,205)	(392,960,220)
	P204,474,971	P203,434,090

Trade receivables

Trade receivables consist of:

	September 30, 2021 (Unaudited)	December 31, 2020 (Audited)
	<i>(In Thousands)</i>	
Consumer goods	P13,316,319	P15,615,021
Contract receivables	875,005	1,168,440
Lease receivables	451,124	314,085
	14,642,448	17,097,546
Allowance for credit losses	(387,988)	(303,551)
	14,254,460	16,793,995
Noncurrent portion of contract receivables	(451,124)	(632,104)
	P13,803,336	P16,161,891

8. Inventories

Inventories consist of:

	September 30, 2021 (Unaudited)	December 31, 2020 (Audited)
	<i>(In Thousands)</i>	
At Cost:		
Consumer goods:		
Alcohol	₱5,389,252	₱4,001,287
Beverage	2,953,923	2,427,870
	8,343,175	6,429,157
Real estate inventories:		
Subdivision land under development	3,753,891	3,745,583
Condominium and residential units for sale	429,049	419,238
Land held for future development	217,542	217,542
	4,400,482	4,382,363
Fuel, materials and supplies	1,134,624	1,096,490
	13,878,281	11,908,010
At NRV -Materials and supplies	1,322,234	1,267,595
	₱15,200,515	₱13,175,605

9. Other Current Assets

Other current assets consist of:

	September 30, 2021 (Unaudited)	December 31, 2020 (Audited)
	<i>(In Thousands)</i>	
Creditable withholding taxes (CWT)	₱2,256,804	₱2,589,436
Prepaid expenses	2,227,992	2,074,966
Input VAT	1,794,905	1,800,352
Advances to suppliers	1,593,018	1,770,204
Stationeries, office supplies and stamps	644,142	81,110
Deferred charges	626,063	856,788
Excise tax	594,640	779,123
Miscellaneous cash and other cash items	245,031	29,246
Others	852,890	927,679
	₱10,835,485	₱10,908,904

10. 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, VMC and APLII. The Group also has 50% interest in ABI Pascual Holdings Private Limited (ABI Pascual Holdings) and Ayala-Eton Development Corporation (AEDC) which are jointly controlled entities.

	Ownership		Amount	
	September 30, 2021	December 31, 2020	September 30, 2021	December 31, 2020
	(In Thousands)			
<i>Associates:</i>				
PMFTC	49.6%	49.6%	₱11,252,885	₱13,741,750
VMC	30.9%	30.9%	3,322,511	3,153,972
APLII	44.0%	44.0%	2,438,377	2,310,410
AB HPI	—	50.0%	—	—
<i>Joint Ventures:</i>				
AEPDC	50.0%	50.0%	5,090,371	4,514,905
ABI Pascual	50.0%	50.0%	109,554	56,746
			₱22,213,698	₱23,777,783

Investment in PMFTC

On February 25, 2010, FTC and Philip Morris Philippines Manufacturing, Inc. (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 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 PMPMI and confirmed the execution of the Termination Agreement.

Investment in VMC

On December 21, 2007, the Company acquired 170.1 million shares representing 10.67% ownership in the shares of stock of VMC for ₱85.1 million presented as AFS investments as of December 31, 2013.

On various dates in April and May 2014, LTG acquired shares of stock of VMC amounting to ₱413.6 million, which increased its ownership interest to 17.5%, and convertible notes amounting to ₱359.3 million, which would increase LTG's interest to 23.5% upon conversion. In 2014, portion of the convertible notes amounting to ₱117.8 million was converted to shares of stock of VMC resulting in an increase in LTG's ownership interest to 20.2% as of December 31, 2014. The cost-based approach was applied in accounting for the step acquisition of VMC as an associate. Accordingly, LTG reclassified the original cost of its AFS investments to investment in an associate and derecognized the net changes in fair value of AFS investments amounting to ₱238.2 million. The difference of ₱334.8 million between the sum of the consideration for the 17.5% ownership interest amounting to ₱498.7 million and the share in fair value of net assets of VMC at the date the investment became an associate amounting to ₱833.5 million was recognized as part of the equity in net earnings of VMC in 2014.

In 2015, a portion of the convertible notes amounting to ₱124.1 million was converted to shares of stock of VMC resulting to an increase in LTG's ownership interest to 22.5% as of December 31, 2015. The difference of ₱17.6 million between the sum of the consideration for the additional 2.3% ownership interest amounting to ₱124.1 million and the share in fair value of net assets of VMC at the date of the conversion amounting to ₱141.7 million was recognized as part of the equity in net earnings of VMC in 2015.

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 September 30, 2021 and December 31, 2020.

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 18). Amortization amounting to ₱36.5 million was recognized in 2016. 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.

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, purchased 500 shares of stock of AB HPI for a consideration amounting to ₱5.0 million. On November 15, 2016, the Group purchased additional 782,400 common shares out of the proposed increase in the authorized capital stock of AB HPI for a consideration of ₱782.4 million. The Group's subscription to AB HPI represents 50% ownership interest.

In accordance with the Shareholders' Agreement entered into by the Group and Heineken, 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 from fair valuation amounting to ₱46.3 million.

The Group's subscription to AB HPI's capital stock and sale of nonmonetary assets to AB HPI is viewed as linked transaction and is accounted for as contribution of nonmonetary assets to an associate. As a result, the Group recognized the investment amounting to ₱1,843.6 million representing 50% of the fair value of AB HPI's net assets. The transaction was accounted for in accordance with PFRS 10, paragraph 25, where the Group recognized the gain arising from the contribution of nonmonetary assets amounting to ₱1,056.2 million in full.

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.

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. Unpaid subscription in shares of stock of AEPDC included as part of "Subscription payable" account amounted to ₱30.5 million as of December 31, 2017.

On November 20, 2017, the Company made additional capital infusion amounting to ₱400.5 million for the joint venture's initial purchase of land.

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. As of September 30, 2021, additional infused capital amounted to ₱527.0 million.

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.

11. Additions to Property, Plant and Equipment and Investment Properties

Additions to property, plant and equipment amounted to ₱5.2 billion while retirement and disposals amounted to ₱4.0 billion for the period ended September 30, 2021.

Additions to investment properties amounted to ₱950.2 million while retirement and disposals amounted to ₱437.0 million for the period ended September 30, 2021.

12. Other Noncurrent Assets

Other noncurrent assets consist of:

	September 30, 2021 (Unaudited)	December 31, 2020 (Audited)
	<i>(In Thousands)</i>	
Software costs	₱2,481,238	₱2,680,548
Prepaid excise taxes	771,713	801,820
Deferred charges	717,669	859,031
Creditable withholding taxes	396,550	396,550
Net retirement plan assets (Note 21)	255,832	249,437
Distribution network access	243,738	243,738
Chattel properties – net	200,896	115,356
Refundable and security deposits	185,662	206,931
Goodwill	163,735	163,735
Advances to suppliers	160,389	207,828
Deferred input VAT	91,959	496,205
Others – net	658,577	941,915
	6,327,958	7,363,094
Allowance for probable losses	(1,064,868)	(1,314,007)
	₱5,263,090	₱6,049,087

13. Deposit Liabilities

Deposit liabilities consists of:

	September 30, 2021 (Unaudited)	December 31, 2020 (Audited)
	<i>(In Thousands)</i>	
Savings	₱454,033,608	₱415,835,439
Demand	211,633,405	199,770,048
Time	168,989,162	264,906,076
	834,656,175	880,511,563
Noncurrent portion	(38,680,952)	(58,380,208)
Current portion	₱795,975,223	₱822,131,355

14. 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 ₱1.7 billion and ₱701.2 million as of September 30, 2021 and December 31, 2020, respectively.

15. Bills and Acceptances Payable

Bills and acceptance payable consist of:

	September 30, 2021 (Unaudited)	December 31, 2020 (Audited)
	<i>(In Thousands)</i>	
Bills payable to:		
BSP and local banks	₱32,248,912	₱33,116,145
Foreign banks	12,104,935	50,482,387
	44,353,847	83,598,532
Acceptances outstanding	4,170,368	3,560,918
	48,524,215	87,159,450
Less noncurrent portion	(3,228,071)	(14,181,368)
Current portion	₱45,296,144	₱72,978,082

16. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of:

	September 30, 2021 (Unaudited)	December 31, 2020 (Audited)
	<i>(In Thousands)</i>	
Trade payables	₱6,282,642	₱7,821,737
Nontrade payables	1,749,814	637,021
Accrued expenses:		
Purchase of materials, supplies and others	3,433,652	2,253,204
Other benefits - monetary leave credits	1,986,298	1,859,275
Advertising and promotional expenses	1,351,442	905,604
Interest	1,172,732	1,071,842
Retention payable	889,755	1,538,458
Project development costs	675,061	1,290,090
Taxes and licenses	558,670	979,412
PDIC insurance premiums	520,157	832,069
Information technology-related expenses	339,865	331,627
Rent and utilities payable	274,341	185,695
Output value added tax	402,044	151,801
Due to government agencies	147,290	223,225
Other payables	72,178	767,984
	₱19,855,941	₱20,849,044

17. Short-term and Long-term Debts

Short-term Debts

As of September 30, 2021, and December 31, 2020, outstanding unsecured short-term debts amounted to ₱3.9 billion and ₱4.7 billion, respectively. The loans are subject to annual interest rates ranging from 3.4% to 7.9% 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

	September 30, 2021 (Unaudited)	December 31, 2020 (Audited)
	<i>(In Thousands)</i>	
Bonds payable	₱53,368,689	₱64,056,335
Lease liabilities	5,364,596	2,775,256
Unsecured term loan	3,693,248	2,911,053
	62,426,533	69,742,644
Current portion	(1,261,094)	(14,527,082)
Noncurrent portion	₱61,165,439	₱55,215,562

PNB's Bonds Payable

4.25% USD 300 Million Fixed Rate Medium Term Note

On April 26, 2018, the Group issued 4.25% fixed coupon rate (EIR of 4.43%) unsecured medium term note listed on the Singapore Stock Exchange at par value of \$300 million in preparation for the higher capital and liquidity requirements required by the Bangko Sentral ng Pilipinas in the succeeding year. The bonds have an issue price of 99.532%, interest payable at semi-annual, tenor of five years and a day, and maturity of April 27, 2023.

As of December 31, 2020 and 2019, the unamortized transaction cost of bonds payable amounted to ₱252.2 million and ₱421.7 million. Amortization of transaction costs amounting to ₱169.5 million and ₱98.5 million was charged to 'Interest expenses - bonds payable' in the consolidated statement of income.

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. Interest costs from subordinated debts are included in the "Cost of banking services".

Compliance with debt covenants

As of September 30, 2021, and December 31, 2020, the Group has complied with the financial and non-financial covenants of its long-term debts.

18. Other Liabilities

	September 30, 2021 (Unaudited)	December 31, 2020 (Audited)
	<i>(In Thousands)</i>	
Managers' checks and demand drafts outstanding	₱2,142,433	₱1,302,745
Other dormant credits	1,273,107	1,258,502
Provisions	1,234,243	979,067
Other deferred revenue (Note 12)	1,105,823	1,136,585
Payable to landowners	1,061,191	1,061,191
Customers' deposits	982,727	997,714
Due to Treasurer of the Philippines	882,856	675,835
Deposit on lease contracts	879,303	878,193
Bills purchased - contra (Note 8)	605,707	1,548,226
Interoffice floats	537,628	537,628
Tenants' rental deposits	482,392	428,191
Margin deposits and cash letters of credit	395,426	329,432
Payment order payable	243,842	263,959
Due to other banks	186,702	537,116
Miscellaneous tax securities	180,741	223,204
Withholding taxes payable	179,905	265,884
Advance rentals	63,809	71,607
Others	4,309,135	3,211,751
	16,746,970	15,706,830
Presented as noncurrent	(6,299,331)	(5,526,724)
Presented as current	₱10,447,639	₱10,180,106

19. Derivative Financial Instruments

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

	September 30, 2021 (Unaudited)	December 31, 2020 (Audited)
	<i>(In Thousands)</i>	
Balance at beginning of year	(₱330,586)	₱127,421
Changes in fair value	670,586	(462,496)
Availments (settlements)	(626)	4,489
	₱339,374	(₱330,586)

The changes in fair value of the derivatives are included in "Trading and investments securities gains - net" presented as part of "Banking revenues" in the consolidated statements of income (see Note 22).

20. Related Party Transactions

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:

		Nine Months Ended September 30	
		2021 (Unaudited)	2020 (Unaudited)
		<i>(In Thousands)</i>	
Associate	Dividend income	₱15,894,771	₱17,541,609
	Purchases of inventories	(19,644)	(346)
	Sales	—	379,711
	Lease	2,464	15,000
Entities Under Common Control	Banking revenue - interest on loans and receivables	1,482,958	812,815
	Sales of consumer products	10,200	29,352
	Rent income	97,713	15,000
	Freight and handling	(605)	(571)
	Cost of banking services - interest on deposit liabilities	(99,403)	(52,651)
	Cost of sales and services	(291,199)	(555)
	Management and professional fee	(230,256)	(12,069)
	Rent expense	(17,095)	(745)

The consolidated balance sheets include the following asset (liability) account balances with related parties:

		Outstanding Balance	
		September 30, 2021 (Unaudited)	December 31, 2020 (Audited)
Financial Statement Account	Terms and Conditions	(In Thousands)	
Parent Company			
Due to related parties	On demand; non-interest bearing	(P15,325)	(P15,325)
Due from related parties	On demand; non-interest bearing	534,000	509,000
Associate			
Other receivables - dividends	30 to 90 days terms; non-interest bearing	-	-
Trade receivables	- do -	-	141,405
Nontrade receivables	- do -	2,414	8,928
Account payable and other liabilities	30 to 60 days terms; non-interest bearing	(1,098)	(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 90 days to 12 years and payment terms of ranging from monthly to quarterly payments	26,783,428	41,772,870
Trade receivables	- do -	427	19,456
Other receivables	- do -	113,901	11,675
Due from related parties	On demand; non-interest bearing	1,422,193	1,445,502
Advances to suppliers	- do -	12,501	501
Deposit liabilities	With annual rates ranging from 0.10% to 1.50% and maturity ranging from 30 days to one year	21,056,712	21,056,712
Account payable and other liabilities	30 to 90 days terms; non-interest bearing	(282,153)	(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 September 30, 2021, and December 31, 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.

21. Retirement Benefits

Details of the Group's net retirement plan assets and liabilities are as follows:

	September 30, 2021 (Unaudited)	December 31, 2020 (Audited)
	<i>(In Thousands)</i>	
Net retirement plan assets:		
FTC	₱241,252	₱241,252
TBI	8,512	2,117
LTG	6,068	6,068
	₱255,832	₱249,437
Net retirement benefits liabilities:		
PNB and subsidiaries	₱1,112,792	₱1,206,350
ABI and subsidiaries	1,075,579	984,644
Eton and subsidiaries	161,288	143,733
AAC	38,628	38,628
ADI	37,861	39,661
TDI	5,621	5,621
	₱2,431,769	₱2,418,637

Transactions with Retirement Plans

Management of the retirement funds of the banking segment is handled by the PNB Trust Banking Group (TBG). The fair value of the plan assets as of September 30, 2021 and December 31, 2020 for the Group includes investments in the PNB shares of stock with fair value amounting to ₱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 September 30, 2021 and December 31, 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.

22. Revenue and Cost of Sales and Services

Revenue consists of:

	Nine Months Ended September 30	
	2021 (Unaudited)	2020 (Unaudited)
	<i>(In Thousands)</i>	
Banking revenue	₱37,069,458	₱41,687,010
Sale of consumer goods	28,379,670	26,487,120
Rental income	1,406,230	1,358,054
Real estate sales	85,766	519,572
	₱66,941,124	₱70,051,756

Sale of consumer goods consists of:

	Nine Months Ended September 30	
	2021 (Unaudited)	2020 (Unaudited)
	<i>(In Thousands)</i>	
Gross sales	₱30,223,380	₱28,154,623
Less: sales returns, discounts and allowances	1,843,710	1,667,503
	₱28,379,670	₱26,487,120

Banking revenue consists of:

	Nine Months Ended September 30	
	2021 (Unaudited)	2020 (Unaudited)
	<i>(In Thousands)</i>	
Interest income on:		
Loans and receivables	₱25,380,067	₱28,680,126
Trading and investment securities	5,179,410	5,255,701
Deposits with banks and others	768,050	806,550
Interbank loans receivable	61,320	258,195
	31,388,847	35,000,572
Service fees and commission income	4,669,371	3,328,536
Trading and securities gains	1,011,240	3,357,902
	₱37,069,458	₱41,687,010

Cost of sales and services consists of:

	Nine Months Ended September 30	
	2021	2020
	(Unaudited)	(Unaudited)
	<i>(In Thousands)</i>	
Cost of consumer goods sold:		
Materials used and changes in inventories	₱9,858,347	₱9,634,794
Taxes and licenses	8,019,808	6,757,450
Depreciation and amortization	1,280,248	1,224,212
Personnel costs	1,015,802	928,593
Fuel and power	918,479	816,521
Repairs and maintenance	463,804	393,064
Communication, light and water	408,977	429,210
Freight and handling	392,328	350,753
Outside services	344,273	330,833
Others	394,987	212,690
	23,097,053	21,078,120
Cost of banking services	6,543,475	9,786,045
Cost of rental income	516,276	353,436
Cost of real estate sales	31,310	200,169
Cost of sales and services	₱30,188,114	₱31,417,770

Other expenses include insurance, occupancy fees and representation which are not significant as to amounts.

Cost of banking services consist of:

	Nine Months Ended September 30	
	2021	2020
	(Unaudited)	(Unaudited)
	<i>(In Thousands)</i>	
Interest expense on:		
Deposit liabilities	₱3,560,999	₱6,150,513
Bonds payable	1,745,285	2,193,349
Bills payable and other borrowings	435,190	658,947
Services fees and commission expense	802,001	783,236
	₱6,543,475	₱9,786,045

23. Selling Expenses

	Nine Months Ended September 30	
	2021 (Unaudited)	2020 (Unaudited)
	<i>(In Thousands)</i>	
Advertising and promotions	₱666,821	₱513,384
Freight and handling	421,177	369,396
Depreciation and amortization	354,051	239,140
Personnel costs	110,403	105,159
Management, consulting and professional fees	81,232	81,976
Materials and consumables	12,564	14,933
Commissions	6,973	14,018
Repairs and maintenance	1,070	1,773
Others	157,618	123,209
	₱1,811,909	₱1,462,988

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

24. General and Administrative Expenses

	Nine Months Ended September 30	
	2021 (Unaudited)	2020 (Unaudited)
	<i>(In Thousands)</i>	
Provision for credit losses	₱20,502,214	₱9,020,445
Personnel costs	8,429,322	8,423,140
Taxes and licenses	3,493,303	3,780,098
Depreciation and amortization	2,626,129	2,539,783
Outside services	1,529,946	1,281,579
Insurance	1,502,715	1,409,866
Information technology	875,908	964,248
Management, consulting and professional fees	710,887	704,030
Marketing expenses	520,234	708,961
Travel and transportation	288,279	300,258
Occupancy	232,740	710,861
Materials and consumables	215,255	219,383
Communication, light and water	147,521	164,376
Repairs and maintenance	119,025	125,947
Freight and handling	16,262	15,631
Fuel and oil	12,904	15,357
Others	1,123,089	758,595
	₱42,345,733	₱31,142,558

25. Finance Costs and Finance Income

Details of finance costs and finance income (other than the banking segment) are as follows:

	Nine Months Ended September 30	
	2021	2020
	(Unaudited)	(Unaudited)
	<i>(In Thousands)</i>	
Finance costs (Note 17):		
Short-term debts	₱245,527	₱167,193
Unsecured term loan and notes payable	18,946	101,439
	₱264,473	₱268,632
Finance income:		
Interest-bearing receivables (Note 7)	₱29,696	₱9,224
Cash and other cash items (Note 4)	11,628	23,558
	₱41,324	₱32,782

26. Other Income (Charges) - net

	Nine Months Ended September 30	
	2021	2020
	(Unaudited)	(Unaudited)
	<i>(In Thousands)</i>	
Gain on sale of loans	₱766,968	₱—
Rental income	421,488	496,018
Net gains on sale or exchange of assets	166,825	147,850
Income from assets acquired	93,255	67,341
Recoveries	62,166	25,304
Dividend income	50,141	55,619
Processing and referral fees	2,034	2,550
Others	648,117	516,494
	₱2,210,994	₱1,311,176

27. Income Taxes

Income taxes include the corporate income tax, 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%. RA No. 9294 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 10.00% income tax.

Provision for current income tax consists of:

	Nine Months Ended September 30	
	2021	2020
	Unaudited)	(Unaudited)
	<i>(In Thousands)</i>	
RCIT/MCIT	₱2,164,009	₱2,972,749
Final tax	1,099,067	1,102,596
Provision for current income tax	₱3,263,076	₱4,075,345

28. Equity

Capital Stock

Authorized and issued capital stock of the Company are as follows:

Authorized capital stock at ₱1 par value	25,000,000,000
At the beginning and end of the period	shares
Issued capital stock at ₱1 par value:	
At the beginning and end of the period	₱10,821,388,889

29. Basic/Diluted Earnings Per Share

Basic/diluted earnings per share were calculated as follows:

	Nine Months Ended September 30	
	2021	2020
	(Unaudited)	(Unaudited)
	<i>(In Thousands)</i>	
Net income attributable to equity holders of the Company	₱9,945,352	₱16,102,940
Divided by weighted-average number of shares	10,821,389	10,821,389
Basic/diluted EPS for net income attributable to equity holders of the Company	₱0.92	₱1.49

30. 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 the banking segment's Executive Committee. Credit risk assessment of individual borrower is performed by the business sector and remedial 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 banking 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 (cash releases and cash collection for the month)
 - c. loss rate
 - d. recovery rate
 - e. trend of nonperforming loans (NPLs)
 - f. concentration risk (per classified account, per industry, clean exposure, large exposure, contingent exposure, currency, security, facility, demographic, etc.)

The banking segment collects data on risk rating of loan borrowers with an asset size of ₱15.0 million and above as initial requirement in the banking segment's model for internal Probability of Default (PD) and Loss Given Default (LGD).

Credit-related commitments

The exposures represent guarantees, standby letters of credit (LCs) issued by the banking segment and documentary/commercial LCs which are written undertakings by the banking segment.

To mitigate this risk, the banking segment 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 balance sheet.

Unit-linked financial assets

The banking segment issues unit-linked insurance policies. In the unit-linked business, the policy holder bears the investment risk in the assets held in the unit-linked funds as the policy benefits are directly linked to the values of the assets in the fund. Therefore, the banking segment has no material credit risk on unit-linked financial assets.

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 - cash, 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.

The banking segment's 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

The maximum credit risk, without taking into account the fair value of any collateral and netting agreements, is limited to the amounts on the balance sheet plus commitments to customers such as unused commercial letters of credit, outstanding guarantees and others.

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 loans and receivables, the banking segment sets an internal limit for group exposures which is equivalent to 100.00% of the single borrower's limit (SBL) for loan accounts with credit risk rating (CRR) 1 to CRR 5 or 50% of SBL if rated below CRR 5

For trading and investment securities, the Group limits investments to government issues and securities issued by entities with high-quality investment ratings.

b. Concentration by Industry

The internal limit of the banking segment based on the Philippine Standard Industry Classification (PSIC) sub-industry is 12% for priority industry, 8% for regular industry and 30% for power industry, versus total loan portfolio.

Credit quality per class of financial assets

The credit quality of financial assets used by the banking segment is assessed and managed using external and internal ratings. For receivable from customers classified as business loans, the credit quality is generally monitored using the 14-grade Credit Risk Rating (CRR) System which is integrated in the credit process particularly in loan pricing and allocation of valuation reserves. The model on risk ratings is assessed and updated regularly.

Validation of the individual internal risk rating is conducted by the Credit Management Division to maintain accurate and consistent risk ratings across the credit portfolio. The rating system has two parts, namely, the borrower's rating and the facility rating. It is supported by a variety of financial analytics, combined with an assessment of management and market information such as industry outlook and market competition to provide the main inputs for the measurement of credit or counterparty risk.

Loans and Receivables

The CRRs of the banking segment's receivables from customers (applied to loans with asset size of ₱15.0 million and above) are defined below:

* CRR 1 - Excellent

Loans receivables rated as excellent include borrowers which are significant in size, with long and successful history of operations, an industry leader, with ready access to all equity and debt markets and have proven its strong debt service capacity.

- * CRR 2 - Super Prime
Loans receivables rated as super prime include borrowers whose ability to service all debt and meet financial obligations remains unquestioned.
- * CRR 3 - Prime
Under normal economic conditions, borrowers in this rating have good access to public market to raise funds and face no major uncertainties which could impair repayment.
- * CRR 4 - Very Good
Loans receivables rated as very good include borrowers whose ability to service all debts and meet financial obligations remain unquestioned, but current adverse economic conditions or changing circumstances have minimal impact on payment of obligations.
- * CRR 5 - Good
Loans receivables rated as good include borrowers with good operating history and solid management, but payment capacity could be vulnerable to adverse business, financial or economic conditions.

Standard

- * CRR 6 - Satisfactory
These are loans receivables to borrowers whose ability to service all debt and meet financial obligations remains unquestioned, but with somewhat lesser capacity than in CRR 5 accounts.
- * CRR 7 - Average
These are loans receivables to borrowers having ability to repay the loan in the normal course of business activity, although may not be strong enough to sustain a major setback.
- * CRR 8 - Acceptable
These are loans receivables to borrowers possessing the characteristics of borrowers rated as CRR7 with slightly lesser quality in financial strength, earnings, performance and/or outlook.

Sub-standard Grade

- * CRR 9 - Fair
These are performing loans receivables from borrowers not qualified as CRRs 1-8. The borrower is able to withstand normal business cycles, although any prolonged unfavorable economic and/or market period would create an immediate deterioration beyond acceptable levels.
- * CRR 10 - Watchlist
This rating includes borrower where the credit exposure is not at risk of loss at the moment, but the performance of the borrower has weakened and, unless present trends are reversed, could eventually lead to losses.
- * CRR 11 - Special Mention
These are loans that have potential weaknesses that deserve management's close attention. These potential weaknesses, if left uncorrected, may affect the repayment of the loan and thus increase credit risk to the banking segment.

- * CRR 12 - Substandard
These are loans or portions thereof which appear to involve a substantial and unreasonable degree of risk to PNB because of unfavorable record or unsatisfactory characteristics.
- * CRR 13 - Doubtful
These are loans or portions thereof which have the weaknesses inherent in those classified as CRR 12 with the added characteristics that existing facts, conditions and values make collection or liquidation in full highly improbable and in which substantial loss is probable.
- * CRR 14 - Loss
These are loans or portions thereof which are considered uncollectible or worthless.

The banking segment is using the Credit Scoring for evaluating borrowers with assets size below ₱15.0 million. Credit scoring details the financial capability of the borrower to pay for any future obligation.

GOCCs and LGUs are rated using the “means and purpose” test whereby borrowers have to pass the two major parameters, namely:

- * “Means” test - the borrower must have resources or revenues of its own sufficient to service its debt obligations.
- * “Purpose” test - the loan must be obtained for a purpose consistent with the borrower’s general business.

LGU loans are backed-up by assignment of Internal Revenue Allotment. Consumer loans are covered by mortgages in residential properties and vehicles financed and guarantees from Home Guaranty Corporation. Fringe benefit loans are repaid through automatic salary deductions and exposure is secured by mortgage on house or vehicles financed.

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 is judged to be of high quality and is 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.

Impairment assessment

The Group recognizes impairment or credit losses based on the results of specific (individual) and collective assessment of its credit exposures. A possible impairment has taken place when there is presence of known difficulties in the payment of obligation by counterparties, a significant credit rating downgrade takes place, infringement of the original terms of the contract has happened, or when there is an inability to pay principal or interest overdue beyond a certain threshold (e.g., 90 days). These and other actors, either singly or in tandem with other factors, constitute observable events and/or data that meet the definition of an objective evidence of impairment.

The two methodologies applied by the Group in assessing and measuring impairment or credit losses include:

a. Specific (individual) assessment

The Group assesses each individually significant credit exposure or advances for any objective evidence of impairment.

Among the items and factors considered by the Group when assessing and measuring specific impairment/credit allowances are:

- * the going concern of the borrower's business;
- * the ability of the borrower to repay its obligations during financial crises;
- * the projected receipts or expected cash flows;
- * the availability of other sources of financial support;
- * the existing realizable value of collateral; and
- * the timing of the expected cash flows.

The impairment or credit allowance, if any, are evaluated every quarter or as the need arises in view of favorable or unfavorable developments.

b. Collective assessment

Loans and advances that are not individually significant (e.g., credit cards, housing loans, car loans, development incentives loans, fringe benefit loans) and individually significant loans and advances where there is no apparent evidence of individual impairment are collectively assessed for impairment. A particular portfolio is reviewed every quarter to determine its corresponding appropriate allowances.

Impairment losses are estimated by taking into consideration the following information:

- * historical losses of the portfolio;
- * current adverse economic conditions that have direct impact on the portfolio;
- * losses which are likely to occur but has not yet occurred; and
- * expected receipts and recoveries once impaired.

See Notes 7 and 8 for more detailed information on the allowance for credit losses on loans and receivables and other financial assets.

Liquidity Risk and Funding Management

The Banking segment's liquidity management involves maintaining funding capacity to accommodate fluctuations in asset and liability levels due to changes in the banking segment's business operations or unanticipated events created by customer behavior or capital market conditions. The banking segment seeks to ensure liquidity through a combination of active management of liabilities, a liquid asset portfolio composed substantially of deposits in primary and secondary reserves, and the securing of money market lines and the maintenance of repurchase facilities to address any unexpected liquidity situations.

Liquidity risk is monitored and controlled primarily by a gap analysis of maturities of relevant assets and liabilities reflected in the maximum cumulative outflow (MCO) report, as well as an analysis of available liquid assets. The MCO focuses on a 12-month period wherein the 12-month cumulative outflow is compared to the acceptable MCO limit set by the BOD. Furthermore, an internal liquidity ratio has been set to determine sufficiency of liquid assets over deposit liabilities.

Liquidity is monitored by the banking segment on a daily basis through the Treasury Group. Likewise, the RMG monitors the static liquidity via the MCO under normal and stressed scenarios.

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 parameter 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 underestimated 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 bechecked 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 VA 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 Parent Company 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 baking 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.

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 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 banking segment’s BOD sets a limit on the level of earnings at risk (EaR) exposure tolerable to the banking segment. Compliance to the EaR limit is monitored monthly by the RMG. This EaR computation is accomplished monthly, with a quarterly stress test.

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 Parent Company 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.

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.

Liquidity Risk and Funding Management

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

The Group's objective is to maintain a balance between continuity of funding and sourcing flexibility through the use of available financial instruments. The Group manages its liquidity profile to meet its working and capital expenditure requirements and service debt obligations. As part of the liquidity risk management program, the Group regularly evaluates and considers the maturity of its financial assets (e.g., trade receivables, other financial assets) and resorts to short-term borrowings whenever its available cash or matured placements is not enough to meet its daily working capital requirements. To ensure availability of short-term borrowings, the Group maintains credit lines with banks on a continuing basis.

The Group relies on budgeting and forecasting techniques to monitor cash flow concerns. The Group also keeps its liquidity risk minimum by prepaying, to the extent possible, interest bearing debt using operating cash flows.

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.

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 September 30, 2021 and December 31, 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.

31. Fair Values of Financial Instruments

The Group has assets and liabilities that are measured at fair value on a recurring and non-recurring basis in the consolidated balance sheets after initial recognition. Recurring fair value measurements are those that another PFRSs requires or permits to be recognized in the consolidated balance sheets at the end of each reporting period. These include financial assets and liabilities at FVTPL and financial assets through other comprehensive income. Non-recurring fair value measurements are those that another PFRSs requires or permits to be recognized in the consolidated balance sheet 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 September 30, 2021, and December 31, 2020, the carrying values of the Group's financial assets and liabilities approximate their respective fair values, except for the following financial instruments:

	September 30, 2021		December 31, 2020	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<i>(In Thousands)</i>				
Financial Assets:				
Financial assets at amortized cost	₱89,147,088	₱91,728,131	₱95,235,993	₱99,368,418
Loans and receivables:				
Receivables from customers	583,236,942	622,826,577	585,855,937	622,821,007
	₱672,384,030	₱714,554,708	₱681,091,930	₱722,189,425
Financial Liabilities:				
Financial liabilities at amortized cost:				
Deposit liabilities-				
Time deposits	₱140,752,255	₱140,752,255	₱236,694,042	₱236,694,042
LTNCD	28,236,907	28,480,901	28,212,034	28,541,261
Bills payables	44,353,847	44,373,316	83,598,532	83,600,018
Long term debts:				
Unsecured term loan	3,693,248	3,693,248	2,911,053	2,911,053
Bonds payable	53,368,689	55,737,441	64,056,335	67,728,954
Other liabilities:				
Payable to landowners	1,061,191	1,061,191	1,061,191	1,061,191
Tenants' rental deposits	482,392	482,392	428,191	428,191
	₱271,948,529	₱274,580,744	₱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.

32. 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 shareholder's equity. The Group is also required to maintain debt-to-equity ratios to comply with certain loan agreements and covenants as of September 30, 2021 and December 31, 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 changes were made in the objectives, policies or processes as of September 30, 2021 and December 31, 2020.

The Group considers its total equity reflected in the consolidated balance sheets 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 balance sheets.

The table below shows the leverage ratios of the Group:

	September 30, 2021 (Unaudited)	December 31, 2020 (Audited)
	<i>(In Thousands, except ratios)</i>	
Total liabilities	₱999,780,889	₱1,097,584,175
Total equity	253,717,611	255,538,279
Total liabilities and equity	₱1,253,498,500	₱1,353,122,454
Debt ratio	0.80:1	0.81:1
Debt-to-equity ratio	3.94:1	4.30:1

33. Commitments and Contingencies

There were no changes in the Group's commitments and contingencies from those disclosed in the December 31, 2020 annual consolidated financial statements.

34. Seasonality of Interim Operations

The sales of the beverage segment are affected by the weather, generally being higher in the hot, dry months from March through June and lower during the wetter monsoon months or July through October. Beverage products also tend to experience a period of higher sales around the Christmas and New Year holiday period in late December through early January. The beverage segment adjusts its production levels to reflect its historical experience of seasonal varieties. In addition, the Philippines is at risk from typhoons during the monsoon period. Typhoons usually result in substantially reduced sales in the affected area, and have, in the past, interrupted production at the beverage segment's plants in affected areas. While these factors lead to a natural seasonality in our sales, unreasonable weather could also significantly affect sales and profitability compared to previous comparable periods.

Demand for rum, spirit beverages and liquor products are not significantly influenced by seasons of the year. The increase in peso sales was due to increase in selling price during the period. The seasonality does not significantly influence production and inventory levels are adjusted for these movements in demands. Seasonality does not impact the revenue or cost recognition policies of the Group.

This information is provided to allow for a proper appreciation of the results; however, management have concluded that this does not constitute "highly seasonal" as considered by PAS 34, *Interim Financial Reporting*.

There are no seasonal aspects that had a material effect on the financial position or condition and results of operations of the distilled spirits and tobacco segments.

35. Events After the Reporting Date

There are no subsequent events after the reporting date that will significantly affect the interim consolidated financial statements.

36. The Nature and Amount of Items Affecting Assets, Liabilities, Equity, Net Income, or Cash Flows that are Unusual Because of their Nature, Size or Incidence

There are no unusual items that will significantly affect the assets, liabilities, equity, net income or cash flows.

37. The Nature and Amount of Changes in Estimates of Amounts Reported in Prior Interim Period of the Current Year or Changes in Estimates of Amounts Reported in Prior Years, if those Changes Have a Material Effect in the Current Interim Period

There are no significant changes in estimated reported in prior interim periods of the current period or changes in estimated reported in prior years, which are considered to have material effect on the interim consolidated financial statements.

LT GROUP, INC. AND SUBSIDIARIES
SELECTED EXPLANATORY NOTES

As at September 30, 2021 and December 31, 2020

And for the Nine Months Ended September 30, 2021 and 2020

(As required under Par. 7 (d) Selected Explanatory Notes Required Under SRC Rule 68, as Amended 2011)

- i.) The Company's interim consolidated financial reports are in compliance with Generally Accepted Accounting Principles. The same accounting policies and methods of computation are followed in the interim financial statements as compared with the most recent annual financial statements.

The Company's interim consolidated financial statements have been prepared in accordance with Philippine Accounting Standards (PAS) 34, *Interim Financial Reporting*, under the Philippine Financial Reporting Standards (PFRSs).

- ii.) Explanatory comments about the seasonality or cyclicity of interim operations;

Beverage Segment is affected by seasonality of operations.

The sales of the beverage segment are affected by the weather, generally being higher in the hot, dry months from March through June and lower during the wetter monsoon months or July through October. Beverage products also tend to experience a period of higher sales around the Christmas and New Year holiday period in late December through early January. The beverage segment adjusts its production levels to reflect its historical experience of seasonal varieties. In addition, the Philippines is at risk from typhoons during the monsoon period. Typhoons usually result in substantially reduced sales in the affected area, and have, in the past, interrupted production at the beverage segment's plants in affected areas. While these factors lead to a natural seasonality in our sales, unreasonable weather could also significantly affect sales and profitability compared to previous comparable periods. This information is provided to allow for a proper appreciation of the results, however management have concluded that this does not constitute "highly seasonal" as considered by PAS 34, *Interim Financial Reporting*. There are no seasonal aspects that had a material effect on the financial position or condition and results of operations of the distilled spirits, tobacco and banking segments.

- iii.) The nature and amount of items affecting assets, liabilities, equity, net income, or cash flows that is unusual because of their nature, size, or incidents.

The material items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size, or incidents are included in the Management discussion and analysis of the report.

- iv.) Nature and amount of changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years, if those changes have a material effect in the current interim period

Not Applicable. There were no changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years.

- v.) Issuances, repurchases, and repayments of debt and equity securities.

There were no issuances, repurchases and repayments of debt and equity securities.

- vi.) Dividends paid (aggregate or per share) separately for ordinary shares and other shares.

On March 17, 2021, the Board of Directors of LTG approved the declaration and distribution of regular cash dividends of ₱0.15 per share and special cash dividends of ₱0.09 per share to all stockholders of record as of March 31, 2021. The dividends were paid on April 12, 2021.

On June 11, 2021, the Board of Directors of LTG approved the declaration and distribution of special cash dividends of ₱0.24 per share to all stockholders of record as of June 25, 2021. The dividends were paid on July 7, 2021.

- vii.) Segment revenue and segment result for business segments or geographical segments, whichever is the issuer's primary basis of segment.

Please refer to Note 3 – Segment Information, in the interim consolidated financial statements.

- viii.) Material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period;

None.

- ix.) The effect of changes in the composition of the issuer during the interim period, including business combinations, acquisition or disposal of subsidiaries and long-term investments, restructurings, and discontinuing operations.

None.

- x.) Changes in contingent liabilities or contingent assets since the last annual balance sheet date.

None. The Company has no contingent liabilities or assets.

- xi.) Existence of material contingencies and any other events or transactions that are material to an understanding of the current interim period.

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.

Beverage

ABI maintains a legal department whose main function is to pursue collection cases and handle litigation arising from labor disputes. As of September 30, 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.

Distilled Spirits

In the ordinary course of business, TDI is contingently liable for lawsuits and claims, which either are 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.

Property Development

Kingston Tuscani, et al. vs. Paramount Holdings and Eton Properties

The Company is one of the appellees in CA G.R. No. CV-106191 entitled "Kingston Tuscani Enterprise & Development Corporation, Cristeta Babaison, et al. vs. Paramount Holding Equities and Eton Properties Philippines, Inc." The case involves the Company's property in Quezon City covered by Transfer Certificate of Title (TCT) No. 62821 located at the corner of EDSA and Quezon Avenue, Quezon City. The plaintiffs seek the annulment of the Company's title alleging that it overlaps with TCT No. 300828. Plaintiffs also allege that the signature of the then Register of Deeds on the Company's title is a forgery. In its Answer, the defendants, including the Company raised the defense that the property was acquired through public bidding from the Land Bank of the Philippines where Paramount was the highest bidder at Php1.03 billion and which sale was approved by the President of the Philippines then. Further, there is no adverse claim or notice of listeners, encumbrance, or annotation of any overlapping claim on the Company's title. Based on an investigation conducted into the plaintiffs' title, it appeared that the technical descriptions of TCT No. 300828 overlap several titled properties when plotted. It was also found by the NBI that plaintiff's title was not regularly issued, and, upon further examination, the technical description overlaps other titled properties located in Aurora Boulevard, and Manga Street, among others, showing that the plaintiffs' property was located elsewhere when plotted. Additionally, defendants challenged the standing of the plaintiffs as not being the real parties in interest and subsequently requested the Court for a hearing on its affirmative defenses raised in its Motion to Dismiss. After due hearing, the Court, on December 14, 2014 issued a Resolution dismissing the complaint against the Company. The plaintiffs filed a Motion for reconsideration which was denied by the Court on October 13, 2015. Kingston filed a Notice of Appeal which was docketed as CA-G.R.-CV no. 106191. Paramount and Eton already filed their Appellees' Brief on September 21, 2016. Per the Resolution dated March 8, 2017 of the Court of Appeals, the case is deemed submitted for decision.

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.

Annex “B”

LT GROUP, INC. AND SUBSIDIARIES

Management Discussion and Analysis of
Financial Condition and Results of Operations

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

The financial statements are filed as part of this Form 17-Q

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

RESULTS OF OPERATIONS

LT Group, Inc. (LTG) posted a consolidated net income of ₱6.2 billion for 9M21 lower than the ₱17.9 billion net income reported for 9M20.

The consolidated net income attributable to equity holders of LTG was ₱10.0 billion for 9M21, 38.2% lower than 9M20's ₱16.1 billion. This is due to the negative net contribution of the banking segment in the group. The banking segment's net income increased from ₱4.0 billion for the nine months ended September 30, 2020 to ₱24.4 billion in the same period of 2021. Part of the bank's income included a ₱33.6 billion gain on the loss of control of PNB Holdings Corporation (PHC) that was eliminated at the consolidated level because PHC is still owned and controlled ultimately by LTG. LTG's share of the gain, at ₱19.0 billion was eliminated from LTG's attributable net income from PNB, bringing the bank's 9M21 contribution to a ₱5.2 billion loss. This was also due to higher provisions for impairment, credit and other losses by ₱11.4 billion as the bank continued to build up loan reserves for the protracted impact of the COVID-19 pandemic to the macro-economic environment. Property development segment's net income was ₱367 million in 9M21, lower than 9M20's ₱633 million. Distilled spirits segment's net income was ₱1.0 billion, lower than the ₱1.1 billion recognized for the period ended September 30, 2020. This was partly offset by the improvements in the operating results of the tobacco and beverage segments. The tobacco segment's net income was ₱13.3 billion for 9M21, 9.7% higher than 9M20's ₱12.2 billion. The beverage segment's net income of ₱411 million in 9M21 was significantly higher compared to the reported income of ₱4 million in the same period last year. Equity in net earnings from VMC amounted to ₱169 million.

Consolidated revenues amounted to ₱66.9 billion for the nine months ended September 30, 2021, ₱3.2 billion lower than the ₱70.1 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 segment revenues.

Cost of sales and services decreased by 3.9% from ₱31.4 billion for the nine months ended September 30, 2020 to ₱30.2 billion in the current period of 2021, primarily attributable to the lower levels of high-cost deposits by the banking segment, lower sales volume by the beverage segment and decline in real estate sales of the property development segment.

Operating expenses amounted to ₱44.2 billion in 9M21 from ₱32.6 billion in 9M20 or a 35.4% increase. This was as a result of higher general and administrative expenses by 36.0%, from ₱31.1 billion in 2020 to ₱42.3 billion in 2021 and is mainly due to the increase in provisions for impairment and credit losses by the banking segment. Selling expenses increased to ₱1.8 billion in 9M21 from ₱1.4 billion in 9M20 as higher advertising and related expenses were incurred.

SEGMENT OPERATIONS

Banking

The banking segment's net income was ₱24.4 billion in 9M21, higher than the ₱4.0 billion recorded for the same period in 2020.

Interest income in the current period of ₱31.5 billion was 10.3% 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 36.3% or ₱3.3 billion was primarily due to the decline in the levels of high-cost deposits as compared to the same period last year. Net interest income of ₱25.8 billion was 1% lower year-on-year (y-o-y) as net interest margin declined to 3.2% from 3.5%.

Net service fees and commission income increased to ₱3.9 billion in 9M21 compared to 9M20's ₱2.5 billion due to higher loan-related and credit card-related fees, as well as significant bancassurance and underwriting fees recognized during the period.

Trading and investment securities and net foreign exchange gains were lower at ₱1.6 billion in 9M21 compared to 9M20's ₱4.2 billion mainly due to the decline in net gains on trading and investments securities.

Other income was higher at ₱35.5 billion for the nine months ended September 30, 2021 mainly due to the recognition of the ₱33.6 billion gain on loss of control of PHC as a subsidiary in accordance with PFRS 10, *Consolidated Financial Statements* in May 2021.

Operating expenses increased by 39.6% to ₱40.1 billion from ₱28.8 billion due to higher provisions for impairment, credit and other losses by ₱11.4 billion compared to the same period last year, as the bank continued to build up loan reserves for the protracted impact of the COVID-19 pandemic to the macro-economic environment.

Tobacco

The tobacco segment's net income was at ₱13.3 billion for the nine months ended September 30, 2021, 9.4% higher than 9M20's ₱12.2 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 ₱1.0 billion for the nine months ended September 30, 2021, lower than the ₱1.1 billion reported in the same period last year.

Net revenues increased by 9.1% y-o-y to ₱18.9 billion in 9M21 mainly due to the improvement in the sales volume of bioethanol and liquor products.

Cost of sales increased by 11.4% to ₱16.2 billion in the current period as against ₱14.5 billion in the same period last year primarily due to higher sales volume and higher excise taxes. Gross profit margin was at 14.5% in 9M21, lower than the 16.3% in 9M20 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 higher at ₱1.5 billion in 9M21 compared ₱1.2 billion in 9M20 as higher selling expenses were incurred in the current period.

Beverage

The beverage segment's net income was higher at ₱411 million for the nine months ended September 30, 2021 from ₱4 million in the same period last year as ABI stopped recording share of losses from ABHP. The recognition of losses should only be to the extent of the investment cost and is consistent with the changes in the plan for the alcoholic beverage business. In 9M20 equity in net losses from ABHP amounted to ₱511 million.

Revenues of the beverage segment were higher at ₱10.1 billion in 9M21 compared to 9M20's ₱10.0 billion. Sales volume on Cobra Energy drink were higher while bottled water and Vitamilk soymilk registered lower sales volume. Sales continue to be adversely affected by the various forms of lockdowns imposed since March 2020. Overall gross profit margin declined to 25.1% from 26.0% as a result of the sales mix.

Operating expenses of ₱1.9 billion in 2021 was higher than the ₱1.7 billion in 2020 due to higher marketing and selling expenses.

Property Development

The property development segment reported a net income of ₱367 million for the nine months of 2021, lower than the ₱633 million for the same period last year.

Rental revenues for the current period accounted for ₱1.2 billion or 93.3% of revenues, representing an 11.2% decline over the same period in 2020, due to lower occupancy for retail and residential. Real estate sales were 83.5% lower y-o-y to ₱86 million.

Operating expenses were higher by 15.4% from ₱533 million in 9M20 to ₱615 million in 9M21 as general and administrative expenses increased.

FINANCIAL CONDITION

The Company's consolidated Total Assets as of September 30, 2021 and December 31, 2020 amounted to ₱1.3 trillion and ₱1.4 trillion, respectively. Current Assets decreased by 13.4% or ₱91.7 billion and Noncurrent Assets were lower by ₱7.9 billion or 1.2%.

The consolidated Current Assets decreased by 13.4% from ₱684.8 billion as of December 31, 2020 to ₱593.1 billion. Cash and Cash Equivalents decreased from ₱304.1 billion as of end-2020 to ₱229.1 billion as of September 30, 2021 on account of lower Due from BSP, Interbank Loans Receivables and Cash on Hand and In Banks of the banking segment. Financial Assets at Fair Value through Other Comprehensive income (FVTOCI) decreased due to disposal of various securities, net of purchases and decline in the fair values of the investments. 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. Financial Assets at Fair Value through Profit or Loss increased from ₱23.9 billion to ₱32.5 billion due to additional investments and reclassifications. Inventories as of September 30, 2021 amounted to ₱15.2 billion, 15.4% higher than end-2020 due to higher ending inventory levels of the distilled spirits and beverage segments.

The 1.2% decrease in consolidated Noncurrent Assets was mainly due to the movements in the Noncurrent portion of Financial Assets at FVTOCI and Financial Assets at Amortized Cost. Noncurrent portion of Financial Assets at FVTOCI were lower at ₱73.5 billion versus end-2020 of ₱76.6 billion decreased due to disposal of various securities, net of purchases and decline in the fair values of the investments. Financial Assets at Amortized Cost were lower by ₱4.8 billion on account of disposal of various investment securities, net of purchases made as of September 30, 2021. 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 at cost and Investment properties were higher by ₱2.4 billion and ₱1.3 billion, respectively, due to acquisitions made by the group for the nine months of 2021. Deferred income tax assets were higher due to the recognition of deferred tax assets on additional allowance for credit losses, which the Group has the benefit of tax deductions against future taxable income only upon actual write-offs.

Consolidated Total Liabilities decreased by 8.9% to ₱999.8 billion as of September 30, 2021 from ₱1.1 trillion as of December 31, 2020. This was on account of the decrease in Total Current Liabilities by 10.5% from ₱953.5 billion in December 31, 2020 to ₱879.7 billion as of the end of the current period and decline in Noncurrent Liabilities by 16.7% from ₱144.0 billion to ₱120.0 billion.

Current portion of the banking segment's Deposit Liabilities amounted to ₱795.8 billion as of September 30, 2021, 3.2% lower than end-2020 balance as time deposits dropped. Current portion of Bills and Acceptances Payable decreased by 37.9% due to net settlements of short-term interbank borrowing and repurchase agreements. Short-term debts as of September 30, 2021 amounted to ₱3.9 billion, 16.9% lower than end-2020 on account of payments made by ABI. Current portion of long-term debts were lower by 91.3% 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 September 30, 2021. Financial liabilities at fair value through profit or loss increased to ₱1.7 billion 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 ₱38.7 billion as of September 30, 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-September 2021 brought by net settlements of interbank borrowing and repurchase agreements. Long-term debts-net of current portion increased by ₱5.9 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 declined by 0.7% to ₱253.7 billion as of September 30, 2021, on account of the net decrease in the retained earnings brought about by the income earned for the period ended September 30, 2021 of ₱10.0 billion less dividends declared amounting to ₱5.2 billion. Other comprehensive income decreased due to the lower fair values of Financial Assets at FVTOCI.

LTG's top five (5) key performance indicators are described as follows:

1.) Revenues

Revenues for the period ended September 30, 2021 amounted to ₱66.9 billion, 4.5% lower from last year's ₱70.1 billion.

2.) Net Income

Consolidated Net Income for the nine months ended September 30, 2021 amounted to ₱6.2 billion, 65.3% lower than last year's ₱17.9 billion.

3.) Current Ratio

Current ratio was 0.72:1 as of December 31, 2020 and 0.67:1 as of September 30, 2021.

4.) Debt to Equity Ratio

Debt-to-equity ratio decreased from 4.30:1 in December 31, 2020 to 3.94:1 as of September 30, 2021.

5.) Earnings Per Share

LTG's earnings per share attributable to holders of the parent company for the nine months ended September 30, 2021 and 2020 were ₱0.92 and ₱1.49, respectively.

The manner by which the Company calculates the above indicator is as follows:

Debt to equity ratio = Total Liabilities / Total Equity

Current ratio = Current assets / Current Liabilities

Earnings per share = Net Income attributable to holders of parent company / Common shares outstanding

Trends, Uncertainties or Contingencies That Will Affect Liquidity in the Next Twelve Months:

- (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, real estate 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 capital expenditures for the regular replacements and upkeep of its assets.
- (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 analyses (V) showed the following material changes:

- 1. Cash and cash equivalents – H, (25%)
- 2. Financial assets at fair value through profit or loss – H, 36%
- 3. Financial assets at FVTOCI - current – H, (30%)
- 4. Inventories – H, 15%
- 5. Assets of disposal group classified as held for sale – H, (100%)
- 6. Financial assets at amortized cost - noncurrent – H, (9%)
- 7. Investment in associates and joint ventures – (7%)
- 8. Property, plant and equipment – at cost – H, 21%
- 9. Deferred income tax assets – H, 5%
- 10. Other noncurrent assets – H, (13%)
- 11. Financial liabilities at fair value through profit or loss – current – H, 141%
- 12. Bills and acceptances payable - current – H, (38%)
- 13. Short-term debts – H, (17%)
- 14. Accounts payable and accrued expenses – H, (5%)
- 15. Current portion of long-term debts – H, (91%)
- 16. Liabilities of disposal group classified as held for sale – H, (100%)
- 17. Deposit Liabilities – noncurrent – H, (34%)
- 18. Bills and acceptances payable – noncurrent – H, (77%)
- 19. Long-term debts net of current portion – H, 11%
- 20. Other noncurrent liabilities – H, 14%
- 21. Other comprehensive income – H, (41%)
- 22. Reserves of disposal group classified as held for sale – H, (100%)
- 23. Banking revenue – H, (11%)
- 24. Distilled spirits revenue – H, 9%
- 25. Property development revenue – H, (21%)
- 26. Equity in net earnings of associates and joint ventures – H, 14%
- 27. Selling expenses – H, 24%
- 28. General and administrative expenses – V, 19%; H, 36%
- 29. Finance income – H, 26%
- 30. Foreign exchange gains – net – H, (26%)
- 31. Others-net – H, 69%
- 32. Provision for income tax – current – H, (20%)
- 33. Provision for income tax – deferred – H, (74%)
- 34. Net income – continuing operations – V, (16%); H, (65%)
- 35. Net income – discontinued operations – H, (73%)
- 36. Total net income – V, (29%); H, (65%)

- 37. Net income attributable to equity holders of the Company – V, (8%); H, (38%)
- 38. Net income attributable to noncontrolling interests – V, (8%); H, (305%)

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 the Company.

LT GROUP, INC. and SUBSIDIARIES
Aging of Loans and Receivables
As of September 30, 2021 (Unaudited)
(in Php thousands)

The schedule of consolidated aging of loans and receivables as required by Philippine Stock Exchange (PSE) in its Circular letter No. 2164-99 dated August 23, 2001 is shown below (in thousands):

	September 30, 2021
Current Accounts	₱627,599,003
Past Due:	
Less than 30 days	3,134,780
31 to 90 days	3,412,011
91 to 180 days	5,197,022
More than 180 days	<u>30,563,495</u>
Loans and Receivables, gross	669,906,311
Less:	
Unearned and other deferred income	(1,207,088)
Allowance for credit losses	<u>(52,986,516)</u>
Loans and Receivables, net	<u>₱615,712,707</u>

**LT GROUP, INC. and SUBSIDIARIES
FINANCIAL SOUNDNESS INDICATORS**

Ratio	Formula	9/30/2021	12/31/2020
Current ratio	Current Assets / Current Liabilities	0.67	0.72
Acid test ratio	(Current Assets – Inventories – Prepaid Expenses) / Current Liabilities	0.65	0.70
Solvency ratios (annualized)	(Net income after tax + Depreciation) / (Short term debt + Long-term Debt)	0.22	0.38
Debt-to-equity ratio	(Short term debt + Long-term Debt) / Equity attributable to equity holders of the Parent Company	0.36	0.40
Asset-to-equity ratio	Total Assets / Total Equity	4.94	5.30
		9/30/2021	9/30/2020
Interest rate coverage ratio	EBITDA / Interest expense	52.24	91.07
Return on equity (annualized)	Net income attributable to equity holders of the Company / Equity attributable to equity holders of the Parent Company	0.072	0.118
Return on asset (annualized)	Net income attributable to equity holders of the Parent Company / Total Assets	0.011	0.019
Net profit margin	Net income attributable to equity holders of the Parent Company / Revenues	0.15	0.23