

COVER SHEET

SEC Registration Number

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Company Name

L	T		G	R	O	U	P	,		I	N	C	.		A	N	D		S	U	B	S	I	D	I	A	R	I	E	S

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

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Form Type

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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

373

Annual Meeting Month/Day

June/30

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, 2020
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, 2020 (with comparative figures as of December 31, 2019 and for the period ended September 30, 2019) 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 13, 2020

Annex “A”

LT GROUP, INC. AND SUBSIDIARIES

Interim Condensed Consolidated Financial Statements
As at September 30, 2020 and December 31, 2019
And for the Nine Months Ended September 30, 2020 and 2019

LT Group, Inc. and Subsidiaries

Interim Consolidated Financial Statements

As at September 30, 2020 and December 31, 2019

and for the nine months ended September 30, 2020 and 2019

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

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	₱197,058,376	₱184,913,132
Financial assets at fair value through profit or loss (Notes 5 and 19)	11,277,837	13,469,380
Financial assets at fair value through other comprehensive income (FVTOCI) (Note 6)	13,348,763	16,968,590
Financial assets at amortized cost	41,657,413	25,252,670
Loans and receivables (Note 7)	235,483,110	260,926,594
Inventories (Note 8)	13,191,421	12,196,871
Due from related parties (Note 20)	1,955,306	2,029,436
Other current assets (Note 9)	10,980,463	11,379,265
Total Current Assets	524,952,689	527,135,938
Noncurrent Assets		
Loans and receivables-net of current portion (Note 7)	358,108,311	411,253,754
Financial assets at FVTOCI (Note 6)	75,933,287	110,549,031
Financial assets at amortized cost	55,147,095	75,212,087
Investment in associates and joint ventures (Note 10)	22,830,479	27,254,278
Property, plant and equipment (Note 11):		
At appraised values	58,981,040	59,811,911
At cost	11,687,115	12,087,216
Investment properties (Note 11)	32,380,485	32,631,441
Deferred income tax assets (Note 27)	4,366,902	2,386,671
Other noncurrent assets (Note 12)	6,700,367	7,508,226
Total Noncurrent Assets	626,135,081	738,694,615
TOTAL ASSETS	₱1,151,087,770	₱1,265,830,553

LIABILITIES AND EQUITY

Current Liabilities		
Deposit liabilities (Note 13)	₱671,434,274	₱772,143,072
Financial liabilities at fair value through profit or loss (Notes 14 and 19)	748,007	245,619
Bills and acceptances payable (Note 15)	27,715,747	51,821,601
Accounts payable and accrued expenses (Note 16)	24,187,712	26,700,462
Income tax payable	915,776	690,518
Short-term debts (Note 17)	3,040,000	5,150,000
Current portion of long-term debts (Note 17)	15,105,926	1,002,593
Due to related parties (Note 20)	65,325	65,325
Other current liabilities (Note 18)	13,215,593	18,842,433
Total Current Liabilities (Carried Forward)	756,428,360	876,661,623

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Total Current Liabilities (Brought Forward)	₱756,428,360	₱876,661,623
Noncurrent Liabilities		
Deposit liabilities - net of current portion (Note 13)	58,896,906	46,095,883
Bills and acceptances payable (Note 15)	14,281,638	4,141,689
Long-term debts - net of current portion (Note 17)	55,021,697	71,566,863
Net retirement benefits liabilities (Note 21)	1,634,365	1,699,743
Deferred income tax liabilities (Note 27)	8,584,054	8,510,128
Other noncurrent liabilities (Note 18)	4,727,984	3,147,053
Total Noncurrent Liabilities	143,146,644	135,161,359
Total Liabilities	899,575,004	1,011,822,982
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
Preferred shares of subsidiaries issued to Parent Company	—	8,538,837
Other equity reserves	1,024,653	1,024,653
Other comprehensive income, net of deferred income tax effect	11,619,041	18,038,315
Retained earnings	122,184,737	112,604,635
Shares of the Company held by subsidiaries	(12,519)	(12,519)
	181,543,532	186,921,541
Non-controlling interests (Notes 1 and 28)	69,969,234	67,086,030
Total Equity	251,512,766	254,007,571
TOTAL LIABILITIES AND EQUITY	₱1,151,087,770	₱1,265,830,553

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	
	2020 (Unaudited)	2019 (Unaudited)	2020 (Unaudited)	2019 (Unaudited)
REVENUE (Note 22)				
Banking	₱41,769,565	₱41,631,997	₱12,000,016	₱14,721,473
Beverage	9,170,028	11,144,987	2,854,231	3,545,306
Distilled spirits	17,317,092	13,813,803	7,335,187	4,306,801
Property development	1,877,626	2,336,484	681,303	943,933
	70,134,311	68,927,271	22,870,737	23,517,513
COST OF SALES AND SERVICES (Note 22)	31,417,833	34,285,849	10,702,978	11,377,036
GROSS INCOME	38,716,478	34,641,422	12,167,759	12,140,477
EQUITY IN NET EARNINGS OF ASSOCIATES AND JOINT VENTURES (Note 10)	12,052,252	8,897,081	3,980,343	3,507,750
	50,768,730	43,538,503	16,148,102	15,648,227
OPERATING EXPENSES				
Selling expenses (Note 23)	1,462,988	2,200,939	518,323	695,236
General and administrative expenses (Note 24)	31,861,509	24,226,747	8,077,449	8,408,488
	33,324,497	26,427,686	8,595,772	9,103,724
OPERATING INCOME	17,444,233	17,110,817	7,552,330	6,544,503
OTHER INCOME (CHARGES)				
Finance costs (Note 25)	(268,632)	(239,540)	(65,869)	(113,802)
Finance income (Note 25)	32,782	126,001	927	49,943
Foreign exchange gains - net	787,781	834,558	268,452	201,096
Others – net (Note 26)	2,041,947	2,842,981	631,809	1,073,027
	2,593,878	3,564,000	835,319	1,210,264
INCOME BEFORE INCOME TAX	20,038,111	20,674,817	8,387,649	7,754,767
PROVISION FOR INCOME TAX (Note 27)				
Current	4,091,529	3,020,428	1,299,338	1,115,474
Deferred	(1,975,658)	5,762	(121,370)	52,760
	2,115,871	3,026,190	1,177,968	1,168,234
NET INCOME	₱17,922,240	₱17,648,627	₱7,209,681	₱6,586,533
NET INCOME ATTRIBUTABLE TO:				
Equity holders of the Company	₱16,102,940	₱14,717,623	₱6,075,713	₱5,480,478
Non-controlling interests	1,819,300	2,931,004	1,133,968	1,106,055
	₱17,922,240	₱17,648,627	₱7,209,681	₱6,586,533
Basic/Diluted Earnings Per Share (Note 29)	₱1.49	₱1.36	₱0.56	₱0.51

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	
	2020 (Unaudited)	2019 (Unaudited)	2020 (Unaudited)	2019 (Unaudited)
NET INCOME	₱17,922,240	₱17,648,627	₱7,209,681	₱6,586,533
OTHER COMPREHENSIVE INCOME (LOSS)				
<i>Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:</i>				
Accumulated translation adjustment	(236,422)	(379,196)	(51,313)	(55,671)
Net changes in fair value of Financial Assets at FVTOCI, net of deferred income tax effect	(4,007,739)	5,602,177	(1,734,907)	1,965,405
	(4,244,161)	5,222,981	(1,786,220)	1,909,734
<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	(491,929)	(33,187)	(106,769)	31,204
	(491,929)	(33,187)	(106,769)	31,204
OTHER COMPREHENSIVE INCOME (LOSS) - Net of income tax effect	(4,736,090)	5,189,794	(1,892,989)	1,940,938
TOTAL COMPREHENSIVE INCOME	₱13,186,150	₱22,838,421	₱5,316,692	₱8,527,471
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Equity holders of the Company	₱10,302,946	₱17,673,804	₱4,517,198	₱6,638,664
Non-controlling interests	2,883,204	5,164,617	799,494	1,888,807
	₱13,186,150	₱22,838,421	₱5,316,692	₱8,527,471

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, 2020 AND 2019
(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, 2018	₱10,821,389	₱35,906,231	₱–	₱18,060,000	₱804,095	₱–	₱15,388,591	₱91,998,914	(₱12,519)	₱172,966,701	₱58,223,688	₱231,190,389
Net income for the period	–	–	–	–	–	–	–	14,717,623	–	14,717,623	2,931,004	17,648,627
Other comprehensive income	–	–	–	–	–	–	2,956,181	–	–	2,956,181	2,233,613	5,189,794
Total comprehensive income for the period	–	–	–	–	–	–	2,956,181	14,717,623	–	17,673,804	5,164,617	22,838,421
Dividends declared	–	–	–	–	–	–	–	(3,246,418)	–	(3,246,418)	–	(3,246,418)
Redemption of preferred shares	–	–	–	(8,521,000)	–	–	–	–	–	(8,521,000)	–	(8,521,000)
Increase in noncontrolling interest without loss of control	–	–	–	–	–	–	–	–	–	–	4,671,609	4,671,609
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	–	–	–	–	–	–	(571,225)	571,225	–	–	–	–
BALANCES AT SEPTEMBER 30, 2019	₱10,821,389	₱35,906,231	₱–	₱9,539,000	₱804,095	₱–	₱17,773,547	₱104,041,344	(₱12,519)	₱178,873,087	₱68,059,914	₱246,933,001
BALANCES AT DECEMBER 31, 2019	₱10,821,389	₱35,906,231	₱–	₱8,538,837	₱1,024,653	₱–	₱18,038,315	₱112,604,635	(₱12,519)	₱186,921,541	₱67,086,030	₱254,007,571
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
Dividends declared	–	–	–	–	–	–	–	(7,142,118)	–	(7,142,118)	–	(7,142,118)
Redemption of preferred shares	–	–	–	(8,538,837)	–	–	–	–	–	(8,538,837)	–	(8,538,837)
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	₱10,821,389	₱35,906,231	₱–	₱–	₱1,024,653	₱–	₱11,619,041	₱122,184,737	(₱12,519)	₱181,543,532	₱69,969,234	₱251,512,766

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	
	2020	2019
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱20,038,111	₱20,674,817
Adjustments for:		
Equity in net earnings of associates (Note 10)	(12,533,200)	(9,524,754)
Provision for losses (Note 24)	9,027,575	1,426,930
Depreciation and amortization (Note 22, 23 and 24)	4,249,114	3,885,046
Gain on disposal of financial assets at FVTOCI	(2,298,010)	(999,340)
Mark-to-mark los (gain) on financial assets at FVTPL (Note 26)	641,683	(11,220)
Share in losses of joint venture	480,948	627,673
Finance costs (Note 25)	268,632	239,540
Movements in accrued retirement benefits (Note 21)	(65,378)	(655,561)
Finance income (Note 25)	(32,782)	(126,001)
Gain on disposal of other assets (Note 26)	(12,432)	(635,245)
Dividend income (Note 26)	(3,302)	(43,098)
Operating income before changes in working capital	19,760,959	14,858,787
Decrease (increase) in:		
Receivables	56,538,604	(62,308,841)
Other assets	(2,282,348)	(1,428,276)
Financial assets at FVTPL	1,549,860	(6,240,256)
Inventories	(994,550)	(318,590)
Increase (decrease) in:		
Deposit liabilities	(78,999,582)	88,476,834
Accounts payable and accrued expenses	4,629,368	3,903,222
Other liabilities	(3,968,523)	2,314,521
Financial liabilities at FVTPL	502,388	96,011
Cash generated from operations	(3,263,824)	39,353,412
Dividends received	17,541,609	6,939,812
Income taxes paid, including creditable withholding and final taxes	(5,376,779)	(3,322,087)
Interest paid	(268,632)	(239,540)
Interest received	32,782	126,001
Contributions to retirement plan	(1,730)	(1,513)
Net cash from operating activities	8,663,426	42,856,085
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of:		
Financial assets at FVTOCI (Note 6)	(50,930,720)	(93,347,417)
Financial assets at amortized cost	(50,856,910)	(56,212,080)
Property, plant and equipment (Note 11)	(3,255,565)	(4,080,788)
Investment properties (Note 11)	(938,623)	(1,592,573)
Other assets	(194,566)	(336,193)
Investment in joint venture and associates (Note 10)	(1,065,558)	(1,731,312)
Proceeds from sale of:		
Financial assets at FVTOCI (Note 6)	88,131,109	12,803,054
Financial assets at amortized cost	54,335,058	51,153,533
Other assets (Note 12)	160,659	1,536,231
Net cash generated (used) in investing activities	35,384,884	(91,807,545)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Bills and acceptances payable	88,524,017	1,370,654,691
Bonds payable	—	51,920,549
Long term negotiable certificate of deposits	—	8,143,277
Short-term debt	—	3,700,000
Issuance of shares to noncontrolling interest arising from stock rights issuance	—	4,671,609
Payments of:		
Bills and acceptances payable	(101,733,132)	(1,341,838,676)
Dividends	(7,142,118)	(3,246,420)
Matured long term negotiable certificate of deposits	(7,000,000)	(9,000,000)
Long-term debts (Note 17)	(2,441,833)	—
Short-term debt	(2,110,000)	—
Advances from affiliates	—	(9,056)
Net cash generated (used) in financing activities	(31,903,066)	84,995,974
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	12,145,244	36,044,514
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	184,913,132	176,496,004
CASH AND CASH EQUIVALENTS AT END OF PERIOD (Note 4)	₱197,058,376	₱212,540,518

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 Tanduary 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, 2020, and December 31, 2019, 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, 2019 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, 2020		December 31, 2019		September 30, 2019		
	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	-	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
(Forward)							
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, 2020		December 31, 2019		September 30, 2019		
	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	-	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, 2020 and December 31, 2019, the Bank Holding Companies consist of 27 entities with aggregate direct ownership interest of 59.83% in PNB, of which 20 companies are incorporated in the Philippines and seven (7) companies are incorporated in the British Virgin Islands.

(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.

Changes in Accounting Policies and Disclosures

Starting January 1, 2019, the Group applied for the first time the following new and amended accounting standards and interpretations.

New Standard and Interpretation

- PFRS 16, Leases

PFRS 16 supersedes PAS 17, *Leases*, Philippine Interpretation IFRIC 4, *Determining whether an Arrangement contains a Lease*, Philippine Interpretation SIC-15, *Operating Leases-Incentives* and Philippine Interpretation SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize most leases on the statement of financial position.

Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases. Therefore, PFRS 16 did not have an impact for leases where the Group is the lessor.

The Group adopted PFRS 16 using the modified retrospective approach upon adoption of PFRS 16 in 2019 and elects to apply the standard to contracts that were previously identified as leases applying PAS 17 and Philippine Interpretation IFRIC-4. The Company therefore did not apply the standard to contracts that were not previously identified as containing a lease applying PAS 17 and Philippine Interpretation IFRIC-4.

The effects of adoption of PFRS 16 as at January 1, 2019 follows:

	Increase (Decrease)
Consolidated statement of financial position:	
Right-of-use (ROU) assets (included under 'Property, plant and equipment')	P3,126,156
Prepayments (under 'Other current assets')	(5,272)
Accrued rent (included under 'Accounts payable and accrued expenses')	(216,012)
Lease liabilities - (included under 'Current portion of long-term debts' and 'Long-term debts - net of current portion')	3,336,896

The Group has lease contracts for branch offices/premises, office and parking spaces and land where the property, plant and equipment and investment properties are constructed. Before the adoption of PFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. Refer to the *Leases* section below for the accounting policy prior to January 1, 2019.

Upon adoption of PFRS 16, the Group applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. Refer to the *Leases* section below for the accounting policy beginning January 1, 2019.

Leases previously accounted for as operating leases

The Group recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognized based on the amount equal to the lease liabilities, adjusted for any related accrued lease payments previously recognized. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Relied on its assessment of whether leases are onerous immediately before the date of initial application;
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months from the date of initial application;
- Excluded the initial direct costs from the measurement of the ROU assets at the date of initial application; and
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease.

Based on the above, as at January 1, 2019:

- Property, plant and equipment and investment properties were recognized amounting to P2,857.5 million and P234.2 million, respectively, representing the amount of ROU assets set up on transition date.
- Lease liabilities of P3,336.9 million were recognized.

- Prepayments of ₱5.3 million and accounts payable and accrued expenses of ₱245.2 million related to previous operating leases arising from straight-lining under PAS 17 were derecognized.

As of January 1, 2019, the weighted average incremental borrowing rate applied by the Group to the lease liabilities ranges from 7.02% to 8.53%. The lease liabilities at as January 1, 2019 can be reconciled to the operating lease commitments as of December 31, 2018 as follows:

Operating lease commitments as at December 31, 2018	₱4,379,422
Commitments relating to:	
Leases of short-term and low-value assets	(679,474)
Renewal periods not included in operating lease commitments as at December 31, 2018	15,149
Total gross lease payments as of January 1, 2019	3,715,097
Weighted average incremental borrowing rate at January 1, 2019	7.02% to 8.53%
Lease liabilities recognized as at January 1, 2019	₱3,336,896

Due to the adoption of PFRS 16, the Group's operating income in 2019 improved, while its finance cost increased. This is due to the change in the accounting for rent expense related to leases that were classified as operating leases under PAS 17.

The adoption of PFRS 16 did not have any impact on equity in 2019, since the Group elected to measure the ROU assets at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the consolidated statement of financial position immediately before the date of initial application.

- Philippine Interpretation IFRIC 23, *Uncertainty over Income Tax Treatments*

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12, *Income Taxes*, and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:

- whether the Group considers uncertain tax treatments separately
- the assumptions the Group makes about the examination of tax treatments by taxation authorities
- how the Group determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- how an entity considers changes in facts and circumstances

The Group determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and use the approach that better predicts the resolution of the uncertainty. The Group assumes that the taxation authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the Group concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, the

Group shall reflect the effect of the uncertainty for each uncertain tax treatment using the method the Group expects to better predict the resolution of the uncertainty.

Upon adoption of the Interpretation, the Group has assessed whether it has any uncertain tax position and applies significant judgment in identifying uncertainties over its income tax treatments. Since the Group operates in a complex and regulated environment, it assessed whether the Interpretation had an impact on its consolidated financial statements. Based on its assessment and in consultation with its tax counsel, the Group determined that it is probable that its income tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. Accordingly, the Interpretation did not have significant impact on the consolidated financial statements of the Group.

Amendments to Accounting Standards

The adoption of the following amendments and improvements to accounting standards as at January 1, 2019 did not have an impact on the financial statements of the Group:

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*

Under PFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

These amendments had no impact on the consolidated financial statements of the Group.

- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*

The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset

ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

The amendments had no impact on the consolidated financial statements of the Group as it did not have any plan amendments, curtailments, or settlements during the period.

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*

The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in PFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28, *Investments in Associates and Joint Ventures*.

These amendments had no impact on the consolidated financial statements as the Group does not have long-term interests in its associate and joint venture.

- Annual Improvements to PFRSs 2015-2017 Cycle

- Amendments to PFRS 3, *Business Combinations*, and PFRS 11, *Joint Arrangements*, *Previously Held Interest in a Joint Operation*

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in PFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted. These amendments had no impact on the consolidated financial statements of the Group as there is no transaction where joint control is obtained.

- Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application is permitted. These amendments had no impact on the consolidated financial statements of the Group because dividends declared by the Group do not give rise to tax obligations under the current tax laws.

- Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted.

Since the Group's current practice is in line with these amendments, they had no impact on the consolidated financial statements of the Group.

- Adoption of IFRIC Agenda Decision on Over Time Transfer of Constructed Goods (PAS 23, *Borrowing Cost*) for the Real Estate Industry

In March 2019, IFRIC published an Agenda Decision on whether borrowing costs can be capitalized on real estate inventories that are under construction and for which the related revenue is/will be recognized over time under par. 35(c) of IFRS 15. IFRIC concluded that borrowing costs cannot be capitalized for such real estate inventories as they do not meet the definition of a qualifying asset under PAS 23 considering that these inventories are ready for their intended sale in their current condition.

The IFRIC agenda decision would change the Group's current practice of capitalizing borrowing costs on real estate projects with pre-selling activities.

On February 21, 2020, the Philippine SEC issued Memorandum Circular No. 4, Series of 2020, providing relief to the Real Estate Industry by deferring the implementation of the above IFRIC Agenda Decision until December 31, 2020. Effective January 1, 2021, the Real Estate Industry will adopt the IFRIC agenda decision and any subsequent amendments thereto retrospectively or as the SEC will later prescribe. A real estate company may opt not to avail of the deferral and instead comply in full with the requirements of the IFRIC agenda decision.

For real estate companies that avail of the deferral, the SEC requires disclosure in the Notes to the Financial Statements of the accounting policies applied, a discussion of the deferral of the subject implementation issues, and a qualitative discussion of the impact in the financial statements had the IFRIC agenda decision been adopted.

The Group did not avail of the relief provided by the SEC and instead adopted the IFRIC agenda decision effective January 1, 2019 since the amount involved is immaterial impact. The adoption resulted in a reduction in Retained earnings by ₱135.42 million, Real estate inventories (included under 'Inventories') by ₱52.17 million, and Investment properties by ₱83.25 million as at January 1, 2019.

Borrowing costs capitalized in real estate inventories that were subsequently reclassified to investment properties are also derecognized.

Standards and Interpretation Issued but not yet Effective

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, 2020

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

The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

These amendments will apply on future business combinations of the Group.

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

The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.

An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

Effective beginning on or after January 1, 2021

- *PFRS 17, Insurance Contracts*

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

The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted.

Deferred effectivity

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

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

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

The Group continues to assess the impact of the above new and amended accounting standards and Interpretations effective subsequent to 2019 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 11.0% and 3.0% as of September 30, 2020, respectively, and 19.7% and 4.0% as of December 31, 2019 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 79% and 85% of the segment's total revenue in 2020 and 2019, 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, 2020:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
	(In Thousands)						
Segment revenue:							
External customers	₱41,769,565	₱17,317,092	₱9,170,028	₱–	₱1,877,626	₱–	₱70,134,311
Inter-segment	147,865	33,943	784,888	–	–	(966,696)	–
	41,917,430	17,351,035	9,954,916	–	1,877,626	(966,696)	70,134,311
Cost of sales and services	9,837,068	14,531,004	7,365,947	–	553,605	(869,791)	31,417,833
Gross profit	32,080,362	2,820,031	2,588,969	–	1,324,021	(96,905)	38,716,478
Equity in net earnings (loss) of associates and joint ventures	90,698	–	(480,948)	12,238,321	–	204,181	12,052,252
	32,171,060	2,820,031	2,108,021	12,238,321	1,324,021	107,276	50,768,730
Selling expenses	–	725,167	721,008	–	16,813	–	1,462,988
General and administrative expenses	29,475,547	522,870	1,003,972	120,721	515,935	222,464	31,861,509
Operating income	2,695,513	1,571,994	383,041	12,117,600	791,273	(115,188)	17,444,233
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	799,244	(2,416)	–	–	(3,613)	(5,434)	787,781
Other income (charges) – net	1,675,150	5,864	5,933	22,745	311,466	20,789	2,041,947
Income before income tax	5,169,907	1,497,915	245,491	12,180,175	912,524	32,099	20,038,111
Provision for income tax	1,171,569	407,644	241,862	8,392	279,398	7,006	2,115,871
Segment profit	₱3,998,338	₱1,090,271	₱3,629	₱12,171,783	₱633,126	₱25,093	₱17,922,240
Depreciation and amortization expense	₱2,236,415	₱410,994	₱1,236,231	₱35,651	₱306,358	₱23,465	₱4,249,114
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 September 30, 2020 is as follows:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
	(In Thousands)						
Assets:							
Current assets	₱485,738,281	₱16,442,938	₱17,129,711	₱3,548,450	₱9,060,213	(₱6,966,904)	₱524,952,689
Noncurrent assets	558,106,373	9,179,840	15,415,723	17,440,392	22,791,092	3,201,661	626,135,081
	₱1,043,844,654	₱25,622,778	₱32,545,434	₱20,988,842	₱31,851,305	(3,765,243)	₱1,151,087,770
Liabilities:							
Current liabilities	₱746,461,513	₱6,139,629	₱8,084,011	₱289,598	₱7,316,611	(₱11,863,002)	₱756,428,360
Noncurrent liabilities	136,841,618	884,771	1,604,604	72,905	6,066,170	(2,323,424)	143,146,644
	₱883,303,131	₱7,024,400	₱9,688,615	₱362,503	₱13,382,781	(14,186,426)	₱899,575,004
Investments in associates and joint ventures	₱2,164,486	₱—	₱53,886	₱13,914,892	₱—	₱6,697,215	₱22,830,479
Equity attributable to:							
Equity holders of the Company	157,732,920	18,411,329	22,809,947	20,626,339	18,468,524	(56,505,527)	181,543,532
Non-controlling interests	2,808,603	187,049	46,872	—	—	66,926,710	69,969,234
Short-term debts	—	400,000	3,040,000	—	—	(400,000)	3,040,000
Long-term debts	66,552,724	468,434	571,093	—	5,808,727	(3,273,355)	70,127,623

For the nine months ended September 30, 2019:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
	(In Thousands)						
Segment revenue:							
External customers	₱41,631,997	₱13,813,803	₱11,144,987	₱–	₱2,336,484	₱–	₱68,927,271
Inter-segment	167,075	12,171	861,015	–	–	(1,040,261)	–
	41,799,072	13,825,974	12,006,002	–	2,336,484	(1,040,261)	68,927,271
Cost of sales and services	14,460,866	11,463,906	8,752,790	–	887,498	(1,279,211)	34,285,849
Gross profit	27,338,206	2,362,068	3,253,212	–	1,448,986	238,950	34,641,422
Equity in net earnings (loss) of associates and joint ventures	(37,892)	–	(589,781)	9,365,986	–	158,768	8,897,081
	27,300,314	2,362,068	2,663,431	9,365,986	1,448,986	397,718	43,538,503
Selling expenses	–	1,137,910	991,055	–	71,974	–	2,200,939
General and administrative expenses	21,926,460	510,182	912,916	163,095	570,744	143,350	24,226,747
Operating income	5,373,854	713,976	759,460	9,202,891	806,268	254,368	17,110,817
Finance costs	–	(56,842)	(104,225)	–	(245,923)	167,450	(239,540)
Finance income	–	807	21,417	347,666	85,697	(329,586)	126,001
Foreign exchange gains (losses)- net	837,530	2,665	–	–	(592)	(5,045)	834,558
Other income (charges) – net	2,411,271	1,966	(8,213)	135,598	260,945	41,414	2,842,981
Income before income tax	8,622,655	662,572	668,439	9,686,155	906,395	128,601	20,674,817
Provision for income tax	2,102,038	144,377	414,441	75,511	277,582	12,241	3,026,190
Segment profit	₱6,520,617	₱380,089	₱243,835	₱5,874,190	₱370,531	₱147,846	₱17,648,627
Depreciation and amortization expense	₱1,973,949	₱454,483	₱1,127,241	₱28,279	₱278,863	₱22,231	₱3,885,046
Segment profit attributable to:							
Equity holders of the Company	3,644,753	508,746	251,162	9,570,178	626,424	116,360	14,717,623
Non-controlling interests	2,875,864	9,449	2,836	40,466	2,389	–	2,931,004

Other financial information of the operating segments as of December 31, 2019 is as follows:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
	(In Thousands)						
Assets:							
Current assets	₱488,857,140	₱12,923,043	₱16,840,868	₱5,180,278	₱9,237,156	(₱5,902,547)	₱527,135,938
Noncurrent assets	665,367,850	9,193,536	15,700,574	22,718,539	22,590,537	3,123,579	738,694,615
	<u>₱1,154,224,990</u>	<u>₱22,116,579</u>	<u>₱32,541,442</u>	<u>₱27,898,817</u>	<u>₱31,827,693</u>	<u>(₱2,778,968)</u>	<u>₱1,265,830,553</u>
Liabilities:							
Current liabilities	₱865,580,704	₱3,719,389	₱7,764,522	₱1,317,834	₱7,743,432	(₱9,464,258)	₱876,661,623
Noncurrent liabilities	129,363,371	875,491	1,606,108	103,082	6,248,863	(3,035,556)	135,161,359
	<u>₱994,944,075</u>	<u>₱4,594,880</u>	<u>₱9,370,630</u>	<u>₱1,420,916</u>	<u>₱13,992,295</u>	<u>(₱12,499,814)</u>	<u>₱1,011,822,982</u>
Investments in associates and joint ventures	₱2,605,473	₱—	₱21,171	₱19,193,993	₱—	₱5,433,641	₱27,254,278
Equity attributable to:							
Equity holders of the Company	156,398,876	17,341,825	23,133,222	26,477,901	17,835,398	(54,265,681)	186,921,541
Non-controlling interests	2,882,039	179,874	37,590	—	—	63,986,527	67,086,030
Short-term debts	—	200,000	2,850,000	—	—	2,100,000	5,150,000
Long-term debts	68,421,487	433,209	596,589	—	6,764,380	(3,646,209)	72,569,456

4. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
	(In Thousands)	
Cash and other cash items	₱22,379,466	₱33,823,608
Cash equivalents:		
Due from <i>Bangko Sentral ng Pilipinas</i>	104,207,274	105,981,801
Interbank loans receivable	32,249,754	24,831,816
Due from other banks	24,752,842	17,758,143
Securities held under agreements to resell	13,469,040	2,517,764
	₱197,058,376	₱184,913,132

- 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, 2020 (Unaudited)	December 31, 2019 (Audited)
	(In Thousands)	
Government securities	₱6,163,091	₱8,503,822
Private debt securities	3,208,565	3,130,156
Equity securities	1,092,321	1,455,435
Derivative assets (Note 19)	808,080	373,040
Unit investment trust fund	5,780	6,927
	₱11,277,837	₱13,469,380

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

Financial Assets at FVTOCI consist of:

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
	<i>(In Thousands)</i>	
Government securities	₱62,683,441	₱91,540,723
Other debt securities	22,952,828	30,390,001
Equity securities:		
Quoted	1,525,073	4,174,897
Unquoted	2,120,708	1,412,000
	89,282,050	127,517,621
Noncurrent portion	(75,933,287)	(110,549,031)
	₱13,348,763	₱16,968,590

7. Loans and Receivables

Loans and receivables consist of:

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
	<i>(In Thousands)</i>	
Finance receivables	₱600,619,018	₱672,252,455
Trade receivables	16,820,958	15,273,662
Other receivables	3,955,063	3,401,409
	621,395,039	690,927,526
Allowance for credit losses	(27,803,618)	(18,747,178)
	593,591,421	672,180,348
Noncurrent portion	358,108,311	(411,253,754)
	₱235,483,110	₱260,926,594

Finance Receivables

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

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
	<i>(In Thousands)</i>	
Receivables from customers:		
Loans and discounts	₱553,403,395	₱616,615,375
Credit card receivables	12,304,046	15,869,946
Customers' liabilities on acceptances, letters of credit and trust receipts	10,333,802	10,185,304

(Forward)

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
	<i>(In Thousands)</i>	
Finance lease receivables	₱2,772,625	₱3,079,713
Bills purchased	1,483,657	1,945,838
	580,297,525	647,696,176
Other receivables:		
Accounts receivable	8,295,034	9,932,268
Sales contract receivables	6,607,828	6,849,281
Accrued interest receivable	5,670,937	7,814,819
Miscellaneous	432,053	411,102
	21,005,852	25,007,470
	601,303,377	672,703,646
Unearned interest and other deferred income	(684,359)	(451,191)
	600,619,018	672,252,455
Allowance for credit losses	(27,427,965)	(18,413,228)
	573,191,053	653,839,227
Noncurrent portion	(357,395,545)	(410,579,450)
	₱215,795,508	₱243,259,777

Trade receivables

Trade receivables consist of:

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
	<i>(In Thousands)</i>	
Consumer goods	₱15,251,514	₱13,899,237
Contract receivables	1,509,467	1,374,425
Lease receivables	59,977	–
	16,820,958	15,273,662
Allowance for credit losses	(364,413)	(322,710)
	16,456,545	14,950,952
Noncurrent portion of contract receivables	(712,766)	(674,304)
	₱15,743,779	₱14,276,648

8. Inventories

Inventories consist of:

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
	(In Thousands)	
At Cost:		
Consumer goods:		
Alcohol	₱4,037,332	₱3,247,739
Beverage	2,430,959	2,886,739
	6,468,291	6,134,478
Real estate inventories:		
Subdivision land under development	3,775,525	4,543,419
Condominium and residential units for sale	425,137	507,099
Land held for future development	217,542	217,542
	4,418,204	5,268,060
Fuel, materials and supplies	1,044,260	1,006,896
	11,930,755	12,409,434
At NRV -Materials and supplies	1,260,666	698,770
	₱13,191,421	₱13,108,204

9. Other Current Assets

Other current assets consist of:

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
	(In Thousands)	
Creditable withholding taxes (CWT)	₱3,238,745	₱4,488,682
Prepaid expenses	1,955,161	1,399,984
Input VAT	1,714,530	1,519,068
Advances to suppliers	1,275,724	1,629,372
Stationeries, office supplies and stamps	641,961	86,843
Deferred charges	478,424	3,134
Deferred reinsurance premiums	471,412	1,135,113
Excise tax	407,752	185,043
Deferred rent	311,569	244,206
Miscellaneous cash and other cash items	89,681	86,542
Security deposit	447	44,132
Others	395,057	557,146
	₱10,980,463	₱11,379,265

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, AB HPI, 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, 2020	December 31, 2019	September 30, 2020	December 31, 2019
	(In Thousands)			
<i>Associates:</i>				
PMFTC	49.6%	49.6%	₱13,115,332	₱18,418,620
VMC	30.9%	30.9%	3,046,203	2,898,208
APLII	44.0%	44.0%	2,164,486	2,605,473
AB HPI	50.0%	50.0%	—	—
<i>Joint Ventures:</i>				
ABI Pascual	50.0%	50.0%	53,886	21,171
AEDC	50.0%	50.0%	4,450,572	3,310,806
			₱22,830,479	₱27,254,278

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 LGT 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 March 31, 2020 and December 31, 2019.

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.

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.

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.

Total additional investments in various dates for the year 2019 and 2018 amounted to ₱1.2 billion and ₱1.5 billion, respectively. Additional investments in various dates within the year 2020 amounted to ₱1.1 billion.

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

Additions to property, plant and equipment amounted to ₱3.2 billion while retirement and disposals amounted to ₱249.5 million for the period ended September 30, 2020.

Additions to investment properties amounted to ₱938.6 million while retirement and disposals amounted to ₱117.0 million for the period ended September 30, 2020.

12. Other Noncurrent Assets

Other noncurrent assets consist of:

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
	<i>(In Thousands)</i>	
Software costs	₱2,737,423	₱2,326,055
Miscellaneous assets	943,855	843,967
Prepaid excise taxes	771,713	797,388
Advances to suppliers	581,342	1,324,642
Deferred charges	566,975	743,727
Creditable withholding taxes	392,593	380,442
Distribution network access	272,414	272,414
Net retirement plan assets (Note 21)	261,689	259,959
Refundable and security deposits	188,908	222,020
Goodwill	163,735	163,735
Chattel properties - net	113,345	168,661
Deferred input VAT	84,418	398,812
Checks for clearing	–	7,079
Others – net	680,413	657,448
	7,758,823	8,566,349
Allowance for probable losses	(1,058,456)	(1,058,123)
	₱6,700,367	₱7,508,226

13. Deposit Liabilities

Deposit liabilities consists of:

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
	<i>(In Thousands)</i>	
Savings	₱391,641,055	₱383,963,252
Demand	189,660,749	172,228,956
Time	149,029,376	262,046,747
	730,331,180	818,238,955
Presented as noncurrent	(58,896,906)	(46,095,883)
Presented as current	₱671,434,274	₱772,143,072

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 ₱748.0 million and ₱245.6 million as of September 30, 2020 and December 31, 2019, respectively.

15. Bills and Acceptances Payable

Bills and acceptance payable consist of:

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
	<i>(In Thousands)</i>	
Bills payable to:		
BSP and local banks	₱24,496,887	₱52,664,371
Foreign banks	14,988,184	606,585
	39,485,071	53,270,956
Acceptances outstanding	2,512,314	2,692,334
	41,997,385	55,963,290
Less noncurrent portion	(14,281,638)	(4,141,689)
Current portion	₱27,715,747	₱51,821,601

16. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of:

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
	<i>(In Thousands)</i>	
Trade payables	₱11,548,327	₱13,171,309
Nontrade payables	2,397,321	1,297,631
Accrued expenses:		
Other benefits - monetary leave credits	1,396,288	1,436,248
Purchase of materials, supplies and others	1,329,414	2,872,621
Interest	1,290,434	1,972,156
Taxes and licenses	1,111,279	1,161,301
Project development costs	1,023,071	1,024,700
Advertising and promotional expenses	917,807	673,648
Retention payable	692,960	771,080
PDIC insurance premiums	436,069	843,677
Rent and utilities payable	252,580	308,953
Information technology-related expenses	115,945	182,057
Output value added tax	319,284	120,775
Due to government agencies	149,078	134,338
Other payables	1,207,855	726,135
	₱24,187,712	₱26,700,462

17. Short-term and Long-term Debts

Short-term Debts

As of September 30, 2020, and December 31, 2019, outstanding unsecured short-term debts amounted to ₱3.0 billion and ₱5.2 billion, respectively. The loans are subject to annual interest rates ranging from 6.1% to 8.0% in 2020 and 6.3% to 7.3% in 2019, 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, 2020 (Unaudited)	December 31, 2019 (Audited)
	(In Thousands)	
Bonds payable	₱64,506,002	₱66,615,078
Lease liabilities	3,506,553	3,247,876
Unsecured term loan	1,932,468	2,334,259
Notes payable	182,600	372,243
	70,127,623	72,569,456
Current portion	(15,105,926)	(1,002,593)
Noncurrent portion	₱55,021,697	₱71,566,863

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, 2019, the unamortized transaction cost of bonds payable amounted to ₱421.7 million. Amortization of transaction costs amounting to ₱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, 2020, and December 31, 2019, the Group has complied with the financial and non-financial covenants of its long-term debts.

18. Other Liabilities

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
	<i>(In Thousands)</i>	
Insurance contract liabilities	₱4,280,712	₱5,745,820
Payable to landowners	1,505,190	1,828,949
Managers' checks and demand drafts outstanding	1,372,745	1,393,535
Bills purchased - contra (Note 8)	1,283,806	1,348,148
Other deferred revenue (Note 12)	1,224,394	1,188,312
Customers' deposits	1,135,392	978,618
Other dormant credits	1,042,605	1,100,311
Provisions	969,106	969,106
Deposit on lease contracts	830,813	833,853
Reserve for unearned premiums	772,840	1,470,274
Due to Treasurer of the Philippines	675,850	681,835
Tenants' rental deposits	402,905	560,992
Miscellaneous tax securities	349,525	414,051
Payment order payable	341,062	333,909
Due to other banks	309,730	538,612
Margin deposits and cash letters of credit	225,783	224,873
Withholding taxes payable	149,496	385,294
Advance rentals	70,852	65,710
Interoffice floats	–	1,584,289
Others	1,007,771	342,995
	17,950,577	21,989,486
Presented as noncurrent	(4,727,984)	(3,147,053)
	₱13,215,593	₱18,842,433

19. Derivative Financial Instruments

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

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
	<i>(In Thousands)</i>	
Balance at beginning of year	₱127,421	₱103,980
Changes in fair value	(641,684)	(666,851)
Availments	574,336	690,292
	₱60,073	₱127,421

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	
		2020	2019
		(Unaudited)	(Unaudited)
		<i>(In Thousands)</i>	
Associate	Dividend income	₱17,541,609	₱6,932,405
	Purchases of inventories	(346)	(760,454)
	Sales	379,711	477,026
	Lease	15,000	27,641
Entities Under Common Control	Banking revenue - interest on loans and receivables	812,815	586,934
	Sales of consumer products	29,352	20,019
	Rent income	15,000	12,881
	Freight and handling	(571)	(10,988)
	Cost of banking services - interest on deposit liabilities	(52,651)	(123,746)
	Cost of sales and services	(555)	(1,593)
	Management and professional fee	(12,069)	(49,206)
	Rent expense	(745)	(1,745)

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

		Outstanding Balance	
		September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Financial Statement Account	Terms and Conditions	(In Thousands)	
Parent Company	Due to related parties	(P15,325)	(P15,325)
	Due from related parties	509,000	509,000
Associate	Other receivables - dividends	-	-
	Trade receivables - do -	1,018,226	1,197,250
	Nontrade receivables - do -	2,231	266,985
	Account payable and other liabilities	(32,844)	(490,957)
	Finance Receivables		
	Secured by hold-out on deposits, government securities, real estate and mortgage trust indenture; Unimpaired; With interest rates ranging from 2.82% to 6.00% with maturity terms ranging from 90 days to 12 years and payment terms of ranging from monthly to quarterly payments	35,863,024	39,487,080
	Trade receivables - do -	427	14,298
	Other receivables - do -	11,174	16,590
Entities Under Common Control	Due from related parties	1,446,306	778,948
	Advances to suppliers - do -	501	3,026
	Deposit liabilities		
	With annual rates ranging from 0.38% to 1.73% and maturity ranging from 30 days to one year	13,220,738	15,138,059
	Account payable and other liabilities	(261,659)	(376,414)
	Due to related parties	(50,000)	(50,000)
	Other payables	-	-

As of September 30, 2020, and December 31, 2019, 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, 2020 (Unaudited)	December 31, 2019 (Audited)
	(In Thousands)	
Net retirement plan assets:		
FTC	₱242,001	₱246,112
TBI	8,852	3,011
LTG	8,188	8,188
TDI	2,648	2,648
	₱261,689	₱259,959
Net retirement benefits liabilities:		
ABI and subsidiaries	₱805,422	749,049
PNB and subsidiaries	631,274	₱776,936
Eton and subsidiaries	138,147	128,728
AAC	31,744	15,452
ADI	27,778	29,578
	₱1,634,365	₱1,699,743

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, 2020 and December 31, 2019 for the Group includes investments in the PNB shares of stock with fair value amounting to ₱305.0 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, 2020 and December 31, 2019, 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	
	2020 (Unaudited)	2019 (Unaudited)
	<i>(In Thousands)</i>	
Banking revenue	₱41,769,565	₱41,631,997
Sale of consumer goods	26,487,120	24,958,790
Real estate sales	1,358,055	1,237,383
Rental income	519,571	1,099,101
	₱70,134,311	₱68,927,271

Sale of consumer goods consists of:

	Nine Months Ended September 30	
	2020 (Unaudited)	2019 (Unaudited)
	<i>(In Thousands)</i>	
Gross sales	₱28,154,622	₱27,084,202
Less sales returns, discounts and allowances	1,667,502	2,125,412
	₱26,487,120	₱24,958,790

Banking revenue consists of:

	Nine Months Ended September 30	
	2020 (Unaudited)	2019 (Unaudited)
	<i>(In Thousands)</i>	
Interest income on:		
Loans and receivables	₱28,532,423	₱29,432,332
Trading and investment securities	5,316,645	6,749,988
Deposits with banks and others	959,444	413,746
Interbank loans receivable	258,195	411,231
	35,066,707	37,007,297
Trading and securities gains	3,366,777	1,030,756
Service fees and commission income	3,336,081	3,593,944
	₱41,769,565	₱41,631,997

Cost of sales and services consists of:

	Nine Months Ended September 30	
	2020	2019
	(Unaudited)	(Unaudited)
	<i>(In Thousands)</i>	
Cost of consumer goods sold:		
Materials used and changes in inventories	₱15,557,873	₱13,449,136
Depreciation and amortization	1,224,212	1,177,570
Personnel costs	928,593	849,581
Taxes and licenses	834,371	887,787
Fuel and power	816,521	1,019,089
Communication, light and water	429,210	634,521
Repairs and maintenance	393,064	428,911
Freight and handling	350,753	326,495
Outside services	330,833	305,430
Others	212,690	264,989
	21,078,120	19,343,509
Cost of banking services	9,786,108	14,054,842
Cost of rental income	353,436	339,792
Cost of real estate sales	200,169	547,706
Cost of sales and services	₱31,417,833	₱34,285,849

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	
	2020	2019
	(Unaudited)	(Unaudited)
	<i>(In Thousands)</i>	
Interest expense on:		
Deposit liabilities	₱6,150,513	₱10,297,924
Bonds payable	2,193,349	1,222,170
Bills payable and other borrowings	659,010	1,801,280
Services fees and commission expense	783,236	733,468
	₱9,786,108	₱14,054,842

23. Selling Expenses

	Nine Months Ended September 30	
	2020 (Unaudited)	2019 (Unaudited)
	<i>(In Thousands)</i>	
Advertising and promotions	₱513,384	₱1,069,436
Freight and handling	369,396	402,409
Depreciation and amortization	239,140	221,775
Personnel costs	105,159	91,740
Management, consulting and professional fees	81,976	142,952
Materials and consumables	14,933	31,708
Commissions	14,018	65,164
Repairs and maintenance	1,773	33,993
Others	123,209	141,762
	₱1,462,988	₱2,200,939

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

24. General and Administrative Expenses

	Nine Months Ended September 30	
	2020 (Unaudited)	2019 (Unaudited)
	<i>(In Thousands)</i>	
Provision for credit losses	₱9,027,575	₱1,426,930
Personnel costs	8,526,148	8,163,400
Taxes and licenses	3,781,482	3,833,483
Depreciation and amortization	2,546,520	2,262,952
Insurance	1,410,089	1,387,138
Outside services	1,254,772	812,977
Information technology	971,857	559,905
Occupancy	729,052	841,419
Marketing expenses	714,168	1,031,629
Management, consulting and professional fees	705,379	797,184
Policyholder benefits and claim benefits	551,263	666,161
Travel and transportation	301,829	358,704
Materials and consumables	220,849	220,543
Communication, light and water	166,483	213,353
Repairs and maintenance	136,344	181,014
Fuel and oil	16,940	25,284
Freight and handling	15,631	19,762
Others	785,128	1,424,909
	₱31,861,509	₱24,226,747

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	
	2020	2019
	(Unaudited)	(Unaudited)
	<i>(In Thousands)</i>	
Finance costs (Note 17):		
Short-term debts	₱167,193	105,551
Unsecured term loan and notes payable	101,439	₱133,989
	₱268,632	₱239,540
Finance income:		
Cash and other cash items (Note 4)	₱23,558	₱117,135
Interest-bearing receivables (Note 7)	9,224	8,866
	₱32,782	₱126,001

26. Other Income (Charges) - net

	Nine Months Ended September 30	
	2020	2019
	(Unaudited)	(Unaudited)
	<i>(In Thousands)</i>	
Net insurance premium	₱730,771	₱842,367
Rental income	496,018	529,704
Net gains on sale or exchange of assets	147,850	635,245
Dividend income	55,619	96,012
Recoveries	25,304	29,494
Processing and referral fees	2,550	522,144
Others	583,835	188,015
	₱2,041,947	₱2,842,981

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	
	2020	2019
	Unaudited)	(Unaudited)
	<i>(In Thousands)</i>	
RCIT/MCIT	₱2,988,933	₱1,955,867
Final tax	1,102,596	1,064,561
Provision for current income tax	₱4,091,529	₱3,020,428

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	
	2020	2019
	(Unaudited)	(Unaudited)
	<i>(In Thousands)</i>	
Net income attributable to equity holders of the Company	₱16,102,940	₱14,717,623
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	₱1.49	₱1.36

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 under estimated if changes in risk factors fail to align with the normal distribution assumption. VaR may also be under- or over- estimated due to the assumptions placed on risk factors and the relationship between such factors for specific instruments. Even though positions may change throughout the day, the VaR only represents the risk of the portfolios at the close of each business day, and it does not account for any losses that may occur beyond the 99.00% confidence level.

b. VaR assumptions/parameters

VaR estimates the potential loss on the current portfolio assuming a specified time horizon and level of confidence at 99.00%. The use of a 99.00% confidence level means that, within a one-day horizon, losses exceeding the VaR figure should occur, on average, not more than once every one hundred days.

c. Backtesting

The validity of the assumptions underlying the banking segment's VaR models can only 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, 2020 and December 31, 2019, 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, 2020, and December 31, 2019, the carrying values of the Group's financial assets and liabilities approximate their respective fair values, except for the following financial instruments:

	September 30, 2020		December 31, 2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<i>(In Thousands)</i>				
Financial Assets:				
Financial assets at amortized cost	₱96,804,508	₱100,168,529	₱100,464,757	₱101,580,817
Loans and receivables:				
Receivables from customers	559,113,737	604,383,488	636,950,500	695,304,130
Unquoted debt securities	—	—	₱737,415,257	₱796,884,947
	₱655,918,245	₱704,552,017	₱100,464,757	₱101,580,817
Financial Liabilities:				
Financial liabilities at amortized cost:				
Deposit liabilities -				
Time deposits	₱120,835,791	₱120,835,791	₱226,894,643	₱226,525,853
Bills payables	39,485,071	41,246,878	53,270,956	56,049,095
Long term debts:				
Subordinated debt	182,600	185,403	3,497,797	3,551,484
Unsecured term loan	1,932,468	1,698,055	2,334,259	2,051,108
Bonds payable	64,506,002	67,490,544	66,615,078	69,640,930
LTNCD	28,193,585	28,371,790	35,152,104	35,311,473
Other liabilities:				
Payable to landowners	1,505,190	1,505,190	1,828,949	1,828,949
Tenants' rental deposits	402,905	402,905	560,992	560,992
	₱257,043,612	₱261,736,556	₱390,154,778	₱395,519,884

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 and subordinated debt including designated at FVPL - Fair value is determined using the discounted cash flow methodology. The discount rate used in estimating the fair values of the subordinated debt and time deposits ranges from 3.00% to 4.13% as of September 30, 2020 and December 31, 2019, respectively.

Unsecured term loans, notes payable, payable to landowners, tenants' rental deposits and advance rentals - Fair values are estimated using the discounted cash flow method based on the discounted value of future cash flows using the applicable risk-free rates for similar types of instruments. The discount rates used range from 2.36% to 4.73% as of September 30, 2020 and December 31, 2019, respectively.

Bonds payable - Fair value is determined by reference to latest transaction price at the end of reporting period.

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, 2020 and December 31, 2019.

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, 2020 and December 31, 2019.

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, 2020 (Unaudited)	December 31, 2019 (Audited)
	<i>(In Thousands, except ratios)</i>	
Total liabilities	₱899,575,004	₱1,011,822,982
Total equity	251,512,766	254,007,571
Total liabilities and equity	₱1,151,087,770	₱1,265,830,553
Debt ratio	0.78:1	0.80:1
Debt-to-equity ratio	3.58:1	3.98:1

33. Commitments and Contingencies

There were no changes in the Group's commitments and contingencies from those disclosed in the December 31, 2019 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, 2020 and December 31, 2019

And for the Nine Months Ended September 30, 2020 and 2019

(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 May 22, 2020, 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 ₱0.28 per share to all stockholders of record as of June 8, 2020. The dividends were paid on June 19, 2020.

On August 14, 2020, the Board of Directors of LTG approved the declaration and distribution of special cash dividends of ₱0.23 per share to all stockholders of record as of September 2, 2020. The dividends were paid on September 8, 2020.

- 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, 2020, 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 consolidated net income of ₱17.9 billion for the nine months of 2020, 1.5% higher than the ₱17.7 billion reported for the same period last year.

The consolidated net income attributable to equity holders of LTG was ₱16.1 billion for 9M20, 9.4% higher than 9M19 of ₱14.7 billion. This was on account of the improvement in the operating results of the tobacco, distilled spirits and property development segments, which offset the decline in the net incomes of the banking and beverage segments. The tobacco segment's net income increased by ₱2.3 billion from ₱9.7 billion in 2019 to ₱12.2 billion in 2020. Distilled spirits segment's net income was ₱1.1 billion significantly better than the ₱518 million recognized for the period ended September 30, 2019. Property development segment's net income was ₱633 million in 9M20 and ₱629 million for 9M19. The banking segment's net income dipped from ₱6.5 billion for the nine months ended September 30, 2019 to ₱4.0 billion in the same period of 2020. The beverage segment's net income of ₱4 million in 9M20 was lower compared to the reported income of ₱254 million in the same period last year. Equity in net earnings in VMC amounted to ₱148 million.

Consolidated revenues amounted to ₱70.1 billion for the nine months ended September 30, 2020, ₱1.2 billion higher than the ₱68.9 billion earned in 2019 mainly on account of the increased revenues in the distilled spirits and banking segments partially offset by the decline in the beverage and property development segments revenues.

Cost of sales and services decreased by 8.4% from ₱34.3 billion for the nine months ended September 30, 2019 to ₱31.4 billion in the same period in 2020, primarily attributable to the lower interest expense incurred on deposits and other borrowings by the banking segment, decline in sales of the property development segment and lower sales volume by the beverage segment.

Operating expenses amounted to ₱33.3 billion in 9M20 from ₱26.4 billion in 9M19 or an increase of 26.1%. This was as a result of higher general and administrative expenses by 31.5%, from ₱24.2 billion in 2019 to ₱31.9 billion in 2020 and is mainly due to the additional provisions for impairment and credit losses for the anticipated impact of the Corona Virus Disease 2019 (COVID-19) pandemic to the bank's loan portfolio. Selling expenses slightly decreased to ₱1.5 billion in 9M20 from ₱2.2 billion in 9M19 as lower advertising and related expenses were incurred.

SEGMENT OPERATIONS

Tobacco

The tobacco segment's net income was ₱12.2 billion for the nine months ended September 30, 2020, higher than the ₱9.6 billion of the same period last year on account of

the increase in equity in net earnings from PMFTC (FTC's 49.6% owned associate) from ₱9.4 billion last year to ₱12.2 billion in 2020.

Banking

The banking segment's net income was ₱4.0 billion in 9M20, lower than the ₱6.5 billion recorded for the same period in 2019 as the bank recognized significant provisions for impairment, credit and other losses of ₱9.0 billion. On the other hand, there was a substantial improvement in the current period's net interest income and net gains from trading and investment securities.

Interest income in the current period of ₱35.2 billion was 5.3% lower compared to the same period last year on account of the net decrease in interest income from loans and receivables, trading and investment securities and interbank receivables. Total interest expense's significant reduction of 34.0% or ₱4.7 billion was primarily due to the decline in interest expense from high-cost deposit liabilities, bills and acceptances payable and other borrowings partially offset by the increase in interest from bonds payable. This resulted to net interest income of ₱26.2 billion, 11.6% higher year-on-year.

Net service fees and commission income were lower at ₱2.6 billion in 9M20 compared to 9M19's ₱2.9 billion due to lower volume of banking transactions and waived fees on bank transfers and overseas remittances in compliance with Bayanihan to Heal as One Act.

Trading and investment securities and net foreign exchange gains were higher at ₱4.2 billion in 9M20 compared to 9M19's ₱1.9 billion as the bank took advantage to dispose of securities with high fair market values.

Operating expenses increased by 34.4% mainly due to larger provisions for impairment, credit and other losses amounting to ₱9.0 billion for 9M20 in anticipation of the impact of the COVID-19 pandemic to the bank's loan portfolio compared to ₱1.4 billion that was provided for 9M19.

Distilled Spirits

The distilled spirits segment posted a net income of ₱1.1 billion for the nine months ended September 30, 2020, significantly more than the ₱518 million reported in the same period last year.

Net revenues were higher by 25.5% y-o-y to ₱17.4 billion in 9M20 mainly due to higher pricing and improvement in the sales volume of liquor.

Cost of sales increased by 26.8% to ₱14.5 billion in the current period as against ₱11.5 billion in the same period last year primarily due to sales volume and higher excise taxes. Gross profit margin was at 16.3% in 9M20 lower than the 17.1% in 9M19.

Operating expenses were lower at ₱1.2 billion in 9M20 compared ₱1.6 billion in 9M19 as lower advertising and other related expenses were incurred.

Property Development

The property development segment reported a net income of ₱633 million for the nine months of 2020 higher than the ₱629 million for the same period last year.

Rental revenue for the current period accounted for ₱1.4 billion or 72.3% of revenues, representing an 9.8% growth over the same period in 2019, as lease contracts were renewed at higher rates for the BPO offices. On the other hand, real estate sales were 52.7% lower y-o-y to ₱520 million.

Operating expenses were lower by 17.1% from ₱643 million in 9M19 to ₱533 million in 9M20 as commissions, advertising and promotional expenses and general and administrative expenses decreased.

Beverage

The beverage segment's net income was lower at ₱4 million for the nine months ended September 30, 2020 from ₱254 million in the same period last year.

Revenues of the beverage segment were lower at ₱10.0 billion in 9M20 compared to 9M19's ₱12.0 billion largely on account of lower sales volume from bottled water and the packaging business. Overall gross profit margin declined to 26.0% from 27.1% as a result of the unfavorable sales mix.

Operating expenses decreased by 9.4% to ₱1.7 billion in 2020 from ₱1.9 billion in 2019 on account of lower advertising and promotional expenses.

FINANCIAL CONDITION

The Company's consolidated Total Assets as of September 30, 2020 and December 31, 2019 amounted to ₱1.2 trillion and ₱1.3 trillion, respectively. Current Assets decreased by 0.4% or ₱2.2 billion and Noncurrent Assets were lower by ₱112.6 billion or 15.2%.

The consolidated Current Assets decreased by 0.4% from ₱527.1 billion as of December 31, 2019 to ₱525.0 billion. Loans and Receivables declined by ₱25.4 billion from end-2019 balance of ₱260.9 billion on account of lower current loans receivables by the banking segment. Financial Assets at Fair Value through Other Comprehensive income decreased due to disposal of various securities, net of purchases and decline in the fair values of the investments. Financial Assets at Fair Value through Profit or Loss were lower due to disposals during the year and decrease in the fair values of the portfolio. Financial Assets at Amortized Cost-current increased due to reclassification of currently maturing investments. Cash and Cash Equivalents increased level from ₱184.9 billion as of end-2019 to ₱197.1 billion as of September 30, 2020 on account of higher Securities Held Under Agreement to Resell, Interbank Loans Receivables and Due from Other banks of the banking segment. Inventories as of September 30, 2020 amounted to ₱13.2 billion, 8.2% higher than end-2019 due to higher ending inventory levels of the distilled spirits segment.

The 15.2% decrease in consolidated Noncurrent Assets was mainly due to the movements in the Noncurrent portion of Loans and Receivables, Financial Assets FVTOCI, Financial Assets at Amortized Cost, as well as Investment in associates and joint ventures. Noncurrent portion of Loans and Receivables amounted to ₱358.1 billion, 12.9% lower than end-2019 level on account of the banking segments net paydowns of loans and receivables and addition

provision for impairment, credit and other losses. Financial Assets at FVTOCI and Financial Assets at Amortized Cost were lower by ₱34.6 billion and ₱20.1 billion, respectively on account of disposal of various investment securities, net of purchases made as of September 30, 2020. Investment in associates and joint venture decline of ₱4.4 billion due to higher dividends received from PMFTC than equitized earnings. Other noncurrent assets were lower at ₱6.7 billion. Deferred income tax assets (DTA) were higher by ₱2.0 billion, from ₱2.4 billion as of end-2019 to ₱4.4 billion as of September 30, 2020 as additional DTA was recognized on allowance for expected credit losses, for which the bank has the benefit of tax deductions against future taxable income only upon actual write-offs .

Consolidated Total Liabilities decreased by 11.1% to ₱899.6 billion as of September 30, 2020 from ₱1.0 trillion as of December 31, 2019. This was on account of the decrease in Total Current Liabilities by 13.7% from ₱876.7 billion in December 31, 2019 to ₱756.4 billion as of the end of the current period and decline in Noncurrent Liabilities by 5.9% from ₱135.2 billion to ₱143.1 billion.

Current portion of the banking segment's Deposit Liabilities amounted to ₱671.4 billion as of September 30, 2020, 13.0% lower than end-2019 balance. Current portion of Bills and Acceptances Payable decreased by 46.5% due to settlement of interbank loans from the BSP and local banks. Accounts payable and accrued expenses were lower due to the settlements made during the year. Short-term debts as of September 30, 2020 amounted to ₱3.0 billion, 41.0% lower than end-2019 on account of payments made by the parent company. Other current liabilities decreased from ₱18.8 billion as of end-2019 to ₱13.2 billion in current period due to settlements made as of September 30, 2020. Current portion of long-term debts outstanding of ₱1.0 billion as of December 31, 2019 increased to ₱15.1 billion as of September 30, 2020 to recognize the bank's maturing bonds payable. Financial liabilities at fair value through profit or loss increased to ₱748 million mainly from the increase in the volume of transactions for the period. Income tax payable was higher by 32.6% versus the December 31, 2019 level due to the income tax provisions made in the current period.

The increase in the Noncurrent Liabilities was on account of the higher Noncurrent Deposit Liabilities, Bills and Acceptances Payable net of current portion by ₱12.8 billion and ₱10.1 billion, respectively as of September 30, 2020, as the bank had lower levels of deposit and bills and acceptances payable were reclassified some from current to noncurrent portion. Long-term debts net of current portion decreased by ₱16.5 billion due mainly on the reclassification from noncurrent to current of the maturing bonds payable. Other Noncurrent liabilities increased by 50.2% to ₱4.7 billion as of September 30, 2020 from ₱3.1 billion due to various accruals in 2020.

LTG's consolidated Total Equity declined by 1.0% to ₱251.5 billion as of September 30, 2020, on account of the decrease in the other comprehensive income from the unrealized gain in fair value of investments and additional payment to fully settle the Preferred shares of subsidiaries issued to Parent company amounting to ₱8.5 billion. This was partially offset by the net increase in the retained earnings brought about by the income earned for the period ended September 30, 2020 of ₱16.1 billion less dividends declared and paid amounting to ₱7.1 billion.

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

1.) Revenues

Revenues for the period ended September 30, 2020 amounted to ₱70.1 billion, 1.8% higher from last year's ₱68.9 billion.

2.) Net Income

Consolidated Net Income for the nine months ended September 30, 2020 and 2019 amounted to ₱17.9 billion and ₱17.6 billion, respectively.

3.) Current Ratio

Current ratio was 0.60:1 as of December 31, 2019 and 0.69:1 as of September 30, 2020.

4.) Debt to Equity Ratio

Debt-to-equity ratio decreased from 3.98:1 in December 31, 2019 to 3.58:1 as of September 30, 2020.

5.) Earnings/ (Loss) Per Share

LTG's earnings per share attributable to holders of the parent company for the nine months ended September 30, 2020 and 2019 were ₱1.49 and ₱1.36, 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 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, 7%
2. Financial assets at fair value through profit or loss - current – H, (16%)
3. Financial assets at FVTOCI - current – H, (21%)
4. Financial assets at amortized cost – current – H, 65%
5. Loans and receivables – current – H, (10%)
6. Inventories – H, 8%
7. Loans and receivables – noncurrent – H, (13%)
8. Financial assets at FVTOCI - noncurrent – H, (31%)
9. Financial assets at amortized cost - noncurrent – H, (27%)
10. Investment in associates and joint ventures – H, (16%)
11. Deferred income tax assets – H, 83%
12. Other noncurrent assets – H, (11%)
13. Deposit liabilities – H, (13%)
14. Financial liabilities at fair value through profit or loss – current – H, 205%
15. Bills and acceptances payable - current – H, (47%)
16. Short-term debts – H, (41%)
17. Accounts payable and accrued expenses – H, (9%)
18. Income tax payable- H, 33%
19. Current portion of long-term debts – H, 1,407%
20. Other current liabilities – H, (30%)
21. Deposit liabilities – H 28%
22. Bills and acceptances payable – noncurrent – H, 245%
23. Long-term debts – net of current portion – H, (23%)
24. Other noncurrent liabilities – H, 50%
25. Preferred shares of subsidiary issued to Parent Company – H, 90%
26. Other comprehensive income – H, (36%)
27. Retained earnings – H, 9%
28. Beverage revenue – H, (18%)
29. Distilled spirits revenue – H, 25%
30. Property development revenue – H, (20%)
31. Cost of sales and services – H, (8%)

- 32. Equity in net earnings of associates and joint ventures – H, 36%
- 33. Selling expenses – H, (34%)
- 34. General and administrative expenses – V, 10%; H, 32%
- 35. Finance cost – H, 12%
- 36. Finance income – H, (74%)
- 37. Foreign exchange gains – H, (6%)
- 38. Others-net – H, (28%)
- 39. Provision for income tax – current – H, 36%
- 40. Provision for income tax – deferred – H, 34,388%
- 41. Net income attributable to equity holders of the company – H, 9%
- 42. Net income attributable to noncontrolling interests – H, (38%)

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, 2020 (Unaudited)
(In Php thousands)

TYPE OF ACCOUNTS RECEIVABLE		TOTAL	up to 12 months	1 year to 3 years	Over 3 years to 5 years	Over 5 years	Past due and items in litigation
(a) Finance Receivable	P	601,303,377	215,795,508	67,529,338	105,267,673	175,395,931	37,314,927
Less: Unearned interest and other deferred income		684,359	-	-	-	684,359	-
Less: Allowance for credit losses		27,427,965	-	-	-	-	27,427,965
NET FINANCE RECEIVABLES		573,191,053	215,795,508	67,529,338	105,267,673	174,711,572	9,886,962
(b) Trade Receivables		16,820,958	15,743,779	-	-	-	1,077,179
Less: Allowance for credit losses		364,413	-	-	-	-	364,413
NET TRADE RECEIVABLES		16,456,545	15,743,779	-	-	-	712,766
(c) Other Receivables		3,955,063	3,943,823	-	-	-	11,240
Less: Allowance for credit losses		11,240	-	-	-	-	11,240
NET OTHER RECEIVABLES		3,943,823	3,943,823	-	-	-	-
NET LOANS AND RECEIVABLES	P	593,591,421	235,483,110	67,529,338	105,267,673	174,711,572	10,599,728

LOANS AND RECEIVABLE DESCRIPTION	NATURE OF DESCRIPTION	COLLECTION PERIOD
Finance Receivables	Pertain to receivables of the banking segment (see note 7)	less than 1 year to over 5 years
Trade Receivables	Sale of liquor, beer products, beverages and cigarettes, lease contract receivables	30 to 120 days
Other Receivables	Downpayment on various suppliers, officers and employees and other receivables	-

LT GROUP, INC. and Subsidiaries
FINANCIAL SOUNDNESS INDICATORS

Ratio	Formula	9/30/2020	12/31/2019
Current ratio	Current Assets / Current Liabilities	0.69	0.60
Acid test ratio	(Current Assets – Inventories – Prepaid Expenses) / Current Liabilities	0.67	0.59
Solvency ratios	(Net income after tax + Depreciation) / (Short term debt + Long-term Debt)	0.30	0.41
Debt-to-equity ratio	(Short term debt + Long-term Debt) / Equity attributable to equity holders of the Parent Company	0.40	0.42
Asset-to-equity ratio	Total Assets / Total Equity	4.58	4.98
		9/30/2020	9/30/2019
Interest rate coverage ratio	EBITDA / Interest expense	91.41	103.53
Return on equity	Net income attributable to equity holders of the Company / Equity attributable to equity holders of the Parent Company	0.118	0.110
Return on asset	Net income attributable to equity holders of the Parent Company / Total Assets	0.019	0.015
Net profit margin	Net income attributable to equity holders of the Parent Company / Revenues	0.23	0.21