108142015001903

SECURITIES AND EXCHANGE COMMISSION

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Company Information

SEC Registration No.	PW00000343
Company Name	LT GROUP, INC.
Industry Classification	
Company Type	Stock Corporation

Document Information

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Department	CFD
Remarks	

COVER SHEET

SEC Registration Number

P	W	-	0	0	0	0	0	3	4	3

Company Name

LT GROUP, INC. (A Subsidiary of Tangent Holdings Corporation)

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

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

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

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number/s	Mobile Number
info@ltg.com.ph	808-1266	N/A

No. of Stockholders	Annual Meeting Month/Day	Fiscal Year Month/Day
374	June 23	December 31

CONTACT PERSON INFORMATION

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

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

Contact Person's Address

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

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 June 30, 2015

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
11/F 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) 808-1266

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

Title of Each Class	Number of Shares of common stock Outstanding and Amount of Debt Outstanding
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 June 30, 2015 (with comparative figures as of December 31, 2014 and for the period June 30, 2014) 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.

NESTOR C. MENDONES
Deputy CFO
August 14, 2015

JOSE GABRIEL D. OLIVES
Chief Finance Officer
August 14, 2015

Annex "A"

LT GROUP, INC.
(Formerly Tanduay Holdings, Inc.)
AND SUBSIDIARIES

Interim Condensed Consolidated Financial Statements
As at June 30, 2015 and December 31, 2014
And for the Six Months and Quarters Ended
June 30, 2015 and 2014

LT Group, Inc.
(a Subsidiary of Tangent Holdings Corporation)
and Subsidiaries

Interim Condensed Consolidated Financial Statements
As of June 30, 2015 and December 31, 2014
and for the six months and quarters ended June 30, 2015 and 2014

LT GROUP, INC.
(a Subsidiary of Tangent Holdings Corporation)
AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS
(Amounts in Thousands)

	June 30, 2015 (Unaudited)	December 31, 2014 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	**₱126,524,947**	₱147,275,490
Financial assets at fair value through profit or loss (Notes 5 and 19)	**22,332,787**	22,811,921
Available for sale (AFS) investments (Note 6)	**6,297,987**	3,774,286
Loans and receivables (Note 7)	**142,509,856**	143,653,521
Due from related parties (Note 20)	**1,594,613**	1,797,390
Inventories (Note 8)	**12,985,729**	12,936,865
Other current assets (Note 9)	**8,493,393**	7,886,609
Total Current Assets	**320,739,312**	340,136,082
Noncurrent Assets		
Loans and receivables - net of current portion (Note 7)	**211,283,777**	187,438,860
AFS investments (Note 6)	**74,760,626**	60,039,059
Held-to-maturity (HTM) investments	**23,793,279**	22,895,493
Investments in associates and a joint venture (Note 10)	**12,020,384**	12,297,509
Property, plant and equipment (Note 11):		
At appraised values	**40,150,432**	38,470,525
At cost	**2,591,955**	3,975,397
Investment properties (Note 11)	**25,566,668**	27,197,933
Deferred income tax assets (Note 27)	**786,581**	717,218
Other noncurrent assets (Notes 12 and 21)	**3,444,278**	3,665,132
Total Noncurrent Assets	**394,397,980**	356,697,126
TOTAL ASSETS	**₱715,137,292**	₱696,833,208
LIABILITIES AND EQUITY		
Current Liabilities		
Deposit liabilities (Note 13)	**₱425,312,024**	₱411,391,378
Financial liabilities at fair value through profit or loss (Notes 14 and 19)	**12,431,498**	10,837,220
Bills and acceptances payable (Note 15)	**10,564,375**	6,640,221
Short-term and long-term debts - current (Note 17)	**1,670,358**	5,806,123
Accounts payable and accrued expenses (Note 16)	**14,809,220**	16,120,561
Income tax payable	**141,346**	326,282
Current portion of due to related parties (Note 20)	**42,888**	49,859
Other current liabilities (Note 18)	**17,237,433**	17,974,819
Total Current Liabilities (Carried Forward)	**482,209,142**	469,146,463

(Forward)

	June 30, 2015 (Unaudited)	December 31, 2014 (Audited)
Total Current Liabilities (Brought Forward)	**₱482,209,142**	₱469,146,463
Noncurrent Liabilities		
Deposit liabilities - net of current portion (Note 13)	**22,692,841**	23,468,731
Financial liabilities at fair value through profit or loss (Notes 14 and 19)	**33,119**	24,805
Bills and acceptances payable (Note 15)	**14,125,684**	12,409,837
Long-term debts - net of current portion (Note 17)	**10,928,166**	11,291,321
Accrued retirement benefits (Note 21)	**3,877,518**	3,776,261
Deferred income tax liabilities (Note 27)	**1,315,386**	1,355,247
Other noncurrent liabilities (Note 18)	**13,337,206**	12,638,349
Total Noncurrent Liabilities	**66,309,920**	64,964,551
Total Liabilities	**548,519,062**	534,111,014
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	**18,060,000**	18,060,000
Other equity reserves	**790,136**	790,136
Other comprehensive income, net of deferred income tax effect	**4,181,574**	4,582,667
Retained earnings	**56,680,282**	54,079,986
Shares of the Company held by subsidiaries	**(12,518)**	(12,518)
	126,427,094	124,227,891
Non-controlling interests (Notes 1 and 28)	**40,191,136**	38,494,303
Total Equity	**166,618,230**	162,722,194
TOTAL LIABILITIES AND EQUITY	**₱715,137,292**	₱696,833,208

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

LT GROUP, INC.
(a Subsidiary of Tangent Holdings Corporation)
AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Amounts in Thousands, Except for Basic/Diluted Earnings Per Share)
FOR THE SIX MONTHS AND QUARTER ENDED JUNE 30, 2015 AND 2014

	Six Months Ended June 30		For the Quarter Ending June 30	
	2015	2014	2015	2014
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
REVENUE (Note 22)				
Banking	**₱13,015,566**	₱12,379,177	**₱6,715,005**	₱5,989,882
Beverage	**6,565,929**	6,490,068	**3,360,702**	3,479,911
Distilled spirits	**5,588,385**	5,544,328	**2,612,570**	2,596,057
Property development	**1,248,537**	870,788	**604,081**	331,646
	26,418,417	25,284,361	**13,292,358**	12,397,496
COST OF SALES (Note 22)	**12,211,806**	12,029,492	**6,044,449**	5,932,370
GROSS INCOME	**14,206,611**	13,254,869	**7,247,909**	6,465,126
EQUITY IN NET EARNINGS OF ASSOCIATES (Note 10)	**591,785**	704,968	**84,596**	224,492
	14,798,396	13,959,837	**7,332,505**	6,689,618
OPERATING EXPENSES				
Selling expenses (Note 23)	**1,209,994**	1,334,608	**580,139**	684,983
General and administrative expenses (Note 24)	**9,607,814**	11,200,800	**4,070,457**	5,911,151
	10,817,808	12,535,408	**4,650,596**	6,596,134
OPERATING INCOME	**3,980,588**	1,424,429	**2,681,909**	93,484
OTHER INCOME (CHARGES)				
Finance costs (Note 25)	**(115,345)**	(229,619)	**(39,582)**	(122,675)
Finance income (Note 25)	**47,996**	32,629	**34,400**	11,783
Foreign exchange gains	**580,181**	759,486	**287,753**	343,363
Others - net (Note 26)	**2,069,361**	2,256,467	**866,831**	1,084,201
	2,582,193	2,818,963	**1,149,402**	1,316,672
INCOME BEFORE INCOME TAX	**6,562,781**	4,243,392	**3,831,311**	1,410,156
PROVISION FOR INCOME TAX (Note 27)				
Current	**1,275,361**	1,318,859	**666,773**	712,919
Deferred	**(45,411)**	(37,212)	**(29,294)**	(43,475)
	1,229,950	1,281,647	**637,479**	669,444
NET INCOME	**₱5,332,831**	₱2,961,745	**₱3,193,832**	₱740,712
Net Income Attributable To:				
Equity holders of the parent company	**₱3,572,843**	₱2,160,154	**₱1,986,169**	₱548,453
Non-controlling interests	**1,759,988**	801,591	**1,207,663**	192,259
	₱5,332,831	₱2,961,745	**₱3,193,832**	₱740,712
Basic/Diluted Earnings Per Share (Note 29)	**₱0.33**	₱0.20	**₱0.18**	₱0.05

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

LT GROUP, INC.
(a Subsidiary of Tangent Holdings Corporation)
AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in Thousands)
FOR THE SIX MONTHS ENDED JUNE 30, 2015 AND 2014

	Six Months Ended June 30		For the Quarter Ended June 30	
	2015	2014	2015	2014
NET INCOME	**₱5,332,831**	₱2,961,745	**₱3,193,832**	₱740,712
OTHER COMPREHENSIVE INCOME				
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:				
Accumulated translation adjustment	**146,774**	(621,095)	**167,190**	(450,074)
Net changes in fair value of AFS financial assets, net of deferred income tax effect	**146,006**	356,970	**(1,195,680)**	124,873
	292,780	(264,125)	**(1,028,490)**	(325,201)
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:				
Revaluation increment on property, plant and equipment, net of deferred income tax effect	–	(1,412,775)	–	(75,105)
Re-measurement gains (losses) on defined benefit plans, net of deferred income tax effect	**(106,367)**	(52,817)	**(103,505)**	(42,115)
	(106,367)	(1,465,592)	**(103,505)**	(117,220)
OTHER COMPREHENSIVE INCOME (LOSS) - Net of income tax effect	**186,413**	(1,729,717)	**(1,131,995)**	(442,421)
TOTAL COMPREHENSIVE INCOME	**₱5,519,244**	₱1,232,028	**₱2,061,837**	₱298,291
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Equity holders of the parent company	**₱3,822,411**	₱1,033,792	**₱1,217,409**	₱191,575
Non-controlling interests	**1,696,833**	198,236	**844,428**	106,716
	₱5,519,244	₱1,232,028	**₱2,061,837**	₱298,291

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

LT GROUP, INC.
(a Subsidiary of Tangent Holdings Corporation)
AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2015 AND 2014
(Amounts in Thousands)

	Attributable to Equity Holders of the Company (Notes 1 and 28)										
	Capital Stock	Capital in Excess of Par	Deposit for Future Stock Subscription	Preferred shares of Subsidiaries Issued to Parent Company	Other Equity Reserves	Other Comprehensive Income (Loss), Net of Deferred Income Tax Effect	Retained Earnings	Shares of the Company Held by Subsidiaries	Total	Non-controlling Interests (Notes 1 and 28)	Total
BALANCES AT DECEMBER 31, 2013	**₱10,821,389**	**₱35,906,231**	**₱6,048,534**	**₱7,405,000**	**₱790,136**	**₱6,070,799**	**₱50,505,944**	**(₱12,518)**	**₱117,535,515**	**₱32,235,085**	**₱149,770,600**
Net income for the period	–	–	–	–	–	–	**2,160,154**	–	**2,160,154**	**801,591**	**2,961,745**
Other comprehensive loss	–	–	–	–	–	**(1,126,362)**	–	–	**(1,126,362)**	**(603,355)**	**(1,729,717)**
Total comprehensive income (loss) for the period	–	–	–	–	–	**(1,126,362)**	**2,160,154**	–	**1,033,792**	**198,236**	**1,232,028**
Issuance of preferred shares of subsidiaries	–	–	**(1,438,269)**	**6,047,000**	–	–	–	–	**4,608,731**	–	**4,608,731**
Increase in non-controlling interests without loss of control	–	–	–	–	–	–	–	–	–	**2,250,981**	**2,250,981**
Cash dividends declared and paid							**(1,731,422)**		**(1,731,422)**		**(1,731,422)**
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	–	–	–	–	–	**(323,976)**	**323,976**	–	–	–	–
BALANCES AT JUNE 30, 2014	**₱10,821,389**	**₱35,906,231**	**₱4,610,265**	**₱13,452,000**	**₱790,136**	**₱4,620,461**	**₱51,258,652**	**(₱12,518)**	**₱121,446,616**	**₱34,684,302**	**₱156,130,918**
BALANCES AT DECEMBER 31, 2014	**₱10,821,389**	**₱35,906,231**	**₱–**	**₱18,060,000**	**₱790,136**	**₱4,582,667**	**₱54,079,986**	**(₱12,518)**	**₱124,227,891**	**₱38,494,303**	**₱162,722,194**
Net income for the period	–	–	–	–	–	–	**3,572,843**	–	**3,572,843**	**1,759,988**	**5,332,831**
Other comprehensive income (loss)	–	–	–	–	–	**249,568**	–	–	**249,568**	**(63,155)**	**186,413**
Total comprehensive income for the period	–	–	–	–	–	**249,568**	**3,572,843**	–	**3,822,411**	**1,696,833**	**5,519,244**
Cash dividends declared and paid	–	–	–	–	–	–	**(1,623,208)**	–	**(1,623,208)**	–	**(1,623,208)**
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	–	–	–	–	–	**(650,661)**	**650,661**	–	–	–	–
BALANCES AT JUNE 30, 2015	**₱10,821,389**	**₱35,906,231**	**₱–**	**₱18,060,000**	**₱790,136**	**₱4,181,574**	**₱56,680,282**	**(₱12,518)**	**₱126,427,094**	**₱40,191,136**	**₱166,618,230**

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

LT GROUP, INC.
(a Subsidiary of Tangent Holdings Corporation)
AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2015 AND 2014
(Amounts in Thousands)

	Six Months Ended June 30	
	2015 (Unaudited)	2014 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱6,562,781**	₱4,243,392
Adjustments for:		
Depreciation and amortization (Note 11)	**1,688,966**	1,961,051
Provision for (reversal of) losses (Note 33)	**(385,175)**	365,463
Loss (gain) on disposal of other assets (Notes 11 and 26)	**(424,327)**	672,670
Equity in net earnings of associates (Note 10)	**(591,785)**	(704,968)
Finance costs (Note 25)	**115,345**	229,619
Finance income (Note 25)	**(47,996)**	(32,629)
Movement in accrued retirement benefits (Note 21)	**120,686**	(1,178,179)
Operating income before changes in working capital	**7,038,495**	5,556,419
Decrease (increase) in:		
Financial assets at fair value through profit or loss	**2,543,585**	(2,658,573)
Receivables - net	**(23,346,347)**	2,120,328
Inventories	**(48,864)**	(1,499,647)
Other assets	**(416,734)**	(2,987,807)
Increase (decrease) in:		
Deposit liabilities	**10,889,732**	8,691,818
Accounts payable and accrued expenses	**(1,311,341)**	(2,860,795)
Financial liabilities at fair value through profit or loss	**1,602,592**	301,827
Other liabilities	**(61,777)**	2,594,497
Cash generated from (used in) operations	**(3,110,659)**	9,258,067
Dividends received	**887,398**	1,722,184
Interest received	**47,996**	32,629
Income taxes paid, including creditable withholding and final taxes	**(1,251,950)**	(547,418)
Net cash generated from (used in) operating activities	**(3,427,215)**	10,465,462
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of:		
AFS investments (Note 6)	**(37,145,869)**	(27,419,896)
HTM investments	**(964,907)**	(21,258,741)
Property, plant and equipment (Note 11)	**(1,825,181)**	(1,170,713)
Investment properties (Note 11)	**(233,295)**	(625,283)
Other assets (Note 12)	**(31,279)**	(2,569,062)
Proceeds from sale of:		
AFS (Note 6)	**19,905,059**	33,597,635
Other assets (Note 12)	**1,940,922**	1,293,874
Net cash used in investing activities	**(18,354,550)**	(18,152,186)

(Forward)

	Six Months Ended June 30	
	2015 **(Unaudited)**	2014 (Unaudited)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from (payments of) bill and acceptance payable (Note 15)	**₱5,640,002**	(₱6,689,173)
Proceeds from issuance of shares to non-controlling interests arising from stock rights offering of the banking segment (Note 28)	–	2,250,981
Proceeds from availment of short term debts (Note 17)	**850,000**	–
Payments of long term debts (Note 17)	**(5,359,211)**	(744,550)
Proceeds from advances from affiliates (Note 21)	–	4,802
Payment of advances from affiliates (Note 21)	–	(3,554,598)
Payment of finance cost	**(99,569)**	(229,619)
Net cash generated from (used in) financing activities	**1,031,222**	(8,962,157)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(20,750,543)**	(16,648,881)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**147,275,490**	188,319,662
CASH AND CASH EQUIVALENTS AT END OF PERIOD (Note 4)	**₱126,524,947**	₱171,670,781

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

LT GROUP, INC.
(a Subsidiary of Tangent Holdings Corporation)
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") was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on May 25, 1937 under the name "The Manila Wine Merchants, Inc." to engage in the trading business. On November 17, 1947, the Company's shares of stock were listed in the Philippine Stock Exchange (PSE). The Company's corporate life is 50 years from the date of incorporation and was extended for another 50 years from and after May 27, 1987. On September 22, 1995, the Philippine SEC approved the change in Company's name to "Asian Pacific Equity Corporation" and the change in its primary purpose to that of a holding company. On July 30, 1999, the Company acquired Twin Ace Holdings Corp., now known as Tanduay Distillers, Inc. (TDI), a producer of distilled spirits, through a share swap with Tangent Holdings Corporation ("Tangent" or the "Parent Company"). The share swap resulted in LTG wholly owning TDI and Tangent increasing its ownership in LTG to 97.0%. On November 10, 1999, the Philippine SEC approved the change in the Company's corporate name from "Asian Pacific Equity Corporation" to "Tanduay Holdings, Inc". On September 24, 2012, LTG's stockholders approved the amendment in its Articles of Incorporation and By-Laws to reflect the change in its corporate name from "Tanduay Holdings, Inc." to "LT Group, Inc." which was approved by the Philippine SEC on September 28, 2012. The Company's primary purpose is to engage in the acquisition by purchase, exchange, assignment, gift or otherwise; and to hold, own and use for investment or otherwise; and to sell, assign, transfer, exchange, lease, let, develop, mortgage, enjoy and dispose of, any and all properties of every kind and description and wherever situated, as to and to the extent permitted by law.

After a series of restructuring activities in 2012 and 2013, LTG has expanded and diversified its investments to include the beverages, tobacco, property development and banking businesses, all belonging to Mr. Lucio C. Tan and his family and assignees (collectively referred to as the "Controlling Shareholders"). These business segments in which LTG and subsidiaries (collectively referred to as "the Group") operate are described in Note 3 to the interim condensed consolidated financial statements.

As of June 30, 2015 and December 31, 2014, 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

<u>Basis of Preparation</u>
The interim condensed consolidated financial statements have been prepared under the historical cost basis, except for financial assets and liabilities at fair value through profit or loss (FVPL), AFS financial assets, 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 and presentation currency of LTG. All values are rounded to the nearest Thousands, except when otherwise indicated.

The interim condensed consolidated financial statements of LTG have been prepared in accordance with 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, 2014 annual consolidated financial statements.

The preparation of the financial statements in compliance with Philippine Financial Reporting Standards (PFRS) requires management to make estimates and assumptions that affect the amounts reported in the unaudited interim 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 unaudited interim condensed consolidated financial statements. Actual results could differ from such estimates.

Basis of Consolidation

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

	Percentage of Ownership						
	June 30, 2015		December 31, 2014		June 30, 2014		Country of
	Direct	**Indirect**	Direct	Indirect	Direct	Indirect	Incorporation
Distilled Spirits							
TDI and subsidiaries	**100.0**	**–**	100.0	–	100.0	–	Philippines
Absolut Distillers, Inc. (ADI)	**–**	**95.0**	–	95.0	–	95.0	Philippines
Asian Alcohol Corporation (AAC)	**–**	**96.0**	–	96.0	–	96.0	Philippines
Tanduay Brands International, Inc. (TBI) [1]	**100.0**	**–**	100.0	–	100.0	–	Philippines
Beverages							Philippines
ABI and subsidiaries	**99.9**	**–**	99.9	–	99.9	–	Philippines
Agua Vida Systems, Inc.	**–**	**99.9**	–	99.9	–	99.9	Philippines
Interbev	**–**	**99.9**	–	99.9	–	99.9	Philippines
Waterich	**–**	**99.9**	–	99.9	–	99.9	Philippines
Packageworld	**–**	**99.9**	–	99.9	–	99.9	Philippines
AB Nutribev Corp. [2]	**–**	**99.9**	–	99.9			Philippines
Asia Pacific Bev PTE[3]	**–**	**99.9**	–	99.9			Singapore
Tobacco							
Shareholdings, Inc.	**97.7**	**–**	97.7	–	97.7	–	Philippines
FTC	**82.7**	**16.9**	82.7	16.9	82.7	16.9	Philippines
Property Development							
Saturn	**100.0**	**–**	100.0	–	100.0	–	Philippines
Paramount and subsidiaries	**100.0**	**–**	100.0	–	100.0	–	Philippines
Eton		**99.3**		99.3	–	99.3	Philippines
Belton Communities, Inc. (BCI)	**–**	**99.3**	–	99.3	–	99.3	Philippines
Eton City, Inc. (ECI)	**–**	**99.3**	–	99.3	–	99.3	Philippines
FirstHomes, Inc. (FHI)	**–**	**99.3**	–	99.3	–	99.3	Philippines
Eton Properties Management Corporation (EPMC)	**–**	**99.3**	–	99.3	–	99.3	Philippines
Banking							
Bank Holding Companies [4]	**80-100**	**–**	80-100	–	80-100	–	Various
PNB and Subsidiaries[5]	**–**	**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	**–**	**56.5**	–	56.5	–	56.5	United States of America (USA)
PNB International Investments Corporation (PNB IIC)	**–**	**56.5**	–	56.5	–	56.5	USA

(Forward)

	Percentage of Ownership						
	June 30, 2015		December 31, 2014		June 30, 2014		Country of
	Direct	**Indirect**	Direct	Indirect	Direct	Indirect	Incorporation
PNB Remittance Centers, Inc. (PNBRCC)	–	**56.5**	–	56.5	–	56.5	USA
PNB RCI Holding Co. Ltd.	–	**56.5**	–	56.5	–	56.5	USA
PNB Remittance Co. (Canada)	–	**56.5**	–	56.5	–	56.5	Canada
PNB Europe PLC	–	**56.5**	–	56.5	–	56.5	United Kingdom
PNB Global Remittance & Financial Co. (HK) Ltd. (PNB GRF)	–	**56.5**	–	56.5	–	56.5	Hong Kong
PNB Italy SpA (PISpA) [6]	–	**56.5**	–	56.5	–	56.5	Italy
Japan - PNB Leasing and Finance Corporation (Japan-PNB Leasing)	–	**50.8**	–	50.8	–	50.8	Philippines
Japan - PNB Equipment Rentals Corporation	–	**50.8**	–	50.8	–	50.8	Philippines
PNB Savings Bank	–	**56.5**	–	56.5	–	56.5	Philippines
Allied Bank Philippines (UK) Plc (ABUK)	–	**56.5**	–	56.5	–	56.5	United Kingdom
Allied Commercial Bank (ACB)	–	**50.8**	–	50.8	–	50.8	People's Republic of China
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
PNB Life Insurance, Inc. (PLII)	–	**45.2**	–	45.2	–	45.2	Philippines
Allied Leasing and Finance Corporation (ALFC)	–	**32.3**	–	32.3	–	32.3	Philippines
Oceanic Holdings (BVI) Ltd. (OHBVI)	–	**15.7**	–	15.7	–	15.7	USA

(1) *Incorporated on May 6, 2003 to handle the marketing of TDI's products in the export market, TBI has not yet started commercial operations.*

(2) *On February 3, 2014, the Beverage segment's BOD approved the subscription of the 124,999,995 shares of AB Nutribev Corp. at P1.00 par value per share.*

(3) *On August 4, 2014, the Beverage segment's BOD approved the subscription of one (1) ordinary share of Asia Pacific Bev PTE at USD 1 par value per share.*

(4) *As of June 30, 2015 and December 31, 2014, 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.*

(5) *Represents the effective ownership interest of LTG through the collective ownership of the Bank Holding Companies in the merged PNB. Subsidiaries of Merged PNB pertain to the 18 subsidiaries of PNB and Allied Bank, respectively, prior to the merger.*

(6) *On November 19, 2014, PISpA was liquidated.*

Changes in Accounting Policies and Disclosures

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended December 31, 2014, except for the adoption of the following new amended standards and interpretations which are effective for annual periods beginning on or after January 1, 2015.

- Amendments to PAS 19, *Employee Benefits - Defined Benefit Plans: Employee Contributions*, requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is not relevant to the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

- *Annual Improvements to PFRSs (2010-2012 cycle)*
  The Annual Improvements to PFRSs (2010-2012 cycle) did not have a material impact on the Group. They include:

  - PFRS 2, *Share-based Payment - Definition of Vesting Condition* is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

  - A performance condition must contain a service condition
  - A performance target must be met while the counterparty is rendering service
  - A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
  - A performance condition may be a market or non-market condition
  - If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

- PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business Combination* is applied prospectively for business combinations for which the acquisition date is on or after July 1, 2014. It clarifies that a contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PAS 39, *Financial Instruments: Recognition and Measurement* (or PFRS 9, *Financial Instruments,* if early adopted). The Group will consider this amendment for future business combinations.

- PFRS 8, *Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets,* is applied retrospectively and clarify that:
  - An entity must disclose the judgments made by management in applying the aggregation criteria in the standard, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.
  - The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

- PAS 16, *Property, Plant and Equipment,* and PAS 38, *Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Depreciation and Amortization*, is applied retrospectively and clarifies in PAS 16 and PAS 38 that the asset may be revalued by reference to the observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset.

- PAS 24, *Related Party Disclosures - Key Management Personnel,* is applied retrospectively and clarifies that a management entity, which is an entity that provides key management personnel services, is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

- *Annual Improvements to PFRSs (2011-2013 cycle)*
  The Annual Improvements to PFRSs (2011-2013 cycle) did not have a material impact on the Group. They include:

  - PFRS 3, *Business Combinations - Scope Exceptions for Joint Arrangements*, is applied prospectively and clarifies the following regarding the scope exceptions within PFRS 3:
    - Joint arrangements, not just joint ventures, are outside the scope of PFRS 3.
    - This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

- PFRS 13, *Fair Value Measurement - Portfolio Exception*, is applied prospectively and clarifies that the portfolio exception in PFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of PAS 39 (or PFRS 9, as applicable).

- PAS 40, *Investment Property*, is applied prospectively and clarifies that PFRS 3, and not the description of ancillary services in PAS 40, is used to determine if the transaction is the purchase of an asset or business combination. The description of ancillary services in PAS 40 only differentiates between investment property and owner-occupied property (i.e., property, plant and equipment).

New Accounting Standards, Interpretations and Amendments to
Existing Standards Effective Subsequent to December 31, 2015

The Group will adopt the standards, amendments and interpretations enumerated below when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new changes in PFRS to have a significant impact on the consolidated financial statements. The relevant disclosures will be included in the notes to the consolidated financial statements when these become effective.

Effective 2016

- Amendments to PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortization*, clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

- Amendments to PAS 16, *Property, Plant and Equipment*, and PAS 41, *Agriculture - Bearer Plants*, change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance,* will apply. The amendments are retrospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group as the Group does not have any bearer plants.

- Amendments to PAS 27, *Separate Financial Statements - Equity Method in Separate Financial Statements*, will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of PFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to PFRS. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments will not have any impact on the Group's consolidated financial statements.

- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*, address an acknowledged inconsistency between the requirements in PFRS 10 and those in PAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. These amendments are effective from annual periods beginning on or after January 1, 2016. The Group shall consider these amendments for future sale or contribution of assets of the Group to its associates and joint venture.

- Amendments to PFRS 11, *Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations*, require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not re-measured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

  The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group.

- PFRS 14, *Regulatory Deferral Accounts*, is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. PFRS 14 is effective for annual periods beginning on or after January 1, 2016. Since the Group is an existing PFRS preparer, this standard would not apply.

- *Annual Improvements to PFRSs (2012-2014 cycle)*
  The Annual Improvements to PFRSs (2012-2014 cycle) are effective for annual periods beginning on or after January 1, 2016 and are not expected to have a material impact on the Group. They include:

  - PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations - Changes in Methods of Disposal*, is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.

- PFRS 7, *Financial Instruments: Disclosures - Servicing Contracts*, requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments.

- PFRS 7 - *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*, is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.

- PAS 19, *Employee Benefits - regional market issue regarding discount rate*, is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

- PAS 34, *Interim Financial Reporting - disclosure of information 'elsewhere in the interim financial report'*, is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).

Effective 2018

- PFRS 9, *Financial Instruments - Hedge Accounting and amendments to PFRS 9, PFRS 7 and PAS 39 (2013 version)*, already includes the third phase of the project to replace PAS 39 which pertains to hedge accounting. This version of PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items but also for non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a derivative instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

  PFRS 9 (2013 version) has no mandatory effective date. The mandatory effective date of January 1, 2018 was eventually set when the final version of PFRS 9 was adopted by the FRSC. The adoption of the final version of PFRS 9, however, is still for approval by BOA.

The Group is currently assessing the impact of adopting this standard.

- PFRS 9, *Financial Instruments (2014 or final version)*, was issued in July 2014. PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of PFRS 9 is permitted if the date of initial application is before February 1, 2015.

  The adoption of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Group's financial liabilities. The Group is currently assessing the impact of adopting this standard.

  In compliance with SEC Memorandum Circular No. 3 Series 2012, the banking segment discloses the following information:

  - The banking segment is still evaluating the effect of the early adoption of PFRS 9 and the impact on its financials; hence the interim financial statements do not reflect the impact of the said standard.

  - In case of early adoption of PFRS 9, the following accounts may be affected: (a) Loans and Receivables; (b) Investment Securities; (c) Financial Liabilities Designated at FVPL; (d) Retained Earnings; and (e) Undivided Profits.

Standards issued but not yet effective

- PFRS 9, *Financial Instruments - Classification and Measurement* (2010 version), reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, *Financial Instruments: Recognition and Measurement*. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

PFRS 9 (2010 version) is effective for annual periods beginning on or after January 1, 2015. This mandatory adoption date was moved to January 1, 2018 when the final version of PFRS 9 was adopted by the Philippine Financial Reporting Standards Council (FRSC). Such adoption, however, is still for approval by the Board of Accountancy (BOA). The Group will not early adopt the standard.

Effectivity date to be determined

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11 or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The SEC and the FRSC have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. Adoption of the interpretation when it becomes effective is expected to have a significant impact on the financial position and performance of the property development segment of the Group.

  The following standards and amendments issued by the IASB were already adopted by the FRSC but are still for approval by the BOA.

The following new standards and amendments to existing standards issued by the IASB have not yet been adopted by the FRSC as of June 30, 2015:

- International Financial Reporting Standard (IFRS) 15, *Revenue from Contracts with Customers*, was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2017 with early adoption permitted.

- Amendments to International Accounting Standards (IAS) 1, *Presentation of Financial Statement*, were issued in December 2014. The amendments include narrow-focus improvements in five areas; namely, materiality, disaggregation and subtotals, notes structure, disclosure of accounting policies and presentation of items of other comprehensive income arising from equity accounted investments. The amendments are effective on or after January 1, 2016.

- Amendments to IFRS 10, *Consolidated Financial Statements*, IFRS 12, *Disclosure of Interests in Other Entities*, and IAS 28, *Investments in Associates and Joint Ventures.* In December 2014, the IASB issued *Investment Entities: Applying the Consolidation Exception* (amendments to IFRS 10, IFRS 12 and IAS 28). The amendments address certain issues that have arisen in applying the investment entities exception under IFRS 10.

The Group is currently assessing the impact of IFRS 15 and the amendments to IAS 1, IFRS 10, IFRS 12 and IAS 28 and plans to adopt the new and amended standards on their required effective dates once adopted locally.

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. 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 include commercial glass division and corrugated cartons and metal closures production facility, to support the requirements of its brewing, bottled water and non-beer products operations. 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 PFRS. 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 6.5% and 5.6% as of December 31, 2014, and 4.7% and 4.2% as of December 31, 2014 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 95% and 85% of the total segment revenue for the six months ended June 30, 2015 and 2014, 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 six months ended June 30, 2015:

	Banking	Beverage	Distilled Spirits	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
				(In Thousands)			
Segment revenue:							
External customers	**₱13,015,566**	**₱6,565,929**	**₱5,588,385**	**₱–**	**₱1,248,537**	**₱–**	**₱26,418,417**
Inter-segment	**–**	**534,142**	**62,482**	**–**	**–**	**(596,624)**	**–**
	13,015,566	**7,100,071**	**5,650,867**	**–**	**1,248,537**	**(596,624)**	**26,418,417**
Cost of sales	**2,488,628**	**5,176,146**	**4,567,241**	**–**	**653,296**	**(673,505)**	**12,211,806**
Gross profit	**10,526,938**	**1,923,925**	**1,083,626**	**–**	**595,241**	**76,881**	**14,206,611**
Equity in net earnings of associates	**–**	**–**	**–**	**419,815**	**–**	**171,970**	**591,785**
	10,526,938	**1,923,925**	**1,083,626**	**419,815**	**595,241**	**248,851**	**14,798,396**
Selling expenses	**–**	**771,683**	**424,561**	**–**	**16,706**	**(2,956)**	**1,209,994**
General and administrative expenses	**8,385,653**	**427,405**	**342,406**	**54,201**	**338,133**	**60,016**	**9,607,814**
Operating income	**2,141,285**	**724,837**	**316,659**	**365,614**	**240,402**	**191,791**	**3,980,588**
Finance costs	**–**	**(6,829)**	**(47,510)**	**–**	**(63,280)**	**2,275**	**(115,344)**
Finance income	**–**	**9,183**	**2,966**	**45,789**	**48,682**	**(58,624)**	**47,996**
Foreign exchange gains (losses) – net	**579,549**	**–**	**(1,545)**	**–**	**288**	**1,889**	**580,181**
Others – net	**2,193,636**	**19,582**	**5,526**	**19,693**	**(24,468)**	**(144,609)**	**2,069,360**
Income before income tax	**4,914,470**	**746,773**	**276,096**	**431,096**	**201,624**	**(7,278)**	**6,562,781**
Provision for income tax	**810,106**	**222,989**	**96,608**	**6,151**	**87,747**	**6,349**	**1,229,950**
Segment profit	**₱4,104,364**	**₱523,784**	**₱179,488**	**₱424,945**	**₱113,877**	**(₱13,627)**	**₱5,332,831**
Depreciation and amortization expense	**552,443**	**831,086**	**216,640**	**5,683**	**74,359**	**8,755**	**1,688,966**
Segment profit attributable to:							
Equity holders of the Company	**2,345,809**	**523,784**	**180,637**	**423,160**	**113,080**	**(13,627)**	**3,572,843**
Non-controlling interests	**1,758,555**	**–**	**(1,149)**	**1,785**	**797**	**–**	**1,759,988**

Other financial information of the operating segments as of June 30, 2015 is as follows:

	Banking	Beverage	Distilled Spirits	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
				(In Thousands)			
Assets:							
Current assets	**₱280,019,690**	**₱11,340,073**	**₱9,533,704**	**₱9,068,395**	**₱14,979,836**	**(₱4,202,386)**	**₱320,739,312**
Noncurrent assets	**351,382,100**	**13,413,454**	**6,767,672**	**12,863,242**	**9,055,196**	**916,316**	**394,397,980**
	₱631,401,790	**₱24,753,527**	**₱16,301,376**	**₱21,931,637**	**₱24,035,032**	**(₱3,286,070)**	**₱715,137,292**
Liabilities:							
Current liabilities	**₱479,335,078**	**₱3,592,072**	**₱1,856,549**	**₱307,101**	**₱8,048,942**	**(₱10,930,600)**	**₱482,209,142**
Noncurrent liabilities	**61,740,681**	**1,510,650**	**529,666**	**78,617**	**2,290,626**	**159,680**	**66,309,920**
	₱541,075,759	**₱5,102,722**	**₱2,386,215**	**₱385,718**	**₱10,339,568**	**(10,770,920)**	**₱548,519,062**
Investments in associates and a joint venture	**₱–**	**₱67,613**	**₱–**	**₱10,543,429**	**₱–**	**₱1,409,342**	**₱12,020,384**
Equity attributable to:							
Equity holders of the Company	**49,816,605**	**19,650,805**	**13,791,662**	**21,433,810**	**13,664,398**	**8,069,814**	**126,427,094**
Non-controlling interests	**40,509,426**	**–**	**123,499**	**112,109**	**31,066**	**(584,964)**	**40,191,136**
Short-term debts	**–**	**1,150,000**	**350,000**	**–**	**520,358**	**(350,000)**	**1,670,358**
Long-term debts	**9,977,797**	**–**	**–**	**–**	**950,369**	**–**	**10,928,166**

For the six months ended June 30, 2014:

	Banking	Beverage	Distilled Spirits	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
				(In Thousands)			
Segment revenue:							
External customers	**₱12,379,177**	**₱6,490,067**	**₱5,544,329**	**₱–**	**₱870,788**	**₱–**	**₱25,284,361**
Inter-segment	**729,500**	**693,790**	**16,681**	**–**	**–**	**(1,439,971)**	**–**
	13,108,677	**7,183,857**	**5,561,010**	**–**	**870,788**	**(1,439,971)**	**25,284,361**
Cost of sales	**2,345,921**	**5,160,893**	**4,638,163**	**–**	**621,873**	**(737,358)**	**12,029,492**
Gross profit	**10,762,756**	**2,022,964**	**922,847**	**–**	**248,915**	**(702,613)**	**13,254,869**
Equity in net earnings of associates	**–**	**–**	**–**	**687,159**	**–**	**17,809**	**704,968**
	10,762,756	**2,022,964**	**922,847**	**687,159**	**248,915**	**(684,804)**	**13,959,837**
Selling expenses	**–**	**771,161**	**514,796**	**300**	**53,029**	**(4,678)**	**1,334,608**
General and administrative expenses	**9,968,867**	**381,674**	**368,929**	**139,230**	**266,527**	**75,573**	**11,200,800**
Operating income	**793,889**	**870,129**	**39,122**	**547,629**	**(70,641)**	**(755,699)**	**1,424,429**
Finance costs	**–**	**(6,265)**	**(207,851)**	**–**	**(22,164)**	**6,661**	**(229,619)**
Finance income	**–**	**9,770**	**41**	**31,685**	**14,096**	**(22,963)**	**32,629**
Foreign exchange gains – net	**766,845**	**–**	**(1,357)**	**–**	**(1,562)**	**(4,440)**	**759,486**
Others – net	**2,491,935**	**17,157**	**825**	**193,126**	**137,117**	**(583,693)**	**2,256,467**
Income before income tax	**4,052,669**	**890,791**	**(169,220)**	**772,440**	**56,846**	**(1,360,134)**	**4,243,392**
Provision for income tax	**932,696**	**261,337**	**3,242**	**59,118**	**18,826**	**6,428**	**1,281,647**
Segment profit	**₱3,119,973**	**₱629,454**	**(₱172,462)**	**₱713,322**	**₱38,020**	**(₱1,366,562)**	**₱2,961,745**
Depreciation and amortization expense	**828,456**	**811,480**	**255,407**	**5,448**	**51,884**	**8,376**	**1,961,051**
Segment profit attributable to:							
Equity holders of the Company	**2,319,900**	**629,454**	**(170,718)**	**710,326**	**37,754**	**(1,366,562)**	**2,160,154**
Non-controlling interests	**800,073**	**–**	**(1,744)**	**2,996**	**266**	**–**	**801,591**

Other financial information of the operating segments as of December 31, 2014 is as follows:

	Banking	Beverage	Distilled Spirits	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
				(In Thousands)			
Assets:							
Current assets	₱298,568,066	₱10,004,167	₱10,219,418	₱10,012,580	₱14,777,806	(₱3,445,955)	₱340,136,082
Noncurrent assets	313,673,332	13,588,070	6,600,617	13,304,339	8,915,819	614,949	356,697,126
	₱612,241,398	₱23,592,237	₱16,820,035	₱23,316,919	₱23,693,625	(₱2,831,006)	₱696,833,208
Liabilities:							
Current liabilities	₱466,045,382	₱2,959,227	₱6,443,588	₱385,588	₱12,925,809	(₱19,613,131)	₱469,146,463
Noncurrent liabilities	60,022,066	1,492,193	540,528	75,038	2,686,229	148,497	64,964,551
	₱526,067,448	₱4,451,420	₱6,984,116	₱460,626	₱15,612,038	(₱19,464,634)	₱534,111,014
Investments in associates and a joint venture	₱–	₱49,125	₱–	₱11,011,011	₱–	₱1,237,373	₱12,297,509
Equity attributable to:							
Equity holders of the Company	47,360,474	19,140,817	9,710,664	22,745,969	8,051,375	17,218,592	124,227,891
Non-controlling interests	38,813,476	–	125,255	110,324	30,212	(584,964)	38,494,303
Short-term debts	–	300,000	–	–	–	–	300,000
Long-term debts	9,969,498	2,902	4,998,008	–	1,829,938	(2,902)	16,797,444

4. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	June 30, 2015 (Unaudited)	December 31, 2014 (Audited)
	(In Thousands)	
Cash and other cash items	**₱15,039,730**	₱18,238,962
Cash equivalents:		
Due from *Bangko Sentral ng Pilipinas* (BSP)	**91,123,744**	105,773,685
Due from other banks	**13,259,768**	15,591,406
Interbank loans receivable and securities held under agreements to resell	**7,101,705**	7,671,437
	₱126,524,947	₱147,275,490

a. Cash and other cash items consist of cash on hand and in banks and short term investments. Cash in banks earn interest at bank deposit rates. Short term investments represent money market placements made for varying periods depending on the immediate cash requirements of the Group.

b. Due from BSP is composed of interest-bearing short-term placements with BSP and a demand deposit account to support the regular operations of PNB.

c. Securities held under agreements to resell represent overnight placements with the BSP where the underlying securities cannot be sold or re-pledged. The interest rate applicable is fixed by the BSP through a memorandum.

d. Interest earned on cash and other cash items and cash equivalents are presented under “Finance income” and “Banking revenue”, respectively (see Note 22).

5. Financial Assets at Fair Value through Profit or Loss

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

	June 30, 2015 (Unaudited)	December 31, 2014 (Audited)
	(In Thousands)	
Financial assets at fair value through profit or loss (FVPL):		
Held for trading:		
Government securities	**₱4,416,857**	₱6,598,386
Private debt securities	**367,760**	289,313
Derivative assets (Note 19)	**128,672**	136,551
Equity securities	**257,572**	210,550
	5,170,861	7,234,800
Designated at FVPL:		
Segregated fund assets (Note 14)	**12,011,323**	10,654,770
Unit investment trust fund	**5,150,603**	4,922,351
	₱22,332,787	₱22,811,921

6. Available for Sale Investments

Available for sale investments consist of:

	June 30, 2015 (Unaudited)	December 31, 2014 (Audited)
	(In Thousands)	
Government securities	**₱51,920,024**	₱37,683,386
Other debt securities	**25,993,686**	23,986,694
Equity securities:		
Quoted	**3,410,124**	2,735,120
Unquoted	**733,297**	338,026
	82,057,131	64,743,226
Allowance for impairment losses	**(998,518)**	(929,881)
	81,058,613	63,813,345
Noncurrent portion	**74,760,626**	60,039,059
	₱6,297,987	₱3,774,286

7. Loans and Receivables

Loans and receivables consist of:

	June 30, 2015 (Unaudited)	December 31, 2014 (Audited)
	(In Thousands)	
Finance receivables	**₱355,988,012**	₱328,416,192
Trade receivables	**12,443,332**	11,885,157
Other receivables	**2,220,878**	2,980,818
	370,652,222	343,282,167
Allowance for credit losses	**(16,858,589)**	(12,189,786)
	353,793,633	331,092,381
Noncurrent portion	**211,283,777**	187,438,860
	₱142,509,856	₱143,653,521

Finance Receivables

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

	June 30, 2015 (Unaudited)	December 31, 2014 (Audited)
	(In Thousands)	
Receivables from customers:		
Loans and discounts	**₱312,904,933**	₱278,897,612
Customers' liabilities on acceptances, letters of credit and trust receipts	**9,659,171**	11,594,378
Bills purchased	**4,435,936**	4,878,682

(Forward)

	June 30, 2015 (Unaudited)	December 31, 2014 (Audited)
	(In Thousands)	
Credit card receivables	**₱4,814,195**	₱4,390,966
Finance lease receivables	**3,559,795**	3,311,150
	335,374,030	303,072,788
Unquoted debt securities	**4,262,703**	8,044,272
Other receivables:		
Accounts receivable	**8,399,846**	8,993,706
Accrued interest receivable	**5,146,960**	4,756,699
Sales contract receivables	**4,355,020**	4,267,338
Miscellaneous	**431,279**	442,089
	18,333,105	18,459,832
	357,969,838	329,576,892
Unearned interest and other deferred income	**(1,981,826)**	(1,160,700)
	355,988,012	328,416,192
Allowance for credit losses	**(16,803,776)**	(12,129,459)
	339,184,236	316,286,733
Noncurrent portion	**(210,571,126)**	(186,830,742)
	₱128,613,110	₱129,455,991

Trade receivables

Trade receivables consist of:

	June 30, 2015 (Unaudited)	December 31, 2014 (Audited)
	(In Thousands)	
Consumer goods	**₱8,885,673**	₱9,026,828
Contract receivables	**3,303,001**	2,667,862
Lease receivables	**254,658**	190,467
	12,443,332	11,885,157
Allowance for credit losses	**(54,813)**	(54,813)
	12,388,519	11,830,344
Noncurrent portion of contract receivables	**712,651**	608,118
	₱11,675,868	₱11,222,226

8. **Inventories**

Inventories consist of:

	June 30, 2015 (Unaudited)	December 31, 2014 (Audited)
	(In Thousands)	
At Cost:		
Consumer goods:		
Alcohol	**₱2,778,832**	₱2,383,195
Beverage	**1,978,320**	2,028,689
	4,757,152	4,411,884

(Forward)

	June 30, 2015 (Unaudited)	December 31, 2014 (Audited)
	(In Thousands)	
Real estate inventories		
Condominium and residential units for sale	**₱3,147,042**	₱3,524,882
Subdivision land under development	**2,494,642**	2,315,704
Land held for future development	**1,242,420**	1,408,237
	6,884,104	7,248,823
Fuel, materials and supplies	**636,099**	624,150
	12,277,355	12,284,857
At NRV - Materials and supplies	**708,374**	652,008
	₱12,985,729	₱12,936,865

9. **Other Current Assets**

Other current assets consist of:

	June 30, 2015 (Unaudited)	December 31, 2014 (Audited)
	(In Thousands)	
Creditable withholding taxes (CWT)	**₱3,835,371**	₱2,738,802
Advances to suppliers	**1,414,731**	964,567
Excise tax	**943,451**	1,008,484
Input VAT	**773,045**	827,684
Prepaid expenses	**554,791**	371,466
Advances to contractors	**300,836**	367,221
Miscellaneous cash and other cash items	**107,592**	714,726
Deferred rent	**132,193**	90,701
Stationeries, office supplies and stamps on hand	**244,121**	129,721
Held to maturity investments	**–**	11,375
Others	**187,262**	661,862
	₱8,493,393	₱7,886,609

10. **Subsidiaries, Associates and Joint Venture**

Investments in Associates and a Joint Venture

The Group has the power to participate in the financial and operating policy decisions in PMFTC and VMC, a 49.6%-owned and a 20.2%-owned associate, respectively, which do not constitute control or joint control. The Group also has 50.0% interest in ABI Pascual Holdings Private Limited (ABI Pascual Holdings), which is a joint controlled entity. The Group's investments in its associates and joint venture are accounted for using equity method of accounting.

	June 30, 2015 (Unaudited)	December 31, 2014 (Audited)
	(In Thousands)	
PMFTC	**₱10,543,428**	₱11,011,011
VMC	**1,409,343**	1,237,373
ABI Pascual Holdings	**67,613**	49,125
	₱12,020,384	₱12,297,509

Investment in PMFTC
Details of investment in PMFTC are as follows:

	June 30, 2015 (Unaudited)	December 31, 2014 (Audited)
	(In Thousands)	
Acquisition cost	**₱13,483,541**	₱13,483,541
Accumulated equity in net earnings:		
Balance at beginning of year	**(2,472,530)**	180,908
Equity in net earnings	**419,815**	515,112
Cash dividends	**(887,398)**	(3,168,550)
Balance at end of year	**(2,940,113)**	(2,472,530)
	₱10,543,428	₱11,011,011

Investment in VMC
Details of investment in VMC are as follows:

	June 30, 2015 (Unaudited)	December 31, 2014 (Audited)
	(In Thousands)	
Acquisition cost	**₱616,441**	₱616,441
Accumulated equity in net earnings:		
Balance at beginning of year	**379,443**	–
Equity in net earnings	**171,970**	44,635
Excess of fair value of net assets of associate over cost of investment	**–**	334,808
Balance at end of year	**551,413**	379,443
Balance of convertible note	**241,489**	241,489
	₱1,409,343	₱1,237,373

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. Net changes in the fair value of AFS investments recognized as other comprehensive income in 2013 amounted to ₱86.8 million. As of December 31, 2013, the cost of investment plus the accumulated net changes in fair value of AFS investments amounted to ₱323.3 million.

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. As of December 31, 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%. 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 (presented in other comprehensive income). 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 becomes an associate amounting to ₱833.5 million is recognized as part of the equity in net earnings of VMC.

Investment in a Joint Venture
Total assets, liabilities and capital deficiency of ABI Pascual Holdings amounted to ₱50.7 million, ₱106.0 million and ₱55.3 million as of June 30, 2015 and ₱54.2 million, ₱146.3 million and ₱92.1 million as of December 31, 2014. In 2014, the Group determined that its advances to ABI Pascual Foods amounting to ₱95.2 million to support its operations represent the Group's long-term interest in ABI Pascual Holdings and its subsidiary that, in substance, form part of the Group's net investment in the joint venture. On April 17, 2015, the Group contributed additional cash amounting to ₱22.3 million in compliance with the joint venture agreement.

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

Additions to Property, Plant and Equipment amounted to ₱1,825.2 million while retirement and disposals amounted to ₱122.1 million for the six months ended June 30, 2015.

Additions to Investment properties amounted to ₱233.3 million while retirement and disposals amounted to ₱1,818.8 million for the six months ended June 30, 2015.

12. Other Noncurrent Assets

Other noncurrent assets consist of:

	June 30, 2015 (Unaudited)	December 31, 2014 (Audited)
	(In Thousands)	
Software costs	**₱947,156**	₱667,364
Deferred reinsurance premiums	**856,335**	738,685
Deferred charges	**220,091**	236,773
Deposit for future investments	**357,489**	357,489
Net retirement plan assets (Note 21)	**244,689**	264,118
Refundable deposits	**190,910**	173,305
Goodwill	**163,735**	163,735
Deferred input VAT	**61,390**	352,657
Other security deposit	**96,028**	125,656
Chattel properties - net	**24,223**	49,549
Other investments	**40,834**	19,357
Others - net	**241,398**	516,444
	₱3,444,278	₱3,665,132

13. **Deposit Liabilities**

Deposit liabilities consists of:

	June 30, 2015 (Unaudited)	December 31, 2014 (Audited)
	(In Thousands)	
Demand	**₱104,701,802**	₱88,898,863
Savings	**286,571,271**	293,201,308
Time	**56,731,792**	52,759,938
	448,004,865	434,860,109
Presented as noncurrent	**22,692,841**	23,468,731
Presented as current	**₱425,312,024**	₱411,391,378

14. **Financial Liabilities at Fair Value through Profit or Loss (FVPL)**

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

	June 30, 2015 (Unaudited)	December 31, 2014 (Audited)
	(In Thousands)	
Designated at FVPL - Segregated fund liabilities	**₱12,350,107**	₱10,817,122
Derivative liabilities (Note 19)	**114,510**	44,903
	12,464,617	10,862,025
Presented as noncurrent	**33,119**	24,805
Presented as current	**₱12,431,498**	₱10,837,220

15. **Bills and Acceptances Payable**

Bills and acceptance payable consists of:

	June 30, 2015 (Unaudited)	December 31, 2014 (Audited)
	(In Thousands)	
Bills payable to:		
BSP and local banks	**₱15,267,113**	₱16,393,373
Foreign banks	**7,566,305**	1,027,442
Others	**1,447,536**	1,262,389
	24,280,954	18,683,204
Acceptances outstanding	**409,105**	366,854
	24,690,059	19,050,058
Presented as noncurrent	**14,125,684**	12,409,837
Presented as current	**₱10,564,375**	₱6,640,221

16. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of:

	June 30, 2015 (Unaudited)	December 31, 2014 (Audited)
	(In Thousands)	
Trade payables	**₱2,422,300**	₱2,347,734
Banking trade payables	**5,824,236**	7,162,995
Accrued expenses	**4,801,065**	4,726,168
Retention payable	**726,904**	710,107
Output value added tax	**128,252**	136,138
Nontrade payables	**318,103**	323,957
Provision for tax contingencies	**335,410**	335,410
Due to government agencies	**184,252**	267,486
Other payables	**68,698**	110,566
	₱14,809,220	₱16,120,561

17. Short-term and Long-term Debts

Short-term Debts

On June 15, 2015, the Group availed additional loans amounting to ₱850.0 million. As of June 30, 2015 and December 31, 2014, outstanding unsecured short term debts amounted to ₱1,150.0 million and ₱300.0 million, respectively. The loans are subject to annual interest rates ranging from 3.5% to 5.0%, 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

	June 30, 2015 (Unaudited)	December 31, 2014 (Audited)
	(In Thousands)	
Subordinated debts	**₱9,977,797**	₱9,969,498
Bonds payable	–	4,998,008
Unsecured term loan	**1,289,928**	1,321,823
Notes payable	**180,799**	508,115
	11,448,524	16,797,444
Current portion	**520,358**	5,506,123
	₱10,928,166	₱11,291,321

In January 2014, the Group paid portion of its notes payable and unsecured term loans amounting to ₱508.89 million and ₱116.41 million, respectively. As of December 31, 2014, the Group reclassified all its Bonds payable which were due on February 13, 2015 from noncurrent liabilities to current liabilities. On February 13, 2015, the Group paid its Bonds Payable amounting to ₱5,000.0 million. As of June 30, 2015, the Group has complied with the covenants related to its long-term debts.

18. **Other Liabilities**

	June 30, 2015 (Unaudited)	December 31, 2014 (Audited)
	(In Thousands)	
Insurance contract liabilities	**₱11,209,387**	₱11,507,852
Bills purchased - contra (Note 7)	**4,024,709**	4,230,348
Customers deposits	**2,040,647**	2,017,398
Payable to landowners	**2,289,708**	2,289,708
Managers' checks and demand drafts outstanding	**1,071,167**	1,030,298
Reserve for unearned premiums	**1,230,486**	1,056,794
Deposit on lease contracts	**821,804**	651,371
Other dormant credits	**492,808**	549,149
Due to Treasurer of the Philippines	**439,605**	366,841
Tenants' rental deposits	**352,131**	268,805
Payment order payable	**337,037**	312,144
Provisions (Note 33)	**180,672**	1,680,648
Due to BSP	**93,097**	101,172
Margin deposits and cash letters of credit	**53,046**	86,143
Advanced rentals	**34,336**	45,800
Transmission liability	**2,853**	76,893
Others	**5,901,146**	4,341,804
	30,574,639	30,613,168
Presented as noncurrent	**13,337,206**	12,638,349
Presented as current	**₱17,237,433**	₱17,974,819

19. **Derivative Financial Instruments**

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

	June 30, 2015 (Unaudited)	December 31, 2014 (Audited)
	(In Thousands)	
Balance at beginning of year	**₱91,648**	₱95,596
Changes in fair value	**102,016**	105,244
Settlements	**(179,502)**	(109,192)
	₱14,162	₱91,648

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:

		Six Months Ended June 30	
		2015 (Unaudited)	2014 (Unaudited)
		(In Thousands)	
Associate	Sales	**₱–**	₱420
	Purchases of inventories	**550,044**	539,007
	Dividend income	**887,398**	1,722,184
Entities Under Common Control	Banking revenue - interest on loans and receivables	**38,496**	9,450
	Sales of consumer products	**13,280**	4,860
	Interest income on loans and advances	**–**	12,562
	Rent income	**8,848**	6,281
	Other income	**1,371**	–
	Freight and handling	**2,890**	2,306
	Purchases of inventories	**(17,145)**	(9,123)
	Cost of banking services - interest expense on deposit liabilities	**(10,174)**	(30,056)
	Cost of sales and services	**(5,028)**	–
	Management and professional fee	**(233,834)**	(195,676)
	Outside services	**(29,700)**	(26,100)
	Rent expense	**(14,802)**	(14,400)

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

	Financial Statement Account	Terms and Conditions	Outstanding Balance **June 30, 2015 (Unaudited)**	 December 31, 2014 (Audited)
			(In Thousands)	
Parent Company	Due to related parties	On demand; non-interest bearing	**(₱41,975)**	(₱41,975)
Associate	Other receivables - dividends	30 to 90 days terms; non-interest bearing	**148,074**	165,753
	Trade receivables	30 to 90 days terms; non-interest bearing	**181**	181
	Accounts payable and other liabilities	30 to 60 days terms; non-interest bearing	**(19,892)**	–
	Advances to suppliers	30 to 60 days terms; non-interest bearing	**73,015**	71,882
Entities Under Common Control	Finance Receivables	Loans with interest rates ranging from 0.5% to 16.5% and maturity terms ranging from one (1) month to 25 years; Collateral includes bank deposit hold-out, real estate and chattel mortgages	**20,921,742**	14,455,539
	Trade receivables	30 to 60 days terms; non-interest bearing	**6,005**	7,957
	Other receivables	30 to 60 days terms; non-interest bearing	**5,988**	3,175
	Due from related parties	On demand; non-interest bearing	**1,594,613**	1,795,829
	Advances to suppliers	30 to 60 days terms; non-interest bearing	**47,401**	47,670
	Deposit liabilities	With annual rates ranging from 0.38% to 1.73% and maturity ranging from 30 days to one (1) year	**(6,377,497)**	(11,136,419)
	Accounts payable and other liabilities	30 to 90 days terms; non-interest bearing	**(315,361)**	(331,866)
	Due to related parties	On demand; non-interest bearing	**(913)**	(3,841)
	Other payables	30 to 90 days terms; non-interest bearing	**(1,368)**	(4,496)

As of June 30, 2015 and December 31, 2014, 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:

	June 30, 2015 (Unaudited)	December 31, 2014 (Audited)
	(In Thousands)	
Net retirement plan assets:		
FTC	**₱225,848**	₱223,083
AAC	**18,841**	41,035
	₱244,689	₱264,118
Accrued retirement benefits:		
PNB	**₱2,887,366**	₱2,841,883
ABI and subsidiaries	**926,760**	877,195
TDI and ADI	**11,396**	11,730
Eton	**45,550**	38,392
LTG	**6,446**	7,061
	₱3,877,518	₱3,776,261

<u>Transactions with Retirement Plans</u>
Management of the retirement funds of the banking segment is handled by the PNB Trust Banking Group (TBG). As of June 30, 2015 and December 31, 2014, the retirement fund of the Group includes 9,008,864 shares of PNB classified under held-for-trading (HFT). 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 June 30, 2015 and December 31, 2014, AFS and HTM investments include government and private debt securities and various funds. Deposits with other banks pertain to Special Deposit Accounts (SDA) 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:

	Six Months Ended June 30	
	2015 (Unaudited)	2014 (Unaudited)
	(In Thousands)	
Banking revenue	**₱13,015,566**	₱12,379,177
Sale of consumer goods	**12,154,314**	12,034,396
Real estate sales	**713,213**	597,198
Rental income	**535,324**	273,590
	₱26,418,417	₱25,284,361

Banking revenue consists of:

	Six Months Ended June 30	
	2015 (Unaudited)	2014 (Unaudited)
	(In Thousands)	
Interest income on:		
Loans and receivables	**₱8,215,373**	₱7,383,115
Trading and investment securities	**1,898,121**	1,716,890
Deposits with banks and others	**539,740**	1,133,323
Interbank loans receivable	**16,255**	5,866
	10,669,489	10,239,194
Trading and securities gains	**369,933**	465,193
Service fees and commission income	**1,976,144**	1,674,790
	₱13,015,566	₱12,379,177

Sale of consumer goods consists of:

	Six Months Ended June 30	
	2015 (Unaudited)	2014 (Unaudited)
	(In Thousands)	
Gross sales	**₱12,748,850**	₱12,621,757
Sales returns, discounts and allowances	**(594,536)**	(587,361)
	₱12,154,314	₱12,034,396

Cost of sales and services consists of:

	Six Months Ended June 30	
	2015 (Unaudited)	2014 (Unaudited)
	(In Thousands)	
Cost of consumer goods sold:		
Materials used and changes in inventories (Note 8)	**₱6,116,424**	₱6,008,783
Taxes and licenses	**691,350**	674,714
Depreciation and amortization (Note 11)	**639,118**	676,892
Fuel and power	**396,220**	345,248
Personnel costs	**337,446**	431,608
Communication, light and water	**318,985**	332,390

(Forward)

	Six Months Ended June 30	
	2015	2014
	(Unaudited)	(Unaudited)
	(In Thousands)	
Repairs and maintenance	**₱226,652**	₱228,591
Management, consulting, and professional fees	**244,551**	226,034
Freight and handling	**58,640**	36,870
Others	**117,378**	127,455
	9,146,764	9,088,585
Cost of banking services	**2,411,746**	2,319,034
Cost of real estate sales	**538,939**	516,153
Cost of rental income	**114,357**	105,720
Cost of sales and services	**₱12,211,806**	₱12,029,492

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

Cost of banking services consist of:

	Six Months Ended June 30	
	2015	2014
	(Unaudited)	(Unaudited)
	(In Thousands)	
Interest expense on:		
Deposit liabilities	**₱1,392,468**	₱1,545,516
Bills payable and other borrowings	**547,833**	383,893
Services fees and commission expense	**471,445**	389,625
	₱2,411,746	₱2,319,034

23. **Selling Expenses**

	Six Months Ended June 30	
	2015	2014
	(Unaudited)	(Unaudited)
	(In Thousands)	
Advertising and promotions	**₱486,543**	₱622,657
Depreciation and amortization (Note 11)	**319,110**	286,158
Freight and handling	**196,001**	180,040
Personnel costs	**64,587**	64,320
Management, consulting and professional fees	**56,191**	52,022
Repairs and maintenance	**23,726**	28,953
Materials and consumables	**16,247**	17,894
Commissions	**6,128**	46,966
Others	**41,461**	35,598
	₱1,209,994	₱1,334,608

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

24. General and Administrative Expenses

	Six Months Ended June 30	
	2015 (Unaudited)	2014 (Unaudited)
	(In Thousands)	
Personnel costs	**₱4,725,493**	₱3,760,769
Taxes and licenses	**1,285,659**	1,206,413
Occupancy	**704,635**	772,503
Depreciation and amortization (Note 11)	**676,391**	970,699
Insurance	**552,965**	509,272
Outside services	**516,959**	492,103
Management, consulting and professional fees	**382,483**	467,892
Marketing expenses	**238,528**	383,447
Information technology	**220,489**	222,923
Travel and transportation	**116,637**	179,353
Communication, light and water	**116,228**	134,985
Repairs and maintenance	**99,138**	88,545
Litigation expenses	**95,196**	112,953
Materials and consumables	**17,463**	20,449
Policyholder benefits and claim benefits	**–**	210,741
Increase in aggregate reserve for life policies	**–**	464,310
Provision for (reversal of) losses	**(385,175)**	932,042
Others	**244,725**	271,401
Others	**₱9,607,814**	₱11,200,800

25. Finance Costs and Finance Income

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

	Six Months Ended June 30	
	2015 (Unaudited)	2014 (Unaudited)
	(In Thousands)	
Finance costs (Note 17):		
Short-term debts	**₱6,829**	₱6,227
Bonds payable and amortization of bond issue costs	**46,742**	219,382
Unsecured term loan and notes payable	**61,774**	4,010
	₱115,345	₱229,619
Finance income:		
Cash and other cash items (Note 4)	**₱31,441**	₱21,375
Interest-bearing contracts receivable (Note 7)	**16,555**	11,254
	₱47,996	₱32,629

26. **Other Income (Charges) - net**

	Six Months Ended June 30	
	2015 (Unaudited)	2014 (Unaudited)
	(In Thousands)	
Collection from Ever Gotesco insurance claim	**₱703,796**	₱–
Net gains on sale or exchange of assets	**424,327**	651,269
Premiums - net of reinsurance	**382,270**	928,240
Rental income (Note 11)	**201,230**	426,543
Recoveries	**140,480**	38,319
Processing and referral fees	**65,791**	103,217
Others	**151,467**	108,879
	₱2,069,361	₱2,256,467

27. **Income Taxes**

a. 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 statements of income.

b. Under Philippine tax laws, PNB and its certain subsidiaries are subject to percentage and other taxes (presented as "Taxes and Licenses" in the 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.

c. Provision for current income tax consists of:

	Six Months Ended June 30	
	2015 (Unaudited)	2014 (Unaudited)
	(In Thousands)	
RCIT/MCIT	**₱1,021,079**	₱926,793
Final tax	**254,282**	392,066
Provision for current income tax	**₱1,275,361**	₱1,318,859

28. Equity

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

	June 30, 2015 (Unaudited)	December 31, 2014 (Audited)
Number of shares		
Authorized capital stock at ₱1 par value:	**25,000,000,000**	25,000,000,000
Issued capital stock at ₱1 par value:		
At beginning and end of the period	**₱10,821,388,889**	₱10,821,388,889

29. Basic/Diluted Earnings Per Share

Basic/diluted earnings per share were calculated as follows:

	Six Months Ended June 30	
	2015 (Unaudited)	2014 (Unaudited)
	(In Thousands)	
Net income attributable to equity holders of the Company	**₱3,572,843**	₱2,160,154
Divided by weighted-average number of shares	**10,821,389**	10,821,389
Basic/diluted EPS for net income attributable to equity holders of the Company	**₱0.33**	₱0.20

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 continuing profitability.

The Group monitors its processes associated with the following overall risk categories:

- Credit Risk
- Market Risk
- Liquidity Risk
- Operational Risk
- Information Security and Technology 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:

- Counterparty Risk
- Business Risk
- Strategic Risk
- Compliance Risk
- Legal Risk
- Reputational Risk
- Concentration Risk
- Country Risk
- Risks arising from the Group's shareholdings and equity interests

Managing the level of these risks as provided for by the banking segment's ERM framework is critical to its continuing profitability. The Risk Oversight Committee (ROC) of the banking segment's BOD determines the risk policy and approves the principles of risk management, establishment of limits for all relevant risks, and the risk control procedures. The ROC of the banking segment is also responsible for the risk management of the banking segment.

The RMG provides the legwork for the ROC in its role of formulating the risk management strategy, the management of regulatory capital, the development and maintenance of the internal risk management framework, and the definition of the governing risk management principles.

The mandate of the RMG involves:

- Implementing the risk management framework of identifying, measuring, controlling and monitoring the various risk taking activities of the Group, inherent in all financial institutions;
- Providing services to the risk-taking units and personnel in the implementation of risk mitigation strategies; and
- Establishing recommended limits based on the results of its analysis of exposures.

Credit Risk

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

The credit risk management of the entire loan portfolio is under the direct oversight of the ROC and Executive Committee. Credit risk assessment of individual borrower is performed by the business sector 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 has moved one step further by collecting 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 balance sheet.

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. 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 re-pledge the collateral held over loans and advances to counterparty banks and BSP in the absence of default by the owner of the collateral.

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 as disclosed in Note 35 to the financial statements.

Excessive risk concentration
The banking segment's credit risk concentrations can arise whenever a significant number of borrowers have similar characteristics. The banking segment analyzes the credit risk concentration to an individual borrower, related group of accounts, industry, geographic, internal rating buckets, currency, term and security. For risk concentration monitoring purposes, the financial assets are broadly categorized into (1) loans and receivables and (2) trading and financial investment securities. To mitigate risk concentration, the banking segment constantly checks for breaches in regulatory and internal limits. Clear escalation process and override procedures are in place, whereby any excess in limits are covered by appropriate approving authority to regularize and monitor breaches in limits.

a. Limit per Client or Counterparty
   For 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 50.00% 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 12.00% for priority industry, 8.00% for regular industry and 30.00% for power industry, versus total loan portfolio.

The banking segment's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. In order to avoid excessive concentrations of risks, identified concentrations of credit risks are controlled and managed accordingly.

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.

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.

<u>Standard</u>

- 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 - Fair
  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.

<u>Sub-standard Grade</u>

- CRR 9 - Marginal
  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 - Watch list
  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.

Under PFRS 7, a financial asset is past due when a counterparty has failed to make a payment when contractually due.

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 are 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 factors, 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.

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. The banking segment adopts the Parametric Value-at-Risk (VaR) methodology (with 99% confidence level, and one day holding period for FX and equity price risks VaR and ten day holding period for interest rate risk VaR) to measure PNB's trading market risk. Volatilities are updated monthly and are based on historical data for a rolling 260-day period. The RMG reports the VaR utilization and breaches to limits to the risk taking personnel on a daily basis and to the ALCO and Risk Oversight Committee (ROC) on a monthly basis. All risk reports discussed in the ROC meeting are noted by the BOD. The VaR figures are backtested to validate the robustness of the VaR model. Below are the objectives and limitations of the VaR methodology, VaR assumptions 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. 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

<u>Non-trading Market Risk</u>
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 set the adoption of the economic value approach in measuring the interest rate risk in the banking books to complement the earnings approach currently used.

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 cash and other cash items (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 sale of alcoholic beverage pertains mainly to two trusted parties with sales to them comprising about 99% of total alcoholic beverage sales.
- 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.

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

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

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

Market Risks

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.

Foreign exchange risk

The Group's foreign currency risk relates to its US$-denominated cash in banks and cash equivalents and due to and from related parties. Management closely monitors the fluctuations in exchange rates so as to anticipate the impact of foreign currency risks associated with the financial instruments. The Group currently does not enter into derivative transactions to hedge its currency exposure.

The reasonable movement in exchange rates was determined using one-year historical data. There is no other impact on the Group's equity other than those already affecting the profit or loss.

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 June 30, 2015 and December 31, 2014, 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.

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 PFRS 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 FVPL and AFS investments. Non-recurring fair value measurements are those that another PFRS 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 June 30, 2015 and December 31, 2014, the carrying values of the Group's financial assets and liabilities approximate their respective fair values, except for the following financial instruments:

	June 30, 2015 (Unaudited)		December,31,2014 (Audited)	
	Carrying Value	**Fair Market Value**	Carrying Value	Fair Market Value
		(In Thousands)		
Financial Assets:				
Loans and receivables:				
Receivables from customers	**₱324,145,651**	**₱333,289,320**	₱296,372,069	₱316,486,735
Unquoted debt securities	**567,542**	**2,944,131**	4,425,005	6,013,057
	₱324,713,193	**₱336,233,451**	₱300,797,074	₱322,499,792
Financial Liabilities:				
Financial liabilities at amortized cost:				
Deposit liabilities -				
Time deposits	**₱56,731,792**	**₱56,992,050**	₱52,759,938	₱55,296,115
Bills payables	**24,280,954**	**24,690,059**	18,683,204	18,340,370
Long term debts:				
Subordinated debt	**9,977,797**	**10,428,667**	9,969,498	10,593,485
Unsecured term loan	**–**	**–**	1,321,823	1,337,684
Bonds payable	**–**	**–**	4,998,008	5,048,551
Notes payable	**1,470,727**	**850,000**	508,115	502,089
Other liabilities:				
Payable to landowners	**2,289,708**	**2,289,708**	2,289,708	2,226,042
Tenants' rental deposits	**274,590**	**352,131**	268,805	323,236
Advanced rentals	**77,540**	**30,751**	45,800	41,212
	₱95,103,108	**₱95,633,366**	₱90,844,899	₱93,708,784

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. Where the repricing frequency is beyond three months, the fair value of floating rate loans is determined using the discounted cash flow methodologies. The discount rate used in estimating the fair value of loans and receivables is 3.2% in 2014 for peso-denominated receivables. For foreign currency-denominated receivables, discount rate used is 1.2% in 2014.

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 1.1% to 4.2% as of June 30, 2015 and December 31, 2014, 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 1.87% to 6.06% and from 1.97% to 6.38% as of June 30, 2015 and December 31, 2014, 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.

The Group held the following assets and liabilities measured at fair value and at cost but which fair values are disclosed and their corresponding level in fair value hierarchy:

	June 30, 2015 (Unaudited)			
	Level 1	**Level 2**	**Level 3**	**Total**
		(In Thousands)		
Assets measured at fair value:				
Financial Assets				
Financial assets at FVPL:				
Held-for-trading:				
Government securities	**₱3,822,892**	**₱593,965**	**₱–**	**₱4,416,857**
Derivative assets	**–**	**83,142**	**45,530**	**128,672**
Private debt securities	**367,760**	**–**	**–**	**367,760**
Equity securities	**257,572**	**–**	**–**	**257,572**

(Forward)

	June 30, 2015 (Unaudited)			
	Level 1	**Level 2**	**Level 3**	**Total**
		(In Thousands)		
Designated at FVPL:				
Segregated fund assets*	**₱6,843,564**	**₱–**	**₱5,167,759**	**₱12,011,323**
	₱11,291,788	**₱677,107**	**₱5,213,289**	**₱17,182,184**
AFS investments:				
Government securities	**₱39,088,294**	**₱12,274,867**	**₱–**	**₱51,363,161**
Other debt securities	**22,919,587**	**2,956,725**	**117,374**	**25,993,686**
Equity securities**	**3,054,458**	**–**	**–**	**3,054,458**
	₱65,062,339	**₱15,231,592**	**₱117,374**	**₱80,411,305**
Non-financial assets				
Property, plant and equipment***				
Land and land improvements	**₱–**	**₱–**	**₱19,211,303**	**₱19,211,303**
Plant buildings and building improvements	**–**	**–**	**9,214,958**	**9,214,958**
Machineries and equipment	**–**	**–**	**10,044,264**	**10,044,264**
	₱–	**₱–**	**₱38,470,525**	**₱38,470,525**
Liabilities measured at fair value:				
Financial liabilities				
Financial liabilities at FVPL:				
Designated at FVPL:				
Segregated fund liabilities*	**₱7,182,349**	**₱–**	**₱5,167,759**	**₱12,350,108**
Derivative liabilities	**–**	**114,510**	**–**	**114,510**
	₱7,182,349	**₱114,510**	**₱5,167,759**	**₱12,464,618**
Assets for which fair values are disclosed:				
Financial Assets				
Loans and receivables:				
Receivables from customers	**₱–**	**₱–**	**₱333,289,320**	**₱332,196,028**
Unquoted debt securities	**–**	**–**	**2,944,131**	**2,662,287**
	₱–	**₱–**	**₱336,233,451**	**₱334,858,315**
Non-financial Assets				
Investment properties***				
Land	**₱–**	**₱–**	**₱26,707,304**	**₱26,707,304**
Buildings and improvements	**–**	**–**	**3,241,631**	**3,241,631**
	₱–	**₱–**	**₱29,948,935**	**₱29,948,935**
Liabilities for which fair values are disclosed:				
Financial liabilities				
Financial liabilities at amortized cost:				
Deposit liabilities:				
Time deposits	**₱–**	**₱–**	**₱56,992,050**	**₱56,992,050**
Bills payables	**–**	**–**	**24,690,059**	**24,690,059**
Long term debts:				
Subordinated debt	**–**	**–**	**10,428,667**	**10,428,667**
Unsecured term loan	**–**	**–**	**–**	**–**
Bonds payable	**–**	**–**	**–**	**–**
Notes payable	**–**	**–**	**850,000**	**850,000**
Other liabilities:				
Payable to landowners	**–**	**–**	**2,289,708**	**2,289,708**
Tenants' rental deposits	**–**	**–**	**352,131**	**352,131**
Advance rentals	**–**	**–**	**30,751**	**30,751**
	₱–	**₱–**	**₱95,633,366**	**₱95,633,366**

* *Excludes cash component*
** *Excludes unquoted available-for-sale securities*
*** *Based on the fair values from appraisal reports which are different from their carrying amounts which are carried at cost.*

	December 31, 2014 (Audited)			
	Level 1	Level 2	Level 3	Total
		(In Thousands)		
Assets measured at fair value:				
Financial Assets				
Financial assets at FVPL:				
Held-for-trading:				
Government securities	₱3,802,179	₱2,329,099	₱–	₱6,131,278
Derivative assets	–	65,391	71,160	136,551
Private debt securities	218,193	–	–	218,193
Equity securities	210,674	160	–	210,834
Designated at FVPL:				
Segregated fund assets*	5,386,302	–	5,268,468	10,654,770
	₱9,617,348	₱2,394,650	₱5,339,628	₱17,351,626

	December 31, 2014 (Audited)			
	Level 1	Level 2	Level 3	Total
		(In Thousands)		
AFS investments:				
Government securities	₱25,983,779	₱11,161,671	₱–	₱37,145,450
Other debt securities	21,377,038	2,331,118	–	23,708,156
Equity securities**	2,074,200	–	–	2,074,200
	₱49,435,017	₱13,492,789	₱–	₱62,927,806
Non-financial assets				
Property, plant and equipment***				
Land and land improvements	₱–	₱–	₱16,832,987	₱16,832,987
Plant buildings and building improvements	–	–	11,602,275	11,602,275
Machineries and equipment	–	–	10,044,263	10,044,263
	₱–	₱–	₱38,479,525	₱38,479,525
Liabilities measured at fair value:				
Financial liabilities				
Financial liabilities at FVPL:				
Designated at FVPL:				
Segregated fund liabilities*	₱5,308,303	₱–	₱5,346,467	₱10,654,770
Derivative liabilities	–	44,903	–	44,903
	₱5,308,303	₱44,903	₱5,346,467	₱10,699,673
Assets for which fair values are disclosed:				
Financial Assets				
HTM investment	₱20,584,890	₱3,983,878	₱–	₱24,568,768
Loans and receivables:				
Receivables from customers	–	–	316,486,735	316,486,735
Unquoted debt securities	–	–	6,013,057	6,013,057
	₱20,584,890	₱3,983,878	₱322,499,792	₱347,068,560
Non-financial Assets				
Investment properties***				
Land	₱–	₱–	₱36,107,990	₱36,107,990
Buildings and improvements	–	–	6,025,335	6,025,335
	₱–	₱–	₱42,133,325	₱42,133,325
Liabilities for which fair values are disclosed:				
Financial liabilities				
Financial liabilities at amortized cost:				
Deposit liabilities:				
Time deposits	₱–	₱–	₱52,296,115	₱52,296,115
Bills payables	–	–	18,683,205	18,683,205
Long term debts:				
Subordinated debt	–	–	10,593,485	10,593,485
Unsecured term loan	–	–	1,337,684	1,337,684
Bonds payable	5,048,551	–	–	5,048,551
Notes payable	–	–	502,089	502,089
Other liabilities:				
Payable to landowners	–	–	2,226,042	2,226,042

(Forward)

	December 31, 2014 (Audited)			
	Level 1	**Level 2**	**Level 3**	**Total**
		(In Thousands)		
Tenants' rental deposits	–	–	323,236	323,236
Advance rentals	–	–	42,500	42,500
	₱5,048,551	₱–	₱86,004,356	₱91,052,907

* *Excludes cash component*
** *Excludes unquoted available-for-sale securities*
*** *Based on the fair values from appraisal reports which are different from their carrying amounts which are carried at cost.*

When fair values of listed equity and debt securities, as well as publicly traded derivatives at the reporting date are based on quoted market prices or binding dealer price quotations, without any deduction for transaction costs, the instruments are included within Level 1 of the hierarchy.

For all other financial instruments, fair value is determined using valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist and other revaluation models.

Instruments included in Level 3 include those for which there is currently no active market. In applying the discounted cash flow analysis to determine the fair value of financial liabilities designated at FVPL, the Group used discount rates ranging from 1.33% to 3.72% as of December 31, 2014.

As of June 30, 2015 and December 31, 2014, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of level 3 fair value measurements.

The following table shows a reconciliation of the beginning and closing amount of Level 3 financial assets and liabilities which are recorded at fair value:

	June 30, 2015 (Unaudited)	December 31, 2014 (Audited)
	(In Thousands)	
Financial assets		
Balance at beginning of year	**₱5,339,628**	₱5,545,916
Add total loss recorded in profit or loss	**(126,339)**	(206,288)
Balance at end of year	**₱5,213,289**	₱5,339,628
Nonfinancial assets		
Balance at beginning of year	**₱38,470,528**	₱37,834,527
Additions during the year	**2,464,435**	1,190,262
Depreciation and amortization	**(1,463,381)**	(1,631,635)
Net carrying value of disposed/transferred assets and other adjustments	**(678,850)**	1,077,374
Balance at end of the year	**₱40,150,432**	₱38,470,528
Financial liabilities		
Balance at beginning of year	**₱5,268,468**	₱5,380,053
Less total gain recorded in profit and loss	**(100,709)**	(111,585)
Balance at end of year	**₱5,167,759**	₱5,268,468

Sensitivity of the fair value measurement to changes in unobservable inputs:

		2014	
Structured Investments	**Significant Unobservable Input**	**Range of Input***	**Sensitivity of the Input to Fair Value****
Peso-denominated	**Bank CDS Levels**	**44.00 - 95.67 bps**	**50 bps increase/(decrease) in change inputs would result in a (decrease) / increase in the market value of the note by ₱90,838,042**
Dollar-denominated	**Bank CDS Levels**	**35.21 - 78.08 bps**	**50 bps increase/(decrease) in change inputs would result in a (decrease) / increase in the market value of the note by ₱41,710,217**

* *The sensitivity analysis is performed only on the fixed income portion of the Note, thus are based on assumptions that if changed may cause the value to fall out of range*

The fair values of warrants have been determined using price quotes received from a third-party broker without any pricing adjustments imputed by the Group. The valuation model and inputs used in the valuation which were developed and determined by the third-party broker were not made available to the Group. Under such instance, PFRS 13 no longer requires an entity to create quantitative information to comply with the related disclosure requirements.

Inputs used in estimating fair values of financial instruments carried at cost and categorized under Level 3 include risk-free rates and applicable risk premium.

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 shareholders equity. The Group is also required to maintain debt-to-equity ratios to comply with certain loan agreements and covenants in 2015 and 2014.

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 in 2015 and 2014.

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:

	June 30, 2015 (Unaudited)	December 31, 2014 (Audited)
	(In Thousands, except ratios)	
Total liabilities	**₱548,519,062**	₱534,111,014
Total equity	**166,618,230**	162,722,194
Total liabilities and equity	**₱715,137,292**	₱696,833,208
Debt ratio	**0.77:1**	0.76:1
Debt-to-equity ratio	**3.29:1**	3.28:1

33. Commitments and Contingencies

On March 31, 2015, Singapore Court of Appeal issued a Decision upholding the Singapore High Court's Decision in part, i.e., setting aside the monetary portions of the Arbitral Award that rendered the bank consortium not liable for certain sums of money. Involved parties will file submissions before the Singapore Court of Appeal pertaining to the issue on cost and consequential order. The Decision of the Singapore Court of Appeal will have a positive impact on the books of PNB. On May 25, 2015, the Singapore Court of Appeal made some ruling on the issue on costs and required parties to file further submissions on the issue of remission. Hearing with respect to the issue of remission will be on August 12, 2015. As of June 30, 2015, provision for losses amounting to ₱1.0 billion was reversed in view of the recent court decision ruling.

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 significant events after the reporting date which are considered to have material effect on 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 June 30, 2015 and December 31, 2014
And for the Six Months Ended June 30, 2015 and 2014
(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 (PFRS).

ii.) Explanatory comments about the seasonality or cyclicality 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 and tobacco 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 12, 2015, the Board of Directors of LTG approved the declaration and distribution of cash dividends of ₱0.15 per share to all stockholders of record as of May 27, 2015. The dividends were paid on June 2, 2015.

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 condensed 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;

There were no material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period

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.

In 2014, the Group acquired interest in VMC through direct common shares purchased and convertible notes. As of June 30, 2015, the Group effectively owns VMC 23.5% inclusive of the convertible notes and 20.2% through direct common shares.

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

Not Applicable. 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.

National Steel Corporation (NSC) Loan

On March 31, 2015, Singapore Court of Appeal issued a Decision upholding the Singapore High Court's Decision in part, i.e., setting aside the monetary portions of the Arbitral Award that rendered the bank consortium not liable for certain sums of money. Involved parties will file submissions before the Singapore Court of Appeal pertaining to the issue on cost and consequential order. The Decision of the Singapore Court of Appeal will have a positive impact on the books of the PNB. On May 25, 2015, the Singapore Court of Appeal made some ruling on the issue on costs and required parties to file further submissions on the issue of remission. Hearing with respect to the issue of remission set on August 12, 2015. As of June 30, 2015, provision for losses amounting to ₱1.0 billion was reversed in view of the recent court decision ruling.

Beverage
ABI maintains a legal department whose main function is to pursue collection cases and handle litigation arising from labor disputes. As of June 30, 2015, 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 are either pending with the courts or are being contested, the outcomes of which are not presently determinable. In the opinion of the Group's management and legal counsel, the eventual liability under these lawsuits and claims, if any, would not have a material or adverse effect on the Group's financial position and results of operations.

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

On August 15, 2013, the CA rendered a decision in favor of GSMI ordering TDI to recall all gin products bearing the Ginebra brand name, cease and desist from using GINEBRA in any of its gin products, pay GSMI 50% of the gross sales of GINEBRA KAPITAN and ₱2 million as exemplary fees. TDI filed its appeal on October 18, 2013. On November 22 2013, the CA sustained its decision in favor of GSMI.

On December 18, 2013, the Company filed a petition before the Supreme Court questioning the decision of the CA. As of June 30, 2015, the Company is awaiting decision of the Supreme Court.

Opposition to Registration of Brand Name
On August 9, 2006, GSMI also filed an opposition to TDIs application for registration of the brand name Ginebra Kapitan with the Intellectual Property Office (IPO). The Bureau of Legal Affairs (BLA) of the IPO ruled on April 23, 2008 that the word "GINEBRA" is a generic term that is not capable of exclusive appropriation. The decision paved the way for the registration with the IPO of TDI's brand name "GINEBRA KAPITAN".

On October 23, 2013, GSMI elevated the case to the Court of Appeals which reversed the IPO decision on July 23, 2014. TDI filed a Motion for Reconsideration to the Court of Appeals' Decision on August 22, 2014. GSMI filed its comments to TDI's Motion for Reconsideration on October 9, 2014. The Court of Appeals sustained its decision in favor of GSMI on July 23, 2014. On December 12, 2014, TDI filed a petition for review with the Supreme Court. TDI is currently awaiting the Supreme Court decision.

DENR-Administrative Proceedings
On July 22, 2008, the DENR issued a Cease and Desist Order (CDO) against AAC upon the recommendation of the Pollution Adjudication Board (PAB) for failure to meet the effluent standards. AAC filed a Motion for a Temporary Lifting Order (TLO) on August 4, 2008 in which AAC committed to implement immediate and long term remedial measures until August 2011.

As of June 30, 2015, AAC is still on shutdown. In compliance with the requirements of DENR Administrative Order No. 2003-30, the Company, which has been un-operational for more than five consecutive years, is required to secure a new Environmental Compliance Certificate (ECC). The Company is in the process of applying for a new ECC with the DENR.

Realty Tax Assessment Case

The case involves an appeal from the Notices of Assessment issued by the Provincial Assessor of Negros Occidental, assessing AAC for deficiency real property taxes in the amount of Php263.7 million covering years 1997 to 2009.

On November 26, 2013, the Local Board of Assessment Appeals (LBAA) issued a decision declaring the Notices of Assessment and the Statements of Real Property Tax due issued by the Provincial Assessor null and void for being contrary to the law.

On January 13, 2014, the Municipality of Pulupandan filed a Motion for Reconsideration with the LBAA. On March 11, 2014, AAC filed an Opposition to the Motion for Reconsideration filed by the Municipality of Pulupandan for lack of merit and that the LBAA decision dated November 26, 2013 be sustained. On March 19, 2014, the Provincial Legal Office of Negros Occidental has already considered the Notices of Assessment void for having been issued ultra vires, and confirmed that no further action will be taken on the aforesaid Notices of Assessment.

Property Development

Eton is a respondent in Civil Case No. Q-10-66785 entitled "Kingston Tuscani Enterprise & Development Corporation, Cristeta Babaison, et al. vs. Paramount Holding Equities and Eton Properties Philippines, Inc." pending before the Regional Trial Court of Quezon City, Branch 100.

The case involves the Eton'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 filed a complaint seeking to annul Eton's title alleging that it overlaps with TCT No. 300828. Plaintiffs also alleged that the signature of the then Register of Deeds on Eton's title was forged.

In its Answer, the defendants, including Eton 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 Php1.030 Billion and which sale was approved by the President of the Philippines then. Further, there was no adverse claim or notice of lis pendens, encumbrance, or annotation of any overlapping claim on Eton's title. Based on an investigation conducted into the plaintiffs' title, it appeared that the technical descriptions of TCT No. 300828 overlapped 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 overlapped 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.

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 on 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. The Government is currently appealing this decision to the Supreme Court.

Annex "B"

LT GROUP, INC.
(a Subsidiary of Tangent Holdings Corporation)
AND SUBSIDIARIES

Management Discussion and Analysis of
Financial Condition and Results of Operations

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

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

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

RESULTS OF OPERATIONS

LT Group, Inc. (LTG) posted a consolidated net income of ₱5.3 billion for the six months ended June 30, 2015, significantly higher by 80.1% from the ₱3.0 billion reported in the previous period.

Consolidated net income attributable to equity holders of LTG increased from ₱2.2 billion in 1H14 to ₱3.6 billion in 1H15. This was mainly due to the improvement in net income from the three businesses, banking, distilled spirits and property segment. The banking segment reported a net income of ₱4.1 billion or 31.6% better than the previous period of ₱3.1 billion with LTG's share at ₱2.3 billion for 1H15. The distilled spirits and property development segments' net incomes increased by ₱351 million and ₱76 million, respectively. This was partially offset by the decline in the net income of the tobacco and beverage segment by ₱288 million and ₱105 million, respectively.

Consolidated revenues increased slightly by 4.5% from ₱25.3 billion in 2014 to ₱26.4 billion for the six-month period ended June 30, 2015. The increase in banking revenues of 5.1% or ₱0.6 billion from ₱12.4 billion in 2014 to ₱13.0 billion in 2015 was mainly due to higher interest and service fees and commission income. The beverage segment's revenue of ₱6.6 billion in 2015 was 1.2% higher than the ₱6.5 billion reported in June 30, 2014. The property development segment and distilled spirits segment reported an increase in revenues of 43.4% and 1.0%, respectively.

Cost of sales increased by 1.5% from ₱12.0 billion for the six-month period ended June 30, 2014 to ₱12.2 billion for the same period in 2015, mainly due to the bank's higher interest expense on bills payable and others and service fees and commissions expense.

Operating expenses were at ₱10.8 billion in 2015 and ₱12.5 billion in 2014 as selling and general and administrative expenses decreased by 9.3% and 14.2%, respectively. The decline in selling expenses was mainly due to lower advertising and promotional expenses of the distilled spirits segment. General and administrative expenses decreased mainly on account of the banking segment's reversal of previously booked probable loss from the National Steel Corporation case.

Banking

The banking segment reported an income of ₱4.1 billion for the six-month period ended June 30, 2015, 31.5% higher than the ₱3.1 billion earned in same period last year

Interest income from banking operations increased by 4.2% to ₱10.7 billion this year, mainly on account of higher income from loans and deposits. Interest expense was flat at ₱2.0 billion for the six-month ended June 30, 2015 and 2014, resulting to a net interest income of ₱8.7 billion or 4.5% higher year-on-year.

Net service fees and commission income improved from ₱1.3 billion in the previous period to ₱1.5 billion in the current period due to higher arranger's fees, Bancassurance, underwriting and securities dealership fees earned.

Miscellaneous income decreased by 17.7% mainly on account of lower trading and foreign exchange gains recognized this year. In 1H14 there was a ₱730 million gain booked from the sale of VMC shares to LTG.

Operating expenses declined by 10.1% to ₱8.4 billion in 2015 primarily due to the reversal of the previously booked allowance for probable loss of ₱974 million in view of the favorable outcome of the National Steel Corporation case.

Beverage

The beverage segment's net income of ₱523.8 million for the six-month ended June 30, 2015 was 16.7% lower than the ₱629.5 million for the same period last year.

Revenues of the beverage segment decreased slightly by 1.2% from ₱7.2 billion in 2014 compared to ₱7.1 billion in 2015. This was primarily due to the decline in sales of Cobra, beer and alcopop, offset by higher revenues posted by Absolute and Summit water, Vitamilk soymilk and commercial glass bottles.

Operating expenses increased by 4.0% to ₱1.2 billion due to higher depreciation and professional fees and outside services expenses.

Distilled Spirits

The distilled spirits segment reported a net income of ₱179.5 million for the first half of 2015, a turnaround from the net loss of ₱172.5 million in the same period in 2014.

Net revenues reached ₱5.7 billion in 2015, 1.6% higher than the ₱5.6 billion reported in 2014. This was a result of increase in selling prices offsetting the slight decline in volumes for the first half of 2015.

Cost of sales remained flat at ₱4.6 billion for the first half of June 30, 2015 and 2014. Gross profit increased from 17% to 19% primarily due to favorable average selling prices.

Operating expenses were lower by 13.2% from ₱883.7 million in 2014 to ₱767.0 million in 2015. This was on account of lower advertising and promotional expenses.

Interest savings from the payment of the ₱5.0 billion bonds in February 2015 further contributed to TDI's improved profit in the first half of 2015.

Property Development

The property development segment posted a net income of ₱113.9 million for the first half of 2015, significantly higher than last year's ₱38.0 million. This was a result of higher gross profit by 139.1% or ₱346.3 million compared to the same period last year due to higher residential and leasing revenues.

The property segment's selling expenses were 68.5% lower at ₱16.7 million in 2015 compared to the ₱53.0 million for the same period last year. This was a result of lower commission expense recorded for the first half of 2015. General and administrative expenses increased by 26.9% or ₱71.6 million due to higher expenses for taxes and licenses, professional and other fees.

Tobacco

The tobacco segment posted a net income of ₱424.9 million for the six-months ended June 30, 2015, 40.4% lower from ₱713.3 million of the same period last year. This was mainly on account of lower equity in net earnings from PMFTC from ₱687.1 million last year to ₱419.8 million in 2015. PMFTC continues to be affected by higher excise taxes and the illicit trade in the cigarette industry.

FINANCIAL CONDITION

The Company's consolidated total assets as of June 30, 2015 amounted to ₱715.1 billion, an increase of 2.6% from ₱696.8 billion as of December 31, 2014. This was mainly on account of the ₱37.7 billion or 10.6% increase in noncurrent assets, offset by the decrease in current assets by 5.7% or ₱19.4 billion.

The decrease in consolidated current assets by 5.7% from ₱340.1 billion as of December 31, 2014 to ₱320.7 billion was primarily due to the 14.1% decline in the cash and cash equivalents of the banking segment. The decrease in cash and cash equivalents by 14.1% or ₱20.8 billion was on account of the banking segment's decrease in due from Bangko Sentral ng Pilipinas, due from other banks and cash and other cash items. The decrease in due from related parties was at 11.3% or ₱202 million lower than December 31, 2014. There was a 66.9% increase in current available for sale investments due to the acquisition of various securities. Other current assets increased from ₱7.9 billion as of December 31, 2014 by 7.7% to ₱8.5 billion due to the banking segment's higher creditable withholding taxes and other assets.

The 10.6% increase in total noncurrent assets was mainly due to the movements in the loans and receivables account and available for sale securities. Loans and receivables-net of current portion went up by 12.7% from ₱187.4 billion in December 31, 2014 to ₱211.3 billion as of June 30, 2015. Noncurrent AFS increased by 24.5% on account of the various acquisitions of securities. Deferred tax assets inreased by 9.7% mainly due to the banking segment's adjustments on temporary differences. Investment properties decreased by 6% mainly due to sales of various properties during the first half of 2015. Other noncurrent assets decreased by 6.0% from ₱3.7 billion as of December 31, 2015 to ₱3.4 billion as of June 30, 2015.

Consolidated total liabilities increased slightly by 2.7% to ₱548.5 billion as of June 30, 2015 from ₱534.1 billion as of December 31, 2014. This was on account of the increase in total current liabilities by 2.8% from ₱469.1 billion in December 31, 2014 to ₱482.2 billion in the current period and increase in noncurrent liabilities of 2.1% from ₱65.0 billion to ₱66.3 billion.

Current portion of bills and acceptances payable increased by 59.1% mainly due to the maturity of the banking segment's currently maturing bills and acceptances payable and other liabilities. Financial liabilities at fair value through profit or loss increased to ₱10.6 billion mainly on account of the banking segment's reclassification of these accounts to current. Current deposit liabilities of the banking segment increased from ₱411.4 billion in December 31, 2014 to ₱425.3 billion in the current period.

Current portion of short-term debts and long-term debts decreased from ₱5.8 billion to ₱1.67 billion on account of the distilled spirits segment's payment of the ₱5.0 billion bonds payable which matured in February 2015. Accounts payable and accrued expenses and income tax payables decreased by 8.1% and 56.7%, respectively due to various settlements in the first half of 2015.

The increase in the noncurrent liabilities was on account of the increase in the bills and acceptances payable (noncurrent) of the banking segment from ₱12.4 billion as of December 31, 2014 to ₱14.2 billion as of June 30, 2015 and increase in other noncurrent liabilities from ₱12.6 billion as of December 31, 2014 to ₱13.3 billion as of June 30, 2015.

LT Group's consolidated total equity grew 2.4% to ₱166.6 billion as of June 30, 2015, on account of the increase in retained earnings by 4.8% coming from the net earnings during the period and increase in other comprehensive income.

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

1.) Revenue

Revenues for June 30, 2015 amounted to ₱26.4 billion, slightly higher than last year's ₱25.3 billion.

2.) Net Income

Consolidated Net Income for June 2015 amounted to ₱5.3 billion, significantly higher by 80.1% from last period's ₱3.0 billion.

3.) Current Ratio

Current ratio decreased from 0.73:1 as of December 2014 to 0.67:1 as of June 2015.

4.) Debt to Equity Ratio

Debt-to-equity ratio increased from 3.28:1 as of December 2014 to 3.29:1 as of June 2015.

5.) Earnings/ (Loss) Per Share

LTG's earnings per share attributable to holders of the parent company for the period ending June 2015 and June 2014 are ₱0.33 and ₱0.20, 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) 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 on-going and planned capital expenditure projects as follow:

Beverage

In response to the growing market demand for healthier beverage options, ABI has started the construction of a soy milk production facility in Cabuyao scheduled to be operational by the second half of 2016.

(v) The company has no known 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-(14%)
2. Available-for-sale financial assets - current – H- 67%
3. Due from related parties – H- (11%)
4. Other current assets- H- 8%
5. Loans and receivables-noncurrent – H- 13%
6. Available-for-sale financial assets - noncurrent – H- 25%)
7. Property, plant and equipment – at cost – H- (35%)
8. Investment properties – H- (6%)
9. Deferred tax assets- H- 10%)
10. Other non-current assets- H- (6%)
11. Financial liabilities at fair value through profit or loss – current – H- 15%
12. Bills and acceptances payable - current – H- 59%
13. Accounts payable and accrued expense – H- (8%)
14. Income tax payable – H- (57%)
15. Short-term and long-term debts- current – H- (71%)
16. Due to related parties – H- (14%)
17. Financial liabilities at fair value through profit or loss - noncurrent – H- 34%
18. Bills and acceptances payable – noncurrent – H- 14%
19. Other noncurrent liabilities- H- 6%
20. Other comprehensive income-H- (9%)
21. Retained earnings – H- 5%
22. Banking revenue- H- 5%
23. Property Development Revenue – H- 43%
24. Equity in net earnings of associate – H - (16%)
25. Selling expenses – H – (9%)
26. General and administrative expenses – H- (14); V – (8%)
27. Finance cost – H- (50%)
28. Finance income – H- 47%
29. Foreign exchange gains – H- (24%)
30. Others-net – H- (8%)
31. Provision for income tax-deferred -H-22%
32. Net income- H-80%; V-8%

(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 ACCOUNTS RECEIVABLE
As of June 30, 2015 (Unaudited)
(In thousands)

TYPE OF ACCOUNTS RECEIVABLE		TOTAL	CURRENT	31-60 days	61-90 days	91-120 days	over 120 days
(a) Trade Receivable		368,431,344	7,256,760	2,443,726	1,430,906	134,398,649	222,901,303
Less: Allowance for Doubtful Accounts		16,217,249	-	-	-	-	16,217,249
NET TRADE RECEIVABLE	P	352,214,095	7,256,760	2,443,726	1,430,906	134,398,649	206,684,054
(b) Non-Trade Receivables		2,220,878	254,946	61,348	79,105	15,726	1,809,753
Less: Allowance for Doubtful Accounts		641,340	-	-	-	-	641,340
NET NON-TRADE RECEIVABLE	P	1,579,538	254,946	61,348	79,105	15,726	1,168,413
NET RECEIVABLES	P	353,793,633	7,511,706	2,505,074	1,510,011	134,414,375	207,852,467

ACCOUNTS RECEIVABLE DESCRIPTION	NATURE OF DESCRIPTION	COLLECTION PERIOD
Accounts Receivable - Trade	Sale of liquor, beer products, beverages and cigarettes, finance receivables and lease contract receivables	30 to 90 days
Accounts Receivable - Non-Trade	Downpayment on various suppliers, advances to affiliates, officers and employees, other receivables	-

LT GROUP, INC. and Subsidiaries
FINANCIAL SOUNDNESS INDICATORS

	30-Jun-15	31-Dec-14
CURRENT RATIO	0.67	0.73
DEBT TO EQUITY RATIO	3.29	3.28
ASSET TO EQUITY RATIO	4.29	4.28
	30-Jun-15	30-Jun-14
INTEREST RATE COVERAGE RATIO	72.54	28.02
SOLVENCY RATIO	0.58	0.17
PROFITABILITY RATIOS:		
PROFIT MARGIN	0.14	0.09
RETURN ON ASSET (ROA)	0.007	0.003
RETURN ON EQUITY (ROE)	0.028	0.018