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

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

COMPANY INFORMATION

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

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
376	**June 9**	**December 31**

CONTACT PERSON INFORMATION

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

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

CONTACT PERSON's ADDRESS

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

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

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

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

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

1. For the calendar year ended **December 31, 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. **Philippines**
Province, Country or other jurisdiction of incorporation or organization

6. (SEC Use Only)
Industry Classification Code:

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

8. **(632) 808-1266**
Registrant's telephone number, including area code

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

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

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

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

Yes [✓] No [ ]

Philippine Stock Exchange **Common Stock - 10,821,388,889 shares**

12. Check whether the registrant:

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

Yes [✓] No [ ]

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

Yes [✓] No [ ]

13. Aggregate market value of the voting stock held by non-affiliates of the registrant ₱41,015,227,117 as of December 31, 2015

14. Not applicable

DOCUMENTS INCORPORATED BY REFERENCE

PART I – BUSINESS AND GENERAL INFORMATION

Item 1. Business

Corporate History

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

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

As of December 31, 2015 and 2014, LTG was 74.36%-owned by its ultimate parent company, Tangent, which was also incorporated in the Philippines.

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

The Company has interests in the following businesses:

- **Distilled Spirits**—the Company conducts its distilled spirits business through its 100%-owned subsidiary TDI. TDI is the third-largest distilled spirits producer in the Philippines according to Nielsen Philippines, with an approximate 24.7% share of the Philippine spirits market in 2015.

- **Beverages**—the Company conducts its beverage business through its 99.9%-owned subsidiary, Asia Brewery, Incorporated (ABI). ABI is one of the Philippines’ leading producers of non-alcoholic and alcoholic beverages, such as energy drinks, beer, alcopop, bottled water and soymilk, and has leading market positions across four of these five main categories. ABI is also a major producer of packaging materials, including glass bottles.

- **Tobacco**—the Company conducts its tobacco business through its 99.6% ownership in Fortune Tobacco Corporation (FTC), which in turn owns 49.6% of PMFTC. PMFTC is the leading tobacco manufacturer and distributor in the Philippines with over 70% market share in the year 2015.

- **Banking**—the Company conducts its banking business through Philippine National Bank (PNB). PNB is a universal bank currently listed in the Philippine Stock Exchange (PSE). The Company's indirect ownership is approximately 56.47%. PNB is the Philippines' fourth largest private commercial bank in terms of total assets in 2015.

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

Description of Subsidiaries

Distilled Spirits

Tanduay Distillers, Inc. (TDI)

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

The following companies are majority owned by TDI:

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

- **Absolut Distillers, Inc. (ADI) – 96%**
  ADI was incorporated in the Philippines on September 14, 1990, to engage in, operate, conduct and maintain the business of manufacturing, distilling, importing, exporting, buying, selling or otherwise deal in chemicals including ethyl alcohol and molasses, at wholesale and retail and any and all equipment, materials, supplies used or employed in or related to the manufacture of such finished products.

Tanduay Brands International, Inc. (TBI)

On May 6, 2003, TBI was incorporated in the Philippines to handle the marketing of TDI's products for the export market. TBI has not yet started commercial operations as of December 31, 2015.

Beverage

Asia Brewery, Inc. (ABI)

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

The following companies are 100%-owned by ABI:

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

- **Waterich Resources Corporation (WRC)**
  WRC was incorporated in the Philippines on September 27, 1997. Its primary business is the toll manufacturing for ABI of *Absolute Pure Distilled Drinking Water* and *Summit Water*.

- **Packageworld, Inc. (PWI)**
  PWI was incorporated in the Philippines on January 15, 1998. Its primary business is the production and distribution of packaging materials for alcoholic and non-alcoholic beverages and bottled water.

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

- **AB Nutribev, Inc. (ABNI)**
  AVNI was incorporated in the Philippines on April 22, 2014 and manufacturing operations is scheduled to commence in the first half of 2016. Its primary business is the manufacturing and trading of of dairy and soy milk-based beverages.

- **Asia Pacific Beverages Pte. Ltd. (APBPL)**
  APBL was incorporated on August 21, 2014 under the laws of Singapore. It was established as an investment holding company for business opportunities in the region.

Tobacco

Fortune Tobacco Corporation (FTC)

FTC was incorporated in the Philippines on April 29, 1965. The Company was organized primarily to engage in cigarette manufacturing, selling, importing and exporting. FTC achieved market success early on and was responsible for introducing some of the most successful local cigarette brands in the Philippines, including the *Fortune*, *Champion* and *Hope* menthol brands. Prior to the creation of PMFTC, FTC was the largest domestic tobacco business in the Philippines.

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

Banking

Philippine National Bank (PNB)

PNB was incorporated in the Philippines on July 22, 1916. PNB is the country's first universal bank and the fourth largest private local commercial bank in terms of assets as of December 31, 2015. PNB will celebrate its Centennial Year of serving the Filipino people in July 2016. For 100 years, PNB stands proud as an institution of stability and security for many Filipinos. With its century of banking history and experience, PNB is poised to move forward to becoming a more dynamic, innovative and service-focused bank, providing service excellence to Filipinos all over the world. PNB provides a full range of banking and other financial services to diversified customer bases including government entities, large corporate, middle market, SME and retail customers, with PNB having the distinction of being one of the only five authorized Government depository banks in the Philippines. The current PNB is a result of the merger between PNB and Allied Banking Corp., which was completed in February 9, 2013.

The following companies are owned by PNB:

				Percentage of Ownership			
		Country of	**Functional**	**2015**		2014	
Subsidiaries	**Nature of Business**	**Incorporation**	**Currency**	**Direct**	**Indirect**	Direct	Indirect
PNB SB*	Banking	Philippines	Php	**100.00**	–	100.00	–
PNB Capital and Investment Corporation (PNB Capital)	Investment	- do -	Php	**100.00**	–	100.00	–
PNB Forex, Inc. (PNB Forex)	FX trading	- do -	Php	**100.00**	–	100.00	–
PNB Holdings Corporation (PNB Holdings)	Investment	- do -	Php	**100.00**	–	100.00	–
PNB General Insurers Co., Inc. (PNB Gen) [(a)]	Insurance	- do -	Php	**65.75**	**34.25**	65.75	34.25
PNB Securities, Inc. (PNB Securities)	Securities Brokerage	- do -	Php	**100.00**	–	100.00	–
PNB Corporation – Guam	Remittance	USA	USD	**100.00**	–	100.00	–
PNB International Investments Corporation (PNB IIC)	Investment	- do -	USD	**100.00**	–	100.00	–
PNB Remittance Centers, Inc. (PNB RCI) [(b)]	Remittance	- do -	USD	–	**100.00**	–	100.00
PNB Remittance Co. (Nevada) [(c)]	Remittance	-do-	USD	–	**100.00**	–	100.00
PNB RCI Holding Co. Ltd. [(c)]	Holding Company	- do -	USD	–	**100.00**	–	100.00
Allied Bank Philippines (UK) Plc (ABUK)*	Banking	United Kingdom	GBP	**100.00**	–	100.00	–
PNB Europe PLC	Banking	- do -	GBP	**100.00**	–	100.00	–
PNB Remittance Co. (Canada) [(d)]	Remittance	Canada	CAD	–	**100.00**	–	100.00
PNB Global Remittance & Financial Co. (HK) Ltd. (PNB GRF)	Remittance	Hong Kong	HKD	**100.00**	–	100.00	–
Allied Commercial Bank (ACB)* [(e)]	Banking	People's Republic of China	USD	**99.04**	–	90.41	–
PILFC [(f)]	Leasing/Financing	Philippines	Php	**75.00**	–	90.00	–
PNB-IBJL Equipment Rentals Corporation [(g)]	Rental	- do -	Php	–	**75.00**	–	90.00
PNB LII * [(h)]	Insurance	- do -	Php	**80.00**	–	80.00	–
ALFC	Rental	- do -	Php	**57.21**	–	57.21	–
Allied Banking Corporation (Hong Kong) Limited (ABCHKL) *	Banking	Hong Kong	HKD	**51.00**	–	51.00	–
ACR Nominees Limited *	Banking	- do -	HKD	–	**51.00**	–	51.00
Oceanic Holding (BVI) Ltd.*	Holding Company	British Virgin Islands	USD	**27.78**	–	27.78	–

* *Subsidiaries acquired as a result of the merger with ABC*

[(a)] *In 2014, the Parent Company made a direct capital infusion to PNB Gen, thus, acquiring the 65.75% ownership interest of the latter. Formerly wholly-owned by PNB Holdings*

[(b)] *Owned through PNB IIC*

[(c)] *Owned through PNB RCI*

[(d)] *Owned through PNB RCI Holding Co. Ltd.*

[(e)] *Purchase of additional shares was approved by BSP and China Banking Regulatory Commission on June 4, 2014 and November 12, 20015, respectively. On November 27, 2015, the Parent company purchased 8.63% ownership interest from individual stockholders.*

[(f)] *Formerly Japan-PNB Leasing and Finance Corporation*

[(g)] *Formerly Japan-PNB Equipment Rentals Corporation. Owned through PILFC*

[(h)] *Beginning December 18, 2015, investment in PNB LII has been classified as held for sale following the approval of the Parent Company's BOD on the same date approving the sale of 51.00% of its ownership interest to Allianz SE.*

Bank Holding Companies
On February 11, 2013, LTG's Board of Directors (BOD) approved the acquisition of indirect ownership in the merged PNB through the investment in the 27 holding companies which have collective ownership interest in PNB of 59.83% (collectively referred to as "Bank Holding Companies"). LTG's acquisition was effected by way of subscription to the increase in authorized capital shares of 22 Bank Holding Companies direct buy-out of shares of 5 Bank Holding Companies. In various dates in 2013, upon approval of the SEC for the increase in capital stock of certain Bank Holding Companies, LTG has acquired between 80% to 100% ownership of these Bank Holding Companies. As of December 31, 2015, LTG obtained majority ownership over the Bank Holding Companies which collectively own 56.47% of PNB.

The following are the 27 bank holding companies:

1. Allmark Holdings Corp.
2. Dunmore Development Corp.
3. Kenrock Holdings Corp.
4. Leadway Holdings, Inc.
5. Multiple Star Holdings Corp.
6. Pioneer Holdings & Equities, Inc.
7. Donfar Management Ltd.
8. Fast Return Enterprises Ltd.
9. Mavelstone International Ltd.
10. Uttermost Success Ltd.
11. Ivory Holdings, Inc.
12. Merit Holdings & Equities Corp.
13. True Success Profits Ltd.
14. Key Landmark Investments Ltd.
15. Fragile Touch Investments Ltd.
16. Caravan Holdings Corp.
17. Solar Holdings Corp.
18. All Seasons Realty Corp.
19. Dynaworld Holdings Inc.
20. Fil-Care Holdings Inc.
21. Kentwood Development Corp.
22. La Vida Development Corp.
23. Profound Holdings Inc.
24. Purple Crystal Holdings, Inc.
25. Safeway Holdings & Equities Inc.
26. Society Holdings Corp.
27. Total Holdings Corp.

Property Development

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

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

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

The following companies are 100%-owned by ETON:

- **Belton Communities, Inc. (BCI)**
  BCI was incorporated and registered with the SEC on November 5, 2007 and is engaged in real estate development.

- **Eton City, Inc. (ECI)**
  ECI was incorporated and registered with the SEC on October 8, 2008 and is engaged in real estate development.

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

- **Eton Properties Management Corporation (EPMC)**
  EPMC was incorporated and registered with the SEC on September 29, 2011 to manage, operate, lease, in whole or in part, real estate of all kinds, including buildings, houses, apartments and other structures of the Corporation or of other persons provided that they shall not engage as property manager of a real estate investment trust. EPMC has not yet started its operations as of December 31, 2015.

<u>Products</u>

<u>Distilled Spirits</u>
Rum Products
1. Tanduay Five Years Fine Dark Rhum
2. Tanduay Rhum 65 Fine Dark Rhum ("Rhum 65")
3. Tanduay E.S.Q. Fine Dark Rhum ("E.S.Q.")
4. Tanduay White Premium Rhum
5. Tanduay Superior Dark Rhum
6. Tanduay Five Years Light
7. Boracay Rum
8. Tanduay Asian Rum Gold
9. Tanduay Asian Rum Silver
10. Tanduay 1854 Rhum
11. Tanduay Select

Gin Products
1. London Gin
2. Gin Kapitan
3. Gin Kapitan Light

Brandy Products
1. Compañero Light Brandy

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

Whiskey Products

1. Embassy Whiskey

Cocktails

1. Tanduay Cocktails

Medicinal Wine

1. Vino Agila

<u>Beverage</u>

Energy Drinks

1. Cobra

Beer

1. Colt 45 Malt Liquor
2. Beer na Beer
3. Manila Beer
4. Manila Beer Light
5. Asahi Super Dry
6. Brew Kettle

Alcopops

1. Tanduay Ice
2. Tanduay Black
3. Tanduay Ice Zero
4. Ultimo Premium Craft Brandy
5. Red Oak Sangria

Bottled Water

1. Absolute Pure Distilled Drinking Water
2. Summit Natural Drinking Water

Others

1. Vitamilk
2. Sunkist carbonated soft drinks
3. Nestea ready-to-drink ice tea
4. Coco Fresh Coconut Water
5. Creamy Delight Yogurt
6. Barista's Best ready-to-drink Coffee Latte

Commercial Glass

<u>Tobacco</u>

FTC has no products in the market but its associate, PMFTC has the following cigarette products:

1. Fortune
2. Marlboro
3. Champion
4. Hope
5. Philip Morris
6. More
7. Jackpot
8. Others include Bowling Gold, Miller, Stork, Boss, Plaza, Mark, Westpoint, Chesterfield, Winter, L&M, Next, Peak, Ice, Evergreen, Forum, Maverick, Liberty and Baron

Banking

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

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

Property Development

Completed Developments:

High-rise

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

Mid-rise

1. The Manors at North Belton Communities

Residential Subdivisions

1. South Lake Village at Eton City
2. Riverbend at Eton City
3. West Wing Residences at North Belton Communities

Commercial

1. Centris Walk
2. Centris Station

BPO Office

1. Cyberpod Centris One
2. Cyberpod Centris Two
3. Cyberpod Centris Three
4. Eton Cyberpod Corinthian

Events Venue

1. Elements at Centris

Ongoing Developments:

Hi-rise

1. Eton Tower Makati

Residential Subdivisions

1. 68 Roces
2. Tierra Bella
3. West Wing Residences at Eton City

4. West Wing Villas

Commercial

1. Village Walk

Hotel

1. Mini Suites at Eton Tower Makati

Distribution method of the products

Distilled Spirits

As of December 31, 2015, TDI served more than 117,000 points of sale throughout the Philippines through eleven (10) exclusive distributors, who in turn may work with a large number of sub-distributors. TDI has generally maintained good business relationships with its distributors since 1988. As of December 31, 2015, TDI's distributors operated 75 sales offices and 61 warehouses located throughout the Philippines. TDI employs in-house sales staffs who provide general administrative support to TDI's distributors. TDI's products are transported from the production facilities to distributors' warehouses by third party transportation companies for the account of the distributors.

Beverage

ABI markets, sells and distributes its products throughout the Philippines through 13 exclusive major distributors. As of December 31, 2015, ABI's exclusive distributors had a network of 47 sales offices, 19 warehouses and 58 depots**.** This extensive network assures product availability to ABI consumers and also provides ABI expeditious nationwide placement of new products. ABI's products are transported to distributors' warehouses by third party transportation companies, with the costs for the account of such distributors.

Tobacco

FTC had no selling activities in 2015. PMFTC, however, distributes directly to approximately 210,000 points of sale throughout the Philippines. PMFTC segments its distribution into two separate channels:

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

Banking

PNB, through its Head Office and 665 domestic branches/offices and 75 overseas branches, representative offices, remittance centers and subsidiaries, provides a full range of banking and financial services to large corporate, middle-market, small medium enterprises (SMEs) and retail customers, including OFWs, as well as to the Philippine National Government, national government agencies (NGAs), local government units (LGUs) and GOCCs in the Philippines. PNB's principal commercial banking activities include deposit-taking, lending, trade financing, foreign exchange dealings, bills discounting, fund transfers/remittance servicing, asset management, treasury operations, comprehensive trust services, retail banking and other related financial services.

Its banking activities are undertaken through the following groups within the Bank, namely:

Institutional Banking Group

The Bank's Institutional Banking Group (IBG) is responsible for credit relationships with large corporate, middle-market and SMEs, as well as with the Government, government-related agencies, GOCCs and financial institutions.

Retail Banking Group
The Retail Banking Group (RBG) principally focuses on retail deposit products (i.e., current accounts, savings accounts and time deposit and other accounts) and services. While the focal point is the generation of lower cost of funding for the Bank's operations, the RBG also concentrates on the cross-selling of other bank products and services to its customers by transforming its domestic branch distribution channels into a sales-focused organization.

Consumer Finance Group
The Consumer Finance Group provides multi-purpose personal loans, home mortgage loans, motor vehicle financing and credit card services to the Bank's retail clients. Effective August 1, 2014, PNB's thrift bank subsidiary took over the management of PNB's consumer loans.

Global Filipino Banking Group
The Global Filipino Banking Group covers the Bank's overseas offices which essentially provide convenient and safe remittance services to numerous OFWs abroad and full banking services in selected jurisdictions. It also provides consumer financing through the Pangarap Loan and Own a Philippine Home Loan which are available to OFWs.

Treasury Group
The Treasury Group is principally responsible for managing the Bank's funding and liquidity requirements as well as its investment and trading portfolio. The Group engages in interbank borrowing and lending activities, fixed income securities trading and foreign exchange spot and swap dealing. It also oversees the Bank's long-term funding requirements and enters into derivative transactions for the hedging requirements of some of the banks sophisticated corporate accounts.

Trust Banking Group
The Bank, through its Trust Banking Group (TBG), provides a wide range of personal and corporate trust and fiduciary banking services and products. Personal trust products and services include living trust accounts, educational trust, estate planning, guardianship, insurance trust, and investment portfolio management. Corporate trust products and services include trusteeship, securitization, investment portfolio management, administration of employee benefits, pension and retirement plans, and trust indenture services for local corporations. Trust agency services include acting as bond registrar, collecting and paying agent, loan facility agent, escrow agent, share transfer agent, and receiving bank.

Credit Management Group
The Credit Management Group is primarily responsible in providing credit management services in the form of credit rating and scoring, financial evaluation and credit risk assessment, credit policy formulation, credit investigation and appraisal and risk asset acceptance criteria development. It focuses on sound credit underwriting and monitoring guidelines and practices to ensure a healthy loan portfolio for the Bank.

Remedial Management Group
The Remedial Management Group is primarily responsible in managing problem accounts and reducing the nonperforming loans of the Bank. It determines and formulates the appropriate settlement plan for the immediate resolution of each work-out account.

Special Assets Management Group
The Special Assets Management Group (SAMG) is responsible for the overall supervision of the Bank's foreclosed assets (ROPA).

Property Development
The Company markets its projects to residential market segments, office locators and commercial tenants through internal and external sales and marketing channels. For its leasing business, the

Company employs a dedicated team who coordinates with business entities for leasing opportunities in the company's various projects.

Status of any publicly-announced new product or services

Distilled Spirits
In 2015, TDI introduced Tanduay Select to the market.

Beverage
In 2015, ABI introduced Barista's Best ready-to-drink Coffee Latte to the market.

Banking
The Bank has launched the following products and services in 2015:
- PNB Bank on Wheels
- PNB Smart Loans
- Credit Loan Program for Electric Cooperatives
- PNB SSS Pensioners Loan (SSSPL)
- Imaged SOA Retrieval via Customer Login
- Power Earner 5 plus 1 (PNB Savings Bank)
- PNB Unit Investment Trust Fund (UITF) ATM Investment Facility
- Anti-Skimming Protection Solution (SPS)
- Adoption of Triple Data Encryption Standard (3DES)

Tobacco
In 2015, the following cigarette brands were introduced to the market:
1. Fortune Tribal Revamp
2. Chesterfield Launch
3. L&M Launch
4. Marlboro Cross Over
5. Fortune Tribal Mint Splash Launch
6. Jackpot Full Flavor Revamp

There were no publicly-announced new projects for Property Development segment.

Competitive business condition/position in the industry

Distilled Spirits
The growing interest in imported liquor in Luzon, Visayas and Mindanao continued to rise in 2015 as the market took advantage the reduced price difference versus local players resulting from the new excise tax structure in 2013. Total volume and value shares of imported liquor increased by 27% and 19%, respectively, while the local volume was down by 4%.

Despite the decline in the local liquor industry, rhum and gin's uphill battle gained market share. From taking a dive over the past years, rhum and gin spiked to 25% and 27%, respectively. While brandy went down, from 51% to 42%.

There is a huge opportunity for Tanduay in the Luzon market where EDI, though still dominant, declined from 55% to 51%. Programs on revitalizing the Tanduay brands nationwide were being implemented through modernized product look, increased digital media budget, dealer retention activities, new product launch and promotions to try to sustain volume increase and strengthen brand equity.

ADI, TDI's subsidiary, holds the distinction as the only alcohol producer that started the liquid fertilization program in 1999, a method of wastewater treatment wherein ADI was able to convert the liquid waste into liquid fertilizer. It became a treatment of choice of the National Biofuels Law.

From 2008 to 2011, various awards were given to ADI in the field of environmental undertakings and best practice.

On September 26, 2013, ADI and Aseagas Corporation entered into an effluent supply agreement wherein ADI will supply effluent to Aseagas for a period of 20 years (delivery period) from the date Aseagas notifies ADI that the liquid bio-methane plant to be constructed by Aseagas becomes ready for commercial operations. The delivery period is renewable for another 10 years upon mutual agreement of both parties.

In March, 2015, a two (2) megawatt solar power generating facility was inaugurated in ADI plant. The total capital investment of this solar power system was Php 189.0 million, including all engineering design, RTU System, site preparation, construction and installation of all imported (main) materials, equipment, tools and parts. This investment does not include the cost of land property acquisition and its application for conversion from agricultural land to industrial.

In October, 2015, a 100 KLPD Dehydration Plant started its operation and is composed of Classical Twin Bed Molecular Sieves which removes water from rectified spirit that is produced by the Distillation Section. The total capital expenditure amounted to Php 117.3 million.

Beverage

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

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

Tobacco

Competition in the tobacco industry is usually among leading Philippine and international cigarette brands across all product categories. PMFTC's primary competitors are JTI, which offers a number of well-known international brands such as *Winston*, *Camel* and *Mevius* and BAT, which offers international brands such as *Lucky Strike,* and Mighty Corporation, which offers a portfolio of Philippine brands including *Mighty* and *Marvels*.

Banking

In the Philippines, the Bank faces competition in all its principal areas of business, from both Philippine and foreign banks, as well as finance companies, mutual funds and investment banks. The competition that the Bank faces from both domestic and foreign banks was in part a result of the liberalization of the banking industry with the entry of foreign banks under Republic Act (R.A.) 7721 in 1994 and R.A. 10641 in 2014, as well as, the recent mergers and consolidations in the banking industry. As of the latest available data from the BSP, there were 40 universal and commercial banks, of which 17 are private domestic banks, 3 are government banks and 20 are branches or subsidiaries of foreign banks. Some competitor banks have greater financial resources, wider networks and greater market share than PNB. Said banks also offer a wider range of commercial banking services and products, have larger lending limits and stronger balance sheets than PNB. To maintain its market position in the industry, the Bank offers diverse products and services, invests in technology, leverages on the synergies within the Tan Group of Companies and with its Government customers, as well as builds on relationships with the Bank's other key customers.

The Bank also faces competition in its operations overseas. In particular, the Bank's stronghold in the remittance business in 16 countries in North America, Europe, the Middle East and Asia is being challenged by competitor banks and non-banks.

As of December 31, 2015, the Bank has a distribution network of 665 branches and offices and 937 ATMs nationwide. The Bank is the fourth largest local private commercial bank in the Philippines in terms of local branches and the fourth largest in terms of consolidated total assets, net loans and receivables, capital and deposits. In addition, it has the widest international footprint among Philippine banks spanning Asia, Europe, the Middle East and North America with its overseas branches, representative offices, remittance centers and subsidiaries.

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

Raw Materials and Principal Suppliers

Distilled Spirits

- **Alcohol**
  TDI uses ethyl alcohol, which is distilled from sugarcane molasses. TDI obtains most of its ethyl alcohol from its two subsidiaries – AAC and ADI and other suppliers. Manapla Distillery which is owned by Victorias Milling Company, is also one of the alcohol suppliers of TDI.

  Alcohol is delivered directly to the plant by tanker. The quality of alcohol is checked prior to acceptance. In 2015, alcohol accounted for 29% of product cost while excise tax accounted for 36% of the total costs. The tax is paid upon withdrawal of the full goods from the production sites. With the temporary shutdown of AAC's operations, TDI increased its importation of alcohol from Pakistan & Indonesia.

  The distillery companies obtain their molasses from sugar mills and traders. Major suppliers are Victorias Milling Corporation, Binalbagan Sugar Company and Tate & Lyle Corp.

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

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

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

- **Bottles**
  TDI's liquor products are packaged in glass bottles. Glass bottles account for approximately 17% of cost of goods sold for TDI's products. The cost is managed in part by recycling the bottles. TDI maintains a network of secondhand bottle dealers across the nation that retrieve the bottles from the market and sell them back to TDI. The cost of the secondhand bottles including the cost of cleaning is 61% lower than the cost of purchasing new bottles.

- **Caps**
  All products are sealed with tamper-proof resealable aluminum caps, which average at 2% of total product cost.

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

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

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

The main raw materials for ABI's beer products include water, barley, hops and yeast. Water is the primary ingredient in ABI's brewing processes, and ABI places great emphasis on its water quality. Water is sourced primarily from sites near ABI's brewery and undergoes several purifying steps to ensure that it meets ABI's standards. Barley, hops and yeast are sourced primarily from suppliers located in the United States, Europe and China.

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

Tobacco

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

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

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

Banking

This is not applicable for banks.

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

Dependence on one or two major customers

Distilled Spirits
TDI markets, sells, and distributes its products throughout the Philippines. In the year ended December 31, 2015, sales volume in the Visayas and Mindanao regions accounted for approximately 51% and 44% of TDI's gross sales volume, respectively. In the same period, sales volume in Metro Manila and Luzon accounted for 0.005% and 4% of TDI's gross sales volume, respectively. TDI attributes its leading position in the distilled spirits products to strong brand equity, diverse utilization of marketing channels and an established sales and distribution network.

AAC and ADI sell majority of its alcohol to TDI. Although TDI buys most of its alcohol from AAC and ADI, it has a network of secondary suppliers locally and abroad.

Beverage
ABI has stable relationships with its 13 exclusive major distributors and its financial well being is not dependent on only one or two major customers.

Tobacco
FTC sold its remaining inventory to JTI in 2012. PMFTC directly sells its products primarily to local wholesalers, which then sell products to retailers or directly to adult consumers. These wholesalers are typically family-owned and operated local stores, such as sari-sari stores, that are also a source of goods for smaller traditional retailers such as kiosks, eateries and sidewalk vendors. Such stores and vendors often sell cigarettes to adult consumers by the stick as opposed to selling by the pack. Due to their presence across a wide network of localities and their financial capacity, these wholesalers offer a means for manufacturers such as PMFTC to reach a large number of retailers and customers without having to sell to each individual point of sale.

Banking
PNB offers a wide range of financial services in the Philippines. The Bank has foreign operations and has a stronghold in the remittance business in 16 countries in North America, Europe, the Middle East and Asia thus, its financial well being is not dependent on only one or two major customers.

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

Transactions with and/or dependence on related parties

The Company has various transactions with its subsidiaries and associates and other related parties. These are enumerated in detail in Note 22 of the Notes to Consolidated Financial Statements on pages 190-196.

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

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

The Group also has current Environmental Compliance Certificate issued by the DENR and a license to operate from the Bureau of Food and Drugs. All products currently being produced are registered with the Bureau of Food and Drugs and the BIR.

TDI has an existing agreement with London Birmingham Distillers, Ltd. London, England for the use of the Barcelona and London Gin brands.

TDI has existing labor supply contracts with two (2) manpower agencies and one (1) labor cooperative covering its three plants.

Beverage

ABI has caused the registration with the Philippine Intellectual Property Office (IPO) of a variety of marks including "Asia Brewery, Inc.," the ABI logo, *Cobra Energy Drink*, *100 Plus*, *Colt 45*, *Beer na Beer*, *Tanduay Ice*, *Manila Beer* and *Manila Beer Light*, *Absolute Pure Distilled Drinking Water*, *Summit Water, Creamy Delight, Brew Kettle, Red Oak* and *Barista's Best* . These exclusive distribution licenses are registered with the IPO and the equivalent regulatory agencies in various other countries.

Tobacco

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

Banking

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

Property Development

The trademark of the following names and devices were approved by the Intellectual Property Office (IPO) as follows: a.) in 2008, Eton City, Eton corporate name and device; The Eton Residences Greenbelt; Eton Baypark Manila; Eton Centris; and the Move-In Ready labels; b.) in 2009, IPO approved the trademark of The Makati of the South and Eton Emerald Lofts; c.) in 2011, the IPO approved the trademarks of the following names and devices: Centris Walk, Eton Tower Makati, Riverbend, Eton Parkview Greenbelt, South Lake Village, Eton Cyberpod, Centris Station, 8 Adriatico, Belton Pace, E-Life, West Wing Villas, Green Podium, Aurora Heights Residences, West Wing Residences, One Archers Place and 68 Roces; d.) in 2012, the IPO approved the trademarks of the following names and devices: West Wing Tropics, One Centris Place, and AscentThese trademarks shall be valid for a period of ten (10) years from notice of approval.

In 2015, the Company applied for the trademark of the following names and devices with the IPO: The Mini Suites, West End Makati and Station Alley at Centris Station. The application for trademark of these names and devices is still pending with the IPO.

Need for any government approval of principal products

Distilled Spirits & Beverages

The approval of the Bureau of Food & Drugs and Bureau of Internal Revenue is required before selling and/or advertising a new product. In addition, all new products must be registered with the BIR prior to production.

Tobacco

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

Banking

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

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

Effect of existing or probable governmental regulations on the business

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

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

With comprehensive review of the Clean Water Act Law through its Implementing Rules and Regulations (IRR), the government had recognized and exempted distilleries with liquid fertilization program from the mandatory discharge fees.

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

Beer and other alcoholic beverages, including ABI's alcopop products such as Tanduay Ice, are subject to an excise tax in addition to value added taxes ("VAT"). Any increases in excise taxes or VAT may reduce overall consumption of ABI's products.

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

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

During the first year of R.A. 10351's implementation, high-priced cigarettes will be taxed at a rate of ₱25.00 per pack and low-priced cigarettes will be taxed at ₱12.00 per pack. In the second year, the rates will be increased to ₱27.00 and ₱17.00 per pack, respectively. In 2015, the high priced cigarettes will be taxed at ₱28.00 per pack and the low-priced cigarettes will be taxed at ₱21.00 per pack. Said rates will increase in 2016 to ₱29.00 and ₱25.00 per pack, respectively. In 2017, a unitary tax rate of ₱ 30.00 per pack will be implemented. In 2018 and every year thereafter, R.A. 10351 will impose a 4% excise tax rate increase.

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

Property Development
The Company strictly complies with and adheres to existing and probable government regulations.

Research and development activities

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

Costs and effects of compliance with environmental laws

Distilled Spirits

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

Environmental Management Facilities

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

Bottle Recycling

A major component of TDI's operations is the retrieval of secondhand bottles and the reuse of these bottles in TDI's production process. The cost of a used bottle, including washing costs, is approximately 61% less than the cost of a new bottle. Apart from the reduced cost, TDI also benefits from the reduced waste produced from reusing bottles, as a bottle can be reused on average three to four times. TDI relies on a nationwide network of junk shops throughout the Philippines for purchasing second hand bottles. Repurchasing bottles also helps TDI in marketing its products, as customers can sell their bottles after consuming the contents. TDI has also invested in automated bottle washing facilities in all its bottling plants.

Bottling Plants

TDI has invested significant resources by installing wastewater treatment facilities in all its bottling plants that screen, collect and neutralize all wastes from the bottling process before these are discharged. The wastes generally emanate from the bottle washing process that uses certain chemicals to thoroughly clean the bottles. Philippine regulatory agencies such as the DENR and Laguna Lake Development Authority (LLDA) conduct annual inspections of TDI's wastewater treatment process. TDI's plant in Laguna has been given satisfactory "Blue" ratings by the LLDA while the Negros plant has been granted a five year discharge permit by the DENR.

Distillation Plants

TDI's wastewater is collected in lagoons where it undergoes a treatment process to minimize adverse effects on the environment. Treated wastewater, along with other distillery wastes, is also usable as liquid fertilizer.

Beverage

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

Tobacco

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

PMFTC has continuously allocated significant investments in EHS improvements and upgrades in its Batangas factory, Marikina facilities and tobacco threshing plant in Ilocos province. Rigorous monitoring and reporting systems are put in place in parallel to training to all employees, resulting in the successful certification by SGS S.A. of the Batangas factory as compliant in accordance with ISO 9000 (Quality), ISO 14000 (Environment), OSHA 18000 (Occupational Health) since 2007.

Banking

This is not applicable to banks.

Property Development

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

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

Human Resources and Labor Matters

LTG had 11 administrative and 4 regular monthly employees as of December 31, 2015. The total workforce of the Group inclusive of contractual employees was as follows:

Distilled Spirits	1,545
Beverage	4,484
Tobacco	56
Banking	8,349
Property development	372
Total	14,806

Distilled Spirits

With the exception of the Cagayan De Oro Plant, all regular daily employees of the TDI plants have separately formed a labor union. On April 1, 2013, TDI closed its Quiapo plant and paid retrenchment benefits to the 153 affected employees. TDI-Cabuyao has a Collective Bargaining Agreement (CBA) with the NAGKAKAISANG LAKAS MANGGAGAWA NG TDI-FSM, which is effective from August 1, 2014 to July 31, 2017. TDI Negros has a CBA with the Labor Union of Tanduay Employees (LUTE) effective from June 2012 to June 2017.

AAC had no existing Union and CBA after the end of its retrenchment program in 2010 due to the shutdown of operations.

As of December 31, 2015, ADI had 266 employees. ADI's registered labor union is Absolut Distillers, Inc. Employees Union-Olalia-KMU. It was effective on May 1, 2013 and shall be automatically renewed for another term of five (5) years upon expiration on April 30, 2020.

TDI and ADI expect to maintain its average number of employees in the next twelve months while AAC expects to hire new employees when it resumes normal operations.

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

Beverage

As of December 31, 2015, ABI and its subsidiaries employed approximately 1,595 people, of which about 76% were employed in manufacturing and logistics, 19% had general and administrative functions, 2% were in marketing, and 3% were in sales and distribution operations. In addition, ABI and its subsidiaries generally employ a number of outsourced laborers in its businesses, mostly as manual laborers; typically, ABI contracts with third party manpower and services firms for the supply of these additional laborers.

ABI is party to a collective bargaining agreement for its employees at its Cabuyao plant. The CBA signed on June 21, 2013 ended in December 2015 and the Company is still in the process of negotiating the new CBA with the existing officers of the union.

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

Tobacco

FTC had 56 regular monthly employees as of December 31, 2015. Effective Jan. 1, 2012, FTC ceased to have daily (regular or casual) employees because of the business combination of FTC and PMPMI effective on February 25, 2010. The operations of FTC and the manufacturing of cigarettes were all transferred to PMFTC, the new company.

Banking

The total employees of the Bank as of December 31, 2015 is 8,349 wherein 3,729 were classified as Bank officers and 4,620 as rank and file employees

The Bank shall continue to pursue selective and purposive hiring strictly based on business requirements. The Bank has embarked on a number of initiatives to improve operational efficiency. Foremost among these initiatives are the upgrade of its Systematics core banking system and the new branch banking system which are expected to bring about a gradual reduction in the number of employees in the support group, upon full implementation.

With regard to the Collective Bargaining Agreement (CBA), the Bank’s regular rank and file employees are represented by two (2) existing unions under the merged bank, namely: Allied Employee Union (ABEU) and Philnabank Employees Association (PEMA).

The Bank has not suffered any strikes, and the Management of the Bank considers its relations with its employees and the Union as harmonious and mutually beneficial.

Property Development

The Company had 372 and 305 employees at the close of the calendar year December 31, 2015 and 2014, respectively. The breakdown of the Company employees as of December 31, 2015, according to type are as follows:

Executive	20
Managers	69
Supervisors	115
Rank and File	168
Total	372

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

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

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

Distilled Spirits

Market / Competitor Risk

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

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

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

Raw Material Supply Risk

The main raw materials that TDI uses for the production of its liquor products, such as molasses, distilled alcohol, sugar and flavoring agents, are commodities that are subject to price volatility caused by changes in global supply and demand, weather conditions, agricultural uncertainty or governmental controls. A shortage in the local supply of molasses and the volatility in its price may adversely affect the operations and financial performance of TDI.

TDI addresses this risk by regularly monitoring its molasses and alcohol requirements. At the start of each annual sugar milling season, TDI normally negotiates with major sugar millers for the purchase in advance of the mill's molasses output at agreed upon prices and terms. It also imports raw materials in the event that the local supply is not sufficient or if prices are not favorable. Furthermore, TDI's parent company owns a 22.5% stake in Victorias Milling Company, Inc. (VMC) as of December 31, 2015. VMC is the largest sugar producer in the Philippines and currently TDI's major supplier of molasses.

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

Credit Risk

TDI relies on 10 exclusive distributors for the sale of its liquor products. Any disruption or deterioration in the credit worthiness of these distributors may adversely affect their ability to satisfy their obligations to TDI.

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

Trademark Infringement Risk

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

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

Regulatory Risk

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

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

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

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

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

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

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

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

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

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

<u>Beverage</u>

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

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

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

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

Raw Material Supply Risk

The manufacture of ABI’s products depends on raw materials that ABI sources from third parties, including sugar and other critical raw materials such as hops and barley, which are primarily sourced from abroad. These raw materials are subject to price volatility caused by changes in global supply and demand, foreign exchange rate fluctuations, weather conditions and governmental controls.

ABI addresses this risk by actively monitoring the availability and prices of raw materials. ABI may also shift to alternative raw materials used in the production of its products.

Regulatory Risk

Regulatory decisions or changes in the legal and regulatory requirements in a number of areas related to the beverage industry may have adverse effect on ABI’s business. Governmental bodies may subject ABI to actions such as product recall, seizure of products and other sanctions, any of which could have an adverse effect on ABI’s sales. Also, any increases in excise taxes or VAT may reduce overall consumption and demand for ABI’s products, as consumers prioritize basic necessities in view of higher living costs. ABI would employ an increase in its selling prices and make efforts to reduce costs to address such risks. Close monitoring and coordination with the regulatory agencies on the application and renewal of permits are implemented to manage other regulatory risks.

Safety, health and environmental laws risk

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

<u>Tobacco</u>

The tobacco or cigarette industry generally has the following risks:

Market / Competitor Risk

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

The competitive environment and PMFTC's competitive position can be significantly influenced by erosion of consumer confidence, competitors' introduction of lower-priced products or innovative products, as well as product regulation that diminishes the ability to differentiate tobacco products.

To address the risk, PMFTC employs improvement in product penetration and distribution channels that will further strengthen its leadership position in the Philippine cigarette market. In addition, PMFTC will continue to focus on consumer research to assess adult consumer insight, trends, behavior and preferences in order to develop marketing campaigns that improve customer engagement. The continued integration of FTC and PMPMI will also help in further improvements in sales productivity and efficiency. A unified sales force for all products under PMFTC's control would allow it to more effectively drive product penetration and sales.

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

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

Safety, health and environmental laws risk
PMFTC's existing and future operations are subject to a broad range of safety, health and environmental laws and regulations. These laws and regulations impose controls on air and water discharges, on storage, handling, employee exposure to hazardous substances and other aspects of the operations of PMFTC's facilities. Failure to properly manage the environmental risks and the operational, health and safety laws and regulations to which PMFTC is subject could also have a negative impact on its reputation.
It is the policy of the company to comply with existing environmental laws and regulations. PMFTC expects to incur operating costs to comply with such laws and regulations. PMFTC has continuously allocated significant investment in environmental, health and safety improvements and upgrades.

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

Banking
The Bank places a high priority on risk management and has taken concrete steps to refine its framework for risk management, including the identification and control of the risks associated with its operational activities.

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

Strong independent oversight has been established at all levels within the group. The bank's Board of Directors has delegated specific responsibilities to various board committees which are integral to the PNB's risk governance framework and allow executive management, through management committees, to evaluate the risks inherent in the business and to manage them effectively. There are nine (9) Board Sub-Committees designated by the PNB Board of Directors to provide oversight and strengthen the functions accordingly. Please see diagram below.

Board of Directors	
	Board Policy Committee (BPC) [1]
	Executive Committee (ExCom) [1]
	Corporate Governance Committee
	Board Audit and Compliance Committee
	Risk Oversight Committee
	Trust Committee
	Board Oversight – Domestic & Foreign Offices/Subs Committee (BDFOS)
	Board Oversight Related Party Transaction Committee (BRPTC)
	Board Information Technology Governance Committee (BITGC)

Figure 1: Board Level Committees

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

The risk management framework of the Bank is under the direct oversight of the Chief Risk Officer (CRO) who is directly reporting to the Risk Oversight Committee. The CRO is supported by Division Heads with specialized risk management functions to ensure that a robust organization is maintained. The Risk Management Group is independent from the business lines and organized into the following divisions: Credit Risk Division, BASEL and ICAAP Implementation Division, Market & ALM Division, Operational Risk Division, Information Security / Technology Risk (IS/TR) Management, Trust and Fiduciary Risk Division and Business Intelligence & Warehouse Division. IS/TR is also responsible for overseeing and monitoring the group's business continuity program.

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

The bank's governance policies also provide for the validation, audits & compliance testing, to measure the effectiveness and suitability of the risk management structure. RMG also functions as the Secretariat to the Risk Oversight Committee which meets monthly to discuss the immediate previous month's total risk profile according to the material risks defined by the bank in its ICAAP document.

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

The risk management system and the directors' criteria for assessing its effectiveness are revisited on an annual basis and limit settings are discussed with the Business Units and presented to the Risk Oversight Committee for endorsement for final Board Approval.

[i] Board Committee changes effected in Jan 2016. Board ICAAP Steering Committee functions are now subsumed into the Board Policy Committee. Board Credit Committee has been renamed to Executive Committee with expanded functions.

In line with the integration of the BSP required ICAAP (internal capital adequacy assessment process) and risk management processes, PNB currently monitors 10 Material Risks (three for Pillar 1 and seven for Pillar 2). These material risks are as follows:

Pillar 1 Risks:

1. Credit Risk (includes Credit Concentration, Counterparty and Country Risks)
2. Market Risk
3. Operational Risk

Pillar 2 Risks:

1. Credit Concentration Risk
2. Interest rate risk in banking book (IRRBB)
3. Liquidity risk
4. Reputational/customer franchise risk
5. Strategic business risk
6. Information technology risk/ information security risk (includes Core Banking Implementation Risk)
7. New regulations risk

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

Credit Risk

Credit risk is the risk to earnings or capital that arises from an obligor/s, customer/s or counterparty/ies failure to perform and meet the terms of its contract. It arises any time bank funds are extended, committed, invested, or otherwise exposed through actual or implied contractual agreements, whether reflected on or off the balance sheet *(BSP Circular No. 510, dated February 03, 2006)*.

Counterparty Risks: Counterparty risk is the potential exposure a party will bear if the other party to any financial contract will be unable to fulfill its obligations under the contract's specifications. Counterparty risk can be divided into two types: pre-settlement risk (PSR) and settlement risk (SR).

Country Risks: Country risk refers to uncertainties arising from economic, social and political conditions of a country which may cause obligors in that country to be unable or unwilling to fulfill their external obligations.

Credit Concentration Risks: arises from excessive exposures to individual counterparties, groups of related counterparties and groups of counterparties with similar characteristics (e.g., counterparties in specific geographical locations, economic or industry sector).Its potential loss implications are large enough relative to a bank's capital, total assets, or overall risk level, to threaten a financial institution's health or ability to maintain its core operations. The objective of concentration risk management is to lessen the Bank's potential credit default by maintaining risk exposure within acceptable and bearable concentration limit. Thus, to attain this objective, the Bank needs to manage the concentration risk inherent in the entire portfolio.

1. Credit Policies and Procedures
All credit risk policies issued by the regulatory bodies (i.e., BSP, SEC, PDIC, BIR, etc.) automatically form part of the Bank's board-approved risk policies. These risk policies reflect the Bank's lending profile and focus on:

- the risk tolerance and/or risk appetite
- the required return on asset that the Bank expects to achieve
- the adequacy of capital for credit risk

2. Credit Risk Functional Organization
The credit risk functional organization of the Bank conforms to BSP regulations. This ensures that the risk management function is independent of the business line. In order to maintain a system of "checks and balances", the Bank observes three (3) primary functions involved in the credit risk management process, namely:

- risk-taking personnel
- risk management function
- the compliance function

The risk-taking personnel are governed by a code of conduct for account officers and related stakeholders set to ensure maintenance of the integrity of the Bank's credit risk management culture.

The approving authorities are clearly defined in the Board-approved Manual of Signing Authority (MSA).

3. Credit Limit Structure
The Bank adopts a credit limit structure (regulatory and internal limits) as a quantitative measure of the risk tolerance duly approved by the Board. Breaches in the limits are monitored via the monthly credit dashboard reported to the Risk Oversight Committee.

4. Stringent Credit Evaluation
Repayment capacity of prospective borrowers is evaluated using an effective internal risk rating model for corporate and commercial accounts with asset size of over ₱15 million and appropriate credit scoring program for small accounts with asset size of ₱15 million and below and consumer loans. These models are validated to determine predictive ability.

5. Reporting System
An effective management information system (MIS) is in place and, at a minimum, has the capacity to capture accurate credit risk exposure/position of the Bank in real time. A monthly credit dashboard is used as the reporting tool for appropriate and timely risk management process.

6. Remedial Management System
A work-out system for managing problem credits is in place. Among others, these are renewals, extension of payment, restructuring, take-out of loans by other banks, and regular review of the sufficiency of valuation reserves.

7. Event-driven Stress Testing
Techniques are conducted to determine the payment capacity of affected borrowers' accounts. A Rapid Portfolio Review Program is in place to quickly identify possible problem credits on account of evolving events, both domestic and global. Results of the stress testing show minimum impact and have no material effect on the Bank's NPL ratio and capital adequacy ratio (CAR).

Market Risk

Market risk is the risk to earnings or capital arising from adverse movements in factors that affect the market value of financial instruments, products and transactions in an institution's overall portfolio, both on and off balance sheet and contingent financial contracts. Market risk arises from market-making, dealing and position-taking in the interest rate, foreign exchange, equity, and commodities markets (BSP Circular No. 544, Series of 2006).

Price Risk in the Trading Portfolio : Trading market risk exists in the Parent Company as the values of its trading positions are sensitive to changes in market rates such as interest rates, foreign exchange rates and equity prices. To calculate the potential risks in the trading portfolio, the Bank employs the Value-at-Risk (VAR) methodology both using parametric approach and Historical Simulation approach with 99% confidence level. The Bank assumes a one (1) day holding period (equities and FX VAR) to a ten (10) day holding period for fixed income VAR, nonetheless a one-day VAR is computed for each portfolio. The validity of the assumptions underlying the Parent Company's VAR models can only be checked by appropriate back testing procedures. Back testing is a formal statistical framework that consists of verifying that actual losses are within the projected VAR approximations. The Parent Company adopts both the clean back testing and dirty back testing approaches approach in back testing.

VAR limits have been established annually and exposures against the VAR limits are monitored on a daily basis. The Bank also employs the stop-loss monitoring tools to monitor the exposure in the price risks. Stop-loss limits are set up to prevent actual losses resulting from mark-to-market. To complement the VaR approximations, the Parent Company conducts stress testing on a quarterly basis, the results of which are being reported to the BOD. Scenarios used in the conduct of stress test are event driven and represent the worst one-off event of a specific risk factor. Results of stress testing are analyzed in terms of the impact to earnings and capital.

Structural Market Risk : Structural interest rate risk arises from mismatches in the interest profile of the Bank's assets and liabilities. To monitor the structural interest rate risk, the Bank uses a repricing gap report wherein the repricing characteristics of its balance sheet positions are analyzed to come up with a repricing gap per tenor bucket. The total repricing gap covering the one-year period is multiplied by the assumed change in interest rates based on observed volatility at 99% confidence level to obtain an approximation of the change in net interest earnings. Limits have been set on the tolerable level of Earnings-at-Risk (EAR). Compliance with the limits is monitored regularly. The Bank has also monitored its long-term exposure in interest rates which outlines the long-term assets and long-term liabilities according to next repricing date.

Liquidity and Funding Risk: Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from the bank's inability to meet its obligations when they fall due. Liquidity obligations arise from withdrawal of deposits, extension of credit, working capital requirements and repayment of other obligations. The Bank seeks to manage its liquidity through active management of liabilities, regular analysis of the availability of liquid asset portfolios as well as regular testing of the availability of money market lines and repurchase facilities aimed to address any unexpected liquidity situations. The tools used for monitoring liquidity include gap analysis of maturities of relevant assets and liabilities reflected in the maximum cumulative outflow (MCO) report, as well as an analysis of sufficiency of liquid assets over deposit liabilities and regular monitoring of concentration risks in deposits by tracking accounts with large balances. The MCO focuses on a 12-month period wherein the 12-month cumulative outflow is compared to the acceptable MCO limit set by the Bank.

Operational Risk

The Bank adopts the following definition of Operational risk:

BSP Cir No. 900, series of 2016, on Guidelines on Operational Risk Management: "Operational Risk refers to the risk of loss resulting from inadequate or failed internal processes, people and systems; or from external events. This definition includes legal risk, but excludes strategic and reputational risk.

Operational risk is inherent in all activities, products and services, and cuts across multiple activities and business lines within the financial institution and across the different entities in a banking group or conglomerate where the financial institution belongs.

1. People Risk

In most reference books and articles, it is mentioned that the most dynamic of all sources of operational risk factors is the people risk factor. Internal controls are often blamed for operational breakdowns, whereas the true cause of many operational losses can be traced to people failures. Every Chief Executive Officer has argued that people are the most important resource, yet the difficulty in measuring and modeling people risk has often led management to shy away from the problem when it comes to evaluating this aspect of operational risk.

In PNB, operational losses may be attributed to human error which can be brought about by inadequate training and management. This issue is being addressed through formal means (continuously conducting trainings) or informal means (monthly meetings and discussing issues at hand). These trainings also address the issue of relying on key performers instead of cross-training each team member.

Further, there is the risk of “non-fit” personnel being “forced” to occupy positions they are not qualified for. Annual evaluation and the implementation of balanced scorecards are used to ensure that ill-fitted personnel are re-trained, re-tooled or re-skilled to equip them better.

2. Process Management Risk

In financial institutions, most processes are designed with audited fail-safe features and checking procedures. Since processes interact with other risky variables - the external environment, business strategy and people - it is difficult to sound the all-clear. However, processes can make the institution vulnerable in many ways. Further, because of numerous internal and external reporting changes, the risk inherent in the utilization of “excel spreadsheet” for generating reports is all too imminent in the various business and support units of the bank. To address this risk, the Bank has documented policies and procedures duly approved by the Board. Fail safe checks and balances are also instituted to ensure that transactions / reports are completed with 2 or more “eyes” that oversee correctness and accuracy. The Internal Audit Group, as well as the various officers tasked with the review function, regularly monitors the implementation of these documented policies and procedures.

3. Business Strategy Risk

Strategic Risk can arise when the direction/strategy of a bank can lead to non-achievement of business targets. This results from a new focus of a business sector without consolidating it with the Bank’s overall business plan and strategy. At PNB, strategy risk is managed through each business sector performing “actual vs. targets” sessions with and reporting to the Board of Directors through regular management profitability reporting sessions. In addition, coordination between business sectors is done through regular meetings by the Senior Management Team to ensure that overall business targets are continually revisited.

4. Business Environment Risk

Banks tend to have the least control over this source of operational risk yet it still needs to be managed. Business environment risk can arise from unanticipated legislative changes such as consumer affairs, physical threats such as bank robberies, terrorists’ attacks, natural disasters and regulatory required financial report change, new or otherwise.

New competitive threats such as faster delivery channels, new products, new entrants and the ever-increasing rationalization of the banking industry are driving banks to become much more nimble-footed. The flexibility required to remain in the game leads some banks to take shortcuts that eventually expose them to some new source of operational risk.

At PNB, we have become fully involved and engaged in the Product Management Business Framework where old and new products alike are monitored by assigned product managers who coordinate with the various business sector heads in achieving the Bank's business plan. Further, a Product Committee composed of senior management has been created and meets regularly to ensure that business environment is closely monitored as to competition and delivery channels and that overall service standards are kept at acceptable levels.

5. Business Continuity Risk/Natural Events and Man-made Risk

The Bank recognizes that risks relating to natural, function-specific and man-made threats like the possibility of terrorist activities are possible. Business Continuity Risk is defined as any event that has a negative impact on the bank operations which could result in operational interruption, loss of or damage to critical infrastructure and the like.

The Bank has formulated the Business Continuity Plan (BCP) both on an enterprise-wide level as well as business unit level with the objective to define the critical procedures to be followed to recover critical functions on an acceptable limited basis in the event of abnormal or emergency conditions and other crisis. This means that the plan should provide provisions to:

- Ensure safety and security of all personnel, customers and vital Bank records;
- Ensure that there will be minimal disruption in operations;
- Minimize financial loss through lost business opportunities or assets deterioration; and
- Ensure a timely resumption to normal operation.

The Bank's BCP is tested at least on an annual basis with the following activities involved:

- Business Impact Analysis
- Risk Assessment of the Threats to Business
- Call Tree Test
- Table Top Test
- Alternate Site Test

6. Information Technology / Information Security Risk

The bank is on high gear in the implementation of the new core banking system with target live date by February 2017. The Bank recognizes the risk on IT/IS including the core banking implementation risk. It is in this regard that constant monitoring is observed thru the creation of Project Management Office (PMO). Progress reports are submitted to/discussed with the Project Steering Committee (composed of members of the senior management). Regular reports are also submitted to the Board IT Governance Committee and the Board to provide updates and reasonable assurance that risks identified are mitigated if not fully controlled. Tools being used to conduct the assessment are as follows:

- Regular Reports to Project Steering Committee
- IT Project Risk Assessment
- Project Health Check

Information Security Risk is the risk to organizational operations (including mission, functions, image, and reputation), organizational assets, and individuals due to the potential for unauthorized access, use, disclosure, disruption, modification or destruction of information or information assets that will compromise the Confidentiality, Integrity, and Availability (CIA). This covers data or information being processed, in storage or in transit. Cyber threats involving use of social engineering which may involve psychological manipulation of clients and personnel into performing actions and /or divulging confidential information. Social Engineering can result in various key risk indicators – phishing, spamming, dumpster diving, direct approach, baiting, spying & eaves dropping, among others.

This can result to negative financial impact to both client and the bank. PNB has institutionalize various risk mitigating tools and activities to minimize, if not, eliminate the said cyber threats – installation of firewalls, IPS/IDS, enterprise security solution (anti-virus for endpoint, email and internet). The Bank has also implemented segmentation to control access within a given segment. Policy on regular change of password is implemented to prevent password guessing or unauthorized access. Policy on password tries is limited to prevent brute-force attack. Education / InfoSec Awareness is also constantly conducted.

Regulatory Capital Requirements under BASEL III – Pillar 1

The Bank's total regulatory requirements as of December 31, 2015 are as follows:

Consolidated(Amounts in P0.000 million)	Weighted Exposures
Total Credit risk-weighted assets	414,692.7
Total Market risk-weighted assets	3,428.0
Total Operational risk-weighted assets	39,541.9
Total Risk-Weighted Asset	457,662.6
Common Equity Tier 1 Ratio	16.233%
Capital Conservation Buffer	10.233%
Tier 1 Capital Ratio	16.233%
Total Capital Adequacy Ratio	19.241%

Credit Risk-Weighted Assets as of December 31, 2015

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

	Exposure, Net of Specific Provision	**Exposures covered by Credit Risk Mitigants***	Net Exposure	0%	20%	50%	75%	100%	150%
Cash & Cash Items	13,744		13,744	13,400	344				
Due from BSP	81,320		81,320	81,320					
Due from Other Banks	22,621		22,621		10,404	5,114		7,103	
Financial Asset at FVPL	17		17					17	
Available for Sale	69,356	10,335	59,021	17,327	3,268	8,763	0	29,663	0
Held to Maturity (HTM)	23,732	6,042	17,690	6,855	0	10,583	0	252	0

Unquoted Debt Securities	522	0	522					522	
Loans & Receivables	357,498	23,446	334,052	3,160	22,779	9,223	21,493	276,613	784
Loans and Receivables Arising from Repurchase Agreements, Securities Lending and Borrowing Transactions	14,567		14,567	14,567					
Sales Contracts Receivable	4,332		4,332					3,327	1,005
Real & Other Properties Acquired	11,130		11,130						11,130
Other Assets									
Total On-Balance Sheet Asset	598,839	39,823	559,016	136,629	36,795	33,683	21,493	317,497	12,919
Risk Weighted Asset - On-Balance Sheet				0	7,359	16,841	16,120	345,522	19,377
Total Risk Weighted Off-Balance Sheet Asset				0	127	4,578	345	2,619	0
Counterparty Risk Weighted Asset in Banking Book				0	89	1,216	0	0	
Counterparty Risk Weighted Asset in Trading Book				0	25	44	431	0	

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

Market Risk-Weighted Assets as of December 31, 2015

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

Capital Requirements by Market Risk Type under Standardized Approach

(Amounts in P0.000Million)	Capital Charge	Adjusted Capital Charge	Market Risk Weighted Exposures
Interest Rate Exposures	192.5	240.6	2,406
Equity Exposures	31.9	39.9	399
Foreign Exchange Exposures	49.8	62.2	622
Total	274.2	342.8	3,428

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

Interest Rate Exposures

Specific Risk

Specific Risk from the held for trading (HFT) portfolio is P24million. Peso government securities represents 83% of the portfolio with zero risk weight while dollar denominated securities issued by the Republic of the Philippines (ROP) compose 11% of the portfolio with applicable risk weight ranging from 0.25% and 1.6% depending on the tenor of the securities. On the other hand, the Bank's holdings of all other debt securities/derivatives that are issued by other entities and rated between AAA and BBB- are 1% of the portfolio and with applicable risk weight of 1.60%. Also included in the inventory are those rated below BBB- and with applicable 8.00% risk weight.

Part IV.1a INTEREST RATE EXPOSURES – SPECIFIC RISK (Amounts in P0.000 million)	Positions	Risk Weight					
		0.00%	0.25%	1.0%	1.60%	8.00%	Total
PHP-denominated debt securities issued by the Philippine National Government (NG) and BSP	Long	3,591.2					
	Short	160.1					
FCY-denominated debt securities issued by the Philippine NG/BSP	Long		31.3		439.5		
	Short						
Debt securities/derivatives with credit rating of AAA to BBB- issued by other entities	Long				32.9		
	Short						

All other debt securities/derivatives that are below BBB- and unrated	Long					204.6	
	Short					-	
Subtotal	Long	3,591.2	31.3		472.4	204.6	
	Short	160.1					
Risk Weighted Exposures [Sum of long and short positions times the risk weight]		-	0.1		7.6	16.4	24.0
Specific Risk Capital Charge for Credit-Linked Notes and Similar Products							
Specific Risk Capital Charge for Credit Default Swaps and Total Return Swaps							
SPECIFIC RISK CAPITAL CHARGE FOR DEBT SECURITIES AND DEBT DERIVATIVES		-	0.1	-	7.69	16.4	24.0

<u>General Market Risk – Peso</u>

The Bank's total General Market Risk of its Peso debt securities and interest rate derivative exposure is ₱130.2 million. In terms of weighted position, the greater portion of the Bank's capital charge comes from the Over 7 to 10 year-time bucket at ₱30.2 million as well as Over 15 years to 20 years bucket at ₱30.3 million or a combined capital charge of ₱60.5 million. This is closely followed by the inventory under Over 5 years to 7 years bucket at ₱27.4 million. The Bank's portfolio also includes exposures under the Over 20 years' time band with applicable 6% risk weight or capital charge of ₱15.4 million.

Currency: PESO								
PART IV.1d GENERAL MARKET RISK (Amounts in P0.000 million)								
Zone	Times Bands		Debt Securities & Debt Derivatives/Interest Rate Derivatives		Risk Weight	Weighted Positions		
	Coupon 3% or more	Coupon less than 3%	Total Individual Positions					
			Long	Short		Long	Short	
1	1 month or less	1 month or less	11,476.1	710.5	0.00%	-	-	
	Over 1 month to 3 months	Over 1 month to 3 months	2,047.9	-	0.20%	-	-	
	Over 3 months to 6 months	Over 3 months to 6 months	5.4	0.1	0.40%	4.1	-	
	Over 6 months to 12 months	Over 6 months to 12 months	7.6	-	0.70%	0.0	0.0	
2	Over 1 year to 2 years	Over 1.0 year to 1.9 years	158.7	-	1.25%	2.0	-	
	Over 2 years to 3 years	Over 1.9 years to 2.8 years	3.7	-	1.75%	0.1	-	
	Over 3 years to 4 years	Over 2.8 years to 3.6 years	460.9	160.0	2.25%	10.4	3.6	
3	Over 4 years to 5 years	Over 3.6 years to 4.3 years	433.5	-	2.75%	11.9	-	
	Over 5 years to 7 years	Over 4.3 years to 5.7 years	842.7	-	3.25%	27.4	-	

	Over 7 years to 10 years	Over 5.7 years to 7.3 years	804.7	-	3.75%	30.2	-	
	Over 10 years to 15 years	Over 7.3 years to 9.3 years	36.3	-	4.50%	1.6	-	
	Over 15 years to 20 years	Over 9.3 years to 10.6 years	577.2	-	5.25%	30.3	-	
	Over 20 years	Over 10.6 years to 12 years	256.4	-	6.00%	15.4	-	
		Over 12 years to 20 years	-	-	8.00%	-	-	
		Over 20 years	-	-	12.50%	-	-	
Total			17,110.94	870.6		133.4	3.6	
Overall Net Open Position								129.8
Vertical Disallowance								0.4
Horizontal Disallowance								-
TOTAL GENERAL MARKET RISK CAPITAL CHARGE								130.2

<u>General Market Risk – US Dollar</u>

The capital charge on the Bank's General Market Risk from dollar-denominated exposures is ₱34.2 million. The exposures is concentrated under the Over 10 to 15 years buckets with risk weight of 4.5% and corresponding capital charge of at ₱16.5 million. The balance is distributed across the other time buckets up to Over 20 years with capital charge ranging from ₱0.6million to ₱2.8million.

Currency: USD								
PART IV.1d GENERAL MARKET RISK (Amounts in P0.000 million)								
Zone	Times Bands		Debt Securities & Debt Derivatives/Interest Rate Derivatives		Risk Weight	Weighted Positions		
	Coupon 3% or more	Coupon less than 3%	Total Individual Positions					
			Long	Short		Long	Short	
1	1 month or less	1 month or less	2,991.5	11,968.2	0.00%	-	-	
	Over 1 month to 3 months	Over 1 month to 3 months	3,448.6	4,866.0	0.20%	6.9	9.7	
	Over 3 months to 6 months	Over 3 months to 6 months	517.7	-	0.40%	2.1	-	
	Over 6 months to 12 months	Over 6 months to 12 months	94.1	-	0.70%	0.7	-	
2	Over 1 year to 2 years	Over 1.0 year to 1.9 years	49.0	-	1.25%	0.6	-	
	Over 2 years to 3 years	Over 1.9 years to 2.8 years	-	-	1.75%	-	-	
	Over 3 years to 4 years	Over 2.8 years to 3.6 years	33.1	-	2.25%	0.7	-	
3	Over 4 years to 5 years	Over 3.6 years to 4.3 years	2,761.5	2,706.9	2.75%	75.9	74.4	
	Over 5 years to 7 years	Over 4.3 years to 5.7 years	48.0	-	3.25%	1.6	-	
	Over 7 years to	Over 5.7 years to	39.3	-		1.5	-	

	10 years	7.3 years			3.75%			
	Over 10 years to 15 years	Over 7.3 years to 9.3 years	367.8	-	4.50%	16.5	-	
	Over 15 years to 20 years	Over 9.3 years to 10.6 years	18.6	-	5.25%	1.0	-	
	Over 20 years	Over 10.6 years to 12 years	24.2	-	6.00%	1.5	-	
		Over 12 years to 20 years	-	-	8.00%	-	-	
		Over 20 years	-	-	12.50%	-	-	
Total		10,393.5	10,393.5	19,541.1		108.9	84.2	
Overall Net Open Position								24.8
Vertical Disallowance								8.1
Horizontal Disallowance								1.2
TOTAL GENERAL MARKET RISK CAPITAL CHARGE							-	34.2

General Market Risk – Third currencies

The Bank is likewise exposed to general market risks interest rate of various third currencies in Japanese Yen (JPY), Singapore Dollar (SGD) and Hongkong Dollar (HKD). Market Risk capital charge under these currencies range from ₱0.04 million to ₱3.4 million or combined capita charge of ₱4.01 million.

PART IV.1d GENERAL MARKET RISK (Amounts in P0.000 million)										
Currency	Time Bands	Total Debt Securities & Debt Derivatives/Interest Rate Derivatives			Weighted Positions		Overall Net Open Position	Vertical dis allowance	Horizontal dis allowance within	Total General Market risk capital charge
		Long	Short	Risk Weight	Long	Short				
JPY	1 month or less	-	18.1	0.00%	-	-		-	-	-
	Over 1 months to 3 months	-	236.7	0.20%	-	0.47	0.47	-	-	
			254.8							0.47
SGD	1 month or less	-	28.4	0.00%	-	-		-	-	
	Over 1 months to 3 months	-	189.2	0.20%	-	0.4	0.4	-	-	
			217.55							0.04
HKD	1 month		1,869.78		-	-				

	or less	494.73		0.00%						
	Over 1 months to 3 months	-	329.35	0.20%	-	0.7				
	Over 3 months to 6 months	-	517.49	0.40%	-	2.1				
	Over 6 months to 12 months	-	94.04	0.70%	-	0.7				
		494.7	2,810.7							3.5
Total										4.01

Equity Exposures as of December 31, 2015

The Bank's holdings are in the form of common stocks traded in the Philippine Stock Exchange, with 8% risk weight both for specific and general market risk. The Bank's capital charge for equity weighted positions is ₱39.9 million or total risk-weighted equity exposures of ₱399.3 million.

Item	Nature of Item	Positions	Stock Markets
			Philippines
A.1	Common Stocks	Long	199.6
A.10	TOTAL	Long	199.6
		Short	-
B.	Gross (long plus short) positions (A.10)		199.6
C.	Risk Weights		8%
D.	Specific risk capital (B. times C.)		16.0
E.	Net long or short positions		299.6
F.	Risk Weights		8%
G.	General market risk capital charges (E. times F.)		16.0
H.	Total Capital Charge For Equity Exposures (sum of D. and G.)		31.90
I.	Adjusted Capital Charge For Equity Exposures (H. times 125%)		39.9
J.	TOTAL RISK-WEIGHTED EQUITY EXPOSURES (I. X 10)		399.3

Foreign Exchange Exposures as of December 31, 2015

The Bank's exposure to Foreign Exchange (FX) Risk carries a capital charge of ₱49.8 million based on an 8% risk weight. This would translate to risk-weighted FX exposure of ₱622.1 million. Majority of the exposure comes from FX assets and FX liabilities in USD/PHP. The Bank also holds third currencies in JPY, CHF, GBP, EUR, CAD, AUD, SGD and other minor currencies.

Part IV. 3 FOREIGN EXCHANGE EXPOSURES (as of Dec 31, 2015)						
	Closing Rate USD/PHP:					47.06
Nature of Item	Currency	In Million USD Equivalent				In Million Pesos
		Net Long/(Short) Position (excluding options)		Net Delta-Weighted Positions of FX Options	Total Net Long/(Short) Positions	Total Net Long/(Short) Position
		Banks	Subsidiaries /Affiliates			
		1	2	3	4=1+2+3	5
A. Currency						
A.1 U.S. Dollar	USD	4.8	6.6		11.3	533.7
A.2 Japanese Yen	JPY	0.5			0.5	22.1
A.3 Swiss Franc	CHF	0.3			0.3	12.3
A.4 Pound Sterling	GBP	-1.3			-1.3	-59.7
A.5 Euro	EUR	0.0			0.0	1.4
A.6 Canadian Dollar	CAD	0.1			0.1	6.6
A.7 Australian Dollar	AUD	0.2			0.2	7.5
A. 8 Singapore Dollar	SGD	0.2			0.2	7.6
A. 9 Foreign currencies not separately specified above		0.7			0.7	30.9
A. 10 Sum of net long positions						622.1
A.11 Sum of net short positions						-59.7
B. Overall net open positions						622.1
C. Risk Weight						8%
D. Total Capital Charge For Foreign Exchange Exposures (B. times C.)						49.8
E. Adjusted Capital Charge for Foreign Exchange Exposures (D. times 125%)						62.2
F. Total Risk-Weighted Foreign Exchange Exposures, Excluding Incremental Risk-Weighted Foreign Exchange Exposures Arising From NDF Transactions (E. times 10)						622.1
G. Incremental Risk-Weighted Foreign Exchange Exposures Arising From NDF Transactions (Part IV.3a, Item F)						-
H. Total Risk-Weighted Foreign Exchange Exposures (Sum of F. and G.)						622.1
Note: Overall net open position shall be the greater of the absolute value of the sum of the net long position or the sum of net short position.						

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

(Amounts in ₱0.000 Million) Consolidated as of Dec 31, 2015	**Gross Income**	**Capital Requirement (15% x Gross Income)**
2012 (Year 3)	23,033.734	3,455.060
2013 (Year 2)	18,172.063	2,725.809
2014 (last year)	22,061.312	3,309.197
Average for 3 years		3,163.355
Adjusted Capital Charge	Average x 125%	3,954.194
Total Operational Risk weighted Asset		39,541.943

Property Development

Competitor Risk
The Philippine real estate development industry is highly competitive with respect to township developments in Metro Manila and high rise condominiums.

Eton believes that it is a strong competitor in the mid- and high-end markets due to the quality of its products and materials used in construction and finishing. In addition, the Company believes that the prime locations of its developments allow it to effectively compete in the market. On the other hand, the Company has access, through its holdings and holdings of its affiliates, to one of the most extensive land banks in the Philippines, comprising properties strategically located in the prime areas of Metro Manila and its periphery.

Market Risk
A portion of the demand for the Company's properties is expected to come from OFWs, expatriate Filipinos and former Filipino residents who have returned to the Philippines (Balikbayans), which exposes the Company to risk relating to performance of the economies of the countries where these potential customers are based.

The Company has grouped the development of its residential projects around three brands targeted across three main customer segments: the Company brand, Eton which caters to the high-end segment; Belton brand aimed for middle-income customers; and the First Homes brand for customers in the affordable market segment. The Company believes that this clear branding strategy allows it to focus its marketing efforts and resources around each of the three brands efficiently, while providing the flexibility to adapt to changing demand and supply conditions in each segment.

Regulatory Risk

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

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

Credit Risk

The Company is exposed to risks associated with its in-house financing activities, including the risk of customer default, and that it may not be able to sustain its in-house financing program. In cases where the Company provides in-house financing, it charges customers interest rates that are substantially higher than comparable rates for bank financing and which also provide for upward adjustments of the interest charged if bank financing rates also move upward. As a result, and particularly during periods when interest rates are relatively high, the Company faces the risk that a great number of customers who utilize the Company's in-house financing facilities will default on their payment obligations, which would require the Company to incur expenses, such as those relating to sales cancellations and evictions of occupants.

The Company intends to leverage its ties with PNB by developing financial solutions for its real estate customers. In particular, the Company believes that this partnership with PNB will allow the Company to more quickly and efficiently and present financing solutions to its customers and to streamline the loan application process for the end-buyer of its properties.

Financial Risk

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

In order to reduce its earnings volatility and diversify its revenue streams, the Company has targeted to derive approximately 35-40% of its revenues from recurring sources within the next five years, primarily through rentals from its BPO properties and retail malls. The Company believes this will complement the Company's overall growth strategy by providing recurring cash flows to support its developmental capital expenditure requirements and driving demand for its master-planned community residential offerings.

Item 2. Properties

Distilled Spirits

TDI and its subsidiaries own the following real estate properties:

Location	Area (sqm)	Present Use
Owned by TDI		
Quiapo, Manila*	26,587	Office/Plant
Makati City	71	Investment/Condo
Talisay, Neg. Occ.	3,813	Bottle Storage
Davao City	3,000	Investment
Owned by AAC		
Pulupandan, Neg. Occ.	119,082	Distillation Plant
San Mateo, Rizal	11,401	Investment
Talisay, Batangas	139,299	Investment
Tanza, Cavite	67,507	Investment
Owned by ADI		
Ayala Ave., Makati City	89	Investment/Condo
Lian, Batangas	91,722	Distillation Plant

* Effective April 1, 2013, the production facility was decommissioned to reduce costs.

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

Location	Present Use	Area (sqm)	Monthly Rental	Lease Expiry Date
Leased by TDI				
Cabuyao, Laguna	Production Plant	188,202	1,875,812	2016
Pinamucan, Batangas	Land rental	18,522	350,000	2016
Calaca, Batangas	Tank rental		555,915	2016
Murcia, Neg. Occ.	Production Plant	29,583	650,000	2016
El Salvador, Mis. Or.	Production Plant	108,843	106,293	2016
Leased by ADI				
Lian, Batangas	Distillation Plant	50,000	50,000	2021
	Totals	**395,150**	**3,588,020**	

Except for the Distillation Plant in Lian Batangas, all lease contracts have a term of one year, renewable at the end of the lease term.

The plant and equipment are located at the following areas:

Location	**Condition**
Cabuyao plant	In good condition
Murcia plant	In good condition
El Salvador plant	In good condition

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

ADI on the other hand owns a distillery plant in Lian, Batangas. In 2015, a two(2) megawatt solar power generating facility was inaugurated in ADI plant. Likewise, a 100 kiloliters per day (KLPD) Dehydration Plant started its operation, that is composed of Classical Twin Bed Molecular Sieves which removes water from rectified spirit that is produced by the Distillation Section. All transportation equipment owned by ADI are in good condition. There are no mortgage or lien or encumbrance over the properties and there are no limitations as to its ownership and usage.

Beverage

ABI and its subsidiaries own the following real estate properties:

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

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

Location	Present Use	Area (sqm)	Monthly Rental	Lease Term
Leased by ABI				
Ayala Ave., Makati City	Head Office	1,677	747,495	Mar 3, 2014 to Mar 2, 2017
Cabuyao, Laguna	Production Plant	601,955	1,732,500	Apr 1, 2015 to Mar 31, 2018
El Salvador, Mis. Or.*	Production Plant	1,088,133	117,451	Jan 1, 2013 to Dec 31, 2017
Leased by IPI				
San Fernando, Pampanga	Production Plant	85,000	630,000	Jan 1 2015 to Dec 31, 2017
Leased by PWI				
Cabuyao, Laguna	Production Plant	82,600	533,867	Jan 1, 2016 to Dec 31, 2016
	Totals	**1,859,405**	**3,761,313**	

All lease contracts are renewable at the end of the lease term.

In addition to monthly rentals, ABI pays Real Property Taxes on the El Salvador, Misamis Oriental Plant.

The plant and equipment are located at the following areas:

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

Tobacco

The following comprises properties of FTC:

LOCATION	Area (sq.m)	Present Use
Brgy. Punta, Calamba, Laguna	49,701	Investment
Bacoor, Cavite	132,294	Investment
Balagtas, Int.Malate, Manila	496	Investment
Brgy. Niugan, Cabuyao, Laguna	469,758	Investment
Cabuyao, Laguna	17,438	Investment
Dna. Natividad, Quezon Ave., Quezon City	800	Investment
Dna. Natividad, Quezon Ave., Quezon City	1,626	Investment
Dna. Natividad, Quezon Ave., Quezon City	800	Investment
Dna. Natividad, Quezon Ave., Quezon City	1,118	Investment
Concepcion, Marikina	313	Investment
Tagdalit St., Brgy.Manresa, Quezon City	5,165	Warehouse Bldg.
Mandaue City	1,025	Investment
Baybay, Roxas City	2,396	Investment
Baybay, Roxas City	80	Investment
Filinvest Homes, Pagsanjan Cainta, Rizal	474	Investment
Marikina Greenheights, Brgy. Nangka	225	Investment
Antipolo, Rizal	400	Investment
Bo. Mayamot, Antipolo, Rizal	311	Investment
Pasay City	2,222	Investment

The following are the leased properties of FTC:

LOCATION	Present use	Monthly Rental	Lease Expiry Date
Brgy. Kapitolyo, Pasig	Office use	100,000.00	December 31, 2019

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

Banking

PNB's corporate headquarters, the PNB Financial Center, is housed in a sprawling modern eleven (11)-storey building complete with all amenities, located at a well-developed reclaimed area of 99,999 square meters of land on the southwest side of Roxas Boulevard, Pasay City, Metro Manila, bounded on the west side by the Pres. Diosdado P. Macapagal Boulevard and on the north side by the World Trade Center building. The PNB Financial Center is located in a property where bustling cultural, financial and tourism activities converge. It also houses PNB's domestic subsidiaries. Some office spaces are presently leased to various companies/private offices. The said property is in good condition and has no liens and encumbrances.

Disclosed in Exhibit I of PNB's 17A is the list of Bank-owned properties as of December 31, 2015.

The Bank leases the premises occupied by some of its branches. Lease contracts are generally for periods ranging from 1 to 25 years and are renewable upon mutual agreement of both parties under certain terms and conditions.

Disclosed in Exhibit II of PNB's 17A is the list of Bank's branches that are under lease as of December 31, 2015.

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

Information related to Property and Equipment is shown under Note 11 of the Audited Financial Statements of the Bank and its Subsidiaries.

Property Development
The Company's investment properties consist of:

Description	Location
Buildings	*Eton Centris, Quezon Ave., Cor. EDSA, Diliman, Quezon City;* *Eton Cyberpod Corinthian, Ortigas Ctr., Pasig City**
Office condominium unit	*6th Floor, Sagittarius Condominium, H. V. dela Costa Street, Salcedo Village, Makati City*
Residential unit	*Ocean Villa, Ternate, Cavite*
Land	*Ternate, Cavite;* *Cor. Quezon Avenue and EDSA, Diliman, Quezon City;* *Meralco Avenue, Brgy. Ugong, Pasig City* *F. Ortigas Jr. Ave. Cor. Ruby Road, Ortigas Center, Pasig City* *Roxas Blvd. Cor. Cuneta Avenue., San Rafael, Pasay City* *Corta Street, Addition Hills, San Juan, Metro Manila* *Brgy. Malitlit, Sta. Rosa City, Laguna*

The above properties are owned by the Company. These properties are in good condition and are not covered by any existing mortgage, liens or encumbrances.

*Land under lease arrangement.

The Company also entered into a lease agreement with third parties for the lease of parcels of land where one of the Parent Company's projects is located. The annual rental expense, recognized as part of the cost of rental income amounted to ₱39.31 million in 2015 and 2014.

The lease agreement shall be for a period of 20 years commencing on January 1, 2011 and renewable for another 20 years at the option of the lessee, with the lease payment subject to an annual escalation fee of 5%. Total annual rental payment amounted to ₱11.1 million in 2015 and 2014.

The Company's real estate properties consist of :

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

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

FIRST HOMES, INC.	
Aurora Heights Residences	*Loyola Heights, Quezon City*

ETON CITY INC.	
South Lake Village	*Sta. Rosa, Laguna*
Riverbend	*Sta. Rosa, Laguna*
Riverbend 2 - Tierra Bela	*Sta. Rosa, Laguna*
Village Walk	*Sta. Rosa, Laguna*

Eton Emerald Lofts, NBC Manors and West Wing Residences at NBC are under a joint venture arrangement with the Company as the project developer. The Company acts as both land owner and developer with respect to its remaining properties. All properties listed above are in good condition and are not covered by any material existing mortgage, liens or encumbrances.

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

Currently, the Company entered into a renewable cancellable lease agreement with PNB, which generally provides for a fixed monthly rent for the Company's office spaces. The Company has determined that all significant risks and rewards of ownership of these properties are retained by the lessor. Thus, the Company considers these lease agreements as operating leases. Rental expense recognized by the Company included under "Outside services" amounted to ₱11.14 million in 2015 and 2014.

The term of the lease commenced on March 1, 2012 and expired on May 31, 2014. The renewal of the lease shall be mutually agreed upon by the parties. The lease payment is subject to 5% escalation annually.

Properties intended to be acquired in the next twelve (12) months

Various real estate properties with the following locations are intended to be purchased. These will be funded by a combination of internally generated funds and external borrowings.

1. Mactan Island, Cebu - ₱1.9 billion
2. Ortigas Center, Pasig City - ₱320 million
3. Novaliches, Quezon City/Caloocan City - ₱670 million

Item 3. Legal Proceedings

Distilled Spirits

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

Trademark Infringement Suit

To date, the pending legal proceedings to which TDI is a party thereto is the ₱100 million civil 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 November 11, 2003, the Court of Appeals issued a 60-day TRO versus the Mandaluyong RTC, effectively allowing TDI to resume making and selling Ginebra Kapitan. The Court of Appeals however subsequently affirmed the Mandaluyong RTC TRO on January 9, 2004. On January 28, 2004, the Company filed a motion for reconsideration with the Court of Appeals. The Court of Appeals denied the TDI motion for reconsideration on July 2, 2004. On Dec. 28, 2004, TDI then filed a petition for review on certiorari before the Supreme Court. On Aug. 17, 2009, the Supreme Court reversed the decision of the Court of Appeals and nullified the writ of preliminary injunction issued by the Mandaluyong RTC. GSMI filed a motion for reconsideration but the Supreme Court denied the GSMIs motion with finality on Nov. 25, 2009.

On July 25, 2012, the Mandaluyong RTC issued its decision in favor of TDI and dismissing the instant complaint for trademark infringement and unfair competition for lack of merit. GSMI filed a Motion for Reconsideration with the Mandaluyong RTC on September 3, 2012. On October 5, 2012, the Mandaluyong RTC denied the Motion for Reconsideration of GSMI. GSMI filed an appeal with the

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

On December 18, 2013, the Company filed a petition before the Supreme Court questioning the decision of the CA. In 2014, the Company filed a motion for reconsideration with the Court of Appeals. But such motion was denied. On September 29, 2015 the Company filed another petition for review before the Supreme Court. The Company is currently awaiting for the Supreme Court's resolution as of March 8, 2016.

Opposition to Registration of Brand Name

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

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

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

On August 22, 2014, TDI filed a Motion for Reconsideration with the Court of Appeals. On November 13, 2014, the Court of Appeals sustained its decision dated July 23, 2014. On December 12, 2014, TDI filed a Petition for Review with the Supreme Court to reverse the decision of Court of Appeals and reinstate the findings of IPO. TDI is currently awaiting Supreme Court's decision as of March 8, 2016.

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.

On August 8, 2008, the PAB issued a TLO to AAC for purposes of allowing AAC to operate and implement the committed remedial measures. The said TLO was subsequently extended for successive 3-month periods based on the favorable results of PABs inspection and samplings of the wastewater discharged (effluents) by the AAC plant.

In May 2009, the residents of Pulupandan complained to the local government on the alleged pollution being caused by AACs operations on the marine and aerial environment. The roads to the Plant were barricaded and some portions of the road were dug up to prevent access to the Plant. AAC was able to obtain a court TRO to lift said barricades.

On June 1, 2009, the water pipeline to the AAC Plant was damaged allegedly during a road improvement project. This forced AAC to temporary stop its operations as water is a necessary element in its operations. The local government openly supported the protests of the residents and on September 8, 2009, the town's Environment Officer recommended to the town mayor the permanent closure of AAC.

The existing Temporary Lifting Order of AAC expired on June 16, 2009 while the protests were still ongoing. AAC filed for a renewal of the Temporary Lifting Order and this time AAC requested for a one-year validity of the Temporary Lifting Order. The Regional Office of the Pollution Adjudication Board endorsed the said application to the Pollution Adjudication Board Head Office, which then issued a two-month Temporary Lifting Order in order for AAC to be able to repair its damaged water pipeline and for the Pollution Adjudication Board to eventually assess if AAC's effluents meet the effluent standards.

AAC has advised the local government of Pulupandan on the Pollution Adjudication Board resolution and has requested for a permit to repair the damaged water pipeline.

In September 2011, the local government of Pulupandan granted AAC a permit to repair the damaged water line and to operate the alcohol and storage facilities. It also allowed AAC to remove and transfer its new distillery columns, which were to be used for its previous expansion plans, to ADI's plant in Batangas where expansion will now instead be pursued. AAC's water line is already repaired. AAC has also obtained the necessary permit to rehabilitate the plant. To date, AAC has completed the rehabilitation of the plant and plans to start the commercial within the first semester of 2016.

Realty Tax Assessment Case

On August 25, 2010, AAC received a Notice of Assessment from the Provincial Assessor of Negros Occidental representing deficiency realty taxes for the period 1997 to 2009 totaling ₱ 264 million. On September 24, 2010, AAC formally protested the assessment and asked for the cancellation of the assessment on the following grounds:

1. The period to assess real property taxes for the years 1997 to 2004 has already prescribed;
2. The assessments covering 2005 to 2009 are void and of no legal effect because it covers properties beyond the territorial jurisdiction of the province of Negros Occidental;
3. The value of AAC's properties indicated in the audited financial statements, which was made the basis in determining the assessed value included properties of AAC located in Manila and Cebu;
4. The notice of assessment covered anti-pollution machinery and equipment or the biogas plant which are exempt by law from taxation;
5. The notice did not follow the legal mandate in determining assessed values.

Meanwhile, while the protest is still pending with the Local Board of Assessment Appeals (LBAA), the Municipal Treasurer of Pulupandan advised AAC that it will avail of the administrative remedy of levy under Sec. 258 of the Local Government Code. In reply, AAC's legal counsel argued that the tax was still subject to appeal and as such cannot yet be subject to collection proceedings; that the Municipal Treasurer has no authority to enforce collection under the Local Government Code; and that this authority is with the Provincial Treasurer with the Municipal Treasurer of a municipality within the Metropolitan Manila Area.

The Municipal Treasurer replied on February 28, 2012 defending his authority and duty to issue a warrant of levy.

On May 18, 2011, AAC filed an Urgent motion to Resolve Petition with the LBAA, citing that:

1. Under the Local Government Code on rules on appeals, the LBAA is given 120 days from receipt of appeal to decide on the appeal; and

2. The 120th period expired on February 18, 2011.
On June 3, 2011, the Municipal Treasurer of Pulupandan again sent a demand letter to AAC for the payment of the ₱263.7 million realty tax assessments and threatened to avail of the administrative remedy to levy.

On June 16, 2011, AAC replied to the demand letter reiterating that:

1. The tax assessment is under appeal with LBAA, AAC also has posted a bond equivalent to the amount of the assessment;
2. The Municipal Treasurer lacks the authority to impose a levy; and
3. AAC will file civil, criminal, administrative and forfeiture charges if the Treasurer persists.

On August 24, 2011, the LBAA ordered AAC to pay 50% of the alleged tax deficiency in cash and put up a surety bond for the remaining 50%. AAC filed a motion for reconsideration on August 30, 2011. On July 20, 2012, LBAA denied the motion for reconsideration of AAC. On September 18, 2012, AAC filed an appeal with the Central Board of Assessment Appeals (CBAA) questioning the LBAA order.

On May 28, 2013, the CBAA granted AAC's appeal which essentially allowed AAC to question the deficiency tax assessment without paying the said tax under protest.On November 26, 2013, the LBAA decided in favor of AAC by declaring as null and void the Notice of Assessment of the Provincial Assessor being contrary to law. The LBAA ruled that the Provincial Assessor is "declared devoid of authority to increase the valuation and assessment of the properties subject to the questioned Notices of Assessment and Statement of Real Property Tax due".

On January 13, 2014, the Municipality of Pulupandan filed a Motion for Reconsideration for the decision of LBAA which declares the Notice of Assessment and Statement of Real Property Tax due null and void. 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 Officer as counsel of the Provincial Assessor's Office wrote a letter to the counsel of the company saying that its Office and Office of the Provincial Assessor have complied with the decision of the LBAA and considered the Notices void for having been issued ultra vires and thereby taking no further action on the said Notices of Assessment. To date, AAC has not received any reply from the LBAA on the intervenors' Motion for Reconsideration.

Beverage
ABI maintains a legal department whose main function is to pursue collection cases and handle litigation arising from labor disputes. As of December 31, 2015, ABI did not have any significant legal proceedings either against it or in pursuit of another party besides those arising from the ordinary course of business.

Tobacco

Sandiganbayan case against Tan Companies
On June 6, 2011, a motion was submitted by the Government seeking to include PMFTC and its directors/officers as additional defendants in the forfeiture case pending before the Sandiganbayan against Mr. Lucio C. Tan, FTC, et al. since 1987. The Government claims that by transferring the assets owned by FTC to PMFTC as a result of the business combination, the FTC assets have been removed beyond the reach of the Government and the court. The Sandiganbayan denied this motion with finality 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. On October 29, 2014, FTC received a resolution from the Supreme Court requiring it to submit its memorandum which was subsequently filed on January 30, 2015.

Banking

The Bank is a party to various legal proceedings which arise in the ordinary course of its operations.The Bank and its legal counsel believe that any losses arising from these contingencies, which are not specifically provided for, will not have a material adverse effect on the Consolidated Financial Statements.

Property Development

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

The Company 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.”

The case involves the Company’s property in Quezon City covered by Transfer Certificate of Title (TCT) No. 62821 located at the corner of EDSA and Quezon Avenue, Quezon City. The plaintiffs seek the annulment of the Company’s title alleging that it overlaps with TCT No. 300828. Plaintiffs also allege that the signature of the then Register of Deeds on the Company’s title is a forgery.

In its Answer, the defendants, including the Company raised the defense that the property was acquired through public bidding from the Land Bank of the Philippines where Paramount was the highest bidder at ₱1.03 Billion and which sale was approved by the President of the Philippines then. Further, there is no adverse claim or notice of lis pendens, encumbrance, or annotation of any overlapping claim on the Company’s title. Based on an investigation conducted into the plaintiffs’ title, it appeared that the technical descriptions of TCT No. 300828 overlap several titled properties when plotted. It was also found by the NBI that plaintiff’s title was not regularly issued and, upon further examination, the technical description overlaps other titled properties located in Aurora Boulevard, and Manga Street, among others, showing that the plaintiffs’ property was located elsewhere when plotted.

Additionally, defendants challenged the standing of the plaintiffs as not being the real parties in interest and subsequently requested the Court for a hearing on its affirmative defenses raised in its Motion to Dismiss. After due hearing, the Court, on December 14, 2014 issued a Resolution dismissing the complaint against the Company. The plaintiffs filed a Motion for Reconsideration which was denied by the Court on October 13, 2015. Thereafter the plaintiffs filed a Notice of Appeal of the Court’s Order on November 11, 2015.

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

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

PART II - OPERATIONAL AND FINANCIAL INFORMATION

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

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

1. Market Information

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

STOCK PRICES

	CLOSE	**HIGH**	**LOW**
2013			
1st Quarter	17.84	17.86	12.82
2nd Quarter	22.60	28.40	17.62
3rd Quarter	18.00	25.25	15.30
4th Quarter	15.44	19.56	12.96
2014			
1st Quarter	17.44	19.90	14.82
2nd Quarter	14.76	18.90	13.98
3rd Quarter	15.64	17.30	14.58
4th Quarter	12.14	15.86	12.00
2015			
1st Quarter	16.30	16.92	12.24
2nd Quarter	13.92	16.98	13.20
3rd Quarter	10.08	15.96	10.00
4th Quarter	15.00	15.24	9.79
2016			
April 12, 2016*	15.86	16.00	15.76

*Latest practicable trading date

2. Holders

The number of shareholders of record as of December 31, 2015 was 376. Common shares outstanding as of December 31, 2015 were 10,821,388,889. The top 20 stockholders as of December 31, 2015 are as follows:

Stockholders' Name	No. of Common Shares Held	% to Total
Tangent Holdings, Corp.	8,046,318,193	74.3557
The Hongkong & Shanghai Banking Corp. Ltd.	868,163,068	8.0227
Deutsche Bank Manila	555,265,621	5.1312
Dragon Castle Holdings Ltd.	198,535,900	1.8347
Hinner Resources Ltd.	157,195,600	1.4526
Citibank N.A.	154,106,566	1.4241
Advance Goal Ltd.	152,812,600	1.4121
Absolute Classic Ltd.	95,811,000	0.8854
Conqueror Vision Ltd.	81,913,000	0.7570

BDO Securities Corp.	65,420,500	0.6045
Government Service Insurance System	65,307,700	0.6035
Mandarin Securities Corp.	40,242,724	0.3719
Banco De Oro – Trust Banking Group	38,168,986	0.3527
Standered Chartered Bank	37,714,136	0.3485
Pru Life Insurance Corp. of UK	37,553,900	0.3470
Pan Asia Securities Corp.	29,698,400	0.2744
Deutsche Regis Partners, Inc.	23,319,713	0.2155
Citibank FAO Philippine AXA ChineseTycoon	22,445,700	0.2074
Wealth Securities, Inc.	14,355,350	0.1327
SB Equities, Inc.	8,378,100	0.0774

***** LTG has no preferred shares.

3. Dividends

a.) Dividend declarations

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.

On April 12, 2016 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 April 28, 2016. The dividends will be paid on May 6, 2016.

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

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

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

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

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

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

RESULTS OF OPERATIONS

The following discussion and analysis of the Group's financial condition and results of operations should be read in conjunction with the consolidated financial statements as at December 31, 2015, 2014 and 2013 included in this report.

2015 vs 2014

CONSOLIDATED RESULTS OF OPERATIONS

(In millions)	2015	2014
Revenue	₱54,374	₱51,696
Cost of Sales	24,880	24,739
Equity in Net Earnings of Associates	1,189	895
Operating Expenses	23,462	23,815
Operating Income	7,221	4,037
Other income-net	4,497	4,817
Income Before Income Tax	11,718	8,854
Total Net Income	9,497	6,472
Net Income Attributable to Equity Holders of the Parent Company	6,599	4,410

LT Group, Inc.'s (LTG) consolidated net income reached ₱9.5 billion for the year ended December 31, 2015, 46.7% higher than the previous period's ₱6.5 billion.

LTG's net income attributable to equity holders was ₱6.6 billion for 2015, 49.6% higher than the previous period's ₱4.4 billion. The banking segment contributed ₱3.72 billion, which accounted for 56% of total net income attributable to equity holders of LTG. The beverage segment accounted for ₱ 1.1 billion or 17%, followed by the tobacco segment at ₱1.0 billion or 16%. Distilled spirits and the property development segments amounted to ₱422 million or 6% and ₱312 million or 5%, respectively. Equity in net earnings from our stake in VMC provided ₱214 million or 3% of total. As of December 31, 2015 LTG's stake in VMC stood at 22.59%.

Consolidated revenues amounted to ₱54.37 billion for the year ended December 31, 2015, 5.2% higher than the previous period of ₱51.7 billion. The banking segment's revenues were higher by 9.9% largely due to higher interest income on loans and service fee revenues. Property segment's revenues was higher by 8.8% due to higher leasing revenues. Beverage and distilled spirits segments' revenues were relatively flat at ₱13.3 billion and ₱12 billion, respectively, for the year ended December 31, 2015.

Cost of sales and services increased slightly by 0.6% from ₱24.7 billion for the year ended December 31, 2014 to ₱24.9 billion in the current period. This is mainly due to higher interest expense on deposit liabilities, bills payables and others.

Consolidated operating expenses were at ₱23.5 billion in 2015 and ₱23.8 billion in 2014 as selling and general and administrative expenses decreased by 3.7% and 1.2%, respectively. The decline in selling expenses was mainly on account of lower advertising and promotional expenses of the distilled spirits segment while general and administrative expenses were lower mainly due to the banking segment's reversal of a previously booked allowance for probable loss on the National Steel Corporation case.

SEGMENT OPERATIONS

Banking

The banking segment reported a net income of ₱6.8 billion in 2015, an improvement of 14.8% from the ₱5.9 billion earned in the same period last year.

Interest income from banking operations increased by 5.6% to ₱21.7 billion this year, mainly on account of higher income from loans. Interest expense was up by 5.0% from ₱3.9 billion in 2014 to ₱4.1 billion in 2015, resulting to a net interest income of ₱17.6 billion, 5.7% higher year-on-year.

Net service fees and commission income improved from ₱2.6 billion in the previous period to ₱3.6 billion in the current period due to higher service charges and fees on deposits and loans, arranger's fees, underwriting and securities dealership fees and Bancassurrance fees.

Miscellaneous income dropped by 34.6% on account of lower trading and foreign exchange gains recognized this year. In 2014, there was a ₱730 million gain recorded from the sale of VMC shares to LTG.

Operating expenses declined by 8.6% to ₱18.4 billion in 2015 from ₱20.2 billion, mainly on account of the reversal of the allowance for probable loss of ₱974 million on the National Steel Corporation case and lower depreciation expense.

Beverage

The beverage sector's net sales were fairly stable at ₱14.3 billion in 2015, compared to the previous year. The continuous growth in bottled water and commercial glass sales and the traction in new products propped up revenues and offset the decline in the sales of energy drinks and alcoholic beverages. Despite lower sales versus the previous year, Cobra upheld its market leadership with over 70% market share and maintained its status as the segment's flagship product, contributing 34.9% to the segment's revenues. Bottled water sustained its growth momentum despite intense competition from lower-priced brands and was the second biggest contributor to the segment's sales, closely followed by beer. Beer and alcopop volumes, however, were adversely affected by R.A. 10351 mandating annual increases in excise taxes on beer and distilled spirits, which prompted the increase in prices.

Cost of sales increased slightly by 0.2%, from ₱10.2 billion in 2014 to ₱10.3 billion in 2015. Gross profit margin slightly decreased to 28.2% in 2015 from 28.5% in 2014.

Selling expenses slightly increased by 1.6% to ₱1.7 billion from ₱1.6 billion in the previous year. The increase was mainly attributed to higher depreciation on returnable containers, selling materials, royalties, freight and pension slightly offset by lower advertising and repairs and maintenance costs. There was a 1.1% rise in general and administrative expenses from ₱824 million in 2014 to ₱833 million in 2015, mainly driven by higher manpower-related costs, offset by tax assessments paid in 2014. Total operating expenses were stable at ₱2.5 billion.

All these translated to income from operations of ₱1.5 billion in 2015, or a 5.1% decline from last year's ₱1.6 billion. Other income increased by ₱33 million due to lower share in net loss by ₱44 million recognized from the operations of its joint venture, offset by ₱7.0 million higher interest expense and the recognition of an impairment loss of ₱3.9 million on fixed assets.

All these factors have helped the beverage segment maintain profitability with net income stable at ₱1.1 billion.

Distilled Spirits
The distilled spirits segment reported a net income of ₱422 million for 2015, a significant improvement from the ₱101 million in the same period last year.

Net revenues were slightly higher by 0.6% to ₱12.1 billion in 2015. This was on account of the increase in selling prices offsetting the 3% decline in volumes for 2015.

Cost of sales and operating expenses remained at ₱9.8 billion and ₱1.6 billion, respectively, for years 2015 and 2014.

Other charges were lower by 92.6% to ₱30 million in 2015 from ₱404 million in 2014, due to lower interest expenses with the payment of the ₱5.0 billion bonds in February 2015.

Property development
The property development segment reported a net income of ₱313 million for the year ended 2015, significantly higher than last year's net income of ₱120 million. Gross profit likewise increased by 88% or ₱610 million compared to the same period last year. Consequently, overall gross profit rate improved from 30.5% in 2014 to 52.5% in 2015. The increase in gross profit as well as gross profit rate for the year was mainly due to higher leasing revenues generated by Cyberpod Centris Three, a new BPO office building in Eton Centris.

Other income and charges decreased by 224.7% compared to the same period last year. The reduction in other income and charges was mainly due to the increase in finance charges as Eton stopped the capitalization of borrowing costs on loans attributable to projects that were already completed during the period.

Provision for income tax increased from ₱82 million in 2014 to ₱250 million in 2015 due to the higher net income posted during the period.

Tobacco
The tobacco segment posted a net income of ₱1.0 billion for the year ended December 31, 2015, 602.7% higher than the ₱148 million recognized in 2014. This was mainly on account of higher equity in net earnings from PMFTC of ₱975 million for 2015, 89.3% more than last year's ₱515 million. The illicit trade in the cigarette industry continues to affect PMFTC's profitability.

2014 vs 2013

CONSOLIDATED RESULTS OF OPERATIONS

(In millions)	2014	2013
Revenue	₱51,696	₱55,497
Cost of Sales	24,739	25,687
Equity in Net Earnings of Associates	895	3,704
Operating Expenses	23,815	23,174
Operating Income	4,037	10,339
Other income-net	4,817	3,017
Income Before Income Tax	8,857	13,357
Total Net Income	6,472	11,475
Net Income Attributable to Equity Holders of the Parent Company	4,410	8,669

LT Group, Inc.'s consolidated net income reached ₱6.5 billion for the year ended December 31, 2014, 43.6% lower than the 2013's ₱11.5 billion. Consolidated net income attributable to equity holders of LTG was ₱4.4 billion for 2014, 49.1% lower than the 2013's ₱8.7 billion, due primarily to the difficulty in the operating environment of its tobacco business. The banking segment contributed ₱3.3 billion, which accounted for 74% of total net income attributable to equity holders of LTG. The beverage segment accounted for ₱1.1 billion or 25%, followed by the property development segment at ₱119 million or 3%. Tobacco and the distilled spirits segments amounted to ₱147 million or 3% and ₱101 million or 2%, respectively.

Consolidated revenues amounted to ₱51.7 billion for the year ended December 31, 2014, 6.9% lower than the 2013's ₱55.5 billion. The banking segment's revenues were lower by 12.1% largely due to lower trading gains. Property segment's revenues were lower by 37.7% as sales were halted for a period in order to revisit its projects' master plans and optimize values. The increase in distilled spirits and beverage segments' revenues by 14.3% and 4.6%, respectively, partially offset the drop in consolidated revenues from the other segments.

Cost of sales and services decreased slightly by 3.7% from ₱25.7 billion for the year ended December 31, 2013 to ₱24.7 billion in 2014. This was primarily due to lower interest expense on deposit liabilities of the banking segment.

Consolidated operating expenses were higher by 2.8% mainly on account of increases in the general and administrative expenses by 3.3%.

SEGMENT OPERATIONS

Distilled Spirits

The distilled spirits segment revenues for the year 2014 amounted to ₱12.0 billion, higher by 14% from 2013's ₱10.5 billion, attributable mainly to the 17% increase in sales volume. Tanduay Five Years, the flagship brand, posted an 18% increase in sales volume on account of strong marketing and distribution efforts to recover market share in the VisMin area.

In the recent Nielsen survey results, TDI's overall market share slightly improved to 22.0% as of December 2014 from 21.8% as of December 2013. This shows that TDI's market share has stabilized, from the drop in 2011 and 2012. TDI accounts for the largest market share in VisMin at 56.5% as of 2014.

Cost of sales similarly increased due to higher sales volume and higher raw materials costs for alcohol, packaging and other raw materials from ₱8.3 billion in 2013 to ₱9.8 billion in 2014.

Gross profit margin dropped to 18% in 2014 from 21% in 2013 on account of higher discounts given to wholesalers as well as higher raw material costs.

Operating expenses rose by 5% due to higher freight charges and advertising expenses. This was partially offset by the decline in general and administrative expenses by 26% as 2013 included the separation payment of ₱105.8 million in connection with the closing of the Quiapo plant.

Beverage

The beverage segment's revenues improved to ₱14.3 billion in 2014, or a 7.0% increase over the ₱13.4 billion generated in 2013. This was primarily due to the growth of water, energy and soymilk brands. The decline of beer revenues was slightly offset by the re-launch of Colt 45 in the second half of 2014 and intensified marketing efforts. Cobra, the segment's flagship product, accounted for 36.9% of its revenues and has a market share of over 70%. Water brands, Absolute and Summit remain market leaders with close to 30% market share at the end of 2014.

Cost of sales increased by 5.1%, from ₱9.7 billion in 2013 to ₱10.2 billion in 2014. The increase was due to the 7.8% growth in volume and higher raw materials costs. Higher prices of sugar and hops contributed to the increase in raw material costs. Gross profit margin improved to 28.5% in 2014 from 27.2% in 2013.

General and administrative expenses increased by 10.9% from ₱743.2 million in 2013 to ₱824.3 million in 2014. Main drivers of this change were prior year tax assessments paid by ABI and increase in professional fees. Selling expenses decreased by 7.5% to ₱1.6 billion mainly due to lower depreciation and transportation and travel expenses. Total operating costs were stable at ₱2.5 billion.

Other income decreased by ₱294.6 million as 2013 included a gain of ₱290.8 million on the sale of investment property. Finance costs were lower as ABI paid off its loans during the first half of 2013. Income tax increased following the growth in profits.

The above-mentioned reasons contributed to the beverage segment's growth in net income of 7.1% from ₱1.0 billion in 2013 to ₱1.1 billion in 2014.

Tobacco
The tobacco segment posted a net income of ₱148 million for the year ended December 31, 2014, 96.2% lower than last year's ₱3.9 billion. This is mainly a result of the 86.1% drop in equity in net earnings from PMFTC from ₱3.7 billion in 2013 to ₱515 million in 2014.

PMFTC operating results continues to be adversely affected by the illicit trade of cigarettes. PMFTC's market share dropped from over 90% to slightly above 70% due to the availability of cheaper cigarettes that are priced at below cost when paying full taxes.

Banking
The banking segment reported a net income of ₱5.9 billion in 2014, 5.4% lower than 2013's ₱6.2 billion. This is largely due to lower trading gains realized in 2014 which amounted to only ₱2.7 billion, compared to the ₱7.2 billion posted in 2013.

Interest income increased by 6.1% to ₱20.6 billion in 2014 mainly on account of higher interest income on loans and receivables driven by the expansion in the loan portfolio. Interest expense dropped significantly by 24.5% as the Bank continued to undertake its liability management exercise by raising long term deposits at lower interest rates.

Net service fees and commission income improved slightly by 3.8% to ₱2.6 billion in 2014 from ₱2.5 billion in 2013.

The decline in trading gains of ₱4.5 billion significantly dropped the segment's net income to ₱5.9 billion in 2014. Miscellaneous income increased by 113.1% on account of higher gain on sale or exchange of assets and other income.

Operating expenses increased 5.5% on account of higher compensation and fringe benefits to ₱7.6 billion in 2014 compared to ₱6.3 billion in 2013 and increased provisions for impairment and credit losses by
₱1.2 billion or 121.9%.

Property development
Property development ended 2014 with a net income of ₱119.9 million, slightly higher than 2013's performance of ₱105.1 million. The improvement is attributable to the growth in the leasing business driven by the contribution of Cyberpod Centris Three and improvement in the lease take-up of Cyberpod Centris One and Two and Corinthian Cyberpod in Ortigas. Lease rates likewise improved as maturing lease contracts were renewed at favorable rates bringing it closer to market level.

However, there was a 52.1% decline in its real estate sales following the temporary halt in sales activities to pave the way for the Company's value optimization plans for its existing projects. Despite such deferment, the Company continued with its construction activities and completed in 2014 8 Adriatico Tower and three medium-rise condominium buildings at The Manors. Likewise, Eton Tower Makati, the Company's 41-storey condominium at the heart of the Makati Central Business district topped-off in 2014. Construction of 68 Roces and West Wing Villas at North Belton Communities in Quezon City and West Wing Residences at Eton City in Sta. Rosa, Laguna, were also on full-swing while re-master planning of the Company's township project, Eton City and its mixed-use development in Quezon City, Eton Centris, continued.

The property development segment recognized revenues from real estate sales of ₱1.5 billion from the sale of its residential projects namely 68 Roces, 8 Adriatico and Eton Tower Makati. The Company's lease revenue amounted to ₱740.3 million in 2014.

Selling expenses declined by 57.6% to ₱155.1 million in 2014 due to the temporary deferment of selling activities. General and administrative expenses also decreased by 17.2% to ₱427.4 million as a result of the Company's efforts to rationalize functions in each department.

FINANCIAL CONDITION

2015

The Company's consolidated Total Assets as of December 31, 2015 amounted to ₱749.6 billion, an increase of 7.6% from ₱696.8 billion as of December 31, 2014. This was mainly on account of the increase in Current Assets by 8.9% or ₱6.6 billion and increase in Noncurrent Assets of ₱22.6 billion or 6.3%.

The increase in consolidated Current Assets by 8.9% from ₱340.1 billion as of December 31, 2014 to ₱370.3 billion was primarily due to the improvement in the Current Loans and Receivables by ₱28.8 billion and reclassification of the various assets of PNB Life totalling ₱23.5 billion to Assets of Disposal Group Classified as Held for Sale and others assets of the banking segment. Other Current Assets increased by 12.1% from ₱7.9 billion as of December 31, 2014 to ₱8.8 billion due to the banking segment's higher creditable withholding taxes and other assets. Inventories went up by 8.4% to ₱14.0 billion in 2015 from ₱12.9 billion in 2014. Financial Assets at Fair Value through Profit or Loss declined by ₱13.1 billion, mainly due to the banking segments reclassification of PNB Life's assets. Most of PNB Life's assets were Financial Assets at Fair Value through Profit or Loss. This was partially offset by the decrease in Cash and Cash Equivalents by 6.6% or ₱9.7 billion which was on account of the banking segment's lower Due from Bangko Sentral ng Pilipinas, Interbank Loans and Receivables and Cash and Other Cash Items. There was a 22.8% decrease in Current Available For Sale Investments due to the reclassification of various securities by the bank. The decrease in Due from Related Parties of 11.4% or ₱204 million compared to December 31, 2014 was due to the collection from a related party.

The 6.3% 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 10.3% from ₱187.4 billion in December 31, 2014 to ₱206.8 billion as of December 31, 2015. Noncurrent AFS increased by 11.0% on account of various acquisitions of securities. Property, plant and equipment increased by 5.6% compared to end-2014 due to the reclassifications made by the banking segment from investment properties. Investment properties decreased by 18.3% mainly due to sales of various properties and reclassifications to banking premises or property plant and equipment during 2015. Other noncurrent assets decreased by 7.8% from ₱3.7 billion as of December 31, 2014 to ₱3.4 billion as of December 31, 2015.

Consolidated Total Liabilities increased by 8.6% to ₱579.8 billion as of December 31, 2015 from ₱ 534.1 billion as of December 31, 2014. This was on account of the increase in Total Current Liabilities by 5.8% from ₱469.1 billion in December 31, 2014 to ₱496.3 billion as of the end of the current period and increase in Noncurrent Liabilities of 28.5% from ₱65.0 billion to ₱83.5 billion.

Current portion of the banking segment's Deposit Liabilities amounted to ₱436.4 billion as of end-2015, 6.1% higher than December 31, 2014. Accounts Payable and Accrued Expenses were slightly higher by 7.6% due to the accrual of various liabilities of the different segments. Financial Liabilities at Fair Value through Profit or Loss decreased to ₱0.1 billion mainly on account of the banking segment's reclassification of PNB Life's liabilities as a one-line item liabilities of the Disposal Group Held For Sale. Most of PNB Life's liabilities were financial liabilities at fair value through profit or loss. Current portion of Short-Term Debts and Long-Term Debts decreased from ₱5.8 billion to ₱1.9 billion as the distilled spirits segment's paid its ₱5.0 billion bonds payable which matured in February 2015. Current portion of Bills and Acceptances Payable decreased by 12.1% mainly due to the settlement of the banking segment's currently maturing bills and acceptances payable and other liabilities. Income Tax Payable, Current Portion of Due to Related Parties and Other Current Liabilities decreased by 9.7%, 6.2% and 27.8%, respectively due to various settlements in 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 ₱19.9 billion as of December 31, 2015 and increase in the Noncurrent Deposit Liabilities by 69.6% or ₱16.3 billion. This was offset by the decrease in Other Noncurrent Liabilities from ₱12.6 billion as of December 31, 2014 to ₱8.0 billion as of December 31, 2015. Financial Liabilities at Fair Value through Profit or Loss, Long-Term Debts Net of Current Portion and Deferred Income Tax Liabilities decreased by 63.2%, 5.2% and 12.7%, respectively due to various settlements and adjustments in 2015.

LT Group's consolidated Total Equity grew 4.3% to ₱169.8 billion as of December 31, 2015, on account of the increase in Retained Earnings by 10.7% coming from the net earnings during the period and increase in Other Comprehensive Income.

2014

The Company's consolidated Total Assets as of December 31, 2014 amounted to ₱696.8 billion, an increase of 2.7% from ₱678.5 billion as of December 31, 2013. This was mainly on account of the ₱ 34.5 billion or 11.3% increase in Current Assets partially offset by the decrease in Noncurrent Assets by 4.3% or ₱16.1 billion.

The increase in consolidated Current Assets by 11.3% from ₱305.6 billion as of December 31, 2013 to ₱340.1 billion was due to the 72.7% growth in the Current portion of Loans and Receivables, mainly on account of major loan releases by the banking segment, and the maturity and reclassification from noncurrent to current of Loans and Receivables. The Current Portion of Loans and Receivables of the banking segment increased by 80.4% from ₱71.8 billion in December 31, 2013 to ₱129.5 billion as of December 31, 2014. Financial Assets at Fair Value through Profit or Loss of the banking segment increased by 81.7%, mainly due to purchases of various investment securities. The other movement in Current Assets was the 25.9% rise in Inventories, on account of the increased Inventories by the beverage and property segments. Other Current Assets also increased by 40.1% mainly on account of the banking segment's increased miscellaneous assets and creditable withholding taxes. There was a 29.0% increase in Current Available for Sale Investments due to the higher fair market values of investments. The increase in consolidated Current Assets was offset by the decrease in Cash and Cash Equivalents by 21.8% on account of the banking segment's decrease in Due from Bangko Sentral ng Pilipinas and Interbank Loans and Receivables.

The 4.3% decrease in Total Noncurrent Assets was mainly due to the reclassification of the Loans and Receivables account and Available for Sale Securities. The significant movement in Noncurrent Assets came from Loans and Receivables which went down by 8.5%, as a result of reclassifications to current portion and noncurrent AFS which decreased by 23.1% on account of the reclassifications to HTM. Deferred tax assets significantly decreased by 73.3% mainly due to the banking segment's offset of deferred tax liabilities from revaluation increment. Other noncurrent assets decreased by 24.5% due to the decrease in miscellaneous assets of the banking segment. Property, plant and equipment at cost likewise decreased by 18% mainly due to depreciation charges. Investment in associates and joint ventures decreased by 10.0% due to higher levels of dividends received compared with equitized earnings from PMFTC.

Consolidated Total Liabilities increased slightly by 1% to ₱534.1 billion as of December 31, 2014 from ₱528.7 billion as of December 31, 2013. This was on account of the increase in Total Noncurrent Liabilities by 43% from ₱45.4 billion in December 2013 to ₱65.0 billion in December 2014, significantly offset by the decrease in Current Liabilities of 3% from ₱483.3 billion to ₱469.1 billion.

Financial Liabilities at Fair Value Through Profit or Loss increased to ₱10.8 billion mainly on account of the banking segment's reclassification of these accounts to current. Current portion of Bills and Acceptances Payable and Accounts Payable and Accrued Expenses declined by 41.9% and 29.6%, respectively mainly due to the settlement of the banking segment's currently maturing Bills and Acceptances payable and other liabilities. Short-Term Debts and Long-Term Debts current increased from ₱1.3 billion to ₱5.8 billion on account of the distilled spirits segment's reclassification of the ₱ 5.0 billion bonds payable to current, as these will mature in February 2015. Due to Related Parties decreased from ₱8.0 billion in 2013 to ₱49.8 million on December 31, 2014 mainly on account of conversion of liabilities to Tangent Holdings Corporation (THC) into preferred shares. Other Current Liabilities declined from ₱24 billion in 2013 to ₱18.3 billion in December 31, 2014 due to the banking segment's settlement of its various other current liabilities.

The increase in the Noncurrent Liabilities was on account of the increase in the Noncurrent Deposit Liabilities of the banking segment from ₱10.5 billion as of December 31, 2013 to ₱23.5 billion as of December 31, 2014 and increase in Noncurrent Bills and Acceptances payable from ₱1.7 billion as of December 31, 2013 to ₱12.4 billion as of December 31, 2014. This was partially offset by the reclassification in the noncurrent Financial Liabilities through Profit or Loss to current. Noncurrent portion of Long-Term Debt decreased from ₱16.9 billion as of December 31, 2013 to ₱11.3 billion as of December 31, 2014 due to the reclassification of the distilled spirits' ₱5.0 billion Bonds Payable to current. Accrued Retirement Benefits decreased by 13.1% to ₱3.8 billion due to the contribution of the banking segment to the retirement fund. Deferred Income Tax Liabilities decreased by 25.4% mainly due to the adjustments and realization of the tax liabilities of all segments in 2014. Lastly, the increase in Other Noncurrent Liabilities by 449.5% was mainly due to the banking segment's increase in the noncurrent portion of unearned premiums and inter-office float items drafts outstanding.

LT Group's consolidated Total Equity grew 8.7% to ₱162.7 billion as of December 31, 2014, on account of the increase in Retained Earnings by 7% coming from the net earnings in 2014 and the conversion of payables to Tangent Holdings Corporation (THC) to preferred shares which increased by 143.9%.

KEY PERFORMANCE INDICATORS

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

1.) **Gross Profit Ratio**

Gross profit ratio in 2015 was 54.2% versus 52.1% in 2014.

2.) **Return on Equity**

Consolidated Net Income Attributable to Equity Holders of the Parent Company for 2015 amounted to ₱6.6 billion; higher by 49.6% from last year's ₱4.4 billion. Ratio of net income to equity is 5.1% in 2015 and 3.6% in 2014.

3.) **Current Ratio**

Current Ratio for 2015 is 0.75:1 while last year's was 0.73:1.

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

Debt-to-equity ratio for 2015 is 3.42:1 as compared to last year's 3.28:1.

5.) **Earnings per share**
Earnings per share attributable to holders of the parent company for 2015 is ₱0.61 and ₱0.41 in 2014.

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

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

OTHER MATTERS

(i) 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 follows:

Distilled spirits

ADI completed a 2-megawatt (MW) Solar Power plant in Batangas. This project is the Lucio Tan Group's first venture into renewable green energy. ADI has been a staunch advocate of sustainable energy since the 1990s, and the company is making greater strides as it invests in solar power and contributes even more to carbon footprint reduction. By venturing into solar power, ADI is strengthening its commitment to mitigate the effects of climate change. This will benefit ADI as effective leverage against rising cost of electricity and disruptive brown-outs, zero fuel cost and utilizes free, clean and renewable energy from the sun, favorable government incentives such as feed-in-tariff at ₱9.68/kWh which will be available until March 31, 2015 and 30% tax break for purchase / import of solar power system.

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

Beverage

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 in the first half of 2016.

International Bottled Water Association Membership

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

ISO 9001:2008 Quality Management System Certification

ISO is a standard setting body that provides requirements, specifications, guidelines or characteristics that ensure that products and services are safe, reliable and are of good quality. To be ISO 9001:2008 certified, an organization must demonstrate its ability to consistently provide product that meets customer and applicable statutory and regulatory requirements. In 2013, ABI's brewery and bottled water plant in Cabuyao, IPI's Cabuyao manufacturing facility and WRC's plant received ISO 9001:2008 Quality Management System certification.

(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 (V) analyses showed the following material changes as of and for the years ended December 31, 2015 and 2014:

1. Cash and cash equivalents – H, (7%)
2. Financial assets at fair value through profit or loss – H, (58%)
3. Available-for-sale investments - current – H, (23%)
4. Loans and receivables-current – H, 20%
5. Due from related parties – H, (11%)
6. Inventories – H, 8%
7. Other current assets – H, 28%
8. Loans and receivables-noncurrent – H, 10%
9. Available-for-sale investments - noncurrent – H, 11%
10. Property, plant and equipment – at cost – H, 33%
11. Investment properties – H, (18%)
12. Deferred income tax assets- H, (23%)
13. Other noncurrent assets- H, (8%)
14. Deposit liabilities – current – H, 6%
15. Financial liabilities at fair value through profit or loss – current – H, (99%)
16. Bills and acceptances payable - current – H, (12%)

17. Accounts payable and accrued expenses – H, 8%
18. Income tax payable- H, (10%)
19. Short-term and long-term debts-current – H, (68%)
20. Current portion of due to related parties – H, (6%)
21. Other current liabilities – H, (28%)
22. Deposit liabilities – noncurrent – H, 70%
23. Financial liabilities at fair value through profit or loss - noncurrent – H, (63%)
24. Bills and acceptances payable - noncurrent – H, 60%
25. Long-term debt – net of current portion – H, (5%)
26. Deferred income tax liabilities- H, (13%)
27. Other noncurrent liabilities- H, (37%)
28. Other comprehensive income – H, (32%)
29. Shares of the company held by the subsidiaries – H, 79%
30. Retained earnings- H, 11%
31. Non-controlling interests – H, 6%
32. Banking revenue – H, 10%
33. Property development revenue – H, 9%
34. Equity in net earnings of associate – H, 33%
35. Finance cost – H, (55%)
36. Finance income – H, (7%)
37. Others-net – H, (14%)
38. Provision for income tax – deffered – H, (41%)
39. Net income from continuing operations – H, 47%
40. Net income from discontinued operations – H, 36%
41. Net income- H, 47%

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

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

A. <u>Information on Independent Accountant and other Related Matters</u>

(1) <u>External Audit Fees and Services</u>

<u>a.) Audit and Audit-Related Fees</u>

1. The audit of the Group's annual financial statements or services that are normally provided by the external auditor in connection with statutory and regulatory filings or engagements for 2015 and 2014.

<u>LT Group, Inc.</u>
Yr. 2015- ₱ 1,500,000
Yr. 2014- ₱ 1,500,000

<u>Tanduay Brands International, Inc.</u>
Yr. 2015- ₱ 60,000
Yr. 2014- ₱ 60,000

<u>Distilled Spirits</u>
Yr. 2015- ₱ 2,980,000
Yr. 2014- ₱ 3,570,000

Beverage
Yr. 2015- ₱ 4,795,000
Yr. 2014- ₱ 4,485,000

Tobacco
Yr. 2015- ₱ 600,000
Yr. 2014- ₱ 600,000

Banking
Yr. 2015- ₱14,582,000
Yr. 2014- ₱12,802,000

Property Development
Yr. 2015- ₱ 2,240,000
Yr. 2014- ₱ 2,095,000

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

none

b.) Tax Fees
none

c.) All Other Fees

Yr. 2015
LT Group, Inc. and its subsidiaries incurred ₱5,500,000 during the year 2015 for its quarterly review of financial statements.

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

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

Item 7. Financial Statements

The consolidated financial statements and schedules listed in the accompanying Index to Financial Statements and Supplementary Schedules (page 83) are filed as part of this Form 17-A (pages 84 to 253)

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

There are no changes in and disagreements with accountants on any accounting and financial disclosures during the past two years ended December 31, 2015 or during any subsequent interim period.

PART III – CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers

1. Directors

Name	Age	Citizenship	Business Experience/Other Directorship within the Last five (5) years	Position/Term of Office/Period Served
Lucio C. Tan	81	Filipino	Chairman of Philippine Airlines, Inc., Asia Brewery Inc., Eton Properties Philippines, Inc., **MacroAsia Corp.,** Fortune Tobacco Corp., PMFTC Inc., Grandspan Development Corp., Himmel Industries Inc., Lucky Travel Corp., **PAL Holdings, Inc.,** Air Philippines Corporation, Tanduay Distillers, Inc., The Charter House, Inc., AlliedBankers Insurance Corp., Absolut Distillers, Inc., Progressive Farms, Inc., Foremost Farms, Inc. and Basic Holdings Corp.; Director of **Philippine National Bank**	Chairman/ 1Year/ 2 July 1999 to present
Carmen K. Tan	74	Filipino	Director of Asia Brewery, Inc., The Charter House, Inc., Foremost Farms, Inc., Philippine Airlines, Inc., **PAL Holdings, Inc.,** Air Philippines Corporation, Fortune Tobacco Corp., Himmel Industries, Inc., Lucky Travel Corp., Progressive Farms, Inc., **MacroAsia Corp.** and PMFTC Inc.	Director/ 1 Year/ 05 May 2010 to present
Harry C. Tan	69	Filipino	Director of Eton Properties Philippines, Inc., PAN Asia Securities, Inc., Lucky Travel Corp., The Charter House, Inc., Fortune Tobacco Corp., Century Park Hotel, Landcom Realty Corp., Asia Brewery Inc., AlliedBankers Insurance Corp., Absolut Distillers, Inc., Basic Holdings Corp., Foremost Farms, Inc., Himmel Industries Inc., PMFTC Inc., **Philippine National Bank,** Progressive Farms, Inc., Grandspan Development Corp. and Tanduay Distillers, Inc.	Director/ 1 Year/ 28 May 2008 to present
Michael G. Tan	49	Filipino	Director/Chief Operating Officer of Asia Brewery, Inc., Director of Allied Bankers Insurance Corp., Air Philippines Corporation, Eton Properties Philippines, Inc., PMFTC Inc., Lucky Travel Corp., **Philippine National Bank,** Absolut Distillers, Inc., Philippine Airlines, Inc., **MacroAsia Corp.** and **Victorias**	President/ 1 Year/ 05 May 2010 to present (Director since 21 February 2003)

			Milling Company, Inc.; Director/Treasurer of **PAL Holdings, Inc.** and Air Philippines Corporation	
Lucio K. Tan, Jr.	49	Filipino	Director/President of Tanduay Distillers, Inc. and Eton Properties Philippines, Inc.; Director/EVP of Fortune Tobacco Corp.; Director of AlliedBankers Insurance Corp., Philippine Airlines, Inc., **Philippine National Bank**, **PAL Holdings, Inc.**, **MacroAsia Corp.**, PMFTC Inc., Lucky Travel Corp., Air Philippines Corp., Absolut Distillers, Inc., Asia Brewery, Inc., Foremost Farms, Inc., Himmel Industries, Inc., Progressive Farms, Inc., The Charter House, Inc., Grandspan Development Corporation and Shareholdings, Inc.	Director / 1 Year/ 21 February 2003 to present
Joseph T. Chua	59	Filipino	Chairman of J.F. Rubber Philippines, Watergy Business Solutions, Inc., and Cavite Business Resources, Inc.; Director/President and Chief Operating Officer of **MacroAsia Corp.;** Managing Director of Goodwind Development Corporation (Guam); Director/President of MacroAsia Airport Services Corporation, MacroAsia Air Taxi Services, MacroAsia Catering Services, Inc., MacroAsia Properties Development Corp. and MacroAsia Mining Corporation; Director/OIC of Eton Properties Philippines, Inc.; Director of Lufthansa Technik Philippines, Inc., Bulawan Mining, Air Philippines Corporation, **PAL Holdings, Inc.,** Philippine Airlines, Inc., **Philippine National Bank** and Eton China.	Director / 1 Year/ 09 June 2014 to present
Juanita Tan Lee	73	Filipino	Director of Eton Properties Philippines, Inc.; Director/Corporate Secretary of Asia Brewery, Inc., Fortune Tobacco Corp.; Corporate Secretary of Absolut Distillers, Inc., The Charter House, Inc., Foremost Farms, Inc., Grandspan Development Corp., Himmel Industries, Inc., Landcom Realty Corp., Lucky Travel Corp., PMFTC Inc., Progressive Farms, Inc. and Tanduay Distillers, Inc., and Assistant Corporate Secretary of Basic Holdings Corp.	Director/ 1 Year/ 02 May 2012 to present Assistant Corporate Secretary/ 1 Year/ 13 September 2000 to 17 September 2012 Treasurer/ 1 year/ 08 April 2014 to present

Peter Y. Ong	68	Filipino	Director and the Treasurer of Merit Holdings & Equities Corporation, Director of Fortune Tobacco Corporation, AlliedBankers Insurance Corporation, Allied Leasing and Finance Corporation and Solar Holdings Corporation. He is also a consultant of Philippine Airlines, Inc., Former President of Air Philippines Corporation, Former Senior Vice President for Production of Fortune Tobacco Corporation and Former Director of Allied Savings Bank.	Director / 1 Year/ 18 August 2014 to present
Washington Z. Sycip	94	Filipino-American	Founder of SyCip Gorres Velayo & Co.; Chairman Emeritus of the Board of Trustees and Governors of the Asian Institute of Management; Chairman of Cityland Development Corp., Lufthansa Technik Philippines, Inc., STEAG State Power, Inc. and State Properties Corporation; Independent Director of Asian Eye Institute, **Belle Corporation**, Lopez Holdings Corp., Commonwealth Foods, Inc., First Philippine Holdings, Corp., Highlands Prime Inc., **Metro Pacific Investments Corp.**, Philippine Equity Management Inc., Philippine Hotelier, Inc., Philamlife, Inc., Realty Investment Inc., The PHINMA Group, State Land, Inc., and Century Properties Group Inc.; and Director of Philippine Airlines, Inc., MacroAsia Corp., **PAL Holdings, Inc.** and **Philippine National Bank**.	Director/ 1 year/ 09 July 2013 to present
Antonino L. Alindogan, Jr.	77	Filipino	Chairman of An-Cor Holdings, Inc.; Chairman/President of Landrum Holdings, Inc.; Independent Director of Philippine Airlines, Inc., Eton Properties Philippines, Inc., **Rizal Commercial Banking Corp.**, **PAL Holdings, Inc.**, **House of Investments, Inc.**, Great Life Financial Assurance Corp., and Bankard Inc.; Former President of C55, Inc.; Former Chairman of the Board of Directors of Development Bank of the Philippines (DBP)**;** Former Consultant for Microfinance of DBP; Former Member of the Monetary Board of Bangko Sentral ng Pilipinas	Independent Director; Audit Committee Chairman/ 1 year/ 31 July 2012 to present

Wilfrido E. Sanchez	78	Filipino	Tax Counsel of Quiason Makalintal Barot Torres Ibarra &Sison Law Offices; Vice Chairman of Center for Leadership & Change, Inc.; Independent Director of Adventure International Tours, Inc., Amon Trading Corp., EEI Corporation, Grepalife Asset Management Corp., Grepalife Fixed Income Fund Corp., **House of Investments, Inc**., JVR Foundation, Inc., Kawasaki Motor Corp., Magellan Capital Holdings, Corp., Omico Corporation; PETNET, Inc., PETPLANS, Inc., Transnational Diversified Corp., Transnational Diversified Group, Inc., Transnational Financial Services, Inc., and Universal Rubina Corp.; Independent Director of Eton Properties Philippines, Inc. and **Rizal Commercial Banking Corporation**	Independent Director/ 1 year/ 31 July 2012 to present
Florencia G. Tarriela	68	Filipino	Chairman of **Philippine National Bank**, PNB Global Remittance & Financial Co., HK Ltd.; Trustee/Advisor/Director of Foundation for Filipino Entrepreneurship, Inc., Summer Institute of Linguistics, and Tulay sa Pagunlad, Inc.; Columnist of Manila Bulletin	Independent Director/ 1 year/ 09 August 2012 to present
Robin C. Sy	80	Filipino	President of Asian Shipping Corporation, Independent Non-executive Director of Dynamic Holdings Limited, Honorary President of Federation of Filipino-Chinese Chamber of Commerce and Industry, Inc., Former Director of Air Philippines Corporation and Zuma Holdings and Management Corporation.	Independent Director / 1 Year/ 18 August 2014 to present

2. Executive Officers

Name/Position	**Age**	Citizenship	**Current Affiliations and Business Experiences in the last 5 years**	**Term of Office/ Period Served**
Lucio C. Tan/ Chairman	81	Filipino	See above	1 Year/ 2 July 1999 to present
Juanita Tan Lee/ Treasurer	73	Filipino	See above	1 Year/ 08 April 2014 to present
Michael G. Tan/ President	49	Filipino	See above	1 Year/ 05 May 2010 to present
Ma. Cecilia L. Pesayco/ Corporate Secretary	63	Filipino	Corporate Secretary of PNB Savings Bank and East Silverlane Realty and Development Corp., Trustmark Holdings Corporation, Zuma Holdings and Management Corporation, **PAL Holdings, Inc.** and Air Philippines Corp.; Assistant Corporate Secretary of Tanduay Distillers, Inc.; Former Corporate Secretary of Allied Banking Corp. and Eton Properties Philippines, Inc.	1 Year/ 31 March 1998 to present
Jose Gabriel D. Olives/ Chief Financial Officer	69	Filipino	Former Senior Vice President – Finance & Chief Financial Officer of Philippine Airlines, Inc., and Former Chief Finance Officer of Asia Brewery, Inc.	1 Year/ 09 August 2012 to present
Nestor C. Mendones/ Deputy Chief Financial Officer	61	Filipino	Senior Vice President-Finance and Chief Finance Officer of Tanduay Distillers, Inc.	1 Year/ 09 August 2012 to present
Marivic T. Moya/ Assistant Corporate Secretary	54	Filipino	Corporate Secretary of MacroAsia Catering Services Inc., MacroAsia Airport Services Corp., and Watergy Business Solutions Inc., Director and Coporate Secretary of MacroAsia Properties Development Corp., MacroAsia Air Taxi Services, Inc., and MacroAsia Mining Corp.(2000-Present), and Cavite Business Resources, Inc.	1 Year/ 09 June 2014 to present

Independent Directors and their qualifications:

1. Antonino L. Alindogan, Jr., elected as Independent Director since July 31, 2012.

   Term of office – 1 year
   Period served – 3 years

   Educational attainment:
   Bachelor of Science in Commerce major in Accounting, De La Salle College (Magna Cum Laude)
   Certified Public Accountant

   Positions held in the last 5 years:
   - Landrum Holdings, Inc. – Chairman
   - An-Cor Holdings, Inc. – Chairman
   - Great Life Financial Assurance Corp. – Independent Director
   - Bankard Inc. – Independent Director
   - Rizal Commercial Banking Corp. – Independent Director
   - Eton Properties Philippines, Inc. – Independent Director
   - PAL Holdings, Inc. – Independent Director
   - Philippine Airlines, Inc. – Independent Director
   - House of Investments, Inc. – Independent Director

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

   Term of office – 1 year
   Period served – 3 years

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

   Positions held in the last 5 years:
   - Quiason Makalintal Barot Torres & Ibarra Law Offices – Tax Counsel
   - Adventure International Tours, Inc. – Director
   - Amon Trading Corp. – Director
   - Center for Leadership and Change, Inc. – Vice Chairman/Director
   - EEI Corporation – Director
   - Eton Properties Philippines, Inc. – Independent Director
   - House of Investments, Inc. –Director
   - JVR Foundation, Inc. – Director
   - Kawasaki Motor Corp. – Director
   - Magellan Capital Holdings Corp. – Director
   - PETNET, Inc. – Director
   - PETPLANS, Inc. – Director
   - Rizal Commercial Banking Corp. – Independent Director
   - Transnational Diversified Corp. – Director
   - Transnational Financial Services, Inc. - Director
   - Universal Robina Corp. – Independent Director

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

Term of office – 1 year
Period served – 3 years

Educational Attainment:

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

Positions held in the last 5 years:

- Philippine National Bank – Chairman
- PNB Global Remittance & Financial Co., HK Ltd. – Chairman
- Manila Bulletin - "Business Options" – Columnist
- Foundation for Filipino Entrepreneurship, Inc. (FFEI) – Trustee
- Summer Institute of Linguistics – Adviser
- Tulay sa Pagunlad, Inc. – Director
- Bank Administration Institute of the Philippines – Life Sustaining Member
- Financial Executive Institute – Life Sustaining Member

4. Robin C. Sy, 80, elected as Independent Director since June 9, 2013.

Term of office – 1 year
Period served – 2 year

Positions held in the last 5 years:

- Asian Shipping Corporation – President
- Dynamic Holdings Limited – Independent Director
- Federation of Fil-Chinese Chamber of Commerce and Industry – Honorary President

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

3. Significant Employees

While all of the employees of the Group are valued for their contribution to the Group, none are expected to contribute significantly more than any of the others.

4. Family Relationship

Dr. Lucio C. Tan, Chairman, is the brother of Mr. Harry C. Tan. He is also the father of Mr. Lucio K. Tan, Jr. and Mr. Michael G. Tan and the father-in-law of Mr. Joseph T. Chua. Ms. Carmen K. Tan is the wife of Mr. Lucio C. Tan, the mother of Mr. Lucio K. Tan, Jr. and the mother-in-law of Mr. Joseph T. Chua.

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

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

Item 10. Executive Compensation

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

Summary Compensation Table

Annual Compensation

	Year	Salary	Bonus	Others*
Four (4) most highly compensated executive officers (see below)	2016 (Estimate)	7,678,000	654,500	3,085,500
	2015	6,980,000	595,000	2,805,000
	2014	9,169,800	764,150	2,290,000
All other officers and directors as a group unnamed	2016 (Estimate)	2,881,065	240,095	8,464,500
	2015	2,619,150	218,263	7,695,000
	2014	2,760,000	230,000	7,100,000

* Others – includes per diem of directors

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

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

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

b) Other Arrangements – None

c) Employment contract or compensatory plan or arrangement – None

Warrants and Options Outstanding: Repricing

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

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

Item 11. Security Ownership of Certain Record and Beneficial Owners and Management as of December 31, 2015.

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

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

Each shareholder of the Company is entitled to vote only to the extent of the number of shares registered in his/her/its name. The Board of Directors of THC, comprised of Dr. Lucio C. Tan, Ms. Carmen K. Tan and Messrs. Harry C. Tan, Lucio K. Tan, Jr., and Michael G. Tan, has the right to vote or direct the voting or disposition of LTG's shares held by THC.

2. Security Ownership of Management

Title of Class	Name of Beneficial owner	Amount and Nature of Beneficial Ownership	Citizenship	Percent of Beneficial Ownership
Common	Lucio C. Tan	2,200 R (direct)	Filipino	Nil
Common	Harry C. Tan	3,300 R (direct)	Filipino	Nil
Common	Carmen K. Tan	2,200 R (direct)	Filipino	Nil
Common	Lucio K. Tan Jr.	1,100 R (direct)	Filipino	Nil
Common	Michael G. Tan	1,100 R (direct)	Filipino	Nil
Common	Joseph T. Chua	2,200 R (direct)	Filipino	Nil
Common	Juanita Tan Lee	1,100 R (direct)	Filipino	Nil
Common	Washington Z. Sycip	1,000 R (direct)	American	Nil
Common	Wilfrido E. Sanchez	1,000 R (direct)	Filipino	Nil
Common	Florencia G. Tarriela	1,000 R (direct)	Filipino	Nil
Common	Antonino L. Alindogan Jr.	1,000 R (direct)	Filipino	Nil
Common	Peter Y. Ong	1,100 R (direct)	Filipino	Nil
Common	Robin C. Sy	1,000 R (direct)	Filipino	Nil
Common	Ma. Cecilia L. Pesayco	2,200 R (direct)	Filipino	Nil
N/A	Jose Gabriel D. Olives	None N/A	Filipino	N/A
N/A	Nestor C. Mendones	None N/A	Filipino	N/A
N/A	Marivic T. Moya	None N/A	Filipino	N/A

Security ownership of all directors and officers as a group unnamed is 21,500 representing 0% of LTG's total outstanding capital stock.

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

3. Voting Trust Holders of 5% or more

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

4. Changes in Control

None

Item 12. Certain Relationships and Related Transactions

In addition to Note 22 of the Notes to the Consolidated Financial Statements on pages 190 to 196 the following are additional relevant related party disclosures:

(1) The Group's noted related parties are Victorias Milling Co., Inc. (VMC), PMFTC, Inc. (PMFTC) and Tangent Holdings Corporation (THC). Transactions with these related parties are necessary in the normal course of the Group's business. Though substantial in amount, they are still under normal trade practice. There are no special risks or contingencies since the usual business risks like problem in quality, failure to deliver when needed and price of product, which is dependent on the cost efficiency of suppliers.

a.) Business purpose of the arrangements:

We do business with related parties to avoid the risk of material shortages, unfair pricing and stronger ties, which is based on trust and confidence. There is also better coordination with the suppliers on the quality, production scheduling and pricing considerations.

b.) Identification of the related parties transaction business and nature of the relationship:

1. VMC – supplier of sugar and molasses
2. THC – advances

c.) Transaction prices are based on terms that are no less favorable than those arranged with third parties.

d.) Transactions have been fairly evaluated since we adhere to industry standards and practices.

e.) There are no other ongoing contractual or other commitments as a result of the arrangements. There are no long term supplier's contract. The Group can source out from outside suppliers if they are more favorable.

(2) Not applicable – there are no parties that fall outside the definition "related parties" with whom the Group or its related parties have a relationship that enables the parties to negotiate terms of material transactions that may not be available from other, more clearly independent parties on an arm's length basis**.**

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

PART IV – CORPORATE GOVERNANCE

Item 13. Corporate Governance

Please refer to attached 2015 Consolidated Changes in the Annual Corporate Governance Report (ACGR).

PART V - EXHIBITS AND SCHEDULES

Item 14. Exhibits and Reports on SEC Form 17-C

a. Exhibits - see accompanying Index to Exhibits (page 85)

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

b. Reports on SEC Form 17-C

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

LIST OF ITEMS REPORTED UNDER SEC FORM 17-C
(FOR THE PERIOD OF JULY 2015 TO DECEMBER 2015)

Date of Report	Subject Matter Disclosed
August 14, 2015	Official Media Release of LTG for August 14, 2015 – LTG's Net Income at Php 3.57 Billion for the First Half of 2015

SIGNATURES

Pursuant to the requirements of Section 17 of the Securities Regulation Code (SRC) and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned thereunto duly authorized in the City of Makati on April 13, 2016.

By:

Lucio C. Tan
Principal Executive Officer

Nestor C. Mendones
Deputy Chief Financial Officer

Michael G. Tan
Principal Operating Officer

Susan T. Lee
Principal Accounting Officer

Jose Gabriel D. Olives
Principal Financial Officer

Ma. Cecilia L. Pesayco
Corporate Secretary

SUBSCRIBED AND SWORN to before me this ___ day of APR 13 2016 2016 affiants exhibiting to me their Passport numbers, as follows:

Makati City

NAMES	PASSPORT NO.	DATE OF ISSUE	PLACE OF ISSUE
Lucio C. Tan	EC0015255	1/17/2014	Manila, Philippines
Michael G. Tan	EC0229876	2/6/2014	Manila, Philippines
Jose Gabriel D. Olives	EC0224969	2/6/2014	Manila, Philippines
Nestor C. Mendones	EC3602105	3/6/2015	NCR East, Philippines
Ma. Cecilia L. Pesayco	EB4720800	2/16/2012	Manila, Philippines
Susan T. Lee	EC4659506	7/16/2015	Manila, Philippines

Doc. No. 942
Page No. 90
Book No. 10
Series of 2016

SHERLEEN LOURDES R. MACAYANGAY
Notary Public until 31 December 2016
[illegible] 900 Plaza, 3737 Paseo de Roxas, Makati City
PTR No. 5321906, Makati City, 05 January 2016
IBP No. 1011453, Makati City, 05 January 2016
Roll No. 63798, Commission No. M-18

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

Page

CONSOLIDATED FINANCIAL STATEMENTS

SUPPLEMENTARY SCHEDULES

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

LT GROUP, INC.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of LT Group, Inc. is responsible for the preparation and fair presentation of the consolidated financial statements for each of the three years in the period ended December 31, 2015, including the additional components attached therein, in accordance with the Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the consolidated financial statements and submits the same to the stockholders.

SyCip Gorres Velayo & Co., the independent auditors, appointed by the stockholders, has examined the consolidated financial statements of the Company in accordance with Philippine Standards on Auditing and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such examination.

Signed under oath by the following:

Lucio C. Tan
Chairman and Chief Executive Officer

Michael G. Tan
President

Jose Gabriel D. Olives
Chief Finance Officer

Signed this 12th day of April 2016

REPUBLIC OF THE PHILIPPINES)
CITY OF MAKATI)

BEFORE ME, personally appeared the following persons on April 12, 2016

Name	Passport No.	Date Issue	Place of Issue
Lucio C. Tan	EC0015255	1/17/2014	Manila, Philippines
Michael G. Tan	EC0229876	2/6/2014	Manila, Philippines
Jose Gabriel D. Olives	EC0224969	2/6/2014	Manila, Philippines

Known to me and to me known to be the same persons who executed the foregoing instrument, and acknowledged that he executed the same as his free act and deed for the use and purpose hereinabove set forth.

This instrument consisting of two (2) pages, including this whereon the acknowledgement is written, has been signed by the party on each and every page thereof.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal, this day of APR 12 2016 2016 at Makati City Philippines

CRIA MARIE L. PASQUIL
Notary Public until 31 December 2016
19th/F BDO Plaza, 8737 Paseo de Roxas, Makati City
PTR No. 5321911, Makati City, 05 January 2016
Lifetime IBP No. 968776, Makati City, 05 January 2015
Roll No. 62973, Commission No. M-375

Doc. No. 494
Page No. 84
Book No. I
Series of 2016

C O V E R   S H E E T
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

P	W	-	0	0	0	0	0	3	4	3

COMPANY NAME

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

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

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

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

COMPANY INFORMATION

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

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
376	June 21	December 31

CONTACT PERSON INFORMATION

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

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

CONTACT PERSON's ADDRESS

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

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

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

SGV
Building a better working world

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

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of LT Group, Inc. (a subsidiary of Tangent Holdings Corporation) and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2015 and 2014, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2015, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Building a better working world

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of LT Group, Inc. and its subsidiaries as at December 31, 2015 and 2014 and their financial performance and their cash flows for each of the three years in the period ended December 31, 2015, in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Josephine H. Estomo
Partner
CPA Certificate No. 46349
SEC Accreditation No. 0078-AR-3 (Group A),
February 14, 2013, valid until April 30, 2016
Tax Identification No. 102-086-208
BIR Accreditation No. 08-001998-18-2015,
February 27, 2015, valid until February 26, 2018
PTR No. 5321634, January 4, 2016, Makati City

April 12, 2016

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

CONSOLIDATED BALANCE SHEETS
(Amounts in Thousands)

	December 31	
	2015	2014
ASSETS		
Current Assets		
Cash and cash equivalents (Note 5)	**₱137,556,341**	₱147,275,490
Financial assets at fair value through profit or loss (Notes 6 and 21)	**9,663,734**	22,811,921
Available for sale investments (Notes 7 and 17)	**2,915,170**	3,774,286
Loans and receivables (Notes 8 and 17)	**172,140,625**	143,653,521
Due from related parties (Note 22)	**1,593,034**	1,797,390
Inventories (Note 9)	**14,024,047**	12,936,865
Other current assets (Notes 7 and 10)	**8,841,923**	7,886,609
	346,734,874	340,136,082
Assets of disposal group classified as held for sale (Note 37)	**23,526,757**	–
Total Current Assets	**370,261,631**	340,136,082
Noncurrent Assets		
Loans and receivables - net of current portion (Notes 8 and 17)	**206,782,709**	187,438,860
AFS investments (Notes 7 and 17)	**66,649,517**	60,039,059
Held to maturity investments (Notes 7 and 10)	**23,096,473**	22,895,493
Investments in associates and a joint venture (Note 11)	**11,761,290**	12,297,509
Property, plant and equipment (Note 12):		
At appraised values	**39,538,145**	38,470,525
At cost	**5,299,731**	3,975,397
Investment properties (Note 13)	**22,231,525**	27,197,933
Deferred income tax assets (Note 29)	**551,237**	717,218
Other noncurrent assets (Note 14)	**3,380,244**	3,665,132
Total Noncurrent Assets	**379,290,871**	356,697,126
TOTAL ASSETS	**₱749,552,502**	₱696,833,208
LIABILITIES AND EQUITY		
Current Liabilities		
Deposit liabilities (Note 15)	**₱436,362,854**	₱411,391,378
Financial liabilities at fair value through profit or loss (Notes 16 and 21)	**126,075**	10,837,220
Bills and acceptances payable (Note 17)	**5,836,839**	6,640,221
Accounts payable and accrued expenses (Note 18)	**17,079,820**	15,785,151
Income tax payable	**294,581**	326,282
Short-term and long-term debts - current (Note 19)	**1,876,015**	5,806,123
Due to related parties (Note 22)	**46,770**	49,859
Other current liabilities (Notes 20 and 38)	**13,249,643**	18,310,229
	474,872,597	469,146,463
Liabilities of disposal group classified as held for sale (Note 37)	**21,452,621**	–
Total Current Liabilities (Carried Forward)	**496,325,218**	469,146,463

	December 31	
	2015	2014
Total Current Liabilities (Brought Forward)	**₱496,325,218**	₱469,146,463
Noncurrent Liabilities		
Deposit liabilities - net of current portion (Note 15)	**39,793,338**	23,468,731
Financial liabilities at fair value through profit or loss (Notes 16 and 21)	**9,118**	24,805
Bills and acceptances payable (Note 17)	**19,915,383**	12,409,837
Long-term debts - net of current portion (Note 19)	**10,706,431**	11,291,321
Accrued retirement benefits (Note 23)	**3,900,926**	3,776,261
Deferred income tax liabilities (Note 29)	**1,182,976**	1,355,247
Other noncurrent liabilities (Note 20)	**7,961,017**	12,638,349
Total Noncurrent Liabilities	**83,469,189**	64,964,551
Total Liabilities	**579,794,407**	534,111,014
Equity		
Attributable to equity holders of the Company (Notes 1, 7, 12, 23, 24. 30 and 36):		
Capital stock	**10,821,389**	10,821,389
Capital in excess of par	**35,906,231**	35,906,231
Preferred shares of subsidiaries issued to Parent Company	**18,060,000**	18,060,000
Other equity reserves	**804,095**	790,136
Reserves of disposal group classified as held for sale (Note 37)	**335,000**	–
Other comprehensive income, net of deferred income tax effect	**3,116,572**	4,582,667
Retained earnings	**59,855,195**	54,079,986
Shares of the Company held by subsidiaries	**(22,464)**	(12,518)
	128,876,018	124,227,891
Non-controlling interests (Notes 1, 7, 12 and 30)	**40,882,077**	38,494,303
Total Equity	**169,758,095**	162,722,194
TOTAL LIABILITIES AND EQUITY	**₱749,552,502**	₱696,833,208

See accompanying Notes to Consolidated Financial Statements.

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

CONSOLIDATED STATEMENTS OF INCOME
(Amounts in Thousands, Except for Basic/Diluted Earnings Per Share)

	Years Ended December 31		
	2015	2014 (As restated, Note 37)	2013 (As restated, Note 37)
REVENUE (Note 24)			
Banking	**₱26,600,160**	₱24,210,181	₱28,560,739
Beverage	**13,286,994**	13,288,369	12,701,784
Distilled spirits	**12,002,266**	11,919,131	10,425,603
Tobacco (Note 11)	**–**	–	151,722
Property development	**2,484,453**	2,278,600	3,656,950
	54,373,873	51,696,281	55,496,798
COST OF SALES AND SERVICES (Note 24)	**24,880,372**	24,739,378	25,687,269
GROSS INCOME	**29,493,501**	26,956,903	29,809,529
EQUITY IN NET EARNINGS OF ASSOCIATES (Note 11)	**1,188,974**	894,555	3,704,117
	30,682,475	27,851,458	33,513,646
OPERATING EXPENSES			
Selling expenses (Note 25)	**2,644,096**	2,746,640	2,776,946
General and administrative expenses (Note 26)	**20,808,315**	21,068,078	20,397,317
	23,452,411	23,814,718	23,174,263
OPERATING INCOME	**7,230,064**	4,036,740	10,339,383
OTHER INCOME (CHARGES)			
Foreign exchange gains - net	**1,322,400**	1,347,704	1,255,582
Finance costs (Note 27)	**(202,518)**	(454,855)	(480,892)
Finance income (Note 27)	**110,376**	119,041	139,093
Others - net (Note 28)	**3,257,223**	3,805,059	2,103,605
	4,487,481	4,816,949	3,017,388
INCOME BEFORE INCOME TAX	**11,717,545**	8,853,689	13,356,771
PROVISION FOR INCOME TAX (Note 29)			
Current	**2,359,527**	2,276,204	2,479,063
Deferred	**219,295**	369,443	(400,676)
	2,578,822	2,645,647	2,078,387
NET INCOME FROM CONTINUING OPERATIONS	**9,138,723**	6,208,042	11,278,384
NET INCOME FROM DISCONTINUED OPERATIONS (Note 37)	**357,931**	264,164	196,680
NET INCOME	**₱9,496,654**	₱6,472,206	₱11,475,064

(Forward)

	Years Ended December 31		
	2015	2014 (As restated, Note 37)	2013 (As restated, Note 37)
NET INCOME ATTRIBUTABLE TO:			
Equity holders of the Company	**₱6,599,035**	₱4,410,230	₱8,669,220
Non-controlling interests	**2,897,619**	2,061,976	2,805,844
	₱9,496,654	₱6,472,206	₱11,475,064
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Company (Note 31)	**₱0.61**	₱0.41	₱0.85
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Company from Continuing Operations (Note 31)	**₱0.58**	₱0.39	₱0.83

See accompanying Notes to Consolidated Financial Statements.

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in Thousands)

	Years Ended December 31		
	2015	2014	2013
NET INCOME	**₱9,496,654**	₱6,472,206	₱11,475,064
OTHER COMPREHENSIVE INCOME (LOSS)			
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:			
Net changes in fair value of AFS investments (Note 7)	**(1,098,424)**	551,055	(5,561,739)
Income tax effect	**3,311**	1,383	84,034
	(1,095,113)	552,438	(5,477,705)
Translation adjustments	**662,775**	(275,448)	1,607,973
Net other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods	**(432,338)**	276,990	(3,869,732)
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:			
Re-measurement gains on defined benefit plans (Note 23)	**(50,010)**	(1,047,515)	(369,329)
Income tax effect	**7,679**	(53,628)	24,318
	(42,331)	(1,101,143)	(345,011)
Share in re-measurement gain on defined benefit plans of an associate (Note 11)	**–**	–	27,453
Revaluation increment (decrement) on property, plant and equipment (Note 12)	**(518,611)**	–	1,300,593
Income tax effect	**158,448**	–	(390,178)
	(360,163)	–	910,415
Net other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods	**(402,494)**	(1,101,143)	592,857
OTHER COMPREHENSIVE LOSS, NET OF TAX	**(834,832)**	(824,153)	(3,276,875)
TOTAL COMPREHENSIVE INCOME	**₱8,661,822**	₱5,648,053	₱8,198,189
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Equity holders of the Company	**₱6,266,724**	₱3,816,532	₱6,702,822
Non-controlling interests	**2,395,098**	1,831,521	1,495,367
	₱8,661,822	₱5,648,053	₱8,198,189

See accompanying Notes to Consolidated Financial Statements.

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 and 2013
(Amounts in Thousands)

	Attributable to Equity Holders of the Company (Notes 1, 7, 12, 24, 30 and 36)																	
							Other Comprehensive Income (Loss)											
	Capital Stock	Capital in Excess of Par	Deposit for Future Stock Subscription	Preferred Shares of Subsidiaries Issued to Parent Company	Other Equity Reserves	Reserves of Disposal Group Classified as Held for Sale	Accumulated Translation Adjustments	Net Changes in AFS Investments (Note 7)	Re-Measurement Gains (Losses) on Defined Benefit Plans (Note 23)	Revaluation Increment on Property Plant and Equipment (Note 12)	Revaluation Increment on Property Plant and Equipment Transferred to Associate (Notes 2, 11 and 12)	Re-measurement Gains on Defined Benefit Plans of an Associate (Note 11)	Total Other Comprehensive Income (Loss), Net of Deferred Income Tax Effect	Retained Earnings	Shares of the Company Held by Subsidiaries	Total	Non-controlling Interests (Notes 1, 7, 12 and 30)	Total
BALANCES AT DECEMBER 31, 2012	**₱8,981,389**	**₱1,173,772**	**₱–**	**₱–**	**₱987,057**	**₱–**	**(₱397,679)**	**₱2,087,609**	**(₱606,696)**	**₱6,810,285**	**₱1,363,643**	**₱–**	**₱9,257,162**	**₱42,268,202**	**(₱12,518)**	**₱62,655,064**	**₱31,051,046**	**₱93,706,110**
Net income for the year	–	–	–	–	–	–	–	–	–	–	–	–	–	8,669,220	–	8,669,220	2,805,844	11,475,064
Other comprehensive income (loss)	–	–	–	–	–	–	696,922	(2,963,582)	(217,159)	490,083	–	27,338	(1,966,398)	–	–	(1,966,398)	(1,310,477)	(3,276,875)
Total comprehensive income (loss) for the year	–	–	–	–	–	–	696,922	(2,963,582)	(217,159)	490,083	–	27,338	(1,966,398)	8,669,220	–	6,702,822	1,495,367	8,198,189
Issuance of capital stock	1,840,000	35,880,000	–	–	–	–	–	–	–	–	–	–	–	–	–	37,720,000	–	37,720,000
Issuance of preferred shares of subsidiaries	–	–	6,048,534	7,405,000	–	–	–	–	–	–	–	–	–	–	–	13,453,534	–	13,453,534
Stock issue costs	–	(1,147,541)	–	–	–	–	–	–	–	–	–	–	–	–	–	(1,147,541)	–	(1,147,541)
Acquisition of shares of subsidiaries fromthe Controlling Shareholders	–	–	–	–	(196,921)	–	–	–	–	–	–	–	–	–	–	(196,921)	–	(196,921)
Business combination adjustments	–	–	–	–	–	–	–	–	–	–	–	–	–	(29,094)	–	(29,094)	(247,112)	(276,206)
Cash dividends declared	–	–	–	–	–	–	–	–	–	–	–	–	–	(1,622,349)	–	(1,622,349)	(64,216)	(1,686,565)
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	–	–	–	–	–	–	–	–	–	(922,180)	(297,785)	–	(1,219,965)	1,219,965	–	–	–	–
BALANCES AT DECEMBER 31, 2013	**10,821,389**	**35,906,231**	**6,048,534**	**7,405,000**	**790,136**	**–**	**299,243**	**(875,973)**	**(823,855)**	**6,378,188**	**1,065,858**	**27,338**	**6,070,799**	**50,505,944**	**(12,518)**	**117,535,515**	**32,235,085**	**149,770,600**
Net income for the year	–	–	–	–	–	–	–	–	–	–	–	–	–	4,410,230	–	4,410,230	2,061,976	6,472,206
Other comprehensive income (loss)	–	–	–	–	–	–	(155,545)	125,559	(563,712)	–	–	–	(593,698)	–	–	(593,698)	(230,455)	(824,153)
Total comprehensive income (loss) for the year	–	–	–	–	–	–	(155,545)	125,559	(563,712)	–	–	–	(593,698)	4,410,230	–	3,816,532	1,831,521	5,648,053
Issuance of preferred shares of subsidiaries	–	–	(6,048,534)	10,655,000	–	–	–	–	–	–	–	–	–	–	–	4,606,466	–	4,606,466
Capital contribution of non-controlling interest	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	4,427,697	4,427,697
Cash dividends declared	–	–	–	–	–	–	–	–	–	–	–	–	–	(1,730,622)	–	(1,730,622)	–	(1,730,622)
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	–	–	–	–	–	–	–	–	–	(596,649)	(297,785)	–	(894,434)	894,434	–	–	–	–
BALANCES AT DECEMBER 31, 2014	**₱10,821,389**	**₱35,906,231**	**₱–**	**₱18,060,000**	**₱790,136**	**₱–**	**₱143,698**	**(₱750,414)**	**(₱1,387,567)**	**₱5,781,539**	**₱768,073**	**₱27,338**	**₱4,582,667**	**₱54,079,986**	**(₱12,518)**	**₱124,227,891**	**₱38,494,303**	**₱162,722,194**

(Forward)

	Attributable to Equity Holders of the Company (Notes 1, 7, 12, 24, 30 and 36)																	
							Other Comprehensive Income (Loss)											
	Capital Stock	Capital in Excess of Par	Deposits for Future Stock Subscription	Preferred Shares of Subsidiaries Issued to Parent Company	Other Equity Reserves	Reserves of Disposal Group Classified as Held for Sale	Accumulated Translation Adjustments	Net Changes in AFS Investments (Note 7)	Re-Measurement Gains (Losses) on Defined Benefit Plans (Note 23)	Revaluation Increment on Property Plant and Equipment (Note 12)	Revaluation Increment on Property Plant and Equipment Transferred to Associate (Notes 2, 11 and 12)	Re-measurement Gains on Defined Benefit Plans of an Associate (Note 11)	Total Other Comprehensive Income (Loss), Net of Deferred Income Tax Effect	Retained Earnings	Shares of the Company Held by Subsidiaries	Total	Non-controlling Interests (Notes 1, 7, 12 and 30)	Total
BALANCES AT DECEMBER 31, 2014 (BROUGHT FORWARD)	**₱10,821,389**	**₱35,906,231**	**₱–**	**₱18,060,000**	**₱790,136**	**₱–**	**₱143,698**	**(₱750,414)**	**(₱1,387,567)**	**₱5,781,539**	**₱768,073**	**₱27,338**	**₱4,582,667**	**₱54,079,986**	**(₱12,518)**	**₱124,227,891**	**₱38,494,303**	**₱162,722,194**
Net income for the year	–	–	–	–	–	–	–	–	–	–	–	–	–	6,599,035	–	6,599,035	2,897,619	9,496,654
Other comprehensive income (loss)							379,660	(348,779)	(3,029)	(360,163)	–	–	(332,311)	–	–	(332,311)	(502,521)	(834,832)
Total comprehensive income (loss) for the year	–	–	–	–	–	–	379,660	(348,779)	(3,029)	(360,163)	–	–	(332,311)	6,599,035	–	6,266,724	2,395,098	8,661,822
Stock issue cost	–	–	–	–	–	–	–	–	–	–	–	–	–	(213)	–	(213)	–	(213)
Acquisition of shares of subsidiaries from the Controlling Shareholders	–	–	–	–	14,502	–	–	–	–	–	–	–	–	–	–	14,502	–	14,502
Acquisition of non-controlling interest	–	–	–	–	(543)	–	–	–	–	–	–	–	–	–	–	(543)	–	(543)
Acquisition of shares by subsidiary					–	–	–	–	–	–	–	–			(9,946)	(9,946)	–	(9,946)
Cash dividends declared	–	–	–	–	–	–	–	–	–	–	–	–	–	(1,622,397)	–	(1,622,397)	(7,324)	(1,629,721)
Reserves disposal group classified as held for sale	–	–	–	–	–	335,000	–	(348,786)	13,786	–	–	–	(335,000)	–	–	–	–	–
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	–	–	–	–	–	–	–	–	–	(501,001)	(297,783)	–	(798,784)	798,784	–	–	–	–
BALANCES AT DECEMBER 31, 2015	**₱10,821,389**	**₱35,906,231**	**₱–**	**₱18,060,000**	**₱804,095**	**₱335,000**	**₱523,358**	**(₱1,447,979)**	**(₱1,376,810)**	**₱4,920,375**	**₱470,290**	**₱27,338**	**₱3,116,572**	**₱59,855,195**	**(₱22,464)**	**₱128,876,018**	**₱40,882,077**	**₱169,758,095**

See accompanying Notes to Consolidated Financial Statements.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)

	Years Ended December 31		
	2015	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax from continuing operations	**₱11,717,545**	₱8,853,689	₱13,356,771
Income before income tax from discontinued operations (Note 37)	**402,236**	307,335	227,123
Income before income tax	**12,119,781**	9,161,024	13,583,894
Adjustments for:			
Depreciation and amortization (Notes 12, 13 and 14)	**3,452,518**	3,554,992	4,034,210
Provision for losses (Note 8)	**865,889**	2,207,864	979,839
Gain on disposal of:			
AFS investments (Notes 7 and 28)	**(2,928)**	(245,216)	(290,505)
Other assets (Notes 12, 13 and 28)	**(1,562,020)**	(1,889,744)	(528,632)
Equity in net earnings of associates (Note 11)	**(1,188,974)**	(894,555)	(3,704,117)
Share in losses of joint venture (Notes 10 and 28)	**2,067**	46,043	20,091
Marked-to-market gain on financial assets at fair value through profit or loss (Note 28)	**42,383**	32,351	–
Finance costs (Note 27)	**202,518**	454,855	480,892
Finance income (Note 27)	**(110,376)**	(119,041)	(139,093)
Dividend income (Note 28)	**(22,464)**	(10,912)	(19,123)
Movement in accrued retirement benefits (Note 23)	**83,058**	2,081,913	(451,688)
Operating income before changes in working capital	**13,881,452**	14,379,574	13,965,768
Decrease (increase) in:			
Financial assets at fair value through profit or loss	**(1,019,885)**	(10,255,769)	2,584,199
Receivables	**(49,118,548)**	(44,955,219)	(33,367,165)
Inventories	**(2,299,582)**	(2,656,906)	(41,504)
Other current assets	**(125,447)**	(2,247,938)	(1,323,412)
Increase (decrease) in:			
Deposit liabilities	**41,296,083**	8,718,031	47,394,292
Financial liabilities at fair value through profit or loss	**2,956,106**	2,787,130	(2,250,568)
Accounts payable and accrued expenses	**1,515,018**	(4,285,023)	1,748,626
Other current and noncurrent liabilities	**(2,337,872)**	3,752,493	7,953,877
Cash generated from (used in) operations	**4,747,325**	(34,763,627)	36,664,113
Dividends received (Notes 11, 22 and 28)	**1,718,432**	3,371,564	3,980,680
Interest received	**94,872**	143,541	114,551
Income taxes paid, including creditable withholding and final taxes	**(3,105,763)**	(3,615,343)	(3,013,291)
Net cash from (used in) operating activities	**3,454,866**	(34,863,865)	37,746,053

(Forward)

	Years Ended December 31		
	2015	2014	2013
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of:			
AFS investments (Note 7)	**(₱15,078,720)**	(₱65,693,182)	(₱122,879,759)
Held to maturity investments	**(1,470,378)**	(571,602)	–
Property, plant and equipment (Note 12)	**(5,036,289)**	(2,534,580)	(3,081,169)
Shares and convertible notes of an associate (Note 11)	**–**	(772,864)	–
Investment properties (Note 13)	**(540,417)**	(2,608,825)	(3,706,501)
Software (Note 14)	**(124,176)**	(419,809)	(238,687)
Return of investment from a joint venture (Note 11)	**27,157**	–	–
Proceeds from sale of:			
AFS investments (Note 7)	**1,502,928**	63,499,326	135,126,488
Other assets (Notes 12 and 13)	**8,320,764**	2,434,543	3,956,509
Advances granted to affiliates (Note 22)	**–**	–	(1,755,327)
Net cash from (used in) investing activities	**(12,399,131)**	(6,666,993)	7,421,554
CASH FLOWS FROM FINANCING ACTIVITIES			
Availment (payment) of short-term debts (Note 19)	**1,100,000**	–	(1,320,000)
Proceeds from (payments of) bill and acceptance payable (Note 17)	**6,702,164**	2,000,841	(5,270,255)
Availments of long-term debts (Note 19)	**–**	500,000	2,490,120
Payments of long-term debts (Note 19)	**(5,000,000)**	(1,623,537)	(5,193,900)
Payment of finance cost	**(802,545)**	(402,750)	(572,048)
Proceeds from issuance of shares (Note 30)	**–**	–	37,720,000
Payment of stock issue costs (Note 30)	**–**	–	(1,147,541)
Capital contribution of noncontrolling interest (Note 30)	**–**	4,427,697	–
Acquisition of non-controlling interest (Note 30)	**(601,772)**	–	–
Proceeds from sale of non-controlling interest (Note 30)	**102,623**	–	–
Dividends paid (Note 30)	**(1,629,721)**	(1,730,622)	(1,685,349)
Advances from affiliates (Note 22)	**–**	–	733,138
Payment of due to related parties (Note 22)	**(3,089)**	(2,684,943)	(9,223,000)
Net cash from (used in) financing activities	**(132,340)**	486,686	16,531,165
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(9,076,605)**	(41,044,172)	61,698,772
CASH IN DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE (Note 37)	**(642,544)**	**–**	**–**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**147,275,490**	188,319,662	126,620,890
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	**₱137,556,341**	₱147,275,490	₱188,319,662

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Thousands, Except for Par Value Per Share and Basic/Diluted Earnings per Share)

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

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 4 to the consolidated financial statements.

As of December 31, 2015 and 2014, LTG is 74.36%-owned by its ultimate parent company, Tangent, which is also incorporated in the Philippines.

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Capital Raising of LTG

On October 26, 2011, LTG's Board of Directors (BOD) approved a capital raising exercise via the 2-tranche Placing and Subscription Transaction involving (i) the sale by Tangent of 398,138,889 shares in LTG to the public at an offer price of ₱4.22 each (the "Placing Tranche") and (ii) the subscription at a price equivalent to the offer price offered to the public at the Placing Tranche, as maybe adjusted to account for the expenses of the Placing Tranche (the "Subscription Tranche").

The capital raising exercise in 2011 was intended to fund LTG's expansion of its distilled spirits segment's plant capacity, increase in operational efficiency and rationalization of operations, and at the same time offer the investing public the opportunity to participate in LTG's growth. In December 2011, Tangent sold the said shares, thereby reducing its ownership interest in LTG from 97% to 86%. In accordance with the Subscription Tranche, Tangent agreed to subscribe to 398,138,889 new common shares from LTG's unissued capital stock for a total consideration of ₱1,639.4 million. On May 2, 2012, LTG's BOD and stockholders approved the conversion of the deposit for future stock subscription into issued common shares of LTG, which resulted to an increased ownership of Tangent in LTG, from 86% to 87% as of that date.

On July 27, 2012, LTG's BOD and stockholders approved the amendments in the Articles of Incorporation to reflect the increase in LTG's authorized capital stock from ₱5.0 billion divided into 5,000,000,000 shares with a par value of ₱1.00 per share to ₱25.0 billion divided into 25,000,000,000 shares with a par value of ₱1.00 per share. On the same date, LTG's BOD and stockholders also approved the issuance of 5,000,000,000 shares to Tangent in support of the increase in authorized capital stock and the waiver of rights/public offering in relation to the said shares to be issued to Tangent. On September 28, 2012, upon approval by the SEC of the increase in authorized capital stock, Tangent increased its ownership interest to 95.25%.

In December 2012, Tangent sold 508,544,100 shares to the public, thus, decreasing its ownership interest to 89.59% as of December 31, 2012.

On September 24, 2012, LTG's stockholders approved the 2-tranche Placement and Subscription Transaction involving the sale by Tangent of up to, but not exceeding 3,000,000,000 common shares of LTG registered in its name to investors by way of a follow-on offering at a placing price to be determined through a book building exercise to be hereafter conducted (the "Placing Tranche") and the subsequent subscription by Tangent using the proceeds of the Placing Tranche (net of expenses incurred in the Placing Tranche) to new shares of LTG in an amount equivalent to the number of shares sold during the Placing Tranche at an issue price equivalent to the placing price (the "Subscription Tranche"). The total number of the shares subject of the Placing Tranche shall be determined based on investor demand as determined through a book building exercise, provided the same shall not exceed 3,000,000,000 shares and the total number of subscription shares shall not exceed the shares sold in the Placing Tranche. The BOD was granted authority to determine such other terms and conditions of the transaction as may be most beneficial to LTG, including (but not limited to) the timing of the same and total funds to be raised therefrom. Further, the subscription shares shall be listed with the PSE.

In April 2013, Tangent sold 1.84 billion shares to the public and agreed to subscribe to the same number of shares newly issued by LTG. The entire proceeds from the sale of LTG's shares was used by Tangent as payment for the subscription to new shares amounting to ₱36.6 billion, net of stock issuance costs (see Note 30). As a result of the placing and subscription transaction, Tangent's ownership in LTG decreased to 74.36%.

Corporate Restructuring

Consolidation of Businesses under LTG

In preparation for, and prior to the completion of the capital raising exercise approved by the stockholders on September 24, 2012 as discussed above, the Group has undergone certain transactions to transfer certain businesses of the Controlling Shareholders to LTG. This restructuring exercise was approved by LTG's BOD on July 31, 2012. In support of LTG's restructuring activities, Tangent subscribed in cash to 5,000,000,000 common shares on the increase in LTG's authorized capital.

a. Consolidation of the beverage business and acquisition of Asia Brewery, Incorporated (ABI)

On May 24, 2012, ABI's BOD approved the subscription to 400,000,000 shares of Interbev Philippines, Inc. (Interbev) at ₱1.00 par value per share by way of conversion of ABI advances to equity investment in Interbev. On the same date, ABI's BOD approved the acquisition of 125,000,000 shares of Packageworld, Inc. (Packageworld) at ₱1.00 par value per share through cash infusion. Effective June 29, 2012, upon approval by the Philippine SEC of Interbev's and Packageworld's application for the increase in capital stock, ABI became a stockholder of Interbev and Packageworld with 80.0% and 33.3% ownership interests, respectively. On June 24, 2012 and July 19, 2012, ABI's BOD approved the resolutions to buy out 100.0% of the outstanding shares of Waterich Resources Corporation (Waterich) and the remaining ownership interests in Interbev and Packageworld owned by the Controlling Shareholders, respectively. To effect the buyout transactions, ABI and the Controlling Shareholders executed the deeds of sale of shares of Waterich on June 24, 2012 and the deeds of assignment of ABI's advances to Packageworld and Interbev on July 25, 2012. Thus, Waterich, Interbev and Packageworld became wholly-owned subsidiaries of ABI.

On July 19, 2012, ABI's BOD authorized ABI to issue 800,000,000 shares to LTG from its authorized but unissued capital stock and 1,000,000,000 shares from the proposed increase in its authorized capital stock with par value of ₱1.00 per share. In August 2012, ABI issued the remaining authorized but unissued capital stock to LTG, thus, making ABI an 80.0%-owned subsidiary. On October 10, 2012, SEC approved ABI's application to increase its authorized capital stock, thus, increasing LTG's ownership interest in ABI to 90.0%. In December 2012, LTG acquired the shares of ABI which are owned by Shareholdings, Inc. (Shareholdings), a company belonging to the Controlling Shareholders, and certain stockholders, thus, increasing LTG's ownership interest in ABI to 99.99%.

b. Acquisition of Fortune Tobacco Corporation (FTC)

On July 31, 2012, LTG's BOD approved the acquisition of at least 83.0% of FTC through a cash subscription to 1,646,489,828 shares at its par value of ₱1.00 per share. FTC has 49.6% ownership in PMFTC, Inc. (PMFTC), a company incorporated and domiciled in the Philippines which operates the combined businesses contributed by FTC and Philip Morris Philippines Manufacturing, Inc. (PMPMI) (see Note 11).

On September 26, 2012, LTG subscribed to 346,489,828 new shares of FTC with a par value of ₱1.00 per share, which was paid in cash by LTG in the amount of ₱346.5 million resulting in 49.5% interest of LTG in FTC.

On September 28, 2012, LTG subscribed in cash an additional 1,300,000,000 common shares of FTC with a par value of ₱1.00 per share, which was issued to LTG on October 10, 2012 upon approval of the Philippine SEC of FTC's application to increase its authorized capital stock. Thus, LTG increased its direct ownership interest in FTC to 82.32% while diluting ownership interest of Shareholdings in FTC from 98.0% to 17.33%.

On October 30, 2012, LTG's BOD approved the acquisition of up to 100% of equity interests in FTC. As of December 31, 2012, LTG owns 82.66% of FTC.

In February 2013, LTG increased its effective ownership interest in FTC to 99.58% through the following:

- Acquired subscription rights to 453,500,000 shares of Shareholdings, which represents 90.70% ownership interest in Shareholdings or equivalent to 15.71% indirect ownership interest in FTC;

- Assumed certain liabilities of Shareholdings from Controlling Shareholders amounting to ₱1.5 billion, which was used as payment for the subscription of 1,500,000,000 out of the unissued capital stock of Shareholdings thereby increasing the ownership interest in Shareholdings to 97.68% (equivalent to 1.21% indirect ownership in FTC);
- Acquired additional 0.34% direct ownership interest in FTC through purchase of FTC's 104,330,633 outstanding shares held by the Controlling Shareholders.

c. Acquisition of Eton Properties Philippines, Inc. (Eton)

Prior to restructuring in 2012, Paramount Landequities, Inc. (Paramount) and Saturn Holdings, Inc. (Saturn) have ownership interest of 55.07% and 42.39%, respectively, in Eton, a listed company incorporated and registered with the Philippine SEC and is primarily engaged in real estate development.

On September 17, 2012, LTG's BOD approved the assumption by LTG of certain liabilities of Paramount from Step Dragon Co. Ltd. and Billinge Investments Ltd., BVI-based companies, and Saturn from Penick Group Ltd., also a BVI-based company, amounting to ₱1,350.8 million and ₱521.3 million, respectively.

On September 25 and September 26, 2012, LTG subscribed to 1,350,819,487 common shares of Paramount and 490,000,000 common shares of Saturn, respectively, with a par value of ₱1.00 per share and will be issued to LTG out of an increase in Paramount's and Saturn's authorized capital stock. LTG paid the subscription in full by way of conversion into equity of LTG's advances to Paramount and Saturn amounting to ₱1,350.8 million and ₱490.0 million, respectively. On the same dates, Paramount and Saturn filed its application for increase in authorized capital with the Philippine SEC in order to accommodate LTG's investment.

Upon SEC's approval on October 10, 2012, Paramount and Saturn became subsidiaries of LTG with 98.18% and 98.99% ownership interests, respectively, thus, giving LTG a 98.0% effective ownership in Eton.

On October 30, 2012, LTG entered into deeds of sale of shares with the Controlling Shareholders of Paramount and Saturn for the remaining issued and outstanding shares of the said companies. Thus, Paramount and Saturn became wholly owned subsidiaries of LTG.

On December 8, 2012, Paramount made a tender offer to buy back shares of Eton traded in the PSE resulting in the increase in its ownership interest from 55.07% to 56.86%, thus, increasing LTG's effective ownership interest in Eton to 99.3%.

On September 30, 2015, upon approval by the Philippine SEC of the increase in authorized capital stock of Eton from 5.0 billion common shares to 8.0 billion common shares with a par value of 1.00 per share, at least 25% of the increase in authorized capital stock or 750,000,000 common shares have been subscribed by Saturn and Paramount resulting in the increase of ownership interest to 56.9% and 42.7%, respectively, thus LTG's effective ownership interest in Eton increased from 99.3% to 99.6% in 2015.

d. Merger of Philippine National Bank (PNB) and Allied Banking Corporation (ABC) and acquisition of Bank Holding Companies.

On March 6, 2012, PNB held a Special Stockholders' Meeting approving the amended terms of the Plan of Merger of PNB with ABC. Under the approved amended terms, the merger was effected via a share-for-share exchange with PNB as the surviving entity. PNB issued to ABC shareholders 130 PNB common shares for every ABC common share and 22,763 PNB common shares for every ABC preferred share. As of January 17, 2013, PNB received all the necessary approvals from SEC and foreign regulatory agencies to effectuate the merger. On February 9, 2013, PNB completed its planned merger with ABC (the merger of PNB and ABC is referred to herein as “Merged PNB”) as approved and confirmed by the BOD of PNB and ABC on January 22 and January 23, 2013, respectively.

The merger of PNB and ABC was accounted for using the pooling of interests method by the Company since both entities are under the common control of Mr. Tan.

On February 11, 2013, LTG’s BOD approved the acquisition of indirect ownership interest in the Merged PNB through the investment in the 27 holding companies which have collective ownership interest in the Merged PNB of 59.83% (collectively referred to as “Bank Holding Companies”). LTG’s acquisition of the Bank Holding Companies was effected by way of subscription to the increase in authorized shares of the Bank Holding Companies and acquisition of the Bank Holding Companies’ shares owned by the Controlling Shareholders. On November 8, 2013, LTG obtained the requisite regulatory approval from the Hongkong Monetary Authority (HKMA) to become a majority shareholder controller of ABC (Hongkong) Limited (ABCHK) and the HKMA took note of the plan of LTG to acquire or increase its shareholdings in PNB up to 59.83%.

In various dates in February, March and December 2013, upon approval of the Philippine SEC for the increase in authorized capital stock of certain Bank Holding Companies, LTG acquired between 80% to 100% ownership of these Bank Holding Companies. The transactions were consummated through conversion of LTG’s advances from the Bank Holding Companies in exchange for the shares acquired. As of December 31, 2015 and 2014, LTG indirectly owns 56.47% of PNB through the 59.83% collective ownership of the Bank Holding Companies.

These business combinations were accounted for using pooling of interests method. Accordingly, LTG recognized the net assets of the acquired subsidiaries equivalent to their carrying values.

Authorization for Issue of the Consolidated Financial Statements

The consolidated financial statements as at December 31, 2015 and 2014 and for each of the three years in the period ended December 31, 2015 were authorized for issue by the BOD on April 12, 2016.

2. Summary of Significant Accounting and Financial Reporting Policies

Basis of Preparation and Statement of Compliance

The consolidated financial statements have been prepared under the historical cost basis, except for financial assets and liabilities at fair value through profit or loss (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 consolidated financial statements are presented in Philippine peso (Peso), the functional and presentation currency of LTG. All values are rounded to the nearest Peso, except when otherwise indicated.

The consolidated financial statements of LTG have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

Basis of Consolidation

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

	Percentage of Ownership						
	2015		2014		2013		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	**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	**–**	**99.6**	–	99.3	–	99.3	Philippines
Belton Communities, Inc. (BCI)	**–**	**99.6**	–	99.3	–	99.3	Philippines
Eton City, Inc. (ECI)	**–**	**99.6**	–	99.3	–	99.3	Philippines
FirstHomes, Inc. (FHI)	**–**	**99.6**	–	99.3	–	99.3	Philippines
Eton Properties Management Corporation (EPMC)	**–**	**99.6**	–	99.3	–	99.3	Philippines
Banking							
Bank Holding Companies (Note 23) (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 (PNB Guam)	**–**	**56.5**	–	56.5	–	56.5	United States of America (USA)
PNB International Investments Corporation (PNB IIC)	**–**	**56.5**	–	56.5	–	56.5	USA
PNB Remittance Centers, Inc. (PNBRCI)	**–**	**56.5**	–	56.5	–	56.5	USA
PNB RCI Holding Co. Ltd.	**–**	**56.5**	–	56.5	–	56.5	USA
PNB Remittance Co. (Canada)	**–**	**56.5**	–	56.5	–	56.5	Canada
PNB Europe PLC	**–**	**56.5**	–	56.5	–	56.5	United Kingdom
PNB Global Remittance & Financial Co. (HK) Ltd. (PNB GRF)	**–**	**56.5**	–	56.5	–	56.5	Hong Kong
PNB Italy SpA (PISpA) (6)	–	–	–	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	**–**	**55.9**	–	50.8	–	50.8	People's Republic of China

(Forward)

	Percentage of Ownership						
	2015		2014		2013		Country of
	Direct	**Indirect**	Direct	Indirect	Direct	Indirect	Incorporation
PNB Life Insurance, Inc. (PLII) [7]	–	**45.2**	–	45.2	–	45.2	Philippines
Allied Leasing and Finance Corporation (ALFC)	–	**32.3**	–	32.3	–	32.3	Philippines
Allied Banking Corporation (Hongkong) Limited (ABCHKL)	–	**28.8**	–	28.8	–	28.8	Hong Kong
ACR Nominees Limited	–	**28.8**	–	28.8	–	28.8	Hong Kong
Oceanic Holdings (BVI) Ltd. (OHBVI)	–	**15.7**	–	15.7	–	15.7	USA

(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 ₱1.00 per 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 $1 per value per share.*
(4) *As of December 31, 2015 and 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 (see Note 23).*
(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.*
(7) *Beginning December 18, 2015, assets and liabilities of PNB LII as of December 31, 2015 have been reclassified as disposal group classified as held for sale and the results of its operations for each of the three years in the period ended December 31, 2015 have been reclassified as discontinued operations, following the approval of PNB's BOD disposing 51.00% of its ownership interest in PNB LII to Allianz SE (see Note 37).*

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

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

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

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

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

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

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

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

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

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

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

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

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

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss. Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with PAS 39, *Financial Instruments: Recognition and Measurement* either in profit or loss or as a charge to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity. Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the fair values of net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

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

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

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

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

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

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

- The assets and liabilities of the combining entities are reflected in the consolidated financial statements at their carrying amounts. No adjustments are made to reflect fair values, or recognize any new assets or liabilities, at the date of the combination. The only adjustments that are made are those adjustments to harmonize accounting policies.

- No new goodwill is recognized as a result of the combination. The only goodwill that is recognized is any existing goodwill relating to either of the combining entities. Any difference between the consideration paid or transferred and the equity acquired is reflected within equity as other equity reserve, i.e., either contribution or distribution of equity.
- The consolidated statement of income reflects the results of the combining entities for the full year, irrespective of when the combination took place.
- As a policy, comparatives are presented as if the entities had always been combined.

Changes in Accounting Policies and Disclosures
The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after January 1, 2015. The nature and impact of each new standard and amendment is described below:

- PAS 19, *Employee Benefits - Defined Benefit Plans: Employee Contributions* (Amendments) PAS 19 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 it does not have defined benefit plans with contributions from employees or third parties.

Annual Improvements to PFRSs (2010-2012 cycle)
These improvements are effective from July 1, 2014 and the Group has applied these amendments for the first time in the Group's consolidated financial statements. These amendments are either not relevant or have no impact on the consolidated financial statements.

- 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*. The Group shall 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) are effective for annual periods beginning on or after January 1, 2015 and have no material impact to 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 consolidated financial statements when these become effective.

Deferred

- 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 Philippine SEC and the FRSC have deferred the effectivity of this interpretation until the final Revenue standard is issued by the IASB and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date once locally adopted.

- Amendments to PFRS 10 and PAS 28 - *Sale or Contribution of Assets between an Investor and its Associate or Joint* Venture. These amendments address an acknowledged inconsistency between the requirements in PFRS 10 and those in PAS 28 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. On January 13, 2016, the FRSC postponed the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures. The Group will consider these amendments for future sale or contribution of assets of the Group to its associates and joint venture.

Effective on January 1, 2016

- Amendments to PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities* and PAS 28, *Investments in Associates and Joint Ventures - Investment Entities: Applying the Consolidation Exception*
  The amendments address issues that have arisen in applying the investment entities exception under PFRS 10. The amendments to PFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

  Furthermore, the amendments to PFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to PAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

- PAS 27, *Separate Financial Statements - Equity Method in Separate Financial Statements* (Amendments). The amendments 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 an impact on the consolidated financial statements. However, in the separate financial statements, the Company will continue to account for its investments in associates and joint venture using the cost method.

- PFRS 11, *Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations* (Amendments). The amendments to PFRS 11 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 remeasured 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. The Group will consider these amendments for future transactions.

- PFRS 14, *Regulatory Deferral Accounts.* PFRS 14 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.

- Amendments to PAS 1, *Presentation of Financial Statements - Disclosure Initiative*
  The amendments to PAS 1 clarify, rather than significantly change, existing PAS 1 requirements. The amendments clarify:

  - The materiality requirements in PAS 1
  - That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
  - That entities have flexibility as to the order in which they present the notes to financial statements
  - That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

  Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI.

- PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortization* (Amendments). The amendments 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 since it does not use a revenue-based method to depreciate its non-current assets.

- PAS 16, *Property, Plant and Equipment*, and PAS 41, *Agriculture - Bearer Plants* (Amendments). The amendments 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 it does not have any bearer plants.

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*. The amendment 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.* PFRS 7 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*. This amendment 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*. This amendment 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"*. The amendment 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 in 2018

- PFRS 9, *Financial Instruments*. In July 2014, the final version of PFRS 9, *Financial Instruments*, was issued. 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.

- International Financial Reporting Standard (IFRS) 15, *Revenue from Contracts with Customers*. IFRS 15 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, 2018 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date once adopted locally.

Effective in 2019

- PFRS 16, *Leases*. The new standard introduces major changes in lease accounting. Under PFRS 16, lessees will no longer classify their leases as operating or finance leases in accordance with PAS 17, *Leases*. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the leased assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less for which the underlying asset is of low value are exempted from these requirements.

  The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

PFRS 16 will replace PAS 17 and supersede the related interpretations. Earlier application is not permitted until the FSRC has adopted the new revenue recognition standard.

The Group is currently assessing the impact of PFRS 16.

The Group continues to assess the impact of the above new and amended accounting standards and interpretations effective subsequent to 2015 on the Group's consolidated financial statements in the period of initial application. Additional disclosures required by these amendments will be included in the consolidated financial statements when these amendments are adopted.

Significant Accounting Policies Applicable to the Group

Investments in Associates and a Joint Venture

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

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

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

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

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

Non-current Assets and Disposal Group Classified as Held for Sale and Discontinued Operations
The Group classifies non-current assets and disposal group as held for sale if their carrying amounts will be recovered principally through a sale transaction. Such non-current assets and disposal groups are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the sale, excluding the finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the sale expected within one year from the date of the classification.

Assets and liabilities of disposal group classified as held for sale are presented separately in the consolidated statements of financial position.

The Group accounts for any investment to be retained over the disposal group at cost and presents it as part of 'Investment in subsidiaries' in the consolidated balance sheet.

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or
- Is a subsidiary acquired exclusively with a view to resale

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of income.

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.
A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

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

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

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

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

Cash and Cash Equivalents

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

For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items (COCI), amounts due from BSP and other banks, interbank loans receivable and securities held under agreements to resell that are convertible to known amounts of cash, with original maturities of three months or less from dates of placements and that are subject to an insignificant risk of changes in fair value.

Financial Instruments

Date of recognition

Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on settlement date. Derivatives are recognized on trade date basis (i.e., the date that the Group commits to purchase or sell). Deposits, amounts due to banks and customers and loans are recognized when cash is received by the Group or advanced to the borrowers.

Initial recognition of financial instruments
All financial instruments are initially recognized at fair value. Except for financial instruments at FVPL, the initial measurement of financial instruments includes transaction costs. The Group classifies its financial assets in the following categories: financial assets at FVPL, HTM investments, AFS investments, and loans and receivables. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date. Financial liabilities are classified into financial liabilities at FVPL and other financial liabilities at amortized cost.

Reclassification of financial assets
The Group may choose to reclassify a non-derivative trading financial asset out of the held-for-trading (HFT) category if the financial asset is no longer held for purposes of selling it in the near term and only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the Group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the HFT or AFS investments categories if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

The Group may also reclassify certain AFS investments to HTM investments when there is a change of intention and the Group has the ability to hold the financial instruments to maturity.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortized cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates (EIR) for financial assets reclassified to loans and receivables and HTM categories are determined at the reclassification date. Further increases in estimates of cash flows adjust the EIR prospectively.

'Day 1' difference
Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in the consolidated statement of income in "Trading and investment securities gains - net" unless it qualifies for recognition as some other type of asset. In cases where data is not observable, the difference between the transaction price and model value is only recognized in the consolidated statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' difference amount.

Derivatives recorded at FVPL
The Group has subsidiaries in the banking segment that are counterparties to derivative contracts, such as currency forwards, currency swaps, interest rate swaps and warrants. These derivatives are entered into as a service to customers and as a means of reducing or managing their respective foreign exchange and interest rate exposures, as well as for trading purposes. Such derivative financial instruments are initially recorded at fair value on the date at which the derivative contract is entered into and are subsequently remeasured at fair value. Any gains or losses arising from changes in fair values of derivatives are taken directly to the consolidated statement of income and are included in "Trading and investment securities gains - net" under "Revenue - banking" account. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Embedded derivatives
The Group's banking segment has certain derivatives that are embedded in host financial (such as structured notes, debt investments, and loans receivables) and non-financial (such as purchase orders and service agreements) contracts. These embedded derivatives include credit default swaps (which are linked either to a single reference entity or a basket of reference entities); conversion options in loans receivables; call options in certain long-term debt, and foreign-currency derivatives in debt instruments, purchase orders and service agreements. Embedded derivatives are bifurcated from their host contracts and carried at fair value with fair value changes being reported through profit or loss, when the entire hybrid contracts (composed of both the host contract and the embedded derivative) are not accounted for as financial assets at FVPL, when their economic risks and characteristics are not closely related to those of their respective host contracts, and when a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative. The Group assesses whether embedded derivatives are required to be separated from the host contracts when the Group first becomes a party to the contract. Reassessment of embedded derivatives is only done when there are changes in the contract that significantly modifies the contractual cash flows.

Other financial assets or financial liabilities held-for-trading
Other financial assets or financial liabilities held for trading (classified as "Financial assets at FVPL' or 'Financial liabilities at FVPL") are recorded in the consolidated balance sheet at fair value. Changes in fair value relating to the held-for-trading positions are recognized in "Trading and investment securities gains - net". Interest earned or incurred is recorded in 'Interest income' or 'Interest expense', respectively, while dividend income is recorded in 'Miscellaneous income' when the right to receive payment has been established.

Included in this classification are debt and equity securities which have been acquired principally for the purpose of selling or repurchasing in the near term.

Designated financial assets or financial liabilities at FVPL
Financial assets or financial liabilities classified in this category are designated by management on initial recognition when any of the following criteria are met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or
- The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Designated financial assets and financial liabilities at FVPL are recorded in the consolidated balance sheet at fair value. Changes in fair value are recorded in "Trading and investment securities gains – net" under "Revenue - banking" account. Interest earned or incurred is recorded in "Interest income" or "Interest expense", respectively, while dividend income is recorded in "Others - net" according to the terms of the contract, or when the right of payment has been established.

Loans and receivables
Significant accounts falling under this category are loans and receivables, amounts due from BSP and other banks, interbank loans receivable, securities held under agreements to resell, and receivable from Special-purpose vehicle (SPV) (included under 'Other noncurrent assets').

These are non-derivative financial assets with fixed or determinable payments and fixed maturities and are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets at FVPL or designated as AFS investments.

Loans and receivables also include receivables arising from transactions on credit cards issued directly by PNB. Furthermore, 'Loans and receivables' include the aggregate rental on finance lease transactions and notes receivables financed by Japan - PNB Leasing and Allied Leasing and Finance Corporation (ALFC). Unearned income on finance lease transactions is shown as a deduction from 'Loans and receivables' (included in 'Unearned interest and other deferred income').

After initial measurement, the 'Loans and receivables', 'Due from BSP', 'Due from other banks', 'Interbank loans receivable', 'Securities held under agreements to resell' and 'Receivable from SPV' are subsequently measured at amortized cost using the effective interest method, less allowance for credit losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in 'Interest income' in the consolidated statement of income. The losses arising from impairment are recognized in 'Provision for impairment and credit losses' in the consolidated statement of income.

AFS investments
AFS investments are those which are designated as such or do not qualify to be classified as "Financial assets at FVPL", "HTM investments" or "Loans and receivables". They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. They include debt and equity instruments.

After initial measurement, AFS investments are subsequently measured at fair value. The effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency-denominated AFS debt securities, is reported in the consolidated statement of income. The unrealized gains and losses arising from the fair valuation of AFS investments are excluded, net of tax, from reported income and are reported as "Net changes in fair value of AFS investments" in the consolidated statement of comprehensive income.

The losses arising from impairment of AFS investments are recognized as "Provision for impairment and credit losses" in the consolidated statement of income. The impairment assessment would include an analysis of the significant or prolonged decline in fair value of the investments below its cost. The Group treats "significant" generally as 20% or more and "prolonged" as greater than 12 months for quoted equity securities.

When the security is disposed of, the cumulative gain or loss previously recognized in other comprehensive income is recognized as "Trading and investment securities gains - net" under the "Banking revenue" while recognized in profit or loss for the other operating segments in the consolidated statement of income. Interest earned on holding AFS debt investments are reported as 'Interest income' using the EIR. Dividends earned on holding AFS equity investments are recognized in the consolidated statement of income as "Others - net" when the right of the payment has been established.

HTM investments
HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Group's management has the positive intention and ability to hold to maturity. Where the Group sells other than an insignificant amount of HTM investments, the entire category would be tainted and would have to be reclassified as AFS investments. Once tainted, the Group is prohibited from classifying investments under HTM for at least the following two financial years. After initial measurement, these HTM investments are subsequently measured at amortized cost using the effective interest method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in "Interest income" in the consolidated statement of income. The losses arising from impairment of such investments are recognized in the consolidated statement of income under "Provision for impairment, credit and other losses".

Other financial liabilities
Issued financial instruments or their components, which are not designated at FVPL, are classified as deposit liabilities, bills and acceptances payable, accounts payable and accrued expenses, short-term and long-term debts and other appropriate financial liability accounts, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

After initial measurement, other financial liabilities not qualified as and not designated at FVPL are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

Derecognition of Financial Assets and Liabilities
Financial asset
A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is derecognized when:

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

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

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

<u>Impairment of Financial Assets</u>
The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets at amortized cost
For financial assets carried at amortized costs such as loans and receivables, HTM investments, due from BSP and other banks, interbank loans receivable, securities held under agreements to resell and receivable from SPV, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If the Group determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment.
For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as industry, collateral type, past-due status and term. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist

currently. Estimates of changes in future cash flows reflect, and are directionally consistent with changes in related observable data from period to period (such changes in property prices, payment status, or other factors that are indicative of incurred losses in the Group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to the consolidated statement of income. Interest income continues to be recognized based on the original EIR of the asset. Loans and receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If subsequently, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. If a future write-off is later recovered, any amounts formerly charged are credited to the "Provision for impairment and credit losses" account.

Restructured loans
Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR. The difference between the recorded value of the original loan and the present value of the restructured cash flows, discounted at the original EIR, is recognized in "Provision for impairment and credit losses" in the consolidated statement of income.

AFS investments
For AFS investments, the Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. In case of equity investments classified as AFS investments, this would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statement of income - is removed from equity and recognized in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated

In the case of debt instruments classified as AFS investments, impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of 'Interest income' in the consolidated statement of income. If subsequently, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

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

Other Current Assets
Prepayments are expenses paid in advance and recorded as asset before they are utilized. This account comprises mainly of prepaid importation charges and excise tax, prepaid rentals and insurance premiums and other prepaid items, and creditable withholding tax. Prepaid rentals and insurance premiums and other prepaid items are apportioned over the period covered by the payment and charged to the appropriate accounts in the consolidated statement of income when incurred.

Prepaid importation charges are applied to respective asset accounts, i.e., inventories and equipment, as part of their direct cost once importation is complete. Prepaid excise taxes are applied to inventory as part of its cost once related raw material item is consumed in the production. Creditable withholding tax is deducted from income tax payable on the same year the revenue was recognized. Prepayments that are expected to be realized for no more than 12 months after the reporting period are classified as current assets, otherwise, these are classified as other noncurrent assets.

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

The initial cost of property, plant and equipment consists of its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use and any estimated cost of dismantling and removing the property, plant and equipment item and restoring the site on which it is located to the extent that the Group had recognized the obligation of that cost. Such cost includes the cost of replacing part of the property, plant and equipment if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of property, plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are expensed in the consolidated statement of income as incurred. Borrowing costs incurred during the construction of a qualifying asset is likewise included in the initial cost of property, plant and equipment.
Land and land improvements, plant buildings and building improvements, and machineries and equipment are stated at revalued amounts based on a valuation performed by professionally qualified, accredited and independent appraisers. Revaluation is made every three to five years such that the carrying amount does not differ materially from that which would be determined using fair value at the end of reporting period. For subsequent revaluations, the accumulated depreciation at the date of revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals the revalued amount. Any resulting increase in the asset's carrying amount as a result of the revaluation is credited directly to "Revaluation increment on property, plant and equipment, net of

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

As discussed in Note 1, certain assets and liabilities of FTC were transferred by the Group as capital contribution to PMFTC. Such properties transferred include revaluation increment on depreciable property, plant and equipment amounting to ₱4.6 billion. Thus, the carrying value of the net assets transferred to PMFTC, including the revaluation increment, plus the fair value adjustment at the date of transfer, was deemed as the historical cost of such assets for PMFTC.

Upon transfer in 2010, the Group realized through retained earnings portion of its share in the net appraisal increase from the previous revaluation of FTC's property, plant and equipment amounting to ₱1.9 billion and transferred the unrealized portion amounting to ₱1.9 billion to "Revaluation increment on property, plant and equipment transferred to an associate, net of related deferred income tax effect" in the consolidated balance sheet and consolidated statement of changes in equity. An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets' original cost.

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

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

Deposit value for the containers loaned to customer is included as part of "Trade accounts payable" under "Accounts payable and accrued expenses" account in the consolidated balance sheet.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

Depreciation and amortization are computed using the straight-line method over the following estimated useful lives of the assets:

	Number of Years
At Appraisal Values:	
Land improvements	5 - 15
Plant buildings and building improvements	8 - 50
Machineries and equipment	5 - 30
At Cost:	
Office and administration buildings	20 - 40
Leasehold improvements	3 - 30 or lease term, whichever is shorter
Transportation equipment	2 - 5
Returnable containers	5 - 7
Furniture, fixtures and other equipment	3 - 20

The estimated useful lives and depreciation and amortization method are reviewed periodically to ensure that the periods and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

Depreciation or amortization of an item of property, plant and equipment begins when it becomes available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation or amortization ceases at the earlier of the date that the item is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operation* and the date the item is derecognized.

When assets are sold or retired, their cost and accumulated depreciation and amortization and any impairment in value are removed from the accounts, and any gain or loss resulting from their disposal is recognized in the consolidated statement of income.

Fully depreciated property and equipment are retained in the accounts until they are no longer in use and no further depreciation and amortization is charged to current operations.

Investment Properties

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

a. entry of judgment in case of judicial foreclosure;
b. execution of the Sheriff’s Certificate of Sale in case of extra-judicial foreclosure; or
c. notarization of the Deed of Dacion in case of payment in kind (dacion en pago).

Expenditures incurred after the investment properties have been put into operations, such as repairs and maintenance costs, are normally charged against current operations in the period in which the costs are incurred.

Subsequent to initial recognition, depreciable investment properties are stated at cost less accumulated depreciation and any accumulated impairment in value.

Depreciation is calculated on a straight-line basis using the estimated useful life from the time of acquisition of the investment properties.

The estimated useful life of the depreciable investment properties which generally include building and improvements ranges from 5 to 50 years.

Investment properties are derecognized when they have either been disposed of or when the investment properties are permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the consolidated statement of income in "Others - net" in the year of retirement or disposal.

Transfers are made to investment property only when there is a change in use evidenced by cessation of owner-occupation or of construction or development, or commencement of an operating lease to another party. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale.

Other Properties Acquired

Other properties acquired include chattel mortgage properties acquired in settlement of loan receivables. These are carried at cost, which is the fair value at recognition date, less accumulated depreciation and any impairment in value.

The Group applies the cost model in accounting for other properties acquired. Depreciation is computed on a straight-line basis over the estimated useful life of five years. The estimated useful life and the depreciation method are reviewed periodically to ensure that the period and the method of depreciation are consistent with the expected pattern of economic benefits from items of other properties acquired.

The carrying values of other properties acquired are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amounts.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the consolidated statement of income in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful/economic life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of the reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of income in the expense category consistent with the function of the intangible asset.

Software costs
Software costs, included in "Other noncurrent assets", are capitalized on the basis of the cost incurred to acquire and bring to use the specific software. These costs are amortized over five years on a straight-line basis.

Costs associated with maintaining the computer software programs are recognized as expense when incurred.

Impairment of Noncurrent Nonfinancial Assets
Property, plant and equipment, investment properties, other properties, investments in associates and a joint venture, and software costs
At each reporting date, the Group assesses whether there is any indication that its nonfinancial assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Group makes a formal estimate of recoverable amount. Recoverable amount is the higher of an asset's (or cash-generating units') fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the cash-generating unit to which it belongs. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or cash-generating unit).

An impairment loss is charged to operations or to the revaluation increment for assets carried at revalued amount, in the year in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of accumulated depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation or amortization expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Goodwill
Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount of the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated (or to the aggregate carrying amount of a group of cash-generating units to which the goodwill relates but cannot be allocated), an impairment loss is recognized immediately in the consolidated statement of income. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods. The Group performs its annual impairment test of goodwill at the end of the reporting period.

Revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The Group assesses its revenue arrangement against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as principal in all its revenue arrangements except for their brokerage transactions. Refer to the significant accounting policies generally applicable to the consumer products, banking and property development for the specific recognition criteria that must also be met before revenue is recognized.

Costs and Expenses

Costs and expenses are recognized in the consolidated statement of income when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably.

Selling and general and administrative expenses

Selling expenses are costs incurred to sell or distribute merchandise, it includes advertising and promotions and freight and handling, among others. General and administrative expenses constitute costs of administering the business. Selling and general and administrative expenses are expensed as incurred.

Taxes and licenses

Taxes and licenses include all other taxes, local and national, including gross receipts taxes (GRT), documentary stamp taxes, real estate taxes, licenses and permit fees and are recognized as costs and expenses when incurred.

Retirement Benefits

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Re-measurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

Re-measurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Re-measurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations).

The Group's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Employee leave entitlement
Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled wholly before twelve months after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period.

Borrowing Costs
Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalization of borrowing costs commences when the activities necessary to prepare the asset for intended use are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the asset is available for their intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognized. Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, as well as exchange differences arising from foreign currency borrowings used to finance these projects, to the extent that they are regarded as an adjustment to interest costs. All other borrowing costs are expensed as incurred.

Debt Issue Costs
Issuance, underwriting and other related expenses incurred in connection with the issuance of debt instruments (other than debt instruments designated at FVPL) are deferred and amortized over the terms of the instruments using the effective interest method. Unamortized debt issuance costs are included in the measurement of the related carrying value of the debt instruments in the consolidated balance sheet.

Leases
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

a. there is a change in contractual terms, other than a renewal or extension of the arrangement;
b. a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
c. there is a change in the determination of whether fulfillment is dependent on a specified asset; or
d. there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

The Group as lessor
Finance leases, where the Group transfers substantially all the risks and benefits incidental to ownership of the leased item to the lessee, are included in the consolidated balance sheet under 'Loans and receivables' account. A lease receivable is recognized at an amount equivalent to the net investment (asset cost) in the lease. All income resulting from the receivable is included in 'Interest income' in the consolidated statement of income.

Leases where the Group does not transfer substantially all the risks and benefits of the ownership of the asset are classified as operating leases. Fixed lease payments for noncancellable lease are recognized in consolidated statement of income on a straight-line basis over the lease term. Any difference between the calculated rental income and amount actually received or to be received is recognized as deferred rent in the consolidated balance sheet. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Variable rent is recognized as income based on the terms of the lease contract.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized under "Other income" account in the consolidated statement of income.

The Group as lessee
Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments and included in "Property, plant and equipment" account with the corresponding liability to the lessor included in "Other liabilities" account. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to 'Interest expense'.

Capitalized leased assets are depreciated over the shorter of the estimated useful lives of the assets or the respective lease terms, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Fixed lease payments for noncancellable lease are recognized as an expense in the consolidated statement of income on a straight-line basis over the lease term while the variable rent is recognized as an expense based on terms of the lease contract.

<u>Foreign Currency-denominated Transaction and Translation</u>
The Group's consolidated financial statements are presented in Philippine peso, which is also LTG's functional currency. Each of the subsidiaries determines its own functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded by the individual entities in the Group in their respective functional currencies at the foreign exchange rates prevailing at the dates of the transactions. Outstanding monetary assets and liabilities denominated in foreign currencies are translated using the closing foreign exchange rate prevailing at the reporting date. All differences are charged to profit or loss in the consolidated statement of income.

Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the dates of initial transactions. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

FCDU and Overseas Subsidiaries
As of reporting date, the assets and liabilities of foreign subsidiaries, with functional currencies other than the functional currency of the Company, are translated into the presentation currency of the Group using the closing foreign exchange rate prevailing at the reporting date, and their respective income and expenses are translated at the monthly weighted average exchange rates for the year. The exchange differences arising on the translation are recognized in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation shall be recognized in profit or loss.

Taxes
Current income tax
Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the end of reporting period.

Deferred income tax
Deferred income tax is recognized on all temporary differences at the end of reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits from excess of minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences, carryforward benefits of unused tax credits from excess of MCIT over RCIT and unused NOLCO can be utilized. Deferred income tax liabilities are recognized for all taxable temporary differences.

Deferred income tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or loss nor taxable profit or loss.

Deferred income tax liabilities are not provided on non-taxable temporary differences associated with investments in domestic subsidiaries, associates and interest in joint ventures. With respect to investments in other subsidiaries, associates and interests in joint ventures, deferred income tax liabilities are recognized except when the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting period and are recognized to the extent that it has become probable that sufficient future taxable profits will allow the deferred income tax assets to be recovered. It is probable that sufficient future taxable profits will be available against which a deductible temporary difference can be utilized when there are sufficient taxable temporary difference relating to the same taxation authority and the same taxable entity which are expected to reverse in the same period as the expected reversal of the deductible temporary difference. In such circumstances, the deferred income tax asset is recognized in the period in which the deductible temporary difference arises.

Deferred income taxes relating to items recognized directly in OCI are also recognized in OCI and not in the consolidated statement of income.

Deferred income tax assets and deferred income tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of reporting period.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Provisions and Contingencies

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. When the Group expects a provision or loss to be reimbursed, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain and its amount is estimable. The expense relating to any provision is presented in the consolidated statement of income, net of any reimbursement.

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the consolidated financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the consolidated financial statements.

Equity

Capital stock is measured at par value for all shares issued by the Group. When the Group issue more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax.

Capital in excess of par is the portion of the paid-in capital representing excess over the par or stated value.

Preferred shares of subsidiaries issued to Parent Company are owned equity instruments by the Bank Holding Companies that are issued to Tangent (see Note 30).

Other equity reserves include effect of transactions with non-controlling interest and equity adjustments arising from business combination under common control and other group restructuring transactions.

Other comprehensive income (loss) comprises items of income and expense (including items previously presented under the consolidated statement of changes in equity) that are not recognized in the consolidated statement of income for the year in accordance with PFRS. Other comprehensive income (loss) of the Group includes cumulative translation adjustments, net changes in fair values of AFS investments, re-measurement gains (losses) on defined benefit plans, revaluation increment in property, plant and equipment and share in other comprehensive income of associates.

Retained earnings represent the cumulative balance of net income or loss, dividend distributions, prior period adjustments, effects of the changes in accounting policies and other capital adjustments. Unappropriated retained earnings represent that portion which can be declared as dividends to stockholders after adjustments for any unrealized items which are considered not available for dividend declaration. Appropriated retained earnings represent that portion which has been restricted and therefore is not available for any dividend declaration.

Treasury shares are owned equity instruments that are reacquired. Where any member of the Group purchases the Company's capital stock (presented as "Shares held by a subsidiary"), the consideration paid, including any directly attributable incremental costs (net of related taxes), is deducted from equity until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transactions costs and the related income tax effect, is included in equity attributable to the equity holders of the Group.

Deposit for stock subscription represents the amount received which will be applied as payment in exchange for a fixed number of the Company's own equity instruments. It is classified as an equity item if there is sufficient unissued authorized capital stock, or if in case the unissued authorized capital stock is insufficient to cover the amount of the deposit, (1) the BOD and stockholders have approved a proposed increase in authorized capital stock for which a deposit was received, and (2) the proposed increase was filed with the Philippine SEC. Otherwise, the deposit is classified as a liability.

Earnings Per Share

Basic earnings per share (EPS) is computed by dividing net income for the period attributable to common shareholders by the weighted average number of common shares outstanding during the period after giving retroactive effect to stock dividends declared and stock rights exercised during the period, if any.

Diluted EPS is calculated by dividing the aggregate of net income attributable to common shareholders by the weighted average number of common shares outstanding during the period adjusted for the effects of any dilutive shares.

Dividends on Common Shares

Cash dividends on common shares are recognized as a liability and deducted from equity when approved by the BOD of the Company. Stock dividends are treated as transfers from retained earnings to capital stock. Dividends for the year that are approved after the end of reporting period are dealt with as a non-adjusting event after the end of reporting period.

Events after the Reporting Period

Events after the end of reporting period that provides additional information about the Group's position at the end of reporting period (adjusting event) are reflected in the consolidated financial statements. Events after the end of reporting period that are not adjusting events, if any, are disclosed when material to the consolidated financial statements.

Segment Reporting

The Group's operating segments are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on operating segments is presented in Note 4 to the consolidated financial statements.

Significant Accounting Policies Generally Applicable to Banking

Banking Revenue

Interest income

For all financial instruments measured at amortized cost and interest-bearing financial instruments classified as HFT and AFS investments, interest income is recorded at the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses. The adjusted carrying amount is calculated based on the original EIR. The change in carrying amount is recorded as interest income. Once the recorded value of a financial asset or group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original EIR applied to the new carrying amount.

Service fees and commission income

The Group earns fee and commission income from diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

- *Fee income earned from services that are provided over a certain period of time*
  Fees earned for the provision of services over a period of time are accrued over that period. These fees include investment fund fees, custodian fees, fiduciary fees, commission income, credit-related fees, trust fees, portfolio and other management fees, and advisory fees. However, loan commitment fees for loans that are likely to be drawn down are deferred (together with any incremental costs) and recognized as an adjustment to the EIR of the loan.

- *Fee income from providing transaction services*
  Fees arising from negotiating or participating in the negotiation of a transaction for a third party - such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses - are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria. These fees include underwriting fees, corporate finance fees, remittance fees, brokerage fees, deposit-related and other credit-related fees. Loan syndication fees are recognized in the consolidated statement of income when the syndication has been completed and the Group retains no part of the loans for itself or retains part at the same EIR as for the other participants.

Interchange fee and awards revenue on credit cards
Discounts lodged under 'Interchange fees' are taken up as income upon receipt from member establishments of charges arising from credit availments by the Group's cardholders. These discounts are computed based on certain agreed rates and are deducted from amounts remitted to the member establishments.

The Group operates a loyalty points program which allows customers to accumulate points when they purchase from member establishments using the issued card of the Group. The points can then be redeemed for free products subject to a minimum number of points being obtained. Consideration received is allocated between the discounts earned, interchange fee and the points earned, with the consideration allocated to the points equal to its fair value. The fair value is determined by applying statistical analysis. The fair value of the points issued is deferred and recognized as revenue when the points are redeemed.

Commissions earned on credit cards
Commissions earned are taken up as income upon receipt from member establishments of charges arising from credit availments by credit cardholders. These commissions are computed based on certain agreed rates and are deducted from amounts remittable to member establishments.

Purchases by the credit cardholders, collectible on installment basis, are recorded at the cost of the items purchased plus certain percentage of cost. The excess over cost is credited to "Unearned and other deferred income" account and is shown as a deduction from "Loans and receivables" in the consolidated balance sheet. The unearned and other deferred income is taken up to income over the installment terms and is computed using the effective interest method.

Commission earned on reinsurance
Reinsurance commissions are recognized as revenue over the period of the contracts. The portion of the commissions that relates to the unexpired periods of the policies at the end of the reporting period is accounted for as 'Other liabilities' in the consolidated balance sheet.

Dividend income
Dividend income is recognized when the Group's right to receive payment is established.

Trading and investment securities gains - net
Trading and investment securities gains - net includes results arising from trading activities and all gains and losses from changes in fair value of financial assets and financial liabilities at FVPL and gains and losses from disposal of AFS investments.

Income on direct financing leases and receivables financed
Income of the Group on loans and receivables financed is recognized using the effective interest method.

Unearned discounts included under "Unearned and other deferred income" which are amortized over the term of the note or lease using the effective interest method consist of:

- Transaction and finance fees on finance leases and loans and receivables financed with long-term maturities; and
- Excess of the aggregate lease rentals plus the estimated residual value of the leased equipment over its cost.

Premiums revenue
Gross insurance written premiums comprise the total premiums receivable for the whole period cover provided by contracts entered into during the accounting period. Premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior periods. Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method except for the marine cargo where the provision for unearned premiums pertains to the premiums for the last two months of the year. The portion of the premiums written that relate to the unexpired periods of the policies at end of reporting period are accounted for as provision for unearned premiums and presented as part of "Other liabilities" in the consolidated balance sheet. The related reinsurance premiums ceded that pertain to the unexpired periods at the end of the reporting periods are accounted for as deferred reinsurance premiums shown as part of "Other noncurrent assets" in the consolidated balance sheet. The net changes in these accounts between end of the reporting periods are credited to or charged against the consolidated statement of income for the year.

Other income
Income from sale of services is recognized upon rendition of the service. Income from sale of properties is recognized upon completion of the earning process and the collectibility of the sales price is reasonably assured.

Product Classification
Insurance contracts are those contracts where the Group (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Group determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant.

Insurance and investment contracts are further classified as being with or without discretionary participation features (DPF).

DPF is a contractual right to receive, as a supplement to guaranteed contracts, additional benefits that are likely to be a significant portion of the total contractual benefits, whose amount or timing is contractually at the discretion of the issuer, and that are contractually based on the performance of a specified pool of contracts or a specified type of contract, realized and or unrealized investment returns on a specified pool of assets held by the issuer, or the profit or loss of the company, fund or other entity that issues the contract.

Investment contracts are those contracts that transfer significant financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign currency exchange rate, index of price or rates, a credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

Repurchase and Reverse Repurchase Agreements
Securities sold under agreements to repurchase at a specified future date ('repos') are not derecognized from the consolidated balance sheet. The corresponding cash received, including accrued interest, is recognized in the consolidated balance sheet as a loan to the Group, reflecting the economic substance of such transaction.

Conversely, securities purchased under agreements to resell at a specified future date ('reverse repos') are not recognized in the consolidated balance sheet. The Group is not permitted to sell or repledge the securities in the absence of default by the owner of the collateral. The corresponding cash paid, including accrued interest, is recognized on the consolidated balance sheet as "Securities held under agreements to resell", and is considered a loan to the counterparty. The difference between the purchase price and resale price is treated as interest income and is accrued over the life of the agreement using the effective interest method.

Financial Guarantees
In the ordinary course of business, the Group gives financial guarantees consisting of letters of credit, letters of guarantees, and acceptances. Financial guarantees are initially recognized in the financial statements at fair value under 'Other liabilities'. Subsequent to initial recognition, the Group's liabilities under such guarantees are each measured at the higher of the initial fair value less, when appropriate, cumulative amortization calculated to recognize the fee in the consolidated statement of income in "Service fees and commission income", over the term of the guarantee, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the consolidated statement of income in "Provision for impairment and credit losses"'. Any financial guarantee liability remaining is recognized in the consolidated statement of income in 'Service fees and commission income', when the guarantee is discharged, cancelled or has expired.

Management, in conjunction with the Group's external valuers, also compares each change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

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

Policy Loans
Policy loans included under loans and receivables are carried at their unpaid balances plus accrued interest and are fully secured by the policy values on which the loans are made.

Reinsurance
The Group cedes insurance risk in the normal course of business. Reinsurance assets represent balances due from reinsurance companies. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contract.

An impairment review is performed at each end of the reporting period or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that the Group may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Group will receive from the reinsurer can be measured reliably. The impairment loss is charged against the consolidated statement of income.

Ceded reinsurance arrangements do not relieve the Group from its obligations to policyholders. The Group also assumes reinsurance risk in the normal course of business for insurance contracts. Premiums and claims on assumed reinsurance are recognized as income and expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to ceding companies. Amounts payable are estimated in a manner consistent with the associated reinsurance contract.

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

Reinsurance assets or liabilities are derecognized when the contractual rights are extinguished or expired or when the contract is transferred to another party.

<u>Deferred Acquisition Cost (DAC)</u>
Commission and other acquisition costs incurred during the financial period that vary with and are related to securing new insurance contracts and/or renewing existing insurance contracts, but which relates to subsequent financial periods, are deferred to the extent that they are recoverable out of future revenue margins. All other acquisition costs are recognized as an expense when incurred.

Subsequent to initial recognition, these costs are amortized using the 24th method except for marine cargo where the DAC pertains to the commissions for the last two months of the year. Amortization is charged to the consolidated statement of income. The unamortized acquisition costs are shown as “Deferred acquisition costs” in the assets section of the consolidated balance sheet.

An impairment review is performed at each end of the reporting period or more frequently when an indication of impairment arises. The carrying value is written down to the recoverable amount and the impairment loss is charged to the consolidated statement of income. The DAC is also considered in the liability adequacy test for each reporting period.

<u>Residual Value of Leased Assets and Deposits on Finance Leases</u>
The residual value of leased assets, which approximates the amount of guaranty deposit paid by the lessee at the inception of the lease, is the estimated proceeds from the sale of the leased asset at the end of the lease term. At the end of the lease term, the residual value of the leased asset is generally applied against the guaranty deposit of the lessee when the lessee decides to buy the leased asset.

<u>Life Insurance Contract Liabilities</u>
Life insurance liabilities
Life insurance liabilities refer to liabilities of the Group’s banking segment that are recognized due to the obligations arising from policy contracts issued by PNB LII. The reserves for life insurance contracts are calculated based on prudent statutory assumptions in accordance with generally accepted actuarial methods that are compliant with existing regulations.

Insurance contracts with fixed and guaranteed terms
The liability is determined as the expected discounted value of the benefit payments less the expected discounted value of the theoretical premiums that would be required to meet the benefits based on the valuation assumptions used. The liability is based on mortality, morbidity and investment income assumptions that are established at the time the contract is issued.

For unpaid claims and benefits, a provision is made for the estimated cost of all claims and dividends notified but not settled at the reporting date less reinsurance recoveries, using the information available at the time.

Provision is also made for the cost of claims incurred but not reported until after the reporting date based on the PNB LII's experience and historical data. Differences between the provision for outstanding claims at the reporting date and subsequent revisions and settlements are included in the consolidated statement of income in later years. Policy and contract claims payable forms part of the liability section of the consolidated balance sheet under "Other liabilities - Insurance contract liabilities".

The aggregate reserve for life policies represents the accumulated total liability for policies in force on the reporting date. Such reserves are established at amounts adequate to meet the estimated future obligations of all life insurance policies in force. The reserves are calculated using actuarial methods and assumptions in accordance with statutory requirements and as approved by the Insurance Commission (IC), subject to the minimum liability adequacy test.

Unit-linked insurance contracts
PNB LLI issues unit-linked insurance contracts. Considerations received from unit-linked insurance contracts, in excess of the portion that is placed under a withdrawable segregated account, are recognized as revenue.

PNB LLI's revenue from unit-linked contracts consists of charges deducted from the policyholder's separate account, in accordance with the unit-linked policy contract. Since the segregated fund assets belong to the unit-linked policyholders, corresponding segregated fund liabilities are set-up equal to the segregated fund assets less redemptions outside the segregated funds. The segregated fund assets are valued at market price. Changes in the segregated fund assets due to investment earnings or market value fluctuations result in the same corresponding change in the segregated fund liabilities. Such changes in fund value have no effect in the consolidated statement of income.

Collections received from unit-linked policies are separated to segregated fund assets from which PNB LLI withdraws administrative and cost of insurance charges in accordance with the policy provisions of the unit-linked insurance contracts. After deduction of these charges, the remaining amounts in the segregated fund assets are equal to the surrender value of the unit-linked policyholders, and are withdrawable anytime.

The equity of each unit-linked policyholder in the fund is monitored through the designation of outstanding units for each policy. Hence, the equity of each unit-linked insurance contract in the fund is equal to the total number of outstanding units of the policyholder multiplied by the net asset value per unit (NAVPU). The NAVPU is the market value of the fund divided by the total number of outstanding units.

<u>Nonlife Insurance Contract Liabilities</u>
Provision for unearned premiums
The proportion of written premiums, gross of commissions payable to intermediaries, attributable to subsequent periods or to risks that have not yet expired is deferred as provision for unearned premiums. Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method except for marine cargo where the provision for unearned premiums pertains to the premiums for the last two months of the year. The portion of the premiums written that relate to the unexpired periods of the policies at the end of reporting period are accounted for as provision for unearned premiums and presented as part of "Insurance

contract liabilities" in the liabilities section of the consolidated balance sheet. The change in the provision for unearned premiums is taken to the consolidated statement of income in the order that revenue is recognized over the period of risk. Further provisions are made to cover claims under unexpired insurance contracts which may exceed the unearned premiums and the premiums due in respect of these contracts.

Claims provision and incurred but not reported (IBNR) losses
Outstanding claims provisions are based on the estimated ultimate cost to all claims incurred but not settled at the end of the reporting period, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of which cannot be known with certainty at the end of the reporting period. The liability is not discounted for the time value of money and includes provision for IBNR. No provision for equalization or catastrophic reserves is recognized. The liability is derecognized when the contract has expired, discharged or cancelled.

Liability Adequacy Test
Liability adequacy tests on life insurance contracts are performed annually to ensure the adequacy of the insurance contract liabilities. In performing these tests, current best estimates of future contractual cash flows, claims handling and policy administration expenses are used. Any deficiency is immediately charged against profit or loss initially by establishing a provision for losses arising from the liability adequacy tests.

For nonlife insurance contracts, liability adequacy tests are performed at the end of each reporting date to ensure the adequacy of insurance contract liabilities, net of related DAC assets. The provision for unearned premiums is increased to the extent that the future claims and expenses in respect of current insurance contracts exceed future premiums plus the current provision for unearned premiums.

Reserve for Policyholders' Dividends
A number of insurance contracts are participating and contain a DPF. This feature entitles the policy holder to receive, as a supplement to guaranteed benefits, annual policy dividends that are credited at each policy anniversary, as long as the policy is in force. These annual policy dividends represent a portion of the theoretical investment and underwriting gains from the pool of contracts. Policy dividends are not guaranteed and may change based on the periodic experience review of the Group. Further, in accordance with regulatory requirements, dividends payable in the following year are prudently set-up as a liability in the consolidated balance sheet.

Local statutory regulations and the terms and conditions of these contracts set out the bases for the determination of the annual cash dividends at the time the product is priced. The Group may exercise its discretion to revise the dividend scale in consideration of the emerging actual experience on each block of participating policies. Reserve for dividends to policyholders on contracts with DPF is shown in the consolidated balance sheet under "Other noncurrent liabilities".

Fiduciary Activities
Assets and income arising from fiduciary activities together with related undertakings to return such assets to customers are excluded from the financial statements where the Group acts in a fiduciary capacity such as nominee, trustee or agent.

Significant Accounting Policies Generally Applicable to Consumer Products

Sale of Consumer Goods
Revenue from the sale of goods is recognized when goods are delivered to and accepted by customers. Revenue is measured at fair value of the consideration received or receivable, excluding discounts, returns and value-added tax (VAT).

Cost of Consumer Goods Sold
Cost of sales is recognized as expense where the related goods are sold.

Consumer Goods Inventories
Inventories are valued at the lower of cost and net realizable value (NRV). Costs incurred in bringing the inventory to its present location and condition are accounted for as follows:

Finished goods and work in process include direct materials, direct labor, and manufacturing overhead costs. Raw materials include purchase cost. The cost of these inventories is determined using the following:

	Distilled Spirits	Beverage	Tobacco
Consumer goods:			
Finished goods	Moving-average	Weighted-average	Moving-average
Work in process	Moving-average	Weighted-average	First-in first-out
Raw materials and materials and supplies	Moving-average	Moving-average	First-in first-out

NRV of finished goods is the estimated selling price less the estimated costs of marketing and distribution. NRV of work in process is the estimated selling price less estimated costs of completion and the estimated costs necessary to make the sale. For raw materials and materials and supplies, NRV is current replacement cost.

Significant Accounting Policies Generally Applicable to Property Development

Property Development Revenue
Real estate sales
The percentage-of-completion method is used to recognize income from sales of projects where the Group has material obligations under the sales contract to complete the project after the property is sold, the equitable interest has been transferred to the buyer, construction is beyond preliminary stage (i.e., engineering, design work, construction contracts execution, site clearance and preparation, excavation and the building foundation are finished), and the costs incurred or to be incurred can be measured reliably. Under this method, revenue is recognized as the related obligations are fulfilled, measured principally on the basis of the estimated completion of a physical proportion of the contract work.

When a sale of real estate does not meet the requirements for income recognition, the sale is accounted for under the deposit method. Under this method, revenue is not recognized and the receivable from the buyer is not recorded. The real estate inventory continues to be reported in the Group’s consolidated balance sheet as part of real estate inventories and the deposit as part of liabilities as “Customers’ deposits”.

Rental income
Rental income under noncancellable and cancellable leases on investment properties is recognized in the consolidated statement of income on a straight-line basis over the lease term, or based on a certain percentage of the gross revenue of the tenants, as provided under the terms of the lease contract.

Charges and expenses recoverable from tenants
Income arising from expenses recharged to tenants in "Other income" account is recognized in the period in which the compensation becomes receivable.

Cost of Real Estate Sales
Cost of real estate sales is recognized consistent with the revenue recognition method applied. Cost of subdivision land and condominium units sold before the completion of the development is determined on the basis of the acquisition cost of the land plus its full development costs, which include estimated costs for future development works, as determined by the Group's in-house technical staff.

The cost of inventory recognized in profit or loss on disposal is determined with reference to the specific costs incurred on the property, allocated to saleable area based on relative size and takes into account the percentage of completion used for revenue recognition purposes.

Cost of Rental Income
Cost of rental income is recognized in relation to the leasing activities of the Group. This includes general, administrative and selling expenses allocated to the leasing activities, rental expense on the property leased to tenants and depreciation of the investment properties.

Real Estate Inventories
Property acquired or being constructed for sale in the ordinary course of business, rather than to be held for rental or capital appreciation, is held as inventory and is measured at the lower of cost and net realizable value (NRV). Cost includes: (a) land cost; (b) amounts paid to contractors for construction; (c) borrowing costs, planning and design costs, costs of site preparation, professional fees, property transfer taxes, construction overheads and other related costs.

NRV is the estimated selling price in the ordinary course of the business, based on market prices at the reporting date, less estimated costs of completion and the estimated costs of sale.

Customers' Deposits including Excess of Collections over Recognized Receivables
Customers' deposits represent payments from buyers of property development segment which will be applied against the related contracts receivables. This account also includes the excess of collections over the recognized contracts receivables, which is based on the revenue recognition policy of the Group.

Security Deposits
Security deposits, included in the "Other current liabilities" and "Other noncurrent liabilities" accounts in the liabilities section of the consolidated balance sheet, are measured initially at fair value and are subsequently measured at amortized cost using the effective interest method.

The difference between the cash received and its fair value is deferred, included in the "Other noncurrent liabilities" account in the consolidated balance sheet, and amortized using the straight-line method under the "Rental income" account in the consolidated statement of income.

Commissions
Commissions paid to sales or marketing agents on the sale of pre-completed real estate units are initially deferred and recorded as prepaid commissions when recovery is reasonably expected and charged to expense in the period in which the related revenue is recognized as earned. Accordingly, when the percentage of completion method is used, commissions are recognized in the consolidated statement of income in the period the related revenue is recognized.

3. Management's Use of Significant Judgments, Accounting Estimates and Assumptions

The preparation of the consolidated financial statements requires the Group to exercise judgments, make accounting estimates and use assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the accounting estimates to change. The effects of any change in accounting estimates are reflected in the consolidated financial statements as they become reasonably determinable.

Accounting estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments
In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effects on amounts recognized in the consolidated financial statements:

Determination of functional currency
Judgment is exercised in assessing various factors in determining the functional currency of each entity within the Group, including prices of goods and services, competition, cost and expenses and other factors including the currency in which financing is primarily undertaken by each entity.

Additional factors are considered in determining the functional currency of a foreign operation, including whether its activities are carried as an extension of that of a parent company rather than being carried out with significant autonomy.

Each entity within the Group, based on the relevant economic substance of the underlying circumstances, have determined their functional currency to be Philippine peso except for the following entities with functional currency other than the Philippine Peso:

Subsidiary	**Functional Currency**
PNB Guam	United States Dollar
PNB IIC	-do-
PNB RCI	-do-
Nevada	-do-
PNB RCI Holding Co. Ltd.	-do-

(Forward)

Subsidiary	Functional Currency
ACB	-do-
Oceanic Holding (BVI) Ltd.	-do-
ABUK	Great Britain Pound
PNB Europe PLC	-do-
Canada	Canadian Dollar
PNB GRF	Hongkong Dollar
ABCHKL	-do-
ACR Nominees Limited	-do-

Assessment of control over the entities for consolidation
The Group has majority-owned subsidiaries discussed in Note 2. Management concluded that the Group controls these majority-owned subsidiaries arising from voting rights and, therefore, consolidates the entity in its consolidated financial statements. In addition, the Group accounts for its investments in OHBVI as a subsidiary although the Group holds less than 50.00% of OHBVI's issued share capital . Management concluded that the Group has the ability to control the relevant activities and to affect its returns in OHBVI on the basis of the combined voting rights of 70.56% arising from its direct ownership of 27.78% and assigned voting rights of 42.78% by certain stockholders to the Group.

Significant influence on investee even if the Group holds less than 20% of voting rights on acquisition date
The Group considers that it has a significant influence in Victorias Milling Company (VMC) when the Group increased its ownership interest to 17.5% in April 2014. Management assessed that even if the ownership interest as of the acquisition date is below 20%, the Group has board representation which allows the Group to participate in the financial and operating policy decisions of VMC. As of December 31, 2015 and 2014, the ownership of the Group in VMC is 22.5% and 20.2%, respectively, after a series of conversions of the mandatorily convertible notes (see Note 11).

Classification of financial instruments
The Group exercises judgment in classifying financial instruments in accordance with PAS 39. The Group classifies a financial instrument, or its components, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the Group's consolidated balance sheets.

The Group's Bank Holding Companies have redeemable preferred shares which can be redeemed at the option of the Bank Holding Companies after seven years from the date of issuance. The Group classified these redeemable preferred shares amounting to ₱18.1 billion as equity as of December 31, 2015 and 2014 (see Note 30).

Revenue recognition on real estate sales
Selecting an appropriate revenue recognition method for a particular real estate sale transaction requires certain judgments based on, among others, the buyer's commitment on the sale which may be ascertained through the significance of the buyer's initial investment and stage of completion of the project. Based on the judgment of the Group, the percentage-of-completion method is appropriate in recognizing revenue on real estate sale transactions in 2015, 2014 and 2013.

Operating lease commitments - the Group as lessor
The Group has entered into commercial property leases on its investment properties and certain motor vehicles and items of machinery.

The Group has determined, based on an evaluation of the terms and conditions of the lease agreements (i.e., the lease does not transfer ownership of the asset to the lessee by the end of the lease term, the lessee has no option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option is exercisable and the lease term is not for the major part of the asset's economic life), that it retains all the significant risks and rewards of ownership of these properties and so accounts for these leases as operating leases (see Note 38).

Operating lease commitments - the Group as lessee
Currently, the Group has land lease agreements with several non-related and related parties. Based on an evaluation of the terms and conditions of the arrangements, management assessed that there is no transfer of ownership of the properties by the end of the lease term and the lease term is not a major part of the economic life of the properties. Thus, the Group does not acquire all the significant risks and rewards of ownership of these properties, thus, accounts for the lease agreements as operating leases (see Note 38).

Classification of properties
The Group determines whether a property is classified as real estate inventory, investment property or owner-occupied property. In making its judgment, the Group considers whether the property generates cash flow largely independent of the other assets held by an entity.

Real estate inventory comprises of property that is held for sale in the ordinary course of business. Principally, this is residential property that the Group develops and intends to sell before or on completion of construction. Investment property comprises land and buildings (principally offices, commercial and retail property) which are not occupied substantially for use by, or in the operations of the Group, nor for sale in the ordinary course of business, but are held primarily to earn rental income and for capital appreciation. Owner-occupied properties classified and presented as property, plant and equipment, generate cash flows that are attributable not only to property but also to the other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions cannot be sold separately as of the financial reporting date, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgment.

Determination of fair value of financial instruments
Where the fair values of financial assets and financial liabilities recorded in the consolidated balance sheet cannot be derived from active markets, they are determined using valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives.

Determination of fair value of financial assets not quoted in an active market
The Group classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's length basis.

The Group has AFS investments in unquoted equity securities. As of December 31, 2015 and 2014, management assessed that the fair value of these instruments cannot be measured reliably since the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed. Therefore, the instruments are measured at cost less any impairment in value.

As of December 31, 2015 and 2014, investment in unquoted shares of stock amounted to ₱1.2 billion and ₱1.0 billion, respectively (see Note 7).

Bifurcation of embedded derivatives
Where a hybrid instrument is not classified as financial assets at FVPL, the Group evaluates whether the embedded derivative should be bifurcated and accounted for separately. This includes assessing whether the embedded derivative has a close economic relationship to the host contract.

Classification of bank's product
The Group classified its unit-linked products as insurance contracts due to the significant insurance risk at issue. All of the Group's products are classified and treated as insurance contracts.

Determination of whether the assets and liabilities of disposal group are classified as held for sale
On December 21, 2015, PNB entered into a 15-year exclusive partnership with Allianz SE (Singapore Branch) and for the latter to acquire 51.00% of PNB LII, the life insurance subsidiary of PNB. The disposal is considered to meet the criteria to be classified as held for sale for the following reasons:

- Allianz SE will acquire 12,750 shares representing 51.00% stockholdings of PNB LII and will have management control over PNBLII;
- PNB LII shares are available for immediate sale and can be sold in its current condition, subject to terms that are usual and customary;
- The actions to complete the sale were initiated and the sale is expected to be completed by 2016.

For more details on the assets and liabilities of disposal group classified as held for sale, refer to Note 37.

Estimates and Assumptions
The key assumptions concerning the future and other key sources of estimation uncertainties at the end of reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

Revenue and cost recognition on real estate sales
The Group's revenue and cost recognition policies on real estate sales require management to make use of estimates and assumptions that may affect the reported amounts of revenue and costs. The Group's revenue and cost of real estate sales are recognized based on the percentage of

completion which is measured principally on the basis of the estimated completion of a physical proportion of the contract work.

The Group recognized revenue from real estate sales amounting to ₱1.3 billion, ₱1.5 billion and ₱3.2 billion and cost of real estate sales amounting to ₱1.0 billion, ₱1.3 billion and ₱2.5 billion in 2015, 2014 and 2013, respectively (see Note 24).

Estimation of allowance for credit losses on loans and receivables
The Group reviews its impaired loans and receivables at each reporting date to assess whether additional provision for credit losses should be recorded in the consolidated statement of income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of required allowance. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowance against individually significant loans and receivables, the Group also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance takes into consideration any deterioration in the loan or investment rating from the time the account was granted or amended, and such other factors as any deterioration in country risk, industry, and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows and underlying property prices, among others. Refer to Notes 8 and 14 for the carrying values of loans and receivables and receivables from SPV, respectively.

Impairment of AFS financial assets
The computation for the impairment of AFS financial assets requires an estimation of the present value of the expected future cash flows and the selection of an appropriate discount rate. An impairment issue arises when there is an objective evidence of impairment, which involves significant judgment. In making this judgment, the Group evaluates the financial health of the issuer, among others. In the case of AFS equity instruments, the Group expands its analysis to consider changes in the issuer's industry performance, legal and regulatory framework, and other factors that affect the recoverability of the Group's investments. Further, the impairment assessment would include an analysis of the significant or prolonged decline in fair value of the investments below its cost. The Group treats "significant" generally as 20% or more and "prolonged" as greater than 12 months for quoted equity securities.

As of December 31, 2015 and 2014, the carrying value of the Group's AFS financial assets amounted to ₱69.6 billion and ₱63.8 billion, respectively, net of allowance for impairment losses on AFS equity investments amounting to ₱998.7 million and ₱929.9 million, respectively (see Note 7).

Valuation of equity-linked free standing derivatives
The fair value of investments in equity instruments that do not have a quoted market price in an active market and derivatives that are linked to and must be settled by delivery of such an unquoted equity instrument is reliably measurable if: (a) the variability in the range of reasonable fair value estimates is not significant for the instrument; or (b) the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value. If the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed, the Group is precluded from measuring the instrument at fair value.

In 2010, the Group has concluded that the put option cannot be measured at fair value as the put option is linked to and settled by the delivery of unquoted equity instruments whose fair value cannot be reasonably assessed. In 2013, the put option was cancelled following the termination of the Exit Rights Agreement (see Note 11).

Fair values of structured debt instruments and derivatives
The fair values of structured debt instruments and derivatives that are not quoted in active markets are determined using valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are reviewed before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices.

To the extent practicable, models use only observable data, however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments. Refer to Note 34 for information on the fair values of these instruments.

Aggregate reserves for life insurance
In determining the aggregate reserves for life policies estimates are made as to the expected number of deaths, illness or injury for each of the years in which PNB LII is exposed to risk. These estimates are based on standard mortality and morbidity tables as required by the Insurance Code (IC or the Code). The estimated number of deaths, illness or injury determines the value of possible future benefits to be paid out, which will be factored into ensuring sufficient cover by reserves, which in return is monitored against current and future premiums. Estimates are also made as to future investment income arising from the assets backing life insurance contracts. These estimates are based on current market returns, as well as expectations about future economic and financial developments. The carrying values of aggregate reserves for life insurance policies of the Group presented under “Insurance contract liabilities” in “Other Liabilities” amounted to ₱4.7 billion and ₱11.5 billion as of December 31, 2015 and 2014, respectively (see Note 20).

Valuation of insurance contracts
Estimates have to be made both for the expected ultimate cost of claims reported at reporting date and for the expected ultimate cost of IBNR at the reporting date. It can take a significant period of time before the ultimate claim costs can be established with certainty. Nonlife insurance contract liabilities are not discounted for the time value of money.

The main assumption underlying the estimation of the claims provision is that a company’s past claims development experience can be used to project future claims development and hence ultimate claims costs. Historical claims development is mainly analyzed by accident years as well as by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development.

Measurement of NRV of inventories
The Group’s estimates of the NRV of its consumer goods inventories and materials and supplies are based on the most reliable evidence available at the time the estimates are made, of the amount that the inventories are expected to be realized. These estimates consider the fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period. A new assessment is made of NRV in each subsequent period. When the circumstances that previously caused inventories to be written

down below cost no longer exist or when there is a clear evidence of an increase in NRV because of change in economic circumstances, the amount of the write-down is reversed so that the new carrying amount is the lower of the cost and the revised NRV.

With respect to the Group's real estate inventories, the Group adjusts the cost of its real estate inventories to NRV based on its assessment of the recoverability of cost of the inventories. NRV for completed real estate inventories is assessed with reference to market conditions and prices existing at the reporting date and is determined by the Group in the light of recent market transactions. NRV in respect of real estate inventories under construction is assessed with reference to market prices at the reporting date for similar completed property, less estimated costs to complete construction and less estimated costs to sell. The amount and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized.

The Group's inventories carried at cost as of December 31, 2015 and 2014 amounted to ₱13.4 billion and ₱12.3 billion, respectively. Certain materials and supplies amounting to ₱0.6 billion and ₱0.7 billion as of December 31, 2015 and 2014, respectively, are carried at NRV (see Note 9).

Valuation of property, plant and equipment under revaluation basis
The Group's land and land improvements, plant buildings and building improvements, and machineries and equipment are carried at revalued amounts, which approximate their fair values at the date of the revaluation, less any subsequent accumulated depreciation and amortization and accumulated impairment losses. The valuations of property, plant and equipment are performed by independent appraisers. Revaluations are made every three to five years to ensure that the carrying amounts do not differ materially from those which would be determined using fair values at the end of reporting period.

Property, plant and equipment at appraised values amounted to ₱39.5 billion and ₱38.5 billion as of December 31, 2015 and 2014, respectively (see Note 12).

Estimation of useful lives of property, plant and equipment and investment properties
The Group estimates the useful lives and residual values of property, plant and equipment and investment properties based on internal technical evaluation and experience with similar assets. Estimated useful lives and residual values of property, plant and equipment and investment properties are reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical and commercial obsolescence and other limits on the use of the assets. It is possible, however, that future results of operations could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. A reduction in the estimated useful life of any item of property and equipment and investment properties would increase the recorded depreciation expenses and decrease the carrying value of property, plant and equipment and investment properties. In 2015 and 2014, there were no significant changes made in the useful lives and residual values of the property, plant and equipment and investment properties (see Notes 12 and 13).

The total carrying amount of depreciable property, plant and equipment as of December 31, 2015 and 2014 amounted to ₱24.9 billion and ₱23.7 billion, respectively (see Note 12). The carrying amount of depreciable investment properties as of December 31, 2015 and 2014 amounted to ₱6.6 billion and 6.8 billion, respectively (see Note 13).

Assessment of impairment of nonfinancial assets and estimation of recoverable amount
The Group assesses at the end of each reporting period whether there is any indication that the nonfinancial assets listed below may be impaired. If such indication exists, the entity shall estimate the recoverable amount of the asset, which is the higher of an asset's fair value less costs to sell and its value-in-use. In determining fair value less costs to sell, an appropriate valuation model is used, which can be based on quoted prices or other available fair value indicators.

In estimating the value-in-use, the Group is required to make an estimate of the expected future cash flows from the cash generating unit and also to choose an appropriate discount rate in order to calculate the present value of those cash flows.

Determining the recoverable amounts of the nonfinancial assets listed below, which involves the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the use of estimates and assumptions that can materially affect the consolidated financial statements. Future events could indicate that these nonfinancial assets are impaired. Any resulting impairment loss could have a material adverse impact on the financial condition and results of operations of the Group.

The preparation of estimated future cash flows involves significant judgment and estimations. While the Group believes that its assumptions are appropriate and reasonable, significant changes in these assumptions may materially affect its assessment of recoverable values and may lead to future additional impairment changes under PFRS.

Assets that are subject to impairment testing when impairment indicators are present (such as obsolescence, physical damage, significant changes to the manner in which the asset is used, worse than expected economic performance, a drop in revenues or other external indicators) are as follows:

	2015	2014
	(In Thousands)	
Other current assets (except miscellaneous cash and other cash items and held to maturity investments) (Note 10)	**₱8,670,082**	₱7,160,508
Investments in associates and a joint venture (Note 11)	**11,761,290**	12,297,509
Property, plant and equipment (Note 12)	**44,837,876**	42,445,922
Investment properties (Note 13)	**22,231,525**	27,197,933
Other noncurrent assets (except refundable and other security deposits, goodwill and retirement plan assets) (Note 14)	**2,800,283**	2,938,318

In 2013, the Group reversed the impairment loss previously recognized amounting to ₱20.2 million (see Note 28).

Impairment of goodwill
The Group determines whether goodwill is impaired on an annual basis every December 31, or more frequently, if events or changes in circumstances indicate that it may be impaired. This requires an estimation of the value in use of the CGU to which the goodwill is allocated. Estimating value in use requires management to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Management determined that the goodwill amounting to ₱163.7 million as of December 31, 2015 and 2014 is not impaired (see Note 14).

Estimation of retirement benefits cost and liability
The Group's retirement benefits cost and liability is actuarially computed. This entails using certain assumptions with respect to future annual increase in salary, expected annual rate of return on plan assets and discount rate per annum.

Net retirement plan assets as of December 31, 2015 and 2014 amounted to ₱255.7 million and ₱264.1 million, respectively. Accrued retirement benefits amounted to ₱3.9 billion and ₱3.8 billion as of December 31, 2015 and 2014, respectively (see Notes 14 and 23).

Provisions and contingencies
The Group is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with the legal counsels handling the defense in these matters and is based upon the analysis of potential results. The Group currently does not believe these proceedings will have a material adverse effect on the consolidated financial statements. It is possible, however, that future financial performance could be materially affected by changes in the estimates or effectiveness of the strategies relating to these proceedings and assessments.

Provision for legal claims amounted to ₱898.7 million and ₱1.6 billion as of December 31, 2015 and 2014, respectively (see Note 38).

Recognition of deferred income tax assets
The Group reviews the carrying amounts of the deferred income tax assets at the end of each reporting period and adjusts the balance of deferred income tax assets to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. The Group's assessment on the recognition of deferred income tax assets on deductible temporary differences is based on the level and timing of forecasted taxable income of the subsequent reporting periods. This forecast is based on the Group's past results and future expectations on revenues and expenses as well as future tax planning strategies. However, there is no assurance that the Group will generate sufficient future taxable income to allow all or part of the deferred income tax assets to be utilized.

The Group has NOLCO, excess MCIT over and other deductible temporary differences, which relate to certain subsidiaries that have a history of losses and may not be used to offset taxable income elsewhere in the Group. The subsidiaries neither have any taxable temporary difference nor was any tax planning opportunities available that could partly support the recognition of these NOLCO, excess MCIT over RCIT and other deductible temporary differences as deferred income tax assets. On this basis, the Group has determined that it cannot recognize the deferred income tax assets on these NOLCO, excess MCIT over RCIT and other deductible temporary differences totaling to ₱4.7 billion as of December 31, 2015 and 2014 (see Note 29).

4. Segment Information

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

The Group's identified operating segments classified as business groups, which are consistent with the segments reported to LTG's BOD, its Chief Operating Decision Maker (CODM), are as follows:

- Banking, provides full range of banking and other financial services to corporate, middle-market and retail customers, the National Government (NG), local government units (LGUs) and government-owned and controlled corporations (GOCCs) and various government agencies, including deposit-taking, lending, bills discounting, foreign exchange dealing, investment banking, fund transfers or remittance servicing and full range of retail banking and trust services and other insurance services. The Group conducts its banking business through PNB and its consolidated subsidiaries.

- Distilled Spirits, which is involved in manufacturing, compounding, bottling, importing, buying and selling of rum, spirit beverages, and liquor products. The Group conducts its distilled spirits business through TDI and its consolidated subsidiaries.

- Beverage, which is engaged in brewing and soft drinks and bottled water manufacturing in the Philippines. It also operates other plants, which includes commercial glass division and corrugated cartons and metal closures production facility, to support the requirements of its brewing, bottled water 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 8.0% and 3.8% as of December 31, 2015, 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 90%, 89% and 94% of the segment's total revenue in 2015, 2014 and 2013, 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 year ended December 31, 2015:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
				(In Thousands)			
Segment revenue:							
External customers	**₱26,600,160**	**₱12,002,266**	**₱13,286,994**	**₱–**	**₱2,484,453**	**₱–**	**₱54,373,873**
Inter-segment	**10,150**	**115,079**	**1,011,781**	**–**	**–**	**(1,137,010)**	**–**
	26,610,310	**12,117,345**	**14,298,775**	**–**	**2,484,453**	**(1,137,010)**	**54,373,873**
Cost of sales and services	**4,807,242**	**9,831,228**	**10,261,942**	**–**	**1,179,549**	**(1,199,589)**	**24,880,372**
Gross profit	**21,803,068**	**2,286,117**	**4,036,833**	**–**	**1,304,904**	**62,579**	**29,493,501**
Equity in net earnings of associates	**–**	**–**	**–**	**974,543**	**–**	**214,431**	**1,188,974**
	21,803,068	**2,286,117**	**4,036,833**	**974,543**	**1,304,904**	**277,010**	**30,682,475**
Selling expenses	**–**	**939,453**	**1,675,683**	**–**	**42,382**	**(13,422)**	**2,644,096**
General and administrative expenses	**18,449,228**	**653,396**	**833,069**	**141,260**	**588,292**	**152,482**	**20,817,727**
Operating income	**3,353,840**	**693,268**	**1,528,081**	**833,283**	**674,230**	**137,950**	**7,220,652**
Foreign exchange gains - net	**1,207,840**	**1,609**	**–**	**95,618**	**3,746**	**13,587**	**1,322,400**
Finance costs	**–**	**(57,969)**	**(2,439)**	**–**	**(175,787)**	**33,677**	**(202,518)**
Finance income	**–**	**154**	**19,572**	**92,549**	**50,830**	**(52,729)**	**110,376**
Others - net	**3,393,380**	**28,066**	**13,521**	**71,785**	**10,620**	**(250,737)**	**3,266,635**
Income before income tax	**7,955,060**	**665,128**	**1,558,735**	**1,093,235**	**563,639**	**(118,252)**	**11,717,545**
Provision for income tax	**1,543,789**	**243,043**	**459,466**	**53,229**	**250,358**	**28,937**	**2,578,822**
Segment profit from :							
Continuing operations	**6,411,271**	**422,085**	**1,099,269**	**1,040,006**	**313,281**	**(147,189)**	**9,138,723**
Discontinued operations	**357,931**	**–**	**–**	**–**	**–**	**–**	**357,931**
Segment profit	**₱6,769,202**	**₱422,085**	**₱1,099,269**	**₱1,040,006**	**₱313,281**	**(₱147,189)**	**₱9,496,654**
Segment profit attributable to:							
Equity holders of the Company	**₱3,673,284**	**₱427,930**	**₱1,099,269**	**₱1,035,563**	**₱312,091**	**₱50,898**	**₱6,599,035**
Non-controlling interests	**3,095,918**	**(5,845)**	**–**	**4,443**	**1,190**	**(198,087)**	**2,897,619**
Depreciation and amortization expense	**1,168,620**	**551,339**	**1,549,879**	**11,975**	**151,693**	**19,012**	**3,452,518**

Other financial information of the operating segments as of December 31, 2015 is as follows:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
				(In Thousands)			
Assets:							
Current assets	**₱331,611,312**	**₱10,040,792**	**₱11,368,663**	**₱9,975,983**	**₱14,774,964**	**(₱7,510,083)**	**₱370,261,631**
Noncurrent assets	**334,920,597**	**6,667,777**	**13,294,019**	**12,602,442**	**11,322,217**	**483,819**	**379,290,871**
	₱666,531,909	**₱16,708,569**	**₱24,662,682**	**₱22,578,425**	**₱26,097,181**	**(₱7,026,264)**	**₱749,552,502**
Liabilities:							
Current liabilities	**₱494,826,886**	**₱2,044,210**	**₱3,443,633**	**₱319,367**	**₱7,045,991**	**(₱11,354,869)**	**₱496,325,218**
Noncurrent liabilities	**79,378,819**	**536,539**	**1,278,930**	**113,459**	**3,122,295**	**(960,853)**	**83,469,189**
	₱574,205,705	**₱2,580,749**	**₱4,722,563**	**₱432,826**	**₱10,168,286**	**(₱12,315,722)**	**₱579,794,407**
Investments in associates and a joint venture	**₱–**	**₱–**	**₱19,900**	**₱10,289,586**	**₱–**	**₱1,451,804**	**₱11,761,290**
Equity attributable to:							
Equity holders of the Company	**50,946,819**	**14,008,783**	**19,940,119**	**22,047,721**	**15,897,492**	**6,035,084**	**128,876,018**
Non-controlling interests	**41,379,385**	**119,037**	**–**	**97,878**	**31,403**	**(745,626)**	**40,882,077**
Additions to noncurrent assets:							
Property, plant and equipment	**4,166,428**	**559,956**	**1,860,257**	**22,337**	**31,552**	**6,788**	**6,647,318**
Investment properties	**505,262**	**–**	**–**	**–**	**1,464,695**	**(366,238)**	**1,603,719**
Short-term debts	**–**	**350,000**	**1,400,000**	**–**	**–**	**(350,000)**	**1,400,000**
Long-term debts	**9,986,426**	**–**	**–**	**–**	**1,196,020**	**–**	**11,182,446**

For the year ended December 31, 2014 (As restated, Note 37):

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
				(In Thousands)			
Segment revenue:							
External customers	₱24,210,181	₱11,919,131	₱13,288,369	₱–	₱2,278,600	₱–	₱51,696,281
Inter-segment	735,384	101,386	1,033,901	–	–	(1,870,671)	–
	24,945,565	12,020,517	14,322,270	–	2,278,600	(1,870,671)	51,696,281
Cost of sales and services	4,378,367	9,819,049	10,238,090	–	1,582,589	(1,278,717)	24,739,378
Gross profit	20,567,198	2,201,468	4,084,180		696,011	(591,954)	26,956,903
Equity in net earnings of associates	–	–	–	515,112	–	379,443	894,555
	20,567,198	2,201,468	4,084,180	515,112	696,011	(212,511)	27,851,458
Selling expenses	–	957,664	1,649,833	–	155,052	(15,909)	2,746,640
General and administrative expenses	18,693,960	665,807	824,347	356,238	427,417	100,309	21,068,078
Operating income	1,873,238	577,997	1,610,000	158,874	113,542	(296,911)	4,036,740
Foreign exchange gains - net	1,342,196	(1,883)		6,599	(1,154)	1,946	1,347,704
Finance costs	–	(418,214)	(11,892)	–	(49,317)	24,568	(454,855)
Finance income	–	99	18,516	108,825	42,037	(50,436)	119,041
Others - net	4,038,751	15,506	(9,219)	205,733	96,882	(542,594)	3,805,059
Income before income tax	7,254,185	173,505	1,607,405	480,031	201,990	(863,427)	8,853,689
Provision for income tax	1,620,442	72,790	485,525	331,676	82,125	53,089	2,645,647
Segment profit from:							
Continuing operations	5,633,743	100,715	1,121,880	148,355	119,865	(916,516)	6,208,042
Discontinued operations	264,164	–	–	–	–	–	264,164
Segment profit	₱5,897,907	₱100,715	₱1,121,880	₱148,355	₱119,865	(₱916,516)	₱6,472,206
Segment profit attributable to:							
Equity holders of the Company	₱3,117,161	₱99,668	₱1,121,880	₱147,731	₱118,966	(₱195,176)	₱4,410,230
Non-controlling interests	2,780,746	1,047	□	624	899	(721,340)	2,061,976
Depreciation and amortization expense	1,137,939	539,345	1,675,598	10,983	174,001	17,126	3,554,992

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

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
				(In Thousands)			
Assets:							
Current assets	₱298,568,066	₱10,219,418	₱10,004,167	₱10,012,580	₱14,777,806	(₱3,445,955)	₱340,136,082
Noncurrent assets	313,673,332	6,600,617	13,588,070	13,304,339	8,915,819	614,949	356,697,126
	₱612,241,398	₱16,820,035	₱23,592,237	₱23,316,919	₱23,693,625	(₱2,831,006)	₱696,833,208
Liabilities:							
Current liabilities	₱466,229,722	₱6,443,588	₱2,959,227	₱385,588	₱12,925,809	(₱19,797,471)	₱469,146,463
Noncurrent liabilities	59,837,726	540,528	1,492,193	75,038	2,686,229	332,837	64,964,551
	₱526,067,448	₱6,984,116	₱4,451,420	₱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	9,710,664	19,140,817	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
Additions to noncurrent assets:							
Property, plant and equipment	1,051,647	365,947	1,041,141	8,893	16,777	9,639	2,494,044
Investment properties	1,283,966	–	–	929,071	395,788	–	2,608,825
Short-term debts	–	–	300,000	–	–	–	300,000
Long-term debts	9,969,498	4,998,008	2,902	–	1,829,938	(2,902)	16,797,444

For the year ended December 31, 2013 (As restated, Note 37):

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
				(In Thousands)			
Segment revenue:							
External customers	₱28,560,739	₱10,425,603	₱12,701,784	₱151,722	₱3,656,950	₱–	₱55,496,798
Inter-segment	–	114,240	683,493	–	–	(797,733)	–
	28,560,739	10,539,843	13,385,277	151,722	3,656,950	(797,733)	55,496,798
Cost of sales and services	5,786,346	8,293,157	9,738,942	153,366	2,680,123	(964,665)	25,687,269
Gross profit	22,774,393	2,246,686	3,646,335	(1,644)	976,827	166,932	29,809,529
Equity in net earnings of an associate	–	–	–	3,704,117	–	–	3,704,117
	22,774,393	2,246,686	3,646,335	3,702,473	976,827	166,932	33,513,646
Selling expenses	–	648,619	1,783,513	–	365,764	(20,950)	2,776,946
General and administrative expenses	17,849,937	894,020	743,202	121,121	515,967	273,070	20,397,317
Operating income	4,924,456	704,047	1,119,620	3,581,352	95,096	(85,188)	10,339,383
Foreign exchange gains - net	1,162,228	2,248	–	67,975	3,853	19,278	1,255,582
Finance costs	–	(416,999)	(37,107)	–	(35,736)	8,950	(480,892)
Finance income	–	404	5,940	116,227	42,833	(26,311)	139,093
Others - net	1,148,913	75,428	285,366	345,256	159,603	89,039	2,103,605
Income before income tax	7,235,597	365,128	1,373,819	4,110,810	265,649	5,768	13,356,771
Provision for income tax	1,197,630	179,757	330,337	174,278	160,575	35,810	2,078,387
Segment profit from:							
Continuing operations	6,037,967	185,371	1,043,482	3,936,532	105,074	(30,042)	11,278,384
Discontinued operations	196,680	–	–	–	–	–	196,680
Segment profit	₱6,234,647	₱185,371	₱1,043,482	₱3,936,532	₱105,074	(₱30,042)	₱11,475,064
Segment profit attributable to:							
Equity holders of the Company	₱3,435,032	₱196,463	₱1,043,482	₱3,919,999	₱104,286	(₱30,042)	₱8,669,220
Non-controlling interests	2,799,615	(11,092)	–	16,533	788	–	2,805,844
Depreciation and amortization expense	1,608,859	547,071	1,713,053	16,414	132,433	16,380	4,034,210

5. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	2015	2014
	(In Thousands)	
Cash and other cash items	**₱17,555,206**	₱18,238,962
Cash equivalents:		
Due from *Bangko Sentral ng Pilipinas* (BSP)	**81,363,444**	105,773,685
Due from other banks	**18,287,308**	15,591,406
Interbank loans receivable	**20,350,383**	7,671,437
	₱137,556,341	₱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. Interest earned on cash and other cash items and cash equivalents are presented under “Finance income” and “Banking revenue”, respectively (see Notes 24 and 27).

6. Financial Assets at Fair Value through Profit or Loss

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

	2015	2014
	(In Thousands)	
Financial assets at fair value through profit or loss (FVPL):		
Held for trading:		
Government securities	**₱4,039,612**	₱6,598,386
Equity securities	**199,922**	210,550
Derivative assets (Notes 21 and 33)	**181,348**	136,551
Private debt securities	**143,800**	289,313
	4,564,682	7,234,800
Designated at FVPL:		
Unit investment trust fund	**5,099,052**	4,922,351
Segregated fund assets (Notes 16 and 37)	**–**	10,654,770
	₱9,663,734	₱22,811,921

a. As of December 31, 2015 and 2014, unrealized loss on government and private debt securities amounted to ₱261.5 million and ₱216.2 million, respectively. In 2015 and 2014, the effective interest rates range from 2.13% to 10.63% and from 2.75% to 8.88% for the government securities, and from 4.80% to 7.38% and from 4.25% to 7.38% for the private debt securities, respectively.

b. The carrying amount of equity securities includes unrealized loss of ₱53.4 million and ₱17.3 million as of December 31, 2015 and 2014, respectively.

c. In various dates in 2014, the Group invested in PNB Institutional Money Market Fund which is a money market unit investment trust fund (UITF). The investment is subject to a minimum holding period of 30 days. Mark to market gains on financial assets at FVPL amounted to ₱99.1 million and ₱32.4 million in 2015 and 2014. Realized gains from redemption of investment presented under finance income amounted to ₱22.4 million in 2015 and ₱7.0 million in 2014 (see Note 27).

d. Segregated fund assets designated as financial asset at FVPL refer to the considerations received from unit-linked insurance contracts invested by PNB LII in designated funds (Note 37).

   On March 15, 2005 and June 17, 2005, the Insurance Committee (IC) approved PNB LII's license to sell single-pay and regular-pay unit-linked insurance products, respectively.

   Segregated fund assets and the corresponding segregated fund liabilities are designated as financial assets and liabilities at FVPL since they are managed and their performances are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy. The equity of each policyholder in the segregated fund assets is determined by assigning a number of units to each policyholder, corresponding to the net amount deposited in relation to the market value at the time of contribution. The value per unit may increase or decrease depending on the market value of the underlying assets of the corresponding segregated funds.

   As of December 31, 2014, the segregated fund assets consist of peso and dollar funds amounting to ₱10.7 billion. In 2015, the segregated funds amounting to ₱13.6 billion were reclassified to "Assets of disposal group classified as held for sale" (see Note 37). The segregated fund assets include the following equity-linked notes:

Equity-linked notes	Description
Asian Summit	A single-pay variable life insurance product which invests the single premium, net of premium charges, into a five (5)-Year PHP-Linked USD Participation Note which is linked to the performance of a basket of five Asian equity indices.
Summit Select	A single-pay variable life insurance product which invests the single premium, net of premium charges, into a five (5)-Year PHP-Linked USD Participation Note which is linked to the performance of ING Emerging Markets Consumption VT 10.00% Index.
Dollar Income Optimizer	A single-pay variable life insurance product which invests the single premium, net of premium charges, into UBS seven (7)-Year Structured Note which is linked to the performance of a basket of high quality global funds chosen to offer income and potential for capital appreciation.

(Forward)

Equity-linked notes	Description
Variable Unit-Linked Summit Peso and Dollar	A peso and dollar denominated single-pay five (5)-Year linked life insurance plan that provide the opportunity to participate in a risk-managed portfolio of six (6) equally-weighted exchange traded funds of ASEAN member countries via the ING ASEAN Equities VT 10.00% index.
True North (Launched in 2015)	A fund invested in a 5-year UBS Note linked to UBS Multi Asset Portfolio T5 Index (the "UBS MAP T5") issued by UBS A.G.. It provides a minimum redemption value equivalent to 90.00% of the PHP equivalent principal amount, if held to maturity, and provided that no credit default event occurs on UBS A.G.

7. Available for Sale and Held to Maturity Investments

Available for Sale Investments

Available for sale investments consist of:

	2015	2014
	(In Thousands)	
Government securities (Note 17)	**₱45,802,968**	₱37,211,623
Other debt securities	**22,252,980**	23,708,156
Equity securities:		
Quoted	**1,329,564**	2,817,198
Unquoted	**1,177,924**	1,006,249
	70,563,436	64,743,226
Allowance for impairment losses	**(998,749)**	(929,881)
	69,564,687	63,813,345
Noncurrent portion	**(66,649,517)**	(60,039,059)
	₱2,915,170	₱3,774,286

a. As of December 31, 2015 and 2014, the fair value of the AFS investments in the form of government and private bonds pledged to fulfill its collateral requirements with securities sold under repurchase agreements transactions with the foreign banks amounted to ₱8.5 billion (see Notes 17 and 33). The counterparties have an obligation to return the securities to the PNB once the obligations have been settled. In case of default, the foreign banks have the right to hold the securities and sell them as settlement of the repurchase agreement.

b. Included in AFS investments are pledged securities for the Surety Bond with fair value of ₱800.0 million issued by PNB Gen. As of December 31, 2015 and 2014, the carrying value of these pledged securities amounted to ₱873.0 million and ₱903.9 million, respectively.

c. Other debt securities consist of notes issued by private entities.

d. No impairment loss has been recognized on unquoted debt securities for the years ended December 31, 2015 and 2014.

e. As of December 31, effective interest rates for the AFS investments follow:

	2015	2014
Peso-denominated	**1.03% to 5.62%**	2.58% to 5.62%
Foreign-currency denominated	**1.10% to 5.39%**	2.06% to 5.83%

f. Presented below are the movements in the net changes in fair values of AFS financial assets:

	2015	2014
	(In Thousands)	
Balance at beginning of year	**(₱1,161,616)**	(₱1,714,054)
Net changes in fair value of AFS investments during the year*:		
Fair value changes during the year on AFS investments	**(313,048)**	1,344,819
Reversal of fair value gain on AFS investments reclassified to investment in associate (Note 11)	**–**	238,186
Realized gains**(Note 24)	**(782,065)**	(1,030,567)
	(1,095,113)	552,438
Balance at end of year	**(₱2,256,729)**	(₱1,161,616)
Attributable to:		
Equity holders of the Company***	**(₱1,099,193)**	(₱750,414)
Non-controlling interests	**(1,157,536)**	(411,202)
	(₱2,256,729)	(₱1,161,616)

* *Net of deferred income tax effect amounting to ₱2.9 million and ₱1.4 million in 2015 and 2014, respectively.*
** *Included in "Trading and securities gains" under "Banking revenue".*
*** *Including accumulated fair value gain .amounting to ₱348,786 and nil as at December 31, 2015 and 2014, respectively in disposal group*

g. The movements in allowance for impairment losses of AFS investments follow:

	2015	2014
	(In Thousands)	
Balance at beginning of year	**₱929,881**	₱928,408
Provisions during the year	**32,995**	1,234
Disposals, transfers and others	**68,638**	239
Transfer to disposal group classified as held for sale (Note 37)	**(32,765)**	–
Balance at end of year	**₱998,749**	₱929,881

Reclassification of Financial Assets

On October 12, 2011, PNB had identified a clear change of intent to exit or trade in the short term its HTM investments rather than to hold them until maturity, when it disposed of more than an insignificant amount of its HTM investments. This disposal necessitated the reclassification of the remaining HTM investments to AFS securities in accordance with PAS 39. As of the date of reclassification, the amortized cost of HTM investments reclassified to AFS investments amounted to ₱32.5 billion. Reclassified AFS investments are initially measured at their fair value amounting to ₱35.7 billion. Any difference between the amortized cost of HTM investments and their fair value at reclassification date is recognized in OCI.

Beginning 2014, the Group is already allowed to classify investments as HTM as the tainting period, required by PAS 39, has lapsed. On March 3 and March 5, 2014, the Group reclassified certain AFS investments with fair values of ₱15.9 billion and ₱6.8 billion, respectively, back to its original classification, as HTM investments, as management has established that it continues to have the positive intention and ability to hold these securities to maturity. The reclassification was approved by the BOD of PNB on February 28, 2014. The previous fair valuation gains amounting to ₱2.7 billion that have been recognized in OCI shall be amortized to profit or loss over the remaining life of the HTM investments using effective interest rates ranging from 3.60% to 5.64%.

Held to Maturity Investments
As of December 31, 2015 and 2014, HTM investments of the Group comprise of government securities amounting to ₱23.2 billion and ₱22.9 billion, respectively, including current portion of ₱68.2 million and ₱11.4 million, respectively.

As of December 31, 2015 and 2014, the fair value of the HTM investments in the form of Republic of the Philippines bonds pledged to fulfill its collateral requirements with securities sold under repurchase agreements transactions with BSP amounted to ₱7.5 billion and ₱8.9 billion, respectively (see Note 17).

8. **Loans and Receivables**

Loans and receivables consist of:

	2015	2014
	(In Thousands)	
Finance receivables (Notes 17 and 22)	**₱380,207,907**	₱328,416,192
Trade receivables	**12,288,478**	11,885,157
Other receivables	**2,404,704**	2,980,818
	394,901,089	343,282,167
Allowance for credit losses	**(15,977,755)**	(12,189,786)
	378,923,334	331,092,381
Noncurrent portion	**(206,782,709)**	(187,438,860)
	₱172,140,625	₱143,653,521

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

	2015	2014
	(In Thousands)	
Receivables from customers:		
Loans and discounts	**₱335,352,183**	₱278,897,612
Customers' liabilities on acceptances, letters of credit and trust receipts	**11,079,224**	11,594,378
Bills purchased (Note 20)	**3,858,750**	4,878,682
Credit card receivables	**5,439,554**	4,390,966
Finance lease receivables	**3,686,790**	3,311,150
	359,416,501	303,072,788
Unquoted debt securities	**4,245,069**	8,044,272

(Forward)

	2015	2014
	(In Thousands)	
Other receivables:		
Accounts receivable	**₱8,374,156**	₱8,993,706
Accrued interest receivable	**5,150,502**	4,756,699
Sales contract receivables	**4,428,062**	4,267,338
Miscellaneous	**429,924**	442,089
	18,382,644	18,459,832
	382,044,214	329,576,892
Unearned and other deferred income	**(1,836,307)**	(1,160,700)
	380,207,907	328,416,192
Allowance for credit losses	**(15,934,483)**	(12,129,459)
	364,273,424	316,286,733
Noncurrent portion	**(206,430,391)**	(186,830,742)
	₱157,843,033	₱129,455,991

a. Transactions with Maybank Philippines, Inc. (Maybank)

On November 27, 1997, Maybank and PNB signed a deed of assignment transferring to PNB certain Maybank assets (included under "Finance receivables") and liabilities in connection with the sale of PNB's 60.00% equity in Maybank.

As of December 31, 2015 and 2014, the balance of these receivables amounted to ₱3.7 billion and ₱3.6 billion, respectively, while the transferred liabilities (included under "Bills payable to BSP and local banks" and "Accrued interest payable") amounted to ₱1.8 billion and ₱1.6 billion, respectively. The excess of the transferred receivables over the transferred liabilities is fully covered by an allowance for credit losses amounting to ₱262.5 million as of December 31, 2015 and 2014. The remaining 40.00% equity ownership of PNB in Maybank was sold in June 2000 (see Note 38).

b. Unquoted Debt Securities

Unquoted debt instruments include the zero-coupon notes received by PNB from Special Purpose Vehicle (SPV) Companies on October 15, 2004, at the principal amount of ₱803.5 million (Tranche A Note) payable in five (5) years and at the principal amount of ₱3.4 billion (Tranche B Note) payable in eight (8) years in exchange for the outstanding loans receivable from National Steel Corporation (NSC) of ₱5.3 billion. The notes are secured by a first ranking mortgage and security interest over the NSC Plant Assets. As of December 31, 2015 and 2014, the notes are carried at their recoverable values (see Note 37).

c. Finance Lease Receivable

An analysis of the Group's finance lease receivables as of December 31 is presented as follows:

	2015	2014
	(In Thousands)	
Gross investment in finance lease receivables		
Due within one year	**₱1,428,528**	₱1,319,896

(Forward)

	2015	2014
	(In Thousands)	
Due beyond one year but not over five years	**₱1,498,041**	₱1,369,711
Due beyond five years	**47,900**	58,511
	2,974,469	2,748,118
Residual value of leased equipment		
Due within one year	**225,590**	138,018
Due beyond one year but not over five years	**486,731**	425,014
	712,321	563,032
Total finance lease receivable	**₱3,686,790**	₱3,311,150

d. Interest income on loans and receivables consists of (see Note 24):

	2015	2014 (As Restated, Note 37)	2013 (As Restated, Note 37)
Receivable from customers and sales contract receivables	**₱17,080,888**	₱14,705,383	₱13,539,406
Unquoted debt securities	**63,478**	521,555	253,556
	₱17,144,366	₱15,226,938	₱13,792,962

As of December 31, 2015 and 2014, 82.8% and 75.7%, respectively, of the total receivable from customers of the Group were subject to interest repricing. Remaining receivables carry annual fixed interest rates ranging from 1.1% to 7.0% in 2015, from 2.5% to 9.0% in 2014 and from 4.8% to 9.0% in 2013 for foreign currency-denominated receivables, and from 0.5% to 15.3% in 2015, from 0.03% to 23.0% in 2014 and 0.3% to 24.4% in 2013 for peso-denominated receivables.

Sales contract receivables bear fixed interest rate per annum ranging from 3.3% to 21.0% and from 5.1% to 21.0% as of December 31, 2015 and 2014, respectively.

Interest income accrued on impaired loans and receivable of the Group amounted to ₱217.0 million in 2015, ₱274.8 million in 2014 and ₱289.1 million in 2013.

Trade receivables

Trade receivables consist of:

	2015	2014
	(In Thousands)	
Consumer goods	**₱9,383,633**	₱9,026,828
Contract receivables	**2,875,514**	2,667,862
Lease receivables	**29,331**	190,467
	12,288,478	11,885,157
Allowance for credit losses	**(32,032)**	(54,813)
	12,256,446	11,830,344
Noncurrent portion of contract receivables	**(352,318)**	(608,118)
	₱11,904,128	₱11,222,226

a. Trade receivables on consumer goods pertain to receivables from various customers of distilled spirits, beverages and tobacco segments, which are noninterest-bearing and generally have 30 to 90 days' terms.

b. Contracts receivables of the property development segment consist of revenues recognized to date based on percentage of completion less collections received from the respective buyers. Interest income from interest-bearing contracts receivables amounted to ₱34.6 million, ₱37.5 million and ₱39.4 million in 2015, 2014 and 2013 respectively.

c. The Group assigned certain contracts receivables to Banco de Oro Unibank, Inc. (BDO) on a with recourse basis. The total assigned contracts receivables amounted to ₱133.4 million and ₱257.6 million as of December 31, 2015 and 2014, respectively (see Note 19).

Other Receivables
Other receivables are due and demandable and include accrued interest receivable pertaining to interest earned on cash and cash equivalents and unpaid utility charges to tenants and receivables from sale of various assets.

Movements of Allowance for Credit Losses
Details and movements of allowance for credit losses, determined using individual and collective assessment follow:

	December 31, 2015			
	Finance Receivables	**Trade Receivables**	**Other Receivables**	**Total**
	(In Thousands)			
Balance at beginning of year	**₱12,129,459**	**₱54,813**	**₱5,514**	**₱12,189,786**
Provisions during the year (Note 26)	**860,163**	**−**	**5,726**	**865,889**
Accounts charged off, transfers and others	**2,944,861**	**(22,781)**	**−**	**2,922,080**
Balance at end of year	**₱15,934,483**	**₱32,032**	**₱11,240**	**₱15,977,755**

	December 31, 2014			
	Finance Receivables	Trade Receivables	Other Receivables	Total
	(In Thousands)			
Balance at beginning of year	₱17,165,122	₱32,590	₱5,514	₱17,203,226
Provisions during the year (Note 26)	1,712,279	22,223	−	1,734,502
Accounts charged off, transfers and others	(6,747,942)	−	−	(6,747,942)
Balance at end of year	₱12,129,459	₱54,813	₱5,514	₱12,189,786

Below is the breakdown of provision for (reversal of) credit losses by type of loans and receivables.

	2015	2014
	(In Thousands)	
Individual assessment		
Finance receivables:		
Receivable from customers	**₱487,496**	₱2,153,083
Unquoted debt securities	**(166,627)**	(336,475)
Other receivables	**69,304**	(164,331)
Trade receivables from customers of consumer goods and other receivables	**5,726**	22,223
	395,899	1,674,500
Collective assessment		
Finance receivables:		
Receivables from customers	**434,960**	59,930
Other receivables	**35,030**	72
	469,990	60,002
	₱865,889	₱1,734,502

9. Inventories

Inventories consist of:

	2015	2014
	(In Thousands)	
At Cost:		
Consumer goods:		
Alcohol	**₱2,387,930**	₱2,383,195
Beverage	**1,887,224**	2,028,689
	4,275,154	4,411,884
Real estate inventories:		
Condominium and residential units for sale	**3,978,857**	3,524,882
Subdivision land under development	**3,370,090**	2,315,704
Land held for future development	**1,137,156**	1,408,237
	8,486,103	7,248,823
Fuel, materials and supplies	**613,024**	624,150
	13,374,281	12,284,857
At NRV - Materials and supplies	**649,766**	652,008
	₱14,024,047	₱12,936,865

Allowance for inventory obsolescence on materials and supplies amounted to ₱7.0 million, and ₱25.2 million as of December 31, 2015 and 2014, respectively.

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

	2015	2014
	(In Thousands)	
Finished goods	**₱729,321**	₱561,011
Work in process	**1,008,228**	1,022,742
Raw materials	**2,537,605**	2,828,131
	₱4,275,154	₱4,411,884

Cost of consumer goods inventories recognized as expenses under cost of sales amounted to ₱12.7 billion, ₱12.5 billion and ₱10.8 billion in 2015, 2014 and 2013 respectively (see Note 24).

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

	2015	2014
	(In Thousands)	
Balance at beginning of year	**₱7,248,823**	₱4,932,871
Land acquired during the year	**–**	328,580
Construction/development costs incurred	**2,208,321**	3,127,713
Transfer from (to) investment property	**(80,236)**	–
Borrowing costs capitalized (Note 19)	**61,856**	163,393
Disposals (recognized as cost of real estate sales, Note 24)	**(952,661)**	(1,303,734)
Balance at end of year	**₱8,486,103**	₱7,248,823

Parcels of land acquired in 2014 will be used for development of condominium units for sale and development as part of the consolidation of properties in Eton City, one of the major projects of the Group's property development segment.

The average capitalization rates used to determine the amount of borrowing costs eligible for capitalization is 4.5% and 5.0% in 2015 and 2014.

10. **Other Current Assets**

	2015	2014
	(In Thousands)	
Miscellaneous cash and other cash items	**₱103,668**	₱714,726
Creditable withholding taxes (CWT)	**3,409,032**	2,738,802
Excise tax	**959,654**	1,008,484
Advances to suppliers	**985,053**	964,567
Input VAT	**802,637**	827,684
Prepaid expenses	**468,587**	371,466
Advances to contractors	**326,188**	367,221
Stationeries, office supplies and stamps on hand	**300,156**	129,721
Deferred rent	**161,592**	90,701
Deferred reinsurance premiums	**287,139**	–
Deferred charges	**271,257**	–
Others	**766,960**	673,237
	₱8,841,923	₱7,886,609

a. CWTs pertain mainly to the amounts withheld from income derived from sale of consumer goods and real estate inventories. The CWTs can be applied against any income tax liability of a company in the Group to which the CWTs relate.

b. Excise tax pertains to advance tax payments to the Bureau of Internal Revenue (BIR) on sale of alcoholic beverages (see Note 38).

c. Advances to suppliers pertain to deposits made for raw material purchases and are applied upon delivery of the related inventories.

d. Advances to contractors are recouped every progress billing payment based on the percentage of accomplishment of each contract package. The activities to which these advances pertain will be completed within the normal operating cycle.

e. Prepaid expenses include prepaid importation charges amounting to ₱72.9 million and ₱80.8 million as of December 31, 2015 and 2014, respectively. Prepaid importation charges pertain to the purchases of raw materials by the distilled spirits and beverage businesses.

11. Subsidiaries, Associates and Joint Venture

<u>Investments in Associates and a Joint Venture</u>

The Group has the power to participate in the financial and operating policy decisions in PMFTC and VMC, a 49.6%-owned and a 22.5%-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 the equity method of accounting.

	Ownership		Amount	
	2015	2014	**2015**	2014
			(In Thousands)	
PMFTC	**49.6%**	49.6%	**₱10,289,585**	₱11,011,011
VMC	**22.5%**	20.2%	**1,451,805**	1,237,373
ABI Pascual Holdings	**50.0%**	50.0%	**19,900**	49,125
			₱11,761,290	₱12,297,509

Investment in PMFTC

Details of investment in PMFTC are as follows:

	2015	2014	2013
		(In Thousands)	
Acquisition cost	**₱13,483,541**	₱13,483,541	₱13,483,541
Accumulated equity in net earnings (loss):			
Balance at beginning of year	**(2,499,984)**	153,454	402,557
Equity in net earnings	**974,543**	515,112	3,704,117
Cash dividends (Note 22)	**(1,695,969)**	(3,168,550)	(3,953,220)
Balance at end of year	**(3,221,410)**	(2,499,984)	153,454
Accumulated share in other comprehensive income	**27,454**	27,454	27,454
	₱10,298,585	₱11,011,011	₱13,664,449

On February 25, 2010, FTC and PMPMI combined their respective domestic business operations by transferring selected assets and liabilities to PMFTC in accordance with the provisions of the Asset Purchase Agreement (APA) between FTC and its related parties and PMPMI. The establishment of PMFTC allows FTC and PMPMI to benefit from their respective, complementary brand portfolios as well as cost synergies from the resulting integration of manufacturing, distribution and procurement, and the further development and advancement of tobacco growing in the Philippines. FTC and PMPMI hold equal economic interest in PMFTC. Since PMPMI manages the day-to-day operations and has majority members of the BOD, it has control over PMFTC. FTC considers PMFTC as an associate.

As a result of FTC's divestment of its cigarette business to PMFTC, FTC initially recognized the investment amounting to ₱13.5 billion, representing the fair value of the net assets contributed by FTC, net of unrealized gain of ₱5.1 billion. The transaction was accounted for similar to a contribution in a joint venture based on Standing Interpretations Committee (SIC) Interpretation 13, *Jointly Controlled Entities-Non-Monetary Contributions by Venturers* , where FTC recognized only that portion of the gain or loss which is attributable to the interests of PMPMI amounting to ₱5.1 billion in 2010. The portion attributable to FTC is being recognized once the related assets and liabilities are realized, disposed or settled. FTC recognized the gain of around ₱293.0 million each year starting 2011 and an outright loss of ₱2.0 billion in 2010, which are included in the "Equity in net earnings" in these periods. Further, as a result of the transfer, portion of the revaluation increment on FTC's property, plant and equipment amounting to ₱1.9 billion was transferred to retained earnings.

Details of the carrying values of the contributed assets are indicated below *(In thousands)*:

Cash	₱33,090
Inventories	19,084,092
Property, plant and equipment	8,432,235
Other current assets	4,382,894
Trade and other payable	(2,707,797)
Loans payable	(19,000,000)
Deferred income tax liability	(1,818,551)
	₱8,405,963

Also, as a result of the transaction, FTC has obtained the right to sell (put option) its interest in PMFTC to PMPMI, except in certain circumstances, during the period from February 25, 2015 through February 24, 2018, at an agreed-upon value. On December 10, 2013, the BOD of LTG approved the waiver by FTC of its rights under the Exit Rights Agreement entered into with PMI and confirmed the execution of the Termination Agreement.

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

	2015	2014
	(In thousands)	
Current assets	**₱41,833,272**	₱41,868,305
Noncurrent assets	**31,592,808**	32,390,102
Current liabilities	**20,760,591**	34,231,463
Noncurrent liabilities	**21,944,755**	8,646,788
Equity	**30,720,734**	31,380,156

Summarized statements of income of PMFTC are as follows:

	2015	2014	2013
		(In thousands)	
Revenue	**₱115,220,990**	₱98,384,104	₱89,623,792
Cost of sales	**(101,462,725)**	(86,919,392)	(67,456,713)
General and administrative expenses	**(12,656,463)**	(12,394,813)	(12,652,233)
Others - net	**845,105**	1,494,706	585,702
Income before income tax	**1,946,907**	564,605	10,100,548
Provision for income tax	**(533,067)**	(116,876)	(2,970,655)
Net income	**1,413,840**	447,729	7,129,893
Other comprehensive income (loss)	**96,932**	(93,233)	55,350
Total comprehensive income	**₱1,510,772**	₱354,496	₱7,185,243
Group's share of income for the year	**₱698,884**	₱222,043	₱3,535,947

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

	2015	2014
	(In thousands)	
Acquisition cost		
Balance at beginning of year	**₱616,441**	₱498,629
Additions	**124,087**	117,812
Balance at end of year	**740,528**	616,441
Accumulated equity in net earnings:		
Balance at beginning of year	**379,443**	–
Equity in net earnings	**196,838**	44,635
Excess of fair value of net assets of associate over cost of investment	**17,593**	334,808
Balance at end of year	**593,874**	379,443
Balance of convertible notes	**117,403**	241,489
	₱1,451,805	₱1,237,373

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

On various dates in April and May 2014, LTG acquired shares of stock of VMC amounting to ₱413.6 million, which increased its ownership interest to 17.5%, and convertible notes amounting to ₱359.3 million, which would increase LTG's interest to 23.5% upon conversion. In 2014, portion of the convertible notes amounting to ₱117.8 million was converted to shares of stock of VMC resulting in an increase in LTG's ownership interest to 20.2% as of December 31, 2014. The cost-based approach was applied in accounting for the step acquisition of VMC as an associate. Accordingly, LTG reclassified the original cost of its AFS investments to investment in an associate and derecognized the net changes in fair value of AFS investments amounting to ₱238.2 million (presented in other comprehensive income) (see Note 7). 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 was recognized as part of the equity in net earnings of VMC in 2014.

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

The summarized financial information of VMC as of and for the year ended November 30, 2015 and as of November 30, 2014 and for the six months period from June 1, 2014 to November 30, 2014 follows:

	2015 (One year)	2014 (Six months)
	(In Thousands)	
Current assets	**₱2,896,521**	₱2,399,263
Noncurrent assets	**5,660,979**	5,571,438
Current liabilities	**581,440**	1,322,438
Noncurrent liabilities	**1,816,696**	1,564,532
Revenue	**5,034,302**	1,352,346
Income before income tax	**1,593,950**	386,628
Provision for income tax	**(483,712)**	(120,357)
Net income	**1,110,238**	266,271
Other comprehensive income	**2,648**	–
Total comprehensive income	**1,112,886**	266,271

Investment in a Joint Venture
On February 15, 2012, ABI and Corporation Empresarial Pascual, S. L. (CEP), an entity organized and existing under the laws of Spain, agreed to form ABI Pascual Holdings, a jointly controlled entity organized and domiciled in Singapore. In accordance with the Agreement, ABI and CEP (the "venturers") will hold 50% interest in ABI Pascual Holdings. Further, the arrangement requires unanimous agreement for financial and operating decisions among venturers.

On November 21, 2012, ABI Pascual Holdings created ABI Pascual Foods Incorporated (ABI Pascual Foods), an operating company, incorporated and domiciled in the Philippines, that will develop a business of marketing and distributing certain agreed products. As part of the joint venture agreement, the venturers also agreed to execute a product distribution agreement.

As of December 31, 2012, ABI has an investment in ABI Pascual Holdings amounting to ₱20.1 million, while ABI Pascual Holdings has an investment in ABI Pascual Foods amounting to ₱40.2 million. The joint venture has started operations in September 2013.

Total assets, liabilities and capital deficiency of ABI Pascual Holdings amounted to ₱71.5 million, ₱164.8 million and ₱93.3 million, respectively, as of December 31, 2015 and ₱54.2 million, ₱146.3 milion and ₱92.1 million, respectively, as of December 31, 2014. In 2015 and 2014, ABI Pascual Holdings incurred net losses of ₱4.1 million and ₱23.1 million, respectively. The Group recognized share in net loss of ABI Pascual Holdings to the extent of the carrying value of the investment amounting to ₱20.1 million in 2013 (see Note 28). As at December 31, 2013, the Group's share in losses which has not been equity accounted for amounted to ₱14.4 million. 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. The

Group's share in loss of the joint venture in 2015 and 2014 amounted to ₱2.1 million and ₱46.1 million, respectively (see Note 28).

Disclosures on Subsidiary with Material Non-controlling Interest

Following is the financial information of PNB, which has material non-controlling interests of 43.53% as of and for the years ended December 31:

	2015	2014	2013
		(In Thousands)	
Accumulated balances of material non-controlling interest	**₱38,103,827**	₱35,600,617	₱28,844,411
Net income allocated to material non-controlling interest	**2,860,406**	2,507,994	2,647,901
Total comprehensive income allocated to material non-controlling interest	**2,503,210**	2,328,509	959,404

As discussed in Note 1, on February 9, 2013, PNB acquired 100.00% of the voting common stock of ABC. PNB accounted the business combination with ABC under the acquisition method of PFRS 3. In the LTG consolidated financial statements, the merger of PNB and ABC and the acquisition of PNB through the Bank Holding Companies are accounted for under pooling of interest method. Thus, the summarized financial information of PNB below is based on the amounts in the consolidated financial statements of PNB prepared under pooling of interest method before the Group's inter-company eliminations.

Statements of Comprehensive Income:

	2015	2014 (As restated, Note 37)	2013 (As restated, Note 37)
		(In Thousands)	
Revenue	**₱26,610,310**	₱24,945,565	₱28,560,739
Cost of services	**(4,807,242)**	(4,378,367)	(5,786,346)
General and administrative expenses	**(18,449,228)**	(18,693,960)	(17,849,937)
Foreign exchange gains - net	**1,207,840**	1,342,196	1,162,228
Other income - net	**3,393,380**	4,038,751	1,148,913
Income before income tax	**7,955,060**	7,254,185	7,235,597
Provision for income tax	**(1,543,789)**	(1,620,442)	(1,197,630)
Net income from continuing operations	**6,411,271**	5,633,743	6,037,967
Net income from discontinued operations	**357,931**	264,164	196,680
Net income	**6,769,202**	5,897,907	6,234,647
Other comprehensive income (loss)	**1,380,871**	(463,460)	(3,500,920)
Total comprehensive income	**₱8,150,073**	₱5,434,447	₱2,733,727
Net income attributable to:			
Equity holders	**₱3,673,284**	₱3,117,161	₱3,435,032
Non-controlling interests	**3,095,918**	2,780,746	2,799,615
Total comprehensive income attributable to:			
Equity holders	**5,454,974**	2,855,444	1,458,063
Non-controlling interests	**2,695,099**	2,579,003	1,275,665

Balance Sheets:

	2015	2014
	(In Thousands)	
Current assets	**₱331,611,312**	₱298,568,066
Noncurrent assets	**334,920,597**	313,673,332
Current liabilities	**494,826,885**	466,045,382
Noncurrent liabilities	**79,378,820**	60,022,066
Equity attributable to:		
Equity holders of the Company	**50,946,819**	47,360,474
Non-controlling interest	**41,379,385**	38,813,476

Statements of Cash Flows:

	2015	2014	2013
		(In Thousands)	
Operating	**(₱2,263,547)**	(₱61,400,140)	₱48,744,659
Investing	**(10,634,340)**	(542,830)	(7,555,741)
Financing	**5,275,983**	17,168,222	70,455,937
	(₱7,621,904)	(₱44,774,748)	₱111,644,855

12. **Property, Plant and Equipment**

December 31, 2015

	At Appraised Values				At Cost						
	Land and Land Improvements	**Plant Buildings and Building Improvements**	**Machineries and Equipment**	**Subtotal**	**Office and Administration Buildings and Improvements**	**Transportation Equipment**	**Returnable Containers**	**Furniture, Fixtures and Other Equipment**	**Construction in progress**	**Subtotal**	**Total**
					(In Thousands)						
Cost											
Balance at beginning of year	**₱17,733,967**	**₱19,982,538**	**₱27,125,256**	**₱64,841,761**	**₱3,944,254**	**₱1,718,288**	**₱6,628,513**	**₱9,241,275**	**₱386,422**	**₱21,918,752**	**₱86,760,513**
Additions/transfers (Note 13)	**2,270,088**	**736,586**	**518,931**	**3,525,605**	**179,355**	**88,292**	**505,223**	**1,204,136**	**1,144,707**	**3,121,713**	**6,647,318**
Disposals/transfers/others (Note 28)	**202,772**	**(742,145)**	**(3,136,042)**	**(3,675,415)**	**216,784**	**(15,010)**	**(13,715)**	**(384,348)**	**(409,151)**	**(605,440)**	**(4,280,855)**
Balance at end of year	**20,206,827**	**19,976,979**	**24,508,145**	**64,691,951**	**4,340,393**	**1,791,570**	**7,120,021**	**10,061,063**	**1,121,978**	**24,435,025**	**89,126,976**
Accumulated Depreciation, Amortization and Impairment Losses											
Balance at beginning of year	**909,980**	**8,380,263**	**17,080,993**	**26,371,236**	**3,330,800**	**1,398,039**	**5,480,748**	**7,733,768**	**–**	**17,943,355**	**44,314,591**
Depreciation and amortization	**23,519**	**591,716**	**839,602**	**1,454,837**	**181,337**	**138,217**	**573,090**	**611,059**		**1,503,703**	**2,958,540**
Disposals/transfers/others (Note 28)	**20,090**	**(2,745,867)**	**53,510**	**(2,672,267)**	**2,445**	**(14,618)**	**–**	**(299,591)**	**–**	**(311,764)**	**(2,984,031)**
Balance at end of year	**953,589**	**6,226,112**	**17,974,105**	**25,153,806**	**3,514,582**	**1,521,638**	**6,053,838**	**8,045,236**		**19,135,294**	**44,289,100**
Net Book Value	**₱19,253,238**	**₱13,750,867**	**₱ 6,534,040**	**₱39,538,145**	**₱825,811**	**₱269,932**	**₱1,066,183**	**₱2,015,827**	**₱1,121,978**	**₱5,299,731**	**₱44,837,876**

December 31, 2014

	At Appraised Values				At Cost						
	Land and Land Improvements	Plant Buildings and Building Improvements	Machineries and Equipment	Subtotal	Office and Administration Buildings and Improvements	Transportation Equipment	Returnable Containers	Furniture, Fixtures and Other Equipment	Construction in progress	Subtotal	Total
					(In Thousands)						
Cost											
Balance at beginning of year	₱17,485,783	₱19,165,903	₱26,606,458	₱63,258,144	₱1,392,401	₱1,810,316	₱6,245,290	₱9,069,144	₱498,684	₱19,015,835	₱82,273,979
Additions/transfers	8,553	506,914	674,795	1,190,262	120,685	112,851	383,223	580,392	106,631	1,303,782	2,494,044
Disposals/transfers/others (Note 28)	239,631	309,721	(155,997)	393,355	2,431,168	(204,879)	−	(408,261)	(218,893)	1,599,135	1,992,490
Balance at end of year	17,733,967	19,982,538	27,125,256	64,841,761	3,944,254	1,718,288	6,628,513	9,241,275	386,422	21,918,752	86,760,513
Accumulated Depreciation, Amortization and Impairment Losses											
Balance at beginning of year	872,143	8,199,888	16,351,586	25,423,617	975,719	1,468,153	4,913,232	6,811,879	−	14,168,983	39,592,600
Depreciation and amortization	37,837	635,666	958,132	1,631,635	126,517	131,264	567,516	621,635	−	1,446,932	3,078,567
Disposals/transfers/others	−	(455,291)	(228,725)	(684,016)	2,228,564	(201,378)	−	300,254	−	2,327,440	1,643,424
Balance at end of year	909,980	8,380,263	17,080,993	26,371,236	3,330,800	1,398,039	5,480,748	7,733,768	−	17,943,355	44,314,591
Net Book Value	₱16,823,987	₱11,602,275	₱10,044,263	₱38,470,525	₱613,454	₱320,249	₱1,147,765	₱1,507,507	₱386,422	₱3,975,397	₱42,445,922

Revaluation of Land and Land Improvements and
Plant Buildings and Machineries and Equipment

The corresponding fair values of land and land improvements, plant buildings and building improvements, and machineries and equipment are determined based on valuation performed by SEC accredited and independent appraisers. The fair value of the land was determined using the market data approach based on available market evidence and the fair values for land improvements, plant buildings, and machineries and equipment were derived using the depreciated replacement cost. The dates of the latest appraisal valuations were January 1, 2015 and December 31, 2011 (see Note 34). Movements in revaluation increment, net of deferred income tax effect, are as follows:

	2015	2014
	(In Thousands)	
Revaluation increment on the property, plant and equipment, net of deferred income tax effect:		
Balance at beginning of year	**₱8,121,362**	₱8,963,164
Net revaluation decrease	**(360,163)**	−
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	**(511,804)**	(841,802)
Balance at end of year	**₱7,249,395**	₱8,121,362
Attributable to:		
Equity holders of the Company	**₱4,920,375**	₱5,781,539
Non-controlling interests	**2,329,020**	2,339,823
	₱7,249,395	₱8,121,362

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

	2015	2014
	(In Thousands)	
Cost		
Land and land improvements	**₱9,514,421**	₱7,244,333
Plant buildings and improvements	**15,082,717**	14,346,131
Machineries and equipment	**20,145,218**	19,383,768
	44,742,356	40,974,232
Accumulated depreciation		
Plant buildings and improvements	**(5,124,987)**	(4,509,751)
Machineries and equipment	**(10,435,503)**	(9,595,901)
	(15,560,490)	(14,105,652)
	₱29,181,866	₱26,868,580

Depreciation

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

	2015	2014	2013
		(In Thousands)	
Cost of sales and services (Note 24)	**₱1,286,665**	₱1,420,117	₱1,298,012
Selling expenses (Note 25)	**641,923**	593,785	717,807

(Forward)

	2015	2014	2013
	(In Thousands)		
General and administrative expenses (Note 26)	**₱1,029,952**	₱1,064,665	₱1,269,830
	₱2,958,540	₱3,078,567	₱3,285,649

As of December 31, 2015 and 2014, the Group's "Construction in progress" under the "Property, plant and equipment" account pertains to the construction of TDI's warehouse and bottle sorting facility, AAC's major rehabilitation of plant facilities, and ABI's construction of new manufacturing plant. These capital expenditure projects are expected to be completed in 2016.

Out of the total additions in 2015 and 2014, ₱78.1 million and ₱32.5 million remain to be unpaid as of December 31, 2015 and 2014, respectively.

Certain property and equipment of the Group with carrying amount of ₱180.8 million and ₱117.8 million are temporarily idle as of December 31, 2015 and 2014, respectively.

Fully depreciated property, plant and equipment that are still used in operations amounted to ₱2.7 billion and ₱2.9 billion as of December 31, 2015 and 2014, respectively.

Borrowing Costs

Unamortized capitalized borrowing costs amounted to ₱13.2 million and ₱13.8 million as of December 31, 2015 and 2014, respectively. The average capitalization rates used to determine the amount of borrowing costs eligible for capitalization were 4.5% and 5.0% in 2015 and 2014, respectively.

13. Investment Properties

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

	December 31, 2015				
	Land	**Buildings and Improvements**	**Residential Unit**	**Construction in Progress**	**Total**
Cost					
Balance at beginning of year	**₱23,541,887**	**₱10,064,779**	**₱7,620**	**₱138,979**	**₱33,753,265**
Additions	**1,339,183**	**218,252**	**–**	**46,284**	**1,603,719**
Disposals/transfers/others	**(6,178,060)**	**(568,771)**	**–**	**105,541**	**(6,641,290)**
Balance at end of year	**18,703,010**	**9,714,260**	**7,620**	**290,804**	**28,715,694**
Accumulated Depreciation					
Balance at beginning of year	**3,248,922**	**3,298,790**	**7,620**	–	**6,555,332**
Depreciation	–	**369,803**	**–**	–	**369,803**
Provision for impairment losses	**133,961**	**(309,718)**	**–**	–	**(175,757)**
Disposals/transfers/others	–	**(265,209)**	**–**	–	**(265,209)**
Balance at end of year	**3,382,883**	**3,093,666**	**7,620**	–	**6,484,169**
Net Book Value	**₱15,320,127**	**₱6,620,594**	**₱–**	**₱290,804**	**₱22,231,525**

	December 31, 2014				
	Land	Buildings and Improvements	Residential Unit	Construction in Progress	Total
Cost					
Balance at beginning of year	₱22,127,318	₱9,421,946	₱7,620	₱1,331,690	₱32,888,574
Additions	1,891,277	535,809	–	181,739	2,608,825
Disposals/transfers/others	(476,708)	107,024	–	(1,374,450)	(1,744,134)
Balance at end of year	23,541,887	10,064,779	7,620	138,979	33,753,265

	December 31, 2014				
	Land	Buildings and Improvements	Residential Unit	Construction in Progress	Total
Accumulated Depreciation and Impairment Losses					
Balance at beginning of year	₱3,336,107	₱3,357,250	₱7,620	₱–	₱6,700,977
Depreciation	–	315,189	–	–	315,189
Provision for impairment losses	453,462	16,324	–	–	469,786
Disposals/transfers/others	(540,647)	(389,973)	–	–	(930,620)
Balance at end of year	3,248,922	3,298,790	7,620	–	6,555,332
Net Book Value	₱20,292,965	₱6,765,989	₱–	₱138,979	₱27,197,933

The Group's investment properties consist of parcels of land for appreciation, residential and condominium units for lease and for sale, and real properties foreclosed or acquired in settlement of loans which are all valued at cost. Foreclosed investment properties still subject to redemption period by the borrowers amounted to ₱150 million and ₱141.5 million as of December 31, 2015 and 2014, respectively. The Group is exerting continuing efforts to dispose these properties.

In 2015, investment properties with carrying value of ₱2.2 billion were converted as branches and head offices of PNB's subsidiaries and were transferred to property, plant and equipment (see Note 12).

As of December 31, 2015 and 2014, the Group's "Construction in progress" under the "Investment properties" account pertains to the contruction of building intended for leasing and which is expected to be completed in 2016.

Out of the total additions in 2015 and 2014, ₱1,063.3 million and ₱1,127.8 million remain to be unpaid as of December 31, 2015 and 2014, respectively.

Fair Values of Investment Properties

Below are the fair values of the investment properties which were determined by professionally qualified, accredited and independent appraisers based on market values:

	2015	2014
	(In Thousands)	
Land	**₱30,136,203**	₱36,107,990
Buildings and improvements	**8,517,345**	6,025,335
	₱38,653,548	₱42,133,325

The fair value of investment properties of the Group was arrived at using various acceptable valuation approaches and both observable and unobservable inputs (see Note 34).

Rent Income and Direct Operating Expenses of Investment Properties

Rental income and direct operating expenses arising from the investment properties of property development segment amounted to ₱1,172.5 million and ₱226.9 million in 2015, ₱740.3 million and ₱278.9 million in 2014, and ₱448.7 million and ₱190.3 million in 2013, respectively (see Note 24).

Rental income of the banking segment on its investment properties is presented under "Other income (charges) - net" (see Note 28).

Depreciation of investment properties charged to operations follows:

	2015	2014	2013
		(In Thousands)	
Cost of rental income (Note 24)	**₱130,493**	₱145,680	₱94,223
General and administrative expenses (Note 26)	**239,310**	169,509	370,467
	₱369,803	₱315,189	₱464,690

14. **Other Noncurrent Assets**

Other noncurrent assets consist of:

	2015	2014
	(In Thousands)	
Deferred input VAT	**₱378,486**	₱352,657
Deferred reinsurance premiums	**499,148**	738,685
Deferred charges	**129,974**	236,773
Deposit for future investments	**348,511**	357,489
Other investments	**19,861**	19,357
Refundable and security deposits	**160,510**	298,961
Software costs	**1,131,041**	667,364
Goodwill	**163,735**	163,735
Chattel properties - net	**2,107**	49,549
Receivable from SPV - net	**500**	500
Net retirement plan assets (Note 23)	**255,716**	264,118
Others - net	**290,655**	515,944
	₱3,380,244	₱3,665,132

a. Deferred input VAT arises mainly from the acquisition of capital goods.

b. Refundable deposits consist principally of amounts paid by the property development segment to its utility providers for service applications and guarantee deposit to Makati Commercial Estate Association for plans processing, monitoring fee and development charge of the Group’s projects. These refundable deposits amounting to ₱145.4 million and ₱173.3 million as of December 31, 2015 and 2014, respectively, will be refunded upon termination of the service contract and completion of the projects’ construction.

c. Movements in software costs are as follows:

	2015	2014
	(In Thousands)	
Balance at beginning of year	**₱667,364**	₱425,928
Additions	**587,390**	419,809
Disposals	**–**	(17,137)
Other adjustments	**462**	–
Amortization (Note 26)	**(124,175)**	(161,236)
Balance at end of year	**₱1,131,041**	₱667,364

Software cost amortization amounted to ₱124.2 million in 2015, ₱161.2 million in 2014 and ₱236.7 million in 2013 (see Note 26).

d. The Group recognized goodwill which pertains mainly to ADI and Eton amounting to ₱144.7 million and ₱19.0 million, respectively. As of December 31, 2015 and 2014, the Group performed its annual impairment testing of goodwill related to ADI, a CGU.

   The recoverable amount of ADI is determined based on value in use calculations using cash flow projections from financial budgets approved by management covering a five-year period. The projected cash flows have been updated to reflect the increase in demand for products based on TDI's projected sales volume increase, selling price increase and cost and expenses increase. The pre-tax discount rate applied to the cash flow projection is 9.7% in 2015 and 2014. The growth rate used to extrapolate the cash flows of until beyond the five-year period is 6.0% as of December 31, 2015 and 5.5% as of December 31, 2014. Management assessed that this growth rate is comparable with the average growth for the industry in which ADI operates.

   Management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of ADI to exceed its recoverable amount, which is based on value in use. As of December 31, 2015 and 2014, the recoverable amount of ADI is higher than its carrying value.

e. As of December 31, 2015 and 2014, accumulated depreciation on chattel mortgage properties acquired by PNB in settlement of loans amounted to ₱36.5 million and ₱80.0 million, respectively.

f. The Group has receivable from SPV, OPII, which was deconsolidated upon adoption of PFRS 10.

   As of December 31, 2015 and 2014, receivable from SPV represents fully provisioned subordinated notes received by PNB from Golden Dragon Star Equities and its assignee, OPII, relative to the sale of the first pool and second pool of its NPAs in December 2006 and March 2007, respectively. The asset sale and purchase agreements (ASPA) between PNB, Golden Dragon Star Equities and OPII for the sale of the NPAs were executed on December 19, 2006. OPII was specifically organized to hold, manage, service and resolve the non-performing assets sold to Golden Dragon Star Equities. OPII has been financed through the issuance of equity securities and subordinated debt securities. Collection from OPII in 2015, 2014 and 2013 amounting to ₱353.0 million, ₱27.0 million, and ₱266.0 million, respectively are recorded part of "Other income (charges) (see Note 28).

g. Security fund amounting to ₱0.2 million and ₱0.15 million (included under "Others - net") is maintained by PNB LII in compliance with Sections 365 and 367 of the Insurance Code as of December 31, 2015 and 2014, respectively. The amount of such fund is determined by and deposited with the IC for the payment of benefit claims against insolvent companies. In 2015, the security fund was reclassified to " Assets of disposal group classified as held for sale" (see Note 37).

15. **Deposit Liabilities**

	2015	2014
	(In Thousands)	
Demand	**₱113,168,584**	₱88,898,863
Savings	**302,476,256**	293,201,308
Time	**60,511,352**	52,759,938
	476,156,192	434,860,109
Presented as noncurrent	**(39,793,338)**	(23,468,731)
Presented as current	**₱436,362,854**	₱411,391,378

Of the total deposit liabilities of PNB, ₱23.8 billion and ₱24.8 billion are non-interest bearing as of December 31, 2015 and 2014, respectively. Annual interest rates of the remaining deposit liabilities follow:

	2015	2014	2013
Foreign-currency denominated deposit liabilities	**0.00% to 2.25%**	0.02% to 2.26%	0.02% to 3.80%
Peso-denominated deposit liabilities	**0.05% to 5.00%**	0.05% to 6.11%	0.00% to 8.40%

On March 29, 2012, BSP issued Circular No. 753 which provides for the unification of the statutory and liquidity reserve requirement, non-remuneration of the unified reserve requirement, exclusion of vault cash and demand deposits as eligible forms of reserve requirement compliance, and reduction in the unified reserve requirement ratios.

BSP issued Circular Nos. 830 and 832 last March 27, 2014 and May 8, 2014, respectively, to approve the 1-point percentage increase in the reserve requirements of universal and commercials banks. Under existing BSP regulations, non-FCDU deposit liabilities of PNB and PNB Savings Bank are subject to reserves equivalent to 20.00% and 8.00%, respectively. As of December 31, 2015 and 2014, available reserves booked under 'Due from BSP' amounted to ₱74.3 billion and ₱68.2 billion, respectively.

Long-term Negotiable Certificates of Time Deposits
Time deposit of the Group includes the following Long-term Negotiable Certificates of Time Deposits (LTNCDs):

Issue Date	Maturity Date	Face Value (In Thousands)	Carrying Value (In Thousands)	Coupon Rate	Interest Repayment Terms
December 12, 2014	June 12, 2020	₱7,000,000	₱6,958,411	4.13%	Quarterly
October 21, 2013	April 22, 2019	4,000,000	3,981,365	3.25%	Quarterly
August 5, 2013	February 5, 2019	5,000,000	4,979,615	3.00%	Quarterly
November 18, 2011	February 17, 2017	3,100,000	3,094,836	5.18%	Quarterly

Other significant terms and conditions of the above LTNCDs follow:

a. Issue price at 100.00% of the face value of each LTNCD.

b. The LTNCDs bear interest rate per annum on its principal amount from and including the Issue Date thereof, up to but excluding the Early Redemption Date or Maturity Date (as the case may be).

Interest in respect of the LTNCD will be calculated on an annual basis and will be paid in arrears quarterly on the last day of each successive Interest Period.

c. Unless earlier redeemed, the LTNCDs shall be redeemed by PNB on maturity date at an amount equal to one hundred percent (100%) of the aggregate issue price thereof, plus any accrued and unpaid interest thereon. The LTNCDs may not be redeemed at the option of the holders.

d. The LTNCDs constitute direct, unconditional, unsecured, and unsubordinated obligations of PNB, enforceable according to these Terms and Conditions, and shall at all times rank paripassu and without any preference or priority among themselves and at least paripassu with all other present and future direct, unconditional, unsecured, and unsubordinated obligations of the Issuer, except for any obligation enjoying a statutory preference or priority established under Philippine laws.

e. Subject to the "Events of Default" in the Terms and Conditions, the LTNCDs cannot be pre-terminated at the instance of any CD Holder before Maturity Date. In the case of an event of default, none of the CD Holders may accelerate the CDs on behalf of other CD Holders, and a CD Holder may only collect from PNB to the extent of his holdings in the CDs. However, PNB may, subject to the General Banking Law of 2000, Section X233.9 of the Manual of Regulations for Banks, Circular No. 304 Series of 2001 of the BSP and other related circulars and issuances, as may be amended from time to time, redeem all and not only part of the outstanding CDs on any Interest Payment Date prior to Maturity Date, at an Early Redemption Amount equal to the Issue Price plus interest accrued and unpaid up to but excluding the Early Redemption Date.

f. The LTNCDs are insured by the PDIC up to a maximum amount of ₱0.5 million subject to applicable laws, rules and regulations, as the same may be amended from time to time.

g. Each Holder, by accepting the LTNCDs, irrevocably agrees and acknowledges that: (a) it may not exercise or claim any right of set-off in respect of any amount owed to it by the PNB arising under or in connection with the LTNCDs; and (b) it shall, to the fullest extent permitted by applicable law, waive and be deemed to have waived all such rights of set-off.

Interest expense on deposit liabilities presented under "Cost of banking services" amounted to ₱3.0 billion, ₱2.9 billion and ₱3.9 billion in 2015, 2014 and 2013, respectively (see Note 24).

In 2015, 2014 and 2013, interest expense on LTNCDs for the Group includes amortization of transaction costs amounting to ₱16.9 million, ₱22.8 million and ₱19.4 million, respectively. Unamortized transaction costs of the LTNCDs amounted to ₱85.8 million and ₱102.7 million as of December 31, 2015 and 2014, respectively.

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

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

	2015	2014
	(In Thousands)	
Derivative liabilities (Notes 21 and 33)	**₱135,193**	₱44,903
Designated at FVPL - segregated fund liabilities	**–**	10,817,122
	135,193	10,862,025
Presented as noncurrent	**(9,118)**	(24,805)
Presented as current	**₱126,075**	₱10,837,220

In 2015, the segregated fund liabilities of PNB LII amounting to ₱13.7 billion were reclassified as part of "Liabilities of disposal group classified as held for sale" (see Note 37). As of December 31, 2014, the balance of segregated fund liabilities consists of (in thousands):

Segregated funds (Note 6)	₱10,654,770
Additional subscriptions	162,352
Segregated fund liabilities	₱10,817,122

17. Bills and Acceptances Payable

Bills and acceptances payable consists of:

	2015	2014
	(In Thousands)	
Bills payable to:		
BSP and local banks (Note 22)	**₱17,580,304**	₱16,393,373
Foreign banks	**7,676,238**	1,027,442
Others	**150,864**	1,262,389
	25,407,406	18,683,204
Acceptances outstanding	**344,816**	366,854
	25,752,222	19,050,058
Presented as noncurrent	**(19,915,383)**	(12,409,837)
Presented as current	**₱5,836,839**	₱6,640,221

Annual interest rates are shown below:

	2015	2014	2013
Foreign currency-denominated borrowings	**0.01% to 2.50%**	0.03% - 2.50%	0.12%-0.99%
Peso-denominated borrowings	**0.38% to 0.88%**	0.63% - 2.00%	1.09%-3.50%

PNB's bills payable to BSP includes the transferred liabilities from Maybank Philippines, Inc. (Maybank) amounting to ₱1.8 billion as of December 31, 2015 and 2014 (see Note 8).

As of December 31, 2015, bills payable with a carrying amount of ₱12.8 billion is secured by a pledge of certain AFS with carrying value and fair value of ₱8.5 billion and HTM investments with carrying value and fair value of ₱7.0 billion and ₱7.5 billion, respectively (see Note 7).

As of December 31, 2014, bills payable with a carrying value of ₱14.1 billion is secured by a pledge of certain AFS and HTM investments with fair value of ₱8.5 billion and ₱8.9 billion, respectively (see Note 7).

Following are the significant terms and conditions of the repurchase agreements entered into by PNB:

a. Each party represents and warrants to the other that it is duly authorized to execute and deliver the Agreement, and to perform its obligations and has taken all the necessary action to authorize such execution, delivery and performance;
b. The term or life of this borrowing is up to three years;
c. Some borrowings bear a fixed interest rate while others have floating interest rate;
d. PNB has pledged its AFS and ATM investments, in form of ROP Global bonds, in order to fulfill its collateral requirement;

e. Haircut from market value ranges from 15.00% to 25.00% depending on the tenor of the bond;
f. Certain borrowings are subject to margin call up to USD 1.4 million; and
g. Substitution of pledged securities is allowed if one party requested and the other one so agrees.

Interest expense on bills payable is included under "Cost of banking services" amounting to ₱1.0 billion, ₱0.9 billion and ₱1.1 billion in 2015, 2014 and 2013, respectively (see Note 24).

18. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of:

	2015	2014
	(In Thousands)	
Trade payables	**₱8,785,564**	₱9,510,729
Nontrade payables	**377,087**	323,957
Accrued expenses:		
Interest	**2,085,701**	2,070,730
PDIC insurance premiums	**470,701**	479,910
Reinstatement premium	**–**	133,580
Project development costs	**1,932,508**	332,559
Taxes and licenses	**374,908**	225,623
Information technology-related expenses	**194,974**	103,690
Rent and utilities payable	**103,043**	98,249
Advertising and promotional expenses	**284,281**	243,946
Purchase of materials and supplies and others	**759,244**	1,037,881
Retention payable	**690,714**	710,107
Due to government agencies	**275,757**	267,486
Output value added tax	**661,368**	136,138
Other payables	**83,970**	110,566
	₱17,079,820	₱15,785,151

Trade Payables
Trade payables are non-interest bearing and are normally settled on 30-to-60 day terms. Trade payables arise mostly from trade purchases of the banking group and purchases of inventories, which include raw materials and indirect materials (i.e., packaging materials) and supplies, for use in manufacturing and other operations.

Trade payables also include importation charges related to raw materials purchases, as well as occasional acquisitions of production equipment and spare parts.

Accrued Project Development Costs
Accued project development costs represent costs incurred by the Property Development segment in the development and construction of real estate projects.

Accrued Expenses
Other accrued expenses consist of accruals for commission, outside services, fuel and oil, and professional fees which are individually not significant as to amounts.

Retention Payable
Retention payable is the amount deducted from the total billing of the contractor which will be paid upon completion of the contracted services of Eton.

Other Payables

Other payables include cash bond payable to haulers as security for inventories and payable other than to suppliers of raw materials which include, but not limited to advertising and freight companies.

19. Short-term and Long-term Debts

Short-term Debts

As of December 31, 2015 and 2014, outstanding unsecured short term debts amounted to ₱1,400 million and ₱300.0 million, respectively. The loans are subject to annual interest rates ranging from 3.3% to 3.5% in 2015 and 2014, are payable lump sum on various dates within one year and subject to renewal upon agreement by the Group and counterparty banks. In 2015, the Group obtained additional short-term loans from Banco de Oro (BDO) amounting to ₱1,100 million which are payable in lump-sum after 60 days.

Long-term Debts

	2015	2014
	(In Thousands)	
Subordinated debts	**₱9,986,427**	₱9,969,498
Unsecured term loan	**720,004**	1,321,823
Notes payable	**476,015**	508,115
Bonds payable	**–**	4,998,008
	11,182,446	16,797,444
Less current portion	**(476,015)**	(5,506,123)
Noncurrent portion	**₱10,706,431**	₱11,291,321

PNB's Subordinated Debts

5.875% ₱3.5 Billion Subordinated Notes

On May 9, 2012, PNB's BOD approved the issuance of unsecured subordinated notes of ₱3.5 billion that qualify as Lower Tier 2 capital. EIR on this note is 6.04%.

Significant terms and conditions of the subordinated notes follow:

(1) The 2012 Notes bear interest at the rate of 5.88% per annum from and including May 9, 2012 to but excluding May 9, 2022. Interest will be payable quarterly in arrears on the 9th of August, November, February and May of each year, commencing on May 9, 2012, unless the 2012 Notes are redeemed at a redemption price equal to 100.00% of the principal amount on May 10, 2017, call option date.

(2) Each noteholder, by accepting the 2012 Notes, irrevocably agrees and acknowledges that it may not exercise or claim any right of set-off in respect of any amount owed by PNB arising under or in connection with the 2012 Notes.

6.75% ₱6.5 Billion Subordinated Notes

On May 15, 2011, PNB's BOD approved the issuance of unsecured subordinated notes of ₱6.5 billion that qualify as Lower Tier 2 capital. EIR on this note is 6.94%.

Significant terms and conditions of the subordinated notes follow:

(1) The 2011 Notes bear interest at the rate of 6.75% per annum from and including June 15, 2011 to but excluding June 15, 2021. Interest will be payable quarterly in arrears on the 15th of September, December, March and June of each year, commencing on June 15, 2011, unless the 2011 Notes are redeemed at a redemption price equal to 100.00% of the principal amount on June 16, 2016, call option date.

(2) Each noteholder, by accepting the 2011 Notes, irrevocably agrees and acknowledges that it may not exercise or claim any right of set-off in respect of any amount owed by PNB arising under or in connection with the 2011 Notes.

As of December 31, 2015 and 2014, the unamortized transaction cost of subordinated debt amounted to ₱13.6 million and ₱30.5 million respectively. In 2015, 2014 and 2013, amortization of transaction costs amounting to ₱16.9 million, ₱15.8 million, and ₱14.8 million, respectively, were charged to "Cost of banking services" in the consolidated statements of income (see Note 24).

7.13% ₱4.5 billion Subordinated Notes

On July 25, 2007, the BOD of PNB approved and authorized the management to conduct capital raising activity by way of issuance of Lower Tier 2 capital up to the maximum amount of ₱5.0 billion through a public offering subject to the provisions of BSP Circular No. 280 and BSP Memorandum to all banks and financial institutions dated February 17, 2003.

The issuance of the foregoing subordinated debt was approved by the MB in its Resolution No. 98 dated January 24, 2008.

Relative to this, on March 6, 2008, PNB issued ₱4.5 billion, 7.13% Subordinated Notes due on 2018, callable with step-up in 2013. Among the significant terms and conditions of the issuance of the subordinated notes are:

(1) Issue price is at 100.00% of the Principal amount.

The Subordinated Notes bear interest at 7.13% per annum, payable to the noteholder for the period from and including the issue date up to the maturity date if the call option is not exercised on the call option date. Interest shall be payable quarterly in arrears on March 6, June 6, September 6 and December 6 of each year, commencing June 6, 2008. The Subordinated Notes will mature on March 6, 2018, if not redeemed earlier.

(2) The Subordinated Notes will constitute direct, unconditional, unsecured and subordinated obligations of PNB. The Subordinated Notes will, at all times, rank *pari passu* and without any preference among themselves, but in priority to the rights and claims of holders of all classes of equity securities of PNB, including holders of preferences shares.

(3) PNB may redeem the notes in whole, but not in part, at a redemption price equal to 100.00% of the principal amount of the Notes together with accrued and unpaid interest at first banking day after the 20th interest period from issue date subject to at least 30-day prior written notice to noteholders and prior approval of the BSP, subject to the following conditions: (i) the capital adequacy ratio of PNB is at least equal to the required minimum ratio; and (ii) the Subordinated Note is simultaneously replaced with the issues of new capital which are neither smaller in size nor lower in quality than the Subordinated Notes.

(4) The Subordinated Note shall not be redeemable or terminable at the instance of any noteholder before maturity date.

On March 6, 2013, the 2018 Notes were redeemed by PNB at par/face value.

As of December 31, 2015 and 2014, the unamortized transaction cost of subordinated debt amounted to ₱13.6 million and ₱30.5 million, respectively. In 2015, 2014 and 2013, amortization of transaction costs amounting to ₱16.9 million, ₱15.8 million, and ₱14.8 million, respectively, were charged to "Cost of banking services" in the consolidated statements of income (see Note 24).

TDI's ₱5.0 billion bonds payable

On November 24, 2009, TDI's and LTG's BOD approved and confirmed the issuance of the retail bonds amounting to ₱5.0 billion due in 2015 at 8.6% per annum, payable quarterly, to be used for general corporate purposes, including debt refinancing. On February 12, 2010, TDI completed the bond offering and issued the Retail Bonds with an aggregate principal amount of ₱5.0 billion, which matured and were redeemed on February 13, 2015.

The bond provides that TDI may at any time purchase any of the bonds at any price in the open market or by tender or by contract at any price, without any obligation to purchase bonds pro-rata from all bondholders and the bondholders shall not be obliged to sell. Any bonds so purchased shall be redeemed and cancelled and may not be re-issued.

Unsecured term loans of Eton

On January 28, 2013, Eton entered into an unsecured term loan agreement with BDO to finance the construction of its projects. The term loan, which has a face value of ₱2,000.0 million, was availed by Eton at a discount for total proceeds amounting to ₱1,987.3 million. The term loan bears a nominal interest rate of 5.53% and will mature on January 26, 2018. Principal repayments will start one year from the date of availment and are due annually while interest payments are due quarterly starting April 28, 2014. Effective on October 28, 2013, ETON and BDO agreed to the new interest rate of 4.75%.

Notes payable of Eton

Notes payable include various notes from BDO which arose from assigning the Groups' contracts receivables on a with recourse basis in 2015 and 2014 (see Note 8). These notes bear interest based on Philippine Dealing System Treasury Fixing (PDSTF) rate for one year plus 1.5% net of gross receipts tax, which ranges from 5.10% to 6.66% in 2015 and from 6.00% to 6.66% in 2014 subject to annual repricing. Interest is due monthly in arrears during the first two years of the term and thereafter, interest shall be collected with the principal covering the term of three years or the term of the contracts to sell, whichever comes first. In February 2015, the Group executed a promissory note amounting to ₱369.0 million in relation to its purchase of land located at Meralco Avenue, Pasig City with a total purchase price of ₱410.0 million. In December 2015, the Group executed promissory note amounting to ₱754.0 million in relation to its purchase of land with a total purchase price amounting to ₱984.0 million.

Interest on loans payable from general borrowings capitalized as part of investment properties and real estate inventories amounted to nil and ₱61.9 million in 2015, and ₱30.0 million and ₱163.4 million in 2014, and ₱34.7 million and ₱68.4 million in 2013, respectively. Capitalization rates were 4.5% in 2015, 5.00% in 2014 and 4.51% in 2013, respectively.

Interbev's term loan facility agreement with BDO

On June 24, 2011, Interbev entered into a Facility Agreement with BDO for a term loan facility amounting to ₱1,200.0 million to refinance its short-term loans and to finance its capital expenditure requirements for capacity expansion of its Davao and Cagayan de Oro plants and establishment of new bottling lines in San Fernando, Pampanga.

In accordance with the Facility Agreement, Interbev was subjected to certain conditions which were not met in 2013. Accordingly, the term facility agreement was terminated.

Finance costs

Interest recognized in profit or loss on short-term and long-term debts, except for subordinated debts, are presented under "Finance costs" in the consolidated statements of income (see Note 27). Interest costs from subordinated debts are included in the "Cost of banking services" (see Note 24).

Compliance with debt covenants

As of December 31, 2015 and 2014, the Group has complied with the covenants of its long-term debts.

20. Other Liabilities

	2015	2014
	(In Thousands)	
Insurance contract liabilities (Note 37)	**₱4,719,336**	₱11,507,852
Bills purchased - contra (Note 8)	**3,418,002**	4,230,348
Payable to landowners	**1,732,923**	2,289,708
Customers deposits	**1,426,649**	2,017,398
Reserve for unearned premiums	**1,191,405**	1,056,794
Managers' checks and demand drafts outstanding	**937,799**	1,030,298
Provisions (Note 38)	**1,168,011**	2,016,058
Deposit on lease contracts	**854,817**	651,371
Other dormant credits	**753,338**	549,149
Due to Treasurer of the Philippines	**438,943**	366,841
Payment order payable	**407,196**	312,144
Tenants' rental deposits	**306,524**	268,805
Margin deposits and cash letters of credit	**182,640**	86,143
Advanced rentals	**207,470**	45,800
Transmission liability	**24,976**	76,893
Due to BSP	**–**	101,172
Others	**3,440,631**	4,341,804
	21,210,660	30,948,578
Presented as noncurrent	**(7,961,017)**	(12,638,349)
Presented as current	**₱13,249,643**	₱18,310,229

Customers' Deposits

Customers' deposits represent payments from buyers of residential units which will be applied against the corresponding contracts receivables which are recognized based on the revenue recognition policy of the Group. This account includes the excess of collections over the recognized receivables amounting to ₱1.4 billion and ₱2.0 billion as of December 31, 2015 and 2014, respectively.

Payables to Landowners

In September 2012, Eton executed a ₱556.8 million promissory note, subject to interest rate of PDSTF 3 years + 1.00%, to a landowner in relation to its purchase of land located in Makati City with total purchase price of ₱742.4 million. In 2015, the promissory was fully paid.

In November 2012, Eton executed a promissory note to a landowner amounting to ₱740.0 million, subject to interest rate of PDSTF 3 years + 0.50%, in relation to its purchase of land located in Quezon City with total purchase price of ₱1,000.0 million. The promissory note is due on the third year from its execution date.

In 2014, Eton executed a ₱992.9 million promissory note, subject to interest rate of PDSTF 3 years + 0.50%, to various landowners in relation to its purchase of land located in Laguna with total purchase price of ₱1.3 billion. On November 30, 2015, the terms and conditions of the promissory note were extended beyond 2015.

Interest expense recognized related to these promissory notes amounted to ₱55.3 million in 2015, and nil in 2014 and 2013, net of capitalized portion amounting to ₱52.6 million, ₱81.5 million and ₱63.3 million in 2015, 2014 and 2013, respectively (see Notes 12, 13 and 27).

Deposits and Other Deferred Credits

Other liabilities of the property development segment include tenants' rental deposits, advance rentals and other deferred credits. Security deposits pertain to the amounts paid by the tenants at the inception of the lease which is refundable at the end of the lease term. Advance rentals pertain to deposits from tenants which will be applied against receivables either at the beginning or at the end of lease term depending on the lease contract. Deferred credits represent the excess of the principal amount of the security deposits over its fair value. Amortization of deferred credits is included in "Rental income" in the consolidated statements of income (see Note 14).

Banking Segment Liabilities

Other liabilities of the banking segment include insurance contract liabilities, accounts payable, bills purchased - contra, managers' checks and demand drafts outstanding, margin deposits and cash letters of credit and due to BSP.

21. Derivative Financial Instruments

The tables in the next page show the fair values of derivative financial instruments entered into by the Group, recorded as derivative assets or derivative liabilities (included under "Financial assets and liabilities at FVPL") , together with the notional amounts. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding as of December 31, 2015 and 2014 and are not indicative of either market risk or credit risk (amounts in thousands, except average forward rate).

	December 31, 2015				December 31, 2014			
	Assets	**Liabilities**	**Average Forward Rate**	**Notional Amount***	Assets	Liabilities	Average Forward Rate	Notional Amount*
				(In Thousands)				
Freestanding derivatives:								
Currency forwards								
BUY:								
USD	**₱42**	**₱5,210**	**₱47.37**	**₱155,521**	₱5,620	₱2,246	₱44.81	₱77,300
JPY	–	–	–	–	13	567	0.37	312,776
EUR	**122**	–	**1.09**	**898**	1,686	535	7.75	82,156
GBP	–	**168**	**1.36**	**1,104**	6	−	1.56	150

(Forward)

	December 31, 2015				December 31, 2014			
	Assets	**Liabilities**	**Average Forward Rate**	**Notional Amount***	Assets	Liabilities	Average Forward Rate	Notional Amount*
				(In Thousands)				
CAD	**₱–**	**₱170**	**₱0.72**	**₱1,385**	₱–	₱47	₱1.16	₱1,614
HKD	**–**	**66**	**7.75**	**13,012**	539	532	7.75	82,156
AUD	**–**	**–**	**–**	**–**	81	–	0.82	200
SELL:								
USD	**66,932**	**–**	**47.31**	**374,421**	6,809	15,717	44.78	208,510
JPY	**–**	**86,305**	**0.39**	**4,492,495**	634	17	0.37	713,228
GBP	**455**	**139**	**1.49**	**5,700**	2,152	–	1.56	4,250
EUR	**4**	**11**	**1.10**	**2,200**	4,378	–	1.3	1,797
CAD	**520**	**34**	**0.72**	**3,444**	3	66	1.16	2,195
SGD	**411**	**190**	**1.41**	**4,600**	449	275	1.32	6,611
AUD	**–**	**149**	**0.72**	**450**	531	–	0.82	800
HKD	**86**	**184**	**7.75**	**63,733**	83	96	7.76	14,100
Interest rate swaps (Php)	**49,444**	**42,567**	**–**	**–**	42,407	24,805	–	–
Warrants	**63,332**	**–**	**–**	**–**	71,160	–	–	–
	₱181,348	**₱135,193**			₱136,551	₱44,903		

* The notional amounts pertain to the original currency except for the embedded derivatives, which represent the equivalent to USD amount.

a. As of December 31, 2015 and 2014, PNB holds 306,405 shares of ROP Warrants Series B1 at their fair value of US$1.3 million and US$1.6 million, respectively.

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

	2015	2014
	(In Thousands)	
Balance at beginning of year	**₱91,648**	₱95,596
Changes in fair value	**(583,375)**	105,244
Availments (settlements)	**537,882**	(109,192)
Balance at end of year	**₱46,155**	₱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 24).

22. Related Party Transactions

The Company has transacted with its subsidiaries, associates and other related parties as follows:

Parent Company, Subsidiaries, Associate and Joint Venture	**Entities Under Common Control**
Parent Company	Ascot Holdings, Inc.
Tangent	Pol Holdings, Inc.
	Sierra Holdings & Equities, Inc.
Subsidiaries	Grand Cargo and Warehousing Services., Inc.
TDI and Subsidiaries	Northern Corporation Tobacco Redrying Co., Inc.
ADI	Basic Holdings Corporation
AAC	Dominium Realty & Construction Corp
TBI	Foremost Farms Inc.
ABI and Subsidiaries	Grandspan Development Corp.
Agua Vida	Himmel Industries Inc.
Interbev	Lapu Lapu Packaging
Waterich	Lucky Travel Corporation
Packageworld	Philippine Airlines, Inc.
AB Nutribev	Rapid Movers & Forwarders Co. Inc.
Asia Pacific Bev PTE	Upright Profits Ltd.

(Forward)

Parent Company, Subsidiaries, Associate and Joint Venture	Entities Under Common Control
FTC	Dyzum Distillery Inc.
Shareholdings	Parity Packaging Corp.
Saturn	Heritage Holdings Corp.
Paramount and Subsidiaries	Maxell Holdings, Corp.
Eton	Networks Holdings & Equities, Inc.
BCI	Cube Factor Holdings, Inc.
ECI	Trustmark Holdings Corporation
FHI	Polima International Limited
EPMC	Cosmic Holdings Corp.
Bank Holding Companies:[1]	Negros Biochem Corporation
Allmark Holdings Corp.	Grandway Konstruct, Inc.
Dunmore Development Corp.	Harmonic Holdings Corp.
Kenrock Holdings Corp.	Proton Realty & Development Corporation
Leadway Holdings, Inc.	Billinge Investments Limited
Multiple Star Holdings Corp.	Step Dragon Co. Limited
Pioneer Holdings & Equities, Inc.	High Above Properties Ltd.
Donfar Management Ltd.	Penick Group Limited
Fast Return Enterprises Ltd.	In Shape Group Ltd.
Mavelstone International Ltd.	Hibersham Assets Ltd.
Uttermost Success, Ltd.	Orient Legend Developments Ltd.
Ivory Holdings, Inc.	Complete Best Development Ltd.
Merit Holdings & Equities Corp.	Cormack Investments Ltd
True Success Profits Ltd.	Link Great International Ltd.
Key Landmark Investments Ltd.	Bright Able Holdings Ltd.
Fragile Touch Investments Ltd.	
Caravan Holdings, Corp.	
Solar Holdings Corp.	
All Seasons Realty Corp.	
Dynaworld Holdings Inc.	
Fil-Care Holdings Inc.	
Kentwood Development Corp.	
La Vida Development Corp.	
Profound Holdings Inc.	
Purple Crystal Holdings, Inc.	
Safeway Holdings & Equities Inc.	
Society Holdings Corp.	
Total Holdings Corp.	
PNB and Subsidiaries	
Associates	
PMFTC	
VMC	
Joint Venture	
ABI Pascual Holdings	
ABI Pascual Foods	

[1] *In various dates in 2013, LTG acquired these holding companies through subscription of the increase in authorized capital stock of the holding companies.*

The consolidated statements of income include the following revenue and other income-related (costs and other expenses) account balances arising from transactions with related parties:

	Nature	2015	2014	2013
			(In Thousands)	
Associates	Dividend income	**₱1,695,969**	₱3,168,550	₱3,953,220
	Sales	**–**	–	4,372
	Purchases of inventories	**1,203,300**	812,405	1,060,622
Entities Under Common Control	Banking revenue - interest on loans and receivables	**337,899**	153,707	184,370
	Sales of consumer products	**24,519**	21,011	21,117
	Interest income on loans and advances	**–**	16,806	39,556
	Rent income	**27,861**	30,942	16,830
	Other income	**136,908**	52,938	7,672
	Freight and handling	**(4,716)**	(7,772)	(5,364)
	Purchases of inventories	**–**	(160,914)	(53,145)
	Cost of banking services - interest expense on deposit liabilities	**(23,461)**	(14,898)	(18,831)
	Cost of sales and services	**(26,296)**	(25,864)	(35,168)
	Management and professional fee	**(527,279)**	(335,016)	(422,866)
	Outside services	**(59,400)**	(57,150)	(41,672)
	Rent expense	**(58,710)**	(31,054)	(5,298)
Key Management	Short-term employee benefits	**(716,317)**	(588,709)	(450,881)
	Post-employment benefits	**(62,633)**	(62,097)	(60,368)

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

	Financial Statement Account	Terms and Conditions	Amount/Volume 2015	Amount/Volume 2014	Outstanding Balance 2015	Outstanding Balance 2014
			(In Thousands)			
Parent Company	Due to related parties	On demand; non-interest bearing	**₱–**	(₱2,301,805)	**(₱41,975)**	(₱41,975)
Associate	Other receivables - dividends	30 to 90 days terms; non-interest bearing	**1,695,969**	3,168,550	**228,017**	165,753
	Trade receivables	30 to 90 days terms; non-interest bearing	**17,590**	–	**17,771**	181
	Account payable and other liabilities	30 to 60 days terms; non-interest bearing	**1,203,300**	812,405	**(4,990)**	(38,354)
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	**337,899**	153,707	**18,168,623**	14,455,539
	Trade receivables	30 to 60 days terms; non-interest bearing	**24,519**	21,011	**9,469**	7,957
	Other receivables	30 to 60 days terms; non-interest bearing	**136,908**	16,806	**–**	3,175
	Due from related parties	On demand; non-interest bearing	**(204,356)**	(914,164)	**1,593,034**	1,797,390
	Advances to suppliers	30 to 60 days terms; non-interest bearing	**(269)**	(13,777)	**47,401**	47,670
	Advances to contractors	30 to 60 days terms; non-interest bearing	**–**	(1,164)	**–**	–
	Deposit liabilities	With annual rates ranging from 0.38% to 1.73% and maturity ranging from 30 days to one (1) year	**23,461**	14,898	**(7,418,850)**	(11,136,419)
	Bills payable	Foreign currency-denominated bills payable; with fixed annual interest rate of 1.77% and maturity term of 181 days; no collateral	**–**	–	**–**	–
	Account payable and other liabilitites	30 to 90 days terms; non-interest bearing	**–**	617,770	**(160,393)**	(331,866)
	Due to related parties	On demand; non-interest bearing	**3,089**	(383,138)	**(4,795)**	(7,884)
	Other payables	30 to 90 days terms; non-interest bearing	**673,566**	31,706	**(4,339)**	(4,496)
Stockholders	Due to related parties	On demand; non-interest bearing	**–**	(691,610)	**–**	–

As of December 31, 2015 and 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.

Other terms and conditions related to the above related party balances and transactions are as follows:

Transactions with Tangent, parent company

- In May 2013, LTG assumed various advances made by FTC to Tangent amounting to ₱10.8 billion.

- LTG assigned to Tangent its existing liabilities to Billinge, Penick Group and Step Dragon amounting to ₱1.9 billion and assumed the liabilities of ABI and Saturn to Tangent amounting to ₱7.4 billion. In various dates in 2013, LTG paid ₱7.0 billion to Tangent. In July 2013, all the existing advances to Tangent amounting to ₱11.0 billion were offset with the existing advances from Tangent. In 2014, the Company fully settled its outstanding liabilities to Tangent amounting to ₱1.2 billion.

- On May 12, 2015, the Company's BOD and stockholders, respectively, approved the declaration and distribution of cash dividends of ₱0.15 per share or a total of ₱1,623.2 million to all stockholders of record as of May 27, 2015 and to be paid not later than June 10, 2015.

- On April 8, 2014 and June 19, 2013, LTG declared dividends to stockholders, of which ₱1.3 billion and ₱1.2 billion were paid to Tangent.

- On March 20, 2013, the respective BOD's of Tangent and the Bank Holding Companies approved a resolution to convert the debt of the Bank Holding Companies to equity by way of subscription to the latter's preferred shares. On the same date, Tangent entered into Deeds of Assignment with the Bank Holding Companies for the assignment of the debt as payment for the subscription. In various dates in October, November and December 2013, the Philippine SEC approved the increase in authorized capital stock of certain Bank Holding Companies and the subscription of Tangent to all the outstanding preferred shares of these companies (see Note 30).

Transactions with an Associate

- Dividend income from PMFTC amounted to ₱1.7 billion in 2015, ₱3.2 billion in 2014 and ₱4.0 billion in 2013 (see Note 11). Dividends receivable from PMFTC as of December 31, 2015 and 2014 are presented as part of nontrade receivables.

Transaction with Joint Venture

- On February 15, 2012, ABI entered into an agreement with a food company for a joint venture. The parties agreed that their ownership will be fifty percent (50%) each (see Note 11).

Transactions with Entities under Common Control

- Due to related parties include cash advances provided to the Group to support its working capital requirements.

- Several subsidiaries of the Group entered into management services agreements with Basic Holdings Corporation for certain considerations. Management fees are recorded under "Outside services" in "Cost of goods sold" and "Professional fees" in the "General and administrative expenses".

- The property development segment purchases parcels of land from other related parties for use in its various projects.

- Several entities under common control maintain peso and foreign currency denominated deposits and short term and long term loans with PNB. Interest income and financing charges related to these transactions are reported under "Banking revenue" and "Cost of banking services", respectively (see Note 24).

The following are the transactions among related parties which are eliminated in the consolidated statements of income:

Nature	**Costs and expenses recognized by:**	**Revenue and other income recognized by:**	**2015**	2014	2013
				(In Thousands)	
Purchase/Sale of commercial bottles and packaging materials	FTC/TDI	ABI/PWI	**₱1,011,781**	₱1,033,901	₱683,493
Purchase/Sale of raw materials	ABI/Interbev	TDI/ADI	**115,079**	101,386	114,241
Royalty fees	ABI	TDI	**13,421**	15,909	20,949
Management fees	TDI	LTG	**16,000**	48,000	48,000
Interest on loans	Eton	LTG	**4,413**	4,563	4,563
Interest on promissory note from sale of property	Eton	ABI/ Bank Holding Companies/ Paramount	**19,114**	20,005	4,387
Interest on cash and cash equivalents	PNB	All entities other than PNB	**72,729**	166,931	166,931
Interest on short term and long term loans	ABI/Interbev/ Eton	PNB	**10,150**	–	–
Gain on sale of property	Eton	ABI/ Bank Holding Companies/ Paramount	**369,084**	175,673	288,407

The following are the balances among related parties which are eliminated in the consolidated balance sheets:

Nature	**Assets recognized by:**	**Liabilities recognized by:**	**December 31 2015**	**December 31** 2014
			(In Thousands)	
Due from/to related parties	LTG/FTC	Bank Holding Companies	**₱153,255**	₱145,315
	ABI	Eton	**444,000**	444,000
	LTG	Eton	**–**	400,000
	FTC	ABI/Eton/LTG	**525**	525
	LTG	TBI/Paramount/Saturn	**12,838**	638
	TDI	TBI	**16,571**	18,507
	LTG	TDI	**–**	3,880
	HOLCOS	Eton	**185,597**	185,597
	PLI	Eton	**30,367**	30,367
Trade receivables/ payables	TDI/ADI	ABI/Interbev	**31,103**	85,759
	ABI/PWI	FTC/TDI	**568,427**	416,604

(Forward)

Nature	Assets recognized by:	Liabilities recognized by:	December 31 2015	2014
			(In Thousands)	
Cash and cash equivalents/ deposit liabilities	All entities other than PNB	PNB	**₱9,737,169**	₱12,662,177
Obligations under finance lease	PNB	ABI/Interbev	**–**	2,902

23. Retirement Benefits

The Group has funded, noncontributory defined benefit retirement plans, administered by a trustee, covering all of its permanent employees. As of December 31, 2015 and 2014, the Group is in compliance with Article 287 of the Labor Code, as amended by Republic Act No. 7641.

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

	2015	2014
	(In Thousands)	
Net retirement plan assets:		
FTC	**₱227,524**	₱223,083
AAC	**19,347**	41,035
LTG	**8,845**	–
	₱255,716	₱264,118
Accrued retirement benefits:		
PNB	**₱2,955,003**	₱2,841,883
ABI and subsidiaries	**861,051**	877,195
TDI and ADI	**37,931**	11,730
Eton	**46,941**	38,392
LTG	**–**	7,061
	₱3,900,926	₱3,776,261

The following tables summarize the components of net retirement plan assets and accrued retirement benefits recognized in the consolidated balance sheets, the net benefit expenses recognized in the consolidated statements of income and the remeasurement losses (gains) recognized in consolidated statements of comprehensive income.

Net retirement plan assets:

	2015			2014			2013		
	Defined Benefit Obligations	**Fair Value of Plan Assets**	**Net Retirement Plan Assets**	Defined Benefit Obligations	Fair Value of Plan Assets	Net Retirement Plan Assets	Defined Benefit Obligations	Fair Value of Plan Assets	Net Retirement Plan Assets
					(In Thousands)				
Beginning balance	**₱131,057**	**(₱395,175)**	**(₱264,118)**	₱75,033	(₱318,826)	(₱243,793)	₱63,651	(₱1,236,724)	(₱1,173,073)
Change in status of retirement plan	**18,453**	**(11,392)**	**7,061**	102,970	(81,708)	21,262	–	–	–
Net retirement benefits cost in profit or loss:									
Current service cost	**29,759**	–	**29,759**	18,037	–	18,037	5,992	–	5,992
Net interest cost	**4,107**	**(15,112)**	**(11,005)**	7,673	(10,726)	(3,053)	3,276	(64,395)	(61,119)
Curtailment gain	**(12,523)**	–	**(12,523)**	–	–	–	–	–	–
	21,343	**(15,112)**	**6,231**	25,710	(10,726)	14,984	9,268	(64,395)	(55,127)
Contributions	–	**(5,084)**	**(5,084)**		(1,201)	(1,201)	–	–	–
Benefits paid	**(3,642)**	**3,642**	–	(16,757)	16,757	–	(3,936)	3,936	–
Plan assets returned to the Group	–	–	–	–	–	–	–	940,820	940,820
Re-measurement losses (gains) in other comprehensive income - actuarial changes arising from experience adjustments	**(5,510)**	**5,704**	**194**	(55,899)	529	(55,370)	6,050	37,537	43,587
Ending balance	**₱161,701**	**(₱417,417)**	**(₱255,716)**	₱131,057	(₱395,175)	(₱264,118)	₱75,033	(₱318,826)	(₱243,793)

Accrued retirement benefits:

	2015			2014			2013		
	Defined Benefit Obligations	**Fair Value of Plan Assets**	**Accrued Retirement Bene fits**	Defined Benefit Obligations	Fair Value of Plan Assets	Accrued Retirement Benefits	Defined Benefit Obligations	Fair Value of Plan Assets	Accrued Retirement Benefits
					(In Thousands)				
Beginning balance	**₱9,290,310**	**(₱5,514,049)**	**₱3,776,261**	₱7,992,151	(₱3,645,889)	₱4,346,262	₱7,578,184	(₱2,220,168)	₱5,358,016
Change in status of retirement plan	**(18,453)**	**11,392**	**(7,061)**	(102,968)	81,708	(21,260)	–	–	–
Net retirement benefits cost in profit or loss:									
Current service cost	**889,132**	**–**	**889,132**	561,720	–	561,720	533,140	–	533,140
Net interest cost	**343,297**	**(165,172)**	**178,125**	281,403	(86,831)	194,572	306,585	(119,111)	187,474
Past service cost	**7,529**	**–**	**7,529**	45,767	–	45,767	(70,880)	–	(70,880)
	1,239,958	**(165,172)**	**1,074,786**	888,890	(86,831)	802,059	768,845	(119,111)	649,734
Contributions	**–**	**(996,283)**	**(996,283)**	–	(2,447,710)	(2,447,710)	–	(1,987,230)	(1,987,230)
Benefits paid	**(527,023)**	**527,023**	**–**	(593,393)	593,393	–	(541,545)	541,545	–
Benefits paid out of retirement fund	**(23)**	**–**	**(23)**	–	–	–	–	–	
Others	**69,366**	**34,084**	**103,450**	–	–	–	–	–	–
Re-measurement losses (gains) in other comprehensive income - actuarial changes arising from changes in:									
Financial assumptions	**(471,608)**	**(69)**	**(471,677)**	124,093	–	124,093	(603,258)	–	(603,258)
Demographic assumptions	**485**	**–**	**485**	–	–	–	–	–	–
Experience adjustments	**83,262**	**337,726**	**420,988**	981,537	(8,720)	972,817	789,925	139,075	929,000
	(387,861)	**337,657**	**(50,204)**	1,105,630	(8,720)	1,096,910	186,667	139,075	325,742
Ending balance	**₱9,666,274**	**(₱5,765,348)**	**₱3,900,926**	₱9,290,310	(₱5,514,049)	₱3,776,261	₱7,992,151	(₱3,645,889)	₱4,346,262

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

	2015	2014
	(In Thousands)	
Cash and cash equivalents	**₱2,184,326**	₱2,221,155
Investments in government securities	**442,391**	613,605
Equity investments:		
Financial institutions	**1,694,001**	1,106,063
Other	**39,466**	26,719
Receivables	**1,813,219**	1,675,151
Others	**9,362**	266,531
Fair value of plan assets	**₱6,182,765**	₱5,909,224

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

	2015	2014
Cash and cash equivalents	**37%**	38%
Receivables	**26%**	27%
Equity investments	**29%**	18%
Investments in government securities	**7%**	11%
Others	**1%**	6%
Fair value of plan assets	**100%**	100%

The overall investment policy and strategy of the Group's defined benefit plans is guided by the objective of achieving an investment return which, together with contributions, ensures that there will be sufficient assets to pay pension benefits as they fall due while also mitigating the various risk of the plans. The plan assets have diverse investments and do not have concentration risk.

The Group's defined pension plan are funded through the contributions made by the Group to the trust.

The principal assumptions used in determining pension benefit obligations for the Group's plans as of January 1 are shown below:

	2015	2014	2013
Discount rate	**4%-5%**	5%-6%	5%-7%
Future salary increases	**5%-10%**	5%-10%	5%-10%

As of December 31, 2015 and 2014, the discount and future salary increase rates are 4-5% and 5-10%, and 5-6% and 5-10%, respectively.

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligations as of the end of the reporting period, assuming if all other assumptions were held constant (in thousands):

	2015		2014	
	Increase (Decrease)	**Increase (Decrease) in Present Value of Defined Benefit Obligations**	Increase (Decrease)	Increase (Decrease) in Present Value of Defined Benefit Obligations
Discount rates	**+0.5%**	**(₱774,421)**	+0.5%	(₱37,971)
	-0.5%	**901,270**	-0.5%	42,358

(Forward)

	2015		2014	
	Increase (Decrease)	**Increase (Decrease) in Present Value of Defined Benefit Obligations**	Increase (Decrease)	Increase (Decrease) in Present Value of Defined Benefit Obligations
Future salary increases	**+1.0%**	**₱920,284**	+1.0%	₱81,802
	-1.0%	**(794,886)**	-1.0%	(66,950)

Full actuarial valuations were performed to test the sensitivity of the defined benefit obligation to a 1% increment in salary increase rate, 1% decrement in the discount rate and a 10% improvement in the employee turnover rate. The results also provide a good estimate of the sensitivity of the defined benefit obligation to a 1% decrement in salary increase rate, 1% increment in the discount rate and a 10% increase in the employee turnover rate but with reverse impact.

The Group employs asset-liability matching strategies to maximize investment returns at the least risk to reduce contribution requirements while maintaining a stable retirement plan. Retirement plans are invested to ensure that liquid funds are available when benefits become due, to minimize losses due to investment pre-terminations and maximize opportunities for higher potential returns at the least risk.

The current plan asset of the Group is allocated to cover benefit payments in the order of their proximity to the present time. Expected benefit payments are projected and classified into short-term or long-term liabilities. Investment instruments that would match the liabilities are identified. This strategy minimizes the possibility of the asset-liability match being distorted due to the Group's failure to contribute in accordance with its general funding strategy.

The Group expects to contribute ₱1.6 billion to the defined benefit pension plan in 2016.

The average duration of the defined benefit obligations at the end of the reporting period range from 14 to 21 years as of December 31, 2015 and from 14 to 23 years as of December 31, 2014.

Transactions with Retirement Plans

Management of the retirement funds of the banking segment is handled by the PNB Trust Banking Group (TBG). As of December 31, 2015 and 2014, the retirement fund of the Group includes 9,008,864 shares of PNB classified under 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 December 31, 2015 and 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.

FTC's Retirement Plan

In 2013, as a result of management's assessment of the status of FTC's retirement fund, management has decided to withdraw funds in excess of the amount actuarially determined to cover the benefits of all its employees.

24. Revenue and Cost of Sales and Services

Revenue consists of:

	2015	2014 (As restated, Note 37)	2013 (As restated, Note 37)
		(In Thousands)	
Banking revenue (Note 5)	**₱26,600,160**	₱24,210,181	₱28,560,739
Sale of consumer goods	**25,289,260**	25,207,500	23,279,109
Real estate sales	**1,311,914**	1,538,260	3,208,225
Rental income	**1,172,539**	740,340	448,725
	₱54,373,873	₱51,696,281	₱55,496,798

Banking revenue consists of:

	2015	2014 (As restated, Note 37)	2013 (As restated, Note 37)
		(In Thousands)	
Interest income on:			
Loans and receivables	**₱17,144,366**	₱15,226,938	₱13,792,962
Trading and investment securities	**3,742,036**	2,992,864	3,649,031
Deposits with banks and others	**785,414**	1,919,443	1,622,102
Interbank loans receivable	**36,747**	19,218	40,696
	21,708,563	20,158,463	19,104,791
Trading and securities gains	**578,698**	633,072	5,987,103
Service fees and commission income	**4,312,899**	3,418,646	3,468,845
	₱26,600,160	₱24,210,181	₱28,560,739

Sale of consumer goods consists of:

	2015	2014	2013
		(In Thousands)	
Gross sales	**₱26,787,233**	₱26,660,735	₱24,390,891
Less sales returns, discounts and allowances	**1,497,973**	1,453,235	1,111,782
	₱25,289,260	₱25,207,500	₱23,279,109

Cost of sales and services consists of:

	2015	2014 (As restated, Note 37)	2013 (As restated, Note 37)
		(In Thousands)	
Cost of consumer goods sold:			
Materials used and changes in inventories (Note 9)	**₱12,662,514**	₱12,473,921	₱10,764,864
Taxes and licenses	**1,363,543**	1,448,239	1,610,239
Depreciation and amortization (Note 12)	**1,286,665**	1,420,117	1,298,012
Personnel costs	**779,378**	718,407	522,526

(Forward)

	2015	2014 (As restated, Note 37)	2013 (As restated, Note 37)
		(In Thousands)	
Outside services	**₱674,371**	₱624,678	₱775,870
Fuel and power	**672,009**	779,778	922,159
Communication, light and water	**641,942**	610,569	682,938
Repairs and maintenance	**442,599**	460,735	390,720
Freight and handling	**118,121**	91,617	124,090
Others	**325,167**	293,792	296,313
	18,966,309	18,921,853	17,387,731
Cost of banking services	**4,734,514**	4,234,936	5,619,415
Cost of real estate sales	**952,661**	1,303,734	2,489,830
Cost of rental income	**226,888**	278,855	190,293
Cost of sales and services	**₱24,880,372**	₱24,739,378	₱25,687,269

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

Cost of banking services consist of:

	2015	2014 (As restated, Note 37)	2013 (As restated, Note 37)
		(In Thousands)	
Interest expense on:			
Deposit liabilities	**₱2,987,670**	₱2,894,689	₱3,862,813
Bills payable and other borrowings	**1,029,995**	856,926	1,121,503
Services fees and commission expense	**716,849**	483,321	635,099
	₱4,734,514	₱4,234,936	₱5,619,415

25. Selling Expenses

	2015	2014	2013
		(In Thousands)	
Advertising and promotions	**₱1,125,810**	₱1,242,980	₱1,258,520
Depreciation and amortization (Note 12)	**641,923**	593,785	717,807
Freight and handling	**379,732**	369,263	54,706
Personnel costs	**134,071**	125,915	122,140
Outside services	**112,307**	119,341	91,410
Materials and consumables	**59,662**	31,205	60,711
Repairs and maintenance	**47,674**	62,713	63,888
Commissions	**22,730**	138,877	305,201
Travel and transportation	**21,001**	25,806	41,122
Others	**99,186**	36,755	61,441
	₱2,644,096	₱2,746,640	₱2,776,946

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

26. General and Administrative Expenses

	2015	2014 (As restated, Note 37)	2013 (As restated, Note 37)
		(In Thousands)	
Personnel costs	**₱8,821,940**	₱7,944,923	₱6,847,315
Taxes and licenses	**2,251,590**	2,216,654	2,375,917
Occupancy	**1,451,117**	1,483,130	1,619,244
Outside services	**1,306,491**	1,181,840	1,082,625
Depreciation and amortization (Notes 12, 13 and 14)	**1,393,437**	1,381,371	1,909,021
Insurance	**1,089,818**	964,466	944,261
Provision for credit losses (Note 8)	**865,889**	1,734,502	911,690
Management, consulting and professional fees	**826,478**	800,322	719,452
Marketing and promotional	**764,767**	708,999	976,040
Provision for (reversal of) legal cases and other losses - net (Notes 12, 14 and 38)	**(292,643)**	473,362	88,240
Information technology	**489,036**	407,074	394,361
Travel and transportation	**286,568**	278,840	285,989
Communication, light and water	**274,578**	243,063	292,247
Litigation	**235,526**	229,886	281,825
Materials and consumables	**206,417**	244,477	308,763
Repairs and maintenance	**193,715**	185,178	193,687
Freight and handling	**81,855**	76,366	98,242
Fuel and oil	**36,751**	66,519	141,846
Others	**524,985**	447,106	926,552
	₱20,808,315	₱21,068,078	₱20,397,317

Others include expense items mainly relating to banking operations, which are individually not significant as to amounts.

27. Finance Costs and Finance Income

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

	2015	2014	2013
		(In Thousands)	
Finance costs (Note 19):			
Short-term debts	**₱–**	₱10,523	₱18,353
Unsecured term loan and notes payable (Note 20)	**144,549**	26,118	45,540
Bonds payable	**55,957**	402,750	402,750
Amortization of bond issue costs	**2,012**	15,464	14,249
	₱202,518	₱454,855	₱480,892
Finance income:			
Cash and other cash items (Note 5)	**₱71,345**	₱91,371	₱84,908
Interest-bearing contracts receivable (Note 8)	**34,618**	24,670	39,385
AFS investments (Note 7)	**4,413**	3,000	14,800
	₱110,376	₱119,041	₱139,093

28. **Other Income (Charges) - Net**

	2015	2014 (As restated, Note 37)	2013 (As restated, Note 37)
		(In Thousands)	
Net gains on sale or exchange of assets	**₱1,562,020**	₱1,889,744	₱528,632
Recovery of insurance claims (Note 38)	**709,160**	–	–
Rental income and dues (Note 13)	**565,083**	805,235	469,538
Recoveries from charged off assets	**162,430**	117,520	91,125
Mark-to-market gain on financial assets designated at FVPL	**42,383**	32,351	–
Dividend income	**22,464**	10,912	19,123
Gain on retirement	**12,523**	–	70,880
Gain on disposal of AFS investments	**2,928**	245,216	290,505
Referral, processing and trust fees	**2,382**	97,715	68,444
Share in net losses of joint venture (Note 11)	**(2,067)**	(46,043)	(20,091)
Collections from asset pool 1 accounts (Note 38)	**–**	–	306,094
Others	**177,917**	652,409	278,809
	₱3,257,223	₱3,805,059	₱2,103,059

a. Net gains on sale or exchange of assets include sale of investment properties of the banking segment in 2015, 2014 and 2013 amounting to ₱1,435.8 million, ₱1,072.7 million and ₱26.8 million, respectively.

b. Others include income and expense items mainly relating to banking operations, which are individually not significant as to amounts.

29. **Income Taxes**

Income taxes include the corporate income tax, 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.

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.

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

	2015		2014	
	Net Deferred Income Tax Assets[(1)]	**Net Deferred Income Tax Liabilities[(2)]**	Net Deferred Income Tax Assets[(3)]	Net Deferred Income Tax Liabilities[(4)]
	(In Thousands)			
Recognized directly in the consolidated statements of income:				
Deferred income tax assets on:				
Allowance for impairment loss on:				
Receivables	**₱4,854,631**	**₱14,035**	₱4,851,051	₱12,524
Inventories	**–**	**1,681**	–	5,392
Property, plant and equipment	**–**	**54,725**	–	66,660
Accumulated depreciation on investment properties	**603,158**	**–**	**–**	**–**
Net retirement benefits liabilities	**26,595**	**258,683**	29,139	231,132
Unamortized past service cost	**–**	**1,140**	5	1,110
Accrued expenses	**34,328**	**11,095**	43,235	12,276
Reserve for unearned premiums	**–**	**–**	8,248	–
Deferred rent expense	**37,384**	**–**	–	–
Advance rental income	**26,005**	**–**		
Provision for losses	**–**	**–**	18,000	16,329
Unrealized losses on:				
Foreign exchange	**–**	**–**	44	466
Inventories on hand	**–**	**1,868**	–	20,041
Sale of property to a subsidiary	**–**	**4,529**	–	5,491
Difference between tax and book basis of accounting for real estate and banking transactions	**17,180**	**–**	27,273	–
NOLCO	**94,914**	**13,240**	278,279	–
Reserves, excess MCIT and others	**59,788**	**1,187**	597,608	–
	5,753,983	**362,183**	5,852,882	371,421
Deferred income tax liabilities on:				
Revaluation increment on property, plant and equipment	**(2,641,023)**	**(562,197)**	(1,102,033)	(1,314,352)
Excess of fair values over carrying values of property, plant and equipment acquired through business combination	**–**	**(33,472)**	–	(29,846)
Borrowing cost capitalized to property, plant, and equipment	**–**	**(16,760)**	–	(18,213)
Temporary difference associated with investments in disposal group classified as held for sale	**(91,299)**	**–**	**–**	**–**
Fair value gain on investment properties	**(1,593,081)**	**–**	(3,559,833)	–
Net changes in fair values of FVPL financial assets	**–**	**(24,370)**		
Net retirement plan assets	**–**	**(87,192)**	–	(79,285)
Unrealized foreign exchange gains	**(579,661)**	**(31,519)**	(597)	(3)
Deferred rental income	**(29,958)**	**–**	(18,661)	–
Difference between tax and book basis of accounting for real estate transactions	**(47,006)**	**–**	(35,258)	–
Others	**(208,205)**	**(309,110)**	(379,538)	(297,111)
	(5,190,233)	**(1,064,620)**	(5,095,920)	(1,738,810)
	563,750	**(702,437)**	756,962	(1,367,389)

(Forward)

	2015		2014	
	Net Deferred Income Tax Assets[(1)]	**Net Deferred Income Tax Liabilities[(2)]**	Net Deferred Income Tax Assets[(3)]	Net Deferred Income Tax Liabilities[(4)]
		(In Thousands)		
Recognized directly in equity:				
Deferred income tax assets on:				
Re-measurement losses on retirement benefits	**₱–**	**₱19,365**	₱830	₱22,800
Deferred income tax liabilities on:				
Re-measurement gains on defined benefit plans	**(12,513)**	**(4,554)**	(40,574)	(10,658)
Change in AFS	**–**	**(2,895)**	–	–
Revaluation increment on property, plant and equipment	**–**	**(492,455)**	–	–
	(12,513)	**(499,904)**	(40,574)	(10,658)
	(12,513)	**(480,539)**	(39,744)	12,142
	₱551,237	**(₱1,182,976)**	₱717,218	(₱1,355,247)

(1) *Pertains to Eton and PNB*
(2) *Pertain to LTG, Saturn, PLI, AAC, ADI, PWI, TDI, ABI, FTC and IPI*
(3) *Pertains to LTG, Eton and PNB*
(4) *Pertain to Saturn, PLI, AAC, ADI, PWI, TDI, ABI, FTC and IPI*

b. Provision for current income tax consists of:

	2015	2014 (As restated, Note 37)	2013 (As restated, Note 37)
		(In Thousands)	
RCIT	**₱1,769,395**	₱1,555,343	₱1,620,958
MCIT	**14,272**	23,962	44,623
Final tax	**575,860**	696,899	813,482
Provision for current income tax	**₱2,359,527**	₱2,276,204	₱2,479,063

c. As of December 31, 2015 and 2015, the Group has not recognized deferred income tax assets on certain deductible temporary differences such as NOLCO, excess MCIT and other items based on the assessment that sufficient taxable profit will not be available to allow the deferred income tax assets to be utilized as follows:

	2015	2014
	(In Thousands)	
NOLCO	**₱802,203**	₱667,353
Allowance for credit losses	**1,813,269**	2,250,081
Allowance for inventory obsolescence	**18,314**	7,489
Accrued retirement benefits	**786,600**	874,760
Unamortized past service cost	**631,977**	100,865
Unearned income	**112,500**	112,500
Accrued expenses	**426,911**	436,037
Derivative liabilities	**40,503**	13,279
Others	**60,730**	233,770

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

Year Incurred	Amount	Applied	Expired	Balance	Expiry Year
2012	₱266,575	₱–	(₱266,575)	₱–	2015
2013	616,862	–	–	616,862	2016
2014	231,270	–	–	231,270	2017
2015	314,584	–	–	314,584	2018
	₱1,429,291	₱–	(₱266,575)	₱1,1,62,716	

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

Year Incurred	Amount	Applied	Expired	Balance	Expiry Year
2012	₱21,024	₱–	(₱21,024)	₱–	2015
2013	32,173	–	–	32,173	2016
2014	8,053	–	–	8,053	2017
2015	14,272	–	–	14,272	2018
	₱75,522	₱–	(₱21,024)	₱54,498	

d. A reconciliation of the Group's provision for income tax computed based on income before income tax at the statutory income tax rates to the provision for income tax shown in the consolidated statements of income is as follows:

	2015	2014	2013
		(In Thousands)	
Provision for income tax at statutory income tax rate from:			
Continuing operations	**₱3,515,263**	₱2,656,107	₱4,007,031
Discontinued operations	**120,671**	92,201	68,137
	3,635,934	2,748,308	4,075,168
Adjustments resulting from:			
NOLCO and other deductible temporary differences for which no deferred income tax assets were recognized	**2,683**	349,209	187,626
Application of NOLCO and other deductible temporary differences for which no deferred income tax assets were recognized in prior years	**(153,656)**	(665,685)	(10,157)
Nontaxable income	**(553,381)**	(861,891)	(2,030,276)
Difference of itemized deduction against 40% of taxable income	**(30,229)**	(4,685)	19,832
Income subjected to final tax	**(700,972)**	–	(23,474)
Equity in net earnings of an associate	**(356,692)**	(154,534)	(1,111,235)
Non-deductible expenses	**779,440**	1,278,096	1,001,346
Provision for income tax	**₱2,623,127**	₱2,688,818	₱2,108,830
Provision for income tax from continuing operations	**₱2,578,822**	₱2,645,647	₱2,078,387
Provision for income tax from discontinued operations	**44,305**	43,171	30,443
Provision for income tax	**₱2,623,127**	₱2,688,818	₱2,108,830

	2015	2014	2013
	(In Thousands)		

30. **Equity**

Capital Stock

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

	2015	2014
	Number of shares	
Authorized capital stock at ₱1 par value:		
Balance at beginning and end of year	**25,000,000,000**	25,000,000,000
	(In Thousands)	
Issued capital stock at ₱1 par value:		
At beginning and end of year	**₱10,821,389**	₱10,821,389

a. Capital stock is held by a total of 376 and 375 stockholders as of December 31, 2015 and 2014, respectively.

b. Track record of registration:

Date	Number of Shares Licensed	Issue/Offer Price
August 1948	100,000	₱1.00
November 1958	500,000	1.00
December 1961	1,000,000	1.00
March 1966	2,000,000	1.00
March 1966	6,000,000	1.00
October 1995	247,500,000	1.00
October 2011	398,138,889	4.22
April 2013	1,840,000,000	20.50

c. In April 2013, LTG issued 1,840.0 million shares for ₱37.7 billion, where excess over par value amounting to ₱35.9 billion was recorded as capital in excess of par. Stock issue costs amounting to ₱1.1 billion were charged against capital in excess of par in 2013. Other offering related expenses amounting to ₱59.0 million were charged directly to "General and administrative expenses".

Retained Earnings and Dividends

a. On April 8, 2014, the LTG's BOD and stockholders, respectively, approved the declaration and distribution of cash dividends of ₱0.16 per share or a total of ₱1,731.4 million to all shareholders of record as of July 3, 2014 and to be paid out not later than May 22, 2014.

b. On May 12, 2015, the LTG's BOD and stockholders, respectively, approved the declaration and distribution of cash dividends of ₱0.15 per share or a total of ₱1,623.2 million to all stockholders of record as of May 27, 2015 and to be paid not later than June 10, 2015.

c. Retained earnings include undistributed earnings amounting to ₱47.0 billion in 2015, ₱42.1 billion in 2014 and ₱36.9 billion in 2013, representing accumulated earnings of subsidiaries and equity in net earnings of associates, which are not available for dividend declaration until received in the form of dividends from the combining entities and associates.

Retained earnings are further restricted for the payment of dividends to the extent of the cost of the shares held in treasury (shares of the company held by subsidiaries), unrealized foreign exchange gains except those attributable to cash and cash equivalents, fair value adjustment or gains arising from mark-to-market valuation, deferred income tax assets recognized that reduced the income tax expense and increased net income and retained earnings, and other unrealized gains or adjustments as of December 31, 2015 and 2014.

Preferred shares of subsidiaries issued to Parent Company
On March 20, 2013, the respective BOD's and stockholders of various Bank Holding Companies approved the increase in their authorized capital stocks comprising of common shares and preferred shares with par value of ₱1.00 per share. The preferred shares were subscribed by Tangent through conversion of its advances into invesments in certain Bank Holding Companies (see Note 22). Upon approval of the SEC of the increase in authorized capital stock of Bank Holding Companies in various dates in October, November and December 2013, preferred shares amounting to ₱7.4 billion presented under "Preferred shares of subsidiary issued to Parent Company" were issued to Tangent. Unissued preferred shares amounting to ₱6.0 billion which are pending approval of the SEC are presented under "Deposit for future stock subscription" as of December 31, 2013. Upon approval of the SEC on various dates in 2014, the remaining preferred shares of ₱6.0 billion and additional conversion of advances to preferred shares during the year of ₱4.7 billion were issued to Tangent. As of December 31, 2015 and 2014, preferred shares of the subsidiary issued to Parent Company amounted to ₱18.1 billion.

The preferred shares have the following features: non-voting, non-cumulative and non-participating as to dividends, non-redeemable for a period of seven years from the issuance and redeemable at the option of the Bank Holding Companies after seven years from the issuance thereof.

Other Equity Reserves
Other equity reserves consist of:

	2015	2014
	(In Thousands)	
Equity adjustments arising from business combination under common control (Note 1)	**₱445,113**	₱445,113
Equity adjustments from sale of Company's shares held by a subsidiary	**193,212**	193,212
Effect of transaction with non-controlling interest	**66,658**	52,156
Effect of sale of a subsidiary to parent company	**99,655**	99,655
Effect of sale of direct interest in a subsidiary	**(543)**	–
	₱804,095	₱790,136

Shares Held by Subsidiaries
Shares held by subsidiaries include 4.9 million shares owned by All Seasons amounting to ₱12.5 million as of December 31, 2015 and 2014 and 76.5 million shares owned by Saturn amounting to ₱150.9 million as of December 31, 2011. On July 25, 2012, the shares of stocks owned by Saturn were sold to Tangent at ₱4.50 per share. As a result, the excess of the selling price over the cost of the treasury shares amounting to ₱193.2 million is presented as an addition to other equity reserves.

Non-controlling Interests

Below are the changes in non-controlling interests:

	2015	2014	2013
		(In Thousands)	
Balance as of January 1	**₱38,494,303**	₱32,235,085	₱31,051,046
Net income attributable to non-controlling interests	**2,897,619**	2,061,976	2,805,844
Share in other comprehensive income, net of deferred income tax effect:			
Net changes in AFS financial assets (Note 7)	**(746,334)**	426,879	(2,514,123)
Accumulated translation adjustments	**283,115**	(119,903)	911,051
Remeasurement gains (losses) on defined benefit plans (Notes 2 and 23)	**(39,302)**	(537,431)	(127,737)
Revaluation increment on property, plant and equipment (Note 12)	**–**	–	420,332
Dividends received	**(7,324)**	–	(64,216)
Capital contribution of non-controlling interest during the year	**–**	4,427,697	–
Changes in ownership interest	**–**	–	(247,112)
Balance as of December 31	**₱40,882,077**	₱38,494,303	₱32,235,085

Capital contribution of non-controlling interest in 2014 pertains to the gross proceeds from PNB's stock right offering of common shares following the closure of the offer period on February 3, 2014. A total of 162,931,262 PNB Right shares were issued to its stockholders at a proportion of 15 Rights shares for every 100 existing common shares held as of the record date at the offer price of ₱17.00 per Right share.

The offer raised gross proceeds of ₱11.6 billion for PNB, out of which LTG and the non-controlling shareholders of PNB subscribed ₱6.9 billion and ₱4.4 billion, respectively, net of stock issue cost. Part of the proceeds was used as capital injection to PNB Savings Bank (PNB SB) to build and refocus PNB SB's lending business. The offer also sthrengthen PNB SB's capital position under BASEL III standards effective January 1, 2014.

31. Basic/Diluted Earnings Per Share

The following tables reflect the net income and share data used in the earnings per share computations:

Basic/diluted earnings per share were calculated as follows:

	2015	2014 (As restated, Note 37)	2013 (As restated, Note 37)
		(In Thousands)	
Net income attributable to equity holders of the Company	**₱6,599,035**	₱4,410,230	₱8,669,220
Divided by weighted-average number of shares	**10,821,389**	10,821,389	10,208,056
Basic/diluted EPS for net income attributable to equity holders of the Company	**₱0.61**	₱0.41	₱0.85

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

	2015	2014 (As restated, Note 37)	2013 (As restated, Note 37)
		(In Thousands)	
Net income from continuing operations attributable to equity holders of the Company	**₱6,312,690**	₱4,198,899	₱8,511,876
Divided by weighted-average number of shares	**10,821,389**	10,821,389	10,208,056
Basic/diluted EPS for net income from continuing operations attributable to equity holders of the Company	**₱0.58**	₱0.39	₱0.83

There are no potential common shares with dilutve effect on the basic earnings per share in 2015, 2014 and 2013.

32. Financial Risk Management Objectives and Policies

The Group's financial risk management strategies are handled on a group-wide basis, side by side with those of the other related companies within the Group. The Group's management and the BOD of the various companies comprising the Group review and approve policies for managing these risks. Management closely monitors the funds and financial transactions of the Group.

Financial Risk Management Objectives and Policies of the Banking Segment

Risk Management Strategies

The Group's banking activities are principally related to the development, delivery, servicing and use of financial instruments. Risk is inherent in these activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's 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 repledge the collateral held over loans and advances to counterparty banks and BSP in the absence of default by the owner of the collateral.

The banking segment's maximum exposure to on-balance sheet credit risk is equal to the carrying value of its financial assets except for the following securities held under agreements to resell and loans and receivables:

	2015			
	Gross Maximum Exposure	**Fair Value of Collateral**	**Net Exposure**	**Financial Effect of Collateral**
	(In Millions)			
Securities held under agreements to resell	**₱14,550**	**₱14,516**	**₱34**	**₱14,516**
Loans and receivables:				
Receivable from customers*:				
Business loans	**290,095**	**251,693**	**232,050**	**58,046**
Consumers	**33,616**	**46,756**	**15,652**	**17,964**
GOCCs and National Government Agencies (NGAs)	**23,038**	**27,561**	**3,941**	**19,097**

(Forward)

	2015			
	Gross Maximum Exposure	**Fair Value of Collateral**	**Net Exposure**	**Financial Effect of Collateral**
LGUs	**₱7,793**	**₱1,431**	**₱7,051**	**₱742**
Fringe benefits	**552**	**830**	**247**	**305**
Unquoted debt securities	**4,245**	**3,435**	**810**	**3,435**
Other receivables	**19,102**	**8,554**	**14,857**	**4,245**
	₱392,991	**₱354,776**	**₱274,642**	**₱118,350**

** Receivables from customers exclude residual value of the leased asset.*

	2014			
	Gross Maximum Exposure	Fair Value of Collateral	Net Exposure	Financial Effect of Collateral
		(In Millions)		
Loans and receivables:				
Receivable from customers*:				
Business loans	₱241,963	₱152,970	₱180,555	₱61,408
Consumers	30,254	40,459	12,792	17,462
GOCCs and NGAs	20,441	223	20,226	215
LGUs	8,397	1,059	7,687	710
Fringe benefits	567	922	198	369
Unquoted debt securities	8,044	3,728	4,317	3,728
Other receivables	18,460	3,543	15,203	3,257
	₱328,126	₱202,904	₱240,978	₱87,149

** Receivables from customers exclude residual value of the leased asset.*

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 38 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. Geographic Concentration

The table below shows the banking segment's credit risk exposures, before taking into account any collateral held or other credit enhancements, categorized by geographic location:

	2015	2014
	(In Millions)	
Philippines	**₱521,074**	₱515,058
Asia (excluding the Philippines)	**44,699**	19,439
Other European Union Countries	**7,365**	4,456
USA and Canada	**6,813**	7,676
United Kingdom	**1,316**	2,481
Middle East	**13**	74
	₱581,280	₱549,184

c. Concentration by Industry

The table below show the industry sector analysis of the banking segment's financial assets at amounts before taking into account the fair value of the loan collateral held or other credit enhancements:

	2015			
	Loans and receivables*	**Trading and investment securities**	**Other financial assets*** **	**Total**
		(In Millions)		
Primary target industry:				
Financial intermediaries	**₱38,776**	**₱8,420**	**₱24,088**	**₱71,284**
Electricity, gas and water	**49,527**	**1,800**	**4**	**51,331**
Wholesale and retail	**50,576**	**–**	**6**	**50,582**
Manufacturing	**40,697**	**31**	**–**	**40,728**
Transport, storage and communication	**28,873**	**2**	**1**	**28,876**
Public administration and defense	**25,294**	**–**	**–**	**25,294**
Agriculture, hunting and forestry	**5,996**	**–**	**–**	**5,996**
Secondary target industry:				
Government	**626**	**72,458**	**95,913**	**168,997**
Real estate, renting and business activities	**43,751**	**5,489**	**28**	**49,268**
Construction	**11,517**	**–**	**–**	**11,517**
Others**	**69,380**	**7,885**	**145**	**77,410**
	₱365,013	**₱96,085**	**₱120,185**	**₱581,283**

* *Loans and receivables exclude residual value of the leased asset.*

** *Others include the following sectors - Other community, social and personal services, private household, hotel and restaurant, education, mining and quarrying, and health and social work.*

*** *Other financial assets include the following financial assets: 'Due from BSP', 'Due from other banks', 'Interbank loans receivable', 'Securities held under agreements to resell' and other financial assets booked under 'Other Assets'.*

	2014			
	Loans and receivables*	Trading and investment securities	Other financial assets***	Total
		(In Millions)		
Primary target industry:				
Financial intermediaries	₱38,125	₱6,168	₱23,263	₱67,556
Electricity, gas and water	43,519	3,147	–	46,666
Wholesale and retail	43,900	–	–	43,900

(Forward)

	2014			
	Loans and receivables*	Trading and investment securities	Other financial assets***	Total
Manufacturing	₱39,526	₱197	₱–	₱39,723
Transport, storage and communication	19,274	–	–	19,274
Public administration and defense	23,425	–	–	23,425
Agriculture, hunting and forestry	6,062	–	–	6,062
Secondary target industry:				
Government	4,904	66,196	105,774	176,874
Real estate, renting and business activities	39,119	7,813	–	46,932
Construction	8,503	–	–	8,503
Others**	49,332	19,892	1,045	70,269
	₱315,689	₱103,413	₱130,082	₱549,184

* *Loans and receivables exclude residual value of the leased asset.*

** *Others include the following sectors - Other community, social and personal services, private household, hotel and restaurant, education, mining and quarrying, and health and social work.*

*** *Other financial assets include the following financial assets: 'Due from BSP', 'Due from other banks', 'Interbank loans receivable', 'Securities held under agreements to resell' and other financial assets booked under 'Other Assets'.*

The internal limit of the banking segment based on the Philippine Standard Industry Classification (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 - Watchlist
  This rating includes borrower where the credit exposure is not at risk of loss at the moment but the performance of the borrower has weakened and, unless present trends are reversed, could eventually lead to losses.

- CRR 11 - Special Mention
  These are loans that have potential weaknesses that deserve management's close attention. These potential weaknesses, if left uncorrected, may affect the repayment of the loan and thus increase credit risk to the Banking segment.

- CRR 12 - Substandard
  These are loans or portions thereof which appear to involve a substantial and unreasonable degree of risk to PNB because of unfavorable record or unsatisfactory characteristics.

- CRR 13 - Doubtful
  These are loans or portions thereof which have the weaknesses inherent in those classified as CRR 12 with the added characteristics that existing facts, conditions and values make collection or liquidation in full highly improbable and in which substantial loss is probable.

- CRR 14 - Loss
  These are loans or portions thereof which are considered uncollectible or worthless.

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

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

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

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

The table below shows the banking segment’s receivable from customers, gross of allowance for credit losses and unearned and other deferred income, for each CRR as of December 31, 2015 and 2014, but net of residual values of leased assets.

	2015			
	Neither Past Due nor Individually Impaired	**Past Due and not Individually Impaired**	**Individually Impaired**	**Total**
		(In Millions)		
Rated Receivable from Customers				
1 – Excellent	**₱4,090**	**₱–**	**₱–**	**₱4,090**
2 - Super Prime	**65,178**	**–**	**–**	**65,178**
3 - Prime	**55,510**	**–**	**–**	**55,510**
4 - Very Good	**29,060**	**–**	**–**	**29,060**
5 – Good	**53,998**	**–**	**76**	**54,074**
6 - Satisfactory	**31,701**	**8**	**86**	**31,795**
7 - Average	**19,304**	**1**	**–**	**19,305**
8 - Fair	**24,465**	**2**	**139**	**24,606**
9 - Marginal	**9,847**	**2**	**49**	**9,898**
10 - Watchlist	**18,885**	**–**	**3**	**18,888**
11 - Special Mention	**2,312**	**88**	**148**	**2,548**
12 - Substandard	**613**	**192**	**648**	**1,453**
13 – Doubtful	**–**	**26**	**1,306**	**1,332**
14 - Loss	**–**	**1,364**	**2,264**	**3,628**
	314,963	**1,683**	**4,719**	**321,365**

(Forward)

	2015			
	Neither Past Due nor Individually Impaired	**Past Due and not Individually Impaired**	**Individually Impaired**	**Total**
	(In Millions)			
Unrated Receivable from Customers				
Business Loans	**₱15,144**	**₱151**	**₱46**	**₱15,341**
Consumers	**7,944**	**1,399**	**32**	**9,375**
LGUs	**7,697**	**27**	**65**	**7,789**
GOCCs and NGAs	**2,455**	**–**	**47**	**2,502**
Fringe Benefits	**519**	**11**	**26**	**556**
	33,759	**1,588**	**216**	**35,563**
	₱348,722	**₱3,271**	**₱4,935**	**₱356,928**

	2014			
	Neither Past Due nor Individually Impaired	Past Due and not Individually Impaired	Individually Impaired	Total
Rated Receivable from Customers				
1 - Excellent	₱3,658	₱–	₱–	₱3,658
2 - Super Prime	54,762	–	–	54,762
3 - Prime	44,607	3	–	44,610
4 - Very Good	12,837	–	–	12,837
5 - Good	28,228	283	–	28,511
6 - Satisfactory	42,311	188	92	42,591
7 - Average	24,744	182	128	25,054
8 - Fair	22,581	386	68	23,035
9 - Marginal	5,355	272	64	5,691
10 - Watchlist	10,362	99	10	10,471
11 - Special Mention	1,870	167	40	2,077
12 - Substandard	1,180	138	1,985	3,303
13 - Doubtful	–	217	1,290	1,507
14 - Loss	–	353	2,318	2,671
	252,495	2,288	5,995	260,778
Unrated Receivable from Customers				
Business Loans	10,194	622	1,071	11,887
Consumers	18,324	625	162	19,111
LGUs	8,142	169	79	8,390
GOCCs and NGAs	352	2	1,796	2,150
Fringe Benefits	532	11	24	567
	37,544	1,429	3,132	42,105
	₱290,039	₱3,717	₱9,127	₱302,883

Under PFRS 7, a financial asset is past due when a counterparty has failed to make a payment when contractually due. The table below shows the aging analysis of the banking segment of past due but not impaired loans and receivables per class.

	2015				2014			
	Less than 30 days	**31 to 90 days**	**More than 90 days**	**Total**	Less than 30 days	31 to 90 days	More than 90 days	Total
				(In Millions)				
Consumers	**₱172**	**₱96**	**₱1,184**	**₱1,452**	₱130	₱73	₱480	₱683
Business loans	**60**	**11**	**1,712**	**1,783**	1,564	159	1,125	2,848
LGUs	**–**	**–**	**27**	**27**	62	–	110	172
GOCCs and NGAs	**–**	**–**	**–**	**–**	–	–	2	2
Fringe benefits	**1**	**–**	**9**	**10**	–	1	10	11
Total	**₱233**	**₱107**	**₱2,932**	**₱3,272**	₱1,756	₱233	₱1,727	₱3,716

Trading and Investment Securities and Other Financial Assets

In ensuring quality investment portfolio, PNB uses the credit risk rating based on the external ratings of eligible external credit rating institutions (i.e. Moody's Investors Service) as follows:

Aaa to Aa3 - fixed income are judged to be of high quality and are subject to very low credit risk, but their susceptibility to long-term risks appears somewhat greater.

A1 to A3 - fixed income obligations are considered upper-medium grade and are subject to low credit risk, but have elements present that suggest a susceptibility to impairment over the long term.

Baa1 and below - represents those investments which fall under any of the following grade:

- Baa1, Baa2, Baa3 - fixed income obligations are subject to moderate credit risk. They are considered medium grade and as such protective elements may be lacking or may be characteristically unreliable.
- Ba1, Ba2, Ba3 - obligations are judged to have speculative elements and are subject to substantial credit risk.
- B1, B2, B3 - obligations are considered speculative and are subject to high credit risk.
- Caa1, Caa2, Caa3 - are judged to be of poor standing and are subject to very high credit risk.
- Ca - are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest.
- C - are the lowest rated class of bonds and are typically in default, with little prospect for recovery of principal or interest.

Below are the financial assets of the banking segment, excluding receivables from customers, which are monitored using external ratings.

	December 31, 2015					
	Rated					
	Aaa to Aa3	**A1 to A3**	**Baa1 and below**	**Subtotal**	**Unrated[6/]**	**Total**
			(In Millions)			
Due from BSP[1/]	**₱–**	**₱–**	**₱–**	**₱–**	**₱81,363**	**₱81,363**
Due from other banks	**5,974**	**3,771**	**7,701**	**17,446**	**842**	**18,288**
Interbank loans receivables	**1,814**	**3,525**	**461**	**5,800**	**–**	**5,800**
Securities held under agreements to resell	**–**	**–**	**–**	**–**	**14,550**	**14,550**
Financial assets at FVPL:						
Held-for-trading:						
Government securities	**–**	**–**	**3,795**	**3,795**	**245**	**4,040**

(Forward)

	December 31, 2015					
	Rated					
	Aaa to Aa3	**A1 to A3**	**Baa1 and below**	**Subtotal**	**Unrated[6/]**	**Total**
			(In Millions)			
Private debt securities	**₱–**	**₱–**	**₱113**	**₱113**	**₱31**	**₱144**
Derivative assets[2/]	**12**	**10**	**35**	**57**	**123**	**180**
Equity securities	**–**	**–**	**–**	**–**	**200**	**200**
Designated at FVPL:						
Investment in Unit Investment Trust Funds (UITFs)	**–**	**–**	**–**	**–**	**17**	**17**
AFS investments[5/]:						
Government securities	**1,829**	**–**	**28,626**	**30,455**	**14,806**	**45,261**
Private debt securities	**3,321**	**397**	**10,939**	**14,657**	**7,596**	**22,253**
Quoted equity securities	**–**	**–**	**203**	**203**	**451**	**654**
Unquoted equity securities	**–**	**–**	**1**	**1**	**173**	**174**
HTM investments						
Government securities	**94**	**5**	**23,066**	**23,165**	**–**	**23,165**
Loans and receivables:						
Unquoted debt securities[3/]	**–**	**–**	**75**	**75**	**550**	**625**
Others[4/]	**–**	**–**	**–**	**–**	**15,923**	**15,923**

[1/] *'Due from BSP' is composed of interest-earning short-term placements with the BSP and a demand deposit account to support the regular operations of PNB.*
[2/] *Derivative assets represent the value of credit derivatives embedded in host contracts issued by financial intermediaries and the mark-to-market valuation of freestanding derivatives (see Note 21).*
[3/] *Unquoted debt securities represent investments in bonds and notes issued by financial intermediaries, government and private entities that are not quoted in the market, net of allowances.*
[4/] *Loans and receivables - Others is composed of accrued interest receivable, accounts receivable, sales contracts receivable and other miscellaneous receivables, net of allowances (see Note 8)*
[5/] *AFS investments are presented net of allowances (Note 7).*
[6/] *As of December 31, 2015, financial assets that are unrated are neither past due nor impaired.*

	December 31, 2014					
	Rated					
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal	Unrated[6/]	Total
			(In Millions)			
Due from BSP [1/]	₱–	₱–	₱10,358	₱10,358	₱95,416	₱105,774
Due from other banks	2,488	3,971	4,687	11,146	4,445	15,591
Interbank loans receivables	2,295	3,569	1,557	7,421	250	7,671
Financial assets at FVPL:						
Held-for-trading:						
Government securities	–	–	5,712	5,712	419	6,131
Private debt securities	–	–	–	–	210	210
Derivative assets[2/]	1	43	11	55	234	289
Equity securities	–	–	–	–	210	210
Designated at FVPL:						
Segregated fund assets	–	10,655	–	10,655	–	10,655
Loans and receivables:						
Unquoted debt securities[4/]	–	–	349	349	4,076	4,425
Others[5/]	4	2	201	207	15,249	15,456
AFS investments[6/]:						
Government securities	1,450	83	34,886	36,419	1,264	37,683
Other debt securities	691	1,058	3,267	5,016	18,971	23,987
Quoted equity securities	40	–	163	203	2,532	2,735
Unquoted equity securities	–	–	–	–	338162	338162

(Forward)

	December 31, 2014					
	Rated					
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal	Unrated[6/]	Total
	(In Millions)					
HTM investments						
Government securities	₱–	₱4	₱22,827	₱22,831	₱–	₱22,831
Other debt securities	–	50	–	50	90	140
Miscellaneous COCI	–	–	–	–	–	–

[1/] *'Due from BSP' is composed of interest-earning short-term placements with the BSP and a demand deposit account to support the regular operations of PNB.*
[2/] *Derivative assets represent the value of credit derivatives embedded in host contracts issued by financial intermediaries and the mark-to-market valuation of freestanding derivatives (see Note 21).*
[3/] *Unquoted debt securities represent investments in bonds and notes issued by financial intermediaries, government and private entities that are not quoted in the market, net of allowances.*
[4/] *Loans and receivables - Others is composed of accrued interest receivable, accounts receivable, sales contracts receivable and other miscellaneous receivables, net of allowances (see Note 8)*
[5/] *AFS investments are presented net of allowances (Note 7).*
[6/] *As of December 31, 2014, financial assets that are unsecured are neither past due nor impaired.*

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.

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

Liquidity Risk and Funding Management

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

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

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

The table below shows the banking segment's financial assets and financial liabilities' liquidity information which includes coupon cash flows categorized based on the expected date on which the asset will be realized and the liability will be settled. For other assets, the analysis into maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date or if earlier, the expected date the assets will be realized.

	2015					
	Up to 1 Month	**More than 1 Month to 3 Months**	**More than 3 Months to 6 Months**	**More than 6 Months to 1 Year**	**Beyond 1 year**	**Total**
			(In Millions)			
Financial Assets						
COCI	**₱15,221**	**₱–**	**₱–**	**₱–**	**₱–**	**₱15,221**
Due from BSP and other banks	**99,654**	**–**	**–**	**–**	**–**	**99,654**
Interbank loans receivable	**5,384**	**416**	**2**	**–**	**–**	**5,802**
Securities held under agreements to resell	**14,583**	–	–	–	–	**14,583**
Financial assets at FVPL:						
Held-for-trading:						
Government securities	**3,979**	–	–	–	–	**3,979**
Equity securities	**200**	–	–		–	**200**
Private debt securities	**144**	–	–		–	**144**

(Forward)

	2015					
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	Total
			(In Millions)			
Derivative assets:						
Gross contractual receivable	**₱16,818**	**₱2,059**	**₱28**	**₱41**	**₱349**	**₱19,295**
Gross contractual payable	**(16,753)**	**(2,040)**	**(19)**	**(27)**	**(275)**	**(19,114)**
	65	**19**	**9**	**14**	**74**	**181**
Designated at FVPL:						
Investment in UITFs	**17**	**–**	**– –**		**–**	**17**
AFS investments:						
Government securities	**1,059**	**521**	**952**	**1,001**	**56,959**	**60,492**
Private debt securities	**184**	**534**	**307**	**12**	**27,717**	**28,754**
Equity securities	**–**	**–**	**–**	**–**	**828**	**828**
HTM investments:						
Government securities	**180**	**181**	**259**	**678**	**38,629**	**39,927**
Loans and receivables:						
Receivables from customers	**66,383**	**52,578**	**14,540**	**22,197**	**271,348**	**427,046**
Unquoted debt securities	**–**	**1**	**7**	**77**	**4,179**	**4,264**
Other receivables	**2,726**	**574**	**1,452**	**346**	**14,761**	**19,859**
Other assets	**128**	**2**	**1**	**1**	**51**	**183**
Total financial assets	**₱209,907**	**₱54,826**	**₱17,529**	**₱24,326**	**₱414,546**	**₱721,134**

	2015					
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	Total
			(In Millions)			
Financial Liabilities						
Deposit liabilities:						
Demand	**₱110,030**	**₱–**	**₱–**	**₱–**	**₱–**	**₱110,030**
Savings	**260,880**	**25,251**	**11,251**	**5,732**	**13,746**	**316,860**
Time	**14,064**	**9,319**	**6,450**	**3,815**	**27,445**	**61,093**
Financial liabilities at FVPL:						
Derivative liabilities:						
Gross contractual payable	**5,543**	**2,891**	**255**	**41**	**284**	**9,014**
Gross contractual receivable	**(5,500)**	**(2,830)**	**(246)**	**(27)**	**(275)**	**(8,878)**
	43	**61**	**9**	**14**	**9**	**136**
Bills and acceptances payable	**4,075**	**1,437**	**90**	**538**	**20,204**	**26,344**
Subordinated debt	**–**	**161**	**161**	**103**	**10,103**	**10,528**
Accrued interest payable and accrued other expenses payable	**1,019**	**159**	**18**	**23**	**1,565**	**2,784**
Other liabilities	**16,995**	**336**	**397**	**127**	**1,433**	**19,288**
Total financial liabilities	**₱407,106**	**₱36,724**	**₱18,376**	**₱10,352**	**₱74,505**	**₱547,063**

	2014					
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	Total
			(In Millions)			
Financial Assets						
COCI	₱14,628	₱–	₱–	₱–	₱–	₱14,628
Due from BSP and other banks	123,894	–	–	–	–	123,894
Interbank loans receivable	7,407	86	179	–	–	7,672
Financial assets at FVPL:						
Held-for-trading:						
Government securities	4	27	253	243	7,889	8,416
Equity securities	211	–	–	–	–	211
Private debt securities	–	1	2	6	271	280
Derivative assets:						
Gross contractual receivable	4,094	145	62	–	566	4,867
Gross contractual payable	(4,075)	(139)	(58)	–	(461)	(4,733)
	19	6	4	–	105	134
Designated at FVPL						
Segregated fund assets	–	–	–	–	10,655	10,655
AFS investments:						
Government securities	131	587	1,313	1,087	44,142	47,260
Private debt securities	17	268	132	2,305	26,317	29,039
Equity securities	–	–	–	–	2,238	2,238
HTM investments:						
Government securities	17	163	221	627	35,937	36,965
Private debt securities	–	–	–	–	50	50
Loans and receivables:						
Receivables from customers	61,248	42,705	8,992	14,040	253,798	380,783
Unquoted debt securities	8	3,557	11	20	830	4,426
Other receivables	2,364	568	1,492	369	10,667	15,460
Other assets	944	–	–	–	102	1,046
Total financial assets	₱210,892	₱47,968	₱12,599	₱18,697	₱393,001	₱683,157
Financial Liabilities						
Deposit liabilities:						
Demand	₱101,561	₱–	₱–	₱–	₱–	₱101,561
Savings	210,067	33,072	16,375	13,484	22,428	295,426
Time	8,103	10,787	5,149	5,628	24,290	53,957
Financial liabilities at FVPL:						
Designated at FVPL:						
Derivative liabilities:						
Gross contractual payable	6,828	55	23	291	490	7,687
Gross contractual receivable	(6,811)	(54)	(21)	(290)	(465)	(7,641)
	17	1	2	1	25	46
Bills and acceptances payable	7,713	997	1,335	31	8,974	19,050
Subordinated debt	–	160	161	322	10,497	11,140
Accrued interest payable and accrued other expenses payable	822	134	1	1	1,555	2,513
Other liabilities	17,900	457	300	408	6,700	25,765
Total financial liabilities	₱346,183	₱ 45,608	₱23,323	₱19,875	₱74,469	₱509,458

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.

Trading Portfolio	**Foreign Exchange***	**Interest Rate**	**Equities Price**	**Total VaR****
December 31, 2015	**₱1.99**	**₱296.83**	**₱8.81**	**₱307.63**
Average Daily	**3.67**	**306.33**	**8.99**	**318.99**
Highest	**14.52**	**420.79**	**10.5**	**392.93**
Lowest	**0.92**	**144.96**	**7.19**	**170.35**
December 31, 2014	₱54.51	₱180.25	₱7.76	₱242.52
Average Daily	49.60	188.39	8.73	246.50
Highest	103.36	307.42	12.60	349.12
Lowest	8.56	76.55	6.43	160.66

** FX VaR is the bankwide foreign exchange risk*

*** The high and low for the total portfolio may not equal the sum of the individual components as the highs and lows of the individual trading portfolios may have occurred on different trading days*

The table below shows the interest rate VaR for AFS investments:

	2015	2014
	(In Millions)	
End of year	**₱1,303.05**	₱812.47
Average Daily	**1,249.75**	1,416.60
Highest	**1,444.14**	2,631.36
Lowest	**797.87**	812.47

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.

The following table sets forth the repricing gap position of the banking segment:

	December 31, 2015					
	Up to 1 Month	**More than 1 to 3 Months**	**More than 3 to 6 Months**	**More than 6 to 12 months**	**Beyond 1 year**	**Total**
			(In Millions)			
Financial Assets*						
Due from BSP and other banks	**₱23,069**	**₱2,140**	**₱442**	**₱415**	**₱227**	**₱26,293**
Interbank loans receivable	**5,251**	**158**	**391**	**–**	**–**	**5,800**
Receivable from customers and other receivables - gross**	**119,503**	**54,698**	**7,568**	**2,524**	**51,382**	**235,675**
Total financial assets	**₱147,823**	**₱56,996**	**₱8,401**	**₱2,939**	**₱51,609**	**₱267,768**
Financial Liabilities*						
Deposit liabilities:						
Savings	**₱82,042**	**₱26,460**	**₱18,737**	**₱19,105**	**₱12,365**	**₱158,709**
Time	**19,330**	**8,793**	**6,358**	**3,958**	**3,099**	**41,538**
Bills and acceptances payable	**3,850**	**1,081**	**1,006**	**1,141**	**18,674**	**25,752**
Total financial liabilities	**₱105,222**	**₱36,334**	**₱26,101**	**₱24,204**	**₱34,138**	**₱225,999**
Repricing gap	**₱42,601**	**₱20,662**	**(₱17,700)**	**(₱21,265)**	**₱17,471**	**₱41,769**
Cumulative gap	**42,601**	**63,263**	**45,563**	**24,298**	**41,769**	

**Financial instruments that are not subject to repricing/rollforward were excluded.*
***Receivable from customers excludes residual value of leased assets.*

	December 31, 2014					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 months	Beyond 1 year	Total
			(In Millions)			
Financial Assets*						
Due from BSP and other banks	₱114,062	₱5,180	₱1,436	₱235	₱452	₱121,365
Interbank loans receivable	7,585	86	–	–	–	7,671
Receivable from customers and other receivables - gross**	109,682	52,668	10,239	10,042	30,296	212,927
Total financial assets	₱231,329	₱57,934	₱11,675	₱10,277	₱30,748	₱341,963
Financial Liabilities*						
Deposit liabilities:						
Savings	₱80,240	₱28,456	₱16,173	₱20,476	₱9,503	₱154,848
Time	13,973	6,782	5,620	4,134	3,375	33,884
Bills and acceptances payable	7,574	682	422	669	13,618	22,965
Total financial liabilities	₱101,787	₱35,920	₱22,215	₱25,279	₱26,496	₱211,697
Repricing gap	₱129,542	₱22,014	(₱10,540)	(₱15,002)	₱4,252	₱130,266
Cumulative gap	129,542	151,556	141,016	126,014	130,266	–

**Financial instruments that are not subject to repricing/rollforward were excluded.*
***Receivable from customers excludes residual value of leased assets.*

The following table sets forth, for the year indicated, the impact of changes in interest rates on the banking segment's repricing gap for the years ended December 31:

	2015		2014	
	Income Before Income Tax	**Equity**	Income Before Income Tax	Equity
		(In Millions)		
+50bps	**₱358**	**₱358**	₱248	₱248
-50bps	**(358)**	**(358)**	(248)	(248)
+100bps	**716**	**716**	496	496
-100bps	**(716)**	**(716)**	(496)	(496)

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.

The table below summarizes the banking segment's exposure to foreign exchange rate risk. Included in the table are the financial assets and liabilities at carrying amounts, categorized by currency (amounts in Philippine peso equivalent).

	December 31, 2015			December 31, 2014		
	USD	**Others**	**Total**	USD	Others	Total
			(In Millions)			
Assets						
COCI and due from BSP	**₱259**	**₱220**	**₱479**	₱236	₱300	₱536
Due from other banks	**6,934**	**9,467**	**16,401**	1,491	3,301	4,792
Interbank loans receivable and securities held under agreements to resell	**673**	**1,006**	**1,679**	2,044	432	2,476
Financial assets at FVPL	**–**	**–**	**–**	118	35	153
Loans and receivables	**14,468**	**6,682**	**21,150**	7,173	688	7,861
AFS investments	**525**	**927**	**1,452**	1,484	1,934	3,418
Other assets	**598**	**657**	**1,255**	91	54	145
Total assets	**₱23,457**	**₱18,959**	**₱42,416**	₱12,637	₱6,744	₱19,381
Liabilities						
Deposit liabilities	**₱7,691**	**₱4,892**	**₱12,583**	₱1,961	₱2,937	₱4,898
Bills and acceptances payable	**3,430**	**258**	**3,688**	2,977	113	3,090
Accrued taxes, interest and other expenses	**1,589**	**30**	**1,619**	1,570	24	1,594
Other liabilities	**858**	**555**	**1,413**	2,357	144	2,501
Total liabilities	**13,568**	**5,735**	**19,303**	8,865	3,218	12,083
Net Exposure	**₱9,889**	**₱13,224**	**₱23,113**	₱3,772	₱3,526	₱7,298

Information relating to the banking segment's currency derivatives is contained in Note 21.

Financial Risk Management Objectives and Policies of the Companies in the Group other than the Banking Segment

Risk Management Strategies
The Group's principal financial instruments comprise of short-term and long-term debts and 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 90% of total alcoholic beverage sale.
- 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.

The tables below show the credit quality of financial assets and an aging analysis of past due but not impaired accounts of the Group except for the banking segment:

December 31, 2015:

	Neither past due nor impaired		Past due but not impaired					
	Standard Grade	**Sub-standard Grade**	**31 to 60 days**	**61 to 90 days**	**91 to 120 days**	**Over 120 Days**	**Impaired Financial Assets**	**Total**
				(In Millions)				
Loans and receivables:								
Cash and other cash items	**₱2,331**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱2,331**
Trade receivables	**2,910**	**–**	**3,143**	**1,354**	**3,267**	**607**	**623**	**11,904**
Other receivables	**839**	**2**	**2**	**6**	**1**	**80**	**9**	**939**
Due from related parties	**1,593**	**–**	**–**	**–**	**–**	**–**	**–**	**1,593**
Refundable deposits	**145**	**–**	**–**	**–**	**–**	**–**	**–**	**145**
Financial assets at FVPL	**5,082**	**–**	**–**	**–**	**–**	**–**	**–**	**5,082**
AFS investments	**541**	**–**	**–**	**–**	**–**	**–**	**–**	**541**
	₱13,441	**₱2**	**₱3,145**	**₱1,360**	**₱3,268**	**₱687**	**₱632**	**₱22,535**

December 31, 2014:

	Neither past due nor impaired		Past due but not impaired					
	Standard Grade	Sub-standard Grade	31 to 60 days	61 to 90 days	91 to 120 days	Over 120 Days	Impaired Financial Assets	Total
				(In Millions)				
Loans and receivables:								
Cash and other cash items	₱3,607	₱–	₱–	₱–	₱–	₱–	₱–	₱3,607
Trade receivables	5,962	–	3,213	1,983	1,382	–	29	12,569
Other receivables	2,702	167	2	7	5	91	6	2,980
Due from related parties	1,353	–	–	–	–	444	–	1,797
Refundable deposits	173	–	–	–	–	–	–	173
Financial assets at FVPL	4,922	–	–	–	–	–	–	4,922
AFS investments	570	52	–	–	–	–	2	624
	₱19,289	₱219	₱3,215	₱1,990	₱1,387	₱535	₱37	₱26,672

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

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

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

The following tables show the maturity profile of the Group's other financial liabilities (undiscounted amounts of principal and related interest) as well as the financial assets used for liquidity management (in millions):

	2015			2014		
	Less than one year	**1 to less than 3 years**	**Total**	Less than one year	1 to less than 3 years	Total
Cash and other cash items	**₱2,331**	**₱–**	**₱2,331**	₱3,607	₱–	₱3,607
Trade receivables	**11,282**	**–**	**11,282**	12,569	–	12,569
Other receivables	**922**	**8**	**930**	2,980	–	2,980
Due from related parties	**1,149**	**444**	**1,593**	1,797	–	1,797
Refundable deposits	**145**	**–**	**145**	173	–	173
Financial assets at FVPL	**5,082**	**–**	**5,082**	4,922	–	4,922
AFS investments	**–**	**615**	**615**	1,672	–	1,672
	₱20,911	**₱1,067**	**₱21,978**	₱27,720	₱–	₱27,720
Short term debts	**₱–**	**₱–**	**₱–**	₱300	₱–	₱300
Accounts payable and other liabilities*	**8,658**	**–**	**8,658**	7,263	–	7,263
Long-term debts	**2,226**	**822**	**3,048**	15,475	1,322	16,797
Due to related parties	**47**	**–**	**47**	50	–	50
Other liabilities	**1,081**	**2,203**	**3,284**	2,640	–	2,640
	₱12,012	**₱3,025**	**₱15,037**	₱25,728	₱1,322	₱27,050

**Excluding non-financial liabilities amounting to ₱128.2 million and ₱132.6 million as of December 31, 2015 and 2014.*

Market Risks of the Group other than the Banking Segment

The Group's operating, investing, and financing activities are directly affected by changes in foreign exchange rates and interest rates. Increasing market fluctuations in these variables may result in significant equity, cash flow and profit volatility risks for the Group. For this reason, the Group seeks to manage and control these risks primarily through its regular operating and financing activities.

Management of financial market risk is a key priority for the Group. The Group generally applies sensitivity analysis in assessing and monitoring its market risks. Sensitivity analysis enables management to identify the risk position of the Group as well as provide an approximate quantification of the risk exposures. Estimates provided for foreign exchange risk, cash flow interest rate risk, price interest rate risk and equity price risk are based on the historical volatility for each market factor, with adjustments being made to arrive at what the Group considers to be reasonably possible.

Equity price risk

Equity price risk is the risk that the fair value of equities will decrease as a result of changes in the levels of equity indices and value of individual stocks. In 2015, 2014 and 2013, changes in fair value of equity instruments held as AFS equity instruments due to a reasonable possible change in equity interest, with all other variables held constant, will increase profit by ₱42.1 million, ₱39.7 million and ₱43.8 million, respectively, if equity prices will increase by 5.2%. An equal change in the opposite direction would have decrease equity by the same amount.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates would unfavorably affect future cash flows from financial instruments. As of December 31, 2015 and 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.

Foreign currency risk
The non-banking segment of the Group is not significantly affected by foreign currency risk since the Group has no significant foreign currency transactions.

33. Offsetting of Financial Assets and Financial Liabilities

The amendments to PFRS 7, which is effective January 1, 2013, require the Group to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreements or similar arrangements. The effects of these arrangements are disclosed in the succeeding tables.

Financial assets

December 31, 2015

Financial assets recognized at end of reporting period by type	Gross carrying Amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in balance sheet [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria: Financial instruments	Fair value of Financial collateral	Net exposure [c-d]
	[a]	[b]	[c]	[d]		[e]
				(In Thousands)		
Derivative assets (Notes 6 and 21)	**₱14,550,000**	**₱–**	**₱14,550,000**	**₱–**	**₱14,516,223**	**₱33,777**

December 31, 2014

Financial assets recognized at end of reporting period by type	Gross carrying Amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in balance sheet [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria: Financial instruments	Fair value of Financial collateral	Net exposure [c-d]
	[a]	[b]	[c]	[d]		[e]
				(In Thousands)		
Derivative assets (Notes 6 and 21)	₱10,038,319	₱9,981,741	₱56,578	₱597	₱–	₱55,981

Financial liabilities

December 31, 2015

Financial assets recognized at end of reporting period by type	Gross carrying Amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in balance sheet [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria: Financial instruments	Fair value of Financial collateral	Net exposure [c-d]
	[a]	[b]	[c]	[d]		[e]
				(In Thousands)		
Derivative liabilities (Notes 16 and 21)	**₱216,636**	**₱–**	**₱216,636**	**₱465**	**₱250,830**	**₱–**
Securities sold under agreements to repurchase (Note 17)*	**12,806,499**	**–**	**12,806,499**	**–**	**15,941,143**	**–**
Total	**₱13,023,135**	**₱–**	**₱13,023,135**	**₱465**	**₱16,191,973**	**₱–**

** Included in bills and acceptances payable in the consolidated balance sheet*

December 31, 2014						
				Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		
Financial assets recognized at end of reporting period by type	Gross carrying Amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in balance sheet [a-b]	Financial instruments	Fair value of Financial collateral	Net exposure [c-d]
	[a]	[b]	[c]	[d]		[e]
			(In Thousands)			
Derivative liabilities (Notes 16 and 21)	₱10,962,654	(₱10,919,189)	₱43,465	₱–	₱–	₱43,465
Securities sold under agreements to repurchase (Note 17)*	14,085,961	–	14,085,961	–	17,448,561	–
Total	₱25,048,615	(₱10,919,189)	₱14,129,426	–	₱17,448,561	₱43,465

** Included in bills and acceptances payable in the consolidated balance sheet*

The amounts disclosed in column (d) include those rights to set-off amounts that are only enforceable and exercisable in the event of default, insolvency or bankruptcy. This includes amounts related to financial collateral both received and pledged, whether cash or non-cash collateral, excluding the extent of over-collateralization.

34. Fair Value Measurement

The Group has assets and liabilities that are measured at fair value on a recurring and non-recurring basis in the consolidated 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 December 31, 2015 and 2014, the carrying values of the Group's financial assets and liabilities approximate their respective fair values, except for the following financial instruments:

	December 31, 2015		December, 31, 2014	
	Carrying Value	**Fair Market Value**	Carrying Value	Fair Market Value
		(In Thousands)		
Financial Assets:				
Loans and receivables:				
Receivables from customers	**₱349,139,278**	**₱351,626,538**	₱296,372,069	₱316,486,735
Unquoted debt securities	**625,803**	**648,046**	4,425,005	6,013,057
	₱349,765,081	**₱352,274,584**	₱300,797,074	₱322,499,792
Financial Liabilities:				
Financial liabilities at amortized cost:				
Deposit liabilities -				
Time deposits	**₱60,511,353**	**₱60,762,710**	₱52,759,938	₱55,296,115
Bills payables	**25,407,406**	**25,033,940**	18,683,204	18,340,370
Long term debts:				
Subordinated debt	**9,986,427**	**10,241,659**	9,969,498	10,593,485
Unsecured term loan	**720,004**	**720,004**	1,321,823	1,337,684
Bonds payable	**–**	**–**	4,998,008	5,048,551
Notes payable	**476,015**	**470,370**	508,115	502,089
Other liabilities:				
Payable to landowners	**1,723,923**	**1,803,770**	2,289,708	2,226,042
Tenants' rental deposits	**306,524**	**351,781**	268,805	323,236
Advance rentals	**207,470**	**186,687**	45,800	41,212
	₱99,339,122	**₱99,570,921**	₱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 2.75% in 2015 and 3.2% in 2014 for peso-denominated receivables. For foreign currency-denominated receivables, discount rate used is 1.5% in 2015 and 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 2.66% to 3.77% and 1.0% to 3.9% as of December 31, 2015 and 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 2.67% to 3.89% as of December 31, 2015 and from 2.75% to 5.07% as of 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:

	December 31, 2015			
	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	**₱2,707,811**	**₱1,331,801**	**₱–**	**₱4,039,612**
Derivative assets	**–**	**118,016**	**63,332**	**181,348**
Private debt securities	**143,800**	**–**	**–**	**143,800**
Equity securities	**199,752**	**170**	**–**	**199,922**
Designated at FVPL:				
Investment in UITFs	**–**	**17,261**	**–**	**17,261**
Segregated fund assets*	**–**	**–**	**–**	**–**
	₱3,051,363	**₱1,467,248**	**₱63,332**	**₱4,581,943**
AFS investments:				
Government securities	**₱33,499,835**	**₱11,760,562**	**₱–**	**₱45,260,397**
Private debt securities	**21,614,280**	**638,700**	**–**	**22,252,980**
Equity securities**	**560,272**	**93,659**	**–**	**653,931**
	₱55,674,387	**₱12,492,921**	**₱–**	**₱68,167,308**

(Forward)

	December 31, 2015			
	Level 1	**Level 2**	**Level 3**	**Total**
		(In Thousands)		
Assets of disposal group classified as held for sale:				
Financial assets at FVPL:				
Segregated fund assets	**₱7,854,450**	**₱–**	**₱5,780,237**	**₱13,634,687**
AFS investments:				
Government securities	**2,485,902**	**–**	**–**	**2,485,902**
Private debt securities	**3,604,065**	**–**	**–**	**3,604,065**
Equity securities	**1,378,686**	**–**	**–**	**1,378,686**
	15,323,103	**₱–**	**₱5,780,237**	**₱21,103,340**
Non-financial assets				
Property, plant and equipment***				
Land and land improvements	**₱–**	**₱–**	**₱19,253,238**	**₱19,253,238**
Plant buildings and building improvements	**–**	**–**	**13,750,867**	**13,750,867**
Machineries and equipment	**–**	**–**	**6,534,040**	**6,534,040**
	₱–	**₱–**	**₱39,538,145**	**₱39,538,145**
Liabilities measured at fair value:				
Financial liabilities				
Financial liabilities at FVPL:				
Designated at FVPL:				
Segregated fund liabilities*	**₱7,945,084**	**₱–**	**₱5,780,237**	**₱13,725,321**
Derivative liabilities	**–**	**135,193**	**–**	**135,193**
	₱7,945,084	**₱135,193**	**₱5,780,237**	**₱13,860,514**
Assets for which fair values are disclosed:				
Financial Assets				
HTM investment	**₱18,661,871**	**₱5,887,982**	**₱–**	**₱24,549,853**
Loans and receivables:				
Receivables from customers	**–**	**–**	**351,626,538**	**351,626,538**
Unquoted debt securities	**–**	**–**	**648,046**	**648,046**
Assets of disposal group classified as held for sale	**1,336,814**	**1,336,814**	**–**	**2,673,628**
	₱19,998,685	**₱7,224,796**	**₱352,274,584**	**₱379,498,065**
Non-financial Assets				
Investment properties***				
Land	**₱–**	**₱–**	**₱30,136,203**	**₱30,136,203**
Buildings and improvements	**–**	**–**	**8,517,345**	**8,517,345**
	₱–	**₱–**	**₱38,653,548**	**₱38,653,548**
Liabilities for which fair values are disclosed:				
Financial liabilities				
Financial liabilities at amortized cost:				
Deposit liabilities:				
Time deposits	**₱–**	**₱–**	**₱60,762,710**	**₱60,762,710**
Long term debts:				
Subordinated debt	**–**	**–**	**10,241,659**	**10,241,659**
Bills payable	**–**	**–**	**25,033,940**	**25,033,940**
Unsecured term loan	**–**	**–**	**720,004**	**720,004**
Notes payable	**–**	**–**	**470,370**	**470,370**
Other liabilities:				
Payable to landowners	**–**	**–**	**1,803,770**	**1,803,770**
Tenants' rental deposits	**–**	**–**	**351,781**	**351,781**
Advance rentals	**–**	**–**	**186,687**	**186,687**
	₱–	**₱–**	**₱99,570,921**	**₱99,570,921**

* *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			
	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
Private debt securities	–	65,391	71,160	136,551
Derivative assets	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
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
	₱59,052,365	₱15,887,439	₱5,339,628	₱80,279,432
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	₱–	₱–	₱55,296,115	₱55,296,115
Bills payables	–	–	18,340,370	18,340,370
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
Tenants' rental deposits	–	–	323,236	323,236
Advance rentals	–	–	41,212	41,212
	₱5,048,551	₱–	₱88,660,233	₱93,708,784

* *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 and from 1.26% to 3.25% and from 1.33% to 3.72% as of December 31, 2015 and 2014, respectively.

As of December 31, 2015 and 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:

	2015	2014
	(In Thousands)	
Financial assets		
Balance at beginning of year	**₱5,339,628**	₱5,545,916
Add (deduct) total gain (loss) recorded in profit or loss	**503,941**	(206,288)
Balance at end of year	**₱5,843,569**	₱5,339,628
Nonfinancial assets		
Balance at beginning of year	**₱38,470,525**	₱37,834,527
Additions during the year	**3,525,605**	1,190,262
Revaluation decrement during the year	**(528,159)**	−
Depreciation and amortization	**(1,290,186)**	(1,631,635)
Net carrying value of disposed/transferred assets and other adjustments	**(639,640)**	1,077,371
Balance at end of the year	**₱39,538,145**	₱38,470,525
Financial liabilities		
Balance at beginning of year	**₱5,346,467**	₱5,380,053
Add (deduct) total loss (gain) recorded in profit or loss	**433,770**	(33,586)
Balance at end of year	**₱5,780,237**	₱5,346,467

Equity and/or Credit-Linked Notes are shown as ‘Segregated Fund Assets’ under “Financial Assets at FVPL”.

The structured Variable Unit-Linked Notes can be decomposed into bond components and options components. The fair value of structured notes has been computed by counterparties using present value calculations and option pricing models, as applicable. The valuation requires management to make certain assumptions about the model inputs particularly the credit spread of the Issuer. The model also used certain market observable inputs including the counterparty’s credit default swap (CDS), PHP interest rate swap (IRS) rates (for the Peso-denominated issuances) and ROP CDS rates (for the USD-denominated issuances).

Description of valuation techniques are as follows:

Structured Notes	Valuation Methods	Significant Unobservable Inputs	Significant Observable Inputs
Peso-denominated	DCF Method / Monte Carlo Simulation	Issuer's Funding rate / Issuer's CDS as proxy	PHP IRS
Dollar-denominated	DCF Method / Monte Carlo Simulation	Issuer's Funding rate / Issuer's CDS as proxy	ROP CDS / USD IRS

The sensitivity analysis of the fair market value of the structured notes as of December 31, 2015 and 2014 is performed for the reasonable possible movement in the significant inputs with all other variables held constant, showing the impact to profit and loss follows:

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

		2015		2014	
Structured Investments	**Significant Unobservable Input**	**Range of Input***	**Sensitivity of the Input to Fair Value****	Range of Input	Sensitivity of the Input to Fair Value*
Peso-denominated	**Bank CDS Levels**	**47.28 - 93.27 bps**	50 bps increase/(decrease) in change inputs would result in a (decrease) / increase in the market value of the note by ₱65,500,462	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**	**40.719 - 76.344 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**	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*

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

		2015		2014	
Structured Investments	**Significant Observable Input**	**Range of Input***	**Sensitivity of the Input to Fair Value****	Range of Input	Sensitivity of the Input to Fair Value*
Peso-denominated	**PHP IRS (3Y)**	**180.25 - 355.00 bps**	**50 bps increase/(decrease) in change inputs would result in a (decrease) / increase in the market value of the note by ₱65,500,462**	142.00 - 375.00 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

(Forward)

Structured Investments	Significant Observable Input	2015 Range of Input*	2015 Sensitivity of the Input to Fair Value**	2014 Range of Input	2014 Sensitivity of the Input to Fair Value*
Dollar-denominated	**ROP CDS (5Y)**	**126.15 - 193.33 bps**	**50 bps increase/(decrease) in change inputs would result in a (decrease) / increase in the market value of the note by ₱28,095,617**	79.31 - 150.94 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.

The table below summarizes the valuation techniques used and the significant unobservable inputs valuation for each type of property, plant and equipment and investment properties held by the Group:

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

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

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

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

35. **Notes to Consolidated Statements of Cash Flows**

Non-cash Investing Activities

a. As of December 31, 2013, due from related parties include accrued interest receivable amounting to ₱24.5 million.

b. As of December 31, 2015 and 2014, unpaid additions to property, plant and equipment amounted to ₱37.8 million and ₱65.4 million, respectively, which is included as part of "Accounts payable and accrued expenses".

c. In 2015, the Group reclassified cost of land, which was previously recognized as real estate inventory amounting to ₱1,106.9 million, to investment property in view of management's plan to develop thereon additional buildings to be held for lease.

d. In 2015, the Group transferred investment properties with a carrying value of ₱2,000.0 million and ₱1,200.0 million to inventories, respectively.

e. In 2015, the Group classified PNB LII as disposal group held for sale and as discontinued operations and classified assets, liabilities and equity and reserves of PNB LII amounting to ₱23,526.8 million, ₱21,452.6 million and ₱593.2 million, respectively.

f. Construction costs of building intended for leasing amounting to ₱105.5 million under real estate inventory, which were still under construction as of December 31, 2015, were transferred to investment properties.

g. On December 4, 2012, the Group assumed certain receivables of Tangent from various holding companies amounting to ₱9.9 billion, thereby increasing its payable to Tangent by the same amount.

Non-cash Financing Activities

a. In July 2013, all the existing advances to Tangent amounting to ₱11.0 billion were offset with the existing advances from the Tangent.

b. As of December 31, 2015 and 2014, accrued interest payable amounted to ₱2,071 million and ₱22.9 million, respectively. Finance costs and cost of hauling services include amortization of bond issue costs and unamortized transaction cost of subordinates debt amounting to ₱18.0 million and ₱16.8 million in 2015 and ₱15.6 million and ₱15.8 million in 2014, respectively.

c. As discussed in Note 30, LTG issued additional common shares to Tangent amounting to ₱5.4 billion upon conversion of its deposit for future stock subscription of ₱1.6 billion resulting in an increase in additional paid in capital of ₱1.2 billion. Transactions costs incurred for the share issuance in 2012 amounted to ₱67.5 million which are deducted from additional paid in capital.

36. **Capital Management**

The main thrust of the Group's capital management policy is to ensure that the Group complies with externally imposed capital requirements, maintains a good credit standing and has a sound capital ratio to be able to support its business and maximize the value of its shareholders equity. The Group is also required to maintain debt-to-equity ratios to comply with certain loan agreements and covenants in 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:

	2015	2014
	(In Thousands, except ratios)	
Total liabilities	**₱579,794,407**	₱534,111,014
Total equity	**169,758,095**	162,722,194
Total liabilities and equity	**₱749,552,502**	₱696,833,208
Debt ratio	**0.77:1**	0.76:1
Debt-to-equity ratio	**3.42:1**	3.28:1

Regulatory Qualifying Capital for the Banking Segment
Under existing BSP regulations, the determination of PNB's compliance with regulatory requirements and ratios is based on the amount of PNB's "unimpaired capital" (regulatory net worth) reported to the BSP, which is determined on the basis of regulatory policies, which differ from PFRS in some respects.

In addition, the risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10.00% for both solo basis (head office and branches) and consolidated basis (parent bank and subsidiaries engaged in financial allied undertakings but excluding insurance companies). Qualifying capital and risk-weighted assets are computed based on BSP regulations. Risk-weighted assets consist of total assets less cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits and other non-risk items determined by the MB of the BSP.

PNB and its individually regulated subsidiaries/operations have complied with all externally imposed capital requirement throughout the year.

On January 15, 2013, the BSP issued Circular No. 781, Basel III Implementing Guidelines on Minimum Capital Requirements, which provides the implementing guidelines on the revised risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards. The circular is effective on January 1, 2014.

The Circular sets out a minimum Common Equity Tier 1 (CET1) ratio of 6.0% and Tier 1 capital ratio of 7.5%. It also introduces a capital conservation buffer of 2.5% comprised of CET1 capital. The BSP's existing requirement for Total CAR remains unchanged at 10% and these ratios shall be maintained at all times.

Further, existing capital instruments as of December 31, 2010 which do not meet the eligibility criteria for capital instruments under the revised capital framework shall no longer be recognized as capital upon the effectivity of Basel III. Capital instruments issued under BSP Circular Nos. 709 and 716 (the circulars amending the definition of qualifying capital particularly on Hybrid Tier 1 and Lower Tier 2 capitals), starting January 1, 2011 and before the effectivity of BSP Circular No. 781, shall be recognized as qualifying capital until December 31, 2015. In addition to changes in minimum capital requirements, this Circular also requires various regulatory adjustments in the calculation of qualifying capital.

The Group has taken into consideration the impact of the foregoing requirements on the banking segment to ensure that the appropriate level and quality of capital are maintained on an ongoing basis.

Internal Capital Adequacy Assessment Process (ICAAP) Implementation

In compliance with BSP Circular 639, PNB (the Bank) has adopted its live ICAAP Document for 2011 to 2013. However, the BOD and the Management recognized that ICAAP is beyond compliance, i.e., it is about how to effectively run the Bank's operations by ensuring that the Bank maintains at all times an appropriate level and quality of capital to meet its business objective and commensurate to its risk profile. In line with its ICAAP principles, the Bank shall maintain a capital level that will not only meet the BSP CAR requirement but will also cover all material risks that it may encounter in the course of its business. The ICAAP process highlights close integration of capital planning/strategic management with risk management. The Bank has in place a risk management framework that involves a collaborative process for assessing and managing identified Pillar 1 and Pillar 2 risks. The Bank complies with the required annual submission of updated ICAAP.

37. Assets and Liabilities of Disposal Group Classified as Held for Sale

On December 21, 2015, PNB entered into a 15-year exclusive partnership with Allianz SE under the following arrangements, subject to regulatory approvals:

- Allianz SE will acquire 12,750 shares representing 51.00% stockholdings of PNB LII and will have management control over the new joint venture company;
- The new joint venture company will operate under the name of "Allianz PNB Life Insurance, Inc.";
- A 15-year distribution agreement which will provide Allianz an exclusive access to the more than 660 branches nationwide of PNB.

The acquisition of the shares of PNB LII by Allianz SE is expected to be completed by 2016. As of December 31, 2015, PNB LII was classified as disposal group held for sale and as discontinued operation.

PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, requires assets and liabilities of PNB LII, together with the results of operations, to be classified separately from continuing operations. As a result, the Group reclassified all the assets and liabilities of PNB LII to 'Assets of disposal group classified as held for sale' and 'Liabilities of disposal group classified as held for sale', respectively, in the 2015 consolidated balance sheet.

The business of PNB LII represented the entirety of the PNB's life insurance business until December 21, 2015. PNB LII was previously presented in the 'Others' section of the business segment disclosure. With PNB LII being classified as a discontinued operation in 2015, the comparative consolidated statement of income and comprehensive income in 2014 and 2013 have been re-presented to show the discontinued operations separately from the continued operations.

The results of operation of PNB LII are presented below:

	Years Ended December 31		
	2015	2014	2013
		(In Thousands)	
Interest Income on			
Loans and receivables	**₱20,343**	₱18,707	₱13,880
Trading and investment securities	**443,116**	396,586	269,429
Deposits with banks and others	**3,504**	324	10,072
	466,963	415,617	293,381
Interest Expense on			
Bills payable and other borrowings	**–**	–	5,417
Net Interest Income	**466,963**	415,617	287,964
Net Service Fees and Commission Expense	**(281,639)**	(335,635)	(329,249)
Net insurance premiums	**1,716,308**	1,604,500	1,444,719
Net insurance benefits and claims	**(1,290,439)**	(1,191,359)	(1,032,953)
Net Insurance premiums	**425,869**	413,141	411,766
Other Income (Charges)			
Trading and investment securities gains - net	**20,874**	14,661	1,750
Foreign exchange gains (losses) - net	**11,806**	(1,999)	5,317
Miscellaneous	**149,061**	101,111	100,317
Total Operating Income	**792,934**	606,896	477,865
Operating Expenses			
Compensation and fringe benefits	**223,322**	166,757	114,799
Taxes and licenses	**39,570**	36,544	26,666
Provision for impairment, credit and other losses	**32,765**	–	–
Depreciation and amortization	**10,704**	14,039	15,147
Occupancy and equipment-related costs	**9,764**	9,196	13,101
Miscellaneous	**74,573**	73,025	81,029
Total Operating Expenses	**390,698**	299,561	250,742
Income from Discontinued Operations Before Income Tax	**402,236**	307,335	227,123
Provision for income tax			
Regular	**5,839**	5,083	3,584
Final	**38,466**	38,088	26,859
	44,305	43,171	30,443
Net Income from Discontinued Operations	**₱357,931**	₱264,164	₱196,680
Attributable to:			
Equity holders of the Company	**₱161,699**	₱119,339	₱88,852
Non-controlling interests	**196,232**	144,825	107,828
	₱357,931	₱264,164	₱196,680

Earnings per share attributable to equity holders of the Company from discontinued operations are computed as follows:

		2015	2014	2013
a)	Net income attributable to equity holders of the banking segment	**₱161,699**	₱119,339	₱88,852
b)	Weighted average number of common shares for basic earnings per share	**10,821,389**	10,821,389	10,208,056
c)	Basic earnings per share (a/b)	**₱0.02**	₱0.01	₱0.01

The net cash flows directly associated with disposal group follow:

	2015	2014	2013
		(In Thousands)	
Net cash provided by operating activities	**₱1,210,588**	₱1,535,951	₱101,961
Net cash used in investing activities	**(903,161)**	(1,395,508)	(8,030)

The major classes of assets and liabilities of PNB LII classified as disposal group held for sale as of December 31, 2015 are as follows:

Assets	
Cash and other cash items	₱642,544
Financial assets at fair value through profit or loss	
Segregated fund assets	13,634,687
AFS investments	
Government securities	2,485,902
Private debt securities	3,604,065
Equity securities	1,378,686
HTM investments	
Government securities	1,269,398
Other receivables	
Accounts receivable	277,479
Accrued interest receivable	101,925
Sales contract receivable	57,806
Property and equipment – net	29,546
Other assets	44,719
Assets of disposal group classified as held for sale	₱23,526,757
Liabilities	
Financial liabilities at fair value through profit or loss	
Segregated fund liabilities	₱13,725,321
Accrued taxes, interest and other expenses	161,817
Other liabilities	
Insurance contract liabilities	6,837,144
Accounts payable	74,303
Retirement benefit liability	21,822
Withholding taxes payable	10,139
Miscellaneous liabilities	622,075
Liabilities of disposal group classified as held for sale	₱21,452,621

Reserves	
Net unrealized gain on AFS investments	₱617,649
Remeasurement losses on retirement plan	(24,412)
Reserves of disposal group classified as held for sale	₱593,237
Attributable to:	
Equity holders of the Company	₱335,000
Non-controlling interests	258,237
	₱593,237

38. **Commitments, Provision and Contingencies and Other Matters**

Commitments

Operating lease commitments - the Group as lessor

The Group entered into lease agreements with third parties covering its investment property portfolio. These leases generally provide for either (a) fixed monthly rent, or (b) minimum rent or a certain percentage of gross revenues, whichever is higher. The Group records rental income on a straight-line basis over less noncancellable lease term. Any difference between the calculated rental income and amount actually received is recognized as "Deferred rent" (see Note 8).

The Group has security deposits and advance rentals which are presented under "Other noncurrent liabilities." Security deposits pertain to the amounts paid by the tenants at the inception of the lease which is refundable at the end of the lease term. Advance rentals pertain to deposits from tenants which will be applied against receivables either at the beginning or at the end of lease term depending on the lease contract. Security deposits and advance rentals amounted to ₱387.6 million and ₱145.6 million as of December 31, 2015 and ₱349.9 million and ₱33.5 million, as of December 31, 2014, respectively.

Future minimum rental receivables under noncancellable operating leases as of December 31 are as follows:

	2015	2014
	(In Thousands)	
Within one year	**₱1,179,758**	₱981,662
After one year but not more than five years	**2,508,002**	2,393,116
More than five years	**264,551**	315,105
	₱3,952,311	₱3,689,883

Operating lease commitments - the Group as lessee

The future aggregate minimum lease payments under several operating leases of the Group are as follows:

	2015	2014
	(In Thousands)	
Within one year	**₱487,388**	₱772,888
Within two to five years	**856,828**	1,651,825
More than five years	**1,526,715**	1,555,153
	₱2,870,931	₱3,979,866

Future minimum lease receivables under finance leases are as follows:

	2015	2014
Within one year	**₱1,654,119**	₱1,358,383
Beyond one year but not more than five years	**1,984,772**	1,378,555
More than five years	**47,900**	58,500
Total	**3,686,791**	2,795,438
Less amounts representing finance charges	**62,206**	390,018
Present value of minimum lease payments	**₱3,624,585**	₱2,405,420

Trust Operations
Securities and other properties held by PNB in fiduciary or agency capacities for its customers are not included in the accompanying statements of financial position since these are not assets of PNB. Such assets held in trust were carried at a value of ₱78.7 billion and ₱65.8 billion as of December 31, 2015 and 2014, respectively. In connection with the trust functions of PNB, government securities amounting to ₱0.7 billion, (included under 'AFS investments') as of December 31, 2015 and 2014 are deposited with the BSP in compliance with trust regulations.

In compliance with existing banking regulations, PNB transferred from surplus to surplus reserves the amounts of ₱16.6 million, ₱13.6 million and ₱9.5 million in 2015, 2014 and 2013, respectively, which correspond to 10.00% of the net income realized in the preceding years from its trust, investment management and other fiduciary business until such related surplus reserve constitutes 20.00% of its regulatory capital.

Provisions and Contingencies
In the normal course of business, the Group makes various commitments and incurs certain contingent liabilities that are not presented in the financial statements including several suits and claims which remain unsettled. No specific disclosures on such unsettled assets and claims are made because any such specific disclosures would prejudice the Group's position with the other parties with whom it is in dispute. Such exemption from disclosures is allowed under PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. The Group and its legal counsel believe that any losses arising from these contingencies which are not specifically provided for will not have a material adverse effect on the financial statements.

Claim from PNB Gen
In 2015, PNB recognized income amounting to ₱716.2 million under 'Other income (charges)' arising from the fire insurance claims of PNB from PNB Gen involving the Ever Gotesco Grand Central ('Insured Property') which was mortgaged to PNB by Gotesco Investment, Inc. and Ever Emporium, Inc. (collectively 'Ever Gotesco Group') to secure certain credit accommodations . The insurable interest of PNB (as mortgagee) was insured with PNB Gen. The Insured Property was razed by fire on March 19, 2012, which justified the payment by PNB Gen of the insurance claims of PNB, after the Court cleared the legal issues between PNB and Ever Gotesco Group that might potentially bar the payment thereof.

National Steel Corporation (NSC) Loan
As discussed in Note 8, in 2004, PNB sold the outstanding loans receivable of ₱5.3 billion from NSC to SPV companies under the provisions of RA No. 9182. On October 10, 2008, simultaneous to the denial of their application in the Philippine courts for injunctive relief, the SPV companies filed a Notice of Arbitration with the Singapore International Arbitration Centre ("SIAC"). Mainly, the SPV companies claimed damages and a suspension of payments on the ground that the consortium of banks (the banks) and the Liquidator breached a duty to settle pre-closing real estate taxes (taxes due as of October 14, 2004) due on the NSC Plant Assets and to deliver to them titles to NSC's Plant Assets free from all liens and encumbrances. However, the

banks and the Liquidator dispute the assertions that pre-closing taxes were in arrears, invoking under an installment agreement executed between the Liquidator and the City of Iligan. As part of the agreement to sell the plant assets to the SPV companies, the Liquidator assumed responsibility of settling and paying the Plant Assets' pre-closing real estate taxes, while the SPV companies assumed the responsibility of updating the post-closing taxes (taxes due after October 14, 2004). Consequently, all pre-closing real estate taxes due on the plant assets have been paid in accelerated basis on December 18, 2008.

On October 13, 2008, after the commencement of the arbitration but before the arbitral panel was constituted, the SPV companies filed, as a preservatory measure, a petition for injunctive relief against the NSC Liquidator, NSC Secured Creditors, and NSC Stockholders so that the arbitration proceedings under SIAC will not be rendered moot. On October 14, 2008, the Singapore High Court granted the petition and restrained the NSC Liquidator, the NSC Secured Creditors and the NSC Shareholders, jointly and severally, substantially from declaring the SPV companies in default and declaring all installments due until the arbitration proceeding at the SIAC is settled.

Thereafter, upon application by PNB for a variation of the injunction and an order of the Singapore High court, the SPV companies remitted ₱750.0 million cash in place of the Standby Letter of Credit which they undertook to provide under the Asset Purchase Agreement, subject to the condition that the amount shall not be subject to any set-off pending an award from the arbitration proceedings.

On January 26, 2009, PNB applied for an Order to compel the SPV companies to issue another Standby Letter of Credit of ₱1.0 billion which they likewise undertook to provide under the Asset Purchase Agreement, but this application was denied on March 5, 2009 by the Singapore High Court. The denial of the second variation (the ₱1.0 billion Standby Letter of Credit) was elevated to the Court of Appeals of Singapore but the same was also denied on September 11, 2009, without prejudice, however, to resort to the same reliefs before the Arbitration Panel.

In April 2010, the Arbitral Panel was constituted. PNB filed therein an application to discharge or vary the injunction. On July 7, 2010, the Arbitration Panel issued a ruling denying PNB's application for a discharge of the injunction issued by the Singapore High Court. On the application to vary the injunction order, no ruling was made by the Arbitration Panel.

Consequently, the main issues for alleged breach of the Asset Purchase Agreement, damages and suspension of payments were heard before the Arbitration Panel. On May 9, 2012, the Arbitration Panel issued a Partial Award in favor of the SPV companies, including such reliefs as payment of a certain sum of money and transfer of clean titles on the plant assets under the name of NSC by the bank consortium and the NSC Liquidator in favor of the SPV companies. PNB, one of the members of the consortium, holds a forty-one percent (41%) interest in the claim, and has already set aside the appropriate reserve provision for the same.

On July 9, 2012, the bank consortium filed with the Singapore High Court a Petition to Set Aside the Partial Award rendered by the Arbitration Panel, which Petition is pending to date.

On July 31, 2014, the Singapore High Court issued a Judgment in favor of the bank consortium setting aside the Arbitral Award in its entirety. On September 1, 2014, the SPV companies filed before the Singapore Court of Appeal a Notice of Appeal. On January 26, 2015, the case was heard.

The Singapore High Court set aside in its entirety the Award of the Arbitral Tribunal. Global Steel appealed the Decision of the Singapore High Court. On March 31, 2015, the Singapore Court of Appeal issued a Decision upholding in part the earlier Decision of the High Court, i.e., setting aside the monetary portions of the Arbitral Award that rendered the Bank Consortium/Secured Creditors not liable for certain sums of money by way of damages.

Movements of provision for legal claims included in "Other liabilities" in the consolidated balance sheets for the Group are as follows (see Note 20):

	2015	2014
	(In Thousands)	
Balance at beginning of year	**₱1,640,648**	₱1,582,081
Provisions (reversals) during the year (Note 26)	**(741,911)**	58,567
Balance at end of year	**₱898,737**	₱1,640,648

Excise Tax Refund Claim

The new excise tax law or RA 10351 became effective on January 1, 2013, and increased the excise tax rates of, among others, distilled spirits. Another change that was brought in by the new law is the shift in the tax burden of distilled spirits from raw materials to the finished product.

To implement the said law, the Secretary of Finance issued Revenue Regulations No. 17-2012 (RR 17-2012), which, in one of its transitory provisions, disallowed the tax crediting of the excise taxes that were already paid under the old law on the raw materials inventory by end of the year 2012 or by the effectivity of RA 10351 in favor of the excise taxes due on the finished goods inventory.

The Commissioner of Internal Revenue issued on January 9, 2013 Revenue Memorandum Circular (RMC) No. 3-2013. This RMC sought to clarify further certain provisions of RR No. 17-2012 but in effect extended the imposition of the excise tax on both the (1) ethyl alcohol as raw materials in the production of compounded liquors and (2) the manufactured finished product. Per the RMC, both ethyl alcohol and compounded liquor are considered as distinct distilled spirits products and are thus separate taxable items under the new law. This interpretation of the law was however modified with the issuance of RMC No. 18-2013. The new RMC allowed the non-payment of excise tax on ethyl alcohol that were purchased after the issuance of RMC No. 3-2013 to be used as raw materials in the manufacture of compounded liquors provided certain requirements such as posting of surety bonds are complied with. RMC No. 18-2013, however, still maintained that taxes previously paid on the raw materials, i.e., ethyl alcohol/ethanol inventory, at the time of the effectivity of the new excise tax law are still not subject to refund/tax credit to the manufacturers.

Under RR No. 17-2012, the amount of excise tax that was disallowed for tax credit was ₱725.8 million (included under "Other current assets"). Said amount represented taxes paid previously on raw materials and were not allowed to be deducted from the excise taxes that became due on the finished goods as taxed under the new law. TDI is contesting the disallowance of the tax credit and is undertaking appropriate legal measures to obtain a favorable outcome.

TDI has paid a total of ₱45.9 million (included under "Other current assets") in excise taxes for the raw materials that were purchased/imported for purposes of compounding during the subsistence of RMC No. 3-2013. TDI also would claim this amount on the basis that the RMC was issued without basis and beyond the authority granted by law to the administrative agency.

Other Matters

Property development tax incentives

a. The Group's projects namely, Eton Cyberpod Corinthian and Eton Centris, were registered with PEZA on August 27, 2008 and September 19, 2008, respectively, as non-pioneer "ecozone developer/operator". The locations are created and designated as Information Technology Park.

b. The property development segment has three Board of Investment (BOI)-registered projects namely, Belton Place (BP), Eton Emerald Lofts (EEL) and One Archers Place (OAP). BP is registered with BOI as a new developer of low-cost housing project on a Non-Pioneer status under the Omnibus Investments Code of 1987 (Executive Order No. 226) on September 15, 2008. This registration entitles the Group to four years ITH from November 2008 or actual commercial operations or selling, whichever is earlier but in no case earlier than the date of registration. The ITH shall be limited only to the revenue generated from this project. Revenue with selling price exceeding ₱3.0 million shall not be covered by ITH. Likewise, on September 23, 2008, two other projects of the Group namely, OAP and EEL, were registered with the BOI as a new developer of low-cost housing project on a Non-Pioneer status. These two projects shall enjoy the same benefits as BP.

Distilled Spirits' Clean Development Mechanism Project (CDM)

On June 30, 2006, the DENR approved the implementation of a greenhouse gas (GHG) reducing project at the ADI's plant in Lian, Batangas. The project is a joint undertaking between TDI (through ADI) and Mitsubishi Corporation (MC) and involves the construction of a waste water treatment digestor and methane gas collector in accordance with the CDM of the 1997 Kyoto Protocol.

In accordance with Certified Emission Reductions Purchase Agreement (CERPA), ADI agreed to sell and MC to purchase any and all the CERs generated by the Project up to 480,000 CERs. As of December 31, 2009, MC made US$1.6 million advance payment or equivalent to ₱70.9 million. ADI completed the construction and installation of the anaerobic digester and mixing tanks which were put into operation in 2009.

In August 2010, initial validation of CERs was made; however, as of March 4, 2013, no certification on the generated CERs has been issued yet. Since the first CERs generation period has ended on December 31, 2012, ADI's obligation to operate the project regardless of whether there were CERs certified was deemed fulfilled, thus, ADI recognized the deposit for CERs amounting to ₱70.9 million as income in 2012.

On October 27, 2014, ADI and Mistubishi agreed to terminate the CDM project due to unfavorable market for CERs.

Effluent Supply Agreement

On September 26, 2013, ADI and Aseagas Corporation (Aseagas) entered into an effluent (wastewater) supply agreement wherein ADI will supply effluent to Aseagas to be used in the generation of liquid bio-methane for a period of 20 years (delivery period) from the date Aseagas notifies ADI that the liquid bio-methane plant to be constructed by Aseagas becomes ready for commercial operations. The delivery period is renewable for another ten (10) years upon mutual agreement of both parties. As of April 12, 2016, the liquid bio-methane plant is still under construction.

Distilled Spirits' Solar Energy Project
On January 19, 2015, ADI started the construction of the first two-megawatt solar power plant in Batangas. As of December 31, 2015, the construction of the solar power plant has been substantially completed.

39. Events After Reporting Date

a. On January 21, 2016, the Group entered into an agreement with Ayala Land, Inc. (ALI) to jointly develop a project along C5 corridor. The project is envisioned to be a township development that spans portion of Pasig City and Quezon City.

b. On February 18, 2016, the Group purchased 131,863,677 shares of VMC at a price of P5.0 per share. This resulted an increase in the Group's effective ownership in VMC to 30.12%.

SGV
Building a better working world

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BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITORS' REPORT

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

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of LT Group, Inc. (a subsidiary of Tangent Holdings Corporation) and its subsidiaries, as at December 31, 2015 and 2014 and for each of the three years in the period ended December 31, 2015, included in this Form 17-A, and have issued our report thereon dated April 12, 2016. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the management of LT Group, Inc. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011) and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Josephine H. Estomo

Josephine H. Estomo
Partner
CPA Certificate No. 46349
SEC Accreditation No. 0078-AR-3 (Group A),
February 14, 2013, valid until April 30, 2016
Tax Identification No. 102-086-208
BIR Accreditation No. 08-001998-18-2015,
February 27, 2015, valid until February 26, 2018
PTR No. 5321634, January 4, 2016, Makati City

April 12, 2016

LT GROUP, INC. AND SUBSIDIARIES
SCHEDULE A. – Financial Assets
DECEMBER 31, 2015
(in thousands)

Name of Issuing Entity and Association of Each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet	Income received and accrued
Government Securities				
Bangko Sentral Ng Pilipinas		20,177	20,176	2,015
Development Bank Of The Philippines		376,480	418,747	100,270
Fixed Rate Treasury Notes		10,652,169	11,060,924	415,595
Global Peso Notes		400,000	389,584	13,148
Power Sector Assets And Liabilities Management Corporation		3,639,644	4,442,238	79,364
Republic Of The Philippines (ROP) Bonds		10,304,073	12,686,044	348,591
Retail Treasury Bonds		3,890,413	4,196,432	151,264
Philippine Treasury Bills		535,786	536,101	-
Republic Of Indonesia		10,632,736	10,665,345	294,798
Republic Of Korea		-	-	99
Onshore Dollar Bonds		23,530	22,956	626
USTW		352,997	355,266	262
Singapore Treasury Bills		317,702	317,628	-
Small Business Loan Asset Backed Securities		379,868	54,632	-
IMA		-	13,396	-
Treasury Gilts		77,186	80,928	2,674
Total		41,602,762	45,260,398	1,408,707

Name of Issuing Entity and Association of Each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet	Income received and accrued
Private Debt Securities				
Ayala Land Inc		300,000	304,550	16,875
Banco De Oro		345,420	350,212	34,361
Filinvest Land Inc		609,350	624,151	15,618
International Container Terminal Services Inc.		4,455,782	4,715,511	246,413
Metropolitan Bank & Trust Co.		567,100	564,480	30,482
Philippine Long Distance Telephone Company (PLDT)		528,060	566,345	4,864
Philippine Saving Bank		75,000	74,221	4,125
Rizal Commercial Banking Corp		2,459,497	2,546,798	68,442
Security Bank Corp		1,634,068	1,637,563	58,822
South Luzon Tollway Corp		410,000	400,528	14,490
SM Investments Corp. (SMIC)		557,139	573,062	81,558
European Investment Bank		19,556	20,010	44
Agricultural Bank Of China		235,300	234,855	1,085
BNPParibas		289,099	292,987	2,386
China Construct BK Asia		94,120	95,521	410
Energy Development Corp		1,612,757	1,749,766	75,445
Export-Import Bank Of Korea		1,200,030	1,170,749	25,372

Name of Issuing Entity and Association of Each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet	Income received and accrued
Filinvest Development Cayman Islands		1,852,517	1,834,455	89,627
First Pacific Limited		1,163,653	1,234,205	48,932
FPC Finance LTD		-	-	7,157
FPT Finance Limited		208,288	227,369	8,634
FPC Treasury Limited (Fpc)		301,184	297,606	19,848
HSBC Holdings PLC		103,250	104,014	830
HSBC Finance Corp.		-	-	2,621
Ind & Comm Bk Of China		477,129	477,918	3,974
Korea Devt Bank		329,420	343,453	6,408
Manila North Tollways Corporation		50,000	50,738	2,535
Sinopec Corp		1,694,160	1,635,514	20,141
Standard Chartered Bank Ldn		56,787	58,121	2,816
SM Prime Holdings		67,700	68,283	2,628
Aboitiz Power		-	-	20,610
JG Summit Holdings Inc		-	-	6,960
Phoenix Petrolem Phils		-	-	32,293
Total		21,696,366	22,252,980	956,805

Name of Issuing Entity and Association of Each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet	Income received and accrued
Equity Securities				
Eagle Ridge Golf & Country Club	30	-	3,600	-
PICOP Resources	19,008,000	-	-	-
PCDI Preferred Shares	175	-	39	-
Mount Malarayat Golf & Country Club	17	-	0	-
Wack Wack Golf & Country Club	5	-	78,100	-
Camp John Hay Golf Club	2	-	200	-
Tagaytay Midlands	1	-	490	-
Tagaytay Highlands	1	-	500	-
Bacnotan Steel Industries	3,345,000	-	0	-
PT&T	5,000,000	-	0	-
Phil. Electric Corp Shares	202,440	-	95	-
Proton Chemical Industries Comm Shares	44,419	-	0	-
Fastech Synergy	1,337,807	-	-	-
Enchanted Kingdom	32,787,000	-	-	-
Small Business Guarantee	400,000	-	40,000	-
LGU Guarantee Corp	100,000	-	10,000	-
Phil. Clearing House Corp (PCHC)	42,000	-	4,200	-
Phil. Central Depository Inc. (PCDI -Now PDTC)	68,380	-	2,392	-
Phil Dealing System-Fixed Income(Formerly BAP Consu	73,000	-	-	-
Primo Oleo Chemicals	6,638,151	-	-	-
Phil. Airlines	49,943,860	-	-	-
Fairways &Bluewater Resort	294	-	-	-
Subic Bay Yatch Club	58	-	-	-
Bayantel 31%Trancheb Conv Equty	83,997	-	14,851	-
Bulawan Mining (BUMICO)	2,500,000	-	-	-
Baguio City Country Club	1	-	1,500	-
Camp John Hay	1	-	100	-
Club Filipino	2	-	150	-

Name of Issuing Entity and Association of Each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet	Income received and accrued
Manila Golf & Country Club	106	-	196,000	-
Manila Polo Club	1	-	12,500	-
Mimosa Golf & Country Club	2	-	525	-
Manila Southwoods Golf Club	3	-	1,758	-
Orchard Golf & Country Club	1	-	150	-
PNB ABC	1	-	0	-
Santa Elena Golf & Country Club	5	-	14,600	-
Subic Bay Golf & Country Club	1	-	-	-
Valley Golf & Country Club	4	-	680	-
Apo Golf & Country Club	2	-	2	-
APTRUDEV	1	-	1,500	-
Bayantel	8,244	-	-	-
Chibakakusai Club	1	-	-	-
Cruz Tel Co.	30	-	3	-
Dev Academy Of The Phils.	1,500	-	-	-
Eastridge Golf Course & Village	2	-	-	-
Evercrest Golf	4	-	1,000	-
Iligan Golf & Country Club	1	-	1	-
Iloilo Golf & Country Club	1	-	-	-
Luisita Golf & Country Club	1	-	-	-
Marikudo Country Club Of Iloilo City	1	-	-	-
MERALCO	142,941	-	45,762	-
Negros Occidental Golf & Country Club	5	-	-	-
NIDC Manila Polo Club	1	-	-	-
PILTEL (Phil Tel Corp.)	650	-	0	-
PLDT Preferred Shares	109,975	-	1,102	-
Pueblo De Oro Golf ^ Country Club	2	-	821	-
Puerto Azul Sports & Beach Club	2	-	-	-
Quezon City Sports Club	1	-	420	-

Name of Issuing Entity and Association of Each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet	Income received and accrued
Riviera Golf & Country Club	6	-	310	-
Rural Bank Of Ibajay	340	-	-	-
Southern Iloilo Telephone Co.	20	-	2	-
Swift Shareholders	9	-	0	-
Tayud Golf & Country Club	1	-	-	-
Victorias Golf & Country Club	1	-	-	-
PNB Madecor	-	-	1,933	-
PNB Venture Capital	-	-	5,062	-
Philodril	695,625	-	8	-
Bancnet, Inc.	49,999	-	5,000	-
Phil. Dealing House	-	-	7,300	-
Bap Credit Guaranty	29,800	-	1,138	-
Allied Banker Insu.	200,000	-	20,000	-
Heavenly Garden	5,000	-	500	-
Sierra Grande Country	100	-	32	-
Ternate Dev'T Corporation	-	-	170	-
Asean Finance	-	-	3,604	-
Lepanto Consolidated Mining Co."B"	1,776	-	0	-
Philex Mining	151	-	(0)	-
Makati Sports Club-A	1	-	350	-
Northern Telephone Company	40	-	18	-
Philippine Columbian Association	2	-	-	-
Philippine Long Distance Telephone Company (PLDT)	7,920	-	16,173	-
Philippine Racing Club	30,331,103	-	284,809	-
Pldt Communication And Energy Venture	20	-	9	-
Retelco	20	-	5	-

Name of Issuing Entity and Association of Each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet	Income received and accrued
National Reinsurance Corporation	1,000	-	1	-
Bank of the Philippine Islands	122,179	-	10,245	-
Banco de Oro	103,790	-	10,898	-
SM Prime Holdings	581,000	-	12,608	-
Metropolitan Bank and Trust Company	101,180	-	8,145	-
Ayala Corporation	16,090	-	12,164	-
Aboitiz Equity Ventures	161,500	-	9,359	-
Ayala Land Inc.	495,900	-	17,084	-
Energy Development Corp	595,600	-	3,693	-
GT Capital Holdings Inc.	4,890	-	6,455	-
International Container Terminal Services Inc.	67,240	-	4,727	-
JG Summit Holdings Inc	166,820	-	12,228	-
Megaworld Corp.	711,500	-	3,024	-
SM Investments Corp. (SMIC)	23,950	-	20,693	-
Universal Robina Corp.	62,100	-	11,551	-
Philippine Stock Exchange Shares	820	-	226	-
Total	156,375,623	-	922,560.31	-
GRAND Total	156,375,623	63,299,128	68,435,938	2,365,512

Financial Assets at Fair Value through Profit or Loss

(In thousands, Except Number of Shares)

Name of Issuing Entity and Association of each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on Bid Prices as of Balance Sheet Date	Income Received and Accrued
Held-for-Trading				
Government securities				
Development Bank of the Philippines	-	-	-	5
Fixed Rate Treasury Notes	-	287,274,228	295,825,861	13,996,408
Power Sector Assets & Liability Management Corporation	-	4,706	5,429	374
Republic of the Indonesia	-	94,120	91,578	1,281
Republic of the Philippines (ROP) Bonds	-	448,679	465,325	17,971
Retail Treasury Bonds	-	175,811,231	184,489,920	14,945,177
Treasury Bills	-	1,963	1,951	-
US Treasury Notes	-	-	-	54
Total Government securities	**-**	**463,634,927**	**480,880,064**	**28,961,270**
Private Debt Securities				
Ayala Land Inc	-	7,800	7,919	550
Filinvest Development Cayman Islands	-	80	84	1,288
Filinvest Land Inc	-	-	-	5
International Container Terminal Services Inc	-	56,472	64,123	4,028
SM Investments Corporation	-	69,960	71,674	2,503
SM Primeholdings Inc	-	-	-	110
Total Private Debt Securities	**-**	**134,312**	**143,800**	**8,484**

Name of Issuing Entity and Association of Each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet	Income received and accrued
Equity Securities				
Alliance Global Group Inc	410,000	-	6,601	-
Ayala Corporation	9,000	-	6,804	-
Ayala Land Inc	428,500	-	14,762	-
Bank of the Philippine Islands	20,000	-	1,677	-
Banco de Oro – EPCI Inc	65,000	-	6,825	-
Belle Corporation	520,000	-	1,513	-
Bloomberry Resorts Corporation	1,400,000	-	6,356	-
Cebu Air Inc	5,000	-	412	-
DMCI Holdings Inc	580,400	-	8,010	-
East West Banking Corporation	143,050	-	2,709	-
EEI Corporation	138,000	-	745	-
Emperador Inc	150,000	-	1,343	-
Filinvest Land Inc	3,200,000	-	5,792	-
First Gen Corporation	140,000	-	3,164	-
First Philippine Holdings Corporation	61,290	-	3,987	-
GT Capital Holdings Inc	4,000	-	5,280	-
International Container Terminal Services Inc	120,000	-	8,436	-
Lopez (Benpres) Holdings Corporation	150,000	-	990	-
Megaworld Corporation	1,950,000	-	8,287	-
Metro Pacific Investments	3,118,000	-	16,214	-

Name of Issuing Entity and Association of Each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet	Income received and accrued
Metropolitan Bank & Trust Co	50,000	-	4,025	-
Petron Corporation	880,000	-	6,151	-
Philex Mining Corporation	244,000	-	1,074	-
PLDT Common Shares	7,500	-	15,450	-
PNOC EDC	1,230,000	-	7,626	-
Puregold Price Club Inc	230,000	-	7,981	-
Resorts World Manila	890,000	-	3,916	-
Robinsons Retail Holdings Inc	70,000	-	4,410	-
San Miguel Purefoods	42,500	-	5,482	-
Security Bank Corporation	55,000	-	7,810	-
SM Investments Corporation	2,340	-	2,022	-
Universal Robina Corporation	127,880	-	23,786	-
Forest Hills Golf and Country Club	1	-	170	-
Global Ferro	31,127	-	21	-
Petroenergy	6,289	-	22	-
Universal Rightfield Properties	2,883,000	-	69	-
Total Equity Securities	19,361,877	-	**199,922**	-

Name of Issuing Entity and Association of Each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet	Income received and accrued
Derivatives				
Australia and New Zealand Bank Manila	–	2,600,985	11,354	–
Banco de Oro Universal Bank	–	3,547,425	14,530	–
Bank o f East Asia	–	658,840	43	
Bank of Tokyo – Mitsubishi Manila	–	379,095	2,044	–
Bank of the Philippine Islands	–	994,970	6,183	
BNP Paribas Paris	–	61,640	226	–
Chinatrust Philippines Commercial Bank Corporation	–	2,459,080	9,436	–
Citibank N.A. Manila	–	946,670	3,437	–
Den Norske Bank as Oslo	–	18,824	7	–
Deutsche Bank Ag Manila	–	1,556,165	3,273	–
Hong Kong and Shanghai Banking Corporation Manila	–	1,600,295	228	–
Maybank Philippines Inc	–	472,430	1,435	–
Metropolitan Bank and Trust Company	–	2,173,815	8,857	–
Overseas - Chinese Banking Corporation Singapore	–	47,060	99	
Philippine Bank of Communications	–	47,100	43	–
PLDT	–	2,329,470	49,447	–
Republic of the Philippines	–	14,419	63,332	–
Rizal Commercial Banking Corporation	–	474,050	1,670	–
Robinsons Bank Corporation	–	47,130	73	–
Seaoil Philippines Inc – FXBT	–	302,672	531	–
Security Bank Corporation	–	70,695	109	–
Standard Chartered Bank London	–	382,286	129	–
Standard Chartered Bank Manila	–	94,120	35	–
United Coconut Planters Bank	–	1,228,428	3,884	–
United Overseas Bank Singapore	–	658,840	306	
Wells Fargo – San Francisco	–	**299,506**	637	–
Total Derivatives	-	23,466,010	181,348	-
Designated at FVPL – Peso Money Market Fund	**15,381,948**	17,000	17,261	-
Total Financial Assets at Fair Value through Profit or Loss	15,381,948	**487,252,249**	**481,222,473**	**28,969,754**

Held to Maturity Securities

(In thousands, Except Number of Shares)

Name of Issuing Entity and Association of each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on Bid Prices as of Balance Sheet Date	Income Received and Accrued
Government securities				
Republic of the Philippines (ROP) Bonds	–	14,021,056	16,389,453	600,535
Fixed Rate Treasury Notes	–	2,737,693	3,372,305	137,410
Retail Treasury Bonds	–	2,885,515	3,126,910	161,496
Republic of the Indonesia	–	235,300	244,269	11,331
US Treasury Bills	0	4,706	4,706	70
US Treasury Notes	–	23,530	23,491	90
Federal National Mortgage Association	–	25,883	26,029	139
Federal Home Loan Banks	–	23,530	23,513	91
Federal Home Loan Mortgage Corporation		21,177	21,321	70
Total Government securities	**-**	**19,978,390**	**23,231,997**	**911,232**

Loans and Receivables

(In thousands, Except Number of Shares)

Name of Issuing Entity and Association of each Issue	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet	Valued based on Market Quotation at end of Reporting Period	Income Received and Accrued
Government Securities				
Landbank of the Phils	-	75,394	75,394	5,704
National Food Authority	256,880	256,862	274,209	16,286
Province of Aklan (Caticlan Super Marina)	130,000	130,000	135,084	4,661
Home Development Mutual Fund (Pag-ibig)	-	-	-	31,612
Home Guaranty Corp	11,516	11,516	11,329	305
Total Government Securities	398,396	473,772	496,016	58,568

Name of Issuing Entity and Association of each Issue	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet	Valued based on Market Quotation at end of Reporting Period	Income Received and Accrued
Golden Dragon Star Equities Inc.	-	-	-	353,000
Global Steel (NSC)	3,676,245	75,168	75,168	-
High Street (SPV-AMC) Inc. (Bacnotan Steel)	76,862	76,862	76,862	-
Total Private Securities	3,753,107	152,030	152,030	353,000
Total Unquoted Debt Securities	4,151,503	625,802	648,046	411,568

For loans and receivables, refer to the Note 32 of the Consolidated Financial Statements.

LT GROUP, INC. AND SUBSIDIARIES
SCHEDULE B. – Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)
DECEMBER 31, 2015
(in thousands)

Name and Designation of debtor		Balance at beginning of period	Additions	Amounts collected	Amounts written off	Current	Non-Current		Balance at end of period
Related Party:									
Tangent Holdings Corporation	P	-	-	-	-	-	-	P	-

Other than the above related party, all amounts receivable from Directors, Officers, Employees, other Related Parties and Principal Stockholders pertained to purchases subject to usual terms, for ordinary travel and expense advances and for other such items arose in the ordinary course of business were excluded.

LT GROUP, INC. AND SUBSIDIARIES
SCHEDULE C. – Amounts Receivable from Related Parties which are eliminated during the consolidation of financial statements
DECEMBER 31, 2015
(in thousands)

Name and Designation of Debtor	Balance at beginning of period	Additions	Amounts collected	Amounts written off	Current	Non-current	Balance at end of period
Allmark Holdings	6,375	660	-	-	7,035	-	7,035
Caravan Holdings Corp.	12,380	450	-	-	12,830	-	12,830
Dunmore Development Corporation	2,840	-	-	-	2,840	-	2,840
Eton Properties	6,559,965	-	(5,900,000)	-	659,965	-	659,965
Fil-Care Holdings, Inc.	9,620	1,930	-	-	11,550	-	11,550
Ivory Holdings, Inc.	6,675	1,570	-	-	8,245	-	8,245
Kenrock Holdings Corp./Asias Emerging	10,800	1,430	-	-	12,230	-	12,230
Kentwood Development Corp.	3,650	200	-	-	3,850	-	3,850
La Vida Development Corp.	15,090	-	-	-	15,090	-	15,090
Leadway Holdings, Inc.	36,500	-	-	-	36,500	-	36,500
LT Group, Inc.	525	-	-	-	525	-	525
Merit Holdings & Equities Corp.	175	-	-	-	175	-	175
Multiple Star	9,550	-	-	-	9,550	-	9,550
Pioneer Holdings Equities, Inc.	3,500	-	-	-	3,500	-	3,500
Society Holdings Corporation	5,890	1,700	-	-	7,590	-	7,590
Solar Holdings Corp.	20,300	-	-	-	20,300	-	20,300
Tanduay Brands International	19,145	10,264	-	-	29,409	-	29,409
Tanduay Distillers	3,880		(3,882)	-	58	-	58
Total Holdings	1,970	-	-	-	1,970	-	1,970
	6,728,830	**18,204**	**(5,903,882)**	**-**	**843,212**	**-**	**843,212**

LT GROUP, INC. AND SUBSIDIARIES
SCHEDULE D. – Intangible Assets – Other Assets
DECEMBER 31, 2015
(in thousands)

Description		Beginning balance		Additions at cost	Charged to cost and expenses	Disposals	Other changes additions (deductions)		Ending balance
Goodwill	P	163,735	P	-	-	-	-	P	163,735
Software	P	667,364	P	587,390	(124,175)	-	462	P	1,131,041

Intangibles are presented in “Other noncurrent assets” in the consolidated balance sheets.

LT GROUP, INC. AND SUBSIDIARIES
SCHEDULE E. – Long term debts
DECEMBER 31, 2015
(in thousands)

Title of Issue and type of obligation	Amount authorized by indenture	Amount shown under caption "Short-term and long-term debt-current" in related balance sheet	Amount shown under caption "Long term debt - net of current portion" in related balance sheet
1. Subordinated Debt		-	P 9,986,427
2. Unsecured term loan		-	720,004
3. Notes payable		P 476,015	

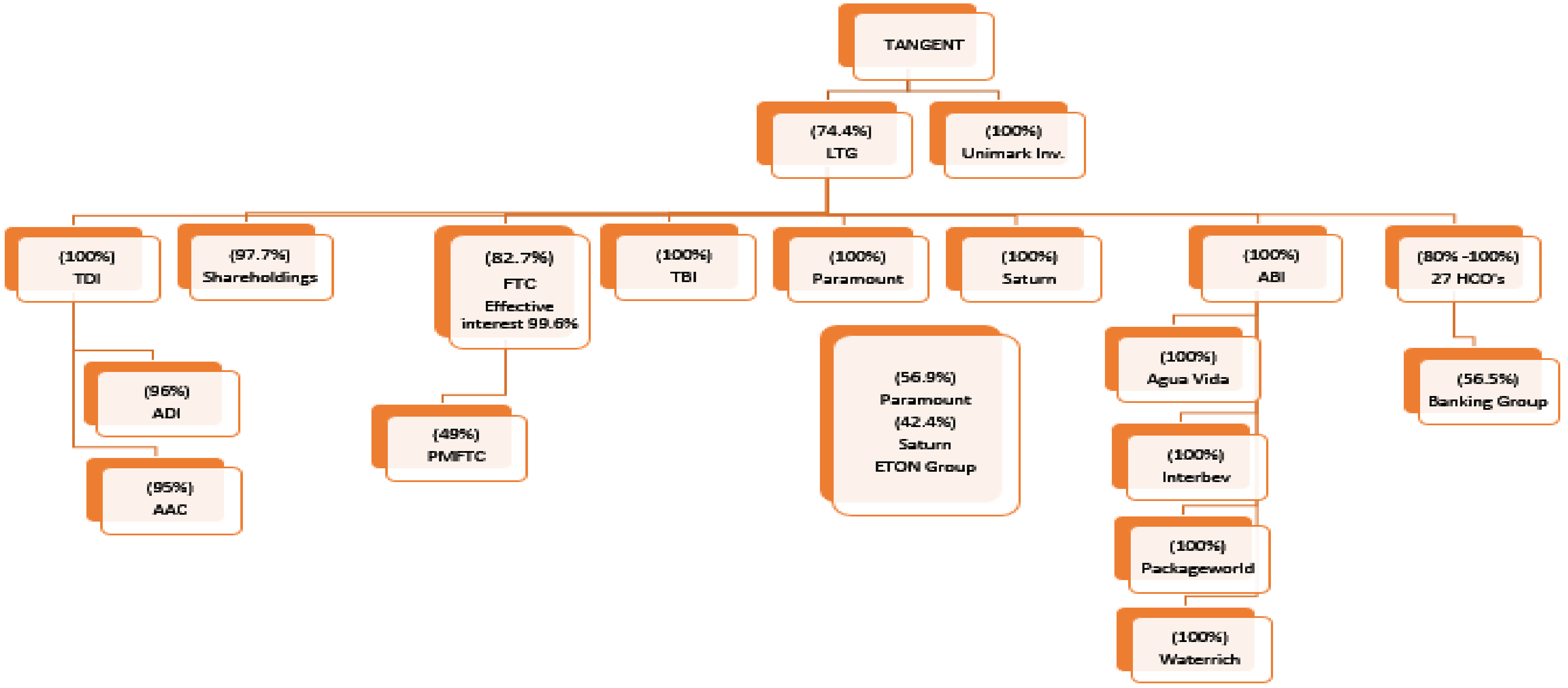
LT GROUP, INC. AND SUBSIDIARIES
SCHEDULE H - Capital Stock
DECEMBER 31, 2015

Title of Issue	Number of Shares Authorized	Number of Shares Issued And Outstanding as Shown under Related Balance Sheet caption	Number of shares Reserved for Options, Warrants, Conversions, and Other Rights	Number of shares Held by related Parties	Directors, Officers and Employees	Others
Common Stock	25,000,000,000	10,821,388,889	-	8,046,318,193	21,500	2,775,049,196

LT GROUP, INC.
SCHEDULE I - Reconciliation of Retained Earnings Available for Dividend Declaration
DECEMBER 31, 2015

Unappropriated retained earnings, beginning		₱12,016,464,823
Less: Deferred income tax assets, beginning		(2,268,402)
Mark to market gains on financial assets at FVPL		(23,460,270)
Unappropriated retained earnings, as adjusted to amount available for dividend declaration, beginning		11,990,736,151
Add net income actually earned/realized during the year:		
Net income during the year closed to retained earnings	₱1,750,080,372	
Mark to market gains on financial assets at FVPL	(42,383,100)	
Movement in deferred income tax assets that decreased net income	2,268,402	
Net income actually earned during the year		1,709,965,674
Less cash dividends declared and paid		(1,623,208,333)
Unappropriated retained earnings available for dividend declaration, ending		₱12,077,493,492

LT GROUP, INC. AND SUBSIDIARIES
SCHEDULE J – Relationships between & among the Group and its Parent
DECEMBER 31, 2015



LT GROUP, INC. AND SUBSIDIARIES
SCHEDULE K – List of all effective Standards and Interpretations under the Philippine Financial Reporting Standards (PFRS) effective as of DECEMBER 31, 2015

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2015		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
PFRSs Practice Statement Management Commentary		✓		
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	✓		
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
	Amendments to PFRS 2: Definition of Vesting Condition			✓
PFRS 3 (Revised)	Business Combinations	✓		
	Amendments to PFRS 3 : Accounting for Contingent Consideration in a Business Combination	✓		
	Amendments to PFRS 3 : Scope Exceptions for Joint Arrangements	✓		

**These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2015. The Company did not early adopt these standards, interpretations and amendments.*

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2015		Adopted	Not Adopted	Not Applicable
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓		
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	✓		
	Changes in Method of Disposal		✓	
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments Disclosures	✓		
	Amendments to PFRS 7: Transition	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments		✓	
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures		✓	
	Amendments to PFRS 7: Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements		✓	
	Amendments to PFRS 7: Servicing Contracts*		✓	
PFRS 8	Operating Segments	✓		
	Amendments to PFRS 8 : Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Asset	✓		
PFRS 9	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures		✓	
	Financial Instruments (2014 version)*		✓	

**These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2015. The Company did not early adopt these standards, interpretations and amendments.*

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2015		Adopted	Not Adopted	Not Applicable
PFRS 10	Consolidated Financial Statements	✓		
	Amendments to PFRS 10: Transition Guidance			✓
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities			✓
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*		✓	
	Amendments to PFRS 10, PFRS 12 and PAS 28, Investment Entities: Applying the Consolidation Exception	✓		
PFRS 11	Joint Arrangements	✓		
	Amendments to PFRS 11: Transition Guidance			✓
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations*		✓	
PFRS 12	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 12: Transition Guidance			✓
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 28, Investment Entities: Applying the Consolidation Exception	✓		
PFRS 13	Fair Value Measurement	✓		
	Amendments to PFRS 13 : Portfolio Exception		✓	
PFRS 14	Regulatory Deferral Accounts*			✓
IFRS 15	Revenue from Contracts with Customers*		✓	
IFRS 16	Leases*		✓	
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendment to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendment to PAS 1: Disclosure Initiative	✓		

**These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2015. The Company did not early adopt these standards, interpretations and amendments.*

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2015		Adopted	Not Adopted	Not Applicable
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✓		
PAS 16	Property, Plant and Equipment	✓		
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization*		✓*	
	Amendments to PAS 16 and PAS 41: Bearer Plants		✓*	
PAS 17	Leases	3		
PAS 18	Revenue	3		
PAS 19 (Revised)	Employee Benefits	3		
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures	3		
	Regional Market Issue Regarding Discount Rate*		✓	
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation			✓
PAS 23 (Revised)	Borrowing Costs	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans	✓		

**These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2015. The Company did not early adopt these standards, interpretations and amendments.*

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2015		Adopted	Not Adopted	Not Applicable
PAS 27 (Amended)	Separate Financial Statements	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities	✓		
	Amendment: Equity Method in Separate Financial Statements*		✓	
PAS 28 (Amended)	Investments in Associates and Joint Ventures	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 28, Investment Entities: Applying the Consolidation Exception		✓	
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendment to PAS 32: Classification of Rights Issues	✓		
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting	✓		
	Amendments to PAS 34 : Interim Financial Reporting and Segment Information for Total Assets and Liabilities*		✓	
PAS 36	Impairment of Assets	✓		
	Amendment to PAS 36: Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		

**These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2015. The Company did not early adopt these standards, interpretations and amendments.*

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2015		Adopted	Not Adopted	Not Applicable
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives	✓		
	Amendment to PAS 39: Eligible Hedged Items	✓		
	Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting	✓		
PAS 40	Investment Property	✓		
PAS 41	Agriculture			✓
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities	✓		
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	✓		
IFRIC 6	*Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment*			✓
IFRIC 7	*Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies*			✓

**These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2015. The Company did not early adopt these standards, interpretations and amendments.*

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2015		Adopted	Not Adopted	Not Applicable
IFRIC 8	*Scope of PFRS 2*			✓
IFRIC 9	Reassessment of Embedded Derivatives	✓		
	Amendments to Philippine Interpretation IFRIC - 9 and PAS 39: Embedded Derivatives	✓		
IFRIC 10	*Interim Financial Reporting and Impairment*	✓		
IFRIC 11	PFRS 2- Group and Treasury Share Transactions			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement			✓
IFRIC 15	Agreements for the Construction of Real Estate*			✓
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners	✓		
IFRIC 18	Transfers of Assets from Customers	✓		
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	✓		
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine		✓	
IFRIC 21	Levies	✓		
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-15	Operating Leases - Incentives	✓		
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders	✓		
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs	✓		

**These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2015. The Company did not early adopt these standards, interpretations and amendments.*

LT GROUP, INC. AND SUBSIDIARIES
SCHEDULE L – Index to Exhibits
SEC FORM 17-A

These exhibits are either not applicable to the Group or require no answer.

EXHIBIT 18 Subsidiaries of the Registrant

LT GROUP, Inc. has the following subsidiaries as of December 31, 2015:

Distilled Spirits	Jurisdiction
1. TDI and subsidiaries	Philippines
a. Absolut Distillers, Inc.	
b. Asian Alcohol Corp	
2. Tanduay Brands Int'l, Inc.	Philippines
Beverages	
ABI and subsidiaries	Philippines
a. Agua Vida Systems, Inc.	
b. Interbev Philippines, Inc.	
c. Waterich Resources Corporation	
d. Packageworld, Inc.	
e. AB Nutribev, Inc.	
f. Asia Pacific Beverage Pte. Ltd.	
Tobacco	
Fortune Tobacco Corp.	Philippines
Banking	
a. PNB and subsidiaries (see page 7)	Philippines
b. Bank Holding Companies (see page 8)	Philippines
Property Development	
a. Saturn	Philippines
b. Paramount	Philippines
1. Eton	Philippines
i. Belton Communities, Inc. (BCI)	
ii. Eton City, Inc. (ECI)	
iii. FirstHomes, Inc. (FHI)	

EXHIBIT 28. Additional Exhibits - Other Documents to be filed with the Consolidated Financial Statements

I. FINANCIAL SOUNDNESS INDICATORS

	2015	2014
CURRENT RATIO	**0.75**	**0.73**
DEBT-TO-EQUITY RATIO	**3.42**	**3.28**
ASSET-TO-EQUITY RATIO	**4.42**	**4.28**
INTEREST RATE COVERAGE RATIO	**77.62**	**28.64**
SOLVENCY RATIO	**1.04**	**0.58**
PROFITABILITY RATIO:		
PROFIT MARGIN	**0.12**	**0.12**
RETURN ON ASSETS	**0.009**	**0.009**
RETURN ON EQUITY	**0.051**	**0.077**

COVER SHEET

P W 3 4 3

S.E.C. Registration Number

L T G R O U P , I N C .

(Company's Full Name)

1 1 T H F L O O R U N I T 3 , B E N C H T O W E R
3 0 T H S T R E E T C O R . R I Z A L D R I V E ,
C R E S C E N T P A R K W E S T 5 ,
B O N I F A C I O G L O B A L C I T Y , T A G U I G
C I T Y

(Business Address: No. Street City / Town / Province)

MA. CECILIA L. PESAYCO

Contact Persons

816 3311 loc. 3453

Company Telephone Number

1 2 | 3 1

Month Day

Fiscal Year

ANNUAL CORPORATE GOVERNANCE REPORT 2015

SEC FORM

FIRST WEDNESDAY OF MAY

Month Day

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

Remarks = pls. use black ink for scanning purposes

SECURITIES AND EXCHANGE COMMISSION

SEC FORM – ACGR

ANNUAL CORPORATE GOVERNANCE REPORT

1. Report is Filed for the Year 2015

2. Exact Name of Registrant as Specified in its Charter **LT GROUP, INC.**

3. 11TH FLOOR, UNIT 3 BENCH TOWER, 30TH CORNER RIZAL DR., BGC TAGUIG CITY 1634
   Address of Principal Office Postal Code

4. SEC Identification Number PW-343

5. (SEC Use Only)
   Industry Classification Code

6. BIR Tax Identification Number 121-145-650-000

7. (632) 816 3311 local 3453
   Issuer's Telephone number, including area code

8. **N/A**
   Former name or former address, if changed from the last report

TABLE OF CONTENTS

A. BOARD MATTERS

1) Board of Directors

Number of Directors per Articles of Incorporation	**Thirteen (13)**

Actual number of Directors for the year	**Thirteen (13)**

(a) Composition of the Board

Complete the table with information on the Board of Directors:

Director's Name	Type [Executive (ED), Non-Executive (NED) or Independent Director (ID)]	If nominee, identify the principal	Nominator in the last election (if ID, state the relationship with the nominator)	Date first elected	Date last elected (if ID, state the number of years served as ID)	Elected when (Annual /Special Meeting)	No. of years served as director
Lucio C. Tan	ED	N/A	Nomination Committee	07/02/99	06/23/15	Annual Meeting	17
Carmen K. Tan	NED	N/A	Nomination Committee	05/05/10	06/23/15	Annual Meeting	6
Harry C. Tan	NED	N/A	Nomination Committee	05/28/08	06/23/15	Annual Meeting	8
Michael G. Tan	ED	N/A	Nomination Committee	02/21/03	06/23/15	Annual Meeting	13
Lucio K. Tan, Jr.	NED	N/A	Nomination Committee	02/21/03	06/23/15	Annual Meeting	13
Juanita Tan Lee	ED	N/A	Nomination Committee	05/02/12	06/23/15	Annual Meeting	4
Joseph T. Chua	NED	N/A	Nomination Committee	06/09/14	06/23/15	Annual Meeting	2
Peter Y. Ong	NED	N/A	Nomination Committee	06/09/14	06/23/15	Annual Meeting	2
Washington Z. SyCip	NED	N/A	Nomination Committee	07/09/13	06/23/15	Annual Meeting	3
Antonino L. Alindogan, Jr.	ID	N/A	Dr. Lucio C. Tan and Ms. Juanita Tan Lee; Mr. Tan and Ms. Tan Lee have no relationship with Mr. Alindogan	07/31/12	06/23/15	Annual Meeting	4
Wilfrido E. Sanchez	ID	N/A	Dr. Lucio C. Tan and Ms. Juanita Tan Lee; Mr. Tan and Ms. Tan Lee have no relationship with Mr. Sanchez	07/31/12	06/23/15	Annual Meeting	4

Florencia G. Tarriela	ID	N/A	Dr. Lucio C. Tan and Ms. Juanita Tan Lee; Mr. Tan and Ms. Tan Lee have no relationship with Ms. Tarriela	08/09/12	06/23/15	Annual Meeting	4
Robin C. Sy	ID	N/A	Dr. Lucio C. Tan and Ms. Juanita Tan Lee; Mr. Tan and Ms. Tan Lee have no relationship with Mr. Sy	06/09/14	06/23/15	Annual Meeting	2

(b) Provide a brief summary of the corporate governance policy that the board of directors has adopted. Please emphasize the policy/ies relative to the treatment of all shareholders, respect for the rights of minority shareholders and of other stakeholders, disclosure duties, and board responsibilities.

Compliance with the principles of good corporate governance is primary in the consciousness of each member of the Board of Directors and Management.

In the center of the Company's policies on corporate governance is its Board commitment to observe a high standard of ethical conduct in all its activities, with emphasis on integrity, excellence, transparency, loyalty and a sense of good corporate citizenry. The key principles of its corporate governance include:

- ***The oversight responsibility of the Board of Directors, i.e., ensuring that the Company is appropriately and effectively managed and controlled by providing strategic guidance and effectively monitoring of the performance of Management. The Board is fully aware of its accountability to the Company and the stakeholders.***

- ***The timely and accurate disclosure of all material matters regarding the Company, including the financial situation, performance, ownership and governance of the Company.***

- ***The existence of independent audit mechanisms for monitoring the adequacy and effectiveness of the Company's governance, operations, information systems. The reliability and integrity of financial and operational information, effectiveness and efficiency of operations, security of assets, and compliance with laws, rules, regulations and contracts are reviewed and regularly passed upon by the Audit Committee.***

- ***The recognition and respect for the rights of stakeholders as established by law. There is an active cooperation between the Company and its stakeholders in creating wealth, jobs and sustainability of the Company's financial soundness.***

Further the Company's Corporate Governance Code commits to the following rights of the stockholders:

1. ***Voting Right***
   Shareholders shall have the right to elect, remove and replace directors and vote on certain corporate acts in accordance with the Corporation Code. A director shall not be removed without reasonable cause if it will deny minority shareholders representation in the Board.

2. ***Power of Inspection***
   All shareholders shall be allowed to inspect corporate books and records including minutes of Board meetings and stock registries in accordance with the Corporation Code and will be furnished with annual reports, including financial statements, without cost or restrictions.

3. ***Right to Information***
   The minority shareholders shall be granted the right to propose the holding of a meeting, and the rights to propose items in the agenda of the meeting, provided the items are for legitimate business purposes. The minority shareholders shall be furnished with relevant information as required by law about the Company on a timely and regular basis.

4. ***Right to Dividends***
   Shareholders shall have the right to receive dividends subject to the discretion of the Board. The Company shall be compelled to declare dividends when its retained earnings shall be in excess of 100% of its paid-in capital stock, except in cases provided under the Company's Corporate Governance Manual.

5. ***Appraisal Right***
   The shareholders shall have an appraisal right or the right to dissent and demand payment of the fair value of their shares under any of the circumstances set forth in Section 81 of the Corporation Code of the Philippines, and in the manner provided for under Section 82 of the said Code.

Likewise it is the duty of Directors to the Company's Shareholders that—

- ***The Board is transparent and fair in the conduct of the annual and special stockholders' meetings of the Company. The stockholders are encouraged to personally attend such meetings and are apprised ahead of time of their right to appoint a proxy.***

- ***The Board promotes shareholder rights, remove impediments to the exercise of shareholders' rights and provide adequate avenue for them to seek redress for breach of their rights.***

- ***The Board is instrumental in removing excessive costs and other administrative or practical impediments to shareholders participating in meetings and/or voting in person. Accurate and timely information should be made available to the stockholders to enable them to make a sound judgment on all matters brought to their attention for consideration or approval.***

(c) How often does the Board review and approve the vision and mission?

The Board reviews and approves the vision and mission of the Company annually. During its meeting held on February 9, 2016, the Board reviewed and reiterated the Vision and Mission statements of the Company.

(d) Directorship in Other Companies

(i) Directorship in the Company's Group[1]

Identify, as and if applicable, the members of the company's Board of Directors who hold the office of director in other companies within its Group:

Director's Name	Corporate Name of the Group Company*	Type of Directorship (Executive, Non-Executive, Independent). Indicate if director is also the Chairman.
Lucio C. Tan	Asia Brewery, Inc., Eton Properties Philippines, Inc., Eton City, Inc., Belton Communities, Inc., FirstHomes, Inc., Fortune	Chairman

[1] The Group is composed of the parent, subsidiaries, associates and joint ventures of the Company.

	Tobacco Corporation, PMFTC, Inc., Tanduay Distillers, Inc., Absolut Distillers, Inc., Tangent Holdings Corporation and Shareholdings, Inc.	
	Philippine National Bank	Non-Executive Director
Carmen K. Tan	Asia Brewery, Inc., Eton City, Inc., Fortune Tobacco Corporation, PMFTC, Inc., Tanduay Distillers, Inc., Tangent Holdings Corporation and Shareholdings, Inc.	Non-Executive Director
Harry C. Tan	Asia Brewery Inc., AlliedBankers Insurance Corp., Absolut Distillers, Inc., Eton Properties Philippines, Inc., FirstHomes, Inc., Belton Communities, Inc., PMFTC Inc., Philippine National Bank, Shareholdings, Inc., and Tanduay Distillers, Inc.	Non-Executive Director
Michael G. Tan	Asia Brewery, Inc.	President/Chief Operating Officer
	AlliedBankers Insurance Corp., Eton Properties Philippines, Inc., PMFTC Inc., Philippine National Bank, Absolut Distillers, Inc., Eton City, Inc., Shareholdings, Inc., and Victorias Milling Company, Inc.	Non-Executive Director
Lucio K. Tan, Jr.	Tanduay Distillers, Inc. and Eton Properties Philippines, Inc.	President
	Fortune Tobacco Corporation	Director/EVP
	AlliedBankers Insurance Corp., Philippine National Bank, PMFTC Inc., Absolut Distillers, Inc., Asia Brewery, Inc., Eton City, Inc., Belton Communities, Inc., FirstHomes, Inc., Shareholdings, Inc. and Victorias Milling Company, Inc.	Non-Executive Director
Joseph T. Chua	Eton Properties Philippines, Inc.;	Director/OIC
Juanita Tan Lee	Asia Brewery, Inc., Fortune Tobacco Corp., and Shareholdings, Inc.,	Director and Corporate Secretary
	Eton Properties Philippines, Inc.	Non-Executive Director
Washington Z. SyCip	Philippine National Bank Eton Properties Philippines, Inc.	Non-Executive Director
Peter Y. Ong	Fortune Tobacco Corporation, AlliedBankers Insurance Corporation, Allied Leasing and Finance Corporation	Non-Executive Director
Antonino L. Alindogan, Jr.	Eton Properties Philippines, Inc.	Independent Director
Wilfrido E. Sanchez	Eton Properties Philippines, Inc.	Independent Director
Florencia G. Tarriela	Philippine National Bank	Chairman/Independent Director

* As of February 24, 2015

(ii) Directorship in Other Listed Companies

Identify, as and if applicable, the members of the company's Board of Directors who are also directors of publicly-listed companies outside of its Group:

Director's Name	Name of Listed Company*	Type of Directorship (Executive, Non-Executive, Independent). Indicate if director is also the Chairman
Lucio C. Tan	PAL Holdings, Inc. MacroAsia Corporation	Chairman Chairman
Carmen K. Tan	PAL Holdings, Inc. MacroAsia Corporation	Non-Executive Director
Harry C. Tan	MacroAsia Corporation	Non-Executive Director
Michael G. Tan	PAL Holdings, Inc. MacroAsia Corporation	Director/Treasurer Non-Executive Director
Lucio K. Tan, Jr.	PAL Holdings, Inc. MacroAsia Corporation.	Non-Executive Director Non-Executive Director
Joseph T. Chua	PAL Holdings, Inc. MacroAsia Corporation	President/CEO Non-Executive Director
Washington Z. SyCip	PAL Holdings, Inc. MacroAsia Corporation Belle Corporation Lopez Holdings Corp. Metro Pacific Investments Corp. Century Properties Group Inc.	Non-Executive Director Chairman of the Board Independent Director Independent Director Independent Director Non-Executive Director
Antonino L. Alindogan, Jr.	PAL Holdings, Inc. House of Investments, Inc. Rizal Commercial Banking Corp.	Independent Director Independent Director Independent Director
Wilfrido E. Sanchez	House of Investments, Inc. Rizal Commercial Banking Corp.	Non-Executive Director Non-Executive Director

* As of February 24, 2015

(iii) Relationship within the Company and its Group

Provide details, as and if applicable, of any relation among the members of the Board of Directors, which links them to significant shareholders in the company and/or in its group:

Dr. Lucio C. Tan is the majority shareholder of Tangent Holdings Corporation, which is the controlling corporate shareholder of the Company. Dr. Lucio C. Tan, the Chairman of the Company's Board of Directors, is the brother of Mr. Harry C. Tan. He is also the father of Mr. Lucio K. Tan, Jr. and Mr. Michael G. Tan. Ms. Carmen K. Tan is the wife of Dr. Lucio C. Tan and mother of Mr. Lucio K. Tan, Jr.

(iv) Has the company set a limit on the number of board seats in other companies (publicly listed, ordinary and companies with secondary license) that an individual director or CEO may hold simultaneously? In particular, is the limit of five board seats in other publicly listed companies imposed and observed? If yes, briefly describe other guidelines:

The Company observes the limit of five board seats in other publicly listed companies outside its Group for its Independent Directors and Executive Directors.

The By-Laws of the Company likewise disallows the nomination and election to the Board of Directors of any person who is engaged in any commercial venture or undertaking which is in competition with the

business of the Company or any of its subsidiaries.

(e) Shareholding in the Company

Complete the following table on the members of the company's Board of Directors who directly and indirectly own shares in the company:

Name of Director	Number of Direct shares	Number of Indirect shares / Through (name of record owner)	% of Capital Stock
Lucio C. Tan	2,200	NIL	-
Carmen K. Tan	2,200	NIL	-
Harry C. Tan	3,300	NIL	-
Michael G. Tan	1,100	NIL	-
Lucio K. Tan, Jr.	1,100	NIL	-
Joseph T. Chua	2,200	NIL	-
Juanita Tan Lee	1,100	NIL	-
Peter Y. Ong	1,100	NIL	-
Washington Z. SyCip	1,000	NIL	-
Antonino L. Alindogan, Jr.	1,000	NIL	-
Wilfrido E. Sanchez	1,000	NIL	-
Robin C. Sy	1,000	NIL	-
Florencia G. Tarriela	1,000	NIL	-
TOTAL	**19,300**	NIL	-

2) Chairman and CEO

(a) Do different persons assume the role of Chairman of the Board of Directors and CEO? If no, describe the checks and balances laid down to ensure that the Board gets the benefit of independent views.

Yes ☐ No X

Identify the Chair and CEO:

Chairman of the Board	Dr. Lucio C. Tan
CEO	Dr. Lucio C. Tan

The Company's By-Laws provide that the Chairman of the Board of Directors shall also be the Company's Chief Executive Officer and shall exercise such other powers and perform such other duties as the Board may assign to him.

The officer responsible though for the general charge and supervision of the business of the Company is the President, who is also the Chief Operating Officer. The President/COO may sign all authorized bonds, contracts or obligations in the name of the Company, and, together with the Corporate Secretary or any other director, may sign the certificates of shares in the capital stock of the Company. When so required by the Board, the President/COO is responsible for reporting thereto the affairs of the Company.

(b) Roles, Accountabilities and Deliverables

Define and clarify the roles, accountabilities and deliverables of the Chairman and CEO.

The Company's Chairman of the Board is likewise its Chief Executive Officer. The President/Chief Operating Officer of the Company takes on the role of the Company's officer-in-charge with respect to day-to-day operations.

	Chairman	Chief Operating Officer
Role	Presides over the meetings of the Board of directors and the meetings of the shareholders.	Head of the Management team and is primarily accountable for achieving the Company's business objectives.
Accountabilities	The proper conduct of meetings of the Board of Directors and exercise of the powers of the Company.	The Company's day-to-day operations and business direction.
Deliverables	To exercise such powers and to perform duties as the Board of Directors may assign to him	Manages the Company's day-to-day operations, sets overall business directions and strategic plans; Represents the Company in interaction with shareholders and other major stakeholders; Implements major corporate initiatives as approved by the Shareholders and the Board of Directors and reports back to these bodies; Responsible for strategic planning for the Company, to initiate growth and profitability Hires and dismisses employees at the management level, except officers elected by the shareholders or by the Board of Directors; From time to time, make such reports of the affairs of the Company as the Board of Directors may require and shall annually present a report of the preceding year's business at a Board meeting immediately preceding the annual meeting of the stockholders; Delegates duties to deputies and determines the scope of their authority; and Issue orders and implements transactions within his authority

3) Explain how the board of directors plans for the succession of the CEO/Managing Director/President and the top key management positions?

The By-Laws of the Company state that all officers shall be elected by and hold office at the pleasure only of the Board of Directors. Thus, succession of officers shall entirely depend on the discretion of the present members of the Board, taking into consideration the principles of good corporate governance.

4) Other Executive, Non-Executive and Independent Directors

Does the company have a policy of ensuring diversity of experience and background of directors in the board? Please explain.

Yes. The Nomination Committee evaluates the qualifications of the Directors and observes the policy of nominating individuals who are experienced and knowledgeable about the different sectors of the Group, like banking, tobacco, liquor, real estate and beverage companies. One of the qualifications of a Director is he/she must be a holder of a "Bachelor's degree or equivalent experience in managing the business as gained from the profession and/or industry". Moreover the Committee considered not only the diverse work experience, and education but likewise consciously voted to the Board women directors with excellent work experience and expertise.

Does it ensure that at least one non-executive director has an experience in the sector or industry the company belongs to? Please explain.

Yes. As an example, the Company's Audit and Risk Management Committee necessitates members with accounting and finance expertise or experience. The Board ensures the presence of directors, particularly Independent Directors, sitting in the Board with accounting and finance background, among others. As a matter of policy, the Chairman of the Audit and Risk Management Committee is a former banker and has extensive experience in banking and finance.

Define and clarify the roles, accountabilities and deliverables of the Executive, Non-Executive and Independent Directors:

	Executive	**Non-Executive**	**Independent Director**
Role	Directly exercise and manages the day-to-day operations of the respective positions in the company.	Exercise powers of the Company by approving, ratifying and confirming business acts of Management	Exercise powers of the Company by approving, ratifying and confirming business acts of Management. Further as an independent director it is their role to weigh corporate acts against interests of minority shareholders who are minimally represented in the Board
Accountabilities	Accountable to the shareholders and the public investors	Accountable to the shareholders and the public investors	Accountable to the shareholders and the public investors
Deliverables	Secure the profitability and growth of the company, the efficient execution of projects and undertakings.	Reviews and approves acts and/or proposals of Management during Board meetings	Checks and balances the interests of the Board and major shareholders vis-à-vis that of the public and other stakeholders of the Company

Provide the company's definition of "independence" and describe the company's compliance to the definition.

Independence is having no ties with the Company's management and freedom from any business or other relationships which could, or could reasonably be perceived to, materially interfere with the exercise of independent judgment in carrying out one's responsibilities as a director of the Company. The Nomination

Committee reviews and validates the resume, business and professional affiliations of the independent directors and ensures that the nominees are best qualified to the position.

Does the company have a term limit of five consecutive years for independent directors? If after two years, the company wishes to bring back an independent director who had served for five years, does it limit the term for no more than four additional years? Please explain.

The Company observes the term limit for Independent Directors, in accordance with SEC Memorandum Circular No. 9, Series of 2011.

5) Changes in the Board of Directors (Executive, Non-Executive and Independent Directors)

(a) Resignation/Death/Removal

Indicate any changes in the composition of the Board of Directors that happened during the period:

Not Applicable

(b) Selection/Appointment, Re-election, Disqualification, Removal, Reinstatement and Suspension

Describe the procedures for the selection/appointment, re-election, disqualification, removal, reinstatement and suspension of the members of the Board of Directors. Provide details of the processes adopted (including the frequency of election) and the criteria employed in each procedure:

Procedure	Process Adopted	Criteria
a. Selection/Appointment		
(i) Executive Directors	The Nomination Committee shall meet prior to the Annual Shareholders' Meeting (ASM) to discuss the qualifications of nominees for election to the Board of Directors. According to the By-Laws, no director shall be nominated/elected at a regular/special shareholders' meeting unless his/her name has been submitted to the Corporate Secretary by a stockholder proposing the same at least fifty (50) business days prior to the meeting, which notice shall be duly signed by both the proponent stockholder and the nominee signifying his/her consent thereto. The Committee shall prepare a list of all qualified nominees and report the same to the Board for its approval. At least forty five (45) days before the ASM, the Committee shall prepare a Final List of candidates which shall contain all the information about the	Qualifications: Bona fide holder of at least one thousand (1,000) shares of the capital stock of the Company; He/She shall at least be a College graduate or have sufficient experience and/or understanding in managing a business such as that of the Company to substitute for such formal education; He/She shall at least be twenty-one (21) years old; He/She shall have proven to possess integrity and probity; He/She is a member in good standing of relevant industry, business or professional organizations; He/She shall have attended a seminar on corporate governance with a duly-accredited or recognized

	nominees, and which list shall be made available to the Commission and to all stockholders through the filing and distribution of the Information Sheet, in accordance with Rule 20 of the Securities Regulation Code. During the ASM, the shareholders of the Company shall elect members of the Board of Directors, choosing from the final list of the candidates. The term of office of Directors shall begin immediately after election. Executive Directors will be elected by the new Board immediately after the ASM wherein which the new Board was elected.	private or government institution and submitted a copy of his/her certificate of attendance to the Compliance Officer.
(ii) Non-Executive Directors	Same process as described above	Same Criteria as above
(iii) Independent Directors	Same process as described above. Only nominees whose names appear on the Final List of Candidates shall be eligible for election as independent director/s. No other nomination shall be entertained after the Final List of Candidates shall have been prepared. No further nomination shall be entertained or allowed on the floor during the ASM.	In addition to the qualifications for Executive and Non-executive Directors, an Independent Director must also be one who: 1. is not a director or officer or substantial stockholder of the Company or of its related companies or any of its substantial shareholders, except when he/she is an independent director in any of the foregoing; 2. does not own more than two percent (2%) of the shares of the Company and/or its related companies or any of its substantial shareholders; 3. is not related to any director, officer, or substantial shareholder of the Company or any of the related companies or substantial shareholders of the Company. For this

		purpose, relatives include spouse, parent, child, brother, sister, and the spouse of such child, brother or sister; 4. is not acting as a nominee or representative of any director or substantial shareholder of the Company, and/or any of its related companies, and/or any of its related shareholders pursuant to a Deed of Trust or under any contract or arrangement; 5. has not been employed in any executive capacity by the Company, any of its related companies and/or by any of its substantial shareholders within the last five (5) years; 6. is not retained, either personally or through his/her firm or any similar entity, as a professional adviser of the Company, or any of its related companies and/or any of its substantial shareholders in the last five (5) years; 7. has not engaged and does not engage in any transaction with the Company and/or with any of its related companies and/or with any of its substantial shareholders, whether by himself/herself and/or with other persons and/or through a firm of which he/she is a partner and/or a company of which he/she is a director or substantial shareholder, other than transactions which are conducted at arms length and are immaterial or insignificant; and

		8. may hereafter be considered as an Independent Director under applicable laws, statutes, or rules and regulations of the SEC.
b. Re-appointment		
(i) Executive Directors	The process of Selection/Appointment is repeated for the next term of the Executive Director.	Same criteria as Selection/Appointment
(ii) Non-Executive Directors	The process of Selection/Appointment is repeated for the next term of the Non-Executive Director.	Same criteria as Selection/Appointment
(iii) Independent Directors	The process of Selection/Appointment is repeated for the next term of the Independent Director.	Same criteria as Selection/Appointment
c. Permanent Disqualification		
(i) Executive Directors (ii) Non-Executive Directors (iii) Independent Directors	A Director who, during his/her term in office, becomes permanently disqualified based on the criteria laid down by the Company's Corporate Governance Manual, shall be removed from office after credible proof has been presented to the Board that the said Director does possess such disqualification.	See immediate succeeding row on Criteria for Disqualification
Criteria for Disqualification: • Any person convicted by final judgment or order by a competent juridical or administrative body of any crime that: a.) involves the purchase or sale of securities, as defined in the SRC; b.) arises out of the person's conduct as an underwriter, broker, dealer, investment adviser, principal distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or flood broker; c.) arises out of his fiduciary relationship with a bank, quasi-bank, trust company, investment house or an affiliated person or any of them; • Any person who, by reason of misconduct, after hearing, is permanently enjoined by a final judgment or order of the Commission or any court or administrative body of competent jurisdiction from: a. acting as underwriter, broker, dealer, investment adviser, principal distributor, mutual fund dealer, futures commission merchant, commodity trading advisor or flood broker; b. acting as director or officer of a bank, quasi-bank, trust company, investment house or investment company; c. engaging in or continuing an conduct or practice in any of the capacities mentioned in the sub-paragraphs a. and b. or willfully violating the laws that govern securities and banking activities; • Any person who has been restrained to engage in activity involving securities and banking;		

- Any person who is currently the subject of an effective order of the Commission or any court or any administrative body denying, revoking or suspending any registration, license or permit issued to him under the Corporation Code, Securities Regulation Code or any other law administered by the Commission or Bangko Sentral ng Pilipinas (BSP), or under any rule or regulation issued by the Commission or BSP;

- Any person convicted by final judgment or order by a competent juridical or administrative body of an offense involving moral turpitude or fraudulent act or transgressions;

- Any person finally found guilty by the Commission or court or regulating bodies to have willfully violated, or willfully aided, abetted, counseled, induced or procured the violation of, any provision of the Securities Regulation Code, the Corporation

- Code, or any other law administered by the Commission or BSP or any rule, regulation or order issued by the Commission or BSP;

- Any person currently the subject of an effective order of a self-regulatory organization, suspending or expelling him from membership, participation or association with a member or participant of the organization;

- Any person earlier elected as independent director who becomes an officer, employee or consultant of the Company;

- Any person finally found guilty by foreign court or financial regulatory counterparts of the Philippines of acts, violations, or misconduct listed in the foregoing paragraphs;

- Any person judicially declared to be insolvent; and

- Any person finally convicted of an offence punishable by imprisonment of more than six (6) years, or violation of the Corporation Code, committed within five (5) years prior to the date of his/her election or appointment.

d. Temporary Disqualification

<table>
<tr><td>(i) Executive Directors</td><td>A temporarily disqualified Director shall within sixty (60) days from such disqualification, take the appropriate action to remedy or correct the disqualification. If he/she fails or refuses to do so for unjustified reasons, the disqualification shall become permanent. A permanent disqualification will result in the removal of the Director in accordance with the process under Permanent Disqualification.</td><td rowspan="2">Any of the following shall be a ground for the temporary disqualification of a Director:

1. Refusal to fully disclose the extent of his/her business interest as required under the SRC and its Implementing Rules and Regulations. Disqualification shall be in effect as long as the refusal persists;

2. Dismissal/termination from Directorship in another listed corporation for cause. This disqualification shall be in effect until the said involvement in the alleged irregularity is cleared or settled;</td></tr>
<tr><td>(ii) Non-Executive Directors</td><td>Same process as above</td></tr>
</table>

		3. If the beneficial equity ownership of an Independent Director in the Company or its subsidiaries exceeds two percent (2%) of its subscribed capital stock. The disqualification shall be lifted if the limit is later on complied with; 4. Being under preventive suspension by the Company; and 5. Conviction that has not yet become final referred to in the grounds for the disqualification of Directors.
(iii) Independent Directors	Same process as above	In addition to the criteria set forth for Executive and Non-executive Directors, any of the following persons shall likewise be disqualified from being nominated and elected as an Independent Director: 1. Owners of more than two percent (2%) of the total outstanding proprietary membership of the Company and/or any of its substantial shareholders; and 2. A director who has failed, without any justifiable cause, to attend at least fifty percent (50%) of the total number of Board meetings during his/her incumbency.
e. Removal		
(i) Executive Directors (ii) Non-Executive Directors (iii) Independent Directors	A Director will be removed from office only after proper notice and hearing. Due process should be observed.	Any of the grounds under permanent disqualification and for cases resolved by the Board to be reason enough for a Director's removal
f. Re-instatement		
(i) Executive Directors (ii) Non-Executive Directors (iii) Independent Directors	A Director may be reinstated by the Board of Directors during a Board meeting, wherein a quorum is present and a vacancy in the Board exists; or through the inclusion	A Director may be reinstated if cause for his/her removal has ceased to exist. This however does not include cases of Permanent Disqualification

	of the name of the Director in the Final List of Candidates to be elected during the Company's ASM	
g. Suspension		
(i) Executive Directors (ii) Non-Executive Directors (iii) Independent Directors	A Director will be suspended only after proper notice and hearing.	A Director may be suspended for any of the causes under Temporary Disqualification

Voting Result of the last Annual General Meeting (June 23, 2015)

During the annual meeting, the stockholders present and represented by proxies, taking into consideration the voting instructions received through proxies submitted to the Office of the Corporate Secretary and the votes cast in person during the meeting, the 13 nominees with the highest number of votes were as follows:

Dr. Lucio C. Tan
Mr. Harry C. Tan
Ms. Carmen K. Tan
Mr. Lucio K. Tan, Jr.
Mr. Michael G. Tan
Ms. Juanita Tan Lee
Mr. Washington Z. Sycip
Mr. Antonino L. Alindogan, Jr. – Independent Director
Atty. Wilfrido E. Sanchez – Independent Director
Ms. Florencia G. Tarriela – Independent Director
Mr. Joseph T. Chua
Mr. Peter Y. Ong
Mr. Robin C. Sy – Independent Director

6) Orientation and Education Program

(a) Disclose details of the company's orientation program for new directors, if any.

There is no formal orientation program for new Directors. In practice, a new Director is provided with materials regarding the operations of the Company and its subsidiaries. The new Director is likewise encouraged to visit and inspect offices and facilities of subsidiaries.

(b) State any in-house training and external courses attended by Directors and Senior Management[2] for the past three (3) years:

The Company no longer avail of an in-house training and/or seminar/s for its directors but provides them updates on the available seminars and trainings being offered and encourages the directors to attend.

(c) Continuing education programs for directors: programs and seminars and roundtables attended during the year.

In compliance with SEC Memorandum Circular No. 20, Series of 2013, all of the Company's current Directors attended a program on corporate governance conducted by training providers duly accredited by the SEC.

Name of Director	Date of Training	Program	Name of Training Institution

[2] Senior Management refers to the CEO and other persons having authority and responsibility for planning, directing and controlling the activities of the company.

Lucio C. Tan	November 11, 2015	Corporate Governance: Board Effectiveness Best Practices	Center for Global Best Practices
Carmen K. Tan	November 11, 2015	Corporate Governance: Board Effectiveness Best Practices	Center for Global Best Practices
Harry C. Tan	November 6, 2015	Distinguished Corporate Governance Speaker Series	The Institute of Corporate Directors
Lucio K. Tan, Jr.	September 15, 2015 November 11, 2015	Distinguished Corporate Governance Speaker Series Corporate Governance: Board Effectiveness Best Practices	The Institute of Corporate Directors Center for Global Best Practices
Michael G. Tan	November 11, 2015	Corporate Governance: Board Effectiveness Best Practices	Center for Global Best Practices
Juanita Tan Lee	September 15, 2015	Distinguished Corporate Governance Speaker Series	The Institute of Corporate Directors
Joseph T. Chua	November 11, 2015	Corporate Governance: Board Effectiveness Best Practices	Center for Global Best Practices
Washington Z. Sycip	Exempted		
Peter Y. Ong	June 25, 2015	ASEAN Corporate Governance Scorecard (ACGS) Orientation	The Institute of Corporate Directors
Antonino L. Alindogan, Jr.	September 5, 2015	Seminar on Corporate Governance	Sycip Gorres Velayo & Co.
Wilfrido E. Sanchez	September 15, 2015	Distinguished Corporate Governance Speaker Series	The Institute of Corporate Directors
Florencia G. Tarriela	December 10, 2015	Distinguished Corporate Governance Speaker Series	The Institute of Corporate Directors

B. CODE OF BUSINESS CONDUCT & ETHICS

1) Discuss briefly the company's policies on the following business conduct or ethics affecting directors, senior management and employees:

Business Conduct & Ethics	Directors	Senior Management	Employees
(a) Conflict of Interest	A policy of full and prompt disclosure for all cases of conflict of interest.	A policy of full and prompt disclosure for all cases of conflict of interest.	A policy of full and prompt disclosure for all cases of conflict of interest.
(b) Conduct of Business and Fair Dealings	The Company strictly requires this.	The Company strictly requires this.	The Company strictly requires this.
(c) Receipt of gifts from third parties	Receipt of gifts from third parties that will tend to undermine duties to the Company is highly discouraged.	Receipt of gifts from third parties that will tend to undermine duties to the Company is highly discouraged.	Receipt of gifts from third parties that will tend to undermine duties to the Company is highly discouraged.
(d) Compliance with Laws & Regulations	All Directors are strictly enjoined to comply with the Laws and Regulations.	All Senior Management are strictly enjoined to comply with the Laws and Regulations.	All employees are strictly enjoined to comply with the Laws and Regulations.
(e) Respect for Trade	The Company strictly	The Company strictly	The Company strictly requires

	Secrets/Use of Non-public Information	requires the observance of proper usage of trade secrets and confidential information.	requires the observance of proper usage of trade secrets and confidential information.	the observance of proper usage of trade secrets and confidential information.
(f)	Use of Company Funds, Assets and Information	The Company strictly monitors the use of Company funds, assets and information.	The Company strictly monitors the use of Company funds, assets and information.	The Company strictly monitors the use of Company funds, assets and information.
(g)	Employment & Labor Laws & Policies	Together with laws and regulations, compliance with Employment & Labor Laws & Policies is strictly enjoined as well.	Together with laws and regulations, compliance with Employment & Labor Laws & Policies is strictly enjoined as well.	Together with laws and regulations, compliance with Employment & Labor Laws & Policies is strictly enjoined as well.
(h)	Disciplinary action	The Company shall mete out appropriate disciplinary actions to persons found guilty of corporate transgressions.	The Company shall mete out appropriate disciplinary actions to persons found guilty of corporate transgressions.	The Company shall mete out appropriate disciplinary actions to persons found guilty of corporate transgressions.
(i)	Whistle Blower	This is encouraged within the Company although a concrete policy thereon have yet to be formulated even while certain subsidiaries have the policies in place.	This is encouraged within the Company although a concrete policy thereon have yet to be formulated.	This is encouraged within the Company although a concrete policy thereon have yet to be formulated.
(j)	Conflict Resolution	The Company highly encourages prompt conflict resolution.	The Company highly encourages prompt conflict resolution.	The Company highly encourages prompt conflict resolution.

2) Has the code of ethics or conduct been disseminated to all directors, senior management and employees?

Yes, through the memoranda to officers and discussions in the Board meetings.

3) Discuss how the company implements and monitors compliance with the code of ethics or conduct.

The Company monitors compliance through the respective internal audtors and periodic checks by the Board during Board meetings.

4) Related Party Transactions

(a) Policies and Procedures

Describe the company's policies and procedures for the review, approval or ratification, monitoring and recording of related party transactions between and among the company and its parent, joint ventures, subsidiaries, associates, affiliates, substantial stockholders, officers and directors, including their spouses, children and dependent siblings and parents and of interlocking director relationships of members of the Board.

The Company prefers to transact with related parties to avoid the risk of materials shortages and unfair pricing. In addition, there is better coordination with suppliers on quality, production scheduling and pricing consideration. In addition, transactions with related parties have a stronger basis for trust and confidence in meeting material deadlines.

In the normal course of business, the Company transacts with the following related parties for the purposes set forth below:

Asia Brewery Inc.	***Supplier of Bottles/Royalty Fees***

Eton Properties Philippines, Inc.	***Investment Properties***
Philippine National Bank	***Investments/Loans/Services/Deposits***
Tangent Holdings Corporation	***Advances***
Victorias Milling Co., Inc.	***Supplier of Sugar and Molasses***

Transactions with these related parties are necessary in the normal course of the Company's business. Though substantial in amount, they are still under normal trade practice. There are no special risks or contingencies arising from said transactions. In transacting with related parties, the prices are based on terms that are no less favorable than those arranged with third parties. In addition, since the Company adheres to industry standards and practices, the transactions have been fairly evaluated and no long term contracts have been entered into. There are no long term suppliers contracts. The Company can source any material from third-party suppliers should this be more favorable to the Company.

There are no parties that fall outside the definition "related parties" with whom the Company or any of its related parties has a relationship that enables the parties to negotiate terms of material transactions that may not be available from other more clearly independent parties on an arm's length basis.

(b) Conflict of Interest

(i) Directors/Officers and 5% or more Shareholders

Identify any actual or probable conflict of interest to which directors/officers/5% or more shareholders may be involved.

	Details of Conflict of Interest (Actual or Probable)
Name of Director/s	The Company does not foresee any actual or probable conflict of interest to which a Director may be involved
Name of Officer/s	The Company does not foresee any actual or probable conflict of interest to which a Company's Officer may be involved
Name of Significant Shareholders	The Company does not foresee any actual or probable conflict of interest to which a significant shareholder may be involved

(ii) Mechanism

Describe the mechanism laid down to detect, determine and resolve any possible conflict of interest between the company and/or its group and their directors, officers and significant shareholders.

	Directors/Officers/Significant Shareholders
Company	Regular disclosures in good faith shall aid in detecting conflicts of interest. Resolution of the same may range from informal talks with Management to the extent of elevating the matter to Board level.
Group	Above mechanism, when applicable, may also be used to detect, determine and resolve conflicts of interest between appropriate persons within the Group.

5) Family, Commercial and Contractual Relations

(a) Indicate, if applicable, any relation of a family,[3] commercial, contractual or business nature that exists between the holders of significant equity (5% or more), to the extent that they are known to the company:

The Company is not aware of any such relations that exist between its holders of significant equity.

(b) Indicate, if applicable, any relation of a commercial, contractual or business nature that exists between the holders of significant equity (5% or more) and the company:

The Company is not aware of any such relations that exist between its holders of significant equity.

(c) Indicate any shareholder agreements that may impact on the control, ownership and strategic direction of the company:

There is none.

6) Alternative Dispute Resolution

Describe the alternative dispute resolution system adopted by the company for the last three (3) years in amicably settling conflicts or differences between the corporation and its stockholders, and the corporation and third parties, including regulatory authorities.

No conflict that necessitated an alternative dispute resolution occurred within the Company in the last three (3) years.

C. BOARD MEETINGS & ATTENDANCE

1) Are Board of Directors' meetings scheduled before or at the beginning of the year?

Board meetings have been set to occur on the second Tuesday of every month and the dates are determined at the start of the year. The schedule maybe reset only on certain exigencies where a change of schedule may be warranted.

2) Attendance of Directors

Board	Name	Date of Election	No. of Meetings Held during the year (2015)	No. of Meetings Attended	%
Chairman	Lucio C. Tan	06/23/2015	14	10	71
Member	Carmen K. Tan	06/23/2015	14	10	71
Member	Harry C. Tan	06/23/2015	14	12	86
Member	Michael G. Tan	06/23/2015	14	14	100
Member	Lucio K. Tan, Jr.	06/23/2015	14	11	79
Member	Joseph T. Chua	06/23/2015	14	14	100
Member	Juanita Tan Lee	06/23/2015	14	14	100
Member	Washington Z. Sycip	06/23/2015	14	9	64
Member	Peter Y. Ong	06/23/2015	14	14	100
Independent	Robin C. Sy	06/23/2015	14	10	71
Independent	Florencia G. Tarriela	06/23/2015	14	12	86
Independent	Antonino Alindogan, Jr.	06/23/2015	14	11	79
Independent	Wilfrido E. Sanchez	06/23/2015	14	13	93

[3] Family relationship up to the fourth civil degree either by consanguinity or affinity.

3) Do non-executive directors have a separate meeting during the year without the presence of any executive? If yes, how many times?

No. Non-executive directors do not have separate meetings during the year without the presence of any executive director.

4) Is the minimum quorum requirement for Board decisions set at two-thirds of board members? Please explain.

No. Minimum quorum requirement is majority of the members of the Board.

5) Access to Information

(a) How many days in advance are board papers[4] for board of directors meetings provided to the board?

Board materials are usually sent to the members of the Board at least three (3) days before the scheduled meeting.

(b) Do board members have independent access to Management and the Corporate Secretary?

Yes. Board members have independent access to Management and the Corporate Secretary.

(c) State the policy of the role of the company secretary. Does such role include assisting the Chairman in preparing the board agenda, facilitating training of directors, keeping directors updated regarding any relevant statutory and regulatory changes, etc?

The Corporate Secretary is a Filipino Citizen and resident of the Philippines. She possesses administrative and interpersonal skills and working knowledge of the Company's operations. She is aware of the laws, rules and regulations necessary in the performance of her duties and responsibilities. She prepares the Agenda, for the meeting, seek the comments and requests of the President, CFO and Management for issues or matters that they may need to present to the Board for discussion and/or approval. She likewise advises if matters requires the approval of the Board in accordance with existing laws. Her duties include:

1) ***Inform the members of the Board, in accordance with the By-Laws, of the Agenda of their meetings and assist them in obtaining relevant, timely and accurate corporate information in making sound business judgment and in performance of their responsibilities and obligations;***

2) ***Assist the President in preparing and holding meetings of Management;***

3) ***Supervise the maintenance, preparation and submission of reports and other documents to state agencies in accordance with applicable legislation;***

4) ***Attend all Board meetings, except when justifiable causes, such as, but not limited to, illness, death in the immediate family and serious accidents, prevent her from doing so;***

5) ***Maintain record of the minutes of the meetings of the Board and its committees, as well as other official records of the Company;***

6) ***Ensure that all Board procedures, rules and regulations are strictly followed by the members;***

7) ***Submit to SEC an advisement letter on the directors' attendance in Board meetings on or before January 5th of the following year; and***

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[4] Board papers consist of complete and adequate information about the matters to be taken in the board meeting. Information includes the background or explanation on matters brought before the Board, disclosures, budgets, forecasts and internal financial documents.

8) ***As the Compliance Officer, she performs as well all the duties and responsibilities of the said office provided for in the Company's Corporate Governance Manual.***

(d) Is the company secretary trained in legal, accountancy or company secretarial practices? Please explain should the answer be in the negative.

The Corporate Secretary is a lawyer and is thus trained in the legal field. With the number of years she has been with the Company and its subsidiaries, she has gained ample experience appreciating and reading the financial statements. Her long years in the corporate practice and as a former Chief Counsel of the Bank has more than prepared her for the job.

(e) Committee Procedures

Disclose whether there is a procedure that Directors can avail of to enable them to get information necessary to be able to prepare in advance for the meetings of different committees:

Yes [X] No [ ]

Committee	Details of the procedures
Executive	Any of the Directors can request for the materials or necessary information or document/s from any of the Committees thru Office of the Corporate Secretary.
Audit	
Nomination and Compensation	
Risk Management	
Good Governance	

6) External Advice

Indicate whether or not a procedure exists whereby directors can receive external advice and, if so, provide details:

Directors may receive and/or solicit external advice on matters relating to the business of the Company by informing the Corporate Secretary. The Corporate Secretary sees to it that the concerns of the directors are properly addressed and if necessary engage qualified individuals to provide the advice or expertise.

7) Change/s in existing policies

Indicate, if applicable, any change/s introduced by the Board of Directors (during its most recent term) on existing policies that may have an effect on the business of the company and the reason/s for the change:

There were no changes introduced.

D. REMUNERATION MATTERS

1) Remuneration Process

Disclose the process used for determining the remuneration of the CEO and the four (4) most highly compensated management officers:

There is no particular process for determining the remuneration of the CEO and the most highly compensated management officers in the Company. Consideration is basically anchored on the skills they possess and their value to the Company. However, the companies under the conglomerate (subsidiaries) have their respective salary structures and remuneration policies. These are matured companies where salaries and remuneration processes are supervised and monitored by the respective Nomination and Remuneration Committees and vetted by the respective Corporate Governance Committees. The officers running the offices for said purpose are most qualified professionals in the field. The systems, policies and procedures are in accordance with best policies and practices in the industry.

2) Remuneration Policy and Structure for Executive and Non-Executive Directors

Disclose the company's policy on remuneration and the structure of its compensation package. Explain how the compensation of Executive and Non-Executive Directors is calculated.

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

Do stockholders have the opportunity to approve the decision on total remuneration (fees, allowances, benefits-in-kind and other emoluments) of board of directors? Provide details for the last three (3) years.

The allowance and per diems of Directors are disclosed in the Information Statement furnished to the stockholders before each Annual Shareholders' Meeting. Although the stockholders do not approve the total remuneration of the Board, any questions thereon may be raised during the Annual Shareholders' Meeting.

3) Aggregate Remuneration

Complete the following table on the aggregate remuneration accrued during the most recent year:

The following compensation was given to Officers and Directors for the following reporting years:

Summary Compensation Table
Annual Compensation

	Year	Salary	Bonus	Others*
Four (4) most highly compensated executive officers (see below)	2016 (Estimate)	7,678,000	654,500	3,085,000
	2015	6,980,000	595,000	2,805,000
	2014	9,169,800	764,150	2,290,000
All other officers and directors as a group unnamed	2016 (Estimate)	2,881,065	240,095	8,464,500
	2015	2,619,150	218,263	7,695,000
	2014	2,760,000	230,000	7,100,000

****Others – includes per diem as director***

The following constitute the Company's four (4) most highly compensated Executive Officers (on a consolidated basis):

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

4) Stock Rights, Options and Warrants

(a) Board of Directors

Complete the following table, on the members of the company's Board of Directors who own or are entitled to stock rights, options or warrants over the company's shares:

There are no Directors of the Company with stock rights, options or warrants over the Company's shares.

(b) Amendments of Incentive Programs

Indicate any amendments and discontinuation of any incentive programs introduced, including the criteria used in the creation of the program. Disclose whether these are subject to approval during the Annual Stockholders' Meeting:

There are none.

5) Remuneration of Management

Identify the five (5) members of management who are not at the same time executive directors and indicate the total remuneration received during the financial year:

Please see table above under item 3: Aggregate Remuneration

E. BOARD COMMITTEES

1) Number of Members, Functions and Responsibilities

Provide details on the number of members of each committee, its functions, key responsibilities and the power/authority delegated to it by the Board:

Committee	No. of Members			Committee Charter	Functions	Key Responsibilities	Power
	Executive Director (ED)	Non-executive Director (NED)	Independent Director (ID)				
Executive	3	3	2	Yes. Approved on January 20, 2015	The Executive Committee acts, by majority vote of all its members, on such specific matters within the competence of the Board of Directors as may be delegated to it by a majority vote of the Board, except with respect to (1) approval of any action for which shareholders' approval is also required; (2) the filling of vacancies in the Board; (3) the amendment or repeal of By-Laws or the adoption of new By-Laws; (4) the amendment or repeal of any resolution of the Board, which by its express terms is not so amendable or repealable; and (5) a distribution of cash dividend to shareholders; All actions of the Committee are reported to the Board at the Board meeting following any action taken by the Committee and are subject to revisions and alterations by the Board; provided, that no rights of third persons will be affected by any such revision or alteration; and The Committee determines its rules and procedures subject to the approval of the Board of Directors.		

Audit and Risk Management	1	2	3	Yes. Approved on January 20, 2015	Ensures the integrity of the Company's accounting and financial reporting systems, including the independent audit, and that appropriate systems of control are in place, in particular, systems for monitoring risk, financial control, and compliance with the law, rules and regulations; Assists the Board in its oversight function over the Company's financial reporting process, internal control system, information technology security, audit process, and compliance monitoring, and ensuring compliance with policies, laws, and regulations and ensuring that management is taking appropriate corrective actions in a timely manner to address control weaknesses and other problems identified by auditors. Reviews all financial reports to ensure their compliance with pertinent accounting standards, and recommends to the Board the approval thereof before submission to the regulatory agencies. Reviews the annual internal audit plan, at least one month before the conduct of the external audit, ensuring its conformity with the Company's objectives. Considers the independence and objectivity of the External Auditor, including reviewing the range of services provided in the context of all consulting services bought by the Company. Meets with the External Auditor, without the presence of the Company's Management, at least annually. Reviews the effectiveness of the financial management systems and information technology security including internal control of the entire accounting process from documentation of financial transactions to the preparation, interpretation and analysis of financial reports of Management and the External Auditor. Evaluates and determines the non-audit work, if any, of the External Auditor, and reviews periodically the non-audit fees paid to the External Auditor in relation to its significance to the total annual income of the External Auditor and to the Company's

					overall consultancy expenses. The Committee disallows any non-audit work that will conflict with the duties of the External Auditor or may pose a threat to his/her independence. Performs oversight functions over the Audit Committee of the various subsidiaries and affiliates of the Company; Prior to the external audit, discuss the nature, scope, and expenses of the audit, and ensure proper coordination among several external auditors, when applicable, to avoid duplication of efforts. Exercises explicit authority to investigate any matter within the terms of reference, has full access to and cooperation by management and full discretion to invite any Director or executive officer to attend its meetings, and adequate resources to enable it to effectively discharge its functions. Reviews the quarterly semi-annual, and annual financial statements before their submission to the Board. Has direct responsibility in monitoring and disclosing to the proper agencies the related party transactions of the Company. Elevates to international standards the accounting and auditing processes, practices and methodologies. **On Risk Management** Provide oversight over Management's activities in managing credit, market, liquidity, operational, legal and other risks of the Company. Review of the Company's risk register to understand the current risk environment, including review of emerging risks, the interrelationships between risks, and in the context of the Company's risk appetite; Review the Company's annual risk assessment exercise. Review risk mitigating strategies for effectiveness and consistency with the Company's risk tolerance;

					Provide direction for the allocation of resources and assignment of responsibilities for activities addressing business risks.
Nomination and Compensation	3	2	1	Yes. Approved on January 20, 2015	Pre-qualifies and shortlists candidates for election to the Board of Directors. Nominate at least two (2) independent directors or such as to constitute at least twenty percent (20%) of the members of the Board; Re-nominates directors, considering the director's contribution and performance (e.g. attendance, preparedness, participation and candor) including, if applicable, independent directors; Considers the following guidelines in determining the number of directors to be nominated to the Board: 1. The scope and nature of the operations of the Company; 2. Age of the director; and 3. Possible conflict of interest among the directors. Establishes a formal and transparent procedure for fixing the remuneration packages of individual directors. No director shall be involved in deciding his/her own remuneration; Designates amount of remuneration, which shall be in a sufficient level to attract and retain directors and officers who are needed to run the Company successfully; Provides a clear disclosure of its remuneration policy, level and mix of remuneration, and the procedure for setting remuneration, in the Company's annual report; Develops a form on Full Business Interest Disclosure as part of the pre-employment requirements for all incoming officers, which among others compel all officers to declare under the penalty of perjury all their existing business interests or shareholdings that may directly or indirectly conflict in their performance of duties once hired; Provides in the Company's annual reports, information and proxy statements a clear, concise and understandable disclosure of compensation of its executive officers for

					the previous fiscal year and the ensuing year; and In consultation with the executive or management committee/s, redefines the role, duties and responsibilities of the CEO by integrating the dynamic requirements of the business as a going concern and future expansionary prospects within the realm of good corporate governance at all times.
Corporate Governance	1	2	2	Yes. Approved on January 20, 2015	Ensure the Board's and the Board committees' effectiveness and due observance of corporate governance principles and guidelines; Oversee periodic performance evaluation of the Board and its committees and executive management, and conduct an annual self-evaluation of its performance. Periodic performance reviews include the subsidiaries, including their respective Boards and management; Evaluate and recommend whether or not a Director is able to and has been adequately carrying out his/her duties as Director, bearing in mind the Director's contribution and performance; and Review and recommend the manner by which the Board's performance may be evaluated and propose an objective performance criteria approved by the Board.

2) Committee Members

(a) Executive Committee

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee
Chairman	Lucio C. Tan	06/23/15	-	-	-	8 years
Member (ED)	Harry C. Tan	06/23/15	-	-	-	6 years
Member (NED)	Lucio K. Tan, Jr.	06/23/15	-	-	-	8 years
Member (ED)	Michael G. Tan	06/23/15	-	-	-	8 years
Member (NED)	Juanita Tan Lee	06/23/15	-	-	-	2 year
Member (ID)	Florencia G. Tarriela	06/23/15	-	-	-	2 years
Member (ID)	Antonino L. Alindogan, Jr.	06/23/15	-	-	-	2 years
Member (NED)	*Joseph T. Chua*	06/23/15	-	-	-	2 years

*elected during the Board Meeting held on January 20, 2015

(b) Audit Committee and Risk Management Committee

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee
Chairman (ID)	Antonino L. Alindogan, Jr.	06/23/15	7	5	86	2 years
Member (NED)	Washington Z. SyCip	06/23/15	7	4	79	1 year
Member (NED)	Lucio K. Tan, Jr.	06/23/15	7	4	79	10 years
Member (ID)	Wilfrido E. Sanchez	06/23/15	7	7	100	2 years
Member (ID)	Florencia G. Tarriela	06/23/15	7	6	93	1 year
Member (ED)	Juanita Tan Lee	06/23/15	7	7	100	10 years

Disclose the profile or qualifications of the Audit Committee members.

The Audit Committee shall be composed of at least five (5) members who shall preferably have accounting and finance background. At least two (2) of the Committee members shall be independent directors, one of which shall have an audit experience.

Antonino L Alindogan Jr. is an Independent Director of the Company. He is also the Chairman of the Board of An-Cor Holdings, Inc. He serves as Chairman/President of Landrum Holdings, Inc.; Independent Director of Philippine Airlines, Inc., Eton Properties Philippines, Inc., Rizal Commercial Banking Corp., PAL Holdings, Inc., House of Investments, Inc., Great Life Financial Assurance Corp., and Bankard Inc. He is the Former President of C55, Inc.; Former Chairman of the Board of Directors of Development Bank of the Philippines (DBP); Former Consultant for Microfinance of DBP; Former Member of the Monetary Board of Bangko Sentral ng Pilipinaswhere he contributed his efforts and insights on a wide range of concerns, such as the pursuit of good governance, strengthening inflation targeting as an effective tool in price stability, and crafting innovative solutions to problem banks. He also took part in the BSP reorganization, upgrading and modernization of facilities and bank-wide planning and budgeting process. He is a Certified Public Accountant and holds a Bachelor of Science in Commerce degree in Accounting (Magna Cum Laude) from De La Salle College.

Washington Z. Sycip is a Director of the Company. He is the founder of SyCip Gorres Velayo & Co.; Chairman Emeritus of the Board of Trustees and Governors of the Asian Institute of Management; Chairman of MacroAsia Corp., Cityland Development Corp., Chairman of MacroAsia Corp., Cityland Development Corp., Lufthansa Technik Philippines, Inc., STEAG State Power, Inc. and State Properties Corporation; Independent Director of Asian Eye Institute, Belle Corporation, Lopez Holdings Corp., Commonwealth Foods, Inc., First Philippine Holdings, Corp., Highlands Prime Inc., Metro Pacific Investments Corp., Philippine Equity Management Inc., Philippine Hotelier, Inc., Philamlife, Inc., Realty Investment Inc., The PHINMA Group, State Land, Inc., and Century Properties Group Inc.; and Director of Philippine Airlines, Inc., PAL Holdings, Inc. and Philippine National Bank.

Lucio K. Tan, Jr. is a Director of the Company. He is also Director and President and Chief Executive Officer of Tanduay Distillers, Inc. and President of Eton Properties Philippines, Inc.; a Director/EVP of Fortune Tobacco Corp.; and a Director of AlliedBankers Insurance Corp., Philippine Airlines, Inc., Philippine National Bank, PAL Holdings, Inc., MacroAsia Corp., PMFTC Inc., Lucky Travel Corp., Air Philippines Corporation, Absolut Distillers, Inc., Asia Brewery, Inc., Foremost Farms, Inc., Himmel Industries, Inc., Progressive Farms, Inc., The Charter House, Inc., Grandspan Development Corporation, and Shareholdings, Inc. He graduated from the University of California, Davis in 1991 with a Bachelor of Science degree in Civil Engineering and has a Master's Degree in Business Administration from the Kellogg School of Management Northwestern University.

Wilfrido E. Sanchez is an Independent Director of the Company. He is the Tax Counsel of Quiason Makalintal Barot Torres Ibarra &Sison Law Offices; Vice Chairman of Center for Leadership & Change, Inc.; Independent Director of Adventure International Tours, Inc., Amon Trading Corp., EEI Corporation, Grepalife Asset Management Corp., Grepalife Fixed Income Fund Corp., House of Investments, Inc., JVR Foundation, Inc., Kawasaki Motor Corp., Magellan Capital Holdings, Corp., Omico Corporation; PETNET, Inc., PETPLANS, Inc., Transnational Diversified Corp., Transnational Diversified Group, Inc., Transnational Financial Services, Inc., and Universal Robina Corp.; Independent Director of Eton Properties Philippines, Inc. and Rizal Commercial Banking Corporation. He holds a Bachelor of Arts degree from the Ateneo de Manila University and has a Post-Graduate degree in Bachelor of Laws from Ateneo De Manila University and Masters of Law from Yale Law School.

Juanita Tan Lee is a Director and the Treasurer of the Company. She is also Director of Eton Properties Philippines, Inc.; Director/Corporate Secretary of Asia Brewery, Inc., Fortune Tobacco Corp., Corporate Secretary of Absolut Distillers, Inc., The Charter House, Inc., Foremost Farms, Inc., Grandspan Development Corp., Himmel Industries, Inc., Landcom Realty Corp., Lucky Travel Corp., PMFTC Inc., Progressive Farms, Inc., Tanduay Distillers, Inc.; and Assistant Corporate Secretary of Basic Holdings Corp. She holds a Bachelor of Science degree in Business Administration major in Accounting from the University of the East.

Florencia G. Tarriela is an Independent Director of the Company. She is the Chairman of the Board of Directors and an Independent Director of Philippine National Bank. She also serves as Chair of PNB Global Remittance and Financial Co., HK Ltd. She is a Trustee/Advisor/Director of Foundation for Filipino Entrepreneurship, Inc., Summer Institute of Linguistics, and Tulay sa Pagunlad, Inc.; and a Columnist of Manila Bulletin. She obtained her Bachelor of Science in Business Administration, Major in Economics, at the University of the Philippines and her Masters in Economics from the University of California, Los Angeles, where she topped the Masters Comprehensive Examination. She is a Life Sustaining Member of the Bankers Institute of the Philippines (BAIPHIL) and the Financial Executive Institute (Finex), a Trustee of Finex Foundation, TSPI Development Corporation, Kilosbayan and the Summer Institute of Linguistics (SIL). She was formerly an Independent Director of the Philippine Depository and Trust Corporation, the Philippine Dealing and Exchange Corporation and the Philippine Dealing System Holding Corporation. Ms. Tarriela was a former Undersecretary of Finance, and an alternate Member of the Monetary Board of the BSP, Land Bank of the Philippines and the Philippine Deposit Insurance Corporation. She was formerly Deputy Country Head, Managing Partner and the first Filipino lady Vice President of Citibank N. A., Philippine Branch.

Describe the Audit Committee's responsibility relative to the external auditor.

The Committee reviews the annual internal audit plan, at least one month before the conduct of the external audit, ensuring its conformity with the Company's objectives. The plan shall include the audit scope, resources and budget for implementation. Likewise, the Committee shall consider the independence and objectivity of the External Auditor, including reviewing the range of services provided in the context of all consulting services bought by the Company.

(c) Nomination and Compensation Committee

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee
Chairman	Lucio C. Tan	06/09/14	2	1	50	1 year
Member (ED)	Harry C. Tan	06/09/14	2	2	100	1 year
Member (NED)	Lucio K. Tan, Jr.	06/09/14	2	2	100	1 year
Member (ED)	Michael G. Tan	06/09/14	2	2	100	1 year
Member (ID)	Wilfrido E. Sanchez	06/09/14	2	2	100	1 year
Member (ED)	Juanita Tan Lee	06/09/14	2	1	50	9 years

(d) Corporate Governance Committee as of April 15, 2015

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee*
Chairman	Florencia G. Tarriela	06/23/2015	-	-	-	2 years
Member (NED)	Lucio K. Tan, Jr.	06/23/2015	-	-	-	2 years
Member (ED)	Michael G. Tan	06/23/2015	-	-	-	2 years
Member (ID)	Antonino L. Alindogan, Jr.	06/23/2015	-	-	-	2 years

Member (NED)	Joseph T. Chua	06/23/2015	-	-	-	1 year

3) Changes in Committee Members

Indicate any changes in committee membership that occurred during the year and the reason for the changes:

Not applicable

4) Work Done and Issues Addressed

Describe the work done by each committee and the significant issues addressed during the year.

Name of Committee	Work Done	Issues Addressed
Executive	Due to regular meetings of the Board of Directors that addressed the concerns of the Company, the Committee had no occasion to meet during the year.	N/A
Audit and Risk Management	Functions as prescribed in the Company's Corporate Governance Manual/Committee Charter	Audit concerns
Nomination	Functions as prescribed in the Company's By-Laws/Manual/Committee Charter	Nomination-related concerns prior to the ASM
Corporate Governance	The revisions of the Manual/Charters of the Committees	Charters/Manual revisions

5) Committee Program

Provide a list of programs that each committee plans to undertake to address relevant issues in the improvement or enforcement of effective governance for the coming year.

Name of Committee	Planned Programs	Issues to be Addressed
Executive	Continue to monitor the processes, and observance of good corporate governance thru proper and timely disclosures, transparency of decisions for the benefit of the stakeholders.	Strengthening key/core corporate governance principles.
Audit and Risk Management	Closer monitoring of the financial and operational programs of the subsidiaries, in order to scale up the businesses to ensure growth in the Company. Strict implementation of the policies to mitigate and insulate if possible from risk	Strengthening key/core corporate governance principles.
Nomination	Ensure proper review of the qualifications of the nominees particularly those that are being nominated to sensitive positions.	Strengthening key/core corporate governance principles.
Corporate Governance	Consistent and widespread exercise of the principles of good corporate governance .	Strengthening key/core corporate governance principles.

F. RISK MANAGEMENT SYSTEM

1) Disclose the following:

(a) Overall risk management philosophy of the company;

Close monitoring of the risk environment of the Company, inclusive of its subsidiaries, in order to provide direction for the activities that will mitigate, to an acceptable level, the risks that may adversely affect the Company's ability to achieve its goals.

(b) A statement that the directors have reviewed the effectiveness of the risk management system and commenting on the adequacy thereof;

In the Company's Audited Financial Statements for the year ended December 31, 2015, the following statement is included therein:

"Risk Management Strategies
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.

(c) Period covered by the review;

Year 2015.

(d) How often the risk management system is reviewed and the directors' criteria for assessing its effectiveness; and

Reviewed annually.

(e) Where no review was conducted during the year, an explanation why not.

Not applicable.

2) Risk Policy

(a) Company

Give a general description of the company's risk management policy, setting out and assessing the risk/s covered by the system (ranked according to priority), along with the objective behind the policy for each kind of risk:

Risk Exposure	Risk Management Policy	Objective
The Company is a holding company that depends on dividends and distributions from subsidiaries	The employment of competent and efficient people to operate the subsidiaries as well as the Company itself	Objective is to avoid business losses and reverses in the subsidiaries
	The investment in a diverse portfolio	The Company will avoid collapse with the crippling of one industry or sector

(b) Group

Give a general description of the Group's risk management policy, setting out and assessing the risk/s covered by the system (ranked according to priority), along with the objective behind the policy for each kind of risk:

Given that the Company is a conglomerate of matured companies who have been in business for more than thirty years, each of the subsidiaries have their respective risk management policies which differ and are formed, in accordance with the businesses that they cover. The financial institutions under the Group exercise more stringent policies and complies strictly with the rules and regulations of government regulators. The companies involved in manufacturing will have a different set of risks peculiar to its businesses and the development company likewise observes the highest standards in accordance with the business. The Company ensures that each of the subsidiaries are exercising the necessary controls to protect its business and its shareholders.

(c) Minority Shareholders

Indicate the principal risk of the exercise of controlling shareholders' voting power.

Risk to Minority Shareholders
No risks foreseen.

3) Control System Set Up

(a) Company

Briefly describe the control systems set up to assess, manage and control the main issue/s faced by the company:

The Company's Risk Management Committee has been merged with the existing Audit Committee and is referred to as the Audit and Risk Management Committee. The said Committee discusses the risks during its meetings before these are taken up in the Board.

Group

Briefly describe the control systems set up to assess, manage and control the main issue/s faced by the company:

As described in the Sec. 2 (b), each of the subsidiaries manage their respective risks. If there is an issue that will affect the Group, this is scaled up to the Committee before it is taken up to the Board.

(b) Committee

Identify the committee or any other body of corporate governance in charge of laying down and supervising these control mechanisms, and give details of its functions:

Committee/Unit	Control Mechanism	Details of its Functions
Audit and Risk Management Committee	Checks and reviews financial reports of the Company. Likewise causes the development of risk management strategies and monitor the proper implementation thereof	The Committee assists the Board in fulfilling its oversight responsibilities. It reviews the financial reporting process, system of internal control and management of financial risk, audit process, Company's process for monitoring compliance with laws and regulations and its own code of corporate governance. It also assists the Board in identifying potential risk exposures of the Company.

G. INTERNAL AUDIT AND CONTROL

1) Internal Control System

Disclose the following information pertaining to the internal control system of the company:

(a) Explain how the internal control system is defined for the company;

Each of the companies belonging to the conglomerate has its own internal audit department. Said audit departments monitors, assesses and evaluates efficiencies of operations and the financial condition of their respective companies. The Company as a conglomerate has its Audit Committee, which reviews, assesses and evaluates the work and performance of the respective internal audit departments of the companies belonging to the conglomerate.

(b) A statement that the directors have reviewed the effectiveness of the internal control system and whether they consider them effective and adequate;

The Board regularly expresses its satisfaction to the efficiency and sound operation of the internal control system during Board meetings with presentations of the Company's financials.

(c) Period covered by the review;

Year 2015.

(d) How often internal controls are reviewed and the directors' criteria for assessing the effectiveness of the internal control system; and

Quarterly.

(e) Where no review was conducted during the year, an explanation why not.

Not applicable.

2) Internal Audit

(a) Role, Scope and Internal Audit Function

Give a general description of the role, scope of internal audit work and other details of the internal audit function.

The Company's Audit Committee serves as its internal audit. The Company as a conglomerate rely on its Audit Committee to exercise the role of the internal auditors. The role and scope thereof have already been discussed in the portions herein on Board Committees.

(b) Do the appointment and/or removal of the Internal Auditor or the accounting /auditing firm or corporation to which the internal audit function is outsourced require the approval of the audit committee?

Not applicable since internal auditors are the concerns of the respective subsidiaries.

(c) Discuss the internal auditor's reporting relationship with the audit committee. Does the internal auditor have direct and unfettered access to the board of directors and the audit committee and to all records, properties and personnel?

The internal auditors are expected to report to their respective senior management for any findings or issues that affect the subsidiary. If the issues are of great proportions that will affect the conglomerate, these are scaled up to the Management of the Company and the Audit Committee.

(d) Resignation, Re-assignment and Reasons

Disclose any resignation/s or re-assignment of the internal audit staff (including those employed by the third-party auditing firm) and the reason/s for them.

No resignation/s or reassignment save for the expiration of term of Committee members that was reported earlier herein.

(e) Progress against Plans, Issues, Findings and Examination Trends

State the internal audit's progress against plans, significant issues, significant findings and examination trends.

Since the Audit Committee serves as the Company's Internal Audit, there is no internal audit plan inclusive of a timeline and milestones. The external auditor, at the start of the year discusses with the Committee the audit plans, issues and findings for the year past. It likewise advises the Committee on regulatory compliance required of the Company and the subsidiaries. The Committee meets quarterly to discuss, review and approve the financials of the Company as prepared by the Chief Financial Officer, or the external auditor, when so appropriate.

Progress Against Plans	**N/A**
Issues[5]	
Findings[6]	
Examination Trends	

[The relationship among progress, plans, issues and findings should be viewed as an internal control review cycle whicah involves the following step-by-step activities:

1) Preparation of an audit plan inclusive of a timeline and milestones;
2) Conduct of examination based on the plan;
3) Evaluation of the progress in the implementation of the plan;
4) Documentation of issues and findings as a result of the examination;
5) Determination of the pervasive issues and findings ("examination trends") based on single year result and/or year-to-year results;
6) Conduct of the foregoing procedures on a regular basis.]

(f) Audit Control Policies and Procedures

Disclose all internal audit controls, policies and procedures that have been established by the company and the result of an assessment as to whether the established controls, policies and procedures have been implemented under the column "Implementation."

Policies & Procedures	Implementation
Assist the Board in the performance of its oversight responsibility for the financial reporting process, system of internal control, audit process, and monitoring of compliance with applicable laws, rules and regulations.	In process
Establish through the audit system an independent monitoring and evaluation of the adequacy and effectiveness of the Company's internal control system, including financial reporting control and information technology security.	In process
Coordinate with legal personnel on the monitoring	In process

[5] "Issues" are compliance matters that arise from adopting different interpretations.
[6] "Findings" are those with concrete basis under the company's policies and rules.

and checking of compliance with laws, rules and regulations.	
Review and approve the annual and quarterly financial statements before their submission to the Board and to the regulatory agencies, with particular focus on the following matters: • Any changes in accounting policies and practices • Major judgmental areas • Significant adjustments resulting from the audit • Going concern assumptions • Compliance with accounting standards • Compliance with tax, legal and regulatory requirements • Completeness and clarity of the disclosures in the financial statements including related party transactions.	In process
Review of the adequacy of the Company's risk management processes and policies including Business Continuity Plan.	In process
Evaluate whether management is setting the appropriate "control culture" by communicating the importance of internal control and the management risk and ensuring that all employee have an understanding of their roles and responsibilities.	In process
Evaluate whether management is setting the appropriate "tone at the top" by communicating the importance of the code and the guidelines for acceptable behavior.	In process

(g) Mechanisms and Safeguards

State the mechanism established by the company to safeguard the independence of the auditors, financial analysts, investment banks and rating agencies (example, restrictions on trading in the company's shares and imposition of internal approval procedures for these transactions, limitation on the non-audit services that an external auditor may provide to the company):

Auditors (Internal and External)	**Financial Analysts**	**Investment Banks**	**Rating Agencies**
External Auditor The Audit Committee evaluates and determines the non-audit work, if there are any, of the External Auditor, and reviews periodically the non-audit fees paid to the External Auditor in relation to its significance to the total annual income of the External Auditor and to the Company's overall	Aside from the statutory regulations of the appropriate agencies, the Company has yet to establish a formal mechanism to safeguard the independence of financial analysts.	Aside from the statutory regulations of the appropriate agencies, the Company has yet to establish a formal mechanism to safeguard the independence of investment banks.	Aside from the statutory regulations of the appropriate agencies, the Company has yet to establish a formal mechanism to safeguard the independence of rating agencies.

consultancy expenses. The Committee disallows any non-audit work that will conflict with the duties of the External Auditor or may pose a threat to his/her independence. The non-audit work, if allowed, is disclosed in the Company's annual report.			

(h) State the officers (preferably the Chairman and the CEO) who will have to attest to the company's full compliance with the SEC Code of Corporate Governance. Such confirmation must state that all directors, officers and employees of the company have been given proper instruction on their respective duties as mandated by the Code and that internal mechanisms are in place to ensure that compliance.

The Chairman and the CEO will to attest to the Company's full compliance with the SEC Code of Corporate Governance. Such confirmation will state that all Directors, officers and employees of the Company have been given proper instruction on their respective duties as mandated by the Code of Corporate Governance and that internal mechanisms are in place to ensure that compliance.

H. ROLE OF STAKEHOLDERS

1) Disclose the company's policy and activities relative to the following:

	Policy	Activities
Customers' welfare	The Company through its subsidiaries hold their customer's in utmost highest esteem.	The subsidiaries see to it that customer's requests, complaints are served or taken cared of. They ensure that the customer transactions are not unduly delayed and they get or receive the value of their money.
Supplier/contractor selection practice	The Company as a conglomerate has no supplier/contractor for itself but the subsidiaries have their respective processes which are shared by the Company.	The Company ensures that the suppliers or contractors are chosen based on competency, qualification and quality of products. The Company ensures that they are paid correctly and on time.
Environmentally friendly value-chain	The Company seeks to help, in any way possible, in the protection and sustainability of the environment	Through its subsidiaries, the Company ensures environmentally friendly value-chain like using solar power for production and engaging in renewable energy.
Community interaction	This is highly encouraged.	Through the Group's foundation, the Company

		is involved in community interaction through building of schools, reforestation around the country, giving scholarships to thousands of students.
Anti-corruption programmes and procedures?	The business of the Company shall be governed by this standard: It shall act with *integrity* in all dealings and in the discharge of duties and responsibilities; the goal is to work hard and establish a *good reputation* as the cornerstone of its success.	The Company sees to it that its Management and Officers conduct their businesses with honesty and integrity.
Safeguarding creditors' rights	The Company highly protects the rights of its creditors	The creditors are treated with great respect and their rights are protected by paying its obligations on time.

2) Does the company have a separate corporate responsibility (CR) report/section or sustainability report/section?

Yes. The Company as a conglomerate exercises its various corporate social responsibility through the Tan Yan Kee Foundation. The Tan Yan Kee Foundation has its own newsletter and website that reports on the current status of its on-going projects and/or new projects.

3) Performance-enhancing mechanisms for employee participation.

(a) What are the company's policy for its employees' safety, health, and welfare?

The Company offers health care benefits covered by the health insurance provider of the Company.

(b) Show data relating to health, safety and welfare of its employees.

There have been no reported work-related accidents or health concerns in the Company.

(c) State the company's training and development programmes for its employees. Show the data.

Employees are sent to seminars and training programs where it is necessary to enhance their knowledge and to acquire new information.

(d) State the company's reward/compensation policy that accounts for the performance of the company beyond short-term financial measures

It is the policy of the Company to promote advancement among its employees for consistently exceeding expectations over two years. The Board grants performance bonus, when so warranted.

4) What are the company's procedures for handling complaints by employees concerning illegal (including corruption) and unethical behaviour? Explain how employees are protected from retaliation.

Employees may complain through key Officers in the Company. Management shall maintain the confidentiality of all concerns and complaints.

I. DISCLOSURE AND TRANSPARENCY

1) Ownership Structure

(a) Holding 5% shareholding or more

Shareholder	Number of Shares	Percent	Beneficial Owner
Tangent Holdings Corporation *11th Floor Unit 3 Bench Tower, 30th Street cor. Rizal Drive, Crescent Park West 5, Bonifacio Global City, Taguig City*	8,046,318,193 RECORD OWNER	74.36%	Lucio C. Tan

Name of Senior Management	Number of Direct shares	Number of Indirect shares (name of record owner)	% of Capital Stock
Lucio C. Tan	2,200	Nil	-
Michael G. Tan	1,100	Nil	-
Ma. Cecilia L. Pesayco	2,200	Nil	-
Jose Gabriel D. Olives	0	Nil	-
Nestor C. Mendones	0	Nil	-
TOTAL	**5,500**	Nil	**-**

2) Does the Annual Report disclose the following:

Key risks	YES
Corporate objectives	YES
Financial performance indicators	YES
Non-financial performance indicators	YES
Dividend policy	YES
Details of whistle-blowing policy	YES
Biographical details (at least age, qualifications, date of first appointment, relevant experience, and any other directorships of listed companies) of directors/commissioners	YES
Training and/or continuing education programme attended by each director/commissioner	YES
Number of board of directors/commissioners meetings held during the year	NO**
Attendance details of each director/commissioner in respect of meetings held	NO**
Details of remuneration of the CEO and each member of the board of directors/commissioners	YES

Should the Annual Report not disclose any of the above, please indicate the reason for the non-disclosure.

**** Certain subsidiaries have formal Whistle-blowing Policy, such as the Bank.***

***** The number of board of directors' meetings held during the year, as well as the attendance details of each director, are disclosed in an advisement letter submitted to the Commission on or before January 5th of every year.***

3) External Auditor's fee

Name of auditor	Audit Fee	Non-audit Fee
SGV & Co.	**PhP 1,500,000**	**PhP 1,200,000**

4) Medium of Communication

List down the mode/s of communication that the company is using for disseminating information.

Since the Company is a publicly-listed company, all information shall be disseminated through the disclosure channels of the Philippine Stock Exchange. Shareholders may also get in touch with the Office of the Corporate Secretary for necessary relevant documents.

Likewise, the Company has an Investor Relations Officer whose contact details are available in the Company website.

5) Date of release of audited financial report:

The audited financial statements of the Company are filed on or before April 15 of each year.

6) Company Website

Does the company have a website disclosing up-to-date information about the following?

Business operations	**YES**
Financial statements/reports (current and prior years)	**YES**
Materials provided in briefings to analysts and media	**YES**
Shareholding structure	**NO**
Group corporate structure	**YES**
Downloadable annual report	**YES**
Notice of AGM and/or EGM	**YES**
Company's constitution (company's by-laws, memorandum and articles of association)	**YES**

Should any of the foregoing information be not disclosed, please indicate the reason thereto.

Shareholding structure is available upon request from the Office of the Corporate Secretary.

7) **Disclosure of RPT**

As a conglomerate the Company is compelled to source or acquire some of its supplies from the subsidiaries. Moreover, since the businesses under the conglomerate is diverse, it is normally more convenient, expeditions and logical to deal with the subsidiaries.

The Company is ensured against the risk of materials shortages and unfair pricing. In addition, there is better coordination with suppliers on quality, production scheduling and pricing consideration. In addition, transactions with related parties have a stronger basis for trust and confidence in meeting material deadlines.

In the normal course of business, the Company and subsidiaries transacts with the following related parties for the purposes set forth below:

Asia Brewery Inc.	***Supplier of Bottles/Royalty Fees***
Eton Properties Philippines, Inc.	***Investment Properties***
Philippine National Bank	***Deposits/ Investments/Loans/Services***
Victorias Milling Co., Inc.	***Supplier of Sugar and Molasses***

Transactions with these related parties are necessary in the normal course of the Company's business. Though substantial in amount, they are still under normal trade practice. There are no special risks or contingencies arising from said transactions. In transacting with related parties, the prices are based on terms that are no less favorable than those arranged with third parties. In addition, since the Company adheres to industry standards and practices, the transactions have been fairly evaluated and no long term contracts have been entered into.

There are no long term suppliers contracts. The Company can source any material from third-party suppliers should this be more favorable to the Company. There are no parties that fall outside the definition "related parties" with whom the Company or any of its related parties has a relationship that enables the parties to negotiate terms of material transactions that may not be available from other more clearly independent parties on an arm's length basis.

J. RIGHTS OF STOCKHOLDERS

1) Right to participate effectively in and vote in Annual/Special Stockholders' Meetings

(a) Quorum

Give details on the quorum required to convene the Annual/Special Stockholders' Meeting as set forth in its By-laws.

Quorum Required	According to the By-Laws, at the meeting of the Company, the stockholders holding or representing a majority of the subscribed capital stock of the Company, shall constitute a quorum for the transaction of business at such stockholders' meeting and every decision of a majority of said stockholder holding a majority of the subscribed capital stock, duly assembled at said meeting, unless otherwise provided by law, shall be valid as an act at such meeting.

(b) System Used to Approve Corporate Acts

Explain the system used to approve corporate acts.

System Used	At a Shareholders' Meeting, shareholders present vote to approve corporate acts of the Board of Directors and Management during the previous year.
Description	At all corporate meetings, each shareholder, either in person or proxy, shall be entitled to as many votes as he/she owns shares of stocks.

(c) Stockholders' Rights

List any Stockholders' Rights concerning Annual/Special Stockholders' Meeting that differ from those laid down in the Corporation Code.

There are no stockholders' rights concerning the Annual/Special Stockholder' Meeting which differ from those rights laid down in the Corporation Code.

Stockholders' Rights under The Corporation Code	Stockholders' Rights not in The Corporation Code
N/A	

Dividends

Declaration Date	Record Date	Payment Date
May 12, 2015	May 27, 2015	June 10, 2015

(d) Stockholders' Participation

1. State, if any, the measures adopted to promote stockholder participation in the Annual/Special Stockholders' Meeting, including the procedure on how stockholders and other parties interested may communicate directly with the Chairman of the Board, individual directors or board committees. Include in the discussion the steps the Board has taken to solicit and understand the views of the stockholders as well as procedures for putting forward proposals at stockholders' meetings.

Measures Adopted	**Communication Procedure**
Shareholders present during a Stockholders' Meeting may ask questions directed to the Board and Key Officers.	There is no formal procedure for this.

2. State the company policy of asking shareholders to actively participate in corporate decisions regarding:
   a. Amendments to the company's constitution
   b. Authorization of additional shares
   c. Transfer of all or substantially all assets, which in effect results in the sale of the company

   The corporate acts enumerated above all need stockholders' approval or ratification. These acts only need a majority vote of stockholders during a meeting with quorum present, except for item a, which needs the affirmative vote of stockholders representing at least two-thirds (2/3) of the subscribed capital stock of the Company.

3. Does the company observe a minimum of 21 business days for giving out of notices to the AGM where items to be resolved by shareholders are taken up?

   Yes, written notice of any annual or special stockholders' meeting are sent to all stockholders of record at least (21) twenty one business days prior to the date of the meeting notwithstanding that the Company's By-Laws and the requirements of the Securities and Regulation Code and the New Disclosure Rules of the Philippine Stock Exchange required only fifteen (15) days.

   a. Date of sending out notices: ***May 23, 2016***

   b. Date of the Annual/Special Stockholders' Meeting: ***June 21, 2016***

4. State, if any, questions and answers during the Annual/Special Stockholders' Meeting.

   There were no questions raised during the last Shareholders' Meeting.

5. Result of Annual/Special Stockholders' Meeting's Resolutions ***(June 23, 2015 ASM)***

Resolution	Approving	Dissenting	Abstaining
Notation and Approval of the Management Report as reflected in the Company's Annual Report	9,396,950,213 shares	None	None
Ratification of all acts, transactions and resolutions of the	9,396,950,213 shares	None	None

Company for the year 2014			

6. Date of publishing of the result of the votes taken during the most recent AGM for all resolutions:

June 24, 2015 via the Philippine Stock Exchange's Online Disclosure System.

(e) Modifications

State, if any, the modifications made in the Annual/Special Stockholders' Meeting regulations during the most recent year and the reason for such modification:

There were no modifications made in the Annual/Special Stockholders' Meeting regulations during the most recent year.

(f) Stockholders' Attendance

(i) Details of Attendance in the Annual/Special Stockholders' Meeting Held:

Type of Meeting	Names of Board members / Officers present	Date of Meeting	Voting Procedure (by poll, show of hands, etc.)	% of SH Attending in Person	% of SH in Proxy	Total % of SH attendance
Annual	Harry C. Tan Lucio K. Tan, Jr. Michael G. Tan Joseph T. Chua Juanita Tan Lee Peter Y. Ong Antonino L. Alindogan, Jr. Wilfrido E. Sanchez	06/23/15	Instructions received through proxies received by the Corporate Secretary	0.00%	86.84%	86.84%

(ii) Does the company appoint an independent party (inspectors) to count and/or validate the votes at the ASM/SSMs?

The counting of votes shall be conducted by the Corporate Secretary (or his/her duly authorized representative) to be assisted by the Corporation's independent accountant or by the representatives of SGV & Co.

(iii) Do the company's common shares carry one vote for one share? If not, disclose and give reasons for any divergence to this standard. Where the company has more than one class of shares, describe the voting rights attached to each class of shares.

Yes. For the election of directors, The stockholder may vote such number of shares for as many persons as there are directors to be elected, or he may cumulate said shares and give one candidate as many votes as the number of directors to be elected, or he may distribute them on the same principle among as many candidates as he shall see fit; provided the total number of votes cast by him shall not exceed the number of shares owned by him multiplied by the number of directors to be elected.

(g) Proxy Voting Policies

State the policies followed by the company regarding proxy voting in the Annual/Special Stockholders' Meeting.

	Company's Policies
Execution and acceptance of proxies	Shall be in writing and filed with the Corporate Secretary at least three (3) business days prior to the meeting
Notary	Not required
Submission of Proxy	Submitted to the Corporate Secretary at least three (3) business days prior to the meeting
Several Proxies	Principal stockholder shall be consulted in case of conflicting proxies
Validity of Proxy	Proxies are valid only for the stockholders meeting it was issued.
Proxies executed abroad	Consular validation is required.
Invalidated Proxy	This will not be accepted
Validation of Proxy	To be done after the close of business hours of the last day for the submission of proxies
Violation of Proxy	The proxy will not be honored.

(h) Sending of Notices

State the company's policies and procedure on the sending of notices of Annual/Special Stockholders' Meeting.

Policies	Procedure
Notices of Meeting shall be sent in accordance with the rules and regulations issued by the Commission	Notices will be sent to the list of stockholders as of record date, as prepared by the Company's stock transfer agent.

(i) Definitive Information Statements and Management Report (June 23, 2015 ASM)

Number of Stockholders entitled to receive Definitive Information Statements and Management Report and Other Materials	All stockholders as of May 25, 2015 totaling 10,821,388,889
Date of Actual Distribution of Definitive Information Statement and Management Report and Other Materials held by market participants/certain beneficial owners	May 27, 2015
Date of Actual Distribution of Definitive Information Statement and Management Report and Other Materials held by stockholders	May 27, 2015
State whether CD format or hard copies were distributed	Hard copies were distributed.
If yes, indicate whether requesting stockholders were provided hard copies	N/A

(j) Does the Notice of Annual/Special Stockholders' Meeting include the following:

Each resolution to be taken up deals with only one item.	YES

Profiles of directors (at least age, qualification, date of first appointment, experience, and directorships in other listed companies) nominated for election/re-election.	YES
The auditors to be appointed or re-appointed.	YES
An explanation of the dividend policy, if any dividend is to be declared.	YES
The amount payable for final dividends.	YES
Documents required for proxy vote.	YES

Should any of the foregoing information be not disclosed, please indicate the reason thereto.

2) Treatment of Minority Stockholders

(a) State the company's policies with respect to the treatment of minority stockholders.

Policies	Implementation
The Board is committed to respect the rights of the minority stockholders	Strict implementation is enjoined

(b) Do minority stockholders have a right to nominate candidates for board of directors?

Yes, in accordance with the provisions of the By-Laws and the Revised Corporate Governance Manual.

K. INVESTORS RELATIONS PROGRAM

1) Discuss the company's external and internal communications policies and how frequently they are reviewed. Disclose who reviews and approves major company announcements. Identify the committee with this responsibility, if it has been assigned to a committee.

The Company has an investor relations officer who is responsible for the external communications to the investors and stockholders of the Company. Their office has drawn a communication program to benefit the investors and stockholders.

2) Describe the company's investor relations program including its communications strategy to promote effective communication with its stockholders, other stakeholders and the public in general. Disclose the contact details (e.g. telephone, fax and email) of the officer responsible for investor relations.

	Details
(1) Objectives	**To disseminate necessary corporate information to promote greater understanding of the Company as well as to build strong relationships with Company investors**
(2) Principles	**To provide the stockholders, other stakeholders, investors and the public with accurate corporate information about the Company**
(3) Modes of Communications	**The Company conducts regular meetings with investors and analysts to keep them updated on developments with the Company and its subsidiaries. The Company also arranges teleconferences and site visits and participates in non-deal road shows and conferences in various locations, and also communicates through emails and telephone calls.**

	In 2015, the Company's investor relations group attended nine (9) conferences and a non-deal roadshow with different brokers in Manila (3), Singapore (3), Hong Kong (1), London (1) and New York (1) during these conferences and roadshow the group had 176 meetings; conducted four (4) analyst briefings for full year 2014 results, 1Q, 2Q, and 3Q results; and had forty-two (42) one-on-one meetings and eighteen (18) conference calls with several funds; twenty six (26) local and foreign funds visited plant facilities of Asia Brewery and Tanduay Distillers; and conducted four (4) analyst briefings for full year 2014 results, 1Q, 2Q, and 3Q 2015.
(4) Investors Relations Officer	**The Company welcomes inquiries from institutional investors, analysts and the financial community:** **Ms. Annabelle Arceo** **Telephone No. +632 478 8559** **Email: ir@ltg.com.ph or annabelle.arceo@ltg.com.ph**

3) What are the company's rules and procedures governing the acquisition of corporate control in the capital markets, and extraordinary transactions such as mergers, and sales of substantial portions of corporate assets?

With respect to acquisition of corporate control in the capital markets, as well as extraordinary transactions such as mergers, and sales of substantial portions of corporate assets, the Company acts in accordance with the relevant provisions in the Corporation Code.

Name of the independent party the board of directors of the company appointed to evaluate the fairness of the transaction price.

Currently, there is none.

L. **CORPORATE SOCIAL RESPONSIBILITY INITIATIVES**

Discuss any initiative undertaken or proposed to be undertaken by the company.

The Company as a conglomerate exercises its various corporate social responsibility through the Tan Yan Kee Foundation. The Tan Yan Kee Foundation has its own newsletter and website that reports on the current status of its on-going projects and/or new projects.

Initiative	Beneficiary
A subsidiary, Tanduay Distillers, Inc. has partnered with the Tan Yan Kee Foundation, Inc. (TYKFI) for a mangrove rehabilitation project dubbed as "Roots for Boracay."	Boracay Mangroves
The Company is constantly searching for opportunities that will spark initiatives that may be undertaken with subsidiaries or able partners, which will greatly benefit particular sectors of society. The group's TYKFI focuses on four particular areas: education, health, social welfare and the environment.	Education: scholarships for elementary up to doctorate levels; adopt-a-school program, providing classrooms and school supplies, teacher training in partnership with the Foundation for Upgrading the Standard of Education, Inc. (FUSE), among others. Health: The TYKFI and the Association of Asia Brewery Medical Specialty Scholars (AABMSS) hold a medical forum designed for laymen. The forum provides people with a venue to learn about the latest medical issues, trends, and available treatment options.

	Social welfare: rehabilitation project for the super typhoon Yolanda victims and typhoon Lando, HOPE Caravan provides relief goods to calamity victims, among others. Environment: Legacy Forest Project; mangrove rehabilitation in Boracay, among others.

M. BOARD, DIRECTOR, COMMITTEE AND CEO APPRAISAL

Disclose the process followed and criteria used in assessing the annual performance of the board and its committees, individual director, and the CEO/President.

	Process	Criteria
Board of Directors	Board Assessment	General responsibility of the Board to its stakeholders and the investing public
Board Committees	Performance Assessment	The appropriate governance of the Company through its Committees.
Individual Directors	Self-Assessment	Vis-à-vis the duties and responsibilities set forth in the Company By-Laws and Corporate Governance Manual.
CEO/President	Performance Assessment	The sound business operations of the Company

N. INTERNAL BREACHES AND SANCTIONS

Discuss the internal policies on sanctions imposed for any violation or breach of the corporate governance manual involving directors, officers, management and employees

The Compliance Officer shall monitor and evaluate cases on noncompliance with the Manual. Upon proper notice and hearing, the Compliance Officer shall recommend to the Chairman of the Board the imposable penalty for such violation if any, and for further review and approval of the Board members.

The penalties prescribed hereunder shall be imposed:

- ***First offense, reprimand.***
- ***Second offense, suspended. The duration of suspension shall depend on the gravity of the violation.***
- ***Third offense, recommended for termination from office.***

Pursuant to the requirement of the Securities and Exchange Commission, this Annual Corporate Governance Report is signed on behalf of the registrant by the undersigned, thereunto duly authorized, in the City of Manila on 08 April 2016.

SIGNATURES

MICHAEL G. TAN
President/Chief Operating Officer

MA. CECILIA L. PESAYCO
Compliance Officer

ANTONINO L. ALINDOGAN, JR.
Independent Director

WILFRIDO E. SANCHEZ
Independent Director

APR 13 2016 Makati City

SUBSCRIBED AND SWORN to before me this ____ day of April 2016, affiants exhibiting to me their competent evidence of identification, as follows:

NAME	PASSPORT NO.	DATE OF ISSUE/PLACE OF ISSUE
Michael G. Tan	EC0229876	February 6, 2014/DFA Manila, Philippines
Antonino L. Alindogan, Jr.	EB7378497	February 13, 2013/DFA Manila, Philippines
Wilfrido E. Sanchez	EB2495410	May 19, 2011/DFA Manila, Philippines
Ma. Cecilia L. Pesayco	EB4720800	February 16, 2012/DFA Manila, Philippines

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Page No. 69 ;
Book No. III ;
Series of 2016.

SHERLEEN LOURDS R. MACATANGAY
Notary Public until 31 December 2016
19th/F BDO Plaza, 8737 Paseo de Roxas, Makati City
PTR No. 5321906, Makati City, 05 January 2016
IBP No. 1018163, Makati City, 05 January 2016
Roll No. 63799, Commission No. M-18