COVER SHEET

SEC Registration Number

P	W	-	0	0	0	0	0	3	4	3

Company Name

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

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

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

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

COMPANY INFORMATION

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

No. of Stockholders	Annual Meeting Month/Day	Fiscal Year Month/Day
373	June/20	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: In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended March 31, 2017

2. SEC Identification Number PW-343

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

4. Exact name of registrant as specified in its charter LT GROUP, INC.

5. Province, country or other jurisdiction of incorporation or organization Philippines

6. Industry Classification Code: (SEC Use Only)

7. Address of registrant's principal office Postal Code
11/F Unit 3 Bench Tower, 30th St. Corner Rizal drive
Crescent Park West 5 Bonifacio Global City Taguig City 1634

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

9. Former name, former address, and former fiscal year, if changed since last report.

N/A

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

Title of Each Class	Number of Shares of common stock Outstanding and Amount of Debt Outstanding
Common shares, ₱1.00 par value	10,821,388,889

11. Are any or all of the securities listed on the Philippine Stock Exchange?

Yes [/] No [ ]

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed pursuant to Section 17 of the Securities Regulation Code (SRC) and Section 26 and 141 of the Corporation Code of the Philippines, during the preceding 12 months (or for such shorter period the registrant was required to file such reports)

Yes [/] No [ ]

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

Yes [/] No [ ]

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

The unaudited interim condensed financial statements of LT Group, Inc. (the Company) and its subsidiaries as of and for the period ended March 31, 2017 (with comparative figures as of December 31, 2016 and for the period March 31, 2016) are filed as part of this form 17-Q as Annex "A".

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

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

PART II – OTHER INFORMATION

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

SIGNATURES

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

NESTOR C. MENDONES
Deputy CFO
May 12, 2017

JOSE GABRIEL D. OLIVES
Chief Finance Officer
May 12, 2017

Annex “A”

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

Interim Condensed Consolidated Financial Statements
As at March 31, 2017 and December 31, 2016
And for the Three Months Ended
March 31, 2017 and 2016

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

Interim Consolidated Financial Statements
As of March 31, 2017 and December 31, 2016
and for the three months ended March 31, 2017 and 2016

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

INTERIM CONSOLIDATED BALANCE SHEETS
(Amounts in Thousands)

	March 31, 2017 (Unaudited)	December 31, 2016 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	**₱194,112,704**	₱174,676,789
Financial assets at fair value through profit or loss (Notes 5 and 19)	**4,511,022**	6,441,511
Available-for-sale (AFS) investments (Note 6)	**4,909,385**	8,473,221
Loans and receivables (Note 7)	**200,387,471**	189,812,938
Due from related parties (Note 20)	**1,839,623**	1,922,467
Inventories (Note 8)	**13,847,472**	12,849,799
Other current assets (Note 9)	**12,124,210**	10,600,399
Total Current Assets	**431,731,887**	404,777,124
Noncurrent Assets		
Loans and receivables - net of current portion (Note 7)	**243,728,368**	248,621,351
AFS investments (Note 6)	**69,620,124**	60,128,678
Held-to-maturity (HTM) investments	**24,433,827**	24,102,594
Investment in associates and joint ventures (Note 10)	**16,912,487**	16,817,351
Property, plant and equipment (Note 11):		
At appraised values	**36,132,481**	36,104,048
At cost	**5,572,750**	5,170,574
Investment properties (Note 11)	**28,038,742**	28,217,373
Deferred income tax assets (Note 27)	**1,261,639**	1,424,159
Other noncurrent assets (Note 12)	**4,260,297**	3,727,772
Total Noncurrent Assets	**429,960,715**	424,313,900
TOTAL ASSETS	**₱861,692,602**	₱829,091,024
LIABILITIES AND EQUITY		
Current Liabilities		
Short-term debts (Note 17)	**₱1,400,000**	₱1,750,000
Deposit liabilities (Note 13)	**548,274,941**	515,554,099
Financial liabilities at fair value through profit or loss (Notes 14 and 19)	**180,935**	232,832
Bills and acceptances payable (Note 15)	**36,429,508**	25,068,268
Accounts payable and accrued expenses (Note 16)	**23,873,041**	17,291,277
Income tax payable	**573,025**	282,025
Due to related parties (Note 20)	**56,842**	57,054
Current portion of long-term debts (Note 17)	**466,946**	466,946
Other current liabilities (Note 18)	**17,844,023**	17,364,001
Total Current Liabilities (Carried Forward)	**629,099,261**	578,066,502

	March 31, 2017 (Unaudited)	December 31, 2016 (Audited)
Total Current Liabilities (Brought Forward)	**₱629,099,261**	₱578,066,502
Noncurrent Liabilities		
Deposit liabilities - net of current portion (Note 13)	**32,501,575**	45,866,133
Financial liabilities at fair value through profit or loss (Notes 14 and 19)	**210,171**	–
Bills and acceptances payable (Note 15)	**5,007,224**	10,817,679
Long-term debts - net of current portion (Note 17)	**4,986,498**	5,101,801
Accrued retirement benefits (Note 21)	**3,779,780**	3,899,342
Deferred income tax liabilities (Note 27)	**1,297,687**	1,323,121
Other noncurrent liabilities (Note 18)	**4,580,624**	5,411,870
Total Noncurrent Liabilities	**52,363,559**	72,419,946
Total Liabilities	**681,462,820**	650,486,448
Equity		
Attributable to equity holders of the Company (Notes 1 and 28):		
Capital stock	**10,821,389**	10,821,389
Capital in excess of par	**35,906,231**	35,906,231
Preferred shares of subsidiaries issued to Parent Company	**18,060,000**	18,060,000
Other equity reserves	**804,095**	804,095
Other comprehensive income, net of deferred income tax effect	**2,121,272**	1,878,006
Retained earnings	**69,199,153**	68,640,783
Shares of the Company held by subsidiaries	**(12,519)**	(12,519)
	136,899,621	136,097,985
Non-controlling interests (Notes 1 and 28)	**43,330,161**	42,506,591
Total Equity	**180,229,782**	178,604,576
TOTAL LIABILITIES AND EQUITY	**₱861,692,602**	₱829,091,024

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

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

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

	Three Months Ended March 31	
	2017 (Unaudited)	2016 (Unaudited)
REVENUE (Note 22)		
Banking	**₱7,503,442**	₱7,155,363
Beverage	**2,864,169**	2,709,666
Distilled spirits	**4,224,574**	3,089,085
Property development	**535,096**	654,403
	15,127,281	13,608,517
COST OF SALES AND SERVICES (Note 22)	**7,092,620**	5,810,574
GROSS INCOME	**8,034,661**	7,797,943
EQUITY IN NET EARNINGS OF ASSOCIATES (Note 10)	**997,892**	1,006,838
	9,032,553	8,804,781
OPERATING EXPENSES		
Selling expenses (Note 23)	**695,719**	499,152
General and administrative expenses (Note 24)	**5,959,475**	5,761,426
	6,655,194	6,260,578
OPERATING INCOME	**2,377,359**	2,544,203
OTHER INCOME (CHARGES)		
Finance costs (Note 25)	**(70,631)**	(90,376)
Finance income (Note 25)	**23,904**	13,055
Foreign exchange gains - net	**407,592**	399,567
Others - net (Note 26)	**716,180**	1,229,731
	1,077,045	1,551,977
INCOME BEFORE INCOME TAX	**3,454,404**	4,096,180
PROVISION FOR INCOME TAX (Note 27)		
Current	**639,899**	1,294,202
Deferred	**(7,228)**	(46,109)
	632,671	1,248,093
NET INCOME FROM CONTINUING OPERATIONS	**2,821,733**	2,848,087
NET INCOME FROM DISCONTINUED OPERATIONS	**–**	(33,868)
NET INCOME	**₱2,821,733**	₱2,814,219
NET INCOME ATTRIBUTABLE TO:		
Equity holders of the Company	**₱2,245,057**	₱2,228,613
Non-controlling interests	**576,676**	585,606
	₱2,821,733	₱2,814,219
Basic/Diluted Earnings Per Share (Note 29)	**₱0.21**	₱0.21

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

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

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in Thousands)

	Three Months Ended March 31	
	2017 (Unaudited)	2016 (Unaudited)
NET INCOME	**₱2,821,733**	₱2,814,219
OTHER COMPREHENSIVE INCOME (LOSS)		
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:		
Accumulated translation adjustment	**(65,830)**	(467,640)
Net changes in fair value of AFS financial assets, net of deferred income tax effect	**817,153**	1,035,466
	751,323	567,826
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:		
Re-measurement gains (losses) on defined benefit plans, net of deferred income tax effect	**–**	61,859
	–	61,859
OTHER COMPREHENSIVE INCOME -		
Net of income tax effect	**751,323**	629,685
TOTAL COMPREHENSIVE INCOME	**₱3,573,056**	₱3,443,904
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:		
Equity holders of the Company	**₱2,749,486**	₱2,227,834
Non-controlling interests	**823,570**	1,216,070
	₱3,573,056	₱3,443,904

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

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

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016
(Amounts in Thousands)

	Attributable to Equity Holders of the Company (Notes 1 and 28)											
	Capital Stock	Capital in Excess of Par	Deposit for Future Stock Subscription	Preferred shares of Subsidiaries Issued to Parent Company	Other Equity Reserves	Reserves of Disposal Group Classified as Held for Sale	Other Comprehensive Income (Loss), Net of Deferred Income Tax Effect	Retained Earnings	Shares of the Company Held by Subsidiaries	Total	Non-controlling Interests (Notes 1 and 28)	Total
BALANCES AT DECEMBER 31, 2015	**₱10,821,389**	**₱35,906,231**	**₱–**	**₱18,060,000**	**₱804,095**	**₱335,000**	**₱3,116,572**	**₱59,855,195**	**(₱22,464)**	**₱128,876,018**	**₱40,882,077**	**₱169,758,095**
Net income for the period	–	–	–	–	–	–	–	**2,228,613**	–	**2,228,613**	**585,606**	**2,814,219**
Other comprehensive income	–	–	–	–	–	–	**(779)**	–	–	**(779)**	**630,464**	**629,685**
Total comprehensive income for the period	–	–	–	–	–	–	**(779)**	**2,228,613**	–	**2,227,834**	**1,216,070**	**3,443,904**
Reserves disposal group classified as held for sale	–	–	–	–	–	**19,734**	**(19,734)**	–	–	–	–	–
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	–	–	–	–	–	–	**(264,283)**	**264,283**	–	–	–	–
BALANCES AT MARCH 31, 2016	**₱10,821,389**	**₱ 35,906,231**	**₱–**	**₱18,060,000**	**₱804,095**	**₱354,734**	**₱ 2,831,776**	**₱62,348,091**	**(₱22,464)**	**₱131,103,852**	**₱42,098,147**	**₱173,201,999**
BALANCES AT DECEMBER 31, 2016	**₱10,821,389**	**₱35,906,231**	**₱–**	**₱18,060,000**	**₱804,095**	**₱–**	**₱1,878,006**	**₱68,640,783**	**(₱12,519)**	**₱136,097,985**	**₱42,506,591**	**₱178,604,576**
Net income for the period	–	–	–	–	–	–	–	**2,245,057**	–	**2,245,057**	**576,676**	**2,821,733**
Other comprehensive income	–	–	–	–	–	–	**504,429**	–	–	**504,429**	**246,894**	**751,323**
Total comprehensive income for the period	–	–	–	–	–	–	**504,429**	**2,245,057**	–	**2,749,486**	**823,570**	**3,573,056**
Reserves disposal group classified as held for sale	–	–	–	–	–	–	–	–	–	–	–	–
Dividends declared	–	–	–	–	–	–	–	**(1,947,850)**	–	**(1,947,850)**	–	**(1,947,850)**
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	–	–	–	–	–	–	**(261,163)**	**261,163**	–	–	–	–
BALANCES AT MARCH 31, 2017	**₱10,821,389**	**₱ 35,906,231**	**₱–**	**₱18,060,000**	**₱804,095**	**₱–**	**₱2,121,272**	**₱69,199,153**	**(₱12,519)**	**₱136,899,621**	**₱43,330,161**	**₱180,229,782**

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

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

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

	Three Months Ended March 31	
	2017 (Unaudited)	2016 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax from continuing operations	**₱3,454,404**	₱3,956,392
Income before income tax from discontinued operations	**–**	48,479
Income before income tax	**3,454,404**	₱4,004,871
Adjustments for:		
Depreciation and amortization	**905,869**	869,222
Provision for losses	**94,112**	–
Loss (gain) on disposal of other assets (Note 26)	**101,539**	198,412
Equity in net earnings of associates (Note 10)	**(997,892)**	(1,008,513)
Finance costs (Note 25)	**70,631**	90,376
Movements in accrued retirement benefits (Note 21)	**(121,150)**	(73,971)
Finance income (Note 25)	**(23,904)**	(13,055)
Operating income before changes in working capital	**3,483,609**	4,067,342
Decrease (increase) in:		
Financial assets at fair value through profit or loss	**1,930,489**	2,996,448
Receivables	**(5,692,818)**	2,202,134
Inventories	**(997,673)**	(326,906)
Other assets	**(2,310,928)**	255,351
Increase (decrease) in:		
Deposit liabilities	**19,356,284**	14,243,510
Financial liabilities at fair value through profit or loss	**158,274**	323,191
Accounts payable and accrued expenses	**6,909,653**	(796,453)
Other liabilities	**(413,547)**	(400,345)
Cash generated from operations	**22,423,343**	22,564,272
Dividends received	**905,294**	618,263
Interest received	**23,904**	54,178
Income taxes paid, including creditable withholding and final taxes	**(632,671)**	(1,132,411)
Net cash from operating activities	**22,719,870**	22,104,302
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of:		
AFS investments (Note 6)	**(5,429,223)**	(34,058,861)
Property, plant and equipment (Note 11)	**(923,211)**	(896,919)
Investment properties (Note 11)	**–**	(151,191)
Held to maturity investments	**(331,233)**	–
Other assets	**–**	(1,652,101)
Proceeds from sale of:		
AFS investments (Note 6)	**–**	32,696,493
Other assets (Note 11)	**178,630**	1,136,434
Investment properties (Note 11)	**162,520**	–
Proceeds from held to maturity investments	**–**	142,880
Net cash used in investing activities	**(6,342,517)**	(2,783,265)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from bill and acceptance payable	**5,550,785**	2,690,021
Payments of:		
Long-term debts (Note 17)	**(465,303)**	(135,318)
Due to affiliates (Note 20)	**(212)**	(5,828)
Finance cost	**(70,631)**	(102,913)
Dividends paid	**(1,956,077)**	–
Net cash generated from financing activities	**3,058,562**	2,445,962
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**19,435,915**	21,766,999
NET MOVEMENT IN CASH IN DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE	**–**	(52,725)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**174,676,789**	137,556,341
CASH AND CASH EQUIVALENTS AT END OF PERIOD (Note 4)	**₱194,112,704**	₱159,270,615

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

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

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

1. Corporate Information

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

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

As of March 31, 2017, and December 31, 2016, LTG is 74.36%-owned by its ultimate parent company, Tangent, which is also incorporated in the Philippines.

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

2. Summary of Significant Accounting and Financial Reporting Policies

<u>Basis of Preparation</u>
The interim condensed consolidated financial statements have been prepared under the historical cost basis, except for financial assets and liabilities at fair value through profit or loss (FVPL), AFS financial assets, land and land improvements, plant buildings and building improvements, and machineries and equipment that have been measured at fair value. The interim condensed consolidated financial statements are presented in Philippine peso (Peso), the functional currency of LTG. All values are rounded to the nearest Thousands, except when otherwise indicated.

The interim condensed consolidated financial statements of LTG have been prepared in accordance with Philippine Accounting Standards (PAS) 34, *Interim Financial Reporting*. The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's December 31, 2016 annual consolidated financial statements.

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

Basis of Consolidation

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

	Percentage of Ownership						
	March 31, 2017		December 31, 2016		March 31, 2016		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							
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	–	99.9	Philippines
Asia Pacific Beverage Pte Ltd [(3)]	**–**	**99.9**	–	99.9	–	99.9	Singapore
Asia Pacific Beverages Myanmar Company Limited	**–**	**90.0**	–	90.0	–	–	Myanmar
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**	–	99.6	–	99.3	Philippines
Belton Communities, Inc. (BCI)	**–**	**99.6**	–	99.6	–	99.3	Philippines
Eton City, Inc. (ECI)	**–**	**99.6**	–	99.6	–	99.3	Philippines
FirstHomes, Inc. (FHI)	**–**	**99.6**	–	99.6	–	99.3	Philippines
Eton Properties Management Corporation (EPMC)	**–**	**99.6**	–	99.6	–	99.3	Philippines
Banking							
Bank Holding Companies (Note 22) [(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. (PNB RCI)	**–**	**56.5**	–	56.5	–	56.5	USA
PNB RCI Holding Co. Ltd.	**–**	**56.5**	–	56.5	–	56.5	USA
PNB Remittance Co. (Canada)	**–**	**56.5**	–	56.5	–	56.5	Canada
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

(Forward)

	Percentage of Ownership						
	March 31, 2017		December 31, 2016		March 31, 2016		Country of
	Direct	**Indirect**	Direct	Indirect	Direct	Indirect	Incorporation
PNB Italy SpA (PISpA) (6)	–	–	–	–	–	56.5	Italy
Japan-PNB Leasing and Finance Corporation (Japan-PNB Leasing)	–	**50.8**	–	50.8	–	50.8	Philippines
Japan - PNB Equipment Rentals Corporation	–	**50.8**	–	50.8	–	50.8	Philippines
PNB Savings Bank	–	**56.5**	–	56.5	–	56.5	Philippines
Allied Bank Philippines (UK) Plc (ABUK)	–	**56.5**	–	56.5	–	56.5	United Kingdom
Allied Commercial Bank (ACB)	–	**55.9**	–	55.9	–	50.8	Republic of China
Allianz-PNB Life Insurance, Inc. (APLII) (formerly PNB LII) (7)	–	**24.8**	–	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. On December 20, 2016, the Parent Company sold its 100% ownership interest in TBI to TDI through an execution of a Deed of Sale.*

(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 March 31, 2017 and December 31, 2016, the Bank Holding Companies consist of 27 entities with aggregate direct ownership interest of 59.83% in PNB, of which 20 companies are incorporated in the Philippines and seven (7) companies are incorporated in the British Virgin Islands.*

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

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

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

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except that the Group has adopted the following new accounting pronouncements starting January 1, 2017. Adoption of these pronouncements did not have any significant impact on the Group's financial position or performance, unless as otherwise indicated.

- Amendment to PFRS 12, *Clarification of the Scope of the Standard (Part of Annual Improvements to PFRS 2014 - 2016 Cycle*), clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

- Amendments to PAS 7, *Statement of Cash Flows*, *Disclosure Initiative*, require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendments, entities are not required to provide comparative information for preceding periods.

- Amendments to PAS 12, *Income Taxes*, *Recognition of Deferred Tax Assets for Unrealized Losses*, clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact.

Standards Issued but not yet Effective

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.

Effective in 2018

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*, address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

  On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. Early application of the amendments is permitted. The amendments are not applicable to the Group as it does not have any share-based compensation plan for its officers and employees.

- Amendments to PFRS 4, *Insurance Contracts*, *Applying PFRS 9, Financial Instruments, with PFRS 4*, address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the forthcoming insurance contracts standard. They allow entities to choose between the overlay approach and the deferral approach to deal with the transitional challenges. The overlay approach gives all entities that issue insurance contracts the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before the new insurance contracts standard is issued. On the other hand, the deferral approach gives entities whose activities are predominantly connected with insurance an optional temporary exemption from applying PFRS 9 until the earlier of application of the forthcoming insurance contracts standard or January 1, 2021.

  The overlay approach and the deferral approach will only be available to an entity if it has not previously applied PFRS 9. The amendments are not applicable to the Group since it does not have activities that are predominantly connected with insurance or issue insurance contracts.

- PFRS 9, *Financial Instruments*, 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 providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The Group is currently assessing the impact of adopting this standard.

- PFRS 15, *Revenue from Contracts with Customers*, establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 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 PFRS 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 PFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018. The Group is currently assessing the impact of the new revenue standard.

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (*Part of Annual Improvements to PFRS 2014 - 2016 Cycle*), clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. The amendments should be applied retrospectively, with earlier application permitted. The Group is currently assessing the impact of the new revenue standard.

- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*, clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

- Philippine Interpretation based on International Financial Reporting Interpretations Committee (IFRIC) 22, *Foreign Currency Transactions and Advance Consideration* clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The interpretation may be applied on a fully retrospective basis. Entities may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

Effective in 2019

- PFRS 16, *Leases*, will no longer require lessees to classify their leases as either 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 lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or 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.

  Entities may early adopt PFRS 16 but only if they have also adopted PFRS 15. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs. The Group is currently assessing the impact of PFRS 16 and plans to adopt the new standard on the required effectivity date.

Deferred effectivity

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

The Group continues to assess the impact of the above new and amended accounting standards and interpretations effective subsequent to 2016 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.

3. **Segment Information**

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

The Group's identified operating segments classified as business groups, which are consistent with the segments reported to LTG's BOD, its Chief Operating Decision Maker (CODM), are as follows:

- Banking, provides full range of banking and other financial services to corporate, middle-market and retail customers, the National Government (NG), local government units (LGUs) and government-owned and controlled corporations (GOCCs) and various government agencies, including deposit-taking, lending, bills discounting, foreign exchange dealing, investment banking, fund transfers or remittance servicing and full range of retail banking and trust services and other insurance services. The Group conducts its banking business through PNB and its consolidated subsidiaries.

- Distilled Spirits, which is involved in manufacturing, compounding, bottling, importing, buying and selling of rum, spirit beverages, and liquor products. The Group conducts its distilled spirits business through TDI and its consolidated subsidiaries.

- Beverage, which is engaged in brewing and soft drinks and bottled water manufacturing in the Philippines. It also operates other plants, which includes commercial glass division and corrugated cartons and metal closures production facility, to support the requirements of its brewing, bottled water 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 10.5% and 3.6% as of December 31, 2016, respectively, and 8.0% and 3.8% as of December 31, 2015 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 84% and 90% of the segment’s total revenue in 2016 and 2015, 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 three months ended March 31, 2017:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
				(In Thousands)			
Segment revenue:							
External customers	**₱7,503,442**	**₱4,224,574**	**₱2,864,169**	**₱–**	**₱535,096**	**₱–**	**₱15,127,281**
Inter-segment	**33,776**	**21,039**	**275,446**	**–**	**–**	**(330,261)**	**–**
	7,537,218	**4,245,613**	**3,139,615**	**–**	**535,096**	**(330,261)**	**15,127,281**
Cost of sales	**1,582,526**	**3,567,314**	**2,040,857**	**–**	**203,182**	**(301,259)**	**7,092,620**
Gross profit	**5,954,692**	**678,299**	**1,098,758**	**–**	**331,914**	**(29,002)**	**8,034,661**
Equity in net earnings (loss) of associates and joint ventures	**(8,000)**	**–**	**(137,384)**	**1,046,519**	**–**	**96,757**	**997,892**
	5,946,692	**678,299**	**961,374**	**1,046,519**	**331,914**	**67,755**	**9,032,553**
Selling expenses	**–**	**268,278**	**416,794**	**–**	**10,647**	**–**	**695,719**
General and administrative expenses	**5,303,805**	**150,478**	**252,415**	**57,296**	**151,061**	**44,420**	**5,959,475**
Operating income	**642,887**	**259,543**	**292,165**	**989,223**	**170,206**	**23,335**	**2,377,359**
Finance costs	**–**	**(4,825)**	**(12,557)**	**–**	**(96,096)**	**42,847**	**(70,631)**
Finance income	**–**	**16**	**4,491**	**20,134**	**5,829**	**(6,566)**	**23,904**
Foreign exchange gains- net	**403,215**	**984**	**–**	**–**	**(3)**	**3,396**	**407,592**
Other income (charges) - net	**603,119**	**22,702**	**2,385**	**16,368**	**35,739**	**35,867**	**716,180**
Income before income tax	**1,649,221**	**278,420**	**286,484**	**1,025,725**	**115,675**	**98,879**	**3,454,404**
Provision for income tax	**377,598**	**70,976**	**135,414**	**4,408**	**40,749**	**3,526**	**632,671**
Segment profit from:							
Continuing operations	**1,271,623**	**207,444**	**151,070**	**1,021,317**	**74,926**	**95,353**	**2,821,733**
Discontinued operations	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Segment profit	**₱1,271,623**	**₱207,444**	**₱151,070**	**₱1,021,317**	**₱74,926**	**₱95,353**	**₱2,821,733**
Depreciation and amortization expense	**₱342,918**	**₱124,674**	**₱377,049**	**₱3,504**	**₱52,676**	**₱5,048**	**₱905,869**
Segment profit attributable to:							
Equity holders of the Company	**701,608**	**205,358**	**151,070**	**1,017,027**	**74,641**	**95,353**	**2,245,057**
Non-controlling interests	**570,015**	**2,086**	**–**	**4,290**	**285**	**–**	**576,676**

Other financial information of the operating segments as of March 31, 2017 is as follows:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
				(In Thousands)			
Assets:							
Current assets	**₱388,612,051**	**₱12,181,791**	**₱12,853,330**	**₱8,970,689**	**₱12,401,130**	**(₱3,287,104)**	**₱431,731,887**
Noncurrent assets	**382,804,216**	**7,105,577**	**14,607,014**	**13,510,798**	**16,632,831**	**(4,699,721)**	**429,960,715**
	₱771,416,267	**₱19,287,368**	**₱27,460,344**	**₱22,481,487**	**₱29,033,961**	**(₱7,986,825)**	**₱861,692,602**
Liabilities:							
Current liabilities	**₱624,034,594**	**₱3,105,169**	**₱4,436,274**	**₱305,936**	**₱6,820,800**	**(₱9,603,512)**	**₱629,099,261**
Noncurrent liabilities	**48,583,378**	**648,850**	**1,072,805**	**90,149**	**5,808,129**	**(3,839,752)**	**52,363,559**
	₱672,617,972	**₱3,754,019**	**₱5,509,079**	**₱396,085**	**₱12,628,929**	**(₱13,443,264)**	**₱681,462,820**
Investments in associates and joint ventures	**₱2,568,218**	**₱–**	**₱1,506,190**	**₱11,149,679**	**₱–**	**₱1,688,400**	**₱16,912,487**
Equity attributable to:							
Equity holders of the Company	**96,100,715**	**15,400,145**	**21,951,265**	**22,085,402**	**16,405,032**	**(35,042,938)**	**136,899,621**
Non-controlling interests	**2,697,580**	**133,204**	**–**	**–**	**–**	**40,499,377**	**43,330,161**
Short-term debts	**–**	**100,000**	**1,400,000**	**–**	**–**	**(100,000)**	**1,400,000**
Long-term debts	**3,499,143**	**–**	**–**	**–**	**3,954,301**	**(2,000,000)**	**5,453,444**

For the three months ended March 31, 2016:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
				(In Thousands)			
Segment revenue:							
External customers	₱7,155,363	₱3,089,085	₱2,709,666	₱–	₱654,403	₱–	₱13,608,517
Inter-segment	–	17,687	259,023	–	–	(276,710)	–
	7,155,363	3,106,772	2,968,689	–	654,403	(276,710)	13,608,517
Cost of sales	1,316,506	2,600,222	1,864,525	–	318,291	(288,970)	5,810,574
Gross profit	5,838,857	506,550	1,104,164	–	336,112	12,260	7,797,944
Equity in net earnings of associates	–	–	(1,675)	912,988	–	95,525	1,006,838
	5,838,857	506,550	1,102,489	912,988	336,112	107,785	8,804,781
Selling expenses	–	219,902	264,855	–	14,395	–	499,152
General and administrative expenses	5,176,439	190,679	191,420	29,557	138,821	34,510	5,761,426
Operating income	662,418	95,969	646,214	883,431	182,896	73,275	2,544,203
Finance costs	–	(3,338)	(11,673)	–	(75,365)	–	(90,376)
Finance income	–	23	1,236	15,034	4,916	(8,154)	13,055
Foreign exchange gains - net	404,998	(1,075)	–	–	698	(5,054)	399,567
Other income (charges) - net	2,448,312	6,183	5,983	28,718	(2,631)	(1,256,834)	1,229,731
Income before income tax	3,515,728	97,762	641,760	927,183	110,514	(1,196,767)	4,096,180
Provision for income tax	1,009,550	16,142	193,702	(22,021)	48,938	1,782	1,248,093
Segment profit from:							
Continuing operations	2,506,178	81,620	448,058	949,204	61,576	(1,198,549)	2,848,087
Discontinued operations	63,984	–	(97,852)	–	–	–	(33,868)
Segment profit	₱2,570,162	₱81,620	₱350,206	₱949,204	₱61,576	(₱1,198,549)	₱2,814,219
Depreciation and amortization expense	₱307,085	₱140,986	₱373,244	₱2,869	₱39,985	₱5,054	₱869,223
Segment profit attributable to:							
Equity holders of the Company	1,990,041	80,356	350,206	945,217	61,342	(1,198,549)	2,228,613
Non-controlling interests	580,121	1,264	–	3,987	234	–	585,606

Other financial information of the operating segments as of December 31, 2016 is as follows:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
				(In Thousands)			
Assets:							
Current assets	₱376,639,685	₱11,281,760	₱11,899,140	₱10,107,420	₱12,774,195	(₱17,925,076)	₱404,777,124
Noncurrent assets	364,245,652	7,159,081	15,017,583	13,362,146	16,415,790	8,113,648	424,313,900
	₱740,885,337	₱18,440,841	₱26,916,723	₱23,469,566	₱29,189,985	(₱9,811,428)	₱829,091,024
Liabilities:							
Current liabilities	₱575,558,848	₱2,463,592	₱4,019,000	₱317,324	₱6,816,393	(₱11,108,655)	₱578,066,502
Noncurrent liabilities	68,358,018	651,039	1,113,781	92,136	6,043,487	(3,838,515)	72,419,946
	₱643,916,866	₱3,114,631	₱5,132,781	₱409,460	₱12,859,880	(₱14,947,170)	₱650,486,448
Investments in associates and joint ventures	₱2,532,754	₱–	₱1,643,304	₱11,049,385	₱–	₱1,591,908	₱16,817,351
Equity attributable to:							
Equity holders of the Company	94,319,311	15,196,522	21,783,942	23,060,106	16,330,105	(34,592,001)	136,097,985
Non-controlling interests	2,649,162	129,688	–	–	–	39,727,741	42,506,591
Short-term debts	–	–	1,750,000	–	–	–	1,750,000
Long-term debts	3,497,798	–	–	–	4,070,949	(2,000,000)	5,568,747

4. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	March 31, 2017 (Unaudited)	December 31, 2016 (Audited)
	(In Thousands)	
Cash and other cash items	**₱17,987,009**	₱14,865,706
Cash equivalents:		
Due from *Bangko Sentral ng Pilipinas* (BSP)	**136,976,867**	127,337,860
Due from other banks	**29,554,828**	22,709,805
Interbank loans receivable	**9,594,000**	9,763,418
	₱194,112,704	₱174,676,789

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 Note 22).

5. Financial Assets at Fair Value through Profit or Loss

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

	March 31, 2017 (Unaudited)	December 31, 2016 (Audited)
	(In Thousands)	
Held for trading:		
Government securities	**₱733,161**	₱1,313,400
Private debt securities	**84,130**	54,609
Derivative assets (Note 19)	**346,381**	419,122
Equity securities	**43,560**	196,757
	1,207,232	1,983,888
Designated at FVPL		
Unit investment trust fund	**3,303,790**	4,457,623
	₱4,511,022	₱6,441,511

6. **Available-for-Sale Investments**

Available-for-sale investments consist of:

	March 31, 2017 (Unaudited)	December 31, 2016 (Audited)
	(In Thousands)	
Government securities	**₱44,131,106**	₱38,367,465
Other debt securities	**28,801,272**	28,841,070
Equity securities:		
Quoted	**1,200,296**	1,072,405
Unquoted	**1,340,947**	1,265,071
	75,473,621	69,546,011
Allowance for impairment losses	**(944,112)**	(944,112)
	74,529,509	68,601,899
Noncurrent portion	**(69,620,124)**	(60,128,678)
	₱4,909,385	₱8,473,221

7. **Loans and Receivables**

Loans and receivables consist of:

	March 31, 2017 (Unaudited)	December 31, 2016 (Audited)
	(In Thousands)	
Finance receivables	**₱445,283,279**	₱441,252,395
Trade receivables	**12,782,060**	12,703,799
Other receivables	**3,501,371**	1,784,649
	461,566,710	455,740,843
Allowance for credit losses	**(17,450,871)**	(17,306,554)
	444,115,839	438,434,289
Noncurrent portion	**(243,728,368)**	(248,621,351)
	₱200,387,471	₱189,812,938

Finance Receivables

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

	March 31, 2017 (Unaudited)	December 31, 2016 (Audited)
	(In Thousands)	
Receivables from customers:		
Loans and discounts	**₱395,841,067**	₱389,916,109
Customers' liabilities on acceptances, letters of credit and trust receipts	**9,912,844**	10,716,781
Bills purchased	**4,233,734**	3,622,690

(Forward)

	March 31, 2017 (Unaudited)	December 31, 2016 (Audited)
	(In Thousands)	
Credit card receivables	**₱7,323,945**	₱7,102,207
Finance lease receivables	**2,456,528**	3,049,375
	419,768,118	414,407,162
Unquoted debt securities	**8,235,308**	6,972,710
Other receivables:		
Accounts receivable	**9,189,018**	9,527,554
Accrued interest receivable	**3,907,321**	3,884,739
Sales contract receivables	**5,055,931**	7,449,020
Miscellaneous	**479,860**	501,674
	18,632,130	21,362,987
	446,635,556	442,742,859
Unearned interest and other deferred income	**(1,352,277)**	(1,490,464)
	445,283,279	441,252,395
Allowance for credit losses	**(17,397,727)**	(17,253,410)
	427,885,552	423,998,985
Noncurrent portion	**(243,057,639)**	(247,950,622)
	₱184,827,913	₱176,048,363

Trade receivables

Trade receivables consist of:

	March 31, 2017 (Unaudited)	December 31, 2016 (Audited)
	(In Thousands)	
Consumer goods	**₱10,943,946**	₱10,897,219
Contract receivables	**1,826,667**	1,777,640
Lease receivables	**11,447**	28,940
	12,782,060	12,703,799
Allowance for credit losses	**(41,904)**	(41,904)
	12,740,156	12,661,895
Noncurrent portion of contract receivables	**(670,729)**	(670,729)
	₱12,069,427	₱11,991,166

8. Inventories

Inventories consist of:

	March 31, 2017 (Unaudited)	December 31, 2016 (Audited)
	(In Thousands)	
At Cost:		
Consumer goods:		
Alcohol	**₱3,261,377**	₱2,695,689
Beverage	**1,878,973**	1,923,260
	5,140,350	4,618,949
Real estate inventories:		
Condominium and residential units for sale	**₱1,461,254**	₱1,326,758
Subdivision land under development	**4,355,144**	4,288,514
Land held for future development	**1,111,274**	1,111,274
	6,927,672	6,726,546
Fuel, materials and supplies	**854,350**	1,004,372
	12,922,372	12,349,867
At NRV - Materials and supplies	**925,100**	499,932
	₱13,847,472	₱12,849,799

9. Other Current Assets

Other current assets consist of:

	March 31, 2017 (Unaudited)	December 31, 2016 (Audited)
	(In Thousands)	
Creditable withholding taxes (CWT)	**₱5,248,349**	₱4,857,363
Advances to suppliers	**1,513,447**	2,198,733
Input VAT	**1,200,219**	998,003
Excise tax	**956,645**	934,066
Advances to contractors	**851,118**	1,315
Prepaid expenses	**794,219**	488,837
Miscellaneous cash and other cash items	**389,574**	256,063
Deferred rent	**180,080**	180,566
Stationeries, office supplies and stamps on hand	**169,505**	274,904
Deferred charges	**7,045**	9,095
Others	**814,009**	401,454
	₱12,124,210	₱10,600,399

10. **Investment in Associates and Joint Ventures**

Investments in Associates and Joint Ventures

The Group has the power to participate in the financial and operating policy decisions of PMFTC, VMC, AB HPI, and APLII. The Group also has 50% interest in ABI Pascual Holdings Private Limited (ABI Pascual Holdings) and Ayala-Eton Development Corporation (AEDC) which are jointly controlled entities.

	Ownership		Amount	
	March 31, 2017	December 31, 2016	**March 31, 2017**	December 31, 2016
			(In Thousands)	
Associates:				
PMFTC	**49.6%**	49.6%	**₱10,504,573**	₱10,382,799
VMC	**30.2%**	22.5%	**2,313,505**	2,238,494
AB HPI	**50.0%**	–	**1,463,834**	1,575,348
APLII	**44.0%**	–	**2,568,218**	2,532,754
Joint Ventures:				
ABI Pascual Holdings	**50.0%**	50.0%	**42,357**	67,956
AEDC	**50.0%**	–	**20,000**	20,000
			₱16,912,487	₱16,817,351

Investment in PMFTC

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.

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.

Investment in VMC
On December 21, 2007, the Company acquired 170.1 million shares representing 10.67% ownership in the shares of stock of VMC for ₱85.1 million presented as AFS investments as of December 31, 2013. Net changes in the fair value of AFS investments recognized as other comprehensive income in 2013 amounted to ₱86.8 million. As of December 31, 2013, the cost of investment plus the accumulated net changes in fair value of AFS investments amounted to ₱323.3 million.
On various dates in April and May 2014, LTG acquired shares of stock of VMC amounting to ₱413.6 million, which increased its ownership interest to 17.5%, and convertible notes amounting to ₱359.3 million, which would increase LTG's interest to 23.5% upon conversion. As of December 31, 2014, portion of the convertible notes amounting to ₱117.8 million was converted to shares of stock of VMC resulting in an increase in LTG's ownership interest to 20.4%. The cost-based approach was applied in accounting for the step acquisition of VMC as an associate. Accordingly, LTG reclassified the original cost of its AFS investments to investment in an associate and derecognized the net changes in fair value of AFS investments amounting to ₱238.2 million (presented in other comprehensive income). The difference of ₱334.8 million between the sum of the consideration for the 17.5% ownership interest amounting to ₱498.7 million and the share in fair value of net assets of VMC at the date the investment becomes an associate amounting to ₱833.5 million is recognized as part of the equity in net earnings of VMC 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.

On February 15, 2016, VMC approved the acquisition of its own shares. The sale agreement had been executed on February 18, 2016 and led to the acquisition of 300.0 million treasury shares. This resulted in an increase in the Parent Company's percentage of ownership from 22.5% to 25.1%. On the same date, the Group, through FTC, acquired additional shares of stock of VMC amounting to ₱660.3 million resulting to an increase in the Group's effective ownership in VMC to 30.2%.

Investment in AB HPI
On May 6, 2016, AB HPI was incorporated and registered with the Philippine SEC for 1,000 authorized shares at ₱1,000 par value per share under the name of Broncobrew, Incorporated (Broncobrew). The Philippine SEC approved the change in corporate name of Broncobrew to AB Heineken Philippines Inc. on July 12, 2016.

On May 30, 2016, the Group, through ABI, purchased 500 shares of stock of AB HPI for a consideration amounting to ₱5.0 million. On November 15, 2016, the Group purchased additional 782,400 common shares out of the proposed increase in the authorized capital stock of AB HPI for a consideration of ₱782.4 million. The Group's subscription to AB HPI represents 50% ownership interest.

In accordance with the Shareholders' Agreement entered into by the Group and Heineken, the Group sold nonmonetary assets, (i.e., inventories, returnable containers and brands), to AB HPI for a total consideration of ₱782.4 million. The nonmonetary assets were sold at their carrying amounts, except for the brands which resulted to a gain from fair valuation amounting to ₱46.3 million.

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

Investment in APLII
On December 21, 2015, PNB entered into a 15-year exclusive partnership with Allianz SE under the following arrangements, subject to regulatory approvals:

- Allianz SE will acquire 12,750 shares representing 51% stockholdings of APLII and will have management control over the new joint venture company;
- The new joint venture company will operate under the name of "Allianz-PNB Life Insurance, Inc.";
- A 15-year distribution agreement which will provide Allianz an exclusive access to the branch network of PNB and PNB Savings Bank.

The sale of APLII was completed on June 6, 2016 for a total consideration of US$66.0 million (₱3.1 billion). Pursuant to the sale of APLII, PNB also entered into a distribution agreement with APLII where PNB will allow APLII to have exclusive access to the distribution network of PNB and its subsidiary, PNB Savings Bank, over a period of 15 years. Both the share purchase agreement and distribution agreement have provisions referring to one another, making the distribution agreement an integral component of the sale transaction. Accordingly, the purchase consideration of US$66.0 million (₱3.1 billion) was allocated between the sale of the 51% interest in APLII and the Exclusive Distribution Rights (EDR) amounting to US$44.9 million (₱2.1 billion) and US$21.1 million (₱1.0 billion), respectively.

PNB will also receive variable annual and fixed bonus earn out payments based on milestones achieved over the 15-year term of the distribution agreement.

The Group recognized gain on sale of the 51% interest in APLII amounting to ₱400.3 million, net of taxes and transaction costs amounting to ₱276.7 million and ₱153.3 million, respectively. The deferred revenue amounting to ₱976.2 million allocated to the EDR was presented as "Other deferred revenue" and will be amortized to income over 15 years from date of sale (see Note 18). Amortization amounting to ₱36.5 million was recognized in 2016. Prior to the sale of shares to Allianz SE, PNB acquired additional 15% stockholdings from the minority shareholders for a consideration amounting to ₱292.4 million between June 2, 2016 and June 5, 2016.

Consequently, PNB accounted for its remaining 44% ownership interest in APLII as an associate. At the date of loss of control, PNB's investment in APLII was remeasured to ₱2.7 billion based on the fair value of its retained equity. PNB recognized gain on remeasurement amounting to ₱1.6 billion in the 2016 consolidated statement of income.

The fair value of the retained equity was based on a combination of the income approach and market approach.

On September 21, 2016, the Philippine SEC approved the amendment of PNB Life Insurance, Inc.'s article of incorporation to reflect the change in corporate name to Allianz-PNB Life Insurance, Inc.

Investment in ABI Pascual Holdings
On February 15, 2012, ABI and Corporation Empresarial Pascual, S. L. (CEP), an entity organized and existing under the laws of Spain, agreed to form ABI Pascual Holdings, a jointly controlled entity organized and domiciled in Singapore. In accordance with the Agreement, ABI and CEP (the "venturers") will hold 50% interest in ABI Pascual Holdings. Further, the arrangement requires unanimous agreement for financial and operating decisions among venturers.

On November 21, 2012, ABI Pascual Holdings created ABI Pascual Foods Incorporated (ABI Pascual Foods), an operating company, incorporated and domiciled in the Philippines, that will develop a business of marketing and distributing certain agreed products. As part of the joint venture agreement, the venturers also agreed to execute a product distribution agreement.

As of December 31, 2012, ABI has an investment in ABI Pascual Holdings amounting to ₱20.1 million, while ABI Pascual Holdings has an investment in ABI Pascual Foods amounting to ₱40.2 million. The joint venture has started operations in September 2013.

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

Additions to property, plant and equipment amounted to ₱1,304.4 million while retirement and disposals amounted to ₱12.7 million for the period ended March 31, 2017.

Additions to investment properties amounted to ₱320.7 million while retirement and disposals amounted to ₱644.1 million for the period ended March 31, 2017.

12. Other Noncurrent Assets

Other noncurrent assets consist of:

	March 31, 2017 (Unaudited)	December 31, 2016 (Audited)
	(In Thousands)	
Software costs	**₱2,075,082**	₱1,448,022
Deferred reinsurance premiums	**601,773**	302,916
Deferred charges	**345,114**	251,682
Refundable and security deposits	**318,860**	273,018
Net retirement plan assets (Note 23)	**278,458**	276,870
Goodwill	**163,735**	163,735
Deferred input VAT	**78,114**	420,831
Chattel properties - net	**36,585**	36,585
Other investments	**22,201**	22,201
Receivable from SPV - net	**500**	500
Deposit for future investments	**–**	334,060
Others - net	**339,875**	197,352
	₱4,260,297	₱3,727,772

13. Deposit Liabilities

Deposit liabilities consists of:

	March 31, 2017 (Unaudited)	December 31, 2016 (Audited)
	(In Thousands)	
Demand	**₱117,332,362**	₱112,532,681
Savings	**382,565,256**	368,798,751
Time	**80,878,898**	80,088,800
	580,776,516	561,420,232
Presented as noncurrent	**(32,501,575)**	(45,866,133)
Presented as current	**₱548,274,941**	₱515,554,099

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

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

	March 31, 2017 (Unaudited)	December 31, 2016 (Audited)
	(In Thousands)	
Derivative liabilities (Note 19)	**₱391,106**	₱232,832
Less noncurrent portion	**210,171**	–
Current portion	**₱180,935**	₱232,832

15. Bills and Acceptances Payable

Bills and acceptance payable consists of:

	March 31, 2017 (Unaudited)	December 31, 2016 (Audited)
	(In Thousands)	
Bills payable to:		
BSP and local banks	**₱32,165,930**	₱26,575,782
Foreign banks	**7,694,266**	7,632,548
Others	**36,855**	18,277
	39,897,051	34,226,607
Acceptances outstanding	**1,539,681**	1,659,340
	41,436,732	35,885,947
Less noncurrent portion	**5,007,224**	10,817,679
Current portion	**₱36,429,508**	₱25,068,268

16. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of:

	March 31, 2017 (Unaudited)	December 31, 2016 (Audited)
	(In Thousands)	
Trade payables	**₱12,050,718**	₱9,913,554
Dividends payable	**1,955,755**	–
Nontrade payables	**935,010**	281,765
Accrued expenses:		
Taxes and licenses	**2,357,270**	613,023
Project development costs	**1,651,882**	1,663,547
Purchase of materials and supplies and others	**1,211,596**	946,185
Interest	**718,263**	591,310
Retention payable	**601,197**	658,346
Advertising and promotional expenses	**506,042**	415,536
PDIC insurance premiums	**260,729**	517,148
Rent and utilities payable	**₱435,661**	₱542,631
Information technology-related expenses	**105,644**	122,039
Output value added tax	**565,460**	522,422
Due to government agencies	**217,085**	353,234
Other payables	**300,731**	150,537
	₱23,873,043	₱17,291,277

17. Short-term and Long-term Debts

Short-term Debts

As of March 31, 2017 and December 31, 2016, outstanding unsecured short-term debts amounted to ₱1,400 million and ₱1,750 million, respectively. The loans are subject to annual interest rates ranging from 3.3% to 3.5% in 2017 and 2016, are payable lump-sum on various dates within one year and subject to renewal upon agreement by the Group and counterparty banks.

Long-term Debts

	March 31, 2017 (Unaudited)	December 31, 2016 (Audited)
	(In Thousands)	
Subordinated debts	**₱3,499,143**	₱3,497,798
Unsecured term loan	**1,487,355**	1,604,003
Notes payable	**466,946**	466,946
	5,453,444	5,568,747
Current portion	**(466,946)**	(466,946)
Noncurrent portion	**₱4,986,498**	₱5,101,801

In January 2014, the Group paid portion of its notes payable and unsecured term loans amounting to ₱508.89 million and ₱116.41 million, respectively. The Group also reclassified all its Bonds payable which are due on February 2015 from noncurrent liabilities to current liabilities. On February 13, 2015, the Group paid its Bonds Payable amounting to ₱5,000.0 million. As of March 31, 2017, the Group has complied with the covenants related to its long-term debts.

18. **Other Liabilities**

	March 31, 2017 (Unaudited)	December 31, 2016 (Audited)
	(In Thousands)	
Insurance contract liabilities	**₱4,518,976**	₱4,581,800
Bills purchased - contra (Note 8)	**3,125,328**	3,260,308
Managers' checks and demand drafts outstanding	**1,485,177**	1,174,872
Due to other banks	**1,136,400**	923,777
Reserve for unearned premiums	**1,037,563**	1,075,732
Payable to landowners	**957,713**	3,250,573
Customers' deposits	**929,175**	892,286
Other deferred revenue (Note 12)	**921,373**	939,672
Other dormant credits	**890,669**	918,217
Provisions	**854,614**	1,300,290
Accounts payable - electronic money	**813,431**	791,223
Deposit on lease contracts	**775,225**	805,377
Due to Treasurer of the Philippines	**591,627**	543,002
Tenants' rental deposits	**346,602**	428,785
Miscellaneous tax securities	**297,448**	300,226
Payment order payable	**275,080**	292,336
Margin deposits and cash letters of credit	**138,929**	174,206
Advanced rentals	**55,751**	167,203
Transmission liability	**30,735**	31,732
Others	**3,242,831**	924,254
	22,424,647	22,775,871
Presented as noncurrent	**(4,580,624)**	(5,411,870)
Presented as current	**₱17,844,023**	₱17,364,001

19. Derivative Financial Instruments

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

	March 31, 2017 (Unaudited)	December 31, 2016 (Audited)
	(In Thousands)	
Balance at beginning of year	**₱186,290**	₱46,155
Changes in fair value	**(482,139)**	(698,071)
Settlements	**251,124**	838,206
	(₱44,725)	₱186,290

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

20. Related Party Transactions

The consolidated statements of income include the following revenue and other income-related (costs and other expenses) account balances arising from transactions with related parties:

		Three Months Ended March 31	
		2017 (Unaudited)	2016 (Unaudited)
		(In Thousands)	
Associate	Dividend income	**₱905,294**	₱618,263
	Sales	**11,166**	–
	Purchases of inventories	**225,075**	274,935
Entities Under Common Control	Banking revenue - interest on loans and receivables	**64,006**	58,863
	Sales of consumer products	**6,366**	627
	Rent income	**1,320**	10,948
	Freight and handling	**(857)**	(754)
	Purchases of inventories		
	Cost of banking services - interest expense on deposit liabilities	**(44,009)**	(45,597)
	Cost of sales and services	**–**	(14,247)
	Management and professional fee	**(83,152)**	(45,253)
	Rent expense	**(8,930)**	(22,065)

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

	Financial Statement Account	Terms and Conditions	Outstanding Balance **March 31, 2017 (Unaudited)**	 December 31, 2016 (Audited)
			(In Thousands)	
Parent Company	Due to related parties	On demand; non-interest bearing	**(₱41,975)**	(₱41,975)
	Due from related parties	On demand; non-interest bearing	**320,000**	320,000
Associate	Other receivables – dividends	30 to 90 days terms; non-interest bearing	**316,401**	337,810
	Trade receivables	30 to 90 days terms; non-interest bearing	**391,105**	234,825
	Account payable and other liabilities	30 to 60 days terms; non-interest bearing	**(14,873)**	(24,078)
Entities Under Common Control	Finance Receivables	Secured by hold-out on deposits, government securities, real estate and mortgage trust indenture; Unimpaired; With interest rates ranging from 2.82% to 6.00% with maturity terms ranging from 90 days to 12 years and payment terms of ranging from monthly to quarterly payments	**15,938,500**	17,226,371
	Trade receivables	- do -	**5,943**	12,986
	Due from related parties	On demand; non-interest bearing	**1,519,623**	1,602,467
	Advances to suppliers	30 to 60 days terms; non-interest bearing	**77,207**	26,742
	Deposit liabilities	With annual rates ranging from 0.38% to 1.73% and maturity ranging from 30 days to one (1) year	**(7,097,210)**	(7,644,701)
	Account payable and other liabilitites	30 to 90 days terms; non-interest bearing	**(376,575)**	(283,819)
	Due to related parties	On demand; non-interest bearing	**(14,867)**	(15,079)
	Other payables	30 to 90 days terms; non-interest bearing	**(10,396)**	(4,142)

As of March 31, 2017 and December 31, 2016, the outstanding related party balances are unsecured and settlement occurs in cash, unless otherwise indicated. The Group has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related parties and the market in which these related parties operate.

21. Retirement Benefits

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

	March 31, 2017 (Unaudited)	December 31, 2016 (Audited)
	(In Thousands)	
Net retirement plan assets:		
FTC	**₱239,344**	₱233,604
TDI	**18,240**	20,836
AAC	**11,482**	13,038
LTG	**9,392**	9,392
	₱278,458	₱276,870
Accrued retirement benefits:		
PNB	**₱3,027,299**	₱3,138,824
ABI and subsidiaries	**667,821**	682,396
TDI and ADI	**22,588**	22,004
Eton	**62,072**	56,118
	₱3,779,780	₱3,899,342

<u>Transactions with Retirement Plans</u>
Management of the retirement funds of the banking segment is handled by the PNB Trust Banking Group (TBG). As of March 31, 2017 and December 31, 2016, 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 March 31, 2017 and December 31, 2016, AFS and HTM investments include government and private debt securities and various funds. Deposits with other banks pertain to Special Deposit Accounts (SDA) placement with BSP.

The retirement funds of the other companies in the Group are maintained by PNB, as the trustee bank. PNB's retirement funds have no investments in debt or equity securities of the companies in the Group.

22. **Revenue and Cost of Sales and Services**

Revenue consists of:

	Three Months Ended March 31	
	2017 (Unaudited)	2016 (Unaudited)
	(In Thousands)	
Banking revenue	**₱7,503,442**	₱7,155,363
Sale of consumer goods	**7,088,743**	5,798,751
Real estate sales	**207,110**	345,687
Rental income	**327,986**	308,716
	₱15,127,281	₱13,608,517

Sale of consumer goods consists of:

	Three Months Ended March 31	
	2017 (Unaudited)	2016 (Unaudited)
	(In Thousands)	
Gross sales	**₱7,552,846**	₱6,008,700
Less sales returns, discounts and allowances	**464,103**	209,949
	₱7,088,743	₱5,798,751

Banking revenue consists of:

	Three Months Ended March 31	
	2017 (Unaudited)	2016 (Unaudited)
	(In Thousands)	
Interest income on:		
Loans and receivables	**₱5,173,914**	₱4,627,514
Trading and investment securities	**877,616**	1,073,726
Deposits with banks and others	**407,004**	83,727
Interbank loans receivable	**48,303**	9,427
	6,506,837	5,794,394
Trading and securities gains	**97,469**	343,016
Service fees and commission income	**899,136**	1,017,953
	₱7,503,442	₱7,155,363

Cost of sales and services consists of:

	Three Months Ended March 31	
	2017 (Unaudited)	2016 (Unaudited)
	(In Thousands)	
Cost of consumer goods sold:		
Materials used and changes in inventories	**₱3,859,139**	₱3,231,798
Depreciation and amortization (Note 11)	**348,620**	248,628
Fuel and power	**241,799**	138,680
Personnel costs	**190,645**	121,933
Communication, light and water	**186,567**	83,100
Outside services	**155,884**	128,495
Repairs and maintenance	**119,590**	81,374
Freight and handling	**67,208**	22,724
Taxes and licenses	**4,150**	2,811
Others	**138,084**	128,495
	5,311,686	4,188,038
Cost of banking services	**1,577,753**	1,304,245
Cost of real estate sales	**134,267**	259,047
Cost of rental income	**68,914**	59,244
Cost of sales and services	**₱7,092,620**	₱5,810,574

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

Cost of banking services consist of:

	Three Months Ended March 31	
	2017 (Unaudited)	2016 (Unaudited)
	(In Thousands)	
Interest expense on:		
Deposit liabilities	**₱1,163,083**	₱833,670
Bills payable and other borrowings	**225,156**	298,900
Services fees and commission expense	**189,514**	171,675
	₱1,577,753	₱1,304,245

23. Selling Expenses

	Three Months Ended March 31	
	2017 (Unaudited)	2016 (Unaudited)
	(In Thousands)	
Advertising and promotions	**₱301,550**	₱213,585
Freight and handling	**137,762**	83,649
Depreciation and amortization	**116,335**	106,184
Personnel costs	**37,522**	22,361
Management, consulting and professional fees	**32,900**	25,707
Commissions	**8,602**	7,613
Repairs and maintenance	**7,158**	12,655
Materials and consumables	**4,440**	5,806
Others	**49,450**	21,592
	₱695,719	₱499,152

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

24. General and Administrative Expenses

	Three Months Ended March 31	
	2017 (Unaudited)	2016 (Unaudited)
	(In Thousands)	
Personnel costs	**₱2,447,257**	₱2,367,617
Taxes and licenses	**645,508**	764,322
Depreciation and amortization	**403,727**	364,563
Occupancy	**354,040**	336,598
Insurance	**339,717**	286,825
Outside services	**297,260**	299,649
Marketing expenses	**266,974**	249,019
Policyholder benefits and claim benefits	**256,851**	211,967
Management, consulting and professional fees	**225,546**	191,992
Provision for losses	**94,112**	104,624
Travel and transportation	**82,502**	81,535
Information technology	**77,062**	92,412
Repairs and maintenance	**48,031**	56,392
Litigation expenses	**32,437**	7,687
Materials and consumables	**16,745**	80,580
Communication, light and water	**14,137**	13,371
Others	**357,569**	252,273
	₱5,959,475	₱5,761,426

25. **Finance Costs and Finance Income**

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

	Three Months Ended March 31	
	2017 (Unaudited)	2016 (Unaudited)
	(In Thousands)	
Finance costs (Note 17):		
Short-term debts	**₱11,731**	₱15,011
Unsecured term loan and notes payable	**58,900**	75,365
Finance costs	**₱70,631**	₱90,376
Finance income:		
Cash and other cash items (Note 4)	**₱15,661**	₱8,553
Interest-bearing contracts receivable (Note 7)	**8,243**	4,502
	₱23,904	₱13,055

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

	Three Months Ended March 31	
	2017 (Unaudited)	2016 (Unaudited)
	(In Thousands)	
Premiums - net of reinsurance	**₱315,277**	₱289,423
Net gains on sale or exchange of assets	**101,539**	198,412
Recoveries	**20,430**	512,646
Rental income	**72,107**	79,391
Processing and referral fees	**1,347**	1,084
Others	**205,480**	148,775
	₱716,180	₱1,229,731

27. **Income Taxes**

Income taxes include the corporate income tax, discussed below, and final taxes paid which represents final withholding tax on gross interest income from government securities and other deposit substitutes and income from the FCDU transactions. These income taxes, as well as the deferred tax benefits and provisions, are presented as ‘Provision for income tax’ in the 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.

Provision for current income tax consists of:

	Three Months Ended March 31	
	2017 Unaudited)	2016 (Unaudited)
	(In Thousands)	
RCIT/MCIT	**₱486,963**	₱1,199,236
Final tax	**152,936**	94,966
Provision for current income tax	**₱639,899**	₱1,294,202

28. Equity

<u>Capital Stock</u>
Authorized and issued capital stock of the Company are as follows:

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

29. Basic/Diluted Earnings Per Share

Basic/diluted earnings per share were calculated as follows:

	Three Months Ended March 31	
	2017 (Unaudited)	2016 (Unaudited)
	(In Thousands)	
Net income attributable to equity holders of the Company	**₱2,245,057**	₱2,228,613
Divided by weighted-average number of shares	**10,821,389**	10,821,389
Basic/diluted EPS for net income attributable to equity holders of the Company	**₱0.21**	₱0.21

30. Financial Risk Management Objectives and Policies

The Group's financial risk management strategies are handled on a group-wide basis, side by side with those of the other related companies within the Group. The Group's management and the BOD of the various companies comprising the Group review and approve policies for managing these risks. Management closely monitors the funds and financial transactions of the Group.

Financial Risk Management Objectives and Policies of the Banking Segment

Risk Management Strategies
The Group's banking activities are principally related to the development, delivery, servicing and use of financial instruments. Risk is inherent in these activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability.

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

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

Further, the Group is also cognizant of the need to address various other risks through the primary divisions presented above. The following are also taken into consideration as part of the overall Enterprise Risk Management (ERM) Framework:

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

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

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

The mandate of the RMG involves:

- Implementing the risk management framework of identifying, measuring, controlling and monitoring the various risk taking activities of the Group, inherent in all financial institutions;
- Providing services to the risk-taking units and personnel in the implementation of risk mitigation strategies; and

- Establishing recommended limits based on the results of its analysis of exposures.

Credit Risk

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

The credit risk management of the entire loan portfolio is under the direct oversight of the ROC and Executive Committee. Credit risk assessment of individual borrower is performed by the business sector and remedial sector. Risk management is embedded in the entire credit process, i.e., from credit origination to remedial management (if needed).

Among the tools used by the banking segment in identifying, assessing and managing credit risk include:

- Documented credit policies and procedures: sound credit granting process, risk asset acceptance criteria, target market and approving authorities;
- System for administration and monitoring of exposure;
- Pre-approval review of loan proposals;
- Post approval review of implemented loans;
- Work out system for managing problem credits;
- Regular review of the sufficiency of valuation reserves;
- Monitoring of the adequacy of capital for credit risk via the Capital Adequacy Ratio (CAR) report;
- Monitoring of breaches in regulatory and internal limits;
- Credit Risk Management Dashboard;
- Diversification;
- Internal Risk Rating System for corporate accounts;
- Credit Scoring for retail accounts; and
- Active loan portfolio management undertaken to determine the quality of the loan portfolio and identify the following:
  a. portfolio growth
  b. movement of loan portfolio (cash releases and cash collection for the month)
  c. loss rate
  d. recovery rate
  e. trend of nonperforming loans (NPLs)
  f. concentration risk (per classified account, per industry, clean exposure, large exposure, contingent exposure, currency, security, facility, demographic, etc.)

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

Credit-related commitments

The exposures represent guarantees, standby letters of credit (LCs) issued by the banking segment and documentary/commercial LCs which are written undertakings by the banking segment. To mitigate this risk the banking segment requires hard collaterals, as discussed under *Collateral and other credit enhancement*, for standby LCs lines while commercial LCs are collateralized by the underlying shipments of goods to which they relate.

Derivative financial instruments
Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the balance sheet.

Collateral and other credit enhancement
As a general rule, character is the single most important consideration in granting loans. However, collaterals are requested to mitigate risk. The loan value and type of collateral required depend on the assessment of the credit risk of the borrower or counterparty. The banking segment follows guidelines on the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For corporate accounts - cash, guarantees, securities, physical collaterals (e.g., real estate, chattels, inventory, etc.); as a general rule, commercial, industrial and residential lots are preferred
- For retail lending - mortgages on residential properties and vehicles financed
- For securities lending and reverse repurchase transactions - cash or securities

The disposal of the foreclosed properties is handled by the Asset Management Sector which adheres to the general policy of disposing assets at the highest possible market value. Management regularly monitors the market value of the collateral and requests additional collateral in accordance with the underlying agreement. The existing market value of the collateral is considered during the review of the adequacy of the allowance for credit losses. Generally, collateral is not held over loans and advances to banks except for reverse repurchase agreements.

The banking segment is not permitted to sell or re-pledge the collateral held over loans and advances to counterparty banks and BSP in the absence of default by the owner of the collateral.

The maximum credit risk, without taking into account the fair value of any collateral and netting agreements, is limited to the amounts on the balance sheet plus commitments to customers such as unused commercial letters of credit, outstanding guarantees and others as disclosed in Note 35 to the financial statements.

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

a. Limit per Client or Counterparty
   For loans and receivables, the banking segment sets an internal limit for group exposures which is equivalent to 100.00% of the single borrower's limit (SBL) for loan accounts with credit risk rating (CRR) 1 to CRR 5 or 50.00% of SBL if rated below CRR 5.For trading and investment securities, the Group limits investments to government issues and securities issued by entities with high-quality investment ratings.

b. Concentration by Industry

The internal limit of the banking segment based on the Philippine Standard Industry Classification (PSIC) sub-industry is 12.00% for priority industry, 8.00% for regular industry and 30.00% for power industry, versus total loan portfolio.

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

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

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

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

- CRR 1 - Excellent
  Loans receivables rated as excellent include borrowers which are significant in size, with long and successful history of operations, an industry leader, with ready access to all equity and debt markets and have proven its strong debt service capacity.
- CRR 2 - Super Prime
  Loans receivables rated as super prime include borrowers whose ability to service all debt and meet financial obligations remains unquestioned.

- CRR 3 - Prime
  Under normal economic conditions, borrowers in this rating have good access to public market to raise funds and face no major uncertainties which could impair repayment.

- CRR 4 - Very Good
  Loans receivables rated as very good include borrowers whose ability to service all debts and meet financial obligations remain unquestioned, but current adverse economic conditions or changing circumstances have minimal impact on payment of obligations.

- CRR 5 - Good
  Loans receivables rated as good include borrowers with good operating history and solid management, but payment capacity could be vulnerable to adverse business, financial or economic conditions.

Standard

- CRR 6 - Satisfactory
  These are loans receivables to borrowers whose ability to service all debt and meet financial obligations remains unquestioned, but with somewhat lesser capacity than in CRR 5 accounts.

- CRR 7 - Average
  These are loans receivables to borrowers having ability to repay the loan in the normal course of business activity, although may not be strong enough to sustain a major setback.

- CRR 8 - 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.

Sub-standard Grade

- 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.

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

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

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

a. Specific (individual) assessment
   The Group assesses each individually significant credit exposure or advances for any objective evidence of impairment.

   Among the items and factors considered by the Group when assessing and measuring specific impairment/credit allowances are:
   - the going concern of the borrower's business;
   - the ability of the borrower to repay its obligations during financial crises;
   - the projected receipts or expected cash flows;
   - the availability of other sources of financial support;
   - the existing realizable value of collateral; and
   - the timing of the expected cash flows.

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

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

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

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

Liquidity Risk and Funding Management

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

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

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

Market Risks

Market Risk is the risk to earnings or capital arising from adverse movements in factors that affect the market value of instruments, products, and transactions in an institutions' overall portfolio. Market Risk arises from market making, dealing, and position taking in interest rate, foreign exchange and equity markets.

The succeeding sections provide discussion on the impact of market risk on the Banking segment's trading and structural portfolios.

Trading market risk

Trading market risk exists in the banking segment as the values of its trading positions are sensitive to changes in market rates such as interest rates, foreign exchange rates and equity prices. PNB is exposed to trading market risk in the course of market making as well as from taking advantage of market opportunities. The banking segment adopts the Parametric Value-at-Risk (VaR) methodology (with 99% confidence level, and one day holding period for FX and equity price risks VaR and ten day holding period for interest rate risk VaR) to measure PNB's trading market risk. Volatilities are updated monthly and are based on historical data for a rolling 260-day period. The RMG reports the VaR utilization and breaches to limits to the risk-taking personnel on a daily basis and to the ALCO and Risk Oversight Committee (ROC) on a monthly basis. All risk reports discussed in the ROC meeting are noted by the BOD. The VaR figures are backtested to validate the robustness of the VaR model. Below are the objectives and limitations of the VaR methodology, VaR assumptions and VaR limits.

a. Objectives and limitations of the VaR methodology

   The VaR models are designed to measure market risk in a normal market environment. The models assume that any changes occurring in the risk factors affecting the normal market environment will follow a normal distribution. The use of VaR has limitations because it is based on historical volatilities in market prices and assumes that future price movements will follow a statistical distribution. Due to the fact that VaR relies heavily on historical data to provide information and may not clearly predict the future changes and modifications of the risk factors, the probability of large market moves may be under estimated if changes in risk factors fail to align with the normal distribution assumption. VaR may also be under- or over- estimated due to the assumptions placed on risk factors and the relationship between such factors for specific instruments. Even though positions may change throughout the day, the VaR only represents the risk of the portfolios at the close of each business day, and it does not account for any losses that may occur beyond the 99.00% confidence level.

b. VaR assumptions/parameters

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

c. VaR Limits

Since VaR is an integral part of the banking segment's market risk management, VaR limits have been established annually for all financial trading activities and exposures. Calculated VaR compared against the VaR limits are monitored. Limits are based on the tolerable risk appetite of the banking segment. VaR is computed on an undiversified basis; hence, the banking segment does not consider the correlation effects of the three trading portfolios.

Structural Market Risk of the Banking Segment

<u>Non-trading Market Risk</u>

Interest rate risk

The banking segment seeks to ensure that exposure to fluctuations in interest rates are kept within acceptable limits. Interest margins may increase as a result of such changes but may be reduced or may create losses in the event that unexpected movements arise.

Repricing mismatches will expose the banking segment to interest rate risk. PNB measures the sensitivity of its assets and liabilities to interest rate fluctuations by way of a "repricing gap" analysis using the repricing characteristics of its financial instrument positions tempered with approved assumptions. To evaluate earnings exposure, interest rate sensitive liabilities in each time band are subtracted from the corresponding interest rate assets to produce a "repricing gap" for that time band. The difference in the amount of assets and liabilities maturing or being repriced over a one year period would then give the banking segment an indication of the extent to which it is exposed to the risk of potential changes in net interest income. A negative gap occurs when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. Vice versa, positive gap occurs when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities.

During a period of rising interest rates, a company with a positive gap is better positioned because the company's assets are refinanced at increasingly higher interest rates increasing the net interest margin of the company over time. During a period of falling interest rates, a company with a positive gap would show assets repricing at a faster rate than one with a negative gap, which may restrain the growth of its net income or result in a decline in net interest income.

For risk management purposes, the repricing gap covering the one year period is multiplied by an assumed change in interest rates to yield an approximation of the change in net interest income that would result from such an interest rate movement. The banking segment's BOD sets a limit on the level of earnings at risk (EaR) exposure tolerable to the banking segment. Compliance to the EaR limit is monitored monthly by the RMG. This EaR computation is accomplished monthly, with a quarterly stress test.

As one of the long-term goals in the risk management process, the banking segment has set the adoption of the economic value approach in measuring the interest rate risk in the banking books to complement the earnings approach currently used.

Foreign currency risk
Foreign exchange is the risk to earnings or capital arising from changes in foreign exchange rates. The banking segment takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financials and cash flows.

Foreign currency liabilities generally consist of foreign currency deposits in PNB's FCDU books, accounts made in the Philippines or which are generated from remittances to the Philippines by Filipino expatriates and overseas Filipino workers who retain for their own benefit or for the benefit of a third party, foreign currency deposit accounts with PNB and foreign currency-denominated borrowings appearing in the regular books of PNB. Foreign currency deposits are generally used to fund PNB's foreign currency-denominated loan and investment portfolio in the FCDU. Banks are required by the BSP to match the foreign currency liabilities with the foreign currency assets held through FCDUs. In addition, the BSP requires a 30.00% liquidity reserve on all foreign currency liabilities held through FCDUs. Outside the FCDU, PNB has additional foreign currency assets and liabilities in its foreign branch network.

The banking segment's policy is to maintain foreign currency exposure within acceptable limits and within existing regulatory guidelines. The banking segment believes that its profile of foreign currency exposure on its assets and liabilities is within conservative limits for a financial institution engaged in the type of business in which the banking segment is involved.

Financial Risk Management Objectives and Policies of the Companies in the Group other than the Banking Segment

<u>Risk Management Strategies</u>
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).

<u>Credit Risk</u>
The Group manages its credit risk by transacting with counterparties of good financial condition and selecting investment grade securities. The Group trades only with recognized, creditworthy third parties. In addition, receivable balances are monitored on an on-going basis with the result that the Group's exposure to bad debts is not significant. Management closely monitors the fund and financial condition of the Group.

In addition, credit risk of property development segment is managed primarily through analysis of receivables on a continuous basis. The credit risk for contracts receivables is mitigated as the Group has the right to cancel the sales contract without the risk for any court action and can take possession of the subject property in case of refusal by the buyer to pay on time the contracts receivables due. This risk is further mitigated because the corresponding title to the property sold under this arrangement is transferred to the buyers only upon full payment of the contract price.

Concentration risk
Concentrations arise when a number of counterparties are engaged in similar business activities having similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location. Such credit risk concentrations, if not properly managed, may cause significant losses that could threaten the Group's financial strength and undermine public confidence. Concentration risk per business segment could arise on the following:

- Distilled spirits segment's sale of alcoholic beverage pertains mainly to two trusted parties with sales to them comprising about 99% of total alcoholic beverage sales.
- Beverage segment annual sales pertain mainly to 13 parties with sales to them comprising about 100% of the total beverage sales.
- Tobacco and property development segments are not exposed to concentration risk because it has diverse base of counterparties.

Credit quality per class of financial assets
"Standard grade" accounts consist of financial assets from trusted parties with good financial condition. "Substandard grade" accounts, on the other hand, are financial assets from other counterparties with relatively low defaults. The Group did not regard any financial asset as "high grade" in view of the erratic cash flows or uncertainty associated with the financial instruments. "Past due but not impaired" are items with history of frequent default, nevertheless, the amount due are still collectible. Lastly, "Impaired financial assets" are those that are long-outstanding and have been provided with allowance for doubtful accounts.

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

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

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

Market Risks
The Group's operating, investing, and financing activities are directly affected by changes in foreign exchange rates and interest rates. Increasing market fluctuations in these variables may result in significant equity, cash flow and profit volatility risks for the Group. For this reason, the Group seeks to manage and control these risks primarily through its regular operating and financing activities.

Management of financial market risk is a key priority for the Group. The Group generally applies sensitivity analysis in assessing and monitoring its market risks. Sensitivity analysis enables management to identify the risk position of the Group as well as provide an approximate quantification of the risk exposures. Estimates provided for foreign exchange risk, cash flow interest rate risk, price interest rate risk and equity price risk are based on the historical volatility for each market factor, with adjustments being made to arrive at what the Group considers to be reasonably possible.

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

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

Interest rate risk
Interest rate risk arises from the possibility that changes in interest rates would unfavorably affect future cash flows from financial instruments. As of March 31, 2017 and December 31, 2016, the Group's long-term debts are not exposed to the risk in changes in market interest rates since the debts are issued at fixed rates. Fixed rate financial instruments are subject to fair value interest rate risk while floating rate financial instruments are subject to cash flow interest rate risk. Repricing of floating rate financial instruments is mostly at interval of three months or six months.

31. **Fair Values of Financial Instruments**

The Group has assets and liabilities that are measured at fair value on a recurring and non-recurring basis in the consolidated balance sheets after initial recognition. Recurring fair value measurements are those that another PFRS requires or permits to be recognized in the consolidated balance sheets at the end of each reporting period. These include financial assets and liabilities at FVPL and AFS investments. Non-recurring fair value measurements are those that another PFRS requires or permits to be recognized in the consolidated balance sheet in particular circumstances. These include land and land improvements, buildings and building improvements and machineries and equipment measured at revalued amount and investment properties measured at cost but with fair value measurement disclosure.

The Group's management determines the policies and procedures for both recurring and non-recurring fair value measurement.

External valuers are involved for valuation of significant assets, such as investment properties, land and land improvements, plant buildings and building improvements and machineries and equipment. Involvement of external valuers is decided upon annually by management. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Management decides, after discussions with the Group's external valuers, which valuation techniques and inputs to use for each case.

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

As of March 31, 2017 and December 31, 2016, the carrying values of the Group's financial assets and liabilities approximate their respective fair values, except for the following financial instruments:

	March 31,2017 (Unaudited)		December, 31, 2016 (Unaudited)	
	Carrying Value	**Fair Market Value**	Carrying Value	Fair Market Value
		(In Thousands)		
Financial Assets:				
Loans and receivables:				
Receivables from customers	**₱410,288,076**	**₱416,584,476**	₱406,505,998	₱412,208,402
Unquoted debt securities	**4,550,570**	**4,561,631**	3,285,222	3,305,345
	₱414,838,646	**₱421,146,107**	₱409,791,220	₱415,513,747
Financial Liabilities:				
Financial liabilities at amortized cost:				
Deposit liabilities -				
Time deposits	**₱80,878,898**	**₱83,274,770**	₱84,364,874	₱86,098,591
Bills Payables	**39,897,051**	**40,001,893**	34,226,607	38,468,732
Long term debts:				
Subordinated debt	**3,499,143**	**3,514,729**	3,497,797	3,551,484
Unsecured term loan	**1,487,355**	**1,356,325**	1,604,003	1,462,697
Notes payable	–	–	–	–
Other liabilities:				
Payable to landowners	**957,713**	**938,797**	3,250,573	3,186,369
Tenants' rental deposits	**346,602**	**315,890**	428,785	390,791
	₱127,066,762	**₱129,402,404**	₱127,372,639	₱133,158,664

The methods and assumptions used by the Group in estimating the fair value of the financial instruments are:

Cash equivalents - Carrying amounts approximate fair values due to the relatively short-term maturity of these investments.

Debt securities - Fair values are generally based upon quoted market prices. If the market prices are not readily available, fair values are obtained from independent parties offering pricing services, estimated using adjusted quoted market prices of comparable investments or using the discounted cash flow methodology.

Equity securities - fair values of quoted equity securities are based on quoted market prices. While fair values of unquoted equity securities are the same as the carrying value since the fair value could not be reliably determined due to the unpredictable nature of future cash flows and the lack of suitable methods of arriving at a reliable fair value.

Loans and receivables - For loans with fixed interest rates, fair values are estimated by discounted cash flow methodology, using the Group's current market lending rates for similar types of loans. For loans with floating interest rates, with repricing frequencies on a quarterly basis, the Group assumes that the carrying amount approximates fair value

Liabilities - Except for time deposit liabilities, subordinated debt, bonds payable, unsecured term loans, notes payable, payable to landowners, tenants' rental deposits and advance rentals, the carrying values approximate fair values due to either the presence of a demand feature or the relatively short-term maturities of these liabilities.

Derivative instruments - Fair values are estimated based on quoted market prices or acceptable valuation models.

Time deposit liabilities and subordinated debt including designated at FVPL - Fair value is determined using the discounted cash flow methodology. The discount rate used in estimating the fair values of the subordinated debt and time deposits ranges from 2.66% to 3.77% as of March 31, 2017 and December 31, 2016, 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 March 31, 2017 and December 31, 2016, 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:

	March 31, 2017 (Unaudited)			
	Level 1	**Level 2**	**Level 3**	**Total**
	(In Thousands)			
Assets measured at fair value:				
Financial Assets				
Financial assets at FVPL:				
Held-for-trading:				
Government securities	**₱676,739**	**₱56,422**	**₱–**	**₱733,161**
Derivative assets		**291,189**	**55,191**	**346,380**
Private debt securities	**77,536**	**6,594**	**–**	**84,130**
Equity securities	**43,560**	**–**	**–**	**43,560**
Designated at FVPL:				
Investment in UITFs	**–**	**3,303,791**	**–**	**3,303,791**
	₱797,835	**₱3,657,996**	**₱55,191**	**₱4,511,022**
AFS investments:				
Government securities	**₱39,531,956**	**₱4,082,536**	**₱–**	**₱43,614,492**
Other debt securities	**24,968,930**	**3,832,342**	**–**	**28,801,272**
Equity securities*	**337,085**	**67,940**	**–**	**405,025**
	₱64,837,971	**₱7,982,818**	**₱–**	**₱72,820,789**
Non-financial assets				
Property, plant and equipment**				
Land and land improvements	**₱–**	**₱–**	**₱15,848,394**	**₱15,848,394**
Plant buildings and building improvements	**–**	**–**	**13,090,051**	**13,090,051**
Machineries and equipment	**–**	**–**	**7,194,036**	**7,194,036**
	₱–	**₱–**	**₱36,132,481**	**₱36,132,481**
Liabilities measured at fair value:				
Financial liabilities				
Financial liabilities at FVPL:				
Designated at FVPL:				
Derivative liabilities	**₱–**	**₱391,106**	**₱–**	**₱391,106**
	₱–	**₱391,106**	**₱–**	**₱391,106**
Assets for which fair values are disclosed:				
Financial Assets				
HTM investment	**₱21,235,456**	**₱3,198,371**	**₱–**	**₱24,433,827**
Loans and receivables:				
Receivables from customers	**–**	**–**	**402,371,391**	**402,371,391**
Unquoted debt securities	**–**	**–**	**3,842,584**	**3,842,584**
	₱21,235,456	**₱3,198,371**	**₱406,213,975**	**₱430,647,802**
Non-financial Assets				
Investment properties**				
Land	**₱–**	**₱–**	**₱20,726,360**	**₱20,726,360**
Buildings and improvements	**–**	**–**	**7,312,382**	**7,312,382**
	₱–	**₱–**	**₱28,038,742**	**₱28,038,742**
Liabilities for which fair values are disclosed:				
Financial liabilities				
Financial liabilities at amortized cost:				
Deposit liabilities:				
Time deposits	**₱–**	**₱–**	**₱83,274,770**	**₱83,274,770**
Long term debts:				
Subordinated debt	**–**	**–**	**3,514,729**	**3,514,729**
Bills payables	**–**	**–**	**40,001,893**	**40,001,893**
Unsecured term loan	**–**	**–**	**1,487,355**	**1,487,355**
Other liabilities:				
Payable to landowners	**–**	**–**	**957,713**	**957,713**
Tenants' rental deposits	**–**	**–**	**346,602**	**346,602**
Advance rentals	**–**	**–**	**55,751**	**55,751**
	₱–	**₱–**	**₱129,638,813**	**₱129,638,813**

* *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, 2016			
	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	₱1,300,293	₱13,107	₱–	₱1,313,400
Derivative assets	–	357,577	61,545	419,122
Private debt securities	188,773	7,984	–	196,757
Equity securities	54,609	–	–	54,609
Designated at FVPL:				
Investment in UITFs	–	4,457,623	–	4,457,623
	₱1,543,675	₱4,836,291	₱61,545	₱6,441,511
AFS investments:				
Government securities	₱34,416,112	₱3,418,446	₱–	₱37,834,558
Private debt securities	26,177,419	2,663,651	–	28,841,070
Equity securities*	571,296	73,746	–	645,042
	₱61,164,827	₱6,155,843	₱–	₱67,320,670
Non-financial assets				
Property, plant and equipment**				
Land and land improvements	₱–	₱–	₱15,834,177	₱15,834,177
Plant buildings and building improvements	–	–	13,075,835	13,075,835
Machineries and equipment	–	–	7,194,036	7,194,036
	₱–	₱–	₱36,104,048	₱36,104,048
Liabilities measured at fair value:				
Financial liabilities				
Financial liabilities at FVPL:				
Designated at FVPL:				
Derivative liabilities	₱–	₱232,832	₱–	₱232,832
	₱–	₱232,832	₱–	₱232,832
Assets for which fair values are disclosed:				
Financial Assets				
HTM investment	₱21,010,056	₱3,164,423	₱–	₱24,174,479
Loans and receivables:				
Receivables from customers	–	–	396,257,262	396,257,262
Unquoted debt securities	–	–	3,253,457	3,253,457
	₱21,010,056	₱3,164,423	₱399,510,719	₱423,685,198
Non-financial Assets				
Investment properties**				
Land	₱–	₱–	₱24,971,630	₱24,971,630
Buildings and improvements	–	–	8,810,139	8,810,139
	₱–	₱–	₱33,781,769	₱33,781,769
Liabilities for which fair values are disclosed:				
Financial liabilities				
Financial liabilities at amortized cost:				
Deposit liabilities:				
Time deposits	₱–	₱–	₱86,181,252	₱86,181,252
Long term debts:				
Subordinated debt	–	–	3,551,484	3,551,484
Bills payable	–	–	34,226,607	34,226,607
Unsecured term loan	–	–	1,604,003	1,604,003
Other liabilities:				
Payable to landowners	–	–	3,186,369	3,186,369
Tenants' rental deposits	–	–	393,496	393,496
Advance rentals	–	–	59,255	59,255
	₱–	₱–	₱129,202,466	₱129,202,466

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

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

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

Instruments included in Level 3 include those for which there is currently no active market. In applying the discounted cash flow analysis to determine the fair value of financial liabilities designated at FVPL, the Group used discount rates ranging from 1.26% to 3.25% as of December 31, 2016.

As of March 31, 2017 and December 31, 2016, 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:

	March 31, 2017 (Unaudited)	December 31, 2015 (Audited)
	(In Thousands)	
Financial assets		
Balance at beginning of year	**₱61,545**	₱5,843,569
Add total gain (loss) recorded in profit or loss	**(6,354)**	(5,782,024)
Balance at end of year	**₱55,191**	₱61,545
Nonfinancial assets		
Balance at beginning of year	**₱36,104,048**	₱39,538,145
Additions during the year	**473,481**	2,242,250
Revaluation decrement during the year	–	(720,604)
Depreciation and amortization	**(342,918)**	(1,574,243)
Net carrying value of disposed/transferred assets and other adjustments	**(102,130)**	(3,381,500)
Balance at end of the year	**₱36,132,481**	₱36,104,048
Financial liabilities		
Balance at beginning of year	**₱–**	₱5,780,237
Less total loss (gain) recorded in profit and loss	–	(5,780,237)
Balance at end of year	**₱–**	₱–

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

		2015	
Structured Investments	**Significant Unobservable Input**	**Range of Input***	**Sensitivity of the Input to Fair Value****
Peso-denominated	**Bank CDS Levels**	**47.28 - 93.27bps**	**50 bps increase/(decrease) in change inputs would result in a (decrease) / increase in the market value of the note by ₱65,500,462**
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**

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

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

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

32. Capital Management

The main thrust of the Group's capital management policy is to ensure that the Group complies with externally imposed capital requirements, maintains a good credit standing and has a sound capital ratio to be able to support its business and maximize the value of its shareholder's equity. The Group is also required to maintain debt-to-equity ratios to comply with certain loan agreements and covenants in 2017 and 2016.

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 2017 and 2016.

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:

	March 31, 2017 (Unaudited)	December 31, 2016 (Audited)
	(In Thousands, except ratios)	
Total liabilities	**₱681,462,820**	₱650,486,448
Total equity	**180,229,782**	178,604,576
Total liabilities and equity	**₱861,692,602**	₱829,091,024
Debt ratio	**0.79:1**	0.78:1
Debt-to-equity ratio	**3.78:1**	3.64:1

33. Commitments and Contingencies

There were no changes in the Group's commitments and contingencies from those disclosed in the December 31, 2016 annual consolidated financial statements.

34. Seasonality of Interim Operations

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

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

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

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

35. **Assets and Liabilities of Disposal Group Classified as Held for Sale and Discontinued Operations**

Sale of PNB's 51% share in APLII to Allianz SE
On December 21, 2015, PNB entered into a 15-year exclusive partnership with Allianz SE under the following arrangements, subject to regulatory approvals:

- Allianz SE will acquire 12,750 shares representing 51% stockholdings of APLII and will have management control over the new joint venture company;
- The new joint venture company will operate under the name of "Allianz PNB Life Insurance, Inc.";
- A 15-year distribution agreement which will provide Allianz an exclusive access to the more than 660 branches nationwide of PNB.

As of December 31, 2015, APLII was classified as disposal group held for sale and as discontinued operation.

The sale of APLII was completed on June 6, 2016 for a total consideration of US$66.0 million (₱3.1 billion). Pursuant to the sale of APLII, PNB also entered into a distribution agreement with APLII where PNB will allow APLII to have exclusive access to the distribution network of PNB and its subsidiary, PNB Savings Bank, over a period of 15 years. Both the share purchase agreement and distribution agreement have provisions referring to one another; making the distribution agreement an integral component of the sale transaction. Accordingly, the purchase consideration of US$66.0 million (₱3.1 billion), was allocated between the sale of the 51% interest in APLII and the Exclusive Distribution Rights (EDR) amounting to US$44.9 million (₱2.1 billion) and US$21.1 million (₱1.0 billion), respectively.

PNB will also receive variable annual and fixed bonus earn out payments based on milestones achieved over the 15-year term of the distribution agreement.

PNB recognized gain on sale of the 51% interest in APLII amounting to ₱400.3 million, net of taxes and transaction costs amounting to ₱276.7 million and ₱153.3 million, respectively. The consideration amounting to ₱939.7 million allocated to the EDR was recognized as "Other deferred revenue" and will be amortized to income over 15 years from date of sale.

Prior to the sale of shares to Allianz SE, PNB acquired additional 15% stockholdings from the minority shareholders for a consideration amounting to ₱292.4 million between June 2, 2016 and June 5, 2016.

PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, requires assets and liabilities of APLII, 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 APLII 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 APLII represented the entirety of PNB's life insurance business until December 21, 2015. APLII was previously presented in the "Others" section of the business segment disclosure. With APLII being classified as a discontinued operation in 2015, the comparative consolidated statement of income and comprehensive income in 2014 have been re-presented to show the discontinued operations separately from the continued operations.

On June 6, 2016, the sale of APLII was completed. PNB recognized gain on sale amounting to ₱834.5 million recognized in "Net Income from Discontinued Operations" in the consolidated statements of income.

Transactions with Heineken
On May 27, 2016, the Group entered into a joint venture agreement with Heineken to establish AB HPI to manage its beer segment. In accordance with the agreement, ABI transferred its beer business comprising of the related inventories, returnable containers and brands to AB HPI in exchange for shares of stock at the fair value of ₱787.4 million. The Group has significant influence over AB HPI and therefore, treats the investment as investment in associate.

The Group recognized the difference amounting to ₱1,056.2 million between its investment and its equity interest in AB HPI as gain on investment in an associate arising from contribution of non-monetary assets in exchange for shares of stock. Also, the Group recognized ₱46.3 million as gain from the sale of its brands. These amounts are presented as part of discontinued operations in 2016.

36. **Events After the Reporting Date**

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

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

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

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

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

LT GROUP, INC. AND SUBSIDIARIES
SELECTED EXPLANATORY NOTES
As at March 31, 2017 and December 31, 2016
And for the Three Months Ended March 31, 2017 and 2016
(As required under Par. 7 (d) Selected Explanatory Notes Required Under SRC Rule 68, as Amended 2011)

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

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

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

Beverage Segment is affected by seasonality of operations.

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

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

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

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

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

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

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

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

On March 14, 2017, the Board of Directors of LTG approved the declaration and distribution of regular cash dividends of ₱0.15 per share and special cash dividends of ₱0.03 per share to all stockholders of record as of March 29, 2017. The dividends will be paid on April 7, 2017.

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

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

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

On March 14, 2017, the Board of Directors of LTG approved the declaration and distribution of regular cash dividends of ₱0.15 per share and special cash dividends of ₱0.03 per share to all stockholders of record as of March 29, 2017. The dividends will be paid on April 7, 2017.

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

In 2014, the Group acquired interest in VMC through direct common shares purchased and convertible notes. As of March 31, 2017, the Group effectively owns VMC 30.2% inclusive of the convertible notes.

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

Not Applicable. The Company has no contingent liabilities or assets.

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

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

Beverage
ABI maintains a legal department whose main function is to pursue collection cases and handle litigation arising from labor disputes. As of March 31, 2017, ABI does not have any significant legal proceedings either against it or in pursuit of another party besides those arising from the ordinary course of business.

Distilled Spirits

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

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 that allegedly has a "confusing similarity" with GSMI's principal gin product. On September 23, 2003, the Mandaluyong Regional Trial Court (RTC) issued a TRO preventing TDI from manufacturing, selling and advertising Ginebra Kapitan.

On November 11, 2003, the Court of Appeals issued a 60-day TRO versus the Mandaluyong RTC, effectively allowing TDI to resume making and selling Ginebra Kapitan. The Court of Appeals however subsequently affirmed the Mandaluyong RTC TRO on January 9, 2004. On January 28, 2004, the Company filed a motion for reconsideration with the Court of Appeals. The Court of Appeals denied the TDI motion for reconsideration on July 2, 2004. On 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 31, 2017.

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 31, 2017.

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.

Property Development

Kingston Tuscani, et al. vs. Paramount Holdings and Eton Properties
The Company is one of the appellees in CA G.R. No. CV-106191 entitled "Kingston Tuscani Enterprise & Development Corporation, Cristeta Babaison, et al. vs. Paramount Holding Equities and Eton Properties Philippines, Inc."

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

In its Answer, the defendants, including the Company raised the defense that the property was acquired through public bidding from the Land Bank of the Philippines where Paramount was the highest bidder at Php1.03 Billion and which sale was approved by the President of the Philippines then. Further, there is no adverse claim or notice of 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 elevated the case with the Court of Appeals where the case remains pending.

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.

Annex "B"

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

Management Discussion and Analysis of Financial Condition and Results of Operations

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

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

RESULTS OF OPERATIONS

LT Group, Inc. (LTG) posted consolidated net income of ₱2.8 billion for the quarters ended March 31, 2017 and 2016.

The consolidated net income attributable to equity holders of LTG was ₱2.2 billion for 1Q17 unchanged from 1Q16. This was on account of the improvement in the operating results of the tobacco, distilled spirits and property development segment offset by the lower banking and beverage segments' net income. The tobacco segment's net income increased by ₱72 million from ₱949 million in 2016 to ₱1.0 billion in 2017. Distilled spirits and property development segments' net income were ₱207 million and ₱75 million, respectively for 1Q17, an increase of 152.4% and 21.0%, respectively, versus the incomes recorded for the same period last year. The banking segment's net income was down by 50.5% from ₱2.6 billion for the quarter ended March 31, 2016 to ₱1.3 billion in the same period of 2017. LTG's share in net income for the banking segment slightly declined from ₱708 million in 1Q16 to ₱699 million in 1Q17. LTG's share in net income of the banking segment in 1Q16 included a ₱724 million elimination on the gain on sale of land by PNB to Eton. The beverage segment's net income of ₱151 million in 1Q17 was lower by 56.9% compared to the reported income of ₱350 million in the same period last year. Equity in net earnings from our stake in VMC contributed ₱116 million. As of March 31, 2017, LTG's stake in VMC stood at 30.2%.

Consolidated revenues amounted to ₱15.1 billion for the quarter ended March 31, 2017, 11.2% higher than the ₱13.6 billion recognized in 2016 on account of the increased revenues in the banking, beverage, and distilled spirits segment.

Cost of sales and services increased by 22.1% from ₱5.8 billion for quarter ended March 31, 2016 to ₱7.1 billion for the same period in 2017, primarily attributable to higher interest expense on deposit liabilities and increased cost of sales of the distilled spirits and beverage segments mainly due to higher excise taxes and raw material costs. The property development segment reported a 36.2% decline in cost of sales as a result of lower booked sales from real estate development projects.

Operating expenses amounted to ₱6.7 billion in 1Q17 from ₱6.3 billion in 1Q16 or an increase of 6.3%. This was as a result of increased general and administrative expenses by 3.4%, from ₱5.8 billion in 2016 to ₱6.0 billion in 2017 and increase of 39.4% in selling expenses, which amounted to ₱499 million in 2016 as against ₱696 million in 2017.

SEGMENT OPERATIONS

Banking

The banking segment's net income was ₱1.3 billion for the quarter ended March 31, 2017, 50.5% lower than the ₱2.6 billion recorded for the same period in 2016.

Interest income from banking operations was at ₱6.5 billion in 2017, 12.9% higher than the ₱5.8 billion earned last year, mainly on account of higher interest income from loans and deposits with banks and others.

Interest expense was at ₱1.4 billion for the quarter ended March 31, 2017, up 21.7% from ₱1.1 billion in same period of 2016 resulting to a net interest income of ₱5.1 billion, 10.7% higher year-on-year.

Net service fees and commission income declined from the previous period's ₱846 million to ₱709 million due to lower underwriting and securities dealership transactions as well as loan and deposit related fee income.

Miscellaneous income declined by 65.7% to ₱1.1 billion, due to lower gains on ROPA sale and mark-to market gain on trading and investment securities. 1Q16 included a gain from sale of land to Eton of ₱1.3 billion.

Operating expenses slightly increased by 2.5% primarily due to higher depreciation, occupancy and equipment related cost and miscellaneous expenses.

Beverage

The beverage segment's net income was lower by 56.9% to ₱151 million for the quarter ended March 31, 2017 from ₱350 million in the same period last year.

Revenues of the beverage segment were higher by 5.8% to ₱3.1 billion in 2017 from ₱3.0 billion in 2016. This was driven by the continued growth in revenues of Absolute and Summit water, Creamy Delight yogurt, Vitamilk soymilk and commercial packaging.

Operating expenses increased by 46.7% to ₱669 million in 2017 from ₱456 million in 2016 on account of higher depreciation, advertising and promotional expenses, professional fees and outside services, salaries and wages and miscellaneous expenses.

Distilled Spirits

The distilled spirits segment posted a net income of ₱207 million for the quarter ended March 31, 2017, a 152.4% increase from the net income of ₱82 million reported in the same period last year.

Net revenues were higher by 36.7% to ₱4.2 billion in 1Q17 compared to 1Q16's ₱3.1 billion due to higher volumes of liquor especially the flagship product Tanduay Five Years.

Cost of sales increased by 37.2% to ₱3.6 billion in the current period as against ₱2.6 billion in the same period last year primarily due to higher volume, alcohol costs and excise taxes. Consequently, gross profit margin remained flat at 16.0% year-on-year.

Operating expenses remained flat at ₱0.41 billion in 1Q17 and 1Q16.

Property Development

The property development segment reported a net income of ₱72 million for the first three months of 2017, higher than the ₱62 million for the same period last year. Gross profit slightly decreased by 1.2% or ₱4 million as compared to the same period last year. Residential property sales were lower by 40.2% to ₱207 million for 1Q17.

Rental revenue for the first quarter of 2017 accounted for ₱328 million or 61.3% of revenues, representing 6.1% growth over the same period in 2016, as the lease contracts were renewed at higher rates for the BPO offices.

Operating expenses were slightly higher by 5.9% from ₱153 million in 1Q16 to ₱162 million in 1Q17.

Tobacco

The tobacco segment's net income was ₱1.0 billion for the quarter ended March 31, 2017, 7.6% higher than the ₱949 million of the same period last year on account of the increase in equity in net earnings from PMFTC (FTC's 49.6% owned associate) from ₱913 million last year to ₱1.0 billion in 2017.

FINANCIAL CONDITION

The Company's consolidated Total Assets as of March 31, 2017 amounted to ₱861.7 billion, an increase of 3.9% from ₱829.1 billion as of December 31, 2016. This was mainly on account of the increase in Current Assets by 6.7% or ₱27.0 billion and increase in Noncurrent Assets of ₱5.6 billion or 1.3%.

The increase in consolidated Current Assets by 6.7% from ₱404.8 billion as of December 31, 2016 to ₱431.7 billion was primarily due to the higher Cash and Cash Equivalents by 11.1% or ₱19.4 billion which was on account of the banking segment's increased levels of Due from BSP, Due from Other Banks, Interbank loans and receivables and Securities Held Under Agreement to Resell. Current Loans and Receivables increased by ₱10.6 billion due to the bank's higher booking of loans in the first quarter of 2017. Inventories and Other Current Assets increased by 7.8% and 14.4%, respectively to ₱13.8 billion and ₱12.1 billion as of March 31, 2017, respectively. There was a 42.1% decrease in Available For Sale Investments due to the various disposals and reclassifications to noncurrent by the bank. Financial Assets at Fair Value through Profit or Loss declined by ₱1.9 billion, mainly due to the banking segments lower levels of FXTN.

The 1.3% increase in Total Noncurrent Assets was mainly due to the movements in the Noncurrent Available for Sale Investments (AFS), Property, plant and equipment (PPE) and Other Noncurrent Assets. Noncurrent AFS Investments increased by 15.8% to ₱69.6 billion in March 31, 2017 from ₱60.1 billion in December 31, 2016 on account of the bank's acquisitions and reclassification from current to noncurrent portion. PPE account increased to ₱41.7 billion in the current period from ₱41.3 billion in December 31, 2016, on account of the various acquisitions for the quarter ended 2017. Deferred income tax assets decreased from ₱1.4 billion in 2016 to ₱1.3 in the current period due to the various temporary timing differences adjustments.

Consolidated Total Liabilities increased by 4.8% to ₱681.5 billion as of March 31, 2017 from ₱650.5 billion as of December 31, 2016. This was on account of the increase in Total Current Liabilities by 8.8% from ₱578.1 billion in December 31, 2016 to ₱629.1 billion as of the end of the current period offset by the decrease in Noncurrent Liabilities of 27.7% from ₱72.4 billion to ₱52.4 billion.

Current portion of the banking segment's Deposit Liabilities amounted to ₱548.3 billion as of March 31, 2017, 6.4% higher than December 31, 2016. Current portion of Bills and Acceptances Payable increased by 45.3% mainly due to the reclassification of currently maturing bills and acceptances payable by the banking segment. Accounts Payable and Accrued Expenses increased to ₱23.9 billion or 38.1% higher than ₱17.3 billion as of December 31, 2016 due to the various accruals of different segments in the first quarter of 2017. Income tax payable is higher by 103.2% versus the December 31, 2016 level. Short-term debt was lower by 20.0% to ₱1.4 billion in the current period from ₱1.8 billion in December 31, 2016, due to the payment of the beverage segment's loan.

The decline in the Noncurrent Liabilities was on account of the decrease in the Deposit Liabilities (noncurrent) of the banking segment from ₱45.9 billion as of December 31, 2016 to ₱32.5 billion as of March 31, 2017 and the decrease in the Noncurrent Bills and Acceptances Payable of the bank by ₱5.8 billion to ₱5.0 billion in the current period from ₱10.8 billion as of end-2016. Other Noncurrent Liabilities of the banking segment decreased by 15.4% or ₱0.83 billion. Financial Liabilities at Fair Value Through Profit or Loss of the banking segment increased to ₱210.0 million as of March 31, 2017.

LT Group's consolidated Total Equity grew 0.9% to ₱180.2 billion as of March 31, 2017, on account of the increase in Retained Earnings coming from the net earnings during the period and other comprehensive income.

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

1.) Revenue

Revenues for the period ended March 31, 2017 amounted to ₱15.1 billion, 11.2% higher from last year's ₱13.6 billion.

2.) Net Income

Consolidated Net Income for the quarters ended March 31, 2017 and 2016 amounted to ₱2.8 billion.

3.) Current Ratio

Current ratio decreased from 0.70:1 in December 2016 to 0.69:1 as of March 2017.

4.) Debt to Equity Ratio

Debt-to-equity ratio increased from 3.64:1 in December 2016 to 3.78:1 as of March 2017.

5.) Earnings/ (Loss) Per Share

LTGI's earnings per share attributable to holders of the parent company for March 2016 and 2015 was ₱0.21.

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

Debt to equity ratio = Total Liabilities / Total Equity
Current ratio = Current assets / Current Liabilities
Earnings per share = Net Income attributable to holders of parent company / Common shares outstanding

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

(i) There are no other trends or any known demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in the Group's increasing or decreasing liquidity in any material way. The Group is not in default or breach of any note, loan, lease or other indebtedness or financing arrangement requiring it to make payments. The Company does not have any liquidity problems.

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

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

(iv) The Group has capital expenditures for the regular replacements and upkeep of its assets.

(v) The company has no known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales, revenue or income from continuing operations.

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

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

Results of our Horizontal (H) and Vertical analyses (V) showed the following material changes:

1. Cash and cash equivalents – H, 11%
2. Financial assets at fair value through profit or loss - current – H, (30%)
3. Available-for-sale investments - current – H, (42%)
4. Loans and receivables-current – H, 6%
5. Inventories – H, 8%
6. Other current assets – H, 14%
7. Available-for-sale investments-noncurrent – H, 16%
8. Property, plant and equipment-at cost – H, 8%
9. Deferred income tax assets – H, (11%)
10. Other noncurrent assets – H, 14%
11. Investment in associates and joint venture – H, 9%
12. Deferred income tax assets- H, (14%)
13. Short-term debts – H, (20%)
14. Deposit liabilities – current – H, 6%
15. Financial liabilities at fair value through profit or loss – current – H, (22%)
16. Bills and acceptances payable - current – H, 45%
17. Accounts payable and accrued expenses – H, 38%
18. Income tax payable- H, 103%
19. Deposit liabilities – noncurrent – H, (29%)
20. Financial liabilities at fair value through profit or loss - noncurrent – H, 100%
21. Bills and acceptances payable - noncurrent – H, (54%)
22. Other noncurrent liabilities- H, (15%)
23. Other comprehensive income – H, 13%
24. Beverage revenue – H, 6%

25. Distilled spirits revenue – V, 5%; H, 7%
26. Property development revenue – H, (18%)
27. Cost of sales and services – H, 22%
28. Selling expenses – H, 39%
29. Finance cost – H, (22%)
30. Finance income – H, 83%
31. Others-net – H, (42%)
32. Provision for income tax – current – V, (5%); H, (51%)
33. Provision for income tax – deferred – H, (84%)
34. Net income from discontinued operations – H, (100%)
35. Net income- V, (9%)

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

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

LT GROUP, INC. and SUBSIDIARIES
AGING OF LOANS AND RECEIVABLE
As of March 31, 2017 (Unaudited)
(In thousands)

TYPE OF ACCOUNTS RECEIVABLE		TOTAL	up to 12 months	1 year to 3 years	Over 3 years to 5 years	Over 5 years	Past due and items in litigation
(a) Finance Receivable		446,635,556	184,917,800	40,276,320	58,753,188	152,640,453	10,047,795
Less: Unearned interest and other deferred income		1,352,277	-	-	-	1,352,277	-
Less: Allowance for credit losses		17,397,727	-	-	-	7,349,932	10,047,795
NET FINANCE RECEIVABLES	P	427,885,552	184,917,800	40,276,320	58,753,188	143,938,244	-
(b) Trade Receivables		12,782,060	11,979,540	-	-	-	802,520
Less: Allowance for credit losses		41,904	-	-	-	-	41,904
NET TRADE RECEIVABLES	P	12,740,156	11,979,540	-	-	-	760,616
(c) Other Receivables		3,501,371	3,490,131	-	-	-	11,240
Less: Allowance for credit losses		11,240	-	-	-	-	11,240
NET OTHER RECEIVABLES		3,490,131	3,490,131	-	-	-	-
NET LOANS AND RECEIVABLES	P	444,115,839	200,387,471	40,276,320	58,753,188	143,938,244	760,616

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

LT GROUP, INC. and Subsidiaries
FINANCIAL SOUNDNESS INDICATORS

	March 31, 2017	December 31, 2016
Current Ratio	0.69	0.70
Debt to Equity Ratio	3.78	3.64
Asset to Equity Ratio	4.78	4.64
	March 31, 2017	**March 31, 2016**
Interest Rate Coverage Ratio	62.73	54.66
Solvency Ratio	0.52	0.23
Profitability Ratios:		
Profit Margin	0.15	0.16
Return on Asset (ROA)	0.013	0.012
Return on Equity (ROE)	0.066	0.068