



103202018002824

**SECURITIES AND EXCHANGE COMMISSION**

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Company Information

SEC Registration No. PW00000343

Company Name LT GROUP, INC.

Industry Classification

Company Type Stock Corporation

**Document Information**

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SEC Registration Number

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**COMPANY NAME**

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

|   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |  |
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Secondary License Type, If Applicable

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| N | / | A |  |
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## COMPANY INFORMATION

Company's Email Address

**info@ltg.com.ph**

Company's Telephone Number

**808-1266**

Mobile Number

|  |     |
|--|-----|
|  | N/A |
|--|-----|

No. of Stockholders

|                   |
|-------------------|
| <p><b>369</b></p> |
|-------------------|

Annual Meeting (Month / Day)

**May 8**

Fiscal Year (Month / Day)

December 31

### CONTACT PERSON INFORMATION

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

Name of Contact Person

**Jose Gabriel D. Olives**

Email Address

**josegabriel.olives@ltg.com.ph**

Telephone Number/s

|     |
|-----|
| N/A |
|-----|

Mobile Number

|  |     |
|--|-----|
|  | N/A |
|--|-----|

**CONTACT PERSON'S ADDRESS**

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

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

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

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

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

1. For the calendar year ended **December 31, 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. **Philippines** 6.  (SEC Use Only)  
Province, Country or other jurisdiction of Industry Classification Code:  
incorporation or organization
7. **11<sup>th</sup> Floor Unit 3 Bench Tower, 30<sup>th</sup> St. corner Rizal drive Crescent Park West 5 Bonifacio**  
**Global City Taguig City** **1634**  
Address of principal office Postal Code
8. **(632) 808-1266**  
Registrant's telephone number, including area code
9. **N/A**  
Former name, former address, and former fiscal year, if changed since last report.
10. Securities registered pursuant to Sections 8 and 12 of the SRC, or 4 and 8 of the RSA
- | <u>Title of Each Class</u>            | <u>Number of Shares of Common Stock<br/>Outstanding and Amount of Debt Outstanding</u> |
|---------------------------------------|----------------------------------------------------------------------------------------|
| <b>Common shares, P1.00 par value</b> | <b>10,821,388,889</b>                                                                  |
11. Are any or all of these securities listed on a Stock Exchange?  
Yes ☒ No ☐
- Philippine Stock Exchange Common Stock - 10,821,388,889 shares**

12. Check whether the registrant:
- (a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Section 11 of the Revised Securities Act (RSA) and RSA Rule 11(a)-1 thereunder and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding 12 months (or for such shorter period that the registrant was required to file such reports);
- Yes ☒ No ☐
- (b) has been subject to such filing requirements for the past 90 days.
- Yes ☒ No ☐
13. Aggregate market value of the voting stock held by non-affiliates of the registrant  
₱52,004,421,933 as of December 31, 2017.
14. Not applicable

**DOCUMENTS INCORPORATED BY REFERENCE**

## PART I – BUSINESS AND GENERAL INFORMATION

### Item 1. Business

#### Corporate History

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

After a series of restructuring activities in 2012 and 2013, LTG has expanded and diversified its investments to include the beverages, tobacco, property development and banking businesses, all belonging to Mr. Lucio C. Tan and his family and assignees (collectively referred to as the “Controlling Shareholders”). These business segments in which LTG and subsidiaries (collectively referred to as “the Group”) operate are described in Note 4 to the consolidated financial statements.

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

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

The Company has interests in the following businesses:

- **Distilled Spirits**—the Company conducts its distilled spirits business through its 100%-owned subsidiary TDI. TDI is the third-largest distilled spirits producer in the Philippines according to Nielsen Philippines, with an approximate 25% share of the Philippine spirits market in 2017.
- **Beverages**— the Company conducts its beverage business through its 99.9%-owned subsidiary, Asia Brewery, Incorporated (ABI). ABI is one of the Philippines’ leading beverage manufacturers, producing energy drinks, bottled water, and soymilk. The company conducts its alcoholic beverage business through ABI’s 50% stake in AB Heineken Philippines Inc. (ABHP)
- **Tobacco**—the Company conducts its tobacco business through its 99.6% ownership in Fortune Tobacco Corporation (FTC), which in turn owns 49.6% of PMFTC. PMFTC is the leading tobacco manufacturer and distributor in the Philippines with an estimated 67.6% market share in the year 2017.
- **Banking**—the Company conducts its banking business through Philippine National Bank (PNB). PNB is a universal bank currently listed in the Philippine Stock Exchange (PSE). The Company’s

indirect ownership in PNB is approximately 56.47%. PNB is the Philippines' fourth largest private commercial bank in terms of total assets in 2017.

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

## **Description of Subsidiaries**

### **Distilled Spirits**

#### **Tanduay Distillers, Inc. (TDI)**

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

The following companies are majority owned by TDI:

- **Asian Alcohol Corporation (AAC) – 95%**  
AAC is a domestic corporation registered with the Philippine Securities and Exchange Commission (SEC) on September 27, 1973. The company is primarily involved in the manufacture of refined and/or denatured alcohol and in the production of fodder yeast, and to market, sell, distribute, and generally deal in any or all of such liquids or products.
- **Absolut Distillers, Inc. (ADI) – 96%**  
ADI was incorporated in the Philippines on September 14, 1990, to engage in, operate, conduct and maintain the business of manufacturing, distilling, importing, exporting, buying, selling or otherwise deal in chemicals including but not limited to alcohol, molasses, bioethanol, biogas and biomass for renewable energy at wholesale and retail and to engage in the business of generating, transmitting and or distributing renewable energy derived from solar power for lighting and power purposes.
- **Tanduay Brands International, Inc. (TBI) – 100%**  
On May 6, 2003, TBI was incorporated in the Philippines to handle the marketing of TDI's products. On December 20, 2016, LTG sold its 100% ownership interest in TBI to TDI.

### **Beverage**

#### **Asia Brewery, Incorporated (ABI)**

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

The following companies are 100%-owned by ABI:

- **Agua Vida Systems, Inc. (AVSI)**  
AVSI was incorporated in the Philippines on August 15, 1994. Its primary business is the distribution and refilling of purified water and water dispensers for use primarily in homes and offices.
- **Waterich Resources Corp. (WRC)**  
WRC was incorporated in the Philippines on September 25, 1997. Its primary business is the toll manufacturing for ABI of *Absolute Pure Distilled Drinking Water* and *Summit Water*.
- **Packageworld, Inc. (PWI)**  
PWI was incorporated in the Philippines on January 15, 1998. Its primary business is the manufacturing of corrugated cartons and trade the same on a wholesale basis.
- **Interbev Philippines, Inc. (IPI)**  
IPI was incorporated in the Philippines on April 28, 2003. Its primary business is the production and distribution of *Cobra* and *energy drinks*.
- **AB Nutribev Corp. (ABNC)**  
AVNI was incorporated in the Philippines on April 22, 2014. Its primary business is the manufacturing and trading of dairy and soy milk-based beverages.
- **Asia Pacific Beverages Pte. Ltd. (APBPL)**  
APBL was incorporated on August 21, 2014 under the laws of Singapore. It was established as an investment holding company for business opportunities in the region. ABPBL acquired 90% of Asia Pacific Beverages Myanmar Co. Ltd. (APBM) in April 2017. APBM is a company incorporated in the Republic of the Union of Myanmar. APBM's primary purpose is to manufacture, market, sell and distribute non-alcoholic ready-to-drink beverage products in Myanmar.

In February 2012, ABI, in partnership with Corporacion Empresarial Pascual S. L. of Spain, also formed ABI Pascual Holdings Pte. Ltd., a jointly controlled entity organized and domiciled in Singapore. In November of that year, the joint venture established ABI Pascual Foods Incorporated (APFI), an operating company in the Philippines engaged in the marketing and distribution of yogurt products in the country.

In May 2016, ABI and Heineken International B.V. (HIBV) of the Netherlands partnered to form AB Heineken Philippines Inc., a jointly controlled corporation in the business of manufacturing, purchasing, importing, exporting, selling and distribution, of alcoholic beverages, non-alcoholic beer, malt-based beverages and related products of the aforementioned beverages. In November 2016, ABI transferred its alcoholic beverage business to ABHP when it commenced commercial operations. Brands controlled by ABHP include ABI-developed brands, Beer na Beer, Colt 45 and Brew Kettle, and HIBV's Heineken and Tiger.

### **Tobacco**

#### **Fortune Tobacco Corporation (FTC)**

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

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

## **Banking**

### **Philippine National Bank (PNB)**

PNB was incorporated in the Philippines on July 22, 1916. PNB is the country's first universal bank and the fourth largest private local commercial bank in terms of assets as of December 31, 2017. PNB has celebrated its Centennial Year of serving the Filipino people in July 2016. For 100 years, PNB stands proud as an institution of stability and security for many Filipinos. With its century of banking history and experience, PNB is poised to move forward to becoming a more dynamic, innovative and service-focused bank, providing service excellence to Filipinos all over the world. PNB provides a full range of banking and other financial services to diversified customer bases including government entities, large corporate, middle market, SME and retail customers, with PNB having the distinction of being one of the only five authorized Government depository banks in the Philippines. The current PNB is a result of the merger between PNB and Allied Banking Corp., which was completed on February 9, 2013.

The following companies are owned by PNB:

| Subsidiaries                                                               | Nature of Business   | Country of Incorporation   | Functional Currency | Percentage of Ownership |          |        |          |
|----------------------------------------------------------------------------|----------------------|----------------------------|---------------------|-------------------------|----------|--------|----------|
|                                                                            |                      |                            |                     | 2017                    |          | 2016   |          |
|                                                                            |                      |                            |                     | Direct                  | Indirect | Direct | Indirect |
| PNB Savings Bank (PNBSB)*                                                  | Banking              | Philippines                | Php                 | 100.00                  | –        | 100.00 | –        |
| PNB Capital and Investment Corporation (PNB Capital)                       | Investment           | - do -                     | Php                 | 100.00                  | –        | 100.00 | –        |
| PNB Forex, Inc. (PNB Forex)                                                | FX trading           | - do -                     | Php                 | 100.00                  | –        | 100.00 | –        |
| PNB Holdings Corporation (PNB Holdings)                                    | Investment           | - do -                     | Php                 | 100.00                  | –        | 100.00 | –        |
| PNB General Insurers Inc. (PNB Gen)                                        | Insurance            | - do -                     | Php                 | 65.75                   | 34.25    | 65.75  | 34.25    |
| PNB Securities, Inc. (PNB Securities)                                      | Securities Brokerage | - do -                     | Php                 | 100.00                  | –        | 100.00 | –        |
| PNB Corporation Guam                                                       | Remittance           | USA                        | USD                 | 100.00                  | –        | 100.00 | –        |
| PNB International Investments Corporation (PNB IIC)                        | Investment           | - do -                     | USD                 | 100.00                  | –        | 100.00 | –        |
| PNB Remittance Centers, Inc. (PNB RCI) <sup>(a)</sup>                      | Remittance           | - do -                     | USD                 | –                       | 100.00   | –      | 100.00   |
| PNB Remittance Co. (Nevada) <sup>(b)</sup>                                 | Remittance           | - do -                     | USD                 | –                       | 100.00   | –      | 100.00   |
| PNB RCI Holding Co. Ltd. <sup>(b)</sup>                                    | Holding Company      | - do -                     | USD                 | –                       | 100.00   | –      | 100.00   |
| Allied Bank Philippines (UK) Plc (ABUK)*                                   | Banking              | United Kingdom             | GBP                 | 100.00                  | –        | 100.00 | –        |
| PNB Europe PLC                                                             | Banking              | - do -                     | GBP                 | 100.00                  | –        | 100.00 | –        |
| PNB Remittance Co. (Canada) <sup>(c)</sup>                                 | Remittance           | Canada                     | CAD                 | –                       | 100.00   | –      | 100.00   |
| PNB Global Remittance & Financial Co. (HK) Ltd. (PNB GRF)                  | Remittance           | Hong Kong                  | HKD                 | 100.00                  | –        | 100.00 | –        |
|                                                                            |                      | People's Republic of China |                     |                         |          |        |          |
| Allied Commercial Bank (ACB)* <sup>(d)</sup>                               | Banking              |                            | USD                 | 99.04                   | –        | 99.04  | –        |
| PNB-IBJL Leasing and Finance Corporation (PILFC) <sup>(e)</sup>            | Leasing/Financing    | Philippines                | Php                 | 75.00                   | –        | 75.00  | –        |
| PNB-IBJL Equipment Rentals Corporation <sup>(f)</sup>                      | Rental               | - do -                     | Php                 | –                       | 75.00    | –      | 75.00    |
| Allianz-PNB Life Insurance, Inc. (APLII) (formerly PNB LII) <sup>(g)</sup> | Insurance            | - do -                     | Php                 | 44.00                   | –        | 80.00  | –        |
| Allied Leasing and Finance Corporation (ALFC) *                            | Rental               | - do -                     | Php                 | 57.21                   | –        | 57.21  | –        |
| Allied Banking Corporation (Hong Kong) Limited (ABCHKL) *                  | Banking              | Hong Kong                  | HKD                 | 51.00                   | –        | 51.00  | –        |
| ACR Nominees Limited *                                                     | Banking              | - do -                     | HKD                 | –                       | 51.00    | –      | 51.00    |
|                                                                            |                      | British Virgin Islands     |                     |                         |          |        |          |
| Oceanic Holding (BVI) Ltd.*                                                | Holding Company      |                            | USD                 | 27.78                   | –        | 27.78  | –        |

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

<sup>(a)</sup> Owned through PNB IIC

<sup>(b)</sup> Owned through PNB RCI

<sup>(c)</sup> Owned through PNB RCI Holding Co. Ltd.

<sup>(d)</sup> Purchase of additional shares was approved by BSP and China Banking Regulatory Commission on June 4, 2014 and November 12, 2015, respectively. On November 27, 2015, PNB purchased 8.63% ownership interest from individual stockholders.

<sup>(e)</sup> Formerly Japan-PNB Leasing

<sup>(f)</sup> Formerly Japan-PNB Equipment Rentals Corporation. Owned through PILFC

<sup>(g)</sup> As of December 31, 2015, APLII was classified as a disposal group held for sale and as a discontinued operation. The acquisition of the shares of APLII by Allianz SE was completed on June 6, 2016. As of December 31, 2017, the Group owns 44.0% interest in APLII and is presented as investment in an associate in the consolidated balance sheet..

### **Bank Holding Companies**

On February 11, 2013, LTG's Board of Directors (BOD) approved the acquisition of indirect ownership in the merged PNB through the investment in the 27 holding companies which have collective ownership interest in PNB of 59.83% (collectively referred to as "Bank Holding Companies"). LTG's acquisition was

effected by way of subscription to the increase in authorized capital shares of 22 Bank Holding Companies direct buy-out of shares of 5 Bank Holding Companies. As of December 31, 2017, LTG has majority ownership over the Bank Holding Companies which translates to an indirect 56.47% ownership of PNB.

The following are the 27 bank holding companies:

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

### **Property Development**

#### **Saturn Holdings, Inc. (Saturn)**

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

#### **Paramount Landequities, Inc. (Paramount)**

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

### **Eton Properties Philippines, Inc. (ETON)**

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

The following companies are 100%-owned by ETON:

- **Belton Communities, Inc. (BCI)**  
BCI was incorporated and registered with the SEC on November 5, 2007 and is engaged to deal and engage in land or real estate business.
- **Eton City, Inc. (ECI)**  
ECI was incorporated and registered with the SEC on October 8, 2008 and is engaged to own, use, improve, develop, subdivide, sell, exchange, lease and hold for investment or otherwise, real estate of all kinds, including buildings, houses, apartments and other structures.
- **FirstHomes, Inc. (FHI)**  
On October 15, 2010, FHI was incorporated and registered with Philippine SEC as a wholly-owned subsidiary of Eton and is engaged in real estate development.
- **Eton Properties Management Corporation (EPMC)**  
EPMC was incorporated and registered with the SEC on November 25, 2011 to manage, operate, lease, in whole or in part, real estate of all kinds, including buildings, houses, apartments and other structures of the Corporation or of other persons provided that they shall not engage as property manager of a real estate investment trust. EPMC has started its commercial operations in 2016.

### **Products**

#### **Distilled Spirits**

##### **Rum Products**

1. Tanduay Five Years Fine Dark Rhum
2. Tanduay Rhum 65 Fine Dark Rhum (“Rhum 65”)
3. Tanduay E.S.Q. Fine Dark Rhum (“E.S.Q.”)
4. Tanduay White Premium Rhum
5. Tanduay Superior Dark Rhum
6. Tanduay Five Years Light
7. Boracay Rum
8. Tanduay Asian Rum Gold
9. Tanduay Asian Rum Silver
10. Tanduay 1854 Rhum
11. Tanduay Select

##### **Gin Products**

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

##### **Brandy Products**

1. Compañero Light Brandy

##### **Vodka Products**

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

##### **Whiskey Products**

1. Embassy Whiskey

#### **Cocktails**

1. Tanduay Cocktails

#### **Medicinal Wine**

1. Vino Agila

#### **Bioethanol**

The Company's distillery subsidiaries, ADI and AAC, are registered with the Sugar Regulatory Administration (SRA) as bioethanol producers with a registered capacity per year of 30 million liters each. Under RA 9367 of 2006, otherwise known as the Biofuels Law, all liquid fuels for motors and engines sold in the Philippines shall contain locally-sourced biofuels components. Effective 2010, or four years from effectivity of the law, the mandated blend of bioethanol by volume into all gasoline fuel distributed and sold by local oil companies is 10%. In the event of supply shortage of locally-produced bioethanol, oil companies shall be allowed to import bioethanol but only to the extent of the shortage as maybe determined by the National Biofuels Board (NBB).

ADI started commercial operation of its ethanol plant in 2016. AACs bioethanol plant is still non-operational.

#### **Solar Power**

ADI operates a 2 megawatt solar power generating facility, licensed under RA 9513, also known as the "Renewable Energy Act of 2008". The entire electric power generated by ADI's solar power system is sold to the National Grid Corporation of the Philippines (NGCP) at the approved Feed-In-Tariff rate of PhP8.69 per kilowatt-hour under a 25-year solar energy supply contract.

#### **Other Products**

The Company's distillery companies also manufacture and sell denatured alcohol, liquid carbon dioxide and dry ice which are the main by-products from the distillation process.

#### **Beverage**

##### **Energy Drinks**

1. Cobra

##### **Drinking Water**

1. Absolute Pure Distilled Drinking Water
2. Summit Natural Drinking Water
3. Summit Still
4. Summit Sparkling

##### **Others**

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

##### **Commercial Glass**

APFI product include:

1. Creamy Delight Yogurt

APBM products sold in Myanmar include:

1. Sunkist carbonated soft drinks
2. Sunkist juice drink
3. Air Soda
4. Cobra energy drink

ABHP products sold in the Philippine market include:

**Beer**

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

**Alcopop**

1. Tanduay Ice
2. Tanduay Ice Zero
3. Tanduay Ice Signature Vodka

**Tobacco**

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

1. Marlboro
2. Fortune
3. Jackpot
4. More
5. Hope
6. Champion
7. Philip Morris
8. Mark
9. Boss

**Banking**

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

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

## **Property Development**

### **Completed Developments:**

#### ***High-rise***

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

#### ***Mid-rise***

1. The Manors at North Belton Communities

#### ***Residential Subdivisions***

1. South Lake Village at Eton City
2. Riverbend at Eton City
3. West Wing Residences at North Belton Communities
4. 68 Rocas

#### ***Commercial***

1. Centris Walk
2. Centris Walk Extension
3. Centris Steel Parking Buildings
4. Centris Station
5. Green Podium
6. Villagewalk

#### ***BPO Office***

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

#### ***Events Venue***

1. Elements at Centris

#### ***Serviced Residences***

1. Mini Suites at Eton Tower Makati

### **Ongoing Developments:**

#### ***Residential Subdivisions***

1. Tierra Bela
2. West Wing Residences at Eton City
3. West Wing Villas

#### ***Commercial***

1. WestEnd Square
2. Arcada
3. NXTower I
4. Eton Square Ortigas
5. New Homes
6. Eton City Square

#### ***BPO Office***

1. Cyberpod Centris Five

## **Distribution method of the products**

### **Distilled Spirits**

#### **Liquor Products**

As of December 31, 2017, TDI serves more than 215,000 points of sale throughout the Philippines through ten (10) exclusive distributors, who in turn may work with a large number of sub-distributors. TDI has generally maintained good business relationships with its distributors since 1988. TDI's distributors operated 48 sales offices and 84 warehouses located throughout the Philippines. TDI through TBI employs in-house sales staffs who provide marketing and general administrative support to TDI's distributors. TDI's products are transported from the production facilities to distributors' warehouses by third party transportation companies for the account of the distributors.

#### **Ethanol and distillery by-products**

These are either delivered by distillery tankers to the customers or picked-up by the customers at the distillery plants.

### **Beverage**

ABI markets, sells and distributes its products throughout the Philippines through 13 exclusive major distributors. ABI's exclusive distributors have a network of 47 sales offices, 21 warehouses and 40 depots. This extensive network assures product availability to ABI consumers and also provides ABI expeditious nationwide placement of new products. ABI's products are transported to distributors' warehouses by third party transportation companies, with the costs for the account of such distributors.

### **Tobacco**

PMFTC distributes through wholesalers and retailers directly to approximately 130,000 points of sale throughout the Philippines. PMFTC segments its distribution into two separate channels:

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

### **Banking**

PNB, through its Head Office and 692 domestic branches/offices and 72 overseas branches, representative offices, remittance centers and subsidiaries, provides a full range of banking and financial services to large corporate, middle-market, small medium enterprises (SMEs) and retail customers, including OFWs, as well as to the Philippine National Government, national government agencies (NGAs), local government units (LGUs) and GOCCs in the Philippines. PNB's principal commercial banking activities include deposit-taking, lending, trade financing, foreign exchange dealings, bills discounting, fund transfers/remittance servicing, asset management, treasury operations, comprehensive trust services, retail banking and other related financial services.

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

#### **Institutional Banking Sector**

The Bank's Institutional Banking Sector (IBS) is responsible for credit relationships with large corporate, middle-market and SME customers as well as with GOCC and financial institutions.

#### **Retail Banking Sector**

The Retail Banking Group (RBS) principally focuses on retail deposit products (i.e., current accounts, savings accounts and High Cost accounts) and services. While the focal point is the generation of low cost funding for the Bank's operations, the RBS also concentrates on the cross-selling of consumer finance products, trust products, fixed income products, credit cards and bancassurance products to existing customers and referred customers by transforming its domestic branch distribution channels into a sales-focused organization.

### **Consumer Finance**

The Bank's consumer financing business is seen to be a major contributor to its revenue stream in the medium term. PNB Savings Bank (PNBSB) serves as the consumer arm of PNB. Strategic initiatives have been undertaken to put in place the proper infrastructure to support PNBSB's business growth. To further propel consumer loans growth, a number of marketing campaigns, aimed at generating business and increasing product awareness, were initiated.

### **Treasury Sector**

The Treasury Sector primarily manages the liquidity and regulatory reserves of the Bank and risk positions on interest rates and foreign exchange borne out from the daily inherent operations in deposit taking and lending and from proprietary trading. This includes an oversight on risk positions of its foreign branches and subsidiaries.

### **Global Filipino Banking Group**

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

### **Trust Banking Group**

The Bank, through its Trust Banking arm provides a full range of Trust, Agency, and Fiduciary products and services designed to serve a broad spectrum of market segments. Its personal trust products and services include personal management trust, investment management, estate planning, guardianship, and life insurance trust. Corporate trust services and products include corporate trusteeship, securitization, portfolio management, administration of employee benefit plans, pension and retirement plans, and trust indenture services. Trust agency services include such roles as bond registrar, collecting and paying agent, loan facility agent, escrow agent, share transfer agent, and receiving bank.

### **Property Development**

The Company markets its projects to residential market segments, office locators and commercial tenants through internal and external sales and marketing channels. For its leasing business, the Company employs a dedicated team who coordinates with business entities for leasing opportunities in the company's various projects.

### **Status of any publicly-announced new product or services**

#### **Distilled spirits**

There were no publicly-announced new projects for the distilled spirits, ethanol and power and property development segments.

#### **Beverage**

To encourage children to be more excited about bottled water as a fun choice over sweetened beverages, Disney co-branded Absolute 250ml bottles were launched in May 2017.

In November 2017, Summit became the first local bottled water brand to venture into the premium glass water segment through the launch of Summit Still and Summit Sparkling,

In July 2017, APFI launched two new flavours of its Creamy Delight Greek style yogurt – Vanilla and Mixed Berries.

### **Banking**

The Bank has launched the following products and services in 2017:

- Issuance of Long Term Negotiable Certificates of Time Deposits (LTNCTD)
- EMV Certification for ATMs
- PNB Mobile Banking App
- Electronic Channels Integration to New Core Banking System
- PNB Savings Bank Power Saver Account (PNB Savings Account)
- Enhanced PNB Internet Banking

### **Tobacco**

In 2017, the following were the product innovations and upgrades:

1. *Marlboro* International Design (soft pack to flip top box)
2. *Fortune* Tribal Mint Splash Tropical
3. *Fortune* Core pack upgrade (soft pack to flip top box)

### **Property Development**

In 2017, Eton broke ground at Eton City called Eton Square Ortigas.

There were no publicly-announced new projects for distilled spirits.

### **Competitive business condition/position in the industry**

#### **Distilled Spirits**

##### **Liquor Products**

The Philippine liquor market grew by 4% in 2017 based on the retail audit of Nielsen . The Mindanao area posted the highest growth rate at 10% followed by North Luzon at 5%. The market improvement in these areas, which are dominated by rum and gin brands, resulted in the increase in rum and gin consumption by 8% and 10%, respectively, while brandy declined by 7%.

Because of the strong performance of rum in Southern Philippines, TDIs market share improved to 25% in 2017. Likewise, GSM improved its market share to 30% as the preference for liquor with higher alcohol content grew. EDI maintained its lead, with the market share of 38% but declined from its 47% share in 2013.

Demand for imported liquor in the Philippines continued to grow in 2017 led by whisky and tequila. On the lower end products, medicinal wine also grew in double digits, particularly in Southern Philippines.

TDI is reenergizing its portfolio in 2018 and in the coming years to cater the emerging consumer segments.

##### **Bio-Ethanol Fuel**

There are presently fifteen registered local bioethanol producers in the country with a total registered capacity of 455 million liters (ML) per year. In 2017, only 12 bioethanol producers with a combined capacity of 322 ML were operational as against the country's total ethanol requirement of around 500 to 600ML. Due to the shortage in local bioethanol supply, oil companies were being allowed to import bio-ethanol to cover the deficiency. The intent of the law however is that all locally produced ethanol must be consumed first before any importation is allowed. Presently, the Department of Energy controls the importation of ethanol through the Notice of Value of Bioethanol Importation Allowed (NAVBI).

### **Beverage**

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

- Energy drinks - ABI competes with Pepsico's *Sting* energy drink, Coca-Cola's *Samurai* energy drink, *Extra Joss*, *Lipovitan* and others;
- Bottled water - ABI's main competitors are Philippine Spring Water Resources' *Nature's Spring* and Coca-Cola's *Wilkins*, among others; and
- Soymilk - ABI competes with *Vitasoy*, *Lactasoy* and *Soyfresh*.

ABI, through its stake in ABHP, competes against the following alcoholic beverage brands:

- Beer - ABHP competes mainly with *San Miguel Beer*, *San Mig Light*, *Red Horse Beer*, *San Miguel Premium All-Malt Beer* and *Gold Eagle Beer*, all of which are brands of the San Miguel Corporation; and
- Alcopop - ABHP's main competitors include *Antonov*, *Vodka Ice*, *Smirnoff* and *Infinet*.

### **Tobacco**

Competition in the tobacco industry is usually among leading Philippine and international cigarette brands across all product categories. PMFTC's main competitors are JTI Philippines, BAT and Associated Anglo-American Tobacco (AAATC). JTI offers a number of well-known international brands such as *Winston*, *Camel* and *Mevius*. With the finalization of its acquisition of Mighty Corporation last September 2017, JTI now carries Philippine brands such as *Mighty* and *Marvels*. BAT, which offers international brands such as *Lucky Strike* and *Pall Mall*, also announced through media reports its closure of its operations in the Philippines by end 2017. Key brands of AAATC, a local manufacturer, are *Winsborro* and *Dallas*.

### **Banking**

In the Philippines, the Bank faces competition in all its principal areas of business, from both Philippine (private and government-owned) and foreign banks, as well as finance companies, mutual funds and investment banks. The competition that the Bank faces from both domestic and foreign banks was in part a result of the liberalization of the banking industry with the entry of foreign banks under Republic Act (R.A.) 7721 in 1994 and R.A. 10641 in 2014, as well as, the recent mergers and consolidations in the banking industry. As of the latest available data from the BSP, there were 43 universal and commercial banks, of which 17 are private domestic banks, 3 are government banks and 23 are branches or subsidiaries of foreign banks. Some competitor banks have greater financial resources, wider networks and greater market share than PNB. Said banks also offer a wider range of commercial banking services and products; have larger lending limits; and stronger balance sheets than PNB. To maintain its market position in the industry, the Bank offers diverse products and services, invests in technology, leverages on the synergies within the Lucio Tan Group of Companies and with its Government customers, as well as builds on relationships with the Bank's other key customers.

The Bank also faces competition in its operations overseas. In particular, the Bank's stronghold in the remittance business in 16 countries in North America, Europe, the Middle East and Asia is being challenged by competitor banks and non-banks. As of December 31, 2017, the Bank has a distribution network of 692 branches and offices and 1,243 ATMs nationwide. The Bank is the fourth largest local private commercial bank in the Philippines in terms of local branches and the fourth largest in terms of consolidated total assets, net loans and receivables, capital and deposits. In addition, it has the widest international footprint among Philippine banks spanning Asia, Europe, the Middle East and North America with its overseas branches, representative offices, remittance centers and subsidiaries.

### **Property Development**

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

### **Raw Materials and Principal Suppliers**

#### **Distilled Spirits**

- **Alcohol**

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

Alcohol is delivered directly to the plant by tankers. The quality of alcohol is checked prior to acceptance. In 2017, alcohol accounted for 30% of product cost while excise tax accounted for 36% of the total costs. The tax is paid upon withdrawal of the full goods from the production sites. With the temporary shutdown of AAC's operations, TDI increased its importation of alcohol from Pakistan & Indonesia.

The distillery companies obtain their molasses from sugar mills and traders. Major suppliers are Universal Robina Corporation, Victorias Milling Corporation, Binalbagan Sugar Company, LYL Marketing, Shuurmans & Van Ginneken Phils., Inc., Grandcane Company, Inc., and Tate & Lyle Corp.

- **Sugar**

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

- **Water**

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

- **Flavoring Agents**

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

- **Bottles**

TDI's liquor products are packaged in glass bottles. Glass bottles account for approximately 20% of cost of goods sold for TDI's products. The cost is managed in part by recycling the bottles. TDI maintains a network of secondhand bottle dealers across the nation that retrieve the bottles from the market and sell them back to TDI. The cost of the secondhand bottles including the cost of cleaning is 50% lower than the cost of purchasing new bottles.

- **Caps**

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

- **Labels**

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

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

**Beverage**

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

Quality of water is the primary ingredient in the water bottling business of ABI. Water is sourced primarily from sites near the bottling plants and undergoes several purifying steps to ensure it meets standards.

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

**Tobacco**

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

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

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

**Banking**

This is not applicable for banks.

**Property Development**

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

**Dependence on one or two major customers**

**Distilled Spirits**

**Liquor Products**

TDI markets, sells, and distributes its products throughout the Philippines. In the year ended December 31, 2017, sales volume in the Visayas and Mindanao regions accounted for approximately 47% and 50% of TDI's gross sales volume, respectively. TDI attributes its leading position in the distilled spirits products to strong brand equity, utilization of diverse marketing channels and an established sales and distribution network.

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

### **Bioethanol**

ADIs principal customers for its bioethanol are local oil companies on a purchase order basis and there are no long-term supply commitments/ arrangements .

### **Beverage**

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

### **Tobacco**

PMFTC directly sells its products primarily to local wholesalers, which then sell products to retailers such as sari-sari stores. Sari-sari stores and vendors often sell cigarettes to adult consumers by the stick as opposed to selling by the pack. Due to their presence across a wide network of localities and their financial capacity, these wholesalers offer a means for manufacturers such as PMFTC to reach a large number of retailers and customers without having to sell to each individual point of sale.

### **Banking**

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

### **Property Development**

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

### **Transactions with and/or dependence on related parties**

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

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

#### **Distilled Spirits**

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

TDIs bottling and distillery plants have current Environmental Compliance Certificate issued by the DENR. TDI has a license to operate from the Bureau of Food and Drugs and all liquor products currently being produced are registered with the Bureau of Food and Drugs and the BIR.

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

ADI entered into a 25-year solar energy service contract with the DOE for the right to explore solar energy resources in agreed areas in Lian , Batangas, renewable for another 25 years at the option of the parties.

ADIs solar power plant is registered with the Board of Investments (BOI) under the Omnibus Investment Code of 1987.

TDI and its subsidiaries have existing service agreements with two (2) service contracting agencies and two (2) labor cooperatives .

#### **Beverage**

ABI has caused the registration with the Philippine Intellectual Property Office of a variety of marks including “Asia Brewery, Inc.,” the ABI logo, *Cobra Energy Drink*, *Absolute Pure Distilled Drinking Water*, *Summit Water*, *Creamy Delight*, and *Barista’s Best*. These exclusive distribution licenses are registered with the IPO and the equivalent regulatory agencies in various other countries.

Under the terms of the business combination between ABI and HIBV, the intellectual property rights of the following ABI-developed brands were transferred to ABHP: *Colt 45*, *Beer na Beer*, *Manila Beer Light*, *Brew Kettle*, and *Red Oak*. ABHP holds licenses for the Heineken and Tiger trademarks from HIBV.

ABI and its subsidiaries have existing license agreements with Switzerland's Nestle, the U.S.'s Sunkist Growers, Inc. and Thailand's Green Spot Company Limited for the manufacture and distribution of Nestea, Sunkist and Vitamilk, respectively.

### **Tobacco**

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

### **Banking**

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

### **Property Development**

The trademark of the following names and devices were approved by the Intellectual Property Office (IPO) as follows: a) in 2008, Eton City, Eton corporate name and device; The Eton Residences Greenbelt; Eton Baypark Manila; Eton Centris; and the Move-In Ready labels; b) in 2009, IPO approved the trademark of The Makati of the South and Eton Emerald Lofts; c) in 2011, the IPO approved the trademarks of the following names and devices: Centris Walk, Eton Tower Makati, Riverbend, Eton Parkview Greenbelt, South Lake Village, Eton Cyberpod, Centris Station, 8 Adriatico, Belton Pace, E-Life, West Wing Villas, Green Podium, Aurora Heights Residences, West Wing Residences, One Archers Place and 68 Rocas; d) in 2012, the IPO approved the trademarks of the following names and devices: West Wing Tropics, One Centris Place; (e) in 2016, the IPO approved the trademark of The Mini Suites and Eton WestEnd Square.

These trademarks shall be valid for a period of ten (10) years from notice of approval.

The following trademarks were applied for with the Intellectual Property Office in 2017:

1. Station Alley at Centris
2. Arcada
3. Eton Nexus Tower
4. NXTower
5. Eton "NXT" Tower
6. The Courtyard at Eton City

### **Need for any government approval of principal products**

#### **Distilled Spirits & Beverages**

The approval of the Bureau of Food & Drugs and Bureau of Internal Revenue is required before selling and/or advertising a new product. In addition, all new products must be registered with the BIR prior to production. ADI and AAC are registered bio-ethanol producers with the Sugar Regulatory Administration.

### **Tobacco**

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

### **Banking**

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

### **Property Development**

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

### **Effect of existing or probable governmental regulations on the business**

#### **Distilled Spirits**

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

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

TDI and its subsidiaries are subject to various laws promulgated to protect the environment such as the Environment Impact Statement System (EIS), Clean Air Act, Clean Water Act Law, Laguna Lake Development Act. Compliance with these laws is mandatory for the continued operation of TDI and its subsidiaries.

The pricing for local ethanol products is based on the reference rate as set by the SRA.

#### **Beverage**

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

ABI's products are subject to value added taxes ("VAT"). Any increases in VAT may reduce the overall consumption of ABI's products. Beer and other alcoholic beverages of ABHP, including alcopop products such as Tanduay Ice, are subject to an excise tax in addition to VAT. Starting January 2018, a tax on sugar-sweetened beverages was imposed, subjecting several ABI products – Cobra, Sunkist, Nestea, and Barista's Best – to excise taxes. Any increases in the rate and scope of excise taxes imposed by the taxing authorities may likewise reduce consumption.

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

#### **Tobacco**

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

During the first year of R.A. 10351's implementation, high-priced cigarettes were taxed at a rate of ₱25.00 per pack and low-priced cigarettes will be taxed at ₱12.00 per pack. In the second year, the rates were increased to ₱27.00 and ₱17.00 per pack, respectively. In 2015, the high priced cigarettes were taxed at ₱28.00 per pack and the low-priced cigarettes at ₱21.00 per pack. Said rates were increased in 2016 to ₱29.00 and ₱25.00 per pack, respectively. In 2017, all cigarettes were taxed with a unitary rate of ₱30.00 per pack.

On December 19, 2017, the President of the Philippines signed into law Republic Act (RA) No. 10963 or the Tax Reform for Acceleration and Inclusion (TRAIN), which increases the unitary excise tax higher than the RA 10351. New excise tax rate per pack is at ₱ 32.50 from January until June 2018, ₱35.00 until December 2019, ₱ 37.50 until 2021, then ₱ 40.00 until 2023, with an increase of four percent annually from 2023 onwards.

From the regulatory standpoint, Executive Order No. 26 (Providing for the establishment of smoke-free environments in public and enclosed places) was also signed by the President and became effective last July 23, 2017.

### **Banking**

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

### **Property Development**

The Company strictly complies with, and adheres to, existing and probable government regulations in the conduct of its business.

### **Research and development activities**

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

### **Costs and effects of compliance with environmental laws**

#### **Distilled Spirits**

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

#### **Environmental Management Facilities**

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

#### **Bottle Recycling**

A major component of TDI's operations is the retrieval of secondhand bottles and the reuse of these bottles in TDI's production process. The cost of a used bottle, including washing costs, is approximately 50%% less than the cost of a new bottle. Apart from the reduced cost, TDI also benefits from the reduced waste in reusing bottles as a bottle can be reused an average of three to four times. TDI relies on a nationwide network of junk shops throughout the Philippines for purchasing second hand bottles. Repurchasing bottles also helps TDI in marketing its products, as customers can sell their bottles after consuming the contents. TDI has also invested in automated bottle washing facilities in all its bottling plants.

## **Waste Water Treatment Plants**

### ***Bottling Plants***

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

### ***Distillation Plants***

Wastewater is collected in lagoons where it undergoes a treatment process to minimize adverse effects on the environment. Treated wastewater, along with other distillery wastes, is also usable as liquid fertilizer. ADI has waste water treatment digester and methane gas collector that reduces carbon emissions and serves as secondary source of power for the distillation plant.

### **Beverage**

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

### **Tobacco**

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

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

### **Banking**

This is not applicable to banks.

### **Property Development**

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

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

### **Human Resources and Labor Matters**

LTG had 12 administrative and 5 regular monthly employees as of December 31, 2017. The total workforce of the Group inclusive of contractual employees was as follows:

|                      |            |
|----------------------|------------|
| Distilled Spirits    | 1,253      |
| Beverage             | 4,024      |
| Tobacco              | 56         |
| Banking              | 8,234      |
| Property development | <u>254</u> |
| Total                | 13,821     |

### **Distilled Spirits**

TDI has 1,253 employees as of December 31, 2017. With the exception of the Cagayan De Oro Plant, all regular daily employees of the TDI plants are unionized. TDI-Cabuyao's regular daily employees has a Collective Bargaining Agreement (CBA) with the NAGKAKAISANG LAKAS MANGGAGAWA NG TDI-FSM, which is effective up to 2022. TDI Negros' regular daily employees assigned in its bottling operations has a CBA with the Labor Union of Tanduary Employees (LUTE) effective up to 2022.

AAC has 165 employees with no existing Union and CBA . .

As of December 31, 2017, ADI had 330 employees. ADI's registered labor union is Absolut Distillers, Inc. Employees Union-Olalia-KMU. Current CBA is effective up to 2020.

TDI and subsidiaries expect to maintain its average number of employees in the next (12) twelve months.

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

### **Beverage**

As of December 31, 2017, approximately out of the 4,024 (including contractual employees) ABI and its subsidiaries directly employed 2,575 people, of which about 71% were employed in manufacturing and logistics, 26% had general and administrative functions, 2% were in sales and distribution, and 1% were in marketing.

ABI and its subsidiaries generally employ a number of outsourced laborers from third-party service providers. ABI contracts with these manpower and services firms for the supply of additional laborers.

ABI is party to a collective bargaining agreement (CBA) for its employees at its Cabuyao plant. The CBA was signed on July 14, 2016, and is effective until December 31, 2018.

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

### **Tobacco**

FTC had 50 regular monthly employees as of December 31, 2017. Effective January 1, 2012, FTC ceased to have daily (regular or casual) employees because of the business combination of FTC and PMPMI effective on February 25, 2010. The operations of FTC and the manufacturing of cigarettes were all transferred to PMFTC, the new company.

### **Banking**

The total employees of the Bank as of December 31, 2017 is 8,234 wherein 3,958 were classified as Bank officers and 4,276 as rank and file employees.

The Bank shall continue to pursue selective and purposive hiring strictly based on business requirements. The Bank has embarked on a number of initiatives to improve operational efficiency. Foremost among

these initiatives are the upgrade of its Systematics core banking system and the new branch banking system which are expected to bring about a gradual reduction in the number of employees in the support group upon full implementation.

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

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

### **Property Development**

The Company had 254 and 372 employees at the close of the calendar year December 31, 2017 and 2016, respectively. The breakdown of the Company employees as of December 31, 2017, according to type are as follows:

|               |            |
|---------------|------------|
| Executive     | 19         |
| Managers      | 46         |
| Supervisors   | 85         |
| Rank and File | <u>104</u> |
| Total         | <u>254</u> |

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

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

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

#### **Distilled Spirits**

##### **Market / Competitor Risk**

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

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

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

### ***Raw Material Supply Risk***

The main raw material that TDI and subsidiaries use for the production of its liquor products and bioethanol is molasses which is subject to price volatility caused by changes in global supply and demand, weather conditions, agricultural uncertainty or governmental controls. A shortage in the local supply of molasses and the volatility in its price may adversely affect the operations and financial performance of TDI and its subsidiaries.

TDI addresses this risk by regularly monitoring its molasses and alcohol requirements. At the start of each annual sugar milling season, TDI normally negotiates with major sugar millers for the purchase in advance of the mill's molasses output at agreed upon prices and terms. It also imports ethyl alcohol in the event that the local supply is not sufficient or if prices are not favorable. Furthermore, TDI's parent company owns a 30.9% stake in Victorias Milling Company, Inc. (VMC) as of December 31, 2017. VMC is the largest sugar producer in the Philippines and currently one of TDI's major supplier of molasses.

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

### ***Credit Risk***

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

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

### ***Trademark Infringement Risk***

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

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

***Regulatory Risk***

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

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

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

***Safety, health and environmental laws risk***

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

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

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

***Counterfeiting risk***

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

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

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

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

## **Beverage**

### ***Market / Competitor Risk***

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

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

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

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

### ***Raw Material Supply Risk***

The manufacture of ABI's products depends on raw materials that ABI sources from third-party and related suppliers. Sugar used to produce energy drinks and other sweetened beverages is generally purchased under supply contracts of up to one year. ABHP's hops and barley are primarily sourced abroad. Raw materials used by ABI and its related companies are subject to price volatility caused by changes in global supply and demand, foreign exchange rate fluctuations, weather conditions and governmental controls.

ABI addresses this risk by actively monitoring the availability and prices of raw materials. ABI may also shift to alternative raw materials used in the production of its products. Apart from these, ABI also monitors the market for hedging opportunities to lock in the price of raw materials such as bunker fuel used in the production of commercial bottles.

### ***Regulatory Risk***

Regulatory decisions or changes in the legal and regulatory requirements in a number of areas related to the beverage industry may have adverse effect on ABI's business. Governmental bodies may subject ABI to actions such as product recall, seizure of products and other sanctions, any of which could have an adverse effect on ABI's sales. Also, any increases in excise taxes or VAT may reduce overall consumption and demand for ABI's products, as consumers prioritize basic necessities in view of higher living costs.

ABI may increase its selling prices and make efforts to reduce costs to address such risks. Close monitoring and coordination with the regulatory agencies on the application and renewal of permits are implemented to manage other regulatory risks.

***Safety, health and environmental laws risk***

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

Strict compliance with environmental laws and regulations is continuously implemented by ABI to address the risk.

**Tobacco**

The tobacco or cigarette industry generally has the following risks:

***Market / Competitor Risk***

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

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

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

***Regulatory Risk***

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

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

***Safety, health and environmental laws risk***

PMFTC's existing and future operations are subject to a broad range of safety, health and environmental laws and regulations. These laws and regulations impose controls on air and water discharges, on storage, handling, employee exposure to hazardous substances and other aspects of the operations of PMFTC's facilities. Failure to properly manage the environmental risks and the operational, health and safety laws and regulations to which PMFTC is subject could also have a negative impact on its reputation.

It is the policy of the company to comply with existing environmental laws and regulations. PMFTC expects to incur operating costs to comply with such laws and regulations. PMFTC has continuously allocated significant investment in environmental, health and safety improvements and upgrades.

### ***Counterfeiting risk***

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

### ***Banking***

As a financial institution with various allied undertakings with an international footprint, PNB continues to comply with an evolving and regulatory and legislative framework in each of the jurisdictions in which we operate. The nature and the impact of future changes in laws and regulations are not always predictable. These changes have implications on the way business is conducted and corresponding potential impact to capital and liquidity.

Effective risk management is essential to consistent and sustainable performance for all of our stakeholders and is therefore a central part of the financial and operational management of the PNB Group (PNB). PNB adds value to clients and therefore the communities in which we operate, generating returns for shareholders by taking and managing risk.

Through our Risk Management Framework we manage enterprise wide risks, with the objective of maximizing risk-adjusted returns while remaining within our risk appetite.

PNB's Board of Directors have the ultimately responsibility and play a pivotal role in bank governance through their focus on two (2) factors that will ultimately determine the success of the bank: responsibility for the bank's strategic objectives and assurance that such will be executed by choice of talents.

Strong independent oversight has been established at all levels within the group. The bank's Board of Directors has delegated specific responsibilities to various board committees which are integral to the PNB's risk governance framework and allow executive management, through management committees, to evaluate the risks inherent in the business and to manage them effectively. There are ten (10) Board Committees as presented previously.

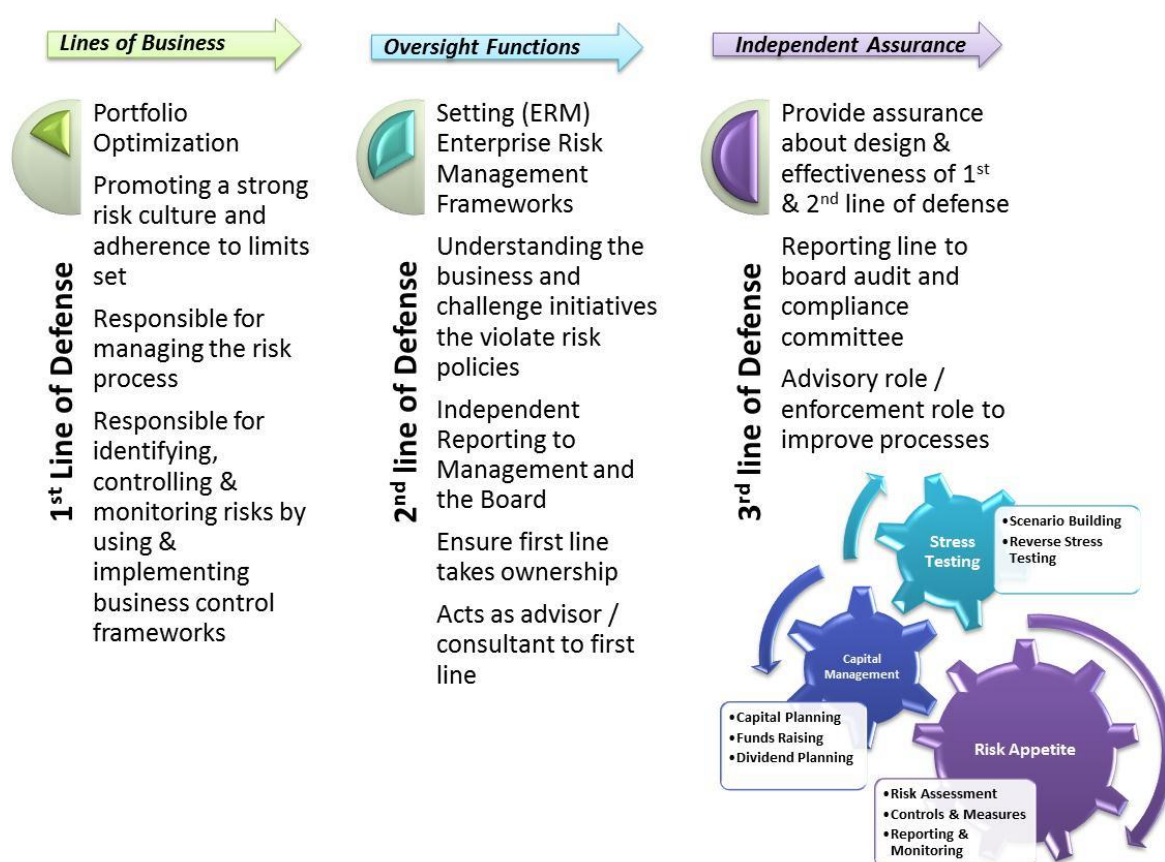
|                           |                                                                       |
|---------------------------|-----------------------------------------------------------------------|
| <b>Board of Directors</b> | Corporate Governance Committee                                        |
|                           | Board Audit and Compliance Committee                                  |
|                           | Risk Oversight Committee                                              |
|                           | Board Oversight Committee - Domestic and Foreign Offices/Subsidiaries |
|                           | Board Oversight RPT Committee                                         |
|                           | Executive Committee                                                   |
|                           | Trust Committee                                                       |
|                           | Board Information Technology Governance Committee                     |

Figure 1: Board Level Committees

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

The approach to managing risk is outlined in the bank's Enterprise Risk Management (ERM) Framework which creates the context for setting policies and standards, and establishing the right practices throughout the PNB Group. It defines the risk management processes and sets out the activities, tools, and organizational structure to ensure material risks are identified, measured, monitored and managed.

PNB's ERM Framework, with regular reviews and updates, has served the bank well and has been resilient through economic cycles. The organization has placed a strong reliance on this risk governance framework and the three lines-of-defense model (see Figure 2), which are fundamental to PNB's aspiration to be world-class at managing risk.



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

The risk management framework of the Bank is under the direct oversight of the Chief Risk Officer (CRO) who reports directly to the Risk Oversight Committee. The CRO is supported by Division Heads with specialized risk management functions to ensure that a robust organization is maintained. The Risk Management Group is independent from the business lines and organized into the following divisions: Credit Risk Division, BASEL and ICAAP Implementation Division, Market & ALM Division, Operational Risk Division, Information Security / Technology Risk Management Division, Data Privacy Program Division, Trust and Fiduciary Risk Division and Business Intelligence & Warehouse Division.

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

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

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

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

In line with the integration of the BSP required ICAAP (internal capital adequacy assessment process) and risk management processes, PNB currently monitors 14 Material Risks (three for Pillar 1 and 11 for Pillar 2). These material risks are as follows:

**Pillar 1 Risks:**

Credit Risk (includes Counterparty and Country Risks)

Market Risk

Operational Risk

**Pillar 2 Risks:**

Credit Concentration Risk

Interest Rate Risk in Banking Book (IRRBB)

Liquidity Risk

Reputational / Customer Franchise Risk (including Social Media and AML Risks)

Strategic Business Risk

Cyber Security Risk / External Fraud Risk

Information Security / Data Privacy

Information Technology (including Core Banking Implementation)

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

## Risk Categories and Definitions

We broadly classify and define risks into the following categories, and manage the risks according to their characteristics. These are monitored accordingly under the enterprise ICAAP 2016 program:

| Risk Category                                                             | Risk Definition                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Risk Monitoring Process                                                                                                                            | Risk Management Tools                                                                                                                                                                                                                                                                                                                                                         |
|---------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Credit Risk (including Credit Concentration Risks and Counterparty Risks) | Credit risk is the risk to earnings or capital that arises from an obligor/s, customer/s or counterparty's failure to perform and meet the terms of its contract.<br>Credit Concentration Risk is part of credit risk that measures the risk concentration to any single customer or group of closely-related customers with the potential threat of losses which are substantial enough to affect the financial soundness of a financial institution (BSP Circular 414) | Loan Portfolio Analysis<br>Credit Dashboards<br>Credit Review<br>Credit Model Validation                                                           | Trend Analysis (Portfolio / Past Due and NPL Levels)<br>Regulatory and Internal Limits<br>Stress Testing<br>Rapid Portfolio Review<br>CRR Migration<br>Movement of Portfolio Concentrations and Demographics Review<br>Large Exposure Report<br>Counterparty Limits Monitoring<br>Adequacy of Loan Loss Reserves Review<br>Specialized Credit Monitoring (Power, Real Estate) |
| Market Risk                                                               | Market risk is the risk to earnings or capital arising from adverse movements in factors that affect the market value of financial instruments, products and transactions in an institution's overall portfolio, both on or off balance sheet and contingent financial contracts. Market risk arises from market-making, dealing and position taking in interest rate, foreign exchange, equity, and commodities market.                                                 | Value at Risk<br>Utilization<br>Results of Marking to Market<br>Risks<br>Sensitivity/Duration Report<br>Exposure to Derivative/Structured Products | VAR Limits<br>Stop Loss Limits<br>Management Triggers<br>Duration Report<br>ROP Exposure Limit<br>Limit to Structured Products<br>30-day AFS Holding Period<br>Exception Report on Traders' Limit<br>Exception Report on Rate Tolerance                                                                                                                                       |
| Liquidity Risk                                                            | Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from an FI's inability to meet its obligations when they come due.                                                                                                                                                                                                                                                                                                | Funding Liquidity Plan<br>Liquidity Ratios<br>Large Fund Providers<br>MCO<br>Liquid Gap Analysis                                                   | MCO Limits<br>Liquid Assets Monitoring<br>Stress testing<br>Large Fund Provider Analysis<br>Contingency Planning                                                                                                                                                                                                                                                              |

|                                                                                      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |                                                                                                                                                                                                                                                                                                                                         |                                                                                                                                                                                                                                                                                                                                                          |
|--------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Interest Rate Risk in the Banking Books (IRBB)                                       | Interest rate risk is the current and prospective risk to earnings or capital arising from movements in interest rates. The amount at risk is a function of the magnitude and direction of interest rate changes and the size and maturity structure of the mismatch position. (BSP Cir. 510, dated 03 Feb 2006)                                                                                                                                                                                                                                                                        | Interest Rate Gap Analysis<br>Earnings at Risk<br>Measurement<br>Duration based<br>Economic Value of Equity                                                                                                                                                                                                                             | EAR Limits<br>Balance Sheet Profiling<br>Repricing Gap Analysis<br>Duration based<br>Economic Value of Equity<br>Stress Testing                                                                                                                                                                                                                          |
| Operational Risk                                                                     | Operational Risk refers to the risk of loss resulting from inadequate or failed internal processes, people and systems; or from external events. This definition includes Legal Risk, but excludes Strategic and Reputational Risk. Operational Risk is inherent in all activities, products and services, and cuts across multiple activities and business lines within the financial institution and across the different entities in a banking group or conglomerate where the financial institution belongs. (BSP Circular 900)                                                     | Risk Identification<br>Risk Measurement<br>Risk Evaluation (i.e. Analysis of Risk)<br>Risk Management ( i.e. Monitor, Control or Mitigate Risk)<br><br>Monitoring of Pillar II Risks fall under the purview of Operational Risk Management:<br>Risk Identification – Risk Maps<br>Risk Measurement and Analysis – ICAAP Risk Assessment | Internal Control<br>Board Approved<br>Operating Policies and Procedures Manuals<br>Board Approved Product Manuals<br>Loss Events Report (LER)<br>Risk and Control Self-Assessment (RCSA)<br>Key Risk Indicators (KRI)<br>Business Continuity Management (BCM)<br>Statistical Analysis                                                                    |
| <b>Included in the Operational Risks:</b>                                            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |                                                                                                                                                                                                                                                                                                                                         |                                                                                                                                                                                                                                                                                                                                                          |
| Reputational Risk (Customer Franchise Risk) Including Social Media Risk and AML Risk | Reputational risk is the current and prospective impact on earnings or capital arising from negative public opinion. Customer franchise risk is defined as the failure to find, attract, and win new clients, nurture and retain those the Bank already has, and entice former clients back into the fold as well as the failure to meet client's expectation in delivering the Bank's products and services.<br><br>Risks in social media include susceptibility to account takeover, malware distribution, brand bashing, inadvertent disclosure of sensitive information and privacy | Risk Identification<br>Risk Measurement<br>Risk Measurement<br>Risk Evaluation (i.e. Analysis of Risk)<br>Risk Management ( i.e. Monitor, Control or Mitigate Risk)<br><br>Monitoring of Pillar II Risks fall under the purview of Operational Risk Management:<br>Risk Identification – Risk Maps<br>Risk Measurement and Analysis –   | Account Closures Report<br>Service Desk Customer Issues Report/Customer Complaints Monitoring Report<br>Mystery Caller/Shopper Evaluation/ Risk Mitigation of negative media coverage<br>Public Relations Campaign<br>Review of Stock Price performance<br>Fraud Management Program<br>Social Media Management Framework<br>Social Media Risk Management |

|                                     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |                                                                                                                                                                                           |                                                                                                                                                                                                                                                                                                                                                              |
|-------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                     | <p>violation, among other possible threats</p> <p>Risks relating to Money Laundering refers to transfers or movement of funds that falls into the following (but not limited to) categories:<br/> Terrorist financing<br/> Unlawful purposes<br/> Transactions over certain amounts as defined by AMLC – Ant-Money Laundering Council</p>                                                                                                                                                                             | <p>ICAAP Risk Assessment</p> <p>Major Factors considered:<br/> Products<br/> Technology<br/> People<br/> Policies and Processes<br/> Stakeholders (including customer and regulators)</p> |                                                                                                                                                                                                                                                                                                                                                              |
| Strategic Business Risks            | Strategic business risk is the current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes.                                                                                                                                                                                                                                                                                                    |                                                                                                                                                                                           | <p>Management Profitability Reports – Budgets vs. Actuals<br/> Benchmarking vis-a-vis Industry, Peers<br/> Economic Forecasting<br/> Annual Strategic Planning Exercise</p>                                                                                                                                                                                  |
| Cyber Security Risk /               | <p>Cyber Risk is the current and prospective impact on earnings, reputation, customer franchise, and/or capital arising from information security threats of attack on the bank's digital footprint through (not limited to) the following:<br/> Breaches in data security<br/> Sabotage on online (web-based) activities (Ransomware, DDOS, etc.)<br/> Common threats (spam, phishing, malware, spoofing viruses, spoofing, etc.)<br/> Scams and Frauds (Social engineering, identity thefts, email scams, etc.)</p> |                                                                                                                                                                                           | <p>Incident Reporting<br/> Management<br/> Information Security<br/> Policy Formulation<br/> Risk Assessment<br/> Information Security Management System Implementation<br/> Continuous InfoSec / cyber risk awareness campaigns<br/> Network Security Protection<br/> Limits on Access Privileges<br/> Scanning of outbound and inbound digital traffic</p> |
| Information Security / Data Privacy | Information Security Risk is the risk to organizational operations due to the potential for unauthorized access, use, disclosure, disruption, modification or destruction of information or information assets that will compromise the Confidentiality, Integrity, and Availability (CIA). Social                                                                                                                                                                                                                    |                                                                                                                                                                                           | <p>Installation of firewalls, IPS/IDS, enterprise security solution (anti-virus for endpoint, email and internet).<br/> Enterprise-wide Implementation of the Information Security Management Systems</p>                                                                                                                                                    |

|                                                                |                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                                                                                                                                                                            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|----------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                                | <p>Engineering can result in various key risk indicators – phishing, spamming, dumpster diving, direct approach, baiting, spying &amp; eaves dropping, among others.</p> <p>Data Privacy Risk refers to the risk of misuse of personal data that could lead to individual harm which may take the form of loss of income, other financial loss, reputational damage, discrimination, and other harms.</p>                                              |                                                                                                                                                                                            | <p>Education / InfoSec Awareness is also constantly conducted</p> <p>Conduct of internal and 3rd party vulnerability assessments and penetration testing (to include social engineering tests) and follow through on remediation of threats and risks</p> <p>Implementing the enterprise-wide data privacy risk management framework which complies with both domestic and global requirements</p> <p>Institutionalization of data protection culture within the group through regular awareness programs</p> |
| Information Technology (including Core Banking Implementation) | <p>Technology Risk result from human error, malicious intent, or even compliance regulations. It threatens assets and processes vital to the bank's business and may prevent compliance with regulations, impact profitability, and damage your company's reputation in the marketplace.</p> <p>Risks in the smooth operation of the newly implemented core banking application may also threaten the delivery of service to clients and customer.</p> | <p>Risk Identification</p> <p>Risk Measurement</p> <p>Risk Measurement</p> <p>Risk Evaluation (i.e. Analysis of Risk)</p> <p>Risk Management ( i.e. Monitor, Control or Mitigate Risk)</p> | <p>Risk Asset Register</p> <p>Risk Awareness Campaigns</p> <p>IT Risk Assessments</p> <p>Formal Project management Program adoption</p> <p>Vulnerability Assessment and Penetration Testing</p> <p>Maintenance and upgrades of disaster recovery sites</p> <p>Business Users / IT joint engagement for problem resolution</p> <p>Technology Operations Management Policies &amp; Guidelines</p> <p>Vendor Management</p> <p>Process Monitoring</p>                                                            |

## Regulatory Capital Requirements under BASEL II – Pillar 1 Capital Adequacy Ratio (in Millions Pesos)

The bank's Capital Adequacy Ratio as of end of December 2017 stands at 15.35% on a consolidated basis while the bank's Risk Weighted Assets (RWA) as of end 2017 amounted to P610,106 million composed of P555,825 million (Credit Risk Weighted Assets-CRWA), P9,880 million (Market Risk Weighted Assets-MRWA) and ), P44,401 million (Operational Risk Weighted Assets-ORWA).

The Bank's total regulatory requirements for the four (4) quarters for 2017 are as follows:

| Consolidated                 | Weighted Exposures (Quarters 2017) |               |               |              |
|------------------------------|------------------------------------|---------------|---------------|--------------|
| (Amounts in P0.000 million)  | As of Dec 31                       | As of Sept 30 | As of June 30 | As of Mar 31 |
| CRWA                         | 555,825.29                         | 536,881.86    | 501,638.97    | 476,956.54   |
| MRWA                         | 9,880.16                           | 7,610.78      | 3,712.99      | 3,706.88     |
| ORWA                         | 44,440.79                          | 44,400.79     | 44,400.79     | 44,400.79    |
| Total Risk-Weighted Asset    | 610,106.24                         | 588,893.42    | 549,752.74    | 525,064.21   |
| Common Equity Tier 1 Ratio   | 14.58%                             | 14.70%        | 14.89%        | 15.45%       |
| Capital Conservation Buffer  | 8.58%                              | 8.70%         | 8.89%         | 9.45%        |
| Tier 1 Capital Ratio         | 14.58%                             | 14.70%        | 14.89%        | 15.45%       |
| Total Capital Adequacy Ratio | 15.35%                             | 15.44%        | 15.69%        | 16.27%       |

## Credit Risk-Weighted Assets as of December 31, 2017 (In Million Pesos)

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

| P In Millions                                                                                           | Exposure, Net of Specific Provision | Exposures covered by Credit Risk Mitigants* | Net Exposure | 0%      | 20%    | 50%    | 75%    | 100%    | 150%  |
|---------------------------------------------------------------------------------------------------------|-------------------------------------|---------------------------------------------|--------------|---------|--------|--------|--------|---------|-------|
| Cash & Cash Items                                                                                       | 17,561                              |                                             | 17,561       | 17,373  | 188    |        |        |         |       |
| Due from BSP                                                                                            | 108,751                             |                                             | 108,751      | 108,751 |        |        |        |         |       |
| Due from Other Banks                                                                                    | 27,517                              |                                             | 27,517       |         | 17,889 | 7,495  |        | 2,133   |       |
| Financial Asset at FVPL                                                                                 | 49                                  |                                             | 49           |         |        |        |        | 49      |       |
| Available for Sale                                                                                      | 68,831                              | 7,682                                       | 61,149       | 17,066  | 9,161  | 28,968 |        | 5,954   |       |
| Held to Maturity (HTM)                                                                                  | 27,170                              | 6,219                                       | 20,951       | 9,303   |        | 11,425 |        | 223     |       |
| Unquoted Debt Securities                                                                                | 11,008                              |                                             | 11,008       |         |        | 10,460 |        | 538     | 10    |
| Loans & Receivables                                                                                     | 482,869                             | 20,719                                      | 462,150      | 2,042   | 27,855 | 10,399 | 16,822 | 402,266 | 2,766 |
| Loans and Receivables Arising from Repurchase Agreements, Securities Lending and Borrowing Transactions | 16,505                              |                                             | 16,505       | 16,505  |        |        |        |         |       |

|                                                     |         |        |         |         |        |        |        |         |        |
|-----------------------------------------------------|---------|--------|---------|---------|--------|--------|--------|---------|--------|
| Sales Contracts Receivable                          | 6,169   |        | 6,169   |         |        |        |        | 5,134   | 1,035  |
| Real & Other Properties Acquired                    | 9,526   |        | 9,526   |         |        |        |        |         | 9,526  |
| Other Assets                                        | 33,518  |        | 33,518  |         |        |        |        | 33,518  |        |
| Total On-Balance Sheet Asset                        | 809,475 | 34,619 | 774,855 | 171,040 | 55,093 | 68,746 | 16,822 | 449,816 | 13,338 |
| Total Risk Weighted Asset - On-Balance Sheet        |         |        |         |         | 11,019 | 34,373 | 12,616 | 449,816 | 20,007 |
| Total Risk Weighted Asset - Off-Balance Sheet Asset |         |        |         |         | 26     | 34     |        | 23,876  |        |
| Counterparty Risk Weighted Asset in Banking Book    |         |        |         |         | 484    | 2,772  |        |         |        |
| Counterparty Risk Weighted Asset in Trading Book    |         |        |         |         | 39     | 320    |        | 442     |        |

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

#### Market Risk-Weighted Assets as of December 31, 2017

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

#### Capital Requirements by Market Risk Type under Standardized Approach

| (Amounts in P0.000Million)                                                                                                                                                                                                                                             | Capital Charge<br>(a) | Adjusted Capital Charge<br>(b)<br>$b = a * 125\% \text{ 1/}$ | Market Risk Weighted Exposures<br>(c)<br>$c = b * 10 \text{ 2/}$ |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|--------------------------------------------------------------|------------------------------------------------------------------|
| Interest Rate Exposures                                                                                                                                                                                                                                                | 102.515               | 128.144                                                      | 1,281.442                                                        |
| Specific Risk                                                                                                                                                                                                                                                          | 5.580                 | 6.975                                                        | 69.751                                                           |
| General Market Risk                                                                                                                                                                                                                                                    | 96.935                | 121.169                                                      | 1,211.691                                                        |
| Equity Exposures                                                                                                                                                                                                                                                       | 5.685                 | 7.106                                                        | 71.060                                                           |
| Foreign Exchange Exposures                                                                                                                                                                                                                                             | 682.213               | 852.766                                                      | 8,527.662                                                        |
| Total                                                                                                                                                                                                                                                                  | 790.413               | 988.016                                                      | 9,880.164                                                        |
| Notes:<br>1/ Capital charge is multiplied by 125% to be consistent with BSP required minimum CAR of 10%, which is 25% higher than the Basel minimum of 8%.<br>2/ Adjusted capital charge is multiplied by 10 (i.e. the reciprocal of the minimum capital ratio of 10%) |                       |                                                              |                                                                  |

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

Interest Rate Exposures consist of specific risk and general market risk.

#### Specific Risk

Specific Risk which reflects the type of issuer of the held for trading (HFT) portfolio is P5.580million and is composed of securities with tenor of over 2 years that are subjected to risk weight of 1.6%. 91% of these securities are issued by Republic of the Philippines (ROP) while 9% is attributable to debt securities rated AAA to BBB- issued by other entities. 10% of HFT portfolio is composed of ROPs with applicable risk weight of 1.6% and tenor of over 2 years. On the other hand, the Bank's holding in peso denominated securities which are estimated at 89% of the portfolio have zero risk weight. The remaining portfolio with applicable 1.6% risk weight consists of all other debt securities that are issued by other entities rated between AAA and BBB-.

| Part IV.1a<br>INTEREST RATE EXPOSURES –<br>SPECIFIC RISK<br>(Amounts in P0.000 million)   | Positions | Risk Weight |       |      |         |       |       |
|-------------------------------------------------------------------------------------------|-----------|-------------|-------|------|---------|-------|-------|
|                                                                                           |           | 0.00%       | 0.25% | 1.0% | 1.60%   | 8.00% | Total |
| PHP-denominated debt securities issued by the Philippine National Government (NG) and BSP | Long      | 2,017.676   |       |      |         |       |       |
|                                                                                           | Short     | 696.260     |       |      |         |       |       |
| FCY-denominated debt securities issued by the Philippine NG/BSP                           | Long      |             |       |      | 317.307 |       |       |
|                                                                                           | Short     |             |       |      |         |       |       |
| Debt securities/derivatives with credit rating of AAA to BBB-issued by other entities     | Long      |             |       |      | 31.448  |       |       |
|                                                                                           | Short     |             |       |      |         |       |       |
| All other debt securities/derivatives that are below BBB- and unrated                     | Long      |             |       |      |         |       |       |
|                                                                                           | Short     |             |       |      |         |       |       |
| Subtotal                                                                                  | Long      | 2,017.676   |       |      | 348.755 |       |       |
|                                                                                           | Short     | 696.260     |       |      |         |       |       |
| Risk Weighted Exposures [Sum of long and short positions times the risk weight]           |           | -           |       |      | 5.580   |       | 5.580 |
| Specific Risk Capital Charge for Credit-Linked Notes and Similar Products                 |           |             |       |      |         |       |       |
| Specific Risk Capital Charge for Credit Default Swaps and Total Return Swaps              |           |             |       |      |         |       |       |
| SPECIFIC RISK CAPITAL CHARGE FOR DEBT SECURITIES AND DEBT DERIVATIVES                     |           | -           |       |      | 5.580   |       | 5.580 |

#### General Market Risk – Peso

The Bank's total General Market Risk of its Peso debt securities and interest rate derivative exposure is P34.974 million. In terms of weighted positions, the greater portion (50%) of the Bank's capital charge comes from the Over 4 years to 5 years bucket at P 17.065 million as well as Over 1 month to 3 months bucket (28%) at P 9.626 million or a combined capital charge of P26.691 million. The remaining weighted positions (22%) are distributed over the remaining buckets.

| Currency: PESO                                          |                            |                              |                                                              |            |             |                    |       |        |
|---------------------------------------------------------|----------------------------|------------------------------|--------------------------------------------------------------|------------|-------------|--------------------|-------|--------|
| PART IV.1d GENERAL MARKET RISK (Amounts in Php million) |                            |                              |                                                              |            |             |                    |       |        |
| Zone                                                    | Times Bands                |                              | Debt Securities & Debt Derivatives/Interest Rate Derivatives |            | Risk Weight | Weighted Positions |       |        |
|                                                         | Coupon 3% or more          | Coupon less than 3%          | Total Individual Positions                                   |            |             | Long               | Short |        |
|                                                         |                            |                              | Long                                                         | Short      |             |                    |       |        |
| 1                                                       | 1 month or less            | 1 month or less              | 16,388.811                                                   | 11,572.640 | 0.00%       | 0.00               | 0.00  |        |
|                                                         | Over 1 month to 3 months   | Over 1 month to 3 months     | 4,813.234                                                    | 3,082.089  | 0.20%       | 9.626              | 6.164 |        |
|                                                         | Over 3 months to 6 months  | Over 3 months to 6 months    | 1,085.306                                                    | 561.979    | 0.40%       | 4.341              | 2.248 |        |
|                                                         | Over 6 months to 12 months | Over 6 months to 12 months   | 419.856                                                      | 0.985      | 0.70%       | 2.939              | 0.007 |        |
| 2                                                       | Over 1 year to 2 years     | Over 1.0 year to 1.9 years   | 263.679                                                      | 49.898     | 1.25%       | 3.296              | 0.624 |        |
|                                                         | Over 2 years to 3 years    | Over 1.9 years to 2.8 years  | 32.796                                                       | -          | 1.75%       | 0.574              | -     |        |
|                                                         | Over 3 years to 4 years    | Over 2.8 years to 3.6 years  | -                                                            | -          | 2.25%       | -                  | -     |        |
| 3                                                       | Over 4 years to 5 years    | Over 3.6 years to 4.3 years  | 88.945                                                       | -          | 2.75%       | 2.446              | -     |        |
|                                                         | Over 5 years to 7 years    | Over 4.3 years to 5.7 years  | 525.075                                                      | -          | 3.25%       | 17.065             | -     |        |
|                                                         | Over 7 years to 10 years   | Over 5.7 years to 7.3 years  | 55.300                                                       | -          | 3.75%       | 2.074              | -     |        |
|                                                         | Over 10 years to 15 years  | Over 7.3 years to 9.3 years  | 2.300                                                        | -          | 4.50%       | 0.104              | -     |        |
|                                                         | Over 15 years to 20 years  | Over 9.3 years to 10.6 years | 3.814                                                        | -          | 5.25%       | 0.200              | -     |        |
|                                                         | Over 20 years              | Over 10.6 years to 12 years  | 7.457                                                        | -          | 6.00%       | 0.447              | -     |        |
|                                                         |                            | Over 12 years to 20 years    | -                                                            | -          | 8.00%       | -                  | -     |        |
|                                                         | Over 20 years              | -                            | -                                                            | 12.50%     | -           | -                  |       |        |
| Total                                                   |                            |                              | 23,685.573                                                   | 15,267.590 |             | 43.112             | 9.043 |        |
| Overall Net Open Position                               |                            |                              |                                                              |            |             |                    |       | 34.070 |
| Vertical Disallowance                                   |                            |                              |                                                              |            |             |                    |       | 0.904  |
| Horizontal Disallowance                                 |                            |                              |                                                              |            |             |                    |       | -      |
| TOTAL GENERAL MARKET RISK CAPITAL CHARGE                |                            |                              |                                                              |            |             |                    |       | 34.974 |

#### General Market Risk – US Dollar

The capital charge on the Bank's General Market Risk from dollar-denominated exposures is P42.504 million. The exposure is concentrated under the Over 1 month to 3 months' time bucket with risk weight of 0.20% resulting in a capital charge of P12.066million (short). The balance is distributed across other time buckets up to over 20 years with capital charge ranging from P0.070million to P 10.144million

| Currency: USD                                           |                            |                             |                                                              |            |             |                    |        |  |
|---------------------------------------------------------|----------------------------|-----------------------------|--------------------------------------------------------------|------------|-------------|--------------------|--------|--|
| PART IV.1d GENERAL MARKET RISK (Amounts in Php million) |                            |                             |                                                              |            |             |                    |        |  |
| Zone                                                    | Times Bands                |                             | Debt Securities & Debt Derivatives/Interest Rate Derivatives |            | Risk Weight | Weighted Positions |        |  |
|                                                         |                            |                             | Total Individual Positions                                   |            |             |                    |        |  |
|                                                         | Coupon 3% or more          | Coupon less than 3%         | Long                                                         | Short      |             | Long               | Short  |  |
| 1                                                       | 1 month or less            | 1 month or less             | 15,007.954                                                   | 17,637.532 | 0.00%       | -                  | -      |  |
|                                                         | Over 1 month to 3 months   | Over 1 month to 3 months    | 13,574.805                                                   | 19,607.955 | 0.20%       | 27.150             | 39.216 |  |
|                                                         | Over 3 months to 6 months  | Over 3 months to 6 months   | 1,399.385                                                    | 499.300    | 0.40%       | 5.598              | 1.997  |  |
|                                                         | Over 6 months to 12 months | Over 6 months to 12 months  | -                                                            | -          | 0.70%       | -                  | -      |  |
| 2                                                       | Over 1 year to 2 years     | Over 1.0 year to 1.9 years  | -                                                            | -          | 1.25%       | -                  | -      |  |
|                                                         | Over 2 years to 3 years    | Over 1.9 years to 2.8 years | 2,648.446                                                    | 2,644.431  | 1.75%       | 46.348             | 46.278 |  |
|                                                         | Over 3 years to 4 years    | Over 2.8 years to 3.6 years | -                                                            | -          | 2.25%       | -                  | -      |  |
| 3                                                       | Over 4 years to 5 years    | Over 3.6 years to 4.3 years | -                                                            | -          | 2.75%       | -                  | -      |  |

|                                          |                           |                              |            |            |        |         |         |        |
|------------------------------------------|---------------------------|------------------------------|------------|------------|--------|---------|---------|--------|
|                                          | Over 5 years to 7 years   | Over 4.3 years to 5.7 years  | 312.108    | -          | 3.25%  | 10.144  | -       |        |
|                                          | Over 7 years to 10 years  | Over 5.7 years to 7.3 years  | 5,949.049  | 5,924.704  | 3.75%  | 223.089 | 222.176 |        |
|                                          | Over 10 years to 15 years | Over 7.3 years to 9.3 years  | -          | -          | 4.50%  | -       | -       |        |
|                                          | Over 15 years to 20 years | Over 9.3 years to 10.6 years | -          | -          | 5.25%  | -       | -       |        |
|                                          | Over 20 years             | Over 10.6 years to 12 years  | 2.482      | -          | 6.00%  | 0.149   | -       |        |
|                                          |                           | Over 12 years to 20 years    | -          | -          | 8.00%  | -       | -       |        |
|                                          |                           | Over 20 years                | -          | -          | 12.50% | -       | -       |        |
| Total                                    |                           |                              | 38,894.229 | 46,313.922 |        | 312.477 | 309.667 |        |
| Overall Net Open Position                |                           |                              |            |            |        |         |         | 2.810  |
| Vertical Disallowance                    |                           |                              |            |            |        |         |         | 29.760 |
| Horizontal Disallowance                  |                           |                              |            |            |        |         |         | 9.934  |
| TOTAL GENERAL MARKET RISK CAPITAL CHARGE |                           |                              |            |            |        |         |         | 42.504 |

### General Market Risk – Third currencies

The Bank is likewise exposed to various third currencies contracts most of them are in less than 30 days thus carries a 0% risk weight. The combined general market risk charge for contracts in Singapore Dollar (SGD), Japanese Yen (JPY), Hongkong Dollar (HK), Euro Dollar (EUR) and Canadian Dollar (CAD) is P19.475million with risk weight ranging from 0.20% and 0.40%.

| PART IV.1d GENERAL MARKET RISK (Amounts in Php million) |                           |                                                                    |           |             |                    |       |                           |                       |                                |                                          |
|---------------------------------------------------------|---------------------------|--------------------------------------------------------------------|-----------|-------------|--------------------|-------|---------------------------|-----------------------|--------------------------------|------------------------------------------|
| Currency                                                | Time Bands                | Total Debt Securities & Debt Derivatives/Interest Rate Derivatives |           |             | Weighted Positions |       | Overall Net Open Position | Vertical disallowance | Horizontal disallowance within | Total General Market risk capital charge |
|                                                         |                           | Long                                                               | Short     | Risk Weight | Long               | Short |                           |                       |                                |                                          |
| SGD                                                     | 1 month or less           | -                                                                  | -         | 0.00%       | -                  | -     |                           |                       |                                |                                          |
|                                                         | Over 1 months to 3 months | -                                                                  | 0.300     | 0.20%       | -                  | 0.600 |                           |                       |                                |                                          |
| TOTAL                                                   |                           | -                                                                  | 0.300     |             |                    |       | 0.600                     | -                     | -                              | 0.600                                    |
| JPY                                                     | 1 month or less           | 1,286.502                                                          | 2,503.658 | 0.00%       | -                  | -     |                           |                       |                                |                                          |
|                                                         | Over 1 months to 3 months | 6,046.687                                                          | 442.773   | 0.20%       | 12.093             | 0.886 |                           |                       |                                |                                          |
| TOTAL                                                   |                           | 7,333.189                                                          | 2,946.431 |             |                    |       | 11.208                    | 0.089                 | -                              | 11.296                                   |
| HKD                                                     | 1 month or less           | 99.804                                                             | 598.416   | 0.00%       | -                  | -     |                           |                       |                                |                                          |
|                                                         | Over 1 months to 3 months | -                                                                  | 897.447   | 0.20%       | -                  | 1.795 |                           |                       |                                |                                          |
|                                                         | Over 3 months to 6 months | -                                                                  | 1,394.287 | 0.40%       | -                  | 5.577 |                           |                       |                                |                                          |
| TOTAL                                                   |                           | 99.804                                                             | 2,890.150 |             |                    |       | 7.372                     | -                     | -                              | 7.372                                    |
| EUR                                                     | 1 month or less           | 20.613                                                             | 59.681    | 0.00%       | -                  | -     |                           |                       |                                |                                          |
|                                                         | Over 1 months to 3 months | -                                                                  | 89.522    | 0.20%       | -                  | 0.179 |                           |                       |                                |                                          |
| TOTAL                                                   |                           | 20.613                                                             | 149.203   |             |                    |       | 0.179                     | -                     | -                              | 0.179                                    |

|                        |                           |        |        |       |       |       |       |       |   |        |
|------------------------|---------------------------|--------|--------|-------|-------|-------|-------|-------|---|--------|
| CAD                    | 1 month or less           | -      | -      | 0.00% | -     | -     |       |       |   |        |
|                        | Over 1 months to 3 months | 50.002 | 49.917 | 0.20% | 0.100 | 0.099 |       |       |   |        |
| TOTAL                  |                           | 50.002 | 49.917 |       |       |       | 0.001 | 0.010 | - | 0.010  |
| TOTAL THIRD CURRENCIES |                           |        |        |       |       |       |       |       |   | 19.457 |

### Equity Exposures

The Bank's holdings are in the form of common stocks traded in the Philippine Stock Exchange, with 8% risk weight both for specific and general market risk. The Bank's capital charge for equity weighted positions is P5.685million or total risk-weighted equity exposures of P71.059million.

| Item | Nature of Item                                               | Positions | Stock Markets |
|------|--------------------------------------------------------------|-----------|---------------|
|      |                                                              |           | Philippines   |
| A.1  | Common Stocks                                                | Long      | 35.530        |
|      |                                                              | Short     | 8.301         |
| A.10 | TOTAL                                                        | Long      | 35.530        |
|      |                                                              | Short     | 8.301         |
| B.   | Gross (long plus short) positions (A.10)                     |           | 43.831        |
| C.   | Risk Weights                                                 |           | 8%            |
| D.   | Specific risk capital (B. times C.)                          |           | 3.506         |
| E.   | Net long or short positions                                  |           | 27.229        |
| F.   | Risk Weights                                                 |           | 8%            |
| G.   | General market risk capital charges (E. times F.)            |           | 2.178         |
| H.   | Total Capital Charge For Equity Exposures (sum of D. and G.) |           | 5.685         |
| I.   | Adjusted Capital Charge For Equity Exposures (H. times 125%) |           | 7.1059        |
| J.   | TOTAL RISK-WEIGHTED EQUITY EXPOSURES (I. X 10)               |           | 71.059        |

### Foreign Exchange Exposures

The Bank's exposure to Foreign Exchange (FX) Risk carries a capital charge of P8,527.662 million. This includes P7,863.975 million arising from exposure in Non-Deliverable Forwards (NDF)s which carries a 4% risk weight while P663.687 million is from Foreign Exchange Exposures with 8% risk weight in FX assets and FX liabilities in USD, and third currencies not limited to JPY, CHF, GBP, EUR, CAD, AUD, SGD and other minor currencies.

| Part IV. 3 FOREIGN EXCHANGE EXPOSURES (as of Dec 31, 2017) |          |                                               |                          |                                            |                                  |                                 |
|------------------------------------------------------------|----------|-----------------------------------------------|--------------------------|--------------------------------------------|----------------------------------|---------------------------------|
| Closing Rate USD/PHP:                                      |          |                                               |                          |                                            |                                  | 49.93                           |
| Nature of Item                                             | Currency | In Million USD Equivalent                     |                          |                                            |                                  | In Million Pesos                |
|                                                            |          | Net Long/(Short) Position (excluding options) |                          | Net Delta-Weighted Positions of FX Options | Total Net Long/(Short) Positions | Total Net Long/(Short) Position |
|                                                            |          | Banks                                         | Subsidiaries /Affiliates |                                            |                                  |                                 |
|                                                            |          | 1                                             | 2                        | 3                                          | 4=1+2+3                          | 5                               |
| Currency                                                   |          |                                               |                          |                                            |                                  |                                 |
| A.1 U.S. Dollar                                            | USD      | (15.031)                                      | 1.759                    |                                            | (13.272)                         | (662.671)                       |
| A.2 Japanese Yen                                           | JPY      | 0.567                                         | -                        |                                            | 0.567                            | 28.299                          |
| A.3 Swiss Franc                                            | CHF      | 0.250                                         | -                        |                                            | 0.250                            | 12.499                          |
| A.4 Pound Sterling                                         | GBP      | (0.020)                                       | -                        |                                            | (0.020)                          | (1.016)                         |
| A.5 Euro                                                   | EUR      | 1.855                                         | -                        |                                            | 1.855                            | 92.617                          |
| A.6 Canadian Dollar                                        | CAD      | 1.884                                         | -                        |                                            | 1.884                            | 94.093                          |
| A.7 Australian Dollar                                      | AUD      | 0.577                                         | -                        |                                            | 0.577                            | 28.787                          |
| 8 Singapore Dollar                                         | SGD      | 1.615                                         | -                        |                                            | 1.615                            | 80.652                          |
| A. 9 Foreign currencies not separately specified above     |          | 0.650                                         |                          | -                                          | 0.650                            | 32.455                          |
| Arab Emirates Dirham                                       | AED      | 0.00017                                       |                          |                                            | 0.00017                          |                                 |
| Bahrain Dinar                                              | BHD      | 0.00019                                       |                          |                                            | 0.00019                          |                                 |
| Brunei Dollar                                              | BND      | (0.002)                                       |                          |                                            | (0.002)                          |                                 |
| Yuan Renminbi                                              | CNY      | 0.496                                         |                          |                                            | 0.496                            |                                 |
| Hongkong Dollar                                            | HKD      | 0.063                                         |                          |                                            | 0.063                            |                                 |

|                                                                                                                                                            |     |         |  |           |
|------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|---------|--|-----------|
| Korean Won                                                                                                                                                 | KRW | 0.054   |  | 0.054     |
| Malaysian Ringgit                                                                                                                                          | MYR | 0.00004 |  | 0.00004   |
| Norwegian Krone                                                                                                                                            | NOK | 0.004   |  | 0.004     |
| New Zealand Dollar                                                                                                                                         | NZD | 0.053   |  | 0.053     |
| Saudi Riyal                                                                                                                                                | SAR | (0.008) |  | (0.008)   |
| Thai Baht                                                                                                                                                  | THB | (0.019) |  | (0.019)   |
| Taiwan Dollar                                                                                                                                              | TWD | 0.011   |  | 0.011     |
| A. 10 Sum of net long positions                                                                                                                            |     |         |  | 369.403   |
| A.11 Sum of net short positions                                                                                                                            |     |         |  | (663.687) |
| B. Overall net open positions 1/                                                                                                                           |     |         |  | 663.686   |
| Risk Weight                                                                                                                                                |     |         |  | 8%        |
| Total Capital Charge for Foreign Exchange Exposures (B. times C.)                                                                                          |     |         |  | 53.095    |
| Adjusted Capital Charge for Foreign Exchange Exposures (D. times 125%)                                                                                     |     |         |  | 66.369    |
| Total Risk-Weighted Foreign Exchange Exposures, Excluding Incremental Risk-Weighted Foreign Exchange Exposures Arising From NDF Transactions (E. times 10) |     |         |  | 663.687   |
| Incremental Risk-Weighted Foreign Exchange Exposures Arising From NDF Transactions (Part IV.3a, Item F)                                                    |     |         |  | 7,863.975 |
| Total Risk-Weighted Foreign Exchange Exposures (Sum of F. and G.)                                                                                          |     |         |  | 8,527.662 |
| 1/ Overall net open position shall be the greater of the absolute value of the sum of the net long position or the sum of net short position.              |     |         |  |           |

### Operational Risk – Weighted Assets

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

| (Amounts in P0.000 Million)<br>Consolidated as of December 31, 2017 | Gross Income   | Capital Requirement<br>(15% x Gross Income) |
|---------------------------------------------------------------------|----------------|---------------------------------------------|
| 2014 (Year 3)                                                       | 22,061         | 3,309                                       |
| 2015 (Year 2)                                                       | 23,884         | 3,583                                       |
| 2016 (Last Year)                                                    | 25,096         | 3,764                                       |
| Average for 3 Years                                                 |                | 3,552                                       |
| Adjusted Capital Charge                                             | Average x 125% | 4,440                                       |
| <b>Total Operational Risk Weighted Asset</b>                        |                | <b>44,401</b>                               |

### Property Development

#### Competitor Risk

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

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

#### Market Risk

Currently, majority of the Company's commercial spaces are leased-out to entities in the BPO industry. Should the country experience a slowdown in performance and growth of this sector of the economy, the Company is exposed to the risk of lower occupancy, reduction in rental rates and late or non-payment of rentals.

While forecast for the BPO industry remains bullish, the industry is sensitive to changes in government policies particularly with respect to the tax holidays it currently enjoys. Political uncertainty and peace and order problems may likewise affect the growth of this industry as experienced in the past. Despite this, the outlook for the BPO industry continues to be positive as the country remains to be one of top BPO destinations in the world.

The Company's residential sales on the other hand is exposed to the cyclical nature of the real estate industry. As seen in the past, the real estate industry has the tendency to expand and contract depending on the movement of interest rate and the confidence in the Philippine economy.

### **Regulatory Risk**

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

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

### **Credit Risk**

The Company is exposed to credit risk from its leasing and residential sales. To manage the credit risk from residential sales, the Company has ceased to offer in-house financing to its buyers. Instead, buyers are encouraged to either pay in cash, avail of a deferred cash payment term or secure financing from banks to finance their property acquisition.

Credit risk from leasing, on the other hand, is minimal given the profile of the Company's tenants. The terms of the Company's leases are likewise structured to mitigate credit risks.

### **Financial Risk**

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

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

## Item 2. Properties

### Distilled Spirits

TDI and its subsidiaries own the following real estate properties:

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

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

| Location              | Present Use        | Area (sqm)     | Monthly Rental   | Lease Expiry Date |
|-----------------------|--------------------|----------------|------------------|-------------------|
| <b>Leased by TDI</b>  |                    |                |                  |                   |
| Cabuyao, Laguna       | Production Plant   | 188,202        | 1,875,812        | 2018              |
| Pinamucan, Batangas   | Land rental        | 18,522         | 350,000          | 2018              |
| Calaca, Batangas      | Tank rental        |                | 555,915          | 2018              |
| Murcia, Neg. Occ.     | Production Plant   | 29,583         | 650,000          | 2018              |
| El Salvador, Mis. Or. | Production Plant   | 108,843        | 106,293          | 2018              |
| <b>Leased by ADI</b>  |                    |                |                  |                   |
| Lian, Batangas        | Distillation Plant | 50,000         | 50,000           | 2021              |
| <b>Totals</b>         |                    | <b>395,150</b> | <b>3,588,020</b> |                   |

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

TDIs bottling plant and equipment are located in Cabuyao, Laguna, Murcia, Negros Occidental and El Salvador, Misamis Oriental. The plant equipment and storage facilities are all in good condition. TDIs land in Quiapo, Manila is presently mortgaged to PNB as collateral to TDIs credit line.

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

ADIs distillery plant is in Lian, Batangas. ADI has two distillation plants that produces rectified spirit . It also has a 100 kiloliters per day (KLPD) Dehydration Plant started its operation, that is composed of Classical Twin Bed Molecular Sieves which removes water from rectified spirit to produce bioethanol. Likewise , it has alcohol and molasses storage, power generation and wastewater treatment facilities In 2015, a two(2) megawatt solar power generating facility was also put up in ADIs plant. All transportation equipment owned by ADI are in good condition. There are no mortgage or lien or encumbrance over the properties and there are no limitations as to its ownership and usage.

### **Beverage**

ABI and its subsidiaries own the following real estate properties:

| Location              | Area (sqm) | Present Use         |
|-----------------------|------------|---------------------|
| <b>Owned by ABI</b>   |            |                     |
| Bacoor, Cavite        | 459        | Investment property |
| Cabuyao, Laguna       | 302        | Investment property |
| Camarines Norte       | 3,215      | Investment property |
| General Trias, Cavite | 3,200      | Investment property |
| Poblacion, Iloilo     | 3,782      | Investment property |
| <b>Owned by IPI</b>   |            |                     |
| Toril, Davao City     | 75,734     | Production Plant    |

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

| Location                | Present Use      | Area (sqm) | Monthly Rental | Lease Expiry Date |
|-------------------------|------------------|------------|----------------|-------------------|
| <b>Leased by ABI</b>    |                  |            |                |                   |
| Ayala Ave., Makati City | Head Office      | 1,677      | ₱943,048       | August 2022       |
| Cabuyao, Laguna         | Production Plant | 542,989    | 1,562,563      | March 2018        |
| El Salvador, Mis. Or.   | Production Plant | 1,063,103  | 238,360        | December 2017     |
| <b>Leased by IPI</b>    |                  |            |                |                   |
| San Fernando, Pampanga  | Production Plant | 85,000     | 630,000        | December 2017     |
| <b>Leased by PWI</b>    |                  |            |                |                   |
| Cabuyao, Laguna         | Production Plant | 82,600     | 533,867        | December 2017     |
| <b>Leased by APBM</b>   |                  |            |                |                   |
| Myanmar                 | Production Plant | 9,303      | US\$24,095     | December 2018     |
| Myanmar                 | Warehouse        | 2,602      | 8,076          | June 2018         |
| Myanmar                 | Warehouse        | 2,007      | 7,342          | November 2018     |
| Myanmar                 | Staff House      | 372        | 4,038          | February 2018     |

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

In addition to monthly rentals, ABI pays Real Property Taxes on the El Salvador, Misamis Oriental Plant. The plant and equipment are located at the following areas:

| Location          | Condition         |
|-------------------|-------------------|
| Cabuyao plant     | In good condition |
| El Salvador plant | In good condition |
| Davao plant       | In good condition |
| Pampanga plant    | In good condition |

### **Tobacco**

The following comprises properties of FTC:

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

FTC leases its office located in Brgy. Kapitolyo, Pasig with a monthly rental of P100,000 and lease contract will expire on December 31, 2019.

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

### **Banking**

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

Disclosed in Exhibit I of PNB's 17A is the list of Bank-owned properties as of December 31, 2017.

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

Disclosed in Exhibit II of PNB's 17A is the list of Bank's branches that are under lease as of December 31, 2017.

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

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

### **Property Development**

The Company's investment properties consist of:

| Description                    | Location                                                                                                                                                                                                                                                                                                                                                                                                       |
|--------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <i>Buildings</i>               | <i>Eton Centris, Quezon Ave., Cor. EDSA, Diliman, Quezon City;<br/>Eton Cyberpod Corinthian, Ortigas Ctr., Pasig City (land under lease agreement)</i>                                                                                                                                                                                                                                                         |
| <i>Office condominium unit</i> | <i>6<sup>th</sup> Floor, Sagittarius Condominium, H. V. dela Costa Street, Salcedo Village, Makati City</i>                                                                                                                                                                                                                                                                                                    |
| <i>Residential unit</i>        | <i>Ocean Villa, Ternate, Cavite</i>                                                                                                                                                                                                                                                                                                                                                                            |
| <i>Land</i>                    | <i>Ternate, Cavite;<br/>EDSA Cor. Quezon Avenue, Diliman, Quezon City;<br/>Meralco Avenue, Brgy. Ugong, Pasig City<br/>F. Ortigas Jr. Ave. Cor. Ruby Road, Ortigas Center, Pasig City<br/>Roxas Blvd. Cor. Cuneta Avenue., San Rafael, Pasay City<br/>Corta Street, Addition Hills, San Juan, Metro Manila<br/>Brgy. Malitlit, Sta. Rosa City, Laguna, Mactan Island Cebu,<br/>Loyola Heights, Quezon City</i> |

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

The Company also entered into a lease agreement with third parties for the lease of parcels of land where one of the Company's projects is located. The annual rental expense, recognized as part of the cost of rental income amounted to ₱39.4 million in 2017 and 2016.

The lease agreement shall be for a period of 20 years commencing on January 1, 2011 and renewable for another 20 years at the option of the lessee, with the lease payment subject to an annual escalation fee of 5%. Total annual rental payment amounted to ₱17.4 million in 2017 and ₱16.6 million in 2016.

The Company's real estate properties consist of :

| <b><u>ETON PROPERTIES PHILIPPINES, INC.</u></b> |                                                                                                                                                                                                                                                                                                                                      |
|-------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <i>Eton Baypark Manila</i>                      | <i>Corner Roxas Boulevard and Kalaw Street, Manila City</i>                                                                                                                                                                                                                                                                          |
| <i>Eton Parkview Greenbelt</i>                  | <i>Gamboa St., Greenbelt, Makati City</i>                                                                                                                                                                                                                                                                                            |
| <i>Eton Residences Greenbelt</i>                | <i>Legaspi St., Greenbelt, Makati City</i>                                                                                                                                                                                                                                                                                           |
| <i>Eton Emerald Lofts</i>                       | <i>Corner of Emerald Avenue, Sapphire and Garnet Streets, Ortigas Center, Pasig City</i>                                                                                                                                                                                                                                             |
| <i>One Archer's Place</i>                       | <i>Taft Avenue beside De La Salle University, Manila City</i>                                                                                                                                                                                                                                                                        |
| <i>68 Roces</i>                                 | <i>Don Alejandro Roces Avenue, Quezon City</i>                                                                                                                                                                                                                                                                                       |
| <i>Belton Place</i>                             | <i>Yakal St., Makati City</i>                                                                                                                                                                                                                                                                                                        |
| <i>8 Adriatico</i>                              | <i>Pedro Gil corner Bocobo Extension, Manila City</i>                                                                                                                                                                                                                                                                                |
| <i>Eton Tower Makati</i>                        | <i>Corner Dela Rosa and V.A. Rufino Streets (formerly Herrera Street) in Legazpi Village, Makati City</i>                                                                                                                                                                                                                            |
| <i>Eton Centris</i>                             | <i>Eton Centris, Quezon Ave., Cor. EDSA, Diliman, Quezon City</i>                                                                                                                                                                                                                                                                    |
| <i>Riverbend</i>                                | <i>Sta. Rosa, Laguna</i>                                                                                                                                                                                                                                                                                                             |
| <i>Land</i>                                     | <i>Manggahan, Pasig City<br/>Coral Reef, Mactan, Cebu<br/>Sunrise Properties, Ortigas, Pasig City<br/>Corta Properties, San Juan City<br/>New Homes, Roxas Blvd., Pasay City<br/>Emerald Ruby, Ortigas, Pasig City<br/>Loyola Heights, Quezon City<br/>Mesaland Properties, Sta. Rosa, Laguna<br/>Jose Quiroz, Sta. Rosa, Laguna</i> |

| <b><u>BELTON COMMUNITIES, INC.</u></b>  |                                     |
|-----------------------------------------|-------------------------------------|
| <i>NBC Manors</i>                       | <i>Quirino Highway, Quezon City</i> |
| <i>West Wing Residences @ Eton City</i> | <i>Eton City, Sta. Rosa, Laguna</i> |
| <i>West Wing Residences @ NBC</i>       | <i>Quirino Highway, Quezon City</i> |
| <i>West Wing Villas @ NBC</i>           | <i>Quirino Highway, Quezon City</i> |

| <b><u>ETON CITY INC.</u></b> |                          |
|------------------------------|--------------------------|
| <i>South Lake Village</i>    | <i>Sta. Rosa, Laguna</i> |
| <i>Riverbend</i>             | <i>Sta. Rosa, Laguna</i> |
| <i>Tierrabela</i>            | <i>Sta. Rosa, Laguna</i> |
| <i>Village Walk</i>          | <i>Sta. Rosa, Laguna</i> |

Eton Emerald Lofts, NBC Manors and West Wing Residences at NBC are under a joint venture arrangement with the Company as the project developer. The Company acts as both land owner and developer with respect to its other developments. All properties listed above are in good condition and are not covered by any mortgage, liens or encumbrances except for certain undeveloped land located in Sta. Rosa, Laguna and an office building in EDSA corner Ortigas Avenue, Quezon City are used as collateral for a loan secured from Philippine National Bank.

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

Currently, the Company has a renewable cancellable lease agreement with PNB, which generally provides for a fixed monthly rent for the Company's office spaces. The Company has determined that all significant risks and rewards of ownership of these properties are retained by PNB as lessor. Thus, the Company considers these lease agreements as operating leases. Rental expense recognized by the Company included under "Outside services" amounted to ₱18.79 million and ₱11.14 million in 2017 and 2016, respectively.

The term of the lease commenced on March 1, 2016 and will expire on February 28, 2018. The renewal of the lease shall be upon approval of the bank.

### **Item 3. Legal Proceedings**

#### **Distilled Spirits**

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

#### **Trademark Infringement Suit**

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

On November 11, 2003, the Court of Appeals issued a 60-day TRO versus the Mandaluyong RTC, effectively allowing TDI to resume making and selling Ginebra Kapitan. The Court of Appeals however subsequently affirmed the Mandaluyong RTC TRO on January 9, 2004. On January 28, 2004, the Company filed a motion for reconsideration with the Court of Appeals. The Court of Appeals denied the TDI motion for reconsideration on July 2, 2004. On Dec. 28, 2004, TDI then filed a petition for review on certiorari before the Supreme Court. On Aug. 17, 2009, the Supreme Court reversed the decision of the Court of Appeals and nullified the writ of preliminary injunction issued by the Mandaluyong RTC. GSMI filed a motion for reconsideration but the Supreme Court denied the GSMI's 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 December 31, 2017.

#### **Opposition to Registration of Brand Name**

On August 9, 2006, GSMI also filed an opposition to TDI's 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 December 31, 2017.

#### **Beverage**

ABI maintains a legal department whose main function is to pursue collection cases and handle litigation arising from labor disputes. As of December 31, 2016, 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.

#### **Tobacco**

##### **Sandiganbayan case against Tan Companies**

On June 6, 2011, a motion was submitted by the Government seeking to include PMFTC and its directors/officers as additional defendants in the forfeiture case pending before the Sandiganbayan against Mr. Lucio C. Tan, FTC, et al. since 1987. The Government claims that by transferring the assets owned by FTC to PMFTC as a result of the business combination, the FTC assets have been removed beyond the reach of the Government and the court. The Sandiganbayan denied this motion with finality on August 2011, ruling that they are not necessary or indispensable parties under the law. In a decision in June 2012, the Sandiganbayan also dismissed the forfeiture case against all the defendants for failure of the Government to prove that the assets that formed the subject of the case were ill-gotten wealth. The Government's motion for reconsideration was likewise denied in September 2012. On October 29, 2014, FTC received a resolution from the Supreme Court requiring it to submit its memorandum which was subsequently filed on January 30, 2015.

#### **Banking**

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

### **Property Development**

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

The Company is 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, on November 11, 2015 appealed the case to the Court of Appeals.

On January 18, 2018, the Court of Appeals rendered a decision in favor of Paramount and the Company, denying the appeal of the plaintiffs for lack of merit.

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

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

## **PART II - OPERATIONAL AND FINANCIAL INFORMATION**

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

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

#### **1. Market Information**

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

| <b>STOCK PRICES</b>     | <b>CLOSE</b> | <b>HIGH</b> | <b>LOW</b> |
|-------------------------|--------------|-------------|------------|
| 2015                    |              |             |            |
| 1 <sup>st</sup> Quarter | 16.30        | 16.92       | 12.24      |
| 2 <sup>nd</sup> Quarter | 13.92        | 16.98       | 13.20      |
| 3 <sup>rd</sup> Quarter | 10.08        | 15.96       | 10.00      |
| 4 <sup>th</sup> Quarter | 15.00        | 15.24       | 9.79       |
| 2016                    |              |             |            |
| 1 <sup>st</sup> Quarter | 15.60        | 16.78       | 13.70      |
| 2 <sup>nd</sup> Quarter | 15.92        | 16.22       | 13.18      |
| 3 <sup>rd</sup> Quarter | 15.30        | 17.98       | 15.20      |
| 4 <sup>th</sup> Quarter | 12.56        | 15.92       | 12.48      |
| 2017                    |              |             |            |
| 1 <sup>st</sup> Quarter | 16.02        | 17.00       | 12.00      |
| 2 <sup>nd</sup> Quarter | 14.70        | 16.98       | 14.42      |
| 3 <sup>rd</sup> Quarter | 17.58        | 18.90       | 14.78      |
| 4 <sup>th</sup> Quarter | 18.74        | 19.70       | 16.98      |
| 2018                    |              |             |            |
| March 16, 2018*         | 19.60        | 19.86       | 19.20      |

\*Latest practicable trading date

## 2. Holders

The number of shareholders of record as of December 31, 2017 was 369. Common shares outstanding as of December 31, 2017 were 10,821,388,889. The top 20 stockholders as of December 31, 2017 are as follows:

| <u>Stockholders' Name</u>              | <u>No. of Common<br/>Shares Held</u> | <u>% to Total</u> |
|----------------------------------------|--------------------------------------|-------------------|
| Tangent Holdings Corp.                 | 8,046,318,193                        | 74.3557           |
| PCD Nominee Corporation (Non-Filipino) | 1,515,643,380                        | 14.0060           |
| PCD Nominee Corporation (Filipino)     | 497,146,244                          | 4.5941            |
| Dragon Castle Holdings Ltd.            | 198,535,900                          | 1.8347            |
| Hinner Resources Ltd.                  | 157,195,600                          | 1.4526            |
| Advance Goal Ltd.                      | 152,812,600                          | 1.4121            |
| Absolute Classic Ltd.                  | 95,811,000                           | 0.8854            |
| Conqueror Vision Ltd.                  | 81,913,000                           | 0.7570            |
| Conway Equities, Inc.                  | 35,000,000                           | 0.3234            |
| Pan Asia Securities Corp.              | 24,448,000                           | 0.2259            |
| Goldlabel Equities Corp.               | 5,039,800                            | 0.0466            |
| All Seasons Realty Corp.               | 4,974,794                            | 0.0460            |
| Dragonstar Management Corp.            | 1,773,900                            | 0.0164            |
| Kentron Holdings & Equities Corp.      | 569,800                              | 0.0053            |
| Luys Securities Co., Inc.              | 501,000                              | 0.0046            |
| Jaime C. Qua                           | 360,800                              | 0.0033            |
| Mandarin Securities Corp.              | 358,000                              | 0.0033            |
| Atlas Agricultural & Mercantile & Dev. | 299,475                              | 0.0028            |
| Honorio Poblador Jr.                   | 295,230                              | 0.0027            |
| Donald J.D. Nye                        | 272,250                              | 0.0025            |

\* LTG has no preferred shares.

## 3. Dividends

### a.) Dividend declarations

On April 12, 2016, the BOD of LTG approved the declaration and distribution of cash dividends of ₱0.15 per share to all stockholders of record as of April 28, 2016. The dividends were paid on May 6, 2016.

On March 14, 2017, the BOD of LTG approved the declaration and distribution of cash dividends of ₱0.18 per share to all stockholders of record as of March 29, 2017. The dividends were paid on April 7, 2017.

On March 13, 2018, the BOD of LTG approved the declaration and distribution of cash dividends of ₱0.20 per share to all stockholders of record as of March 28, 2018. The dividends will be paid on April 11, 2018.

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

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

b. "In lieu of closing the stock transfer book of the Corporation, The Board of Directors may fix in advance an appropriate date consistent with the relevant regulations as may have been

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

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

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

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

#### RESULTS OF OPERATIONS

The following discussion and analysis of the Group’s financial condition and results of operations should be read in conjunction with the consolidated financial statements as at December 31, 2017, 2016 and 2015 included in this report.

#### 2017 vs 2016

#### CONSOLIDATED RESULTS OF OPERATIONS

| (In millions)                                                   | 2017    | 2016    |
|-----------------------------------------------------------------|---------|---------|
| Revenues                                                        | ₱63,780 | ₱57,800 |
| Cost of Sales                                                   | 29,680  | 26,127  |
| Equity in Net Earnings of Associates                            | 3,963   | 2,786   |
| Operating Expenses                                              | 28,322  | 27,915  |
| Operating Income                                                | 9,742   | 6,544   |
| Other income-net                                                | 8,336   | 6,391   |
| Income Before Income Tax                                        | 18,078  | 12,936  |
| Total Net Income                                                | 14,581  | 12,089  |
| Net Income Attributable to Equity Holders of the Parent Company | 10,831  | 9,390   |

LT Group, Inc. (LTG) reported a consolidated net income of ₱14.6 billion for the year ended December 31, 2017, 20.6% higher than the ₱12.1 billion reported in the same period last year.

The consolidated net income attributable to equity holders of LTG was ₱10.8 billion for 2017, 15.3% more than the ₱9.4 billion in 2016. The banking segment’s net income was higher by 15.9% from ₱7.4 billion for the year ended December 31, 2016 to ₱8.6 billion in 2017. LTG’s share in the net income of the banking segment improved from ₱4.1 billion in 2016 to ₱4.8 billion in 2017. In 2016, LTG’s share in net income of the banking segment included a ₱724 million elimination on the gain from sale of land by PNB to Eton. Including this elimination, the bank’s net contribution to LTG in 2016 was ₱3.4 billion, and 2017’s ₱4.68 billion, 41.3% higher year-on-year. The tobacco segment’s net income increased by ₱1.8 billion from ₱2.6 billion in 2016 to ₱4.4 billion in 2017. Distilled spirits segment net income was ₱631 million, a decrease of 30.5% versus the 2016 income recorded in 2016. The beverage and property development segments’ net income were ₱552 million and ₱348 million in 2017 were lower by

68.6% and 10.3%, respectively, compared to the incomes in the same period last year . Equity in net earnings from our stake in VMC contributed ₱174 million for 2017. As of December 31, 2017, LTG's stake in VMC stood at 30.9%.

Consolidated revenues amounted to ₱63.8 billion for the year ended December 31, 2017, 10.4% better than the ₱57.8 billion recognized in 2016 on account of the higher revenues in the banking, distilled spirits and beverage segments.

Cost of sales and services increased by 13.6% from ₱26.1 billion in 2016 to ₱29.7 billion in the current year, 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 39.8% decline in cost of sales as a result of lower booked sales from real estate development projects.

Operating expenses amounted to ₱28.3 billion in 2017 from ₱27.9 billion in 2016 or an increase of 1.5%. This was as a result of higher selling expenses, which amounted to ₱2.4 billion in 2016 as against ₱2.7 billion in 2017.

Other income increased by 30.4% primarily due to higher gain on sale of assets. Interest income and net foreign exchange gains were higher by 47.6% and 10.8%, respectively. Interest expense was lower by 29.9% due to loan settlements.

## **SEGMENT OPERATIONS**

### **Banking**

The banking segment's net income was ₱8.6 billion for the year ended December 31, 2017, higher by 15.9% compared to the ₱7.4 billion recorded for the same period in 2016.

Interest income from banking operations was at ₱27.6 billion in 2017, 13.4% higher than the ₱24.4 billion realized last year, mainly on account of higher interest income from loans and receivables, deposits with banks and others and interbank loans receivable.

Interest expense was at ₱5.6 billion for 2017, an increase of 15.5% from the ₱4.8 billion recorded in same period of 2016 resulting to a net interest income of ₱22.1 billion, 12.9% higher year-on-year.

Net service fees and commission income exceeded the previous period's ₱2.7 billion to ₱3.2 billion in the current period, attributable to higher deposit and trade related fees, arranger's fees, bancassurance and other bank commission, underwriting and securities dealership transactions, as well as loan related and other fee income.

Miscellaneous income declined by 7.2% to ₱8.6 billion, due to lower mark-to market gains on trading and investment securities.

### **Beverage**

The beverage segment's net income was ₱552 million for the year ended December 31, 2017, 68.5% lower than the ₱1.76 billion in the same period last year.

Revenues of the beverage segment were higher by 17.2% to ₱13.9 billion in 2017 from ₱11.9 billion in 2016. This was driven by the continued growth in the revenues of Absolute and Summit bottled water and Vitamilk soymilk. However, gross profit margin dipped from 34% in 2016 to 31% in 2017, on account of the increase in cost of sales by 22.7% due to higher depreciation, labor costs, fuel and utilities expenses.

Likewise, operating expenses increased by 8.8% to ₱2.4 billion in 2017 from ₱2.2 billion in 2016 on account of higher advertising and promotional expenses, salaries and wages, taxes and licenses and miscellaneous expenses.

### **Distilled Spirits**

The distilled spirits segment posted a net income of ₱631 million for the year ended December 31, 2017, 30.5% lower than the ₱908 million reported in the same period last year due to lower bio-ethanol sale.

Net revenues were higher by 11.9% to ₱16.8 billion in 2017 compared to 2016's ₱15.0 billion due to higher volumes of liquor especially the flagship product Tanduay Five Years.

Cost of sales increased by 14.5% to ₱14.1 billion in the current period as against ₱12.3 billion in the same period last year primarily due to higher distilled spirits volumes, alcohol costs and increase in excise taxes. Consequently, gross profit margin was at 16.2% in 2017, lower than the 18.1% in 2016.

Operating expenses was at ₱1.9 billion in 2017, 22.7% higher than the ₱1.6 billion in 2016 on account of higher advertising, freight and handling, management and professional fees and other selling expenses.

### **Property Development**

The property development segment reported a net income of ₱348 million for the year 2017, slightly lower than the ₱390 million for the same period last year.

Residential property sales were lower by 45.6% to ₱845 million for 2017. Rental revenues in 2017 accounted for ₱1.4 billion or 62.2% of revenues, representing a 8.6% growth over the same period in 2016, as the lease contracts were renewed at higher rates for the BPO offices.

Operating expenses were higher by 7.3% from ₱682 million in 2016 to ₱732 million in 2017, mainly on account of higher repairs and maintenance expense, depreciation and outside services fees.

### **Tobacco**

The tobacco segment's net income was ₱4.4 billion for the year 2017, 70.3% higher than the ₱2.6 billion of the same period last year on account of the increase in equity in net earnings from PMFTC from ₱2.6 billion last year to ₱4.4 billion in 2017.

## **2016 vs 2015**

### **CONSOLIDATED RESULTS OF OPERATIONS**

| (In millions)                                                   | 2016    | 2015    |
|-----------------------------------------------------------------|---------|---------|
| Revenue                                                         | ₱57,800 | ₱51,473 |
| Cost of Sales                                                   | 26,127  | 22,003  |
| Equity in Net Earnings of Associates                            | 2,786   | 1,189   |
| Operating Expenses                                              | 27,915  | 23,359  |
| Operating Income                                                | 6,544   | 7,300   |
| Other income-net                                                | 6,391   | 4,917   |
| Income Before Income Tax                                        | 12,936  | 12,218  |
| Total Net Income                                                | 12,089  | 9,497   |
| Net Income Attributable to Equity Holders of the Parent Company | 9,390   | 6,599   |

LT Group, Inc.'s (LTG) posted consolidated net income of ₱12.1 billion for the year ended December 31, 2016, 27.3% higher than 2015's ₱9.5 billion.

LTG's net income attributable to equity holders was ₱9.4 billion for 2016, an increase of 42.3% from the 2015's ₱6.6 billion. The banking segment contributed ₱4.14 billion, which accounted for 44% of total net income attributable to equity holders of LTG. The banking segment's income included a ₱1.28 billion gain from the sale of property to Eton (an LTG subsidiary) in the first quarter of 2016, LTG's share of the gain at ₱725 million was eliminated. This resulted to the banking segment's net contribution at ₱3.42 billion. The tobacco business contributed ₱2.58 billion, followed by the beverage segment at ₱1.75 billion or 19%. Distilled spirits and the property development segments net income amounted to ₱908 million or 10% and ₱390 million or 4%, respectively. Equity in net earnings from our stake in VMC provided ₱142 million or 2% of total. As of December 31, 2016 LTG's stake in VMC stood at 30.17%.

Consolidated revenues amounted to ₱57.8 billion for the year ended December 31, 2016, 12.3% higher than the ₱51.5 billion in 2015. The banking segment's revenues were higher by 9.4% largely due to higher interest income on loans receivable and improved tradings gains and favorable foreign exchange transactions. Property segment's revenues were higher by 14.8% due to higher residential and leasing revenues. Beverage and distilled spirits segments' revenues were higher by 5.3% and 24.2%, respectively, for the year ended December 31, 2016.

Cost of sales and services increased by 18.7% from ₱22.0 billion for the year ended December 31, 2015 to ₱26.1 billion in 2016. This is mainly due to higher interest expense on deposit liabilities, bills payables and others.

Consolidated operating expenses were at ₱27.9 billion in 2016 and ₱23.4 billion in 2015 as selling and general and administrative expenses increased by 6.8% and 20.8%, respectively. Higher selling expenses were mainly on account of the increase in advertising and promotional expenses of the distilled spirits and beverage segment while general and administrative expenses increased mainly due to the banking segment's higher provisioning, marketing and other expenses.

## **SEGMENT OPERATIONS**

### **Banking**

The banking segment reported a net income of ₱7.4 billion in 2016, an improvement of 9.1% from the ₱6.8 billion earned in 2015.

Net interest income from banking operations increased by 10.9% to ₱19.5 billion in 2016, mainly on account of higher booked loans and receivables. Net interest margin was flat at 3.1%.

Net service fees and commission income dropped from ₱3.6 billion in 2015 to ₱2.7 billion in 2016 due to lower income from deposit-related fees and service fee expenses were 27.6% higher.

Miscellaneous income increased by 65.5% on account of higher trading and foreign exchange gains recognized in 2016, higher gain on sale on ROPAs and the recognition of re-measurement gain from the Bank's stake in Allianz PNB Life Insurance, Inc.

Operating expenses were higher by 22.9% to ₱23.2 billion in 2016 from ₱18.9 billion on account of expenses incurred for higher provisioning, marketing expenses, migration to a more secure EMV chip for its ATM and POS terminals, higher compensation, and debit and credit cards.

### **Beverage**

The beverage segment net income reached ₱1.76 billion in 2016, 59.7% higher than the ₱1.1 billion earned in 2015. This is inclusive of the ₱594 million extraordinary income recognized from the revaluation of the beer assets. Excluding the extraordinary income, ABI's net income would have settled at ₱1.12 billion, 2% increase over 2015's net income.

The results of operations of the beverage group were significantly impacted by the transfer of ABI's alcoholic beverage segment to its 50.0%-owned associate, ABHP in November 2016.

Excluding the beer and alcopop business, net revenues were at ₱11.9 billion in 2016, increased by 4.0% from the ₱11.4 billion in 2015. The higher revenues from bottled water were partially offset by lower revenues from packaging, specifically commercial bottles, as some of the Company's capacity was utilized in producing returnable glass bottles for the soymilk business. Cobra energy drinks was flat year-on-year.

Gross profit margin was 34% in 2016, slightly lower than the 35% in 2015 on account of the product mix sold. Operating expenses were 11.9 higher y-o-y as they spent more on advertising and marketing expenses.

### **Distilled Spirits**

The distilled spirits segment reported a net income of ₱908 million for 2016, a significant improvement from the ₱422 million in 2015.

Net revenues were higher by 23.9% to ₱15.0 billion in 2016. This was on account of the start of bioethanol operation this year. Also, sales volume of liquor had a slight increase of 2% from the growth in sales of its flagship product, Tanduay Rhum Five Years.

Cost of sales increased from ₱9.8 billion in 2015 to ₱12.3 billion in 2016 due to higher prices of alcohol. Likewise, gross profit margin dropped to 18% from 19% in 2015 due to lower margins for liquor.

Operating expenses remained at ₱1.6 billion for years 2016 and 2015.

### **Property development**

Eton reported of ₱390 million for the year ended 2016. This is 24.6% higher than 2015's net income after tax for the same period of ₱313 million. Growth in net income after tax can be traced to the 14.1% or ₱183.4 million improvement in gross profit. Another factor that contributed to the higher net income is the increase in percentage of completion of previously sold units.

Rental revenue for the year also increased by 9% from ₱1.17 billion to ₱1.28 billion during the same period in 2015, as the lease contracts were renewed at higher rental rates, especially for the Company's BPO offices.

Other Charges increased by 83.8% compared to 2015. This is mainly due to the increase in finance charges by ₱181.91 million or 103.5% as the Company recognized its borrowing costs as expense in the period incurred. Likewise, additional interest expense was incurred relating to the new bank loans obtained by the Company in 2016 and from outstanding payable to landowners for land acquisitions made during the last quarter of 2015 and the first quarter of 2016.

Provision for income tax decreased from ₱250 million in 2015 to ₱212 million in 2016 due to the timing difference in the taxable income as against the reported income.

### **Tobacco**

The tobacco segment posted a net income of ₱2.6 billion for the year ended December 31, 2016, 149.2% higher than the ₱1.0 billion recognized in 2015. This was mainly on account of higher equity in net earnings from PMFTC of ₱2.6 billion for 2016, 165.9% more than last year's ₱975 million. The higher income of PMFTC were mainly attributed to the favorable change in the mix of sales as volume of premium priced Marlboro was 25% higher year-on-year as customers continued to trade up with the narrowing of price gaps.

## **FINANCIAL CONDITION**

### **2017**

The Company's consolidated Total Assets as of December 31, 2017 amounted to ₱917.1 billion, an increase of 10.6% from ₱829.1 billion as of December 31, 2016. This was mainly on account of the increase in Current Assets by 2.9% or ₱11.8 billion and increase in Noncurrent Assets of ₱76.2 billion or 18.0%.

The increase in the consolidated Current Assets from ₱404.8 billion as of December 31, 2016 to ₱416.6 billion was mainly due to the increase in Current Loans and Receivables by ₱14.8 billion due to the bank's higher booking of loans in 2017. Inventories and Other Current Assets increased by 4.0% and 27.2%, respectively to ₱13.4 billion and ₱13.5 billion as of December 31, 2017, respectively. Due From Related Parties increased from ₱1.9 billion to ₱2.0 billion due to additional advances during the year. There was a 70.0% decrease in Current Available For Sale Investments due to the various disposals and reclassifications to noncurrent by the bank.

The 18.0% increase in Total Noncurrent Assets was mainly due to the movements in the Noncurrent Loans and Receivables, AFS investments, Held to Maturity Investments, Property, plant and equipment (PPE) and Other Noncurrent Assets. Noncurrent Loans and Receivables increased to ₱307.6 billion as of December 31, 2017, due to the bank's higher booking of loans for 2017. AFS investments and Held to Maturity Investments were higher by 17.5% and 10.9%, respectively, on account of the bank's additional investments and higher market values of its portfolios. PPE account increased to ₱43.2 billion in the current period from ₱41.3 billion in December 31, 2016, on account of the various acquisitions for the year ended 2017. Other Noncurrent Assets increased by 26.1% to ₱4.7 billion in 2017.

Consolidated Total Liabilities increased by 11.0% to ₱721.8 billion as of end-2017 from ₱650.5 billion as of end-2016. This was on account of the increase in Total Current Liabilities by 15.1% from ₱578.1 billion in December 31, 2016 to ₱665.4 billion as of the end of the current period offset by the decrease in Noncurrent Liabilities of 22.1% from ₱72.4 billion to ₱56.4 billion.

Current portion of the banking segment's Deposit Liabilities amounted to ₱588.4 billion as of December 31, 2017, 14.1% higher than December 31, 2016. Current portion of Bills and Acceptances Payable increased by 46.1% mainly due to the reclassification of currently maturing bills and acceptances payable by the banking segment. Accounts Payable and Accrued Expenses amounted to ₱22.0 billion or 27.4% higher than ₱17.3 billion as of December 31, 2016 due to the various accruals of different segments in 2017. Income tax payable is higher by 294.9% versus the December 31, 2016 level. Financial liabilities at fair value through profit or loss was 47.5% higher than December 2016 level due to higher derivative liabilities during the year. Short-term debt was lower by 11.4% to ₱1.6 billion in the current period from ₱1.8 billion in December 31, 2016, due to the payment of the beverage segment's loan. Current portion of long-term debt decreased by 75.4% to ₱114.7 million due to the payments made by the property development segment during the year. Other current liabilities decreased by 12.7% from ₱17.4 billion to ₱15.2 billion in the current period.

The decrease in the Noncurrent Liabilities was on account of lower Deposit Liabilities (noncurrent) of the banking segment from ₱45.9 billion as of December 31, 2016 to ₱39.3 billion as of December 31, 2017. Also, Noncurrent Bills and Acceptances Payable of the bank was lower by ₱3.5 billion to ₱7.3 billion in the current period from ₱10.8 billion as of end-2016. Long-term debt-net of current portion decreased by 71.1% due to the payment of the bank's subordinated debt in 2017. Accrued retirement benefits decreased by 43.4% due to the settlement and adjustments made during the year. Deferred Income Tax Liabilities increased by 6.9% due to accrual of temporary tax differences. Other Noncurrent Liabilities of the banking segment decreased by 12.8% or ₱693 million.

LTG's consolidated Total Equity grew 9.4% to ₱195.3 billion as of December 31, 2017, on account of the increase in Retained Earnings coming from the net earnings during the period and other comprehensive income.

## **2016**

The Company's consolidated Total Assets as of December 31, 2016 amounted to ₱829.1 billion, 10.6% higher than the ₱749.6 billion as of December 31, 2015. This was mainly on account of the increase in Current Assets by 9.3% or ₱34.5 billion and in Noncurrent Assets of ₱45.0 billion or 11.9%.

The increase in the consolidated Current Assets by 9.3% from ₱370.3 billion as of December 31, 2015 to ₱404.8 billion was primarily due to higher Cash and Cash Equivalents by 27.0% or ₱37.1 billion which was on account of the banking segment's increased levels of Due from BSP, Due from Other Banks and Interbank Loans Receivables. There was an increase in Current Loans and Receivables by ₱17.7 billion as the bank was able to book more loans this year. Current Available for Sale Investments were higher by 190.7% due to reclassification from noncurrent portion, various acquisitions and increases in the fair value of securities by the bank. Other Current Assets increased by 19.9% on account of increased levels in miscellaneous asset by the distilled spirits, beverage and property development segments. Due from related parties increased by 20.7% due to various advances made for the year 2016. This was significantly offset by the the sale of the bank's 51% stake in the life insurance business to Allianz of which recorded assets of disposal group classified as held for sale as of December 31, 2015 was ₱23.5 billion. Financial Assets at Fair Value through Profit or Loss declined by ₱3.2 billion, mainly due to the banking segment's lower levels of FXTN. Inventories were lower on account of decreased levels in inventory by the beverage and property development segments.

The 11.9% increase in Total Noncurrent Assets was mainly due to the movements in the Loans and Receivables, Investment in Associates and Joint Ventures and Investment Properties accounts. Loans and Receivables-net of current portion went up by 20.2% from ₱206.8 billion in December 31, 2015 to ₱248.6 billion as of December 31, 2016 as the bank was able to book more loans in 2016. Investment in Associates

and Joint Ventures went up by ₱5.1 billion or 43.0% due to the additional investment in VMC in February 2016, Equity in net earnings from these investments, Investment in the life insurance business with Allianz which is now an associate and Investment in ABHPI. Investment properties amounted to ₱28.2 billion as of December 31, 2016, 26.9% higher than 2015 level primarily due to reclassification of banking properties to investment properties as it revised its plans for these assets. Held to maturity investments by the bank were higher by ₱1.0 billion. Deferred income tax assets and other noncurrent assets were higher by 158.4% and 10.3%, respectively due to various timing difference tax adjustments and higher levels of other noncurrent assets by the various subsidiaries. This was offset by the decrease in the Noncurrent Available for Sale Investment by ₱6.5 billion by the banking segment due reclassification of some investments to current. Property, plant and equipment decreased to ₱36.1 billion (at appraised values) and ₱5.2 billion (at cost) from the ₱39.5 billion (at appraised) and ₱5.3 billion (at cost) level in December 31, 2015 primarily due to the reclassifications of various properties by the banking segment to investment properties.

Consolidated Total Liabilities increased by 12.2% to ₱650.5 billion as of December 31, 2016 from ₱579.8 billion as of December 31, 2015. This was on account of the increase in Total Current Liabilities by 13.2% from ₱496.3 billion in December 31, 2015 to ₱578.1 billion as of the end of the current period, offset by the decrease in Noncurrent Liabilities of 13.2% from ₱83.5 billion to ₱72.4 billion. Current portion of the banking segment's Deposit Liabilities amounted to ₱515.6 billion as of December 31, 2016, 18.2% higher than December 31, 2015. Current portion of Bills and Acceptances Payable increased by 329.5% mainly due to the reclassification of currently maturing bills and acceptances payable by the banking segment and increase in the transactions with the local banks. Other Current Liabilities increased by ₱4.1 billion due to the banking segments higher levels of various liabilities. Short-term Debts was higher by 25.0% or ₱350.0 million due to the availment of loan by the beverage segment. Financial Liabilities at Fair Value through Profit or Loss increased to ₱0.2 billion mainly on account of the banking segment's higher derivative liabilities. Due to related parties increased by 22.0% on account of additional payable recorded during the year. This was offset significantly by the transfer of liabilities from the bank's sale of the 51% stake in the life insurance business. Liabilities of disposal group classified as held for sale as of December 31, 2015 was ₱21.5 billion.

The decline in the Noncurrent Liabilities was on account of the decrease in the Other Noncurrent Liabilities of the banking segment by 32.0% or ₱2.5 billion, lower Noncurrent Bills and Acceptances Payable of ₱9.1 billion or 45.7% and payment of the long-term debt of PNB. This was offset by the increase in Deposit liabilities of the banking segment by ₱6.0 billion and Deferred Income Tax Liabilities by 11.9% on account of the various tax adjustment booked in 2016.

LT Group's consolidated Total Equity grew 5.2% to ₱178.6 billion as of December 31, 2016, on account of the increase in Retained Earnings by 14.7% coming from the net earnings during the period.

### **KEY PERFORMANCE INDICATORS**

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

#### **1.) Gross Profit Ratio**

Gross profit ratio in 2017 was 53.5% versus 54.8% in 2016.

#### **2.) Return on Equity**

Consolidated Net Income Attributable to Equity Holders of the Parent Company for 2017 amounted to ₱10.8 billion; higher by 15.3% from last year's ₱9.4 billion. Ratio of net income to equity is 7.3% in 2017 and 6.9% in 2016.

#### **3.) Current Ratio**

Current Ratio for 2017 is 0.63:1 while last year's was 0.70:1.

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

Debt-to-equity ratio for 2017 is 3.70:1 as compared to last year's 3.64:1.

5.) **Earnings per share**

Earnings per share attributable to holders of the parent company for 2017 is ₱1.00 and ₱0.87 in 2016.

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

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

**OTHER MATTERS**

- (i) There are no other trends or any known demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in the Group's increasing or decreasing liquidity in any material way. The Group is not in default or breach of any note, loan, lease or other indebtedness or financing arrangement requiring it to make payments. The Company does not have any liquidity problems.
- (ii) There are no events that will trigger direct or contingent financial obligation that is material to LTG, including any default or acceleration of an obligation.
- (iii) There are no known material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of LTG with unconsolidated entities or other persons created during the reporting period.
- (iv) The Group has on-going and planned capital expenditure projects as follows:

**Distilled spirits**

TDI will be implementing, SAP S4/HANA, a new Enterprise-wide Resource Planning (ERP) system, that will cover financial accounting and controlling, warehouse management, procurement, sales and distribution, materials management and production planning. The new system is to be implemented company-wide.

ADI will be installing a Biomenthanated Spent Wash Evaporation plant that will be used for the evaporation of wastewater in its Batangas distillation plant. The project aims to save on liquid fertilization costs .

## **Beverage**

In 2017, ABI undertook several major capital expenditure for its glass manufacturing business as well as for the production of bottled water and sweetened beverages. These expenditures are intended to capitalize on the growing markets such as in the bottled water business, and to improve efficiencies in ABI's production processes.

The beverage sector also made investments in returnable containers to replace bottles and crates used in production and to support the growth of the local production of Vitamilk in returnable glass bottles.

### **International Bottled Water Association Membership**

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

### **ISO 9001:2015 Quality Management System Certification**

ISO is a standard setting body that provides requirements, specifications, guidelines or characteristics that ensure that products and services are safe, reliable and are of good quality. To be ISO 9001:2015 certified, an organization must demonstrate its ability to consistently provide product that meets customer and applicable statutory and regulatory requirements. ABI's manufacturing facilities are ISO 9001:2015 certified. Waterich and IPI Cabuyao manufacturing facilities are due for the ISO 9001:2015 audit on the first quarter of 2017, but remain to be ISO 9001:2008 certified. ISO 9001:2015 is an update on the ISO 9001:2008 quality management system.

- (v) The company has no known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales, revenue or income from continuing operations.
- (vi) There are no significant elements of income or loss that did not arise from the Company's continuing operations.
- (vii) The causes for any material change from period to period which shall include vertical and horizontal analyses of any material item;

Results of our Horizontal (H) and Vertical (V) analyses showed the following material changes as of and for the years ended December 31, 2017 and 2016:

1. Available-for-sale investments - current – H, (70%)
2. Loans and receivables-current – H, 8%
3. Due from related parties – H, 6%
4. Other current assets – H, 27%
5. Loans and receivables-noncurrent – H, 24%
6. Available-for-sale investments - noncurrent – H, 18%
7. Held to maturity investments - noncurrent – H, 11%
8. Property, plant and equipment – at cost – H, 35%
9. Other noncurrent assets- H, 26%
10. Deposit liabilities – current – H, 14%

11. Financial liabilities at fair value through profit or loss – current – H, 48%
12. Bills and acceptances payable - current – H, 46%
13. Short-term debts – H, (11%)
14. Accounts payable and accrued expenses – H, 27%
15. Income tax payable – H, 295%
16. Long-term debts-current – H, (75%)
17. Other current liabilities – H, (13%)
18. Deposit liabilities – noncurrent – H, (14%)
19. Bills and acceptances payable - noncurrent – H, (33%)
20. Long-term debt – net of current portion – H, (71%)
21. Accrued retirement benefits – H, (43%)
22. Deferred income tax liabilities – H, 7%
23. Other noncurrent liabilities- H, (13%)
24. Other comprehensive income – H, 129%
25. Retained earnings- H, 14%
26. Noncontrolling interests – H, 11%
27. Banking revenue – H, 10%
28. Beverage revenue – H, 18%
29. Distilled spirits revenue – H, 12%
30. Property development revenue – H, (22%)
31. Cost of sales – H, 14%
32. Equity in net earnings of associate – H, 42%
33. Selling expenses – H, 15%
34. Finance costs – H, (30%)
35. Finance income – H, 48%
36. Foreign exchange gains – H, 11%
37. Others-net – H, 34%
38. Provision for income tax – deferred – H, 42%
39. Provision for income tax – current – H, (68%)
40. Net income from continuing operations – H, 35%
41. Net income from discontinued operations – H, (100%)
42. Net income- H, 21%

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

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

#### **A. Information on Independent Accountant and other Related Matters**

##### **(1) External Audit Fees and Services**

##### **a.) Audit and Audit-Related Fees**

1. The audit of the Group's annual financial statements or services that are normally provided by the external auditor in connection with statutory and regulatory filings or engagements for 2017 and 2016.

##### **LT Group, Inc.**

Yr. 2017- ₱ 1,500,000

Yr. 2016- ₱ 1,500,000

**Distilled Spirits**

Yr. 2017- ₱ 3,225,000

Yr. 2016- ₱ 3,025,000

**Beverage**

Yr. 2017- ₱ 5,945,000

Yr. 2016- ₱ 5,045,000

**Tobacco**

Yr. 2017- ₱ 600,000

Yr. 2016- ₱ 600,000

**Banking**

Yr. 2017- ₱17,450,000

Yr. 2016- ₱14,174,000

**Property Development**

Yr. 2017- ₱ 2,400,000

Yr. 2016- ₱ 2,400,000

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

none

**b.) Tax Fees**

none

**c.) All Other Fees**

**Yr. 2017**

LT Group, Inc. and its subsidiaries incurred ₱6,490,000 during the year 2017 for its quarterly review of financial statements.

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

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

**Item 7. Financial Statements**

The consolidated financial statements and schedules listed in the accompanying Index to Financial Statements and Supplementary Schedules are filed as part of this Form 17-A.

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

There are no changes in and disagreements with accountants on any accounting and financial disclosures during the past two years ended December 31, 2017 or during any subsequent interim period.

### PART III – CONTROL AND COMPENSATION INFORMATION

#### Item 9. Directors and Executive Officers

##### 1. Directors

| Name          | Age | Citizenship | Business Experience/Other Directorship within the Last five (5) years                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Position/Term of Office/Period Served           |
|---------------|-----|-------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------|
| Lucio C. Tan  | 83  | Filipino    | Chairman of Philippine Airlines, Inc., Asia Brewery Inc., Eton Properties Philippines, Inc., <b>MacroAsia Corp.</b> , Fortune Tobacco Corp., PMFTC Inc., Grandspan Development Corp., Himmel Industries Inc., Lucky Travel Corp., <b>PAL Holdings, Inc.</b> , Air Philippines Corporation, Tanduary Distillers, Inc., The Charter House, Inc., AlliedBankers Insurance Corp., Absolut Distillers, Inc., Progressive Farms, Inc., Foremost Farms, Inc. and Basic Holdings Corp.; Director of <b>Philippine National Bank</b> | Chairman/ 1Year/<br>July 2,1999 to present      |
| Carmen K. Tan | 76  | Filipino    | Director of Asia Brewery, Inc., The Charter House, Inc., Foremost Farms, Inc., Philippine Airlines, Inc., <b>PAL Holdings, Inc.</b> , Air Philippines Corporation, Fortune Tobacco Corp., Himmel Industries, Inc., Lucky Travel Corp., Progressive Farms, Inc., <b>MacroAsia Corp.</b> and PMFTC Inc.                                                                                                                                                                                                                       | Director/ 1 Year/<br>May 5, 2010 to<br>present  |
| Harry C. Tan  | 71  | Filipino    | Director of Eton Properties Philippines, Inc., PAN Asia Securities, Inc., Lucky Travel Corp., The Charter House, Inc., Fortune Tobacco Corp., Century Park Hotel, Landcom Realty Corp., Asia Brewery Inc., AlliedBankers Insurance Corp., Absolut Distillers, Inc., Basic Holdings Corp., Foremost Farms, Inc., Himmel Industries Inc., PMFTC Inc., <b>Philippine National Bank</b> , Progressive Farms, Inc., Grandspan Development Corp. and Tanduary Distillers, Inc.                                                    | Director/ 1 Year/<br>May 28, 2008 to<br>present |

|                   |    |          |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                                                                                 |
|-------------------|----|----------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------|
| Michael G. Tan    | 51 | Filipino | Director/Chief Operating Officer of Asia Brewery, Inc., Director/Treasurer of <b>PAL Holdings, Inc.</b> , Air Philippines Corporation and Zuma Holdings and Management Corporation, Director of Absolut Distillers, Inc., AlliedBankers Insurance Corp., Allied Commercial Bank, Bulawan Mining Corp., Eton City, Inc., Eton Properties Philippines, Inc., Lucky Travel Corp., <b>MacroAsia Corporation</b> , Century Park Hotel, Paramount Land Equities, Inc., Pan-Asia Securities Corp., Philippine Airlines, Inc. Philippine Airlines Foundation, Inc., <b>Philippine National Bank</b> , PMFTC Inc., PNB Savings Bank, Tanduay Distillers, Inc., Tanduay Brands International, Inc., and <b>Victorias Milling Co., Inc.</b> | President/ 1 Year/ 05 May 5, 2010 to present (Director since February 21, 2003) |
| Lucio K. Tan, Jr. | 51 | Filipino | Director/President of Tanduay Distillers, Inc. and Eton Properties Philippines, Inc.; Director/EVP of Fortune Tobacco Corp.; Director of AlliedBankers Insurance Corp., Philippine Airlines, Inc., <b>Philippine National Bank</b> , <b>PAL Holdings, Inc.</b> , <b>MacroAsia Corp.</b> , PMFTC Inc., Lucky Travel Corp., Air Philippines Corp., Absolut Distillers, Inc., Asia Brewery, Inc., Foremost Farms, Inc., Himmel Industries, Inc., Progressive Farms, Inc., The Charter House, Inc., Grandspan Development Corporation and Shareholdings, Inc.                                                                                                                                                                        | Director / 1 Year/ February 21, 2003 to present                                 |
| Joseph T. Chua    | 61 | Filipino | Chairman of J.F. Rubber Philippines, Watergy Business Solutions, Inc., and Cavite Business Resources, Inc.; Director/President and Chief Operating Officer of <b>MacroAsia Corp.</b> ; Managing Director of Goodwind Development Corporation (Guam); Director/President of MacroAsia Airport Services Corporation, MacroAsia Air Taxi Services, MacroAsia Catering Services, Inc., MacroAsia Properties Development Corp. and MacroAsia Mining Corporation; Director/OIC of Eton Properties Philippines, Inc.; Director of Lufthansa Technik Philippines, Inc., Bulawan Mining, Air Philippines Corporation, <b>PAL Holdings, Inc.</b> , Philippine Airlines, Inc.; and Board of Advisor of                                      | Director / 1 Year/ June 09, 2014 to February 2018                               |

|                                  |    |                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |                                                                                                                                                                                                      |
|----------------------------------|----|-------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                  |    |                   | <b>Philippine National Bank</b> , Asia Brewery Inc., and Tanduay Distillers, Inc.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |                                                                                                                                                                                                      |
| Juanita Tan Lee                  | 75 | Filipino          | Director of Eton Properties Philippines, Inc. Tanduay Distillers, Inc., and Asia Brewery, Inc., Director/Corporate Secretary of Fortune Tobacco Corp., Corporate Secretary of Absolut Distillers, Inc., The Charter House, Inc., Foremost Farms, Inc., Grandspan Development Corp., Himmel Industries, Inc., Landcom Realty Corp., Lucky Travel Corp., PMFTC Inc., Progressive Farms, Inc., and Assistant Corporate Secretary of Basic Holdings Corp. She is likewise a member of the Board of Trustees of the University of the East.                                                                                                                                                                                                                                                                                  | Director/ 1 Year/<br>May 2, 2012 to<br>present<br><br>Assistant Corporate Secretary/ 1 Year/<br>September 13, 2000 to<br>September 17, 2012<br><br>Treasurer/ 1 year/<br>April 8, 2014 to<br>present |
| Peter Y. Ong                     | 70 | Filipino          | Director and the Treasurer of Merit Holdings & Equities Corporation, Director of Fortune Tobacco Corporation, AlliedBankers Insurance Corporation, Allied Leasing and Finance Corporation and Solar Holdings Corporation. He is also a consultant of Philippine Airlines, Inc., Former President of Air Philippines Corporation, Former Senior Vice President for Production of Fortune Tobacco Corporation and Former Director of Allied Savings Bank.                                                                                                                                                                                                                                                                                                                                                                 | Director / 1 Year/<br>August 18, 2014 to<br>present                                                                                                                                                  |
| Washington Z. Sycip <sup>+</sup> | 96 | Filipino-American | Founder of SyCip Gorres Velayo & Co.; Chairman Emeritus of the Board of Trustees and Governors of the Asian Institute of Management; Chairman of Cityland Development Corp., Lufthansa Technik Philippines, Inc., STEAG State Power, Inc. and State Properties Corporation; Independent Director of Asian Eye Institute, <b>Belle Corporation</b> , Lopez Holdings Corp., Commonwealth Foods, Inc., First Philippine Holdings, Corp., Highlands Prime Inc., <b>Metro Pacific Investments Corp.</b> , Philippine Equity Management Inc., Philippine Hotelier, Inc., Philamlife, Inc., Realty Investment Inc., The PHINMA Group, State Land, Inc., and Century Properties Group Inc.; and Director of Philippine Airlines, Inc., <b>MacroAsia Corp.</b> , <b>PAL Holdings, Inc.</b> and <b>Philippine National Bank</b> . | Director/ 1 year/<br>July 09, 2013 to<br>October 7, 2017                                                                                                                                             |

|                            |    |          |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                                                                                  |
|----------------------------|----|----------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------|
| Antonino L. Alindogan, Jr. | 79 | Filipino | Chairman of An-Cor Holdings, Inc.; Chairman/President of Landrum Holdings, Inc.; Independent Director of Philippine Airlines, Inc., Eton Properties Philippines, Inc., Asia Brewery Inc., Tanduay Distillers, Inc. and <b>PAL Holdings, Inc.</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Independent Director; Audit Committee Chairman/ 1 year/ July 31, 2012 to present |
| Wilfrido E. Sanchez        | 80 | Filipino | Tax Counsel of Quiason Makalintal Barot Torres Ibarra & Sison Law Offices; Vice Chairman of Center for Leadership & Change, Inc.; Independent Director of Adventure International Tours, Inc., Amon Trading Corp., EEI Corporation, Grepalife Asset Management Corp., Grepalife Fixed Income Fund Corp., <b>House of Investments, Inc.</b> , JVR Foundation, Inc., Kawasaki Motor Corp., Magellan Capital Holdings, Corp., Omico Corporation; PETNET, Inc., PETPLANS, Inc., Transnational Diversified Corp., Transnational Diversified Group, Inc., Transnational Financial Services, Inc., and Universal Rubina Corp.; Independent Director of Eton Properties Philippines, Inc. and <b>Rizal Commercial Banking Corporation</b> | Independent Director/ 1 year/July 31, 2012 to present                            |
| Florencia G. Tarriela      | 70 | Filipino | Chairman of <b>Philippine National Bank</b> , PNB Global Remittance & Financial Co., HK Ltd.; Trustee/Advisor/Director of Foundation for Filipino Entrepreneurship, Inc., Summer Institute of Linguistics, and Tulay sa Pagunlad, Inc.; Columnist of Manila Bulletin                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Independent Director/ 1 year/August 09, 2012 to present                          |
| Robin C. Sy                | 82 | Filipino | President of Asian Shipping Corporation, Independent Non-executive Director of Dynamic Holdings Limited, Honorary President of Federation of Filipino-Chinese Chamber of Commerce and Industry, Inc., Former Director of Air Philippines Corporation and Zuma Holdings and Management Corporation.                                                                                                                                                                                                                                                                                                                                                                                                                                | Independent Director / 1 Year/August 18, 2014 to present                         |

<sup>+</sup>Deceased as of 07 October 2017

## 2. Executive Officers

| <b>Name/Position</b>                                  | <b>Age</b> | <b>Citizenship</b> | <b>Current Affiliations and Business Experiences in the last 5 years</b>                                                                                                                                                                                                                                                                                                                      | <b>Term of Office/ Period Served</b> |
|-------------------------------------------------------|------------|--------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|
| Lucio C. Tan/<br>Chairman                             | 83         | Filipino           | See above                                                                                                                                                                                                                                                                                                                                                                                     | 1 Year/July 2, 1999 to present       |
| Michael G. Tan/<br>President                          | 51         | Filipino           | See above                                                                                                                                                                                                                                                                                                                                                                                     | 1 Year/May 5, 2010 to present        |
| Juanita Tan Lee/<br>Treasurer                         | 75         | Filipino           | See above                                                                                                                                                                                                                                                                                                                                                                                     | 1 Year/April 8, 2014 to present      |
| Ma. Cecilia L. Pesayco/<br>Corporate Secretary        | 65         | Filipino           | Corporate Secretary of Asia Brewery, Inc., Tanduay Distillers, Inc., <b>PAL Holdings, Inc.</b> , Air Philippines Corporation, PNB Savings Bank, Trustmark Holdings Corporation, Zuma Holdings and Management Corporation. She is likewise the Chief Counsel of the Tan Yan Kee Foundation and; Former Corporate Secretary of Allied Banking Corporation and Eton Properties Philippines, Inc. | 1 Year/March 31, 1998 to present     |
| Jose Gabriel D. Olives/<br>Chief Financial Officer    | 71         | Filipino           | Former Senior Vice President – Finance & Chief Financial Officer of Philippine Airlines, Inc., and Former Chief Finance Officer of Asia Brewery, Inc.                                                                                                                                                                                                                                         | 1 Year/August 09, 2012 to present    |
| Nestor C. Mendones/<br>Deputy Chief Financial Officer | 63         | Filipino           | Senior Vice President-Finance and Chief Finance Officer of Tanduay Distillers, Inc.                                                                                                                                                                                                                                                                                                           | 1 Year/August 09, 2012 to present    |
| Marivic T. Moya/<br>Assistant Corporate Secretary     | 57         | Filipino           | Corporate Secretary of MacroAsia Catering Services Inc., MacroAsia Airport Services Corp., and Watergy Business Solutions Inc., Director and Coporate Secretary of MacroAsia Properties Development Corp., MacroAsia Air Taxi Services, Inc., and MacroAsia Mining Corp.(2000-Present), and Cavite Business Resources, Inc.                                                                   | 1 Year/June 09, 2014 to present      |

## **Independent Directors and their qualifications:**

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

Term of office – 1 year

Period served – 5 years

Educational attainment:

Bachelor of Science in Commerce major in Accounting, De La Salle College  
(Magna Cum Laude)

Certified Public Accountant

Positions held in the last 5 years:

- Landrum Holdings, Inc. – Chairman
- An-Cor Holdings, Inc. – Chairman
- Eton Properties Philippines, Inc. – Independent Director
- PAL Holdings, Inc. – Independent Director
- Philippine Airlines, Inc. – Independent Director

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

Term of office – 1 year

Period served – 5 years

Educational attainment:

Bachelor of Arts, Ateneo de Manila University

Bachelor of Laws, Ateneo de Manila University

Master of Laws, Yale Law School

Positions held in the last 5 years:

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

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

Term of office – 1 year

Period served – 5 years

Educational Attainment:

BSBA major in Economics, University of the Philippines

Master of Arts in Economics, University of California, Los Angeles (UCLA), USA

(topped the Master's Comprehensive Exams and completed the M.A. Degree with an "A" average in three Quarters)

Positions held in the last 5 years:

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

4. Robin C. Sy, elected as Independent Director since June 9, 2014.

Term of office – 1 year

Period served – 3 year

Positions held in the last 5 years:

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

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

3. Significant Employees

All employees of the Group are similarly situated and expected to contribute for the betterment of the Company.

4. Family Relationship

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

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

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

**Item 10. Executive Compensation**

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

**Summary Compensation Table**

**Annual Compensation**

|                                                                 | <b>Year</b>        | <b>Salary</b> | <b>Bonus</b> | <b>Others*</b> |
|-----------------------------------------------------------------|--------------------|---------------|--------------|----------------|
| Four (4) most highly compensated executive officers (see below) | 2018<br>(Estimate) | 8,074,000     | 363,000      | 3,162,500      |
|                                                                 | 2017               | 7,340,000     | 330,000      | 2,875,000      |
|                                                                 | 2016               | 7,140,000     | 595,000      | 2,875,000      |
| All other officers and directors as a group unnamed             | 2018<br>(Estimate) | 2,640,000     | 220,000      | 7,947,500      |
|                                                                 | 2017               | 2,400,000     | 200,000      | 7,225,000      |
|                                                                 | 2016               | 2,400,000     | 200,000      | 7,495,000      |

\* Others – includes per diem of directors

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

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

- a) Standard Arrangements – The Directors of LTG receive a Director’s allowance of P30,000.00 a month and a per diem of P25,000.00 for every board meeting and P15,000.00 for every committee meeting attended. Other than the stated allowance and the per diem of the Directors, there are no other standard arrangements to which the Directors of LTG are compensated, or are to be compensated, directly or indirectly, for any services provided as a Director, including any additional amounts payable for Committee participation or special assignments, for the last completed fiscal year and the ensuing year.
- b) Other Arrangements – None
- c) Employment contract or compensatory plan or arrangement – None

**Warrants and Options Outstanding: Repricing**

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

**Item 11. Security Ownership of Certain Record and Beneficial Owners and Management as of December 31, 2017.**

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

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

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

## 2. Security Ownership of Management

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

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

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

### 3. Voting Trust Holders of 5% or more

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

4. Changes in Control

None

**Item 12. Certain Relationships and Related Transactions**

The Group, in their regular conduct of business, have entered into transactions with associates and other related parties principally consisting of purchase and sale of inventories, advances, management, leasing and administrative service agreements. Sales and purchases of goods and services to and from related parties are made on an arm's length basis and at current market prices at the time of the transactions.

There are no other transactions undertaken or to be undertaken by the Group in which any director or executive officer, any nominee for election as director, any beneficial owner of more than 5% of the Company's outstanding shares (direct or indirect) or any member of his immediately family was involved or had a direct or indirect material interest.

The Group's employees are required to promptly disclose any business and family-related transactions with the Group to ensure that potential conflicts of interest are surfaced and brought to the attention of management.

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

**PART IV – CORPORATE GOVERNANCE**

**Item 13. Corporate Governance**

*This will be filed separately in April 2018.*

## PART V - EXHIBITS AND SCHEDULES

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

- a. Exhibits - see accompanying Index to Exhibits (page 80)

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

- b. Reports on SEC Form 17-C

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

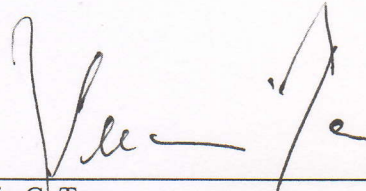
#### LIST OF ITEMS REPORTED UNDER SEC FORM 17-C (FOR THE PERIOD OF JULY 2017 TO DECEMBER 2017)

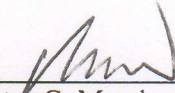
| Date of Report     | Subject Matter Disclosed                                                                                                                                                                  |
|--------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| March 15, 2017     | Declaration of Cash Dividends                                                                                                                                                             |
| March 17, 2017     | Press Release of LTG's Full-Year 2016 Net Income at Php9.39B, up 42% from 2015                                                                                                            |
| May 16, 2017       | Press Release of LTG's 1Q Net Income at Php2.25B, flat compared to 1Q16                                                                                                                   |
| June 20, 2017      | Press Release: LTG expects better business environment in 2017                                                                                                                            |
| June 20, 2017      | Results of Organizational Meeting of Board of Directors                                                                                                                                   |
| June 20, 2017      | Results of Annual or Special Stockholders' Meeting                                                                                                                                        |
| July 12, 2017      | Change in Directors and/or Officers (Resignation, Removal or Appointment, Election and/or Promotion) – Appointment of Mr. Dioscoro Teodorico Lim as the Company's Chief Audit Executive   |
| August 1, 2017     | Notice of Analysts'/Investors' Briefing                                                                                                                                                   |
| August 11, 2017    | Press Release of LTG's First Half 2017 Net Income at Php4.53B, slightly lower compared to 1H16                                                                                            |
| September 13, 2017 | Change in Directors and/or Officers (Resignation, Removal or Appointment, Election and/or Promotion) - Appointment of Mr. Jose Gabriel D. Olives as the Company's Data Protection Officer |
| October 9, 2017    | Change in Directors and/or Officers (Resignation, Removal or Appointment, Election and/or Promotion)                                                                                      |
| November 3, 2017   | Notice of Analysts'/Investors' Briefing                                                                                                                                                   |
| November 10, 2017  | Press Release of LTG's Net Income for 9M17 at Php6.38B, 9% Higher than 9M16                                                                                                               |
| December 7, 2017   | Clarification of News Report: "Big consortium to rebuild NAIA"                                                                                                                            |

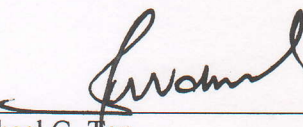
## SIGNATURES

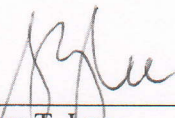
Pursuant to the requirements of Section 17 of the Securities Regulation Code (SRC) and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned thereunto duly authorized in the City of Makati on MAR 13 2018.

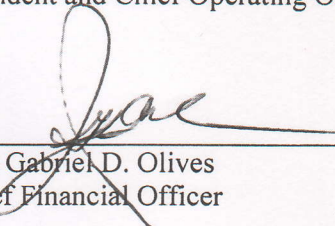
By:

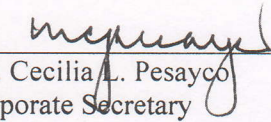
  
 Lucio C. Tan  
 Chairman and Chief Executive Officer

  
 Nestor C. Mendones  
 Deputy Chief Financial Officer

  
 Michael G. Tan  
 President and Chief Operating Officer

  
 Susan T. Lee  
 Principal Accounting Officer

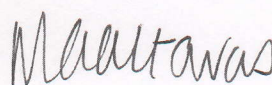
  
 Jose Gabriel D. Olives  
 Chief Financial Officer

  
 Ma. Cecilia L. Pesayco  
 Corporate Secretary

**SUBSCRIBED AND SWORN** to before me this MAR 13 2018 affiants exhibiting to me their Passport numbers, as follows:

| NAMES                  | PASSPORT NO. | DATE OF ISSUE | PLACE OF ISSUE        |
|------------------------|--------------|---------------|-----------------------|
| Lucio C. Tan           | EC0015255    | 1/17/2014     | Manila, Philippines   |
| Michael G. Tan         | P3415001A    | 6/16/2017     | Manila, Philippines   |
| Jose Gabriel D. Olives | EC0224969    | 2/6/2014      | Manila, Philippines   |
| Nestor C. Mendones     | EC3602105    | 3/6/2015      | NCR East, Philippines |
| Ma. Cecilia L. Pesayco | EC8362602    | 7/20/2016     | Manila, Philippines   |
| Susan T. Lee           | EC4659506    | 7/16/2015     | Manila, Philippines   |

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 Page No. 45  
 Book No. I  
 Series of 2018

  
**MICAELA ASTRUD A. ALTAVAS**  
 Notary Public until 31 December 2018  
 19<sup>th</sup>/F BDO Plaza, 8737 Paseo de Roxas, Makati City  
 PTR No. 6614442, Makati City, 03 January 2018  
 Lifetime IBP No. 017749, Capiz, 20 May 2017  
 Roll No. 67605, Commission No M-572

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

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



## LT GROUP, INC.

### STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **LT Group, Inc.** is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for each of the three years ended December 31, 2017, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the consolidated financial statements including the schedules attached therein, and submits the same to the stockholders or members.

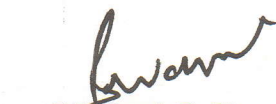
SyCip Gorres Velayo & Co., the independent auditor appointed by the stockholders, has audited the consolidated financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to the stockholders or members, has expressed its opinion on the fairness of presentation upon completion of such audit.

Signed under oath by the following:



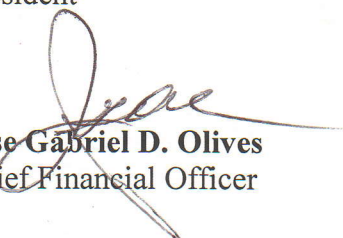
**Lucio C. Tan**

Chairman and Chief Executive Officer



**Michael G. Tan**

President



**Jose Gabriel D. Olives**

Chief Financial Officer

Signed this 13<sup>th</sup> day of March 2018

REPUBLIC OF THE PHILIPPINES)  
CITY OF MAKATI )

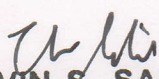
BEFORE ME, personally appeared the following persons on March 13, 2018

| Name                   | Passport No. | Date Issue | Place of Issue      |
|------------------------|--------------|------------|---------------------|
| Lucio C. Tan           | EC0015255    | 1/17/2014  | Manila, Philippines |
| Michael G. Tan         | P3415001A    | 6/16/2017  | Manila, Philippines |
| Jose Gabriel D. Olives | EC0224969    | 2/6/2014   | Manila, Philippines |

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

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

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal, this day of MAR 13 2018 2018 at Makati City Philippines

  
**ELVIN S. SALINDO**  
Notary Public until 31 December 2018  
19<sup>th</sup>/F BDO Plaza, 8737 Paseo de Roxas, Makati City  
PTR No. 6614438, Makati City, 03 January 2018  
IBP No. 020801, Makati, 03 January 2018  
Roll No. 65645, Commission No. M-23

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Series of 2018



LT GROUP, INC.

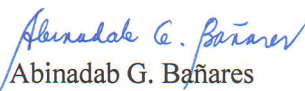
**CERTIFICATE ON THE COMPILATION SERVICES FOR THE PREPARATION OF THE  
FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS**

I hereby certify that I am the Certified Public Accountant who performed the compilation services related to the preparation and presentation of financial information of **LT Group, Inc.** (the Company) as at December 31, 2017 and 2016, in accordance with Philippine Financial Reporting Standards, as required by accounting and auditing standards.

In discharging this responsibility, I hereby declare that I am the **Financial Reporting Manager** of the Company.

Furthermore, in my compilation services for preparation of the Financial Statements and notes to the Financial Statements, I was not assisted by or did not avail of the services of Sycip Gorres Velayo & Co., which is the external auditor who rendered the audit opinion for the said Financial Statements and notes to the Financial Statements.

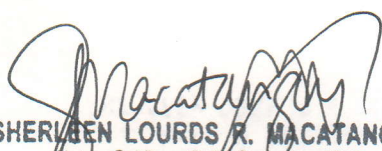
I hereby declare, under penalties of perjury and violation of the Revised Accountancy Law, that my statements are true and correct.

  
Abinadab G. Banares  
Financial Reporting Manager  
CPA Certificate No. 0124114  
valid until August 13, 2018  
BOA Accreditation No. 0723  
valid until August 13, 2019

March 13, 2018

SUBSCRIBED AND SWORN to before this MAR 13 2018 at Makati City affiant exhibiting to me his PRC  
License No. 0124114 valid until August 13, 2018.

Doc No. 2940  
Page No. 40  
Book No. II  
Series of 2018

  
**SHERLEEN LOURDS R. MACATANGAY**  
Notary Public until 31 December 2018  
19<sup>th</sup> F 800 Plaza, 8737 Paseo de Roxas, Makati City  
PTR No. 5614437, Makati City, 03 January 2018  
IBP No. 020600, Makati City, 03 January 2018  
Roll No. 63799, Commission No. M-193

# COVER SHEET

for

## AUDITED FINANCIAL STATEMENTS

SEC Registration Number

|   |   |   |   |   |   |   |   |   |   |   |
|---|---|---|---|---|---|---|---|---|---|---|
| P | W | - | 0 | 0 | 0 | 0 | 0 | 3 | 4 | 3 |
|---|---|---|---|---|---|---|---|---|---|---|

**COMPANY NAME**

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

Form Type

|          |          |           |          |
|----------|----------|-----------|----------|
| <b>A</b> | <b>A</b> | <b>F-</b> | <b>S</b> |
|----------|----------|-----------|----------|

Department requiring the report

|   |   |   |  |
|---|---|---|--|
| N | / | A |  |
|---|---|---|--|

Secondary License Type, If Applicable

|   |   |   |  |
|---|---|---|--|
| N | / | A |  |
|---|---|---|--|

## COMPANY INFORMATION

Company's Email Address

**info@ltg.com.ph**

Company's Telephone Number

**(02) 808-1266**

Mobile Number

|  |     |
|--|-----|
|  | N/A |
|--|-----|

No. of Stockholders

369

Annual Meeting (Month / Day)

May/8

Fiscal Year (Month / Day)

December/31

## CONTACT PERSON INFORMATION

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

Name of Contact Person

**Jose Gabriel D. Olives**

Email Address

**josegabriel.olives@ltg.**  
**com.ph**

Telephone Number/s

**808-1266**

Mobile Number

|               |     |
|---------------|-----|
| Media Number: | N/A |
|---------------|-----|

**CONTACT PERSON'S ADDRESS**

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

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

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

## INDEPENDENT AUDITOR'S REPORT

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

### Opinion

We have audited the consolidated financial statements of LT Group, Inc. and its subsidiaries (the Group), which comprise the consolidated balance sheets as at December 31, 2017 and 2016, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2017 in accordance with Philippine Financial Reporting Standards (PFRSs).

### Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.



### ***Adequacy of allowance for credit losses of loans and receivables***

The loans and receivables of Philippine National Bank (PNB), a subsidiary, are significant as they represent 56% of the total assets of the Group. The Group determines the allowance for credit losses on loans and receivables on individual basis for individually significant loans and receivables, and collectively, for loans and receivables that are not individually significant such as consumer loans and credit card receivables. We considered the measurement of impairment of loans and receivables as a key audit matter because it involves significant management judgment in determining the allowance for credit losses. The determination of the allowance for credit losses involves various assumptions such as timing of expected future cash flows, probability of collection, observable market prices and expected net selling prices of the collateral. The disclosures related to allowance for credit losses on loans and receivables are included in Notes 3 and 8 of the consolidated financial statements.

#### ***Audit Response***

For loans and receivables subjected to specific impairment test, we selected samples of individually impaired loans and receivables and obtained an understanding of the borrower's business and financial capacity. This was done by inquiring on the latest developments about the borrower and checking the payment history of the borrower. We tested the assumptions underlying the impairment identification and quantification of the allowance for credit losses by assessing whether the forecasted cash flows are based on the borrower's latest financial condition and where applicable, inspecting recent appraisal reports to determine the fair value of collateral held. We also checked whether the discount rates used are based on the original effective interest rate or the last repriced rate of the loans and re-performed the impairment calculation.

For loans and receivables subjected to collective impairment test, we tested the underlying impairment models and the inputs to those models such as the historical loss rates and net flow rates. This was done by agreeing the details of the loan information used in the calculation of the loss rates and net flow rates to the Group's records and subsidiary ledgers, validating the delinquency age buckets of the loans and loan groupings and re-performing the calculation of the provision for credit losses.

### ***Valuation of net retirement benefits liability***

As at December 31, 2017, the present value of defined benefit obligation of PNB amounted to ₱6.77 billion while the fair value of its plan assets amounted to ₱5.24 billion. PNB also provides certain post-employment benefit through a guarantee of a specified return on contributions to its employee investment plan. The valuation of the retirement benefit liability and post-employment benefit requires the assistance of an actuary due to the complexities involved in the calculation and the use of certain assumptions such as prospective salary and employee turnover rate, as well as discount rate, which could have a material impact on the results. Thus, we considered this as a key audit matter. The disclosures related to net retirement benefits liability are included in Note 23 to the consolidated financial statements.

#### ***Audit Response***

We involved our internal specialist in the review of the scope, bases, methodology and results of the work by PNB's external actuary, whose professional qualifications, capabilities and objectivity were also taken into consideration. We evaluated the key assumptions used by comparing the employee demographics and attrition rate against PNB's human resources data, and the discount rate and mortality rate against



available market data. We inquired from PNB's management about the basis of the prospective salary rate increase and compared it against PNB's historical salary increase rate and forecast. We compared the fair value of the retirement plan assets to market price information.

### ***Migration to new core banking system***

In 2017, PNB and PNB Savings Bank implemented their new core banking system supporting the loans, deposits, and financial reporting processes. The migration to the new core banking system represents a financial reporting risk as there might be a breakdown in internal controls during the transition and an increased risk of inaccurate or incomplete migration of financial data. We, therefore, considered the testing of the migration of data from the old system to the new core banking system and the changes in Information Technology application controls as a key audit matter.

### ***Audit Response***

We involved our internal specialist in obtaining an understanding of the processes, testing and evaluation of controls over data migration. We also performed substantive testing of the data migrated from the old system to the new core banking system by reviewing the reconciliations performed by PNB of balances between the two systems. We evaluated the related IT application controls of the relevant business processes affected by the migration to the new core banking system. Where necessary, we performed procedures to evaluate the controls design and test the operation of compensating controls. We evaluated and considered the results of the testing of controls in the design and extent of our substantive audit procedures.

### **Other Information**

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2017, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2017 are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

### **Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with PFRSs, and for such internal control as management determines is



necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

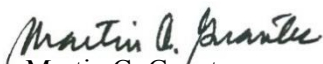
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Martin C. Guantes.

SYCIP GORRES VELAYO & CO.



Martin C. Guantes

Partner

CPA Certificate No. 88494

SEC Accreditation No. 0325-AR-3 (Group A),

August 25, 2015, valid until August 24, 2018

Tax Identification No. 152-884-272

BIR Accreditation No. 08-001998-52-2018,

February 26, 2018, valid until February 25, 2021

PTR No. 6621267, January 9, 2018, Makati City

March 13, 2018



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

|                                                                                  | <b>December 31</b>  |              |
|----------------------------------------------------------------------------------|---------------------|--------------|
|                                                                                  | <b>2017</b>         | <b>2016</b>  |
| <b>ASSETS</b>                                                                    |                     |              |
| <b>Current Assets</b>                                                            |                     |              |
| Cash and cash equivalents (Note 5)                                               | <b>₱174,024,418</b> | ₱174,676,789 |
| Financial assets at fair value through profit or loss (FVPL)<br>[Notes 6 and 21] | <b>6,518,419</b>    | 6,441,511    |
| Available-for-sale investments (AFS) [Notes 7 and 17]                            | <b>2,544,589</b>    | 8,473,221    |
| Loans and receivables (Notes 8 and 17)                                           | <b>204,622,577</b>  | 189,812,938  |
| Inventories (Note 9)                                                             | <b>13,365,089</b>   | 12,849,799   |
| Due from related parties (Note 22)                                               | <b>2,028,625</b>    | 1,922,467    |
| Other current assets (Note 10)                                                   | <b>13,483,801</b>   | 10,600,399   |
| <b>Total Current Assets</b>                                                      | <b>416,587,518</b>  | 404,777,124  |
| <b>Noncurrent Assets</b>                                                         |                     |              |
| Loans and receivables - net of current portion (Notes 8 and 17)                  | <b>307,622,788</b>  | 248,621,351  |
| AFS investments (Notes 7 and 17)                                                 | <b>70,664,823</b>   | 60,128,678   |
| Held-to-maturity investments (Notes 7 and 10)                                    | <b>26,732,182</b>   | 24,102,594   |
| Investments in associates and joint ventures (Note 11)                           | <b>17,230,925</b>   | 16,817,351   |
| Property, plant and equipment (Note 12):                                         |                     |              |
| At appraised values                                                              | <b>36,214,947</b>   | 36,104,048   |
| At cost                                                                          | <b>6,990,286</b>    | 5,170,574    |
| Investment properties (Note 13)                                                  | <b>28,890,793</b>   | 28,217,373   |
| Deferred income tax assets - net (Note 29)                                       | <b>1,460,889</b>    | 1,424,159    |
| Other noncurrent assets (Note 14)                                                | <b>4,700,538</b>    | 3,727,772    |
| <b>Total Noncurrent Assets</b>                                                   | <b>500,508,171</b>  | 424,313,900  |
| <b>TOTAL ASSETS</b>                                                              | <b>₱917,095,689</b> | ₱829,091,024 |
| <b>LIABILITIES AND EQUITY</b>                                                    |                     |              |
| <b>Current Liabilities</b>                                                       |                     |              |
| Deposit liabilities (Note 15)                                                    | <b>₱588,394,301</b> | ₱515,554,099 |
| Financial liabilities at FVPL (Notes 16 and 21)                                  | <b>343,522</b>      | 232,832      |
| Bills and acceptances payable (Note 17)                                          | <b>36,634,337</b>   | 25,068,268   |
| Accounts payable and accrued expenses (Note 18)                                  | <b>22,023,972</b>   | 17,291,277   |
| Income tax payable                                                               | <b>1,113,799</b>    | 282,025      |
| Short-term debts (Note 19)                                                       | <b>1,550,000</b>    | 1,750,000    |
| Current portion of long-term debts (Note 19)                                     | <b>114,681</b>      | 466,946      |
| Due to related parties (Note 22)                                                 | <b>56,842</b>       | 57,054       |
| Other current liabilities (Notes 20 and 38)                                      | <b>15,166,369</b>   | 17,364,001   |
| <b>Total Current Liabilities (Carried Forward)</b>                               | <b>665,397,823</b>  | 578,066,502  |

|                                                                                       | December 31         |                     |
|---------------------------------------------------------------------------------------|---------------------|---------------------|
|                                                                                       | 2017                | 2016                |
| <b>Total Current Liabilities (Brought Forward)</b>                                    | <b>₱665,397,823</b> | <b>₱578,066,502</b> |
| <b>Noncurrent Liabilities</b>                                                         |                     |                     |
| Deposit liabilities - net of current portion (Note 15)                                | 39,286,226          | 45,866,133          |
| Bills and acceptances payable (Note 17)                                               | 7,282,350           | 10,817,679          |
| Long-term debts - net of current portion (Note 19)                                    | 1,475,466           | 5,101,801           |
| Net retirement benefits liability (Note 23)                                           | 2,205,229           | 3,899,342           |
| Deferred income tax liabilities - net (Note 29)                                       | 1,414,348           | 1,323,121           |
| Other noncurrent liabilities (Note 20)                                                | 4,718,832           | 5,411,870           |
| <b>Total Noncurrent Liabilities</b>                                                   | <b>56,382,451</b>   | <b>72,419,946</b>   |
| <b>Total Liabilities</b>                                                              | <b>721,780,274</b>  | <b>650,486,448</b>  |
| <b>Equity</b>                                                                         |                     |                     |
| Attributable to equity holders of the Company<br>(Notes 1, 7, 12, 23, 24, 30 and 36): |                     |                     |
| Capital stock                                                                         | 10,821,389          | 10,821,389          |
| Capital in excess of par                                                              | 35,906,231          | 35,906,231          |
| Preferred shares of subsidiaries issued to Parent Company                             | 18,060,000          | 18,060,000          |
| Other equity reserves                                                                 | 804,095             | 804,095             |
| Other comprehensive income, net of deferred<br>income tax effect                      | 4,299,674           | 1,878,006           |
| Retained earnings                                                                     | 78,435,633          | 68,640,783          |
| Shares of stock of the Company held by subsidiaries                                   | (12,519)            | (12,519)            |
|                                                                                       | 148,314,503         | 136,097,985         |
| Non-controlling interests (Notes 1, 7, 12 and 30)                                     | 47,000,912          | 42,506,591          |
| <b>Total Equity</b>                                                                   | <b>195,315,415</b>  | <b>178,604,576</b>  |
| <b>TOTAL LIABILITIES AND EQUITY</b>                                                   | <b>₱917,095,689</b> | <b>₱829,091,024</b> |

See accompanying Notes to Consolidated Financial Statements.

**LT GROUP, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME****(Amounts in Thousands, Except for Basic/Diluted Earnings Per Share)**

|                                                          | <b>Years Ended December 31</b> |             |             |
|----------------------------------------------------------|--------------------------------|-------------|-------------|
|                                                          | <b>2017</b>                    | <b>2016</b> | <b>2015</b> |
| <b>REVENUE</b> (Note 24)                                 |                                |             |             |
| Banking                                                  | <b>₱31,893,616</b>             | ₱29,111,818 | ₱26,600,160 |
| Distilled spirits                                        | <b>16,704,933</b>              | 14,904,343  | 12,002,266  |
| Beverage                                                 | <b>12,948,796</b>              | 10,932,326  | 10,386,308  |
| Property development                                     | <b>2,233,063</b>               | 2,851,514   | 2,484,453   |
|                                                          | <b>63,780,408</b>              | 57,800,001  | 51,473,187  |
| <b>COST OF SALES AND SERVICES</b><br>(Note 24)           | <b>29,679,810</b>              | 26,126,881  | 22,002,882  |
| <b>GROSS INCOME</b>                                      | <b>34,100,598</b>              | 31,673,120  | 29,470,305  |
| <b>EQUITY IN NET EARNINGS OF ASSOCIATES</b> (Note 11)    | <b>3,963,290</b>               | 2,785,845   | 1,188,974   |
|                                                          | <b>38,063,888</b>              | 34,458,965  | 30,659,279  |
| <b>OPERATING EXPENSES</b>                                |                                |             |             |
| Selling expenses (Note 25)                               | <b>2,692,425</b>               | 2,351,522   | 2,202,441   |
| General and administrative expenses (Note 26)            | <b>25,629,894</b>              | 25,563,084  | 21,156,533  |
|                                                          | <b>28,322,319</b>              | 27,914,606  | 23,358,974  |
| <b>OPERATING INCOME</b>                                  | <b>9,741,569</b>               | 6,544,359   | 7,300,305   |
| <b>OTHER INCOME (CHARGES)</b>                            |                                |             |             |
| Foreign exchange gains - net                             | <b>1,701,302</b>               | 1,535,217   | 1,322,400   |
| Finance income (Note 27)                                 | <b>157,100</b>                 | 106,426     | 110,376     |
| Finance costs (Note 27)                                  | <b>(141,937)</b>               | (202,490)   | (202,518)   |
| Others - net (Note 28)                                   | <b>6,619,677</b>               | 4,952,142   | 3,686,974   |
|                                                          | <b>8,336,142</b>               | 6,391,295   | 4,917,232   |
| <b>INCOME BEFORE INCOME TAX</b>                          | <b>18,077,711</b>              | 12,935,654  | 12,217,537  |
| <b>PROVISION FOR INCOME TAX</b> (Note 29)                |                                |             |             |
| Current                                                  | <b>3,613,116</b>               | 2,535,861   | 2,490,527   |
| Deferred                                                 | <b>(116,061)</b>               | (361,393)   | 238,292     |
|                                                          | <b>3,497,055</b>               | 2,174,468   | 2,728,819   |
| <b>NET INCOME FROM CONTINUING OPERATIONS</b>             | <b>14,580,656</b>              | 10,761,186  | 9,488,718   |
| <b>NET INCOME FROM DISCONTINUED OPERATIONS</b> (Note 37) | <b>—</b>                       | 1,327,970   | 7,936       |
| <b>NET INCOME</b>                                        | <b>₱14,580,656</b>             | ₱12,089,156 | ₱9,496,654  |

(Forward)

|                                                                                    | Years Ended December 31 |             |            |
|------------------------------------------------------------------------------------|-------------------------|-------------|------------|
|                                                                                    | 2017                    | 2016        | 2015       |
| <b>NET INCOME ATTRIBUTABLE TO:</b>                                                 |                         |             |            |
| Equity holders of the Company                                                      | <b>₱10,830,773</b>      | ₱9,390,407  | ₱6,599,035 |
| Non-controlling interests                                                          | <b>3,749,883</b>        | 2,698,749   | 2,897,619  |
|                                                                                    | <b>₱14,580,656</b>      | ₱12,089,156 | ₱9,496,654 |
| <b>Basic/Diluted Earnings Per Share</b>                                            |                         |             |            |
| Attributable to Equity Holders of the Company (Note 31)                            | <b>₱1.00</b>            | ₱0.87       | ₱0.61      |
| <b>Basic/Diluted Earnings Per Share</b>                                            |                         |             |            |
| Attributable to Equity Holders of the Company from Continuing Operations (Note 31) | <b>₱1.00</b>            | ₱0.86       | ₱0.58      |

*See accompanying Notes to Consolidated Financial Statements.*

**LT GROUP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(Amounts in Thousands)

|                                                                                                          | <b>Years Ended December 31</b> |                    |                    |
|----------------------------------------------------------------------------------------------------------|--------------------------------|--------------------|--------------------|
|                                                                                                          | <b>2017</b>                    | <b>2016</b>        | <b>2015</b>        |
| <b>NET INCOME</b>                                                                                        | <b>₱14,580,656</b>             | <b>₱12,089,156</b> | <b>₱9,496,654</b>  |
| <b>OTHER COMPREHENSIVE INCOME (LOSS)</b>                                                                 |                                |                    |                    |
| <i>Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:</i>     |                                |                    |                    |
| Net changes in fair value of AFS investments (Note 7)                                                    | 2,533,268                      | (723,853)          | (1,098,424)        |
| Income tax effect                                                                                        | (55,010)                       | 8,686              | 3,311              |
|                                                                                                          | <b>2,478,258</b>               | <b>(715,167)</b>   | <b>(1,095,113)</b> |
| Translation adjustments                                                                                  | <b>508,364</b>                 | <b>302,754</b>     | <b>662,775</b>     |
| Net other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods         | <b>2,986,622</b>               | <b>(412,413)</b>   | <b>(432,338)</b>   |
| <i>Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:</i> |                                |                    |                    |
| Re-measurement gains (losses) on defined benefit plans (Note 23)                                         | 1,178,433                      | (423,766)          | (50,010)           |
| Income tax effect                                                                                        | (115,548)                      | 20,179             | 7,679              |
|                                                                                                          | <b>1,062,885</b>               | <b>(403,587)</b>   | <b>(42,331)</b>    |
| Share in re-measurement gain on defined benefit plans of an associate (Note 11)                          | <b>28,526</b>                  | <b>63,642</b>      | <b>–</b>           |
| Revaluation increment (decrement) on property, plant and equipment (Note 12)                             | –                              | 390,727            | (518,611)          |
| Income tax effect                                                                                        | –                              | (117,218)          | 158,448            |
|                                                                                                          | <b>–</b>                       | <b>273,509</b>     | <b>(360,163)</b>   |
| Net other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods     | <b>1,091,411</b>               | <b>(66,436)</b>    | <b>(402,494)</b>   |
| <b>OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX</b>                                                     | <b>4,078,033</b>               | <b>(478,849)</b>   | <b>(834,832)</b>   |
| <b>TOTAL COMPREHENSIVE INCOME</b>                                                                        | <b>₱18,658,689</b>             | <b>₱11,610,307</b> | <b>₱8,661,822</b>  |
| <b>TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:</b>                                                       |                                |                    |                    |
| Equity holders of the Company                                                                            | <b>₱14,164,368</b>             | <b>₱9,170,228</b>  | <b>₱6,266,724</b>  |
| Non-controlling interests                                                                                | <b>4,494,321</b>               | <b>2,440,079</b>   | <b>2,395,098</b>   |
|                                                                                                          | <b>₱18,658,689</b>             | <b>₱11,610,307</b> | <b>₱8,661,822</b>  |

See accompanying Notes to Consolidated Financial Statements.

# LT GROUP, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015

(Amounts in Thousands)

|                                                                                                                          | Attributable to Equity Holders of the Company (Notes 1, 7, 12, 24, 30 and 36) |                          |                                                           |                       |                                                        |                                    |                                         |                                                                  |                                                                  |                                                                                                      |                                                                         |                                                                            |                    |                                                     |                     |                                                   |                     |
|--------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------|--------------------------|-----------------------------------------------------------|-----------------------|--------------------------------------------------------|------------------------------------|-----------------------------------------|------------------------------------------------------------------|------------------------------------------------------------------|------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------|----------------------------------------------------------------------------|--------------------|-----------------------------------------------------|---------------------|---------------------------------------------------|---------------------|
|                                                                                                                          | Other Comprehensive Income (Loss)                                             |                          |                                                           |                       |                                                        |                                    |                                         |                                                                  |                                                                  |                                                                                                      |                                                                         |                                                                            |                    |                                                     |                     |                                                   |                     |
|                                                                                                                          | Capital Stock                                                                 | Capital in Excess of Par | Preferred Shares of Subsidiaries Issued to Parent Company | Other Equity Reserves | Reserves of Disposal Group Classified as Held for Sale | Cumulative Translation Adjustments | Net Changes in AFS Investments (Note 7) | Re-measurement Gains (Losses) on Defined Benefit Plans (Note 23) | Revaluation Increment on Property, Plant and Equipment (Note 12) | Revaluation Increment on Property, Plant and Equipment Transferred to Associate (Notes 2, 11 and 12) | Re-measurement Gains on Defined Benefit Plans of an Associate (Note 11) | Total Other Comprehensive Income (Loss), Net of Deferred Income Tax Effect | Retained Earnings  | Shares of Stock of the Company Held by Subsidiaries | Total               | Non-controlling Interests (Notes 1, 7, 12 and 30) | Total               |
| <b>BALANCES AT DECEMBER 31, 2014</b>                                                                                     | <b>P10,821,389</b>                                                            | <b>P35,906,231</b>       | <b>P18,060,000</b>                                        | <b>P790,136</b>       | <b>P-</b>                                              | <b>P143,698</b>                    | <b>(P750,414)</b>                       | <b>(P1,387,567)</b>                                              | <b>P5,781,539</b>                                                | <b>P768,073</b>                                                                                      | <b>P27,338</b>                                                          | <b>P4,582,667</b>                                                          | <b>P54,079,986</b> | <b>(P12,518)</b>                                    | <b>P124,227,891</b> | <b>P38,494,303</b>                                | <b>P162,722,194</b> |
| Net income for the year                                                                                                  | -                                                                             | -                        | -                                                         | -                     | -                                                      | -                                  | -                                       | -                                                                | -                                                                | -                                                                                                    | -                                                                       | -                                                                          | 6,599,035          | -                                                   | 6,599,035           | 2,897,619                                         | 9,496,654           |
| Other comprehensive income (loss)                                                                                        | -                                                                             | -                        | -                                                         | -                     | -                                                      | 379,660                            | (348,779)                               | (3,029)                                                          | (360,163)                                                        | -                                                                                                    | -                                                                       | (332,311)                                                                  | -                  | -                                                   | (332,311)           | (502,521)                                         | (834,832)           |
| Total comprehensive income (loss) for the year                                                                           | -                                                                             | -                        | -                                                         | -                     | -                                                      | 379,660                            | (348,779)                               | (3,029)                                                          | (360,163)                                                        | -                                                                                                    | -                                                                       | (332,311)                                                                  | 6,599,035          | -                                                   | 6,266,724           | 2,395,098                                         | 8,661,822           |
| Stock issue cost                                                                                                         | -                                                                             | -                        | -                                                         | -                     | -                                                      | -                                  | -                                       | -                                                                | -                                                                | -                                                                                                    | -                                                                       | -                                                                          | (213)              | -                                                   | (213)               | -                                                 | (213)               |
| Acquisition of shares of subsidiaries from the Controlling Shareholders                                                  | -                                                                             | -                        | -                                                         | 14,502                | -                                                      | -                                  | -                                       | -                                                                | -                                                                | -                                                                                                    | -                                                                       | -                                                                          | -                  | -                                                   | 14,502              | -                                                 | 14,502              |
| Acquisition of non-controlling interest                                                                                  | -                                                                             | -                        | -                                                         | (543)                 | -                                                      | -                                  | -                                       | -                                                                | -                                                                | -                                                                                                    | -                                                                       | -                                                                          | -                  | -                                                   | (543)               | -                                                 | (543)               |
| Acquisition of shares by subsidiary                                                                                      | -                                                                             | -                        | -                                                         | -                     | -                                                      | -                                  | -                                       | -                                                                | -                                                                | -                                                                                                    | -                                                                       | -                                                                          | -                  | (9,946)                                             | (9,946)             | -                                                 | (9,946)             |
| Cash dividends declared                                                                                                  | -                                                                             | -                        | -                                                         | -                     | -                                                      | -                                  | -                                       | -                                                                | -                                                                | -                                                                                                    | -                                                                       | -                                                                          | (1,622,397)        | -                                                   | (1,622,397)         | (7,324)                                           | (1,629,721)         |
| Reserves disposal group classified as held for sale                                                                      | -                                                                             | -                        | -                                                         | -                     | 335,000                                                | -                                  | (348,786)                               | 13,786                                                           | -                                                                | -                                                                                                    | -                                                                       | (335,000)                                                                  | -                  | -                                                   | -                   | -                                                 | -                   |
| Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal | -                                                                             | -                        | -                                                         | -                     | -                                                      | -                                  | -                                       | -                                                                | (501,001)                                                        | (297,783)                                                                                            | -                                                                       | (798,784)                                                                  | 798,784            | -                                                   | -                   | -                                                 | -                   |
| <b>BALANCES AT DECEMBER 31, 2015</b>                                                                                     | <b>10,821,389</b>                                                             | <b>35,906,231</b>        | <b>18,060,000</b>                                         | <b>804,095</b>        | <b>335,000</b>                                         | <b>523,358</b>                     | <b>(1,447,979)</b>                      | <b>(1,376,810)</b>                                               | <b>4,920,375</b>                                                 | <b>470,290</b>                                                                                       | <b>27,338</b>                                                           | <b>3,116,572</b>                                                           | <b>59,855,195</b>  | <b>(22,464)</b>                                     | <b>128,876,018</b>  | <b>40,882,077</b>                                 | <b>169,758,095</b>  |
| Net income for the year                                                                                                  | -                                                                             | -                        | -                                                         | -                     | -                                                      | -                                  | -                                       | -                                                                | -                                                                | -                                                                                                    | -                                                                       | -                                                                          | 9,390,407          | -                                                   | 9,390,407           | 2,698,749                                         | 12,089,156          |
| Other comprehensive income (loss)                                                                                        | -                                                                             | -                        | -                                                         | -                     | -                                                      | 170,965                            | (523,918)                               | (204,377)                                                        | 273,509                                                          | -                                                                                                    | 63,642                                                                  | (220,179)                                                                  | -                  | -                                                   | (220,179)           | (258,670)                                         | (478,849)           |
| Total comprehensive income (loss) for the year                                                                           | -                                                                             | -                        | -                                                         | -                     | -                                                      | 170,965                            | (523,918)                               | (204,377)                                                        | 273,509                                                          | -                                                                                                    | 63,642                                                                  | (220,179)                                                                  | 9,390,407          | -                                                   | 9,170,228           | 2,440,079                                         | 11,610,307          |
| Sale of disposal group                                                                                                   | -                                                                             | -                        | -                                                         | -                     | (335,000)                                              | -                                  | -                                       | -                                                                | -                                                                | -                                                                                                    | -                                                                       | -                                                                          | -                  | 9,945                                               | (325,055)           | (271,814)                                         | (596,869)           |
| Cash dividends declared                                                                                                  | -                                                                             | -                        | -                                                         | -                     | -                                                      | -                                  | -                                       | -                                                                | -                                                                | -                                                                                                    | -                                                                       | -                                                                          | (1,623,206)        | -                                                   | (1,623,206)         | (543,751)                                         | (2,166,957)         |
| Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal | -                                                                             | -                        | -                                                         | -                     | -                                                      | -                                  | -                                       | -                                                                | (720,604)                                                        | (297,783)                                                                                            | -                                                                       | (1,018,387)                                                                | 1,018,387          | -                                                   | -                   | -                                                 | -                   |
| <b>BALANCES AT DECEMBER 31, 2016 (CARRIED FORWARD)</b>                                                                   | <b>10,821,389</b>                                                             | <b>35,906,231</b>        | <b>18,060,000</b>                                         | <b>804,095</b>        | <b>-</b>                                               | <b>694,323</b>                     | <b>(1,971,897)</b>                      | <b>(1,581,187)</b>                                               | <b>4,473,280</b>                                                 | <b>172,507</b>                                                                                       | <b>90,980</b>                                                           | <b>1,878,006</b>                                                           | <b>68,640,783</b>  | <b>(12,519)</b>                                     | <b>136,097,985</b>  | <b>42,506,591</b>                                 | <b>178,604,576</b>  |

| Attributable to Equity Holders of the Company (Notes 1, 7, 12, 24, 30 and 36)                                                        |                    |                                |                                                                          |                             |                                                                       |                                          |                                                     |                                                                                  |                                                                                 |                                                                                                                              |                                                                                            |                                                                                           |                      |                                                                    |                     |                                                                |                     |
|--------------------------------------------------------------------------------------------------------------------------------------|--------------------|--------------------------------|--------------------------------------------------------------------------|-----------------------------|-----------------------------------------------------------------------|------------------------------------------|-----------------------------------------------------|----------------------------------------------------------------------------------|---------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------|----------------------|--------------------------------------------------------------------|---------------------|----------------------------------------------------------------|---------------------|
| Other Comprehensive Income (Loss)                                                                                                    |                    |                                |                                                                          |                             |                                                                       |                                          |                                                     |                                                                                  |                                                                                 |                                                                                                                              |                                                                                            |                                                                                           |                      |                                                                    |                     |                                                                |                     |
|                                                                                                                                      | Capital<br>Stock   | Capital<br>in Excess<br>of Par | Preferred<br>Shares of<br>Subsidiaries<br>Issued<br>to Parent<br>Company | Other<br>Equity<br>Reserves | Reserves of<br>Disposal<br>Group<br>Classified as<br>Held for<br>Sale | Cumulative<br>Translation<br>Adjustments | Net<br>Changes<br>in AFS<br>Investments<br>(Note 7) | Re-<br>measurement<br>Gains (Losses)<br>on Defined<br>Benefit Plans<br>(Note 23) | Revaluation<br>Increment<br>on Property,<br>Plant and<br>Equipment<br>(Note 12) | Revaluation<br>Increment<br>on Property,<br>Plant and<br>Equipment<br>Transferred<br>to Associate<br>(Notes 2, 11<br>and 12) | Re-<br>measurement<br>Gains on<br>Defined<br>Benefit Plans<br>of an Associate<br>(Note 11) | Total Other<br>Comprehensive<br>Income (Loss),<br>Net of Deferred<br>Income Tax<br>Effect | Retained<br>Earnings | Shares<br>of Stock<br>of the<br>Company<br>Held by<br>Subsidiaries | Total               | Non-<br>controlling<br>Interests<br>(Notes 1, 7,<br>12 and 30) | Total               |
| <b>BALANCES AT<br/>DECEMBER 31, 2016<br/>(BROUGHT FORWARD)</b>                                                                       | <b>P10,821,389</b> | <b>P35,906,231</b>             | <b>P18,060,000</b>                                                       | <b>P804,095</b>             | <b>P-</b>                                                             | <b>P694,323</b>                          | <b>(P1,971,897)</b>                                 | <b>(P1,581,187)</b>                                                              | <b>P4,473,280</b>                                                               | <b>P172,507</b>                                                                                                              | <b>P90,980</b>                                                                             | <b>P1,878,006</b>                                                                         | <b>P68,640,783</b>   | <b>(P12,519)</b>                                                   | <b>P136,097,985</b> | <b>P42,506,591</b>                                             | <b>P178,604,576</b> |
| Net income for the year                                                                                                              | -                  | -                              | -                                                                        | -                           | -                                                                     | -                                        | -                                                   | -                                                                                | -                                                                               | -                                                                                                                            | -                                                                                          | -                                                                                         | 10,830,773           | -                                                                  | 10,830,773          | 3,749,883                                                      | 14,580,656          |
| Other comprehensive<br>income                                                                                                        | -                  | -                              | -                                                                        | -                           | -                                                                     | 289,555                                  | 2,343,380                                           | 646,592                                                                          | -                                                                               | -                                                                                                                            | 54,068                                                                                     | 3,333,595                                                                                 | -                    | -                                                                  | 3,333,595           | 744,438                                                        | 4,078,033           |
| Total comprehensive income<br>for the year                                                                                           | -                  | -                              | -                                                                        | -                           | -                                                                     | 289,555                                  | 2,343,380                                           | 646,592                                                                          | -                                                                               | -                                                                                                                            | 54,068                                                                                     | 3,333,595                                                                                 | 10,830,773           | -                                                                  | 14,164,368          | 4,494,321                                                      | 18,658,689          |
| Cash dividends declared                                                                                                              | -                  | -                              | -                                                                        | -                           | -                                                                     | -                                        | -                                                   | -                                                                                | -                                                                               | -                                                                                                                            | -                                                                                          | -                                                                                         | (1,947,850)          | -                                                                  | (1,947,850)         | -                                                              | (1,947,850)         |
| Transfer of portion of revaluation<br>increment on property, plant<br>and equipment realized<br>through depreciation and<br>disposal | -                  | -                              | -                                                                        | -                           | -                                                                     | -                                        | -                                                   | -                                                                                | (739,420)                                                                       | (172,507)                                                                                                                    | -                                                                                          | (911,927)                                                                                 | 911,927              | -                                                                  | -                   | -                                                              | -                   |
| <b>BALANCES AT<br/>DECEMBER 31, 2017</b>                                                                                             | <b>P10,821,389</b> | <b>P35,906,231</b>             | <b>P18,060,000</b>                                                       | <b>P804,095</b>             | <b>P-</b>                                                             | <b>P983,878</b>                          | <b>P371,483</b>                                     | <b>(P934,595)</b>                                                                | <b>P3,733,860</b>                                                               | <b>P-</b>                                                                                                                    | <b>P145,048</b>                                                                            | <b>P4,299,674</b>                                                                         | <b>P78,435,633</b>   | <b>(P12,519)</b>                                                   | <b>P148,314,503</b> | <b>P47,000,912</b>                                             | <b>P195,315,415</b> |

See accompanying Notes to Consolidated Financial Statements.

**LT GROUP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Amounts in Thousands)**

|                                                                                               | <b>Years Ended December 31</b> |                     |                     |
|-----------------------------------------------------------------------------------------------|--------------------------------|---------------------|---------------------|
|                                                                                               | <b>2017</b>                    | <b>2016</b>         | <b>2015</b>         |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                                   |                                |                     |                     |
| Income before income tax from continuing operations                                           | <b>₱18,077,711</b>             | <b>₱12,935,654</b>  | <b>₱12,217,537</b>  |
| Income (loss) before income tax from discontinued operations (Note 37)                        | <b>–</b>                       | <b>1,385,397</b>    | <b>(97,757)</b>     |
| Income before income tax                                                                      | <b>18,077,711</b>              | <b>14,321,051</b>   | <b>12,119,780</b>   |
| Adjustments for:                                                                              |                                |                     |                     |
| Depreciation and amortization (Notes 12, 13 and 14)                                           | <b>3,721,723</b>               | <b>3,657,358</b>    | <b>3,452,518</b>    |
| Provision for losses (Notes 8 and 26)                                                         | <b>891,490</b>                 | <b>3,218,905</b>    | <b>865,889</b>      |
| Gain on disposal of:                                                                          |                                |                     |                     |
| Other noncurrent assets (Notes 12, 13 and 28)                                                 | <b>(4,163,507)</b>             | <b>(1,823,200)</b>  | <b>(1,562,020)</b>  |
| AFS investments (Notes 7 and 28)                                                              | <b>(7,914)</b>                 | <b>–</b>            | <b>(2,928)</b>      |
| Equity in net earnings of associates (Note 11)                                                | <b>(3,963,290)</b>             | <b>(2,785,845)</b>  | <b>(1,188,974)</b>  |
| Share in losses of joint venture (Notes 11 and 28)                                            | <b>–</b>                       | <b>438,961</b>      | <b>2,067</b>        |
| Mark-to-market loss (gain) on financial assets at fair value through profit or loss (Note 28) | <b>(59,513)</b>                | <b>(62,955)</b>     | <b>42,383</b>       |
| Gain on re-measurement of retained interest (Note 28)                                         | <b>–</b>                       | <b>(1,644,339)</b>  | <b>–</b>            |
| Gain on sale of disposal group (Note 37)                                                      | <b>–</b>                       | <b>(834,535)</b>    | <b>–</b>            |
| Gain on investment in an associate arising from contribution of non-monetary assets (Note 28) | <b>–</b>                       | <b>(1,056,240)</b>  | <b>–</b>            |
| Gain on sale of brands (Note 37)                                                              | <b>–</b>                       | <b>(46,300)</b>     | <b>–</b>            |
| Finance costs (Note 27)                                                                       | <b>141,937</b>                 | <b>202,490</b>      | <b>202,518</b>      |
| Finance income (Note 27)                                                                      | <b>(157,100)</b>               | <b>(106,426)</b>    | <b>(110,376)</b>    |
| Dividend income (Note 28)                                                                     | <b>(62,143)</b>                | <b>(53,729)</b>     | <b>(22,464)</b>     |
| Movement in accrued retirement benefits (Note 23)                                             | <b>(831,912)</b>               | <b>(362,683)</b>    | <b>83,058</b>       |
| Operating income before changes in working capital                                            | <b>13,587,482</b>              | <b>13,062,513</b>   | <b>13,881,451</b>   |
| Decrease (increase) in:                                                                       |                                |                     |                     |
| Financial assets at fair value through profit or loss                                         | <b>(17,395)</b>                | <b>3,284,668</b>    | <b>(1,019,884)</b>  |
| Receivables                                                                                   | <b>(74,827,496)</b>            | <b>(64,624,296)</b> | <b>(49,118,548)</b> |
| Inventories                                                                                   | <b>(515,290)</b>               | <b>1,174,248</b>    | <b>(2,299,582)</b>  |
| Other current assets                                                                          | <b>(1,815,226)</b>             | <b>(1,781,349)</b>  | <b>(125,447)</b>    |
| Increase (decrease) in:                                                                       |                                |                     |                     |
| Deposit liabilities                                                                           | <b>66,260,295</b>              | <b>85,264,040</b>   | <b>41,296,083</b>   |
| Financial liabilities at fair value through profit or loss                                    | <b>110,690</b>                 | <b>97,639</b>       | <b>2,956,106</b>    |
| Accounts payable and accrued expenses                                                         | <b>5,063,878</b>               | <b>211,457</b>      | <b>1,515,018</b>    |
| Other current and noncurrent liabilities                                                      | <b>(2,291,291)</b>             | <b>2,984,382</b>    | <b>(2,340,961)</b>  |
| Cash generated from operations                                                                | <b>5,555,647</b>               | <b>39,673,302</b>   | <b>4,744,236</b>    |
| Dividends received (Notes 11, 22 and 28)                                                      | <b>3,972,939</b>               | <b>53,729</b>       | <b>1,718,432</b>    |
| Interest received                                                                             | <b>157,100</b>                 | <b>106,426</b>      | <b>94,872</b>       |
| Interest paid                                                                                 | <b>(141,937)</b>               | <b>(202,490)</b>    | <b>(202,518)</b>    |
| Income taxes paid, including creditable withholding and final taxes                           | <b>(3,849,518)</b>             | <b>(2,244,451)</b>  | <b>(2,903,245)</b>  |
| Net cash from operating activities                                                            | <b>5,694,231</b>               | <b>37,386,516</b>   | <b>3,451,777</b>    |

(Forward)

|                                                                                        | Years Ended December 31 |                     |                     |
|----------------------------------------------------------------------------------------|-------------------------|---------------------|---------------------|
|                                                                                        | 2017                    | 2016                | 2015                |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                            |                         |                     |                     |
| Acquisition of:                                                                        |                         |                     |                     |
| Held to maturity investments                                                           | (P2,629,588)            | (P937,948)          | (P1,470,378)        |
| Investment properties (Note 13)                                                        | (1,048,872)             | (6,246,875)         | (540,417)           |
| Property, plant and equipment (Note 12)                                                | (5,111,373)             | (2,028,339)         | (5,036,289)         |
| Software (Note 14)                                                                     | (1,036,864)             | (426,881)           | (124,176)           |
| Distribution network access (Note 14)                                                  | (286,751)               | —                   | —                   |
| AFS investments (Note 7)                                                               | (4,607,513)             | —                   | (15,078,720)        |
| Investment in joint venture and associates (Note 11)                                   | (622,000)               | 187,051             | —                   |
| Return of investment from a joint venture (Note 11)                                    | —                       | —                   | 27,157              |
| Proceeds from sale of:                                                                 |                         |                     |                     |
| Disposal group classified as held for sale (Note 37)                                   | —                       | 3,050,850           | —                   |
| AFS investments (Note 7)                                                               | 2,718,542               | 247,621             | 1,502,928           |
| Other assets (Notes 12 and 13)                                                         | 4,479,685               | 3,504,533           | 8,320,764           |
| Advances extended to affiliates                                                        | (106,158)               | (329,433)           | —                   |
| Net cash used in investing activities                                                  | (8,250,892)             | (2,979,421)         | (12,399,131)        |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                            |                         |                     |                     |
| Proceeds from availment of:                                                            |                         |                     |                     |
| Short-term debts (Note 19)                                                             | —                       | 350,000             | 1,100,000           |
| Bill and acceptance payable (Note 17)                                                  | 8,030,740               | 10,133,725          | 6,702,164           |
| Long-term debts (Note 19)                                                              | —                       | 1,500,000           | —                   |
| Payments of:                                                                           |                         |                     |                     |
| Short-term debts (Note 19)                                                             | (200,000)               | —                   | —                   |
| Long-term debts (Note 19)                                                              | (3,978,600)             | (6,775,520)         | (5,000,000)         |
| Finance cost                                                                           | —                       | (338,179)           | (802,545)           |
| Proceeds from sale of non-controlling interest (Note 30)                               | —                       | —                   | 102,623             |
| Dividends paid (Note 30)                                                               | (1,947,850)             | (2,166,957)         | (1,629,721)         |
| Advances from affiliates (Note 22)                                                     | —                       | 10,284              | —                   |
| Acquisition of non-controlling interest (Note 30)                                      | —                       | —                   | (601,772)           |
| Net cash from (used in) financing activities                                           | 1,904,290               | 2,713,353           | (129,251)           |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                            | <b>(652,371)</b>        | <b>37,120,448</b>   | <b>(9,076,605)</b>  |
| <b>CASH FROM DISPOSAL GROUP RECLASSIFIED AS PART OF ASSETS HELD FOR SALE (Note 37)</b> | <b>—</b>                | <b>—</b>            | <b>(642,544)</b>    |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>                                  | <b>174,676,789</b>      | <b>137,556,341</b>  | <b>147,275,490</b>  |
| <b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)</b>                               | <b>P174,024,418</b>     | <b>P174,676,789</b> | <b>P137,556,341</b> |

See accompanying Notes to Consolidated Financial Statements.

## **LT GROUP, INC. AND SUBSIDIARIES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

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#### **1. Corporate Information and Authorization for Issue of the Consolidated Financial Statements**

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

After a series of restructuring activities in 2012 and 2013, LTG has expanded and diversified its investments to include the beverages, tobacco, property development and banking businesses, all belonging to Mr. Lucio C. Tan and his family and assignees (collectively referred to as the “Controlling Shareholders”). These business segments in which LTG and subsidiaries (collectively referred to as “the Group”) operate are described in Note 4 to the consolidated financial statements.

As of December 31, 2017 and 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 11<sup>th</sup> Floor, Unit 3 Bench Tower, 30<sup>th</sup> St. Corner Rizal Drive Crescent Park West 5, Bonifacio Global City, Taguig City.

##### Authorization for Issue of the Consolidated Financial Statements

The consolidated financial statements as at December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017 were authorized for issue by the Board of Directors (BOD) on March 13, 2018.

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#### **2. Summary of Significant Accounting and Financial Reporting Policies**

##### Basis of Preparation and Statement of Compliance

The consolidated financial statements have been prepared under the historical cost basis, except for financial assets and liabilities at fair value through profit or loss (FVPL), available-for-sale (AFS) investments, land and land improvements, plant buildings and building improvements, and machineries and equipment that have been measured at fair value. The consolidated financial statements are presented in Philippine peso (Peso), the functional and presentation currency of LTG. All values are rounded to the nearest thousand Peso, except when otherwise indicated.

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

### Basis of Consolidation

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

|                                                                | Percentage of Ownership |          |        |          |        |          | Country of Incorporation       |
|----------------------------------------------------------------|-------------------------|----------|--------|----------|--------|----------|--------------------------------|
|                                                                | 2017                    |          | 2016   |          | 2015   |          |                                |
|                                                                | Direct                  | Indirect | Direct | Indirect | Direct | Indirect |                                |
| <b>Distilled Spirits</b>                                       |                         |          |        |          |        |          |                                |
| Tanduay Distillers, Inc. (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) <sup>1</sup>          | ·                       | 100.0    | 100.0  | —        | 100.0  | —        | Philippines                    |
| <b>Beverages</b>                                               |                         |          |        |          |        |          |                                |
| Asia Brewery, Inc. (ABI) and subsidiaries                      | 99.9                    | —        | 99.9   | —        | 99.9   | —        | Philippines                    |
| Agua Vida Systems, Inc.                                        | ·                       | 99.9     | ·      | 99.9     | ·      | 99.9     | Philippines                    |
| Interbev Philippines, Inc.                                     | ·                       | 99.9     | ·      | 99.9     | ·      | 99.9     | Philippines                    |
| Waterich Resources Corp.                                       | ·                       | 99.9     | ·      | 99.9     | ·      | 99.9     | Philippines                    |
| Packageworld, Inc.                                             | ·                       | 99.9     | ·      | 99.9     | ·      | 99.9     | Philippines                    |
| AB Nutribev Corp.                                              | ·                       | 99.9     | ·      | 99.9     | ·      | 99.9     | Philippines                    |
| Asia Pacific Beverage Pte Ltd                                  | ·                       | 99.9     | ·      | 99.9     | ·      | 99.9     | Singapore                      |
| Asia Pacific Beverages Myanmar Company Limited <sup>(2)</sup>  | ·                       | 90.0     | ·      | 90.0     | ·      | —        | Myanmar                        |
| <b>Tobacco</b>                                                 |                         |          |        |          |        |          |                                |
| Shareholdings, Inc. (Shareholdings)                            | 97.7                    | —        | 97.7   | —        | 97.7   | —        | Philippines                    |
| Fortune Tobacco Corporation (FTC)                              | 82.7                    | 16.9     | 82.7   | 16.9     | 82.7   | 16.9     | Philippines                    |
| <b>Property Development</b>                                    |                         |          |        |          |        |          |                                |
| Saturn Holdings, Inc.                                          | 100.0                   | —        | 100.0  | —        | 100.0  | —        | Philippines                    |
| Paramount Landequities, Inc. (PLI) and subsidiaries            | 100.0                   | —        | 100.0  | —        | 100.0  | —        | Philippines                    |
| Eton Properties Philippines, Inc. (Eton)                       | ·                       | 99.6     | ·      | 99.6     | ·      | 99.6     | Philippines                    |
| Belton Communities, Inc. (BCI)                                 | ·                       | 99.6     | ·      | 99.6     | ·      | 99.6     | Philippines                    |
| Eton City, Inc. (ECI)                                          | ·                       | 99.6     | ·      | 99.6     | ·      | 99.6     | Philippines                    |
| FirstHomes, Inc. (FHI)                                         | ·                       | 99.6     | ·      | 99.6     | ·      | 99.6     | Philippines                    |
| Eton Properties Management Corporation (EPMC)                  | ·                       | 99.6     | ·      | 99.6     | ·      | 99.6     | Philippines                    |
| <b>Banking</b>                                                 |                         |          |        |          |        |          |                                |
| Bank Holding Companies (Note 22) <sup>(3)</sup>                | 80-100                  | —        | 80-100 | —        | 80-100 | —        | Various                        |
| Philippine National Bank (PNB) and Subsidiaries <sup>(4)</sup> | ·                       | 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                      |
| PNB Italy SpA (PISpA)                                          | ·                       | —        | ·      | —        | ·      | —        | 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     | ·      | 55.9     | Republic of China              |

(Forward)

|                                                                               | Percentage of Ownership                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |          |        |          |        |          | Country of Incorporation |
|-------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|--------|----------|--------|----------|--------------------------|
|                                                                               | 2017                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |          | 2016   |          | 2015   |          |                          |
|                                                                               | Direct                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Indirect | Direct | Indirect | Direct | Indirect |                          |
| Allianz-PNB Life Insurance, Inc. (APLII)<br>(formerly PNB LII) <sup>(5)</sup> | —                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | 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<br>(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 started its commercial operations in October 2017. On December 20, 2016, the Parent Company sold its 100% ownership interest in TBI to TDI through an execution of a Deed of Sale of Shares of Stocks.                                                                                                                                                                                                                                                                                                                                  |          |        |          |        |          |                          |
| (2)                                                                           | On March 16, 2015, the Joint Venture Agreement was entered into by Asia Pacific Beverages Pte. Ltd. (APB Singapore), a subsidiary of ABI, and Aung Maw Thein (NICK), a citizen of the Union of Myanmar, to establish a private company limited by shares which will manufacture, market, sell and distribute non-alcoholic ready-to-drink or powdered mix beverage products in Myanmar. On March 26, 2016, APB Singapore and NICK incorporated Asia Pacific Beverages Myanmar Company Limited under the laws of Myanmar, owning 90% and 10% of the shares, respectively. Its commercial operations formally commenced on April 1, 2017. |          |        |          |        |          |                          |
| (3)                                                                           | As of December 31, 2017 and 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 (see Note 22).                                                                                                                                                                                                                                                                                                                                          |          |        |          |        |          |                          |
| (4)                                                                           | Represents the effective ownership interest of LTG through the collective ownership of the Bank Holding Companies in the merged PNB.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |          |        |          |        |          |                          |
| (5)                                                                           | Beginning December 18, 2015, assets and liabilities of APLII as of December 31, 2015 have been reclassified as disposal group classified as held for sale and the results of its operations for each of the years ended December 31, 2016 and 2015 have been reclassified as discontinued operations, following the approval of PNB's BOD disposing 51.00% of its ownership interest in APLII to Allianz SE (see Note 37).                                                                                                                                                                                                              |          |        |          |        |          |                          |

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

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

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

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

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

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

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

#### *Non-controlling interests*

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

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

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

#### Business Combination and Goodwill

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

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

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

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

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with Philippine Accounting Standards

(PAS) 39, *Financial Instruments: Recognition and Measurement* either in profit or loss or as a charge to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity. Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the fair values of net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

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

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

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

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

#### *Common control business combinations*

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

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

- The assets and liabilities of the combining entities are reflected in the consolidated financial statements at their carrying amounts. No adjustments are made to reflect fair values, or recognize

any new assets or liabilities, at the date of the combination. The only adjustments that are made are those adjustments to harmonize accounting policies.

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

#### Changes in Accounting Policies

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

- Amendments to PFRS 12, *Disclosure of Interests in Other Entities, Clarification of the Scope of the Standard (Part of Annual Improvements to PFRSs 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 entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).
- 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 upon the reversal of the deductible temporary difference related to unrealized losses. 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.

#### New Accounting Standards, Amendments to Existing Standards and Interpretation Effective Subsequent to December 31, 2017

The standards, amendments and interpretation which have been issued but not yet effective as at December 31, 2017 are disclosed below. The Group intends to adopt these standards, amendments and interpretation, if applicable, when they become effective.

#### *Effective beginning on or after January 1, 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.

- 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. Retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

PFRS 9 is required to be applied on a retrospective basis, with certain exceptions. As permitted, the Group will not restate prior period comparative consolidated financial statements when the Group adopts the requirements of the new standard. Restatements and differences in the carrying amounts of financial instruments arising from the adoption of PFRS 9 will be recognized in the 2018 opening balances of surplus and OCI as if the Group had always applied PFRS 9.

In the period of initial application, the requirements of PFRS 9 on the classification and measurement of financial assets and on the recognition of expected credit losses will have an impact on the Group's financial statements. The 2018 opening balances of surplus and OCI in the Group's statement of financial position are expected to change as a result of applying PFRS 9's requirements on classification and measurement of financial assets. This change will result from reclassifications of financial assets depending on the Group's application of its business models and its assessment of the financial assets' cash flow characteristics. The 2018 opening balances of surplus and OCI in the Group's statement of consolidated balance sheet are also expected to change as a result of applying PFRS 9's requirements on the recognition of expected credit losses. This change depends on whether there have been significant increases in the credit risk of the Group's financial assets since initial recognition and on the Group's evaluation of factors relevant to the measurement of expected credit losses such as a range of possible outcomes and information about past events, current conditions and forecasts of future economic conditions. During 2018, PFRS 9's requirements will have an impact on the Group's financial statements depending on certain factors such as the financial assets' corresponding business models, cash flow characteristics, and changes in credit risks. The Group is still completing its assessment of the impact of PFRS 9.

In the period of initial application, the requirements of PFRS 9 on the classification and measurement of financial liabilities and on the application of hedge accounting are not expected to have an impact on the Group's financial statements. The key changes to the Group's accounting policies resulting from the adoption of PFRS 9 are described below.

#### *Classification and measurement*

The classification and measurement provisions of PFRS 9 require that all debt financial assets that do not meet the "solely payment of principal and interest" (SPPI) test, including those that contain embedded derivatives, be classified at initial recognition as at fair value through profit or loss (FVPL). The intent of the SPPI test is to ensure that debt instruments that contain non-basic lending features, such as conversion options and equity linked pay-outs, are measured at FVPL. Subsequent measurement of instruments classified as FVPL under PFRS 9 operates in a similar manner to financial instruments held for trading under PAS 39.

For debt financial assets that meet the SPPI test, classification at initial recognition will be determined based on the business model under which these instruments are managed. Debt instruments that are managed on a "held for trading" or "fair value" basis will be classified as at FVPL. Debt instruments that are managed on a "hold to collect and for sale" basis will be classified as at fair value through OCI (FVOCI) for debt. Debt instruments that are managed on a "hold to collect" basis will be classified as at amortized cost. Subsequent measurement of instruments classified as at FVOCI and amortized cost classifications under PFRS 9 operate in a similar manner

to AFS financial assets for debt financial assets and loans and receivables, respectively, under existing PAS 39, except for the impairment provisions which are discussed below.

For those debt financial assets that would otherwise be classified as at FVOCI or amortized cost, an irrevocable designation can be made at initial recognition to instead measure the debt instrument at FVPL under the fair value option (FVO) if doing so eliminates or significantly reduces an accounting mismatch.

All equity financial assets are required to be classified at initial recognition as at FVPL unless an irrevocable designation is made to classify the instrument as at FVOCI for equities. Unlike AFS, for equity securities under PAS 39, the FVOCI for equities category results in all realized and unrealized gains and losses being recognized in OCI with no recycling to profit and loss. Only dividends will continue to be recognized in profit and loss.

The classification and measurement of financial liabilities remain essentially unchanged from the current PAS 39 requirements, except that changes in fair value of FVO liabilities attributable to changes in own credit risk are to be presented in OCI, rather than profit and loss. Derivatives will continue to be measured at FVPL under PFRS 9.

#### *Impairment*

The new impairment guidance sets out an expected credit loss (ECL) model applicable to all debt instrument financial assets classified as amortized cost and FVOCI. In addition, the ECL model applies to loan commitments and financial guarantees that are not measured at FVPL.

#### *Expected Credit Loss Methodology*

The application of ECL will significantly change the Group credit loss methodology and models. ECL allowances represent credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. ECL allowances will be measured at amounts equal to either: (i) 12-month ECL; or (ii) lifetime ECL for those financial instruments which have experienced a significant increase in credit risk (SICR) since initial recognition or when there is objective evidence of impairment. This compares to the present incurred loss model that incorporates a single best estimate, the time value of money and information about past events and current conditions and which recognizes lifetime credit losses when there is objective evidence of impairment and also allowances for incurred but not identified credit losses.

#### *Stage Migration and Significant Increase in Credit Risk*

Financial instruments subject to the ECL methodology are categorized into three stages:

- Stage 1 is comprised of all non-impaired financial instruments which have not experienced a SICR since initial recognition. Entities are required to recognize 12-month ECL for stage 1 financial instruments. In assessing whether credit risk has increased significantly, entities are required to compare the risk of a default occurring on the financial instrument as at the reporting date, with the risk of a default occurring on the financial instrument as at the date of initial recognition.
- Stage 2 is comprised of all non-impaired financial instruments which have experienced a SICR since initial recognition. Entities are required to recognize lifetime ECL for stage 2 financial instruments. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a SICR since initial recognition, then entities shall revert to recognizing 12 months of ECL. In contrast to stage 1 and stage 2, inherent within the incurred

loss methodology under PAS 39, allowances are provided for non-impaired financial instruments for credit losses that are incurred but not yet identified.

- Financial instruments are classified as stage 3 when there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on the estimated future cash flows of a financial instrument or a portfolio of financial instruments. The ECL model requires that lifetime ECL be recognized for impaired financial instruments, which is similar to the current requirements under PAS 39 for impaired financial instruments.
- 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 new insurance contracts standard. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying PFRS 9.

The Group is assessing the potential effect 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 PFRSs. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Group plans to adopt the new standard on the required effective date using the modified retrospective method.

Based on management's initial assessment, the requirements of PFRS 15 on the following may have a significant impact on the Group's consolidated financial position, performance and disclosures:

- Identification of performance obligations - rewards as separate performance obligation
- Existence of significant financing component in relation to advance payments received from customers
- Capitalization of incremental costs to obtain the contract

In addition, as the presentation and disclosure requirements in PFRS 15 are more detailed than under current PFRSs, the Group is currently assessing what necessary changes it needs to make on its current systems, internal controls, policies and procedures to enable the Group to collect and disclose the required information.

The recognition and measurement requirements in PFRS 15 also apply to gains or losses on disposal of nonfinancial assets, when that disposal is not in the ordinary course of business. However, on transition, the effect of these changes is expected to be material for the Group.

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs 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. These amendments are not expected to have any significant impact on the consolidated financial statements.
- 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. Since the Group's current practice is in line with the clarifications issued, the Group does not expect any effect on its consolidated financial statements upon adoption of these amendments.
- Philippine Interpretation 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. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity 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. The adoption of interpretation is not expected to have any significant impact on the consolidated financial statements.

*Effective beginning on or after January 1, 2019*

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*, allow debt instruments with negative compensation prepayment features to be measured at amortized cost or fair value through other comprehensive income. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted. These amendments are not expected to have any significant impact on the consolidated financial statements.

- PFRS 16, *Leases*, sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees - leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the re-measurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases.

PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17. Early application is permitted, but not before an entity applies PFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. The Group is currently assessing the impact of adopting PFRS 16.

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*, clarify that entities should account for long-term interests in an associate or joint venture to which the equity method is not applied using PFRS 9. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted. These amendments are not expected to have any significant impact on the Group's financial statements.
- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*, addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12 and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:

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

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The Group is currently assessing the impact of adopting this interpretation.

### *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.

On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures. These amendments are not expected to have any significant impact on the consolidated financial statements.

The Group continues to assess the impact of the above new and amended accounting standards and Interpretations effective subsequent to 2017 on the Group's financial statements in the period of initial application. Additional disclosures required by these amendments will be included in the financial statements when these amendments are adopted.

### **Significant Accounting Policies Applicable to the Group**

#### Current versus Non-Current Classification

The Group presents assets and liabilities in the consolidated balance sheet based on current/non-current classification. An asset is current when it is:

- expected to be realized or intended to be sold or consumed in normal operating cycle
- held primarily for the purpose of trading
- expected to be realized within 12 months after the reporting period, or
- cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- it is expected to be settled in normal operating cycle
- it is held primarily for the purpose of trading
- it is due to be settled within 12 months after the reporting period, or
- there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period.

Deferred income tax assets and liabilities are classified as non-current assets and liabilities.

#### Investments in Associates and Joint Ventures

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

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

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

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

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

#### Non-current Assets and Disposal Group Classified as Held for Sale and Discontinued Operations

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

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

Assets and liabilities of disposal group classified as held for sale are presented separately in the consolidated balance sheet.

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

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

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

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

#### Fair Value Measurement

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

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

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

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

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participants' ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

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

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

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

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

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of fair value hierarchy, as explained above.

#### Cash and Cash Equivalents

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

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

#### Financial Instruments

##### *Date of recognition*

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

##### *Initial recognition of financial instruments*

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

##### *Reclassification of financial assets*

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

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

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortized cost as applicable, and no reversals of fair value gains or losses recorded before

reclassification date are subsequently made. Effective interest rates (EIR) for financial assets reclassified to loans and receivables and HTM categories are determined at the reclassification date. Further increases in estimates of cash flows adjust the EIR prospectively.

*“Day 1” difference*

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

*Derivatives recorded at FVPL*

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

*Embedded derivatives*

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

*Other financial assets or financial liabilities held-for-trading*

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

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

*Designated financial assets or financial liabilities at FVPL*

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

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

Designated financial assets and financial liabilities at FVPL are recorded in the consolidated balance sheet at fair value. Changes in fair value are recorded in “Trading and investment securities gains” under “Banking revenue” account. Interest earned or incurred is recorded in “Finance income” or “Finance cost”, respectively, while dividend income is recorded in “Other Income” according to the terms of the contract, or when the right of payment has been established.

*Loans and receivables*

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

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

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

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

*AFS investments*

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

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

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

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

#### *HTM investments*

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

#### *Other financial liabilities*

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

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

### Derecognition of Financial Assets and Liabilities

#### *Financial asset*

A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is derecognized when:

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

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

#### *Financial liability*

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

### Impairment of Financial Assets

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

#### *Financial assets at amortized cost*

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset’s original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of

a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If the Group determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as industry, collateral type, past-due status and term. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with changes in related observable data from period to period (such changes in property prices, payment status, or other factors that are indicative of incurred losses in the Group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

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

#### *Restructured loans*

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

#### *AFS investments*

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

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

#### Offsetting of Financial Instruments

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

#### Other Current Assets

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

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

#### Property, Plant and Equipment

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

The initial cost of property, plant and equipment consists of its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use and any estimated cost of dismantling and removing the property, plant and equipment item and restoring the site on which it is located to the extent that the Group had recognized the obligation of that cost. Such cost includes the cost of replacing part of the property, plant and equipment if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of property, plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are expensed in the consolidated statement of income as incurred. Borrowing costs incurred during the construction of a qualifying asset is likewise included in the initial cost of property, plant and equipment.

Land and land improvements, plant buildings and building improvements, and machineries and equipment are stated at revalued amounts based on a valuation performed by professionally qualified, accredited and independent appraisers. Revaluation is made every three to five years such that the carrying amount does not differ materially from that which would be determined using fair value at the end of reporting period. For subsequent revaluations, the accumulated depreciation at the date of revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals the revalued amount. Any resulting increase in the asset's carrying amount as a result of the revaluation is credited directly to "Revaluation increment on property, plant and equipment, net of related deferred income tax effect" (presented as part of "Other comprehensive income" in the equity section of the consolidated balance sheet). Any resulting decrease is directly charged against any related revaluation increment to the extent that the decrease does not exceed the amount of the revaluation increment in respect of the same asset. Further, the revaluation increment of depreciable property, plant and equipment is transferred to retained earnings as the asset is used by the Group. The amount of the revaluation increment transferred would be the difference between the depreciation and amortization based on the revalued carrying amount of the asset and depreciation and amortization based on the asset's original cost. In case the asset is retired or disposed of, the related remaining revaluation increment is transferred directly to retained earnings. Transfers from revaluation increment to retained earnings are not made through profit or loss.

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

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

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

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

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

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

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

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

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

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

#### Investment Properties

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

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

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

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

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

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

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

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

#### Other Properties Acquired

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

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

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

#### Intangible Assets

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

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

#### *Software costs*

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

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

#### Impairment of Noncurrent Nonfinancial Assets

*Property, plant and equipment, investment properties, other properties, investments in associates and joint ventures, and software costs*

At each reporting date, the Group assesses whether there is any indication that its nonfinancial assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Group makes a formal estimate of recoverable amount. Recoverable amount is the higher of an asset's (or cash-generating units') fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the cash-generating unit to which it belongs. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is

considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or cash-generating unit).

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

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of accumulated depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation or amortization expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

#### *Goodwill*

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount of the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated (or to the aggregate carrying amount of a group of cash-generating units to which the goodwill relates but cannot be allocated), an impairment loss is recognized immediately in the consolidated statement of income. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods. The Group performs its annual impairment test of goodwill at the end of the reporting period.

#### Revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The Group assesses its revenue arrangement against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as principal in all its revenue arrangements except for their brokerage transactions. Refer to the significant accounting policies generally applicable to the consumer products, banking and property development for the specific recognition criteria that must also be met before revenue is recognized.

#### Costs and Expenses

Costs and expenses are recognized in the consolidated statement of income when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably.

#### *Selling and general and administrative expenses*

Selling expenses are costs incurred to sell or distribute merchandise, it includes advertising and promotions and freight and handling, among others. General and administrative expenses constitute costs of administering the business. Selling and general and administrative expenses are expensed as incurred.

#### *Taxes and licenses*

Taxes and licenses include all other taxes, local and national, including gross receipts taxes (GRT), documentary stamp taxes, real estate taxes, licenses and permit fees and are recognized as costs and expenses when incurred.

#### Retirement Benefits

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

- service cost
- net interest on the net defined benefit liability or asset
- re-measurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

Re-measurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Re-measurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations).

If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refund from the plan or reduction in future contribution to the plan.

The Group's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

#### *Employee leave entitlement*

Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled wholly before twelve months after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period.

#### Borrowing Costs

Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalization of borrowing costs commences when the activities necessary to prepare the asset for intended use are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the asset is available for their intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognized. Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, as well as exchange differences arising from foreign currency borrowings used to finance these projects, to the extent that they are regarded as an adjustment to interest costs. All other borrowing costs are expensed as incurred.

#### Debt Issue Costs

Issuance, underwriting and other related expenses incurred in connection with the issuance of debt instruments (other than debt instruments designated at FVPL) are deferred and amortized over the terms of the instruments using the effective interest method. Unamortized debt issuance costs are included in the measurement of the related carrying value of the debt instruments in the consolidated balance sheet.

#### Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

- a. there is a change in contractual terms, other than a renewal or extension of the arrangement;
- b. a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
- c. there is a change in the determination of whether fulfillment is dependent on a specified asset; or
- d. there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

#### *The Group as lessor*

Finance leases, where the Group transfers substantially all the risks and benefits incidental to ownership of the leased item to the lessee, are included in the consolidated balance sheet under 'Loans and receivables' account. A lease receivable is recognized at an amount equivalent to the net investment (asset cost) in the lease. All income resulting from the receivable is included in 'Interest income' in the consolidated statement of income.

Leases where the Group does not transfer substantially all the risks and benefits of the ownership of the asset are classified as operating leases. Fixed lease payments for noncancellable lease are recognized in consolidated statement of income on a straight-line basis over the lease term. Any difference between the calculated rental income and amount actually received or to be received is recognized as deferred rent in the consolidated balance sheet. Initial direct costs incurred in negotiating operating leases are

added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Variable rent is recognized as income based on the terms of the lease contract.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized under “Other income” account in the consolidated statement of income.

#### *The Group as lessee*

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments and included in “Property, plant and equipment” account with the corresponding liability to the lessor included in “Other liabilities” account. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to “Interest expense”.

Capitalized leased assets are depreciated over the shorter of the estimated useful lives of the assets or the respective lease terms, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Fixed lease payments for noncancellable lease are recognized as an expense in the consolidated statement of income on a straight-line basis over the lease term while the variable rent is recognized as an expense based on terms of the lease contract.

#### Foreign Currency-denominated Transaction and Translation

The Group’s consolidated financial statements are presented in Philippine peso, which is also LTG’s functional currency. Each of the subsidiaries determines its own functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded by the individual entities in the Group in their respective functional currencies at the foreign exchange rates prevailing at the dates of the transactions. Outstanding monetary assets and liabilities denominated in foreign currencies are translated using the closing foreign exchange rate prevailing at the reporting date. All differences are charged to profit or loss in the consolidated statement of income.

Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the dates of initial transactions. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

#### *FCDU and Overseas Subsidiaries*

As of reporting date, the assets and liabilities of foreign subsidiaries, with functional currencies other than the functional currency of the Group, are translated into the presentation currency of the Group using the closing foreign exchange rate prevailing at the reporting date, and their respective income and expenses are translated at the monthly weighted average exchange rates for the year. The exchange differences arising on the translation are recognized in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation shall be recognized in profit or loss.

## Taxes

### *Current income tax*

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the end of reporting period.

### *Deferred income tax*

Deferred income tax is recognized on all temporary differences at the end of reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits from excess of minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences, carryforward benefits of unused tax credits from excess of MCIT over RCIT and unused NOLCO can be utilized. Deferred income tax liabilities are recognized for all taxable temporary differences.

Deferred income tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or loss nor taxable profit or loss.

Deferred income tax liabilities are not provided on non-taxable temporary differences associated with investments in domestic subsidiaries, associates and interest in joint ventures. With respect to investments in other subsidiaries, associates and interests in joint ventures, deferred income tax liabilities are recognized except when the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting period and are recognized to the extent that it has become probable that sufficient future taxable profits will allow the deferred income tax assets to be recovered. It is probable that sufficient future taxable profits will be available against which a deductible temporary difference can be utilized when there are sufficient taxable temporary difference relating to the same taxation authority and the same taxable entity which are expected to reverse in the same period as the expected reversal of the deductible temporary difference. In such circumstances, the deferred income tax asset is recognized in the period in which the deductible temporary difference arises.

Deferred income taxes relating to items recognized directly in OCI are also recognized in OCI and not in the consolidated statement of income.

Deferred income tax assets and deferred income tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of reporting period.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

### Value-added Tax (VAT)

Revenues, expenses, and assets are recognized net of the amount of VAT, if applicable.

When VAT from sales of goods and/or services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as payable in the consolidated balance sheet. When VAT passed on from purchases of goods or services (input VAT) exceeds VAT from sales of goods and/or services (output VAT), the excess is recognized as an asset in the consolidated balance sheet to the extent of the recoverable amount.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of "Other current assets" or "Accounts payable and accrued expenses" in the consolidated balance sheet.

### Provisions and Contingencies

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. When the Group expects a provision or loss to be reimbursed, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain and its amount is estimable. The expense relating to any provision is presented in the consolidated statement of income, net of any reimbursement.

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the consolidated financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the consolidated financial statements.

### Equity

*Capital stock* is measured at par value for all shares issued by the Group. When the Group issue more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax.

*Capital in excess of par* is the portion of the paid-in capital representing excess over the par or stated value.

*Preferred shares of subsidiaries issued to Parent Company* are owned equity instruments by the Bank Holding Companies that are issued to Tangent (see Note 30).

*Other equity reserves* include effect of transactions with non-controlling interest and equity adjustments arising from business combination under common control and other group restructuring transactions.

*Other comprehensive income (loss)* comprises items of income and expense (including items previously presented under the consolidated statement of changes in equity) that are not recognized in the consolidated statement of income for the year in accordance with PFRSs. Other comprehensive income

(loss) of the Group includes cumulative translation adjustments, net changes in fair values of AFS investments, re-measurement gains (losses) on defined benefit plans, revaluation increment in property, plant and equipment and share in other comprehensive income of associates.

*Retained earnings* represent the cumulative balance of net income or loss, dividend distributions, prior period adjustments, effects of the changes in accounting policies and other capital adjustments. Unappropriated retained earnings represent that portion which can be declared as dividends to stockholders after adjustments for any unrealized items which are considered not available for dividend declaration. Appropriated retained earnings represent that portion which has been restricted and therefore is not available for any dividend declaration.

*Treasury shares* are owned equity instruments that are reacquired. Where any member of the Group purchases the Company's capital stock (presented as "Shares of stock of the Company held by subsidiaries"), the consideration paid, including any directly attributable incremental costs (net of related taxes), is deducted from equity until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transactions costs and the related income tax effect, is included in equity attributable to the equity holders of the Group.

#### Earnings Per Share

Basic earnings per share (EPS) is computed by dividing net income for the period attributable to common shareholders by the weighted average number of common shares outstanding during the period after giving retroactive effect to stock dividends declared and stock rights exercised during the period, if any.

Diluted EPS is calculated by dividing the aggregate of net income attributable to common shareholders by the weighted average number of common shares outstanding during the period adjusted for the effects of any dilutive shares.

#### Dividends on Common Shares

Cash dividends on common shares are recognized as a liability and deducted from equity when approved by the BOD of the Company. Stock dividends are treated as transfers from retained earnings to capital stock. Dividends for the year that are approved after the end of reporting period are dealt with as a non-adjusting event after the end of reporting period.

#### Events after the Reporting Period

Events after the end of reporting period that provides additional information about the Group's position at the end of reporting period (adjusting event) are reflected in the consolidated financial statements. Events after the end of reporting period that are not adjusting events, if any, are disclosed when material to the consolidated financial statements.

#### Segment Reporting

The Group's operating segments are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on operating segments is presented in Note 4 to the consolidated financial statements.

### **Significant Accounting Policies Generally Applicable to Banking**

#### Banking Revenue

##### *Interest income*

For all financial instruments measured at amortized cost and interest-bearing financial instruments classified as FVPL and AFS investments, interest income is recorded at the EIR, which is the rate that

exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses. The adjusted carrying amount is calculated based on the original EIR. The change in carrying amount is recorded as interest income. Once the recorded value of a financial asset or group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original EIR applied to the new carrying amount.

#### *Service fees and commission income*

The Group earns fee and commission income from diverse range of services it provides to its customers. Fee income can be divided into the following three categories:

- *Fee income earned from services that are provided over a certain period of time*  
Fees earned for the provision of services over a period of time are accrued over that period. These fees include investment fund fees, custodian fees, fiduciary fees, commission income, credit-related fees, trust fees, portfolio and other management fees, and advisory fees. However, commitment fees for loans that are likely to be drawn down are deferred (together with any incremental costs) and recognized as an adjustment to the EIR of the loan.
- *Bancassurance fees*  
Non-refundable access fees are recognized on a straight-line basis over the term of the period of the provision of the access.

Milestone fees or variable and fixed earn-out fees are recognized in reference to the stage of achievement of the milestones.

- *Fee income from providing transaction services*  
Fees arising from negotiating or participating in the negotiation of a transaction for a third party - such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses - are recognized on completion of the underlying transaction.

Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria. These fees include underwriting fees, corporate finance fees, remittance fees, brokerage fees, deposit-related and other credit-related fees. Loan syndication fees are recognized in the consolidated statement of income when the syndication has been completed and the Group retains no part of the loans for itself or retains part at the same EIR as for the other participants.

#### *Interchange fee and revenue from rewards redeemed*

“Interchange fees” are taken up as income under “Service fees and commission income” upon receipt from member establishments of charges arising from credit availments by the Group’s cardholders. These discounts are computed based on certain agreed rates and are deducted from amounts remitted to the member establishments.

The Group operates a loyalty points program which allows customers to accumulate points when they purchase from member establishments using the issued card of the Group. The points can then be redeemed for free products subject to a minimum number of points being redeemed. Consideration received is allocated between the discounts earned, interchange fee and the points earned, with the consideration allocated to the points equal to its fair value. The fair value is determined by applying

statistical analysis. The fair value of the points issued is deferred and recognized as revenue when the points are redeemed. The deferred balance is included under “Other liabilities” in the consolidated balance sheet.

*Commissions earned on credit cards*

Commissions earned are taken up as income upon receipt from member establishments of charges arising from credit availments by credit cardholders. These commissions are computed based on certain agreed rates and are deducted from amounts remittable to member establishments.

Purchases by the credit cardholders, collectible on installment basis, are recorded at the cost of the items purchased plus certain percentage of cost. The excess over cost is credited to “Unearned and other deferred income” account and is shown as a deduction from “Loans and receivables” in the consolidated balance sheet. The unearned and other deferred income is taken up to income over the installment terms and is computed using the effective interest method.

*Commission earned on reinsurance*

Reinsurance commissions are recognized as revenue over the period of the contracts. The portion of the commissions that relates to the unexpired periods of the policies at the end of the reporting period is accounted for as “Other liabilities” in the consolidated balance sheet.

*Dividend income*

Dividend income is recognized when the Group’s right to receive payment is established.

*Trading and investment securities gains - net*

Trading and investment securities gains - net includes results arising from trading activities and all gains and losses from changes in fair value of financial assets and financial liabilities at FVPL and gains and losses from disposal of AFS investments.

*Income on direct financing leases and receivables financed*

Income of the Group on loans and receivables financed is recognized using the effective interest method.

Unearned discounts included under “Unearned and other deferred income” which are amortized over the term of the note or lease using the effective interest method consist of:

- transaction and finance fees on finance leases and loans and receivables financed with long-term maturities; and
- excess of the aggregate lease rentals plus the estimated residual value of the leased equipment over its cost.

*Premiums revenue*

Gross insurance written premiums comprise the total premiums receivable for the whole period cover provided by contracts entered into during the accounting period. Premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior periods. Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method except for the marine cargo where the provision for unearned premiums pertains to the premiums for the last two months of the year. The portion of the premiums written that relate to the unexpired periods of the policies at end of reporting period are accounted for as provision for unearned premiums and presented as part of “Other liabilities” in the consolidated balance sheet. The related reinsurance premiums ceded that pertain to the unexpired periods at the end of the reporting periods are accounted for as deferred reinsurance premiums shown as part of “Other noncurrent assets” in the consolidated balance sheet. The net changes in these accounts between end of the reporting periods are credited to or charged against the consolidated statement of income for the period.

#### *Other income*

Income from sale of services is recognized upon rendition of the service. Income from sale of properties is recognized upon completion of the earning process and the collectibility of the sales price is reasonably assured.

#### Insurance Product Classification

Insurance contracts are those contracts where the Group (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Group determines whether it has significant insurance risk by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of price or rates, a credit rating or credit index or other variable. Investment contracts mainly transfer financial risk but can also transfer insignificant insurance risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant.

For financial options and guarantees which are not closely related to the host insurance contract, bifurcation is required to measure these embedded financial derivatives separately as FVPL. Bifurcation is not required if the embedded derivative is itself an insurance contract or when the host insurance contract itself is measured as financial assets or liabilities at FVPL. The options and guarantees within the insurance contracts issued by the Group are treated as derivative financial instruments which are closely related to the host insurance and therefore not bifurcated subsequently. As such, the Group does not separately measure options to surrender insurance contracts for a fixed amount (or an amount based on a fixed amount and an interest rate). Likewise, the embedded derivative in unit-linked insurance contracts linking the payment on the contract to units of internal investment funds meets the definition of an insurance contract and is therefore not accounted for separately from the host insurance contract.

Based on the Group guidelines, all products in its portfolio meet the definition of insurance contracts, including unit-linked products, which contain features that make use of funds specifically segregated for the benefit of unit-linked policyholders.

#### Repurchase and Reverse Repurchase Agreements

Securities sold under agreements to repurchase at a specified future date ('repos') are not derecognized from the consolidated balance sheet. The corresponding cash received, including accrued interest, is recognized in the consolidated balance sheet as a loan to the Group, reflecting the economic substance of such transaction.

Conversely, securities purchased under agreements to resell at a specified future date ('reverse repos') are not recognized in the consolidated balance sheet. The Group is not permitted to sell or repledge the securities in the absence of default by the owner of the collateral. The corresponding cash paid, including accrued interest, is recognized on the consolidated balance sheet as "Securities held under agreements to resell", and is considered a loan to the counterparty. The difference between the purchase price and resale price is treated as interest income and is accrued over the life of the agreement using the effective interest method.

#### Financial Guarantees

In the ordinary course of business, the Group gives financial guarantees consisting of letters of credit, letters of guarantees, and acceptances. Financial guarantees are initially recognized in the financial statements at fair value under "Other liabilities". Subsequent to initial recognition, the Group's liabilities under such guarantees are each measured at the higher of the initial fair value less, when appropriate, cumulative amortization calculated to recognize the fee in the consolidated statement of income in "Service fees and commission income", over the term of the guarantee, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the consolidated statement of income in "Provision for impairment and credit losses". Any financial guarantee liability remaining is recognized in the consolidated statement of income in "Service fees and commission income", when the guarantee is discharged, cancelled or has expired.

#### Policy Loans

Policy loans included under loans and receivables are carried at their unpaid balances plus accrued interest and are fully secured by the policy values on which the loans are made.

#### Reinsurance

The Group cedes insurance risk in the normal course of business. Reinsurance assets represent balances due from reinsurance companies. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contract. When claims are paid, such reinsurance assets are reclassified to "Other receivables".

Ceded reinsurance arrangements do not relieve the Group from its obligations to policyholders.

The Group also assumes reinsurance risk in the normal course of business for insurance contracts. Premiums and claims on assumed reinsurance are recognized as income and expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to ceding companies. Amounts payable are estimated in a manner consistent with the associated reinsurance contract.

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

Reinsurance assets or liabilities are derecognized when the contractual rights are extinguished or expired or when the contract is transferred to another party.

When the Group enters into a proportional treaty reinsurance agreement for ceding out its insurance business, the Group initially recognizes a liability at transaction price. Subsequent to initial recognition, the portion of the amount initially recognized as a liability which is presented as "Other liabilities" in the consolidated balance sheet will be withheld and recognized as Funds held for reinsurers and included as part of the "Other liabilities" in the consolidated balance sheet. The amount withheld is generally released after a year.

#### Deferred Acquisition Cost (DAC)

Commission and other acquisition costs incurred during the financial period that vary with and are related to securing new insurance contracts and/or renewing existing insurance contracts, but which relates to subsequent financial periods, are deferred to the extent that they are recoverable out of future revenue margins. All other acquisition costs are recognized as an expense when incurred. Subsequent to initial recognition, these costs are amortized. Amortization is charged to the consolidated statement of income. The unamortized acquisition costs are shown as "Deferred acquisition costs" in the assets section of the consolidated balance sheet.

An impairment review is performed at each end of the reporting period or more frequently when an indication of impairment arises. The carrying value is written down to the recoverable amount and the impairment loss is charged to the consolidated statement of income. The DAC is also considered in the liability adequacy test for each reporting period.

#### Residual Value of Leased Assets and Deposits on Finance Leases

The residual value of leased assets, which approximates the amount of guaranty deposit paid by the lessee at the inception of the lease, is the estimated proceeds from the sale of the leased asset at the end of the lease term. At the end of the lease term, the residual value of the leased asset is generally applied against the guaranty deposit of the lessee when the lessee decides to buy the leased asset.

#### Nonlife Insurance Contract Liabilities

##### *Provision for unearned premiums*

The proportion of written premiums, gross of commissions payable to intermediaries, attributable to subsequent periods or to risks that have not yet expired is deferred as provision for unearned premiums. Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts. The portion of the premiums written that relate to the unexpired periods of the policies at the end of reporting period are accounted for as provision for unearned premiums and presented as part of "Insurance contract liabilities" in the liabilities section of the consolidated balance sheet. The change in the provision for unearned premiums is taken to the consolidated statement of income in the order that revenue is recognized over the period of risk. Further provisions are made to cover claims under unexpired insurance contracts which may exceed the unearned premiums and the premiums due in respect of these contracts.

##### *Claims provision and incurred but not reported (IBNR) losses*

Outstanding claims provisions are based on the estimated ultimate cost to all claims incurred but not settled at the end of the reporting period, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of which cannot be known with certainty at the end of the reporting period. The liability is not discounted for the time value of money and includes provision for IBNR. No provision for equalization or catastrophic reserves is recognized. The liability is derecognized when the contract has expired, discharged or cancelled.

##### *Liability Adequacy Test*

Liability adequacy tests on life insurance contracts are performed annually to ensure the adequacy of the insurance contract liabilities. In performing these tests, current best estimates of future contractual cash flows, claims handling and policy administration expenses are used. Any deficiency is immediately charged against profit or loss initially by establishing a provision for losses arising from the liability adequacy tests.

For nonlife insurance contracts, liability adequacy tests are performed at the end of each reporting date to ensure the adequacy of insurance contract liabilities, net of related DAC assets. The provision for unearned premiums is increased to the extent that the future claims and expenses in respect of current insurance contracts exceed future premiums plus the current provision for unearned premiums.

#### Fiduciary Activities

Assets and income arising from fiduciary activities together with related undertakings to return such assets to customers are excluded from the financial statements where the Group acts in a fiduciary capacity such as nominee, trustee or agent.

## **Significant Accounting Policies Generally Applicable to Consumer Products**

### Sale of Consumer Goods

Revenue from the sale of goods is recognized when goods are delivered to and accepted by customers. Revenue is measured at fair value of the consideration received or receivable, excluding discounts, returns and value-added tax (VAT).

### Cost of Consumer Goods Sold

Cost of consumer goods sold is recognized as expense where the related goods are sold.

### Consumer Goods Inventories

Inventories are valued at the lower of cost and net realizable value (NRV). Costs incurred in bringing the inventory to its present location and condition are accounted for as follows:

Finished goods and work in process include direct materials, direct labor, and manufacturing overhead costs. Raw materials include purchase cost. The cost of these inventories is determined using the following:

|                                          | Distilled Spirits | Beverage         |
|------------------------------------------|-------------------|------------------|
| Finished goods                           | Moving-average    | Weighted-average |
| Work in process                          | Moving-average    | Weighted-average |
| Raw materials and materials and supplies | Moving-average    | Moving-average   |

NRV of finished goods is the estimated selling price less the estimated costs of marketing and distribution. NRV of work in process is the estimated selling price less estimated costs of completion and the estimated costs necessary to make the sale. For raw materials and materials and supplies, NRV is current replacement cost.

## **Significant Accounting Policies Generally Applicable to Property Development**

### Property Development Revenue and Cost Recognition

#### *Real estate sales*

The percentage-of-completion method is used to recognize income from sales of projects where the Group has material obligations under the sales contract to complete the project after the property is sold, the equitable interest has been transferred to the buyer, construction is beyond preliminary stage (i.e., engineering, design work, construction contracts execution, site clearance and preparation, excavation and the building foundation are finished), and the costs incurred or to be incurred can be measured reliably. Under this method, revenue is recognized as the related obligations are fulfilled, measured principally on the basis of the estimated completion of a physical proportion of the contract work.

When a sale of real estate does not meet the requirements for income recognition, the sale is accounted for under the deposit method. Under this method, revenue is not recognized and the receivable from the buyer is not recorded. The real estate inventory continues to be reported in the Group's consolidated balance sheet as part of real estate inventories and the deposit as part of liabilities as "Customers' deposits".

#### *Rental income*

Rental income under noncancellable and cancellable leases on investment properties is recognized in the consolidated statement of income on a straight-line basis over the lease term, or based on a certain percentage of the gross revenue of the tenants, as provided under the terms of the lease contract.

*Charges and expenses recoverable from tenants*

Income arising from expenses recharged to tenants in “Other income” account is recognized in the period in which the compensation becomes receivable.

*Cost of real estate sales*

Cost of real estate sales is recognized consistent with the revenue recognition method applied. Cost of subdivision land and condominium units sold before the completion of the development is determined on the basis of the acquisition cost of the land plus its full development costs, which include estimated costs for future development works, as determined by the Group’s in-house technical staff.

The cost of inventory recognized in profit or loss on disposal is determined with reference to the specific costs incurred on the property, allocated to saleable area based on relative size and takes into account the percentage of completion used for revenue recognition purposes.

*Cost of rental income*

Cost of rental income is recognized in relation to the leasing activities of the Group. This includes general, administrative and selling expenses allocated to the leasing activities, rental expense on the property leased to tenants and depreciation of the investment properties.

*Rooms and other operated departments*

Revenue from room rentals and other ancillary services are recognized when the services are rendered. Revenue from other ancillary services include, among others, business center related services and car rentals, food packages, laundry service, telephone service, and spa/gym services.

*Costs of services*

Costs of services include expenses incurred by the Group for the generation of revenue from room rentals and other ancillary services. Costs of services are expensed as incurred.

Real Estate Inventories

Property acquired or being constructed for sale in the ordinary course of business, rather than to be held for rental or capital appreciation, is held as inventory and is measured at the lower of cost and NRV. Cost includes: (a) land cost; (b) amounts paid to contractors for construction; (c) borrowing costs, planning and design costs, costs of site preparation, professional fees, property transfer taxes, construction overheads and other related costs.

NRV is the estimated selling price in the ordinary course of the business, based on market prices at the reporting date, less estimated costs of completion and the estimated costs of sale.

Customers’ Deposits including Excess of Collections over Recognized Receivables

Customers’ deposits represent payments from buyers of property development segment which will be applied against the related contracts receivables. This account also includes the excess of collections over the recognized contracts receivables, which is based on the revenue recognition policy of the Group.

Security Deposits

Security deposits, included in the “Other current liabilities” and “Other noncurrent liabilities” accounts in the liabilities section of the consolidated balance sheet, are measured initially at fair value and are subsequently measured at amortized cost using the effective interest method.

The difference between the cash received and its fair value is deferred, included in the “Other noncurrent liabilities” account in the consolidated balance sheet, and amortized using the straight-line method under the “Rental income” account in the consolidated statement of income.

### Commissions

Commissions paid to sales or marketing agents on the sale of pre-completed real estate units are initially deferred and recorded as prepaid commissions when recovery is reasonably expected and charged to expense in the period in which the related revenue is recognized as earned. Accordingly, when the percentage of completion method is used, commissions are recognized in the consolidated statement of income in the period the related revenue is recognized.

## 3. Significant Judgments, Accounting Estimates and Assumptions

The preparation of the consolidated financial statements requires the Group to exercise judgments, make accounting estimates and use assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the accounting estimates to change. The effects of any change in accounting estimates are reflected in the consolidated financial statements as they become reasonably determinable.

Accounting estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effects on amounts recognized in the consolidated financial statements:

#### *Determination of functional currency*

Judgment is exercised in assessing various factors in determining the functional currency of each entity within the Group, including prices of goods and services, competition, cost and expenses and other factors including the currency in which financing is primarily undertaken by each entity.

Additional factors are considered in determining the functional currency of a foreign operation, including whether its activities are carried as an extension of that of a parent company rather than being carried out with significant autonomy.

Each entity within the Group, based on the relevant economic substance of the underlying circumstances, have determined their functional currency to be Peso except for the following entities with functional currency other than the Peso:

| <b>Subsidiary</b>        | <b>Functional Currency</b> |
|--------------------------|----------------------------|
| PNB Guam                 | United States Dollar       |
| PNB IIC                  | -do-                       |
| PNB RCI                  | -do-                       |
| Nevada                   | -do-                       |
| PNB RCI Holding Co. Ltd. | -do-                       |
| ACB                      | -do-                       |
| OHBVI                    | -do-                       |
| ABUK                     | Great Britain Pound        |
| PNB Europe PLC           | -do-                       |
| Canada                   | Canadian Dollar            |
| PNB GRF                  | Hongkong Dollar            |
| ABCHKL                   | -do-                       |
| ACR Nominees Limited     | -do-                       |

*Assessment of control over the entities for consolidation*

The Group has majority-owned subsidiaries discussed in Note 2. Management concluded that the Group controls these majority-owned subsidiaries arising from voting rights and, therefore, consolidates the entity in its consolidated financial statements. In addition, the Group accounts for its investments in OHBVI as a subsidiary although the Group, through PNB, holds less than 50.00% of OHBVI's issued share capital. Management concluded that the Group has the ability to control the relevant activities and to affect its returns in OHBVI on the basis of PNB's combined voting rights of 70.56%, which is arising from its direct ownership of 27.78% and assigned voting rights of 42.78% by certain stockholders to the Group.

*Classification of financial instruments*

The Group exercises judgment in classifying financial instruments in accordance with PAS 39. The Group classifies a financial instrument, or its components, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the Group's consolidated balance sheet.

The Group's Bank Holding Companies have redeemable preferred shares which can be redeemed at the option of the Bank Holding Companies after seven years from the date of issuance. The Group classified these redeemable preferred shares amounting to ₱18.1 billion as equity as of December 31, 2017 and 2016 (see Note 30).

*Revenue recognition on real estate sales*

Selecting an appropriate revenue recognition method for a particular real estate sale transaction requires certain judgments based on, among others, the buyer's commitment on the sale which may be ascertained through the significance of the buyer's initial investment and stage of completion of the project. Based on the judgment of the Group, the percentage-of-completion method is appropriate in recognizing revenue on real estate sale transactions in 2017, 2016 and 2015.

*Operating lease commitments - the Group as lessor*

The Group has entered into commercial property leases on its investment properties and certain motor vehicles and items of machinery.

The Group has determined, based on an evaluation of the terms and conditions of the lease agreements (i.e., the lease does not transfer ownership of the asset to the lessee by the end of the lease term, the lessee has no option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option is exercisable and the lease term is not for the major part of the asset's economic life), that it retains all the significant risks and rewards of ownership of these properties and so accounts for these leases as operating leases (see Note 38).

*Operating lease commitments - the Group as lessee*

Currently, the Group has land lease agreements with several non-related and related parties. Based on an evaluation of the terms and conditions of the arrangements, management assessed that there is no transfer of ownership of the properties by the end of the lease term and the lease term is not a major part of the economic life of the properties. Thus, the Group does not acquire all the significant risks and rewards of ownership of these properties, and accordingly, accounts for the lease agreements as operating leases (see Note 38).

*Classification of properties*

The Group determines whether a property is classified as real estate inventory, investment property or owner-occupied property. In making its judgment, the Group considers whether the property generates cash flow largely independent of the other assets held by an entity.

Real estate inventory comprises of property that is held for sale in the ordinary course of business. Principally, this is residential property that the Group develops and intends to sell before or on completion of construction. Investment property comprises land and buildings (principally offices, commercial and retail property) which are not occupied substantially for use by, or in the operations of the Group, nor for sale in the ordinary course of business, but are held primarily to earn rental income and for capital appreciation. Owner-occupied properties classified and presented as property, plant and equipment, generate cash flows that are attributable not only to property but also to the other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions cannot be sold separately as of the financial reporting date, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgment.

*Determination of fair value of financial instruments*

Where the fair values of financial assets and financial liabilities recorded in the consolidated balance sheet cannot be derived from active markets, they are determined using valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives.

*Determination of fair value of financial assets not quoted in an active market*

The Group classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's length basis.

The Group has AFS investments in unquoted equity securities. As of December 31, 2017 and 2016, management assessed that the fair value of these instruments cannot be measured reliably since the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed. Therefore, the instruments are measured at cost less any impairment in value.

As of December 31, 2017 and 2016, investment in unquoted shares of stock amounted to ₱1.1 billion and ₱1.3 billion, respectively (see Note 7).

*Bifurcation of embedded derivatives*

Where a hybrid instrument is not classified as financial assets at FVPL, the Group evaluates whether the embedded derivative should be bifurcated and accounted for separately. This includes assessing whether the embedded derivative has a close economic relationship to the host contract.

*Classification of Investment in AB Heineken Philippines, Inc (AB HPI) as Investment in an Associate*

The Group and Heineken International B.V. (Heineken) established AB HPI, a 50%-owned associate, through a joint venture agreement. The Group has determined that it has significant influence, but no control or joint control, over the operating and financial activities of AB HPI. Accordingly, the Group classified its investment in AB HPI as an investment in an associate.

#### *Disposal of APLII*

In 2016, the Bank completed the sale of its 51% ownership interest in APLII for a consideration amounting to US\$66.0 million (₦3.1 billion). Pursuant to the sale of APLII, the Bank also entered into a distribution agreement with APLII where the Bank will allow APLII to have exclusive access to the distribution network of the Bank over a period of 15 years [the Exclusive Distribution Rights (EDR)].

The Group has determined based on its evaluation that 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 consideration received by the Bank was allocated between the sale of its 51% ownership interest in APLII and the EDR (see Notes 11 and 37).

#### *Classification of transfer of beer segment as discontinued operations*

The Group classified the transfer of its beer segment as discontinued operations in accordance with PFRS 5, effective November 15, 2016, based on the joint venture agreement signed on May 27, 2016 in respect of the establishment of AB HPI to manage its beer segment. The beer segment met the criteria of a component of an entity that has been disposed of to be classified as discontinued operations as of December 31, 2016 since it represents a separate major line of business or geographical area of operations (see Note 37).

#### Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainties at the end of reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

The Market Approach involved determining the price to book value of selected publicly traded companies that have been identified to be comparable to APLII such as those with similar business activities and product offerings. The price to book value are then subjected to a control premium and lack of marketability discount.

The fair value of the EDR was determined using the Market Approach where it involved identifying recent bancassurance agreements with upfront payments from publicly available data of comparable companies. Using the amount of upfront payment fee, the number of branches and customers, a value per branch and value per customer multiple were determined. The relevant fair values of the shares of APLII and EDR are disclosed in Note 37 to the consolidated financial statements.

#### *Estimation of allowance for credit losses on loans and receivables*

The Group reviews its impaired loans and receivables at each reporting date to assess whether additional provision for credit losses should be recorded in the consolidated statement of income. The Group determines the allowance for credit losses on loans and receivables on individual basis for individually significant loans and receivables, and collectively, for loans and receivables that are not individually significant such as consumer loans and credit card receivables. The determination of the allowance for credit losses involves various assumptions such as timing of expected future cash flows, probability of collection, observable market prices and expected net selling prices of the collateral. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Refer to Notes 8 and 14 for the carrying values of loans and receivables and receivables from SPV, respectively.

#### *Estimation of retirement benefits costs and liability*

The Group's retirement benefits costs and liability is actuarially computed. This entails using certain assumptions with respect to prospective salary increases, employee turnover rates and discount rates per annum.

Net retirement plan assets as of December 31, 2017 and 2016 amounted to ₱273.7 million and ₱276.9 million, respectively. Net retirement benefits liability amounted to ₱2.2 billion and ₱3.9 billion as of December 31, 2017 and 2016, respectively (see Notes 14 and 23).

*Revenue and cost recognition on real estate sales*

The Group's revenue and cost recognition policies on real estate sales require management to make use of estimates and assumptions that may affect the reported amounts of revenue and costs. The Group's revenue and cost of real estate sales are recognized based on the percentage of completion which is measured principally on the basis of the estimated completion of a physical proportion of the contract work.

The Group recognized revenue from real estate sales amounting to ₱0.8 billion, ₱1.6 billion and ₱1.3 billion and cost of real estate sales amounting to ₱0.4 billion, ₱1.1 billion and ₱1.0 billion in 2017, 2016 and 2015, respectively (see Note 24).

*Impairment of AFS financial assets*

The computation for the impairment of AFS financial assets requires an estimation of the present value of the expected future cash flows and the selection of an appropriate discount rate. An impairment issue arises when there is an objective evidence of impairment, which involves significant judgment. In making this judgment, the Group evaluates the financial health of the issuer, among others. In the case of AFS equity instruments, the Group expands its analysis to consider changes in the issuer's industry performance, legal and regulatory framework, and other factors that affect the recoverability of the Group's investments. Further, the impairment assessment would include an analysis of the significant or prolonged decline in fair value of the investments below its cost. The Group treats "significant" generally as 20% or more and "prolonged" as greater than 12 months for quoted equity securities.

As of December 31, 2017 and 2016, the carrying value of the Group's AFS financial assets amounted to ₱73.2 billion and ₱68.6 billion, respectively, net of allowance for impairment losses on AFS equity investments amounting to ₱696.2 million and ₱944.1 million, respectively (see Note 7).

*Fair values of structured debt instruments and derivatives*

The fair values of structured debt instruments and derivatives that are not quoted in active markets are determined using valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are reviewed before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices.

To the extent practicable, models use only observable data, however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments. Refer to Note 34 for information on the fair values of these instruments.

*Valuation of insurance contracts*

Estimates have to be made both for the expected ultimate cost of claims reported at reporting date and for the expected ultimate cost of IBNR at the reporting date. It can take a significant period of time before the ultimate claim costs can be established with certainty. Nonlife insurance contract liabilities are not discounted for the time value of money.

The main assumption underlying the estimation of the claims provision is that a company's past claims development experience can be used to project future claims development and hence ultimate claims costs. Historical claims development is mainly analyzed by accident years as well as by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved

at the face value of loss adjuster estimates or separately projected in order to reflect their future development (see Note 20).

*Measurement of NRV of inventories*

The Group's estimates of the NRV of its consumer goods inventories and materials and supplies are based on the most reliable evidence available at the time the estimates are made, of the amount that the inventories are expected to be realized. These estimates consider the fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period. A new assessment is made of NRV in each subsequent period. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is a clear evidence of an increase in NRV because of change in economic circumstances, the amount of the write-down is reversed so that the new carrying amount is the lower of the cost and the revised NRV.

With respect to the Group's real estate inventories, the Group adjusts the cost of its real estate inventories to NRV based on its assessment of the recoverability of cost of the inventories. NRV for completed real estate inventories is assessed with reference to market conditions and prices existing at the reporting date and is determined by the Group in the light of recent market transactions. NRV in respect of real estate inventories under construction is assessed with reference to market prices at the reporting date for similar completed property, less estimated costs to complete construction and less estimated costs to sell. The amount and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized.

The Group's inventories carried at cost as of December 31, 2017 and 2016 amounted to ₱12.7 billion and ₱12.3 billion, respectively. Certain materials and supplies amounting to ₱0.6 billion and ₱0.5 billion as of December 31, 2017 and 2016, respectively, are carried at NRV (see Note 9).

*Valuation of property, plant and equipment under revaluation basis*

The Group's land and land improvements, plant buildings and building improvements, and machineries and equipment are carried at revalued amounts, which approximate their fair values at the date of the revaluation, less any subsequent accumulated depreciation and amortization and accumulated impairment losses. The valuations of property, plant and equipment are performed by independent appraisers. Revaluations are made every three to five years to ensure that the carrying amounts do not differ materially from those which would be determined using fair values at the end of reporting period.

Property, plant and equipment at appraised values amounted to ₱36.2 billion and ₱36.1 billion as of December 31, 2017 and 2016, respectively (see Note 12).

*Estimation of useful lives of property, plant and equipment and investment properties*

The Group estimates the useful lives and residual values of property, plant and equipment and investment properties based on internal technical evaluation and experience with similar assets. Estimated useful lives and residual values of property, plant and equipment and investment properties are reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical and commercial obsolescence and other limits on the use of the assets. It is possible, however, that future results of operations could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. A reduction in the estimated useful life of any item of property and equipment and investment properties would increase the recorded depreciation expenses and decrease the carrying value of property, plant and equipment and investment properties. In 2017 and 2016, there were no significant changes made in the useful lives and residual values of the property, plant and equipment and investment properties (see Notes 12 and 13).

The total carrying amount of depreciable property, plant and equipment as of December 31, 2017 and 2016 amounted to ₱26.4 billion and ₱25.2 billion, respectively (see Note 12). The carrying amount of depreciable investment properties as of December 31, 2017 and 2016 amounted to ₱7.2 billion and ₱7.4 billion, respectively (see Note 13).

*Assessment of impairment of nonfinancial assets and estimation of recoverable amount*

The Group assesses at the end of each reporting period whether there is any indication that the nonfinancial assets listed below may be impaired. If such indication exists, the entity shall estimate the recoverable amount of the asset, which is the higher of an asset's fair value less costs to sell and its value-in-use. In determining fair value less costs to sell, an appropriate valuation model is used, which can be based on quoted prices or other available fair value indicators.

In estimating the value-in-use, the Group is required to make an estimate of the expected future cash flows from the cash generating unit and also to choose an appropriate discount rate in order to calculate the present value of those cash flows.

Determining the recoverable amounts of the nonfinancial assets listed below, which involves the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the use of estimates and assumptions that can materially affect the consolidated financial statements. Future events could indicate that these nonfinancial assets are impaired. Any resulting impairment loss could have a material adverse impact on the financial condition and results of operations of the Group.

The preparation of estimated future cash flows involves significant judgment and estimations. While the Group believes that its assumptions are appropriate and reasonable, significant changes in these assumptions may materially affect its assessment of recoverable values and may lead to future additional impairment changes under PFRSs.

Assets that are subject to impairment testing when impairment indicators are present (such as obsolescence, physical damage, significant changes to the manner in which the asset is used, worse than expected economic performance, a drop in revenues or other external indicators) are as follows:

|                                                                                                                      | 2017                  | 2016        |
|----------------------------------------------------------------------------------------------------------------------|-----------------------|-------------|
|                                                                                                                      | <i>(In Thousands)</i> |             |
| Other current assets (except miscellaneous cash and other cash items) (Note 10)                                      | <b>₱12,817,040</b>    | ₱10,344,336 |
| Investments in associates and joint ventures (Note 11)                                                               | <b>17,230,925</b>     | 16,817,351  |
| Property, plant and equipment (Note 12)                                                                              | <b>43,205,233</b>     | 41,274,622  |
| Investment properties (Note 13)                                                                                      | <b>28,890,793</b>     | 28,217,373  |
| Other noncurrent assets (except net retirement plan assets, refundable and security deposits and goodwill) (Note 14) | <b>4,077,498</b>      | 3,014,149   |

*Impairment of goodwill*

The Group determines whether goodwill is impaired on an annual basis every December 31, or more frequently, if events or changes in circumstances indicate that it may be impaired. This requires an estimation of the value in use of the CGU to which the goodwill is allocated. Estimating value in use requires management to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Management determined that the goodwill amounting to ₱163.7 million as of December 31, 2017 and 2016 is not impaired (see Note 14).

*Provisions and contingencies*

The Group is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with the legal counsels handling the defense in these matters and is based upon the analysis of potential results. The Group currently does not believe these proceedings will have a material adverse effect on the consolidated financial statements. It is possible, however, that future financial performance could be materially affected by changes in the estimates or effectiveness of the strategies relating to these proceedings and assessments.

Provision for legal claims amounted to ₱1.0 billion and ₱1.3 billion as of December 31, 2017 and 2016, respectively (see Note 38).

*Recognition of deferred income tax assets*

The Group reviews the carrying amounts of the deferred income tax assets at the end of each reporting period and adjusts the balance of deferred income tax assets to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. The Group's assessment on the recognition of deferred income tax assets on deductible temporary differences is based on the level and timing of forecasted taxable income of the subsequent reporting periods. This forecast is based on the Group's past results and future expectations on revenues and expenses as well as future tax planning strategies. However, there is no assurance that the Group will generate sufficient future taxable income to allow all or part of the deferred income tax assets to be utilized.

The Group has NOLCO, excess MCIT over and other deductible temporary differences, which relate to the parent company and certain subsidiaries that have a history of losses and may not be used to offset taxable income elsewhere in the Group. The parent company and these certain subsidiaries neither have any taxable temporary difference nor was any tax planning opportunities available that could support the recognition of deferred income tax assets on these NOLCO, excess MCIT over RCIT and other deductible temporary differences totaling to ₱3.5 billion and ₱5.7 billion as of December 31, 2017 and 2016, respectively (see Note 29).

*Determination of fair value of shares of APLII and EDR*

The Group determined the fair value of the shares of APLII using a combination of the Income Approach and the Market Approach. The Income Approach was based on the present value of the future cash flows over a three-year period, adjusted for the control premium and the lack of marketability discount. Significant management judgment is required to determine the expected future cash flows. The valuation under the Income Approach is most sensitive to discount rate and growth rate used to project cash flows.

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#### **4. Segment Information**

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

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

- Banking, provides full range of banking and other financial services to corporate, middle-market and retail customers, the National Government (NG), local government units (LGUs) and government-owned and controlled corporations (GOCCs) and various government agencies, including deposit-taking, lending, bills discounting, foreign exchange dealing, investment banking,

fund transfers or remittance servicing and full range of retail banking and trust services and other insurance services. The Group conducts its banking business through PNB and its consolidated subsidiaries.

- Distilled Spirits, which is involved in manufacturing, compounding, bottling, importing, buying and selling of rum, spirit beverages, liquor and bioethanol products. The Group conducts its distilled spirits business through TDI and its consolidated subsidiaries.
- Beverage, which is engaged in brewing and soft drinks and bottled water manufacturing in the Philippines. It also operates other plants, which includes commercial glass division and corrugated cartons and metal closures production facility, to support the requirements of its brewing, bottled water, non-beer products operations and to act as a service contractor and enter into service agreements for the supply of services. The Group conducts its beverage business through ABI and its consolidated subsidiaries.
- Tobacco, which is a supplier and manufacturer of cigarettes, casings, tobacco, packaging, labels and filters. The Group conducts its tobacco business through FTC's interest in PMFTC.
- Property Development, which is engaged in ownership, development, leasing and management of residential properties, including but not limited to, all kinds of housing projects, commercial, industrial, urban or other kinds of real property; acquisition, purchasing, development and selling of subdivision lots. The Group conducts its property development business through Eton and its consolidated subsidiaries.
- Others, consist of various holding companies (LTG, Paramount, Saturn, Shareholdings, and Bank Holding Companies) that provide financing for working capital and capital expenditure requirements of the operating businesses of the Group.

The BOD of LTG reviews the operating results of the business units to make decisions on resource allocation and assesses performance. Segment revenue and segment expenses are measured in accordance with PFRSs. The presentation and classification of segment revenues and segment expenses are consistent with the consolidated statements of income. Finance costs (including interest expense) and income taxes are managed per business segment.

The Group's assets are located mainly in the Philippines. The Group operates and derives principally all of its revenue from domestic operations. The Group's banking segment operates in key cities in the USA, Canada, Western Europe, Middle East and Asia. The distribution of assets and revenues of the banking segment outside the Philippines constitute 10.3% and 2.6% as of December 31, 2017, respectively, and 10.5% and 3.6% as of December 31, 2016 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 85%, 84% and 90% of the segment's total revenue in 2017, 2016 and 2015, respectively. The other segments of the Group have no significant customer that contributes 10% or more of their segment revenues.

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

For the year ended December 31, 2017:

|                                                                | Banking        | Distilled Spirits | Beverage    | Tobacco    | Property Development | Eliminations, Adjustments and Others | Total       |
|----------------------------------------------------------------|----------------|-------------------|-------------|------------|----------------------|--------------------------------------|-------------|
|                                                                | (In Thousands) |                   |             |            |                      |                                      |             |
| Segment revenue:                                               |                |                   |             |            |                      |                                      |             |
| External customers                                             | P31,893,616    | P16,704,933       | P12,948,796 | P–         | P2,233,063           | P–                                   | P63,780,408 |
| Inter-segment                                                  | 274,244        | 89,388            | 944,440     | –          | –                    | (1,308,072)                          | –           |
|                                                                | 32,167,860     | 16,794,321        | 13,893,236  | –          | 2,233,063            | (1,308,072)                          | 63,780,408  |
| Cost of sales and services                                     | 6,339,368      | 14,077,274        | 9,591,814   | –          | 808,582              | (1,137,228)                          | 29,679,810  |
| Gross profit                                                   | 25,828,492     | 2,717,047         | 4,301,422   | –          | 1,424,481            | (170,844)                            | 34,100,598  |
| Equity in net earnings (loss) of associates and joint ventures | 59,000         | –                 | (636,330)   | 4,396,320  | –                    | 144,300                              | 3,963,290   |
|                                                                | 25,887,492     | 2,717,047         | 3,665,092   | 4,396,320  | 1,424,481            | (26,544)                             | 38,063,888  |
| Selling expenses                                               | –              | 1,319,102         | 1,326,726   | –          | 46,597               | –                                    | 2,692,425   |
| General and administrative expenses                            | 23,013,139     | 584,829           | 1,086,694   | 141,044    | 684,931              | 119,257                              | 25,629,894  |
| Operating income                                               | 2,874,353      | 813,116           | 1,251,672   | 4,255,276  | 692,953              | (145,801)                            | 9,741,569   |
| Foreign exchange gains (losses) - net                          | 1,674,370      | (1,307)           | 3,772       | 23,408     | (149)                | 1,208                                | 1,701,302   |
| Finance income                                                 | –              | 215               | 25,012      | 101,413    | 44,556               | (14,096)                             | 157,100     |
| Finance costs                                                  | –              | (33,206)          | (50,900)    | –          | (355,120)            | 297,289                              | (141,937)   |
| Others - net                                                   | 6,330,562      | 54,361            | (37,647)    | 71,369     | 129,858              | 71,174                               | 6,619,677   |
| Income before income tax                                       | 10,879,285     | 833,179           | 1,191,909   | 4,451,466  | 512,098              | 209,774                              | 18,077,711  |
| Provision for income tax                                       | 2,322,213      | 202,052           | 639,729     | 19,110     | 164,458              | 149,493                              | 3,497,055   |
| Segment profit                                                 | P8,557,072     | P631,127          | P552,180    | P4,432,356 | P347,640             | P60,281                              | P14,580,656 |
| Segment profit attributable to:                                |                |                   |             |            |                      |                                      |             |
| Equity holders of the Company                                  | P4,830,426     | P623,802          | P552,180    | P4,413,740 | P346,319             | P64,306                              | P10,830,773 |
| Non-controlling interests                                      | 3,726,646      | 7,325             | –           | 18,616     | 1,321                | (4,025)                              | 3,749,883   |
| Depreciation and amortization expense                          | 1,519,111      | 514,624           | 1,393,040   | 19,040     | 254,105              | 21,803                               | 3,721,723   |

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

|                                              | Banking        | Distilled Spirits | Beverage    | Tobacco     | Property Development | Eliminations, Adjustments and Others | Total        |
|----------------------------------------------|----------------|-------------------|-------------|-------------|----------------------|--------------------------------------|--------------|
|                                              | (In Thousands) |                   |             |             |                      |                                      |              |
| Assets:                                      |                |                   |             |             |                      |                                      |              |
| Current assets                               | ₱375,392,442   | ₱12,959,935       | ₱12,590,611 | ₱11,508,813 | ₱11,179,580          | (₱7,043,863)                         | ₱416,587,518 |
| Noncurrent assets                            | 448,155,535    | 7,105,438         | 15,305,077  | 14,516,726  | 18,545,874           | (3,120,479)                          | 500,508,171  |
|                                              | ₱823,547,977   | ₱20,065,373       | ₱27,895,688 | ₱26,025,539 | ₱29,725,454          | (₱10,164,342)                        | ₱917,095,689 |
| Liabilities:                                 |                |                   |             |             |                      |                                      |              |
| Current liabilities                          | ₱664,985,426   | ₱3,483,340        | ₱4,355,838  | ₱303,905    | ₱4,892,439           | (₱12,623,125)                        | ₱665,397,823 |
| Noncurrent liabilities                       | 51,413,216     | 623,725           | 1,011,573   | 84,530      | 8,143,165            | (4,893,758)                          | 56,382,451   |
|                                              | ₱716,398,642   | ₱4,107,065        | ₱5,367,411  | ₱388,435    | ₱13,035,604          | (₱17,516,883)                        | ₱721,780,274 |
| Investments in associates and joint ventures | ₱2,363,757     | ₱—                | ₱1,032,149  | ₱11,447,030 | ₱—                   | ₱2,387,989                           | ₱17,230,925  |
| Equity attributable to:                      |                |                   |             |             |                      |                                      |              |
| Equity holders of the Company                | 61,602,401     | 15,819,758        | 22,484,240  | 25,637,104  | 16,689,850           | 6,081,150                            | 148,314,503  |
| Non-controlling interests                    | 45,546,934     | 138,550           | 44,037      | —           | —                    | 1,271,391                            | 47,000,912   |
| Additions to noncurrent assets:              |                |                   |             |             |                      |                                      |              |
| Property, plant and equipment                | 1,930,786      | 423,237           | 1,886,560   | 47,942      | 28,785               | 11,016                               | 4,328,326    |
| Investment properties                        | 625,660        | —                 | —           | 51,233      | 1,741,479            | —                                    | 2,418,372    |
| Short-term debts                             | —              | 880,000           | 1,550,000   | —           | —                    | (880,000)                            | 1,550,000    |
| Long-term debts                              | —              | —                 | —           | —           | 6,080,147            | (4,490,000)                          | 1,590,147    |

For the year ended December 31, 2016:

|                                         | Banking               | Distilled Spirits | Beverage    | Tobacco    | Property<br>Development | Eliminations,<br>Adjustments<br>and Others | Total       |
|-----------------------------------------|-----------------------|-------------------|-------------|------------|-------------------------|--------------------------------------------|-------------|
|                                         | <i>(In Thousands)</i> |                   |             |            |                         |                                            |             |
| Segment revenue:                        |                       |                   |             |            |                         |                                            |             |
| External customers                      | ₱29,111,818           | ₱14,904,343       | ₱10,932,326 | ₱–         | ₱2,851,514              | ₱–                                         | ₱57,800,001 |
| Inter-segment                           | 190,274               | 109,385           | 917,651     | –          | –                       | (1,217,310)                                | –           |
|                                         | 29,302,092            | 15,013,728        | 11,849,977  | –          | 2,851,514               | (1,217,310)                                | 57,800,001  |
| Cost of sales and services              | 5,722,739             | 12,293,366        | 7,818,988   | –          | 1,342,857               | (1,051,069)                                | 26,126,881  |
| Gross profit                            | 23,579,353            | 2,720,362         | 4,030,989   | –          | 1,508,657               | (166,241)                                  | 31,673,120  |
| Equity in net earnings of associates    | –                     | –                 | –           | 2,593,261  | –                       | 192,584                                    | 2,785,845   |
|                                         | 23,579,353            | 2,720,362         | 4,030,989   | 2,593,261  | 1,508,657               | 26,343                                     | 34,458,965  |
| Selling expenses                        | –                     | 999,866           | 1,310,612   | –          | 52,848                  | (11,804)                                   | 2,351,522   |
| General and administrative expenses     | 23,215,141            | 551,755           | 907,564     | 152,630    | 628,773                 | 107,221                                    | 25,563,084  |
| Operating income                        | 364,212               | 1,168,741         | 1,812,813   | 2,440,631  | 827,036                 | (69,074)                                   | 6,544,359   |
| Foreign exchange gains - net            | 1,487,740             | 364               | –           | 27,417     | 4,251                   | 15,445                                     | 1,535,217   |
| Finance income                          | –                     | 159               | 20,807      | 70,136     | 55,871                  | (40,547)                                   | 106,426     |
| Finance costs                           | –                     | (10,967)          | (48,789)    | –          | (357,700)               | 214,966                                    | (202,490)   |
| Others - net                            | 6,427,747             | 14,664            | (189,206)   | 50,537     | 71,811                  | (1,423,411)                                | 4,952,142   |
| Income before income tax                | 8,279,699             | 1,172,961         | 1,595,625   | 2,588,721  | 601,269                 | (1,302,621)                                | 12,935,654  |
| Provision for (benefit from) income tax | 1,517,029             | 265,459           | 548,815     | (3,579)    | 211,760                 | (365,016)                                  | 2,174,468   |
| Segment profit (loss) from:             |                       |                   |             |            |                         |                                            |             |
| Continuing operations                   | 6,762,670             | 907,502           | 1,046,810   | 2,592,300  | 389,509                 | (937,605)                                  | 10,761,186  |
| Discontinued operations                 | 619,563               | –                 | 708,407     | –          | –                       | –                                          | 1,327,970   |
|                                         | ₱7,382,233            | ₱907,502          | ₱1,755,217  | ₱2,592,300 | ₱389,509                | (₱937,605)                                 | ₱12,089,156 |
| Segment profit attributable to:         |                       |                   |             |            |                         |                                            |             |
| Equity holders of the Company           | ₱4,147,220            | ₱898,192          | ₱1,755,217  | ₱2,581,412 | ₱388,029                | (₱379,663)                                 | ₱9,390,407  |
| Non-controlling interests               | 3,235,013             | 9,310             | –           | 10,888     | 1,480                   | (557,942)                                  | 2,698,749   |
| Depreciation and amortization expense   | 1,393,334             | 529,743           | 1,538,972   | 11,477     | 163,644                 | 20,188                                     | 3,657,358   |

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

|                                                  | Banking               | Distilled Spirits | Beverage    | Tobacco     | Property<br>Development | Eliminations,<br>Adjustments<br>and Others | Total        |
|--------------------------------------------------|-----------------------|-------------------|-------------|-------------|-------------------------|--------------------------------------------|--------------|
|                                                  | <i>(In Thousands)</i> |                   |             |             |                         |                                            |              |
| 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<br>a joint venture | ₱2,532,754            | ₱—                | ₱1,643,304  | ₱11,049,385 | ₱—                      | ₱1,591,908                                 | ₱16,817,351  |
| Equity attributable to:                          |                       |                   |             |             |                         |                                            |              |
| Equity holders of the Company                    | 55,888,301            | 15,196,522        | 21,783,942  | 23,060,106  | 16,330,105              | 3,839,009                                  | 136,097,985  |
| Non-controlling interests                        | 41,080,170            | 129,688           | —           | —           | —                       | 1,296,733                                  | 42,506,591   |
| Additions to noncurrent assets:                  |                       |                   |             |             |                         |                                            |              |
| Property, plant and equipment                    | 2,133,146             | 612,136           | 1,987,832   | 3,946       | 29,258                  | 2,693                                      | 4,769,011    |
| Investment properties                            | 681,510               | —                 | —           | —           | 389,314                 | 1,466                                      | 1,072,290    |
| Short-term debts                                 | —                     | —                 | 1,750,000   | —           | —                       | —                                          | 1,750,000    |
| Long-term debts                                  | 3,497,798             | —                 | —           | —           | 4,070,949               | (2,000,000)                                | 5,568,747    |

For the year ended December 31, 2015:

|                                       | Banking               | Distilled Spirits | Beverage    | Tobacco    | Property<br>Development | Eliminations,<br>Adjustments<br>and Others | Total       |
|---------------------------------------|-----------------------|-------------------|-------------|------------|-------------------------|--------------------------------------------|-------------|
|                                       | <i>(In Thousands)</i> |                   |             |            |                         |                                            |             |
| Segment revenue:                      |                       |                   |             |            |                         |                                            |             |
| External customers                    | ₱26,600,160           | ₱12,002,266       | ₱10,386,308 | ₱—         | ₱2,484,453              | ₱—                                         | ₱51,473,187 |
| Inter-segment                         | 10,150                | 115,079           | 1,011,781   | —          | —                       | (1,137,010)                                | —           |
|                                       | 26,610,310            | 12,117,345        | 11,398,089  | —          | 2,484,453               | (1,137,010)                                | 51,473,187  |
| Cost of sales and services            | 4,807,242             | 9,831,228         | 7,384,452   | —          | 1,179,549               | (1,199,589)                                | 22,002,882  |
| Gross profit                          | 21,803,068            | 2,286,117         | 4,013,637   | —          | 1,304,904               | 62,579                                     | 29,470,305  |
| Equity in net earnings of associates  | —                     | —                 | —           | 974,543    | —                       | 214,431                                    | 1,188,974   |
|                                       | 21,803,068            | 2,286,117         | 4,013,637   | 974,543    | 1,304,904               | 277,010                                    | 30,659,279  |
| Selling expenses                      | —                     | 939,453           | 1,234,028   | —          | 42,382                  | (13,422)                                   | 2,202,441   |
| General and administrative expenses   | 18,449,228            | 653,396           | 744,400     | 141,260    | 588,292                 | 579,957                                    | 21,156,533  |
| Operating income                      | 3,353,840             | 693,268           | 2,035,209   | 833,283    | 674,230                 | (289,525)                                  | 7,300,305   |
| Foreign exchange gains - net          | 1,207,840             | 1,609             | —           | 95,618     | 3,746                   | 13,587                                     | 1,322,400   |
| Finance income                        | —                     | 154               | 19,572      | 92,549     | 50,830                  | (52,729)                                   | 110,376     |
| Finance costs                         | —                     | (57,969)          | (2,439)     | —          | (175,787)               | 33,677                                     | (202,518)   |
| Others - net                          | 3,393,380             | 28,066            | 6,386       | 71,785     | 10,620                  | 176,737                                    | 3,686,974   |
| Income before income tax              | 7,955,060             | 665,128           | 2,058,728   | 1,093,235  | 563,639                 | (118,253)                                  | 12,217,537  |
| Provision for income tax              | 1,543,789             | 243,043           | 609,464     | 53,229     | 250,358                 | 28,936                                     | 2,728,819   |
| Segment profit (loss) from:           |                       |                   |             |            |                         |                                            |             |
| Continuing operations                 | 6,411,271             | 422,085           | 1,449,264   | 1,040,006  | 313,281                 | (147,189)                                  | 9,488,718   |
| Discontinued operations               | 357,931               | —                 | (349,995)   | —          | —                       | —                                          | 7,936       |
|                                       | ₱6,769,202            | ₱422,085          | ₱1,099,269  | ₱1,040,006 | ₱313,281                | (₱147,189)                                 | ₱9,496,654  |
| Segment profit attributable to:       |                       |                   |             |            |                         |                                            |             |
| Equity holders of the Company         | ₱3,673,284            | ₱427,930          | ₱1,099,269  | ₱1,035,563 | ₱312,091                | ₱50,898                                    | ₱6,599,035  |
| Non-controlling interests             | 3,095,918             | (5,845)           | —           | 4,443      | 1,190                   | (198,087)                                  | 2,897,619   |
| Depreciation and amortization expense | 1,168,620             | 551,339           | 1,549,879   | 11,975     | 151,693                 | 19,012                                     | 3,452,518   |

## 5. Cash and Cash Equivalents

Cash and cash equivalents consist of:

|                                                   | 2017                  | 2016         |
|---------------------------------------------------|-----------------------|--------------|
|                                                   | <i>(In Thousands)</i> |              |
| Cash and other cash items                         | <b>₱17,782,966</b>    | ₱14,865,706  |
| Cash equivalents:                                 |                       |              |
| Due from <i>Bangko Sentral ng Pilipinas</i> (BSP) | <b>108,743,985</b>    | 127,337,860  |
| Due from other banks                              | <b>20,038,263</b>     | 22,709,805   |
| Interbank loans receivable                        | <b>27,459,204</b>     | 9,763,418    |
|                                                   | <b>₱174,024,418</b>   | ₱174,676,789 |

- Cash and other cash items consist of cash on hand and in banks and short-term investments. Cash in banks earn interest at bank deposit rates. Cash equivalents represent money market placements made for varying periods depending on the immediate cash requirements of the Group.
- Due from BSP is composed of interest-bearing short-term placements with BSP and a demand deposit account to support the regular operations of PNB.
- Interest earned on cash and other cash items and cash equivalents are presented under “Finance income” and “Banking revenue”, respectively (see Notes 24 and 27).

## 6. Financial Assets at Fair Value through Profit or Loss

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

|                                     | 2017                  | 2016       |
|-------------------------------------|-----------------------|------------|
|                                     | <i>(In Thousands)</i> |            |
| Held for trading:                   |                       |            |
| Government securities               | <b>₱2,207,953</b>     | ₱1,313,400 |
| Equity securities                   | <b>73,917</b>         | 54,609     |
| Derivative assets (Notes 21 and 33) | <b>562,984</b>        | 419,122    |
| Private debt securities             | <b>109,081</b>        | 196,757    |
|                                     | <b>2,953,935</b>      | 1,983,888  |
| Designated at FVPL -                |                       |            |
| Unit investment trust fund          | <b>3,564,484</b>      | 4,457,623  |
|                                     | <b>₱6,518,419</b>     | ₱6,441,511 |

- As of December 31, 2017, 2016 and 2015, unrealized loss on government and private debt securities amounted to ₱73.0 million, ₱66.9 million and ₱261.5 million, respectively. In 2017, 2016 and 2015, the effective interest rates range from 2.13% to 6.13%, from 2.75% to 10.63% and from 2.13% to 10.63%, respectively, for the government securities, and from 5.23% to 6.63%, from 5.5% to 7.38% and from 4.80% to 7.38%, respectively, for the private debt securities.
- The carrying amount of equity securities includes unrealized loss of ₱22.0 million, ₱21.5 million and ₱53.4 million as of December 31, 2017, 2016 and 2015, respectively.

- c. On various dates in 2014, the Group invested in PNB Institutional Money Market Fund which is a money market unit investment trust fund (UITF). The investment is subject to a minimum holding period of 30 days. Mark-to-market gains on financial assets at FVPL amounted to ₱59.5 million, ₱63.0 million and ₱99.1 million in 2017, 2016, and 2015, respectively (see Note 28). Realized gains from redemption of investment presented under finance income amounted to ₱20.2 million in 2017, ₱6.3 million in 2016 and ₱22.4 million in 2015 (see Note 27).

## 7. Available-for-Sale and Held to Maturity Investments

### Available-for-Sale Investments

|                                 | 2017                  | 2016         |
|---------------------------------|-----------------------|--------------|
|                                 | <i>(In Thousands)</i> |              |
| Government securities (Note 17) | <b>₱41,625,900</b>    | ₱38,367,465  |
| Other debt securities           | <b>27,394,342</b>     | 28,841,070   |
| Equity securities:              |                       |              |
| Quoted                          | <b>3,833,789</b>      | 1,072,405    |
| Unquoted                        | <b>1,051,616</b>      | 1,265,071    |
|                                 | <b>73,905,647</b>     | 69,546,011   |
| Allowance for impairment losses | <b>(696,235)</b>      | (944,112)    |
|                                 | <b>73,209,412</b>     | 68,601,899   |
| Noncurrent portion              | <b>(70,664,823)</b>   | (60,128,678) |
|                                 | <b>₱2,544,589</b>     | ₱8,473,221   |

- a. As of December 31, 2017 and 2016, the fair value of the AFS investments in the form of government and private bonds pledged to fulfill its collateral requirements with securities sold under repurchase agreements transactions with foreign banks amounted to ₱26.5 billion and ₱9.8 billion, respectively (see Note 17). The counterparties have an obligation to return the securities to PNB once the obligations have been settled. In case of default, the foreign banks have the right to hold the securities and sell them as settlement of the repurchase agreement.
- b. Included in AFS investments are pledged securities for the Surety Bond with fair value of ₱800.0 million issued by PNB Gen. As of December 31, 2015, the carrying value of these pledged securities amounted to ₱873.0 million. As of December 31, 2016, a compromise agreement on the settlement of loans has been made and said Surety Bond was no longer renewed by PNB Gen.
- c. Other debt securities consist of notes issued by private entities.
- d. No impairment loss has been recognized on unquoted debt securities for the years ended December 31, 2017, 2016 and 2015.
- e. As of December 31, effective interest rates for the AFS investments follow:

|                              | 2017                   | 2016           | 2015           |
|------------------------------|------------------------|----------------|----------------|
| Peso-denominated             | <b>0.88% to 9.33%</b>  | 1.31% to 5.93% | 1.03% to 5.62% |
| Foreign-currency denominated | <b>0.04% to 10.30%</b> | 1.29% to 5.30% | 1.10% to 5.39% |

- f. Presented below are the movements in the net changes in fair values of AFS financial assets:

|                                                                | 2017                  | 2016         |
|----------------------------------------------------------------|-----------------------|--------------|
|                                                                | <i>(In Thousands)</i> |              |
| Balance at beginning of year                                   | <b>(P2,971,896)</b>   | (P2,256,729) |
| Net changes in fair value of AFS investments during the year*: |                       |              |
| Fair value changes during the year on AFS investments          | <b>2,984,496</b>      | 649,259      |
| Realized gains**(Note 24)                                      | <b>(506,238)</b>      | (1,364,426)  |
|                                                                | <b>2,478,258</b>      | (715,167)    |
| Balance at end of year                                         | <b>(P493,638)</b>     | (P2,971,896) |
| Attributable to:                                               |                       |              |
| Equity holders of the Company                                  | <b>P371,483</b>       | (P1,971,897) |
| Non-controlling interests                                      | <b>(865,121)</b>      | (999,999)    |
|                                                                | <b>(P493,638)</b>     | (P2,971,896) |

\* Net of deferred income tax effect amounting to P0.7 million and P0.3 million in 2017 and 2016, respectively.

\*\* Included in "Trading and securities gains" under "Banking revenue".

- g. The movements in allowance for impairment losses of AFS investments follow:

|                                 | 2017                  | 2016     |
|---------------------------------|-----------------------|----------|
|                                 | <i>(In Thousands)</i> |          |
| Balances at beginning of year   | <b>P944,112</b>       | P998,749 |
| Provisions during the year      | —                     | 15,856   |
| Disposals, transfers and others | <b>(247,877)</b>      | (70,493) |
| Balances at end of year         | <b>P696,235</b>       | P944,112 |

#### Held-to-Maturity Investments

As of December 31, 2017 and 2016, HTM investments of the Group consist of government securities and private debt securities amounting to P26.7 billion and P24.1 billion, respectively.

As of December 31, 2017 and 2016, the fair value of the HTM investments in the form of Republic of the Philippines bonds pledged to fulfill its collateral requirements with securities sold under repurchase agreements transactions with counterparties amounted to P17.8 billion and P15.3 billion, respectively (see Note 17).

#### *Reclassification of Financial Assets*

On March 3 and March 5, 2014, the Group reclassified certain AFS investments with fair values of P15.9 billion and P6.8 billion, respectively, back to its original classification, as HTM investments, as management has established that it continues to have the positive intention and ability to hold these securities to maturity. The reclassification was approved by the BOD of PNB on February 28, 2014. The previous fair valuation gains amounting to P2.7 billion that have been recognized in OCI shall be amortized to profit or loss over the remaining life of the HTM investments using effective interest rates ranging from 3.60% to 5.64%.

As of December 31, 2017 and 2016, the carrying values and fair values of the Group's reclassified investment securities amounted to P24.0 billion and P20.1 billion, respectively. Had these securities not been reclassified as HTM, the additional mark-to-market loss that would have been recognized by the Group in the consolidated statements of comprehensive income amounts to P0.5 billion in 2017, P0.3 billion in 2016 and P0.8 billion in 2015.

## 8. Loans and Receivables

Loans and receivables consist of:

|                                       | 2017                  | 2016          |
|---------------------------------------|-----------------------|---------------|
|                                       | <i>(In Thousands)</i> |               |
| Finance receivables (Notes 17 and 22) | <b>₱514,363,730</b>   | ₱441,252,395  |
| Trade receivables                     | <b>13,266,725</b>     | 12,703,799    |
| Other receivables                     | <b>2,731,658</b>      | 1,784,649     |
|                                       | <b>530,362,113</b>    | 455,740,843   |
| Allowance for credit losses           | <b>(18,116,748)</b>   | (17,306,554)  |
|                                       | <b>512,245,365</b>    | 438,434,289   |
| Noncurrent portion                    | <b>(307,622,788)</b>  | (248,621,351) |
|                                       | <b>₱204,622,577</b>   | ₱189,812,938  |

### Finance Receivables

|                                                                             | 2017                  | 2016          |
|-----------------------------------------------------------------------------|-----------------------|---------------|
|                                                                             | <i>(In Thousands)</i> |               |
| Receivables from customers:                                                 |                       |               |
| Loans and discounts                                                         | <b>₱452,206,784</b>   | ₱389,916,109  |
| Customers' liabilities on acceptances, letters of credit and trust receipts | <b>11,912,916</b>     | 10,716,781    |
| Bills purchased (Note 20)                                                   | <b>1,723,514</b>      | 3,622,690     |
| Credit card receivables                                                     | <b>10,145,474</b>     | 7,102,207     |
| Finance lease receivables                                                   | <b>2,891,043</b>      | 3,049,375     |
|                                                                             | <b>478,879,731</b>    | 414,407,162   |
| Unquoted debt securities                                                    | <b>14,674,130</b>     | 6,972,710     |
| Other receivables:                                                          |                       |               |
| Accounts receivable                                                         | <b>10,215,695</b>     | 9,527,554     |
| Accrued interest receivable                                                 | <b>4,414,165</b>      | 3,884,739     |
| Sales contract receivables                                                  | <b>7,155,924</b>      | 7,449,020     |
| Miscellaneous                                                               | <b>577,369</b>        | 501,674       |
|                                                                             | <b>22,363,153</b>     | 21,362,987    |
|                                                                             | <b>515,917,014</b>    | 442,742,859   |
| Unearned and other deferred income                                          | <b>(1,553,284)</b>    | (1,490,464)   |
|                                                                             | <b>514,363,730</b>    | 441,252,395   |
| Allowance for credit losses                                                 | <b>(18,056,306)</b>   | (17,253,410)  |
|                                                                             | <b>496,307,424</b>    | 423,998,985   |
| Noncurrent portion                                                          | <b>(311,456,276)</b>  | (247,950,622) |
|                                                                             | <b>₱184,851,148</b>   | ₱176,048,363  |

#### a. Transactions with Maybank Philippines, Inc. (Maybank)

As of December 31, 2015, the balance of these receivables amounted to ₱3.7 billion while the transferred liabilities amounted to ₱3.4 billion (₱1.8 billion is included under "Bills payable to BSP and local banks" and ₱1.6 billion is included under "Accrued interest payable"). The excess of the transferred receivables over the transferred liabilities is fully covered by an allowance for credit losses amounting to ₱0.3 billion as of December 31, 2015.

In 2016, the Group applied the transferred liabilities against the principal and interest components of the transferred receivables. As of December 31, 2016, the remaining receivables amounted to ₱0.3 billion, which is fully covered by an allowance.

b. Unquoted debt securities

Unquoted debt instruments include the zero-coupon notes received by PNB from Special Purpose Vehicle (SPV) Companies on October 15, 2004, at the principal amount of ₱803.5 million (Tranche A Note) payable in five years and at the principal amount of ₱3.4 billion (Tranche B Note) payable in eight years in exchange for the outstanding loans receivable from National Steel Corporation (NSC) of ₱5.3 billion. The notes are secured by a first ranking mortgage and security interest over the NSC Plant Assets. In 2016, PNB obtained additional non-resident unquoted debt investments amounting to ₱3.4 billion. These investments are zero-rated bonds issued by Chinese financial institutions. As of December 31, 2017 and 2016, the notes are carried at their recoverable values.

c. Finance lease receivable

An analysis of the Group's finance lease receivables as of December 31 is presented as follows:

|                                               | 2017                  | 2016       |
|-----------------------------------------------|-----------------------|------------|
|                                               | <i>(In Thousands)</i> |            |
| Gross investment in finance lease receivables |                       |            |
| Due within one year                           | <b>₱1,265,542</b>     | ₱1,177,612 |
| Due beyond one year but not over five years   | <b>924,973</b>        | 1,127,371  |
| Due beyond five years                         | <b>25,200</b>         | 36,500     |
|                                               | <b>2,215,715</b>      | 2,341,483  |
| Residual value of leased equipment            |                       |            |
| Due within one year                           | <b>292,000</b>        | 249,923    |
| Due beyond one year but not over five years   | <b>383,328</b>        | 457,969    |
|                                               | <b>675,328</b>        | 707,892    |
| Total finance lease receivable                | <b>₱2,891,043</b>     | ₱3,049,375 |

d. Interest income on loans and receivables consists of (see Note 24):

|                                     | 2017               | 2016        | 2015        |
|-------------------------------------|--------------------|-------------|-------------|
| Receivable from customers and sales |                    |             |             |
| contract receivables                | <b>₱22,255,272</b> | ₱19,454,187 | ₱17,080,888 |
| Unquoted debt securities            | <b>146,012</b>     | 51,160      | 63,478      |
|                                     | <b>₱22,401,284</b> | ₱19,505,347 | ₱17,144,366 |

As of December 31, 2017 and 2016, 96.1% and 75.2%, respectively, of the total receivable from customers of the Group were subject to interest repricing. Remaining receivables carry annual fixed interest rates ranging from 2.0% to 8.3% in 2017, from 2.3% to 8.8% in 2016 and from 1.1% to 7.0% in 2015 for foreign currency-denominated receivables, and from 1.9% to 7.9% in 2017, from 1.0% to 35.0% in 2016 and 0.5% to 15.3% in 2015 for peso-denominated receivables.

Sales contract receivables bear fixed interest rate per annum ranging from 2.7% to 21.0%, 5.0% to 21.0% and 3.3% to 21.0% in 2017, 2016 and 2015, respectively. Interest income accrued on impaired loans and receivable of the Group amounted to ₱99.0 million in 2017, ₱103.7 million in 2016 and ₱217.0 million in 2015.

### Trade Receivables

Trade receivables consist of:

|                                            | 2017                  | 2016        |
|--------------------------------------------|-----------------------|-------------|
|                                            | <i>(In Thousands)</i> |             |
| Consumer goods                             | <b>₱12,183,109</b>    | ₱10,897,219 |
| Contract receivables                       | <b>1,055,912</b>      | 1,777,640   |
| Lease receivables                          | <b>27,704</b>         | 28,940      |
|                                            | <b>13,266,725</b>     | 12,703,799  |
| Allowance for credit losses                | <b>(49,202)</b>       | (41,904)    |
|                                            | <b>13,217,523</b>     | 12,661,895  |
| Noncurrent portion of contract receivables | <b>(766,796)</b>      | (670,729)   |
|                                            | <b>₱12,450,727</b>    | ₱11,991,166 |

- Trade receivables on consumer goods pertain to receivables from various customers of distilled spirits, beverages and tobacco segments, which are noninterest-bearing and generally have 30 to 90 days' terms.
- Contracts receivables of the property development segment consist of revenues recognized to date based on percentage of completion less collections received from the respective buyers. Interest income from interest-bearing contracts receivables amounted to ₱16.5 million, ₱41.7 million and ₱34.6 million in 2017, 2016 and 2015, respectively (see Note 27).

### Other Receivables

Other receivables are due and demandable and include accrued interest receivable pertaining to interest earned on cash and cash equivalents and unpaid utility charges to tenants and receivables from sale of various assets.

### Movements of Allowance for Credit Losses

Details and movements of allowance for credit losses, determined using individual and collective assessment follow:

|                                            | December 31, 2017      |                      |                      |                    |
|--------------------------------------------|------------------------|----------------------|----------------------|--------------------|
|                                            | Finance<br>Receivables | Trade<br>Receivables | Other<br>Receivables | Total              |
|                                            | <i>(In Thousands)</i>  |                      |                      |                    |
| Balance at beginning of year               | <b>₱17,253,410</b>     | <b>₱41,904</b>       | <b>₱11,240</b>       | <b>₱17,306,554</b> |
| Provisions during the year (Note 26)       | <b>1,184,866</b>       | <b>7,354</b>         | –                    | <b>1,192,220</b>   |
| Accounts charged off, transfers and others | <b>(381,970)</b>       | <b>(56)</b>          | –                    | <b>(382,026)</b>   |
| Balance at end of year                     | <b>₱18,056,306</b>     | <b>₱49,202</b>       | <b>₱11,240</b>       | <b>₱18,116,748</b> |

|                                            | December 31, 2016      |                      |                      |             |
|--------------------------------------------|------------------------|----------------------|----------------------|-------------|
|                                            | Finance<br>Receivables | Trade<br>Receivables | Other<br>Receivables | Total       |
|                                            | <i>(In Thousands)</i>  |                      |                      |             |
| Balance at beginning of year               | ₱15,934,483            | ₱32,032              | ₱11,240              | ₱15,977,755 |
| Provisions during the year (Note 26)       | 2,811,141              | 6,211                | –                    | 2,817,352   |
| Accounts charged off, transfers and others | (1,492,214)            | 3,661                | –                    | (1,488,553) |
| Balance at end of year                     | ₱17,253,410            | ₱41,904              | ₱11,240              | ₱17,306,554 |

Below is the breakdown of provision for (reversal of) credit losses by type of loans and receivables:

|                                                                          | 2017                  | 2016              |
|--------------------------------------------------------------------------|-----------------------|-------------------|
|                                                                          | <i>(In Thousands)</i> |                   |
| <b>Individual assessment</b>                                             |                       |                   |
| Finance receivables:                                                     |                       |                   |
| Receivable from customers                                                | ₱270,837              | ₱1,555,856        |
| Unquoted debt securities                                                 | –                     | 81,457            |
| Other receivables                                                        | (552,824)             | (247,889)         |
| Trade receivables from customers of consumer goods and other receivables | 7,354                 | 6,211             |
|                                                                          | <b>(274,633)</b>      | <b>1,395,635</b>  |
| <b>Collective assessment</b>                                             |                       |                   |
| Finance receivables:                                                     |                       |                   |
| Receivables from customers                                               | 256,387               | 1,563,020         |
| Other receivables                                                        | 1,210,466             | (141,303)         |
|                                                                          | <b>1,466,853</b>      | <b>1,421,717</b>  |
|                                                                          | <b>₱1,192,220</b>     | <b>₱2,817,352</b> |

## 9. Inventories

Inventories consist of:

|                                            | 2017                  | 2016               |
|--------------------------------------------|-----------------------|--------------------|
|                                            | <i>(In Thousands)</i> |                    |
| <b>At Cost:</b>                            |                       |                    |
| Consumer goods:                            |                       |                    |
| Alcohol                                    | ₱3,341,553            | ₱2,695,689         |
| Beverage                                   | 2,034,272             | 1,923,260          |
|                                            | <b>5,375,825</b>      | <b>4,618,949</b>   |
| Real estate inventories:                   |                       |                    |
| Condominium and residential units for sale | 926,139               | 1,326,758          |
| Subdivision land under development         | 4,459,621             | 4,288,514          |
| Land held for future development           | 1,099,584             | 1,111,274          |
|                                            | <b>6,485,344</b>      | <b>6,726,546</b>   |
| Fuel, materials and supplies               | 881,267               | 1,004,372          |
|                                            | <b>12,742,436</b>     | <b>12,349,867</b>  |
| <b>At NRV - Materials and supplies</b>     | <b>622,653</b>        | <b>499,932</b>     |
|                                            | <b>₱13,365,089</b>    | <b>₱12,849,799</b> |

Allowance for inventory obsolescence on materials and supplies amounted to ₱5.5 million, and ₱6.3 million as of December 31, 2017 and 2016, respectively.

- a. Components of the consumer goods inventories are as follows:

|                 | 2017                  | 2016              |
|-----------------|-----------------------|-------------------|
|                 | <i>(In Thousands)</i> |                   |
| Finished goods  | ₱670,852              | ₱690,076          |
| Work in process | 1,479,234             | 1,080,555         |
| Raw materials   | 3,225,739             | 2,848,318         |
|                 | <b>₱5,375,825</b>     | <b>₱4,618,949</b> |

Cost of consumer goods inventories recognized as expenses under cost of sales amounted to ₱12.2 billion, ₱10.9 billion and ₱12.2 billion in 2017, 2016 and 2015, respectively (see Note 24).

- b. Movements in real estate inventories are set out below:

|                                                              | 2017                  | 2016        |
|--------------------------------------------------------------|-----------------------|-------------|
|                                                              | <i>(In Thousands)</i> |             |
| Balance at beginning of year                                 | <b>₱6,726,546</b>     | ₱8,486,103  |
| Construction/development costs incurred                      | <b>729,347</b>        | 1,787,274   |
| Transfer to investment property                              | <b>(536,674)</b>      | (2,457,805) |
| Disposals (recognized as cost of real estate sales, Note 24) | <b>(433,875)</b>      | (1,089,026) |
| Balance at end of year                                       | <b>₱6,485,344</b>     | ₱6,726,546  |

#### 10. Other Current Assets

|                                                  | 2017                  | 2016        |
|--------------------------------------------------|-----------------------|-------------|
|                                                  | <i>(In Thousands)</i> |             |
| Creditable withholding taxes (CWT)               | <b>₱5,926,539</b>     | ₱4,857,363  |
| Advances to suppliers                            | <b>1,998,939</b>      | 2,198,733   |
| Excise tax (Note 38)                             | <b>1,186,082</b>      | 934,066     |
| Input VAT                                        | <b>1,080,287</b>      | 998,003     |
| Deferred reinsurance premiums                    | <b>820,757</b>        | 274,904     |
| Prepaid expenses                                 | <b>603,706</b>        | 488,837     |
| Stationeries, office supplies and stamps on hand | <b>323,630</b>        | —           |
| Miscellaneous cash and other cash items          | <b>666,761</b>        | 256,063     |
| Deferred rent                                    | <b>184,628</b>        | 180,566     |
| Sundry debits                                    | <b>27,248</b>         | —           |
| Deferred charges                                 | <b>2,040</b>          | 9,095       |
| Others                                           | <b>663,184</b>        | 402,769     |
|                                                  | <b>₱13,483,801</b>    | ₱10,600,399 |

- a. CWTs pertain mainly to the amounts withheld from income derived from sale of consumer goods and real estate inventories. The CWTs can be applied against any income tax liability of a company in the Group to which the CWTs relate.
- b. Advances to suppliers pertain to deposits made for raw material purchases and are applied upon delivery of the related inventories.
- c. Excise tax pertains to advance tax payments to the Bureau of Internal Revenue (BIR) on sale of alcoholic beverages (see Note 38).

Prepaid expenses include prepaid importation charges amounting to ₱103.7 million and ₱57.8 million as of December 31, 2017 and 2016, respectively. Prepaid importation charges pertain to the purchases of raw materials by the distilled spirits and beverage businesses.

- d. Others include interoffice floats and advances to contractors.

## 11. 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 ALI-Eton Property Development Corporation (AEPDC) which are jointly controlled entities.

|                        | Ownership             |       | Amount             |                    |
|------------------------|-----------------------|-------|--------------------|--------------------|
|                        | 2017                  | 2016  | 2017               | 2016               |
|                        | <i>(In Thousands)</i> |       |                    |                    |
| <i>Associates:</i>     |                       |       |                    |                    |
| PMFTC                  | 49.6%                 | 49.6% | ₱10,751,235        | ₱10,382,799        |
| VMC                    | 30.9%                 | 30.2% | 2,411,284          | 2,238,494          |
| AB HPI                 | 50.0%                 | 50.0% | 997,736            | 1,575,348          |
| APLII                  | 44.0%                 | 44.0% | 2,363,757          | 2,532,754          |
| <i>Joint Ventures:</i> |                       |       |                    |                    |
| ABI Pascual Holdings   | 50.0%                 | 50.0% | 34,413             | 67,956             |
| AEPDC                  | 50.0%                 | 50.0% | 672,500            | 20,000             |
|                        |                       |       | <b>₱17,230,925</b> | <b>₱16,817,351</b> |

### *Investment in PMFTC*

Details of investment in PMFTC are as follows:

|                                                 | 2017                  | 2016               | 2015               |
|-------------------------------------------------|-----------------------|--------------------|--------------------|
|                                                 | <i>(In Thousands)</i> |                    |                    |
| Acquisition cost                                | ₱13,483,541           | ₱13,483,541        | ₱13,483,541        |
| Accumulated equity in net earnings:             |                       |                    |                    |
| Balance at beginning of year                    | (3,189,762)           | (3,221,410)        | (2,499,984)        |
| Equity in net earnings                          | 4,366,968             | 2,587,224          | 974,543            |
| Cash dividends (Note 22)                        | (4,086,596)           | (2,555,576)        | (1,695,969)        |
| Balance at end of year                          | (2,909,390)           | (3,189,762)        | (3,221,410)        |
| Accumulated share in other comprehensive income | 177,084               | 89,020             | 27,454             |
|                                                 | <b>₱10,751,235</b>    | <b>₱10,382,799</b> | <b>₱10,289,585</b> |

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 industry growing in the Philippines. FTC and PMPMI hold equal economic interest in PMFTC. Since PMPMI has majority of the members of the BOD, it has control over PMFTC. FTC considers PMFTC as an associate.

As a result of FTC's divestment of its cigarette business to PMFTC, FTC initially recognized the investment amounting to ₱13.5 billion, representing the fair value of the net assets contributed by FTC, net of unrealized gain of ₱5.1 billion. The transaction was accounted for similar to a contribution in a joint venture based on Standing Interpretations Committee (SIC) Interpretation 13, *Jointly Controlled Entities-Non-Monetary Contributions by Venturers*, where

FTC recognized only that portion of the gain which is attributable to the interests of PMPMI amounting to ₱5.1 billion in 2010. The portion attributable to FTC is being recognized once the related assets and liabilities are realized, disposed or settled. FTC recognized a gain of about ₱293.0 million each year starting 2011 until 2017 and an outright loss of ₱2.0 billion in 2010, which are included in the “Equity in net earnings” in these periods. Further, as a result of the transfer of selected assets and liabilities, portion of the revaluation increment on FTC’s property, plant and equipment amounting to ₱1.9 billion was transferred to retained earnings.

Details of the carrying values of the contributed assets are indicated below *(in thousands)*:

|                               |                   |
|-------------------------------|-------------------|
| Cash                          | ₱33,090           |
| Inventories                   | 19,084,092        |
| Property, plant and equipment | 8,432,235         |
| Other current assets          | 4,382,894         |
| Trade and other payable       | (2,707,797)       |
| Loans payable                 | (19,000,000)      |
| Deferred income tax liability | (1,818,551)       |
|                               | <b>₱8,405,963</b> |

Also, as a result of the transaction, FTC has obtained the right to sell (put option) its interest in PMFTC to PMPMI, except in certain circumstances, during the period from February 25, 2015 through February 24, 2018, at an agreed-upon value. On December 10, 2013, the BOD of LTG approved the waiver by FTC of its rights under the Exit Rights Agreement entered into with PMI and confirmed the execution of the Termination Agreement.

Summarized financial information of PMFTC, based on its financial statements as of December 31, are set out below:

|                        | 2017                  | 2016        |
|------------------------|-----------------------|-------------|
|                        | <i>(In Thousands)</i> |             |
| Current assets         | <b>₱30,471,572</b>    | ₱39,548,169 |
| Noncurrent assets      | <b>28,681,824</b>     | 30,055,095  |
| Current liabilities    | <b>16,573,030</b>     | 29,538,232  |
| Noncurrent liabilities | <b>7,507,626</b>      | 8,024,478   |
| Equity                 | <b>35,072,740</b>     | 32,040,554  |

Summarized statements of comprehensive income of PMFTC for the years ended December 31 are as follows:

|                                      | 2017                  | 2016          | 2015          |
|--------------------------------------|-----------------------|---------------|---------------|
|                                      | <i>(In Thousands)</i> |               |               |
| Revenue                              | <b>₱117,396,976</b>   | ₱112,429,500  | ₱115,220,990  |
| Costs and expenses                   | <b>(105,523,675)</b>  | (105,770,205) | (113,274,083) |
| Income before income tax             | <b>11,873,301</b>     | 6,659,295     | 1,946,907     |
| Provision for income tax             | <b>(3,575,735)</b>    | (1,949,921)   | (533,067)     |
| Net income                           | <b>8,297,566</b>      | 4,709,374     | 1,413,840     |
| Other comprehensive income           | <b>177,549</b>        | 124,125       | 96,932        |
| Total comprehensive income           | <b>₱8,475,115</b>     | ₱4,833,499    | ₱1,510,772    |
| Group’s share of income for the year | <b>₱4,366,968</b>     | ₱2,587,224    | ₱974,543      |

*Investment in VMC*

Details of investment in VMC are as follows:

|                                                                         | <b>2017</b>           | <b>2016</b> |
|-------------------------------------------------------------------------|-----------------------|-------------|
|                                                                         | <i>(In Thousands)</i> |             |
| Acquisition cost:                                                       |                       |             |
| Balance at beginning of year                                            | <b>P1,400,825</b>     | P740,528    |
| Additions                                                               | <b>598</b>            | 660,297     |
| Balance at end of year                                                  | <b>1,459,768</b>      | 1,400,825   |
| Accumulated equity in net earnings:                                     |                       |             |
| Balance at beginning of year                                            | <b>718,190</b>        | 520,763     |
| Equity in net earnings                                                  | <b>173,652</b>        | 196,069     |
| Excess of fair value of net assets of associate over cost of investment | <b>3</b>              | 1,358       |
| Balance at end of year                                                  | <b>891,944</b>        | 718,190     |
| Share in re-measurement gain on defined benefit plans                   | <b>8</b>              | 2,076       |
| Balance of convertible notes                                            | <b>540</b>            | 117,403     |
|                                                                         | <b>P2,411,284</b>     | P2,238,494  |

On December 21, 2007, the Company acquired 170.1 million shares representing 10.67% ownership in the shares of stock of VMC for P85.1 million presented as AFS investments as of December 31, 2013.

On various dates in April and May 2014, LTG acquired shares of stock of VMC amounting to P413.6 million, which increased its ownership interest to 17.5%, and convertible notes amounting to P359.3 million, which would increase LTG's interest to 23.5% upon conversion. In 2014, portion of the convertible notes amounting to P117.8 million was converted to shares of stock of VMC resulting in an increase in LTG's ownership interest to 20.2% as of December 31, 2014. The cost-based approach was applied in accounting for the step acquisition of VMC as an associate. Accordingly, LTG reclassified the original cost of its AFS investments to investment in an associate and derecognized the net changes in fair value of AFS investments amounting to P238.2 million. The difference of P334.8 million between the sum of the consideration for the 17.5% ownership interest amounting to P498.7 million and the share in fair value of net assets of VMC at the date the investment became an associate amounting to P833.5 million was recognized as part of the equity in net earnings of VMC in 2014.

In 2015, a portion of the convertible notes amounting to P124.1 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 P17.6 million between the sum of the consideration for the additional 2.3% ownership interest amounting to P124.1 million and the share in fair value of net assets of VMC at the date of the conversion amounting to P141.7 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 P660.3 million resulting to an increase in the Group's effective ownership in VMC to 30.2%.

On May 23, 2017, portions of the convertible notes amounting to P58.94 million were converted to shares of stock of VMC resulting to an increase in the Group's percentage of ownership to 30.9% as of December 31, 2017.

The summarized financial information of VMC as of November 30 follows:

|                        | 2017                  | 2016       |
|------------------------|-----------------------|------------|
|                        | <i>(In Thousands)</i> |            |
| Current assets         | <b>₱2,903,212</b>     | ₱2,317,150 |
| Noncurrent assets      | <b>9,872,331</b>      | 6,460,726  |
| Current liabilities    | <b>1,572,144</b>      | 682,111    |
| Noncurrent liabilities | <b>4,191,601</b>      | 2,993,433  |
| Equity                 | <b>7,011,798</b>      | 5,102,332  |

Summarized statements of comprehensive income of VMC for the years ended November 30 are as follows:

|                                      | 2017                  | 2016        | 2015        |
|--------------------------------------|-----------------------|-------------|-------------|
|                                      | <i>(In Thousands)</i> |             |             |
| Revenue                              | <b>₱9,218,976</b>     | ₱5,195,381  | ₱5,034,302  |
| Costs and expenses                   | <b>(8,348,308)</b>    | (4,296,953) | (3,440,352) |
| Income before income tax             | <b>870,668</b>        | 898,428     | 1,593,950   |
| Provision for income tax             | <b>(289,427)</b>      | (249,141)   | (483,712)   |
| Net income                           | <b>581,241</b>        | 649,287     | 1,110,238   |
| Other comprehensive income (loss)    | <b>(2,843)</b>        | (53)        | 2,648       |
| Total comprehensive income           | <b>₱578,398</b>       | ₱649,234    | ₱1,112,886  |
| Group's share of income for the year | <b>₱173,652</b>       | ₱196,069    | ₱250,399    |

#### *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 (see Note 37).

Details of the investment in an associate as of December 31 are as follows:

|                                                                                                                     | 2017                  | 2016       |
|---------------------------------------------------------------------------------------------------------------------|-----------------------|------------|
|                                                                                                                     | <i>(In Thousands)</i> |            |
| Beginning balance/acquisition cost                                                                                  | <b>₱787,400</b>       | ₱787,400   |
| Accumulated equity in net earnings:                                                                                 |                       |            |
| Balance at the beginning of the year                                                                                | <b>787,948</b>        | –          |
| Gain on investment in an associate arising from contribution of non-monetary assets in exchange for shares of stock | –                     | 1,056,240  |
| Share in net loss of an associate                                                                                   | <b>(577,612)</b>      | (268,292)  |
| Balance at end of year                                                                                              | <b>210,336</b>        | 787,948    |
| Ending balance                                                                                                      | <b>₱997,736</b>       | ₱1,575,348 |

Summarized financial information of AB HPI as of December 31 are as follows:

|                        | 2017                  | 2016       |
|------------------------|-----------------------|------------|
|                        | <i>(In Thousands)</i> |            |
| Current assets         | <b>₱3,564,521</b>     | ₱2,046,764 |
| Noncurrent assets      | <b>1,538,465</b>      | 2,905,148  |
| Current liabilities    | <b>2,458,799</b>      | 920,850    |
| Noncurrent liabilities | <b>967,236</b>        | 880,384    |
| Total equity           | <b>1,676,951</b>      | 3,150,678  |

Summarized statements of comprehensive income of AB HPI for the year ended December 31 are as follows:

|                                    | 2017                  | 2016      |
|------------------------------------|-----------------------|-----------|
|                                    | <i>(In Thousands)</i> |           |
| Revenue                            | <b>₱3,249,696</b>     | ₱341,790  |
| Costs and expenses                 | <b>(4,405,921)</b>    | (878,374) |
| Loss before income tax             | <b>1,156,225</b>      | 536,584   |
| Provision for income tax           | –                     | –         |
| Net loss                           | <b>1,156,225</b>      | 536,584   |
| Other comprehensive loss           | –                     | 18        |
| Total comprehensive loss           | <b>₱1,156,225</b>     | ₱536,602  |
| Group's share of loss for the year | <b>₱577,612</b>       | ₱268,292  |

#### *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 20). Amortization amounting to ₱36.5 million was recognized in 2016 (see Note 28). 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 re-measurement 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.

Summarized financial information of APLII as of December 31 are as follows:

|                        | 2017                  | 2016        |
|------------------------|-----------------------|-------------|
|                        | <i>(In Thousands)</i> |             |
| Current assets         | <b>₱9,043,953</b>     | ₱14,812,452 |
| Noncurrent assets      | <b>18,478,830</b>     | 9,602,162   |
| Current liabilities    | <b>9,151,219</b>      | 14,287,861  |
| Noncurrent liabilities | <b>16,537,013</b>     | 7,995,855   |
| Equity                 | <b>1,834,551</b>      | 2,130,898   |

Summarized statements of comprehensive income of APLII for the seven months ended December 31 are as follows (in thousands):

|                                                      | 2017                  | 2016        |
|------------------------------------------------------|-----------------------|-------------|
|                                                      | <i>(In Thousands)</i> |             |
| Revenue                                              | <b>₱2,190,474</b>     | ₱1,164,407  |
| Costs and expenses                                   | <b>(2,018,549)</b>    | (1,022,543) |
| Income before income tax                             | <b>171,925</b>        | 141,864     |
| Provision for income tax                             | <b>(35,128)</b>       | (29,762)    |
| Net income                                           | <b>136,797</b>        | 112,102     |
| Other comprehensive loss                             | <b>(133,356)</b>      | (556,044)   |
| Total comprehensive income                           | <b>₱3,441</b>         | (₱443,942)  |
| Group’s share of comprehensive income for the period | <b>₱60,191</b>        | (₱195,334)  |

*Investment in ABI Pascual Holdings*

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

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

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

The summarized financial information of ABI Pascual Holdings as of December 31 follows:

|                        | 2017                  | 2016     |
|------------------------|-----------------------|----------|
|                        | <i>(In Thousands)</i> |          |
| Current assets         | <b>₱312,747</b>       | ₱164,783 |
| Noncurrent assets      | <b>2,385</b>          | 1,174    |
| Current liabilities    | <b>242,714</b>        | 29,617   |
| Noncurrent liabilities | <b>4,059</b>          | 2,361    |
| Total equity           | <b>68,359</b>         | 133,979  |

The summarized statements of comprehensive income of ABI Pascual Holdings for the years ended December 31 follows:

|                                             | 2017                  | 2016      | 2015      |
|---------------------------------------------|-----------------------|-----------|-----------|
|                                             | <i>(In Thousands)</i> |           |           |
| Revenue                                     | <b>₱246,833</b>       | ₱184,512  | ₱124,247  |
| Costs and expenses                          | <b>(366,651)</b>      | (131,941) | (128,969) |
| Income (Loss) before income tax             | <b>(119,818)</b>      | 52,571    | (4,722)   |
| Provision for income tax                    | —                     | (2,612)   | —         |
| Net income (loss)                           | <b>(119,818)</b>      | 49,959    | (4,722)   |
| Other comprehensive income                  | —                     | 104       | 2,916     |
| Total comprehensive income (loss)           | <b>(₱119,818)</b>     | ₱50,063   | (₱1,806)  |
| Group’s share of income (loss) for the year | <b>(₱59,909)</b>      | ₱24,665   | (₱2,067)  |

*Investment in AEPDC*

On January 21, 2016, the Company entered into an agreement with Ayala Land Inc. (ALI) to jointly develop a project along the C5 corridor. The project is envisioned to be a township development that spans portion of Pasig City and Quezon City. On April 15, 2016, the Company infused ₱20.0 million to the joint project with ALI.

On July 5, 2017, the Company subscribed to additional 25,200,000 common shares and 226,800,000 preferred shares from AEPDC’s increase in authorized capital stock for a consideration totaling to ₱252.0 million. Unpaid subscription in shares of stock of AEPDC included as part of “Subscription payable” account amounted to ₱30.5 million as of December 31, 2017.

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

Disclosures on Subsidiary with Material Non-controlling Interest

Following is the financial information of PNB, which has material non-controlling interests of 43.53% as of and for the years ended December 31:

|                                                                           | 2017                  | 2016        | 2015        |
|---------------------------------------------------------------------------|-----------------------|-------------|-------------|
|                                                                           | <i>(In Thousands)</i> |             |             |
| Accumulated balances of material non-controlling interest                 | <b>₱45,546,934</b>    | ₱41,080,170 | ₱38,103,827 |
| Net income allocated to material non-controlling interest                 | <b>3,722,621</b>      | 3,235,013   | 3,095,918   |
| Total comprehensive income allocated to material non-controlling interest | <b>4,466,764</b>      | 2,976,343   | 2,695,099   |

On February 9, 2013, PNB acquired 100% of the voting common stock of ABC. PNB accounted the business combination with ABC under the acquisition method of PFRS 3. In the LTG consolidated financial statements, the merger of PNB and ABC and the acquisition of PNB through the Bank Holding Companies are accounted for under the pooling-of-interests method. Thus, the summarized financial information of PNB below is based on the amounts in the consolidated financial statements of PNB prepared under the pooling-of-interests method before the Group's intercompany eliminations.

Statements of Comprehensive Income:

|                                             | 2017                  | 2016         | 2015         |
|---------------------------------------------|-----------------------|--------------|--------------|
|                                             | <i>(In Thousands)</i> |              |              |
| Revenue                                     | <b>₱32,167,860</b>    | ₱29,302,092  | ₱26,610,310  |
| Cost of services                            | <b>(6,339,368)</b>    | (5,722,738)  | (4,807,242)  |
| General and administrative expenses         | <b>(23,013,139)</b>   | (23,215,141) | (18,449,228) |
| Foreign exchange gains - net                | <b>1,674,370</b>      | 1,487,740    | 1,207,840    |
| Other income - net                          | <b>6,389,562</b>      | 6,427,747    | 3,393,380    |
| Income before income tax                    | <b>10,879,285</b>     | 8,279,700    | 7,955,060    |
| Provision for income tax                    | <b>(2,322,213)</b>    | (1,517,030)  | (1,543,789)  |
| Net income from continuing operations       | <b>8,557,072</b>      | 6,762,670    | 6,411,271    |
| Net income from discontinued operations     | <b>—</b>              | 619,563      | 357,931      |
| Net income                                  | <b>8,557,072</b>      | 7,382,233    | 6,769,202    |
| Other comprehensive income (loss)           | <b>1,709,495</b>      | (594,234)    | 1,380,871    |
| Total comprehensive income                  | <b>₱10,266,567</b>    | ₱6,787,999   | ₱8,150,073   |
| Net income attributable to:                 |                       |              |              |
| Equity holders of the Parent Company        | <b>₱4,834,451</b>     | ₱4,147,220   | ₱3,673,284   |
| Non-controlling interests                   | <b>3,722,621</b>      | 3,235,013    | 3,095,918    |
| Total comprehensive income attributable to: |                       |              |              |
| Equity holders of the Parent Company        | <b>5,799,803</b>      | 3,811,656    | 5,454,974    |
| Non-controlling interests                   | <b>4,466,764</b>      | 2,976,343    | 2,695,099    |

Balance Sheets:

|                                      | 2017                  | 2016         |
|--------------------------------------|-----------------------|--------------|
|                                      | <i>(In Thousands)</i> |              |
| Current assets                       | <b>₱375,392,442</b>   | ₱376,639,685 |
| Noncurrent assets                    | <b>448,155,535</b>    | 364,245,652  |
| Current liabilities                  | <b>664,985,426</b>    | 575,558,848  |
| Noncurrent liabilities               | <b>51,413,216</b>     | 68,358,018   |
| Equity attributable to:              |                       |              |
| Equity holders of the Parent Company | <b>61,602,401</b>     | 55,888,301   |
| Non-controlling interest             | <b>45,546,934</b>     | 41,080,170   |

Statements of Cash Flows:

|                                                      | 2017                  | 2016        | 2015         |
|------------------------------------------------------|-----------------------|-------------|--------------|
|                                                      | <i>(In Thousands)</i> |             |              |
| Operating                                            | <b>(₱1,637,026)</b>   | ₱28,108,324 | (₱2,263,547) |
| Investing                                            | <b>(2,913,544)</b>    | 3,482,266   | (10,634,340) |
| Financing                                            | <b>4,344,472</b>      | 2,823,720   | 5,275,983    |
| Net increase (decrease) in cash and cash equivalents | <b>(₱206,098)</b>     | ₱34,414,310 | (₱7,621,904) |

## 12. Property, Plant and Equipment

December 31, 2017

|                                                                     | At Appraised Values        |                                           |                           |                    | At Cost                                              |                          |                       |                                         |                          |                   |                    |
|---------------------------------------------------------------------|----------------------------|-------------------------------------------|---------------------------|--------------------|------------------------------------------------------|--------------------------|-----------------------|-----------------------------------------|--------------------------|-------------------|--------------------|
|                                                                     | Land and Land Improvements | Plant Buildings and Building Improvements | Machineries and Equipment | Subtotal           | Office and Administration Buildings and Improvements | Transportation Equipment | Returnable Containers | Furniture, Fixtures and Other Equipment | Construction in Progress | Subtotal          | Total              |
|                                                                     | <i>(In Thousands)</i>      |                                           |                           |                    |                                                      |                          |                       |                                         |                          |                   |                    |
| <b>Cost</b>                                                         |                            |                                           |                           |                    |                                                      |                          |                       |                                         |                          |                   |                    |
| Balance at beginning of year                                        | ₱16,942,174                | ₱19,564,868                               | ₱26,514,896               | ₱63,021,938        | ₱4,799,159                                           | ₱1,923,462               | ₱3,223,720            | ₱10,901,017                             | ₱206,446                 | ₱21,053,804       | ₱84,075,742        |
| Additions (Note 13)                                                 | 13,470                     | 346,206                                   | 984,069                   | 1,343,745          | 236,242                                              | 264,006                  | 771,092               | 826,882                                 | 886,359                  | 2,984,581         | 4,328,326          |
| Disposals/transfers/others (Notes 13 and 28)                        | 71,267                     | 2,241                                     | 12,218                    | 85,726             | 286,339                                              | (19,728)                 | (9,958)               | 140,529                                 | (81,427)                 | 315,755           | 401,481            |
| Balance at end of year                                              | 17,026,911                 | 19,913,315                                | 27,511,183                | 64,451,409         | 5,321,740                                            | 2,167,740                | 3,984,854             | 11,868,428                              | 1,011,378                | 24,354,140        | 88,805,549         |
| <b>Accumulated Depreciation, Amortization and Impairment Losses</b> |                            |                                           |                           |                    |                                                      |                          |                       |                                         |                          |                   |                    |
| Balance at beginning of year                                        | 1,107,997                  | 6,489,033                                 | 19,320,860                | 26,917,890         | 3,591,591                                            | 1,630,938                | 2,565,411             | 8,095,290                               | –                        | 15,883,230        | 42,801,120         |
| Depreciation and amortization                                       | 135,376                    | 596,887                                   | 905,270                   | 1,637,533          | 298,682                                              | 134,009                  | 309,374               | 801,164                                 | –                        | 1,543,229         | 3,180,762          |
| Disposals/transfers/others (Notes 13 and 28)                        | –                          | (308,453)                                 | (10,508)                  | (318,961)          | 40,322                                               | (19,622)                 | (3,158)               | (80,147)                                | –                        | (62,605)          | (381,566)          |
| Balance at end of year                                              | 1,243,373                  | 6,777,467                                 | 20,215,622                | 28,236,462         | 3,930,595                                            | 1,745,325                | 2,871,627             | 8,816,307                               | –                        | 17,363,854        | 45,600,316         |
| <b>Net Book Value</b>                                               | <b>₱15,783,538</b>         | <b>₱13,135,848</b>                        | <b>₱7,295,561</b>         | <b>₱36,214,947</b> | <b>₱1,391,145</b>                                    | <b>₱422,415</b>          | <b>₱1,113,227</b>     | <b>₱3,052,121</b>                       | <b>₱1,011,378</b>        | <b>₱6,990,286</b> | <b>₱43,205,233</b> |

December 31, 2016

|                                                                             | At Appraised Values           |                                        |                              |                    | At Cost                                                       |                             |                          |                                                  |                             |                   |                    |
|-----------------------------------------------------------------------------|-------------------------------|----------------------------------------|------------------------------|--------------------|---------------------------------------------------------------|-----------------------------|--------------------------|--------------------------------------------------|-----------------------------|-------------------|--------------------|
|                                                                             | Land and Land<br>Improvements | Plant<br>Buildings and<br>Improvements | Machineries<br>and Equipment | Subtotal           | Office and<br>Administration<br>Buildings and<br>Improvements | Transportation<br>Equipment | Returnable<br>Containers | Furniture,<br>Fixtures and<br>Other<br>Equipment | Construction<br>in Progress | Subtotal          | Total              |
| <i>(In Thousands)</i>                                                       |                               |                                        |                              |                    |                                                               |                             |                          |                                                  |                             |                   |                    |
| <b>Cost</b>                                                                 |                               |                                        |                              |                    |                                                               |                             |                          |                                                  |                             |                   |                    |
| Balance at beginning of year                                                | ₱20,206,827                   | ₱19,976,979                            | ₱24,508,145                  | ₱64,691,951        | ₱4,340,393                                                    | ₱1,791,570                  | ₱7,120,021               | ₱10,061,063                                      | ₱1,121,978                  | ₱24,435,025       | ₱89,126,976        |
| Additions/transfers (Note 13)                                               | 1,366                         | 1,171,957                              | 1,068,927                    | 2,242,250          | 269,152                                                       | 161,169                     | 473,441                  | 1,369,699                                        | 253,300                     | 2,526,761         | 4,769,011          |
| Disposals/transfers/others (Note 28)                                        | (3,266,019)                   | (1,584,068)                            | 937,824                      | (3,912,263)        | 189,614                                                       | (29,277)                    | (4,369,742)              | (529,745)                                        | (1,168,832)                 | (5,907,982)       | (9,820,245)        |
| Balance at end of year                                                      | 16,942,174                    | 19,564,868                             | 26,514,896                   | 63,021,938         | 4,799,159                                                     | 1,923,462                   | 3,223,720                | 10,901,017                                       | 206,446                     | 21,053,804        | 84,075,742         |
| <b>Accumulated Depreciation,<br/>Amortization and Impairment<br/>Losses</b> |                               |                                        |                              |                    |                                                               |                             |                          |                                                  |                             |                   |                    |
| Balance at beginning of year                                                | 953,589                       | 6,226,112                              | 17,974,105                   | 25,153,806         | 3,514,582                                                     | 1,521,638                   | 6,053,838                | 8,045,236                                        | –                           | 19,135,294        | 44,289,100         |
| Depreciation and amortization                                               | 141,787                       | 569,268                                | 863,188                      | 1,574,243          | 265,234                                                       | 138,244                     | 460,267                  | 848,363                                          | –                           | 1,712,108         | 3,286,351          |
| Disposals/transfers/others (Note 28)                                        | 12,621                        | (306,347)                              | 483,567                      | 189,841            | (188,225)                                                     | (28,944)                    | (3,948,694)              | (798,309)                                        | –                           | (4,964,172)       | (4,774,331)        |
| Balance at end of year                                                      | 1,107,997                     | 6,489,033                              | 19,320,860                   | 26,917,890         | 3,591,591                                                     | 1,630,938                   | 2,565,411                | 8,095,290                                        | –                           | 15,883,230        | 42,801,120         |
| <b>Net Book Value</b>                                                       | <b>₱15,834,177</b>            | <b>₱13,075,835</b>                     | <b>₱7,194,036</b>            | <b>₱36,104,048</b> | <b>₱1,207,568</b>                                             | <b>₱292,524</b>             | <b>₱658,309</b>          | <b>₱2,805,727</b>                                | <b>₱206,446</b>             | <b>₱5,170,574</b> | <b>₱41,274,622</b> |

**Revaluation of Land and Land Improvements, Plant Buildings and Machineries and Equipment**

The corresponding fair values of land and land improvements, plant buildings and building improvements, and machineries and equipment are determined based on valuation performed by Philippine SEC-accredited and independent appraisers. The fair value of the land was determined using the market data approach based on available market evidence and the fair values for land improvements, plant buildings, and machineries and equipment were derived using the depreciated replacement cost. The dates of the latest appraisal valuations were December 31, 2016 and 2011 (see Note 34). Movements in revaluation increment, net of deferred income tax effect, are as follows:

|                                                                                                                          | 2017                  | 2016       |
|--------------------------------------------------------------------------------------------------------------------------|-----------------------|------------|
|                                                                                                                          | <i>(In Thousands)</i> |            |
| Revaluation increment on the property, plant and equipment, net of deferred income tax effect:                           |                       |            |
| Balance at beginning of year                                                                                             | <b>₱6,802,300</b>     | ₱7,249,395 |
| Net revaluation increase                                                                                                 | —                     | 273,509    |
| Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal | <b>(739,420)</b>      | (720,604)  |
| Balance at end of year                                                                                                   | <b>₱6,062,880</b>     | ₱6,802,300 |
| Attributable to:                                                                                                         |                       |            |
| Equity holders of the Company                                                                                            | <b>₱3,733,860</b>     | ₱4,473,280 |
| Non-controlling interests                                                                                                | <b>2,329,020</b>      | 2,329,020  |
|                                                                                                                          | <b>₱6,062,880</b>     | ₱6,802,300 |

If land and land improvements, plant buildings and building improvements, and machineries and equipment were measured using the cost model, the carrying amount would be as follows:

|                                  | 2017                  | 2016         |
|----------------------------------|-----------------------|--------------|
|                                  | <i>(In Thousands)</i> |              |
| Cost                             |                       |              |
| Land and land improvements       | <b>₱7,381,419</b>     | ₱7,367,949   |
| Plant buildings and improvements | <b>14,226,250</b>     | 13,773,131   |
| Machineries and equipment        | <b>29,390,400</b>     | 28,406,332   |
|                                  | <b>50,998,069</b>     | 49,547,412   |
| Accumulated depreciation         |                       |              |
| Land and land improvements       | <b>(1,179,491)</b>    | (1,087,584)  |
| Plant buildings and improvements | <b>(6,224,962)</b>    | (5,937,751)  |
| Machineries and equipment        | <b>(19,259,849)</b>   | (19,098,833) |
|                                  | <b>(26,664,302)</b>   | (26,124,168) |
|                                  | <b>₱24,333,767</b>    | ₱23,423,244  |

### Depreciation

Depreciation of property, plant and equipment charged to operations is as follows:

|                                                  | 2017                  | 2016              | 2015              |
|--------------------------------------------------|-----------------------|-------------------|-------------------|
|                                                  | <i>(In Thousands)</i> |                   |                   |
| Continuing operations:                           |                       |                   |                   |
| Cost of sales and services (Note 24)             | <b>₱1,420,401</b>     | ₱1,078,798        | ₱997,229          |
| Selling expenses (Note 25)                       | <b>330,508</b>        | 491,555           | 481,492           |
| General and administrative expenses<br>(Note 26) | <b>1,429,853</b>      | 1,320,606         | 1,019,248         |
| Discontinued operations (Note 37)                | –                     | 395,392           | 460,571           |
|                                                  | <b>₱3,180,762</b>     | <b>₱3,286,351</b> | <b>₱2,958,540</b> |

As of December 31, 2017 and 2016, the Group's "Construction in progress" under the "Property, plant and equipment" account pertains to AAC's major rehabilitation of plant facilities, which are expected to be completed in 2018, and PNB's construction of building. .

Out of the total additions in 2017 and 2016, ₱163.0 million and ₱86.6 million remain to be unpaid as of December 31, 2017 and 2016, respectively, which represent non-cash investing activities.

Certain property and equipment of the Group with carrying amount of ₱9.3 million and ₱178.5 million are temporarily idle as of December 31, 2017 and 2016, respectively.

### Borrowing Costs

Unamortized capitalized borrowing costs amounted to ₱11.9 million and ₱12.5 million as of December 31, 2017 and 2016, respectively. The average capitalization rate used to determine the amount of borrowing costs eligible for capitalization was 4.5% in 2015. There was no borrowing cost capitalized in 2017 and 2016.

## 13. Investment Properties

Movements of the Group's investment properties are as follows (in thousands):

|                                                       | December 31, 2017  |                            |                  |                          |                    |
|-------------------------------------------------------|--------------------|----------------------------|------------------|--------------------------|--------------------|
|                                                       | Land               | Buildings and Improvements | Residential Unit | Construction in Progress | Total              |
| <b>Cost</b>                                           |                    |                            |                  |                          |                    |
| Balance at beginning of year                          | <b>₱21,989,899</b> | <b>₱10,514,268</b>         | <b>₱7,620</b>    | <b>₱2,212,139</b>        | <b>₱34,723,926</b> |
| Additions                                             | <b>402,432</b>     | <b>396,413</b>             | –                | <b>1,619,527</b>         | <b>2,418,372</b>   |
| Transfers                                             | <b>69,492</b>      | <b>(242,833)</b>           | –                | <b>(1,196,159)</b>       | <b>(1,369,500)</b> |
| Balance at end of year                                | <b>22,461,823</b>  | <b>10,667,848</b>          | <b>7,620</b>     | <b>2,635,507</b>         | <b>35,772,798</b>  |
| <b>Accumulated Depreciation and Impairment Losses</b> |                    |                            |                  |                          |                    |
| Balance at beginning of year                          | <b>3,383,693</b>   | <b>3,115,240</b>           | <b>7,620</b>     | –                        | <b>6,506,553</b>   |
| Depreciation                                          | –                  | <b>344,999</b>             | –                | –                        | <b>344,999</b>     |
| Provision for impairment losses                       | <b>10,164</b>      | <b>20,289</b>              | –                | –                        | <b>30,453</b>      |
| Balance at end of year                                | <b>3,393,857</b>   | <b>3,480,528</b>           | <b>7,620</b>     | –                        | <b>6,882,005</b>   |
| <b>Net Book Value</b>                                 | <b>₱19,067,966</b> | <b>₱7,187,320</b>          | <b>₱–</b>        | <b>₱2,635,507</b>        | <b>₱28,890,793</b> |

|                                                | December 31, 2016 |                            |                  |                          |             |
|------------------------------------------------|-------------------|----------------------------|------------------|--------------------------|-------------|
|                                                | Land              | Buildings and Improvements | Residential Unit | Construction in Progress | Total       |
| Cost                                           |                   |                            |                  |                          |             |
| Balance at beginning of year                   | ₱18,703,010       | ₱9,714,260                 | ₱7,620           | ₱290,804                 | ₱28,715,694 |
| Additions                                      | 667,914           | 24,846                     | —                | 379,530                  | 1,072,290   |
| Transfers                                      | 2,618,975         | 1,016,505                  | —                | 1,541,805                | 5,177,285   |
| Disposals                                      | —                 | (241,343)                  | —                | —                        | (241,343)   |
| Balance at end of year                         | 21,989,899        | 10,514,268                 | 7,620            | 2,212,139                | 34,723,926  |
| Accumulated Depreciation and Impairment Losses |                   |                            |                  |                          |             |
| Balance at beginning of year                   | 3,382,883         | 3,093,666                  | 7,620            | —                        | 6,484,169   |
| Depreciation/transfers                         | —                 | 261,027                    | —                | —                        | 261,027     |
| Provision for impairment losses                | 810               | 1,890                      | —                | —                        | 2,700       |
| Disposals                                      | —                 | (241,343)                  | —                | —                        | (241,343)   |
| Balance at end of year                         | 3,383,693         | 3,115,240                  | 7,620            | —                        | 6,506,553   |
| Net Book Value                                 | ₱18,606,206       | ₱7,399,028                 | ₱—               | ₱2,212,139               | ₱28,217,373 |

The Group's investment properties consist of parcels of land for appreciation, residential and condominium units for lease and for sale, and real properties foreclosed or acquired in settlement of loans which are all valued at cost. Foreclosed investment properties still subject to redemption period by the borrowers amounted to ₱115.9 million and ₱155.4 million as of December 31, 2017 and 2016, respectively. The Group is exerting continuing efforts to dispose these properties.

In 2015, investment properties with carrying value of ₱2.2 billion were converted as branches and head offices of PNB's subsidiaries and were transferred to property, plant and equipment (see Note 12). In 2016, the Group reclassified certain properties from "property, plant and equipment" to "Investment property" with aggregate carrying amount of ₱4.7 billion. These properties mainly consist of the office spaces in the Allied Bank Center in Makati City leased out and land in Buendia, Makati City being held for future development.

As of December 31, 2017 and 2016, the Group's "Construction in progress" under the "Investment property" account pertains to the construction of building intended for leasing and which is expected to be completed in 2018.

#### Fair Values of Investment Properties

Below are the fair values of the investment properties which were determined by professionally qualified, accredited and independent appraisers based on market values (in thousands):

| Property                   | Fair Value<br>(In Thousands) |
|----------------------------|------------------------------|
| Land                       | ₱37,007,466                  |
| Buildings and improvements | 16,935,051                   |
|                            | ₱53,942,517                  |

The fair value of investment properties of the Group was determined using acceptable valuation approaches and both observable and unobservable inputs (see Note 34).

#### Rent Income and Direct Operating Expenses of Investment Properties

Rental income and direct operating expenses arising from the investment properties of property development segment amounted to ₱1,388.0 million and ₱308.4 million in 2017, ₱1,278.4 million and ₱253.8 million in 2016, and ₱1,172.5 million and ₱226.9 million in 2015, respectively (see Note 24). Rental income of the banking segment on its investment properties is presented under "Other income (charges)" (see Note 28).

Depreciation of investment properties charged to operations follows:

|                                                  | 2017                  | 2016     | 2015     |
|--------------------------------------------------|-----------------------|----------|----------|
|                                                  | <i>(In Thousands)</i> |          |          |
| Cost of rental income (Note 24)                  | <b>₱184,504</b>       | ₱137,457 | ₱130,493 |
| General and administrative expenses<br>(Note 26) | <b>160,495</b>        | 123,570  | 239,310  |
|                                                  | <b>₱344,999</b>       | ₱261,027 | ₱369,803 |

#### 14. Other Noncurrent Assets

Other noncurrent assets consist of:

|                                      | 2017                  | 2016       |
|--------------------------------------|-----------------------|------------|
|                                      | <i>(In Thousands)</i> |            |
| Software costs                       | <b>₱2,288,924</b>     | ₱1,448,022 |
| Deposit for purchase of land         | <b>700,000</b>        | –          |
| Deferred input VAT                   | <b>324,666</b>        | 420,831    |
| Distribution network access          | <b>286,751</b>        | –          |
| Net retirement plan assets (Note 23) | <b>273,710</b>        | 276,870    |
| Refundable and security deposits     | <b>231,292</b>        | 273,018    |
| Goodwill                             | <b>163,735</b>        | 163,735    |
| Chattel properties - net             | <b>149,347</b>        | 36,585     |
| Other investments                    | <b>26,309</b>         | 22,201     |
| Deferred charges                     | <b>23,545</b>         | 251,682    |
| Deposit for future investments       | –                     | 334,060    |
| Deferred reinsurance premiums        | –                     | 302,916    |
| Receivable from SPV - net            | –                     | 500        |
| Others - net                         | <b>232,259</b>        | 197,352    |
|                                      | <b>₱4,700,538</b>     | ₱3,727,772 |

a. Movements in software costs are as follows:

|                              | 2017                  | 2016       |
|------------------------------|-----------------------|------------|
|                              | <i>(In Thousands)</i> |            |
| Balance at beginning of year | <b>₱1,448,022</b>     | ₱1,131,041 |
| Additions                    | <b>1,113,038</b>      | 420,205    |
| Amortization (Note 26)       | <b>(195,962)</b>      | (109,980)  |
| Other adjustments            | <b>(76,174)</b>       | 6,756      |
| Balance at end of year       | <b>₱2,288,924</b>     | ₱1,448,022 |

Additions to software costs pertain primarily to the upgrade of the core banking system of the banking segment.

- Deposit for purchase of land pertains to the deposit and earnest money paid by FTC for the acquired properties amounting to ₱500.0 million and ₱200.0 million, respectively.
- The distribution network access, which was acquired on March 31, 2017, covers APB Myanmar's relations with Myanmar Distribution Group, its exclusive distributor.
- Deferred input VAT arises mainly from the acquisition of capital goods.

- e. Refundable deposits consist principally of amounts paid by the property development segment to its utility providers for service applications and guarantee deposit to Makati Commercial Estate Association for plans processing, monitoring fee and development charge of the Group's projects. These refundable deposits amounting to ₱231.3 million and ₱273.0 million as of December 31, 2017 and 2016, respectively, will be refunded upon termination of the service contract and completion of the projects' construction.
- f. The Group recognized goodwill which pertains mainly to ADI and Eton amounting to ₱144.7 million and ₱19.0 million, respectively. As of December 31, 2017 and 2016, the Group performed its annual impairment testing of goodwill related to its CGUs, ADI and Eton.

The recoverable amount of ADI is determined based on value-in-use calculations using cash flow projections from financial budgets approved by management covering a five-year period. The projected cash flows have been updated to reflect the increase in demand for products based on TDI's projected sales volume increase, selling price increase and cost and expenses increase. The pre-tax discount rate applied to the cash flow projection is 11.2% and 9.7% in 2017 and 2016, respectively. The growth rate used to extrapolate the cash flows of until beyond the five-year period is 4.9% as of December 31, 2017 and 6.2% as of December 31, 2016. Management assessed that this growth rate is comparable with the average growth for the industry in which ADI operates. Management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of ADI to exceed its recoverable amount, which is based on value-in-use. As of December 31, 2017 and 2016, the recoverable amount of ADI is higher than its carrying value.

- g. As of December 31, 2017 and 2016, accumulated depreciation on chattel mortgage properties acquired by PNB in settlement of loans amounted to ₱96.1 million and ₱79.1 million, respectively.
- h. The Group has receivable from OPII, which was deconsolidated upon adoption of PFRS 10.

As of December 31, 2017 and 2016, receivable from SPV represents fully provisioned subordinated notes received by PNB from Golden Dragon Star Equities and its assignee, OPII, relative to the sale of the first pool and second pool of its NPAs in December 2006 and March 2007, respectively. The asset sale and purchase agreements (ASPA) between PNB, Golden Dragon Star Equities and OPII for the sale of the NPAs were executed on December 19, 2006. OPII was specifically organized to hold, manage, service and resolve the non-performing assets sold to Golden Dragon Star Equities. OPII has been financed through the issuance of equity securities and subordinated debt securities. Collection from OPII in 2017, 2016 and 2015 amounting to nil, ₱500.0 million, and ₱353.0 million, respectively are recorded part of "Other income (charges)" (see Note 28).

## 15. Deposit Liabilities

|                         | 2017                  | 2016         |
|-------------------------|-----------------------|--------------|
|                         | <i>(In Thousands)</i> |              |
| Demand                  | <b>₱125,581,889</b>   | ₱112,532,681 |
| Savings                 | <b>341,182,647</b>    | 368,798,751  |
| Time                    | <b>160,915,991</b>    | 80,088,800   |
|                         | <b>627,680,527</b>    | 561,420,232  |
| Presented as noncurrent | <b>(39,286,226)</b>   | (45,866,133) |
|                         | <b>₱588,394,301</b>   | ₱515,554,099 |

Of the total deposit liabilities of the Group, ₱28.9 billion and ₱19.9 billion are non-interest bearing as of December 31, 2017 and 2016, respectively. Annual interest rates of the deposit liabilities follow:

|                                                  | 2017                  | 2016           | 2015           |
|--------------------------------------------------|-----------------------|----------------|----------------|
| Foreign-currency denominated deposit liabilities | <b>0.00% to 2.10%</b> | 0.00% to 3.71% | 0.00% to 2.25% |
| Peso-denominated deposit liabilities             | <b>0.01% to 4.13%</b> | 0.00% to 6.23% | 0.05% to 5.00% |

On March 29, 2012, BSP issued Circular No. 753 which provides for the unification of the statutory and liquidity reserve requirement, non-remuneration of the unified reserve requirement, exclusion of vault cash and demand deposits as eligible forms of reserve requirement compliance, and reduction in the unified reserve requirement ratios.

BSP issued Circular Nos. 830 and 832 last March 27, 2014 and May 8, 2014, respectively, to approve the one-point percentage increase in the reserve requirements of universal and commercial banks. Under existing BSP regulations, non-FCDU deposit liabilities of PNB and PNB Savings Bank are subject to reserves equivalent to 20.00% and 8.00%, respectively. As of December 31, 2017 and 2016, available reserves booked under “Due from BSP” amounted to ₱99.3 billion and ₱89.0 billion, respectively (see Note 5).

*Long-term Negotiable Certificates of Time Deposits*

Time deposit of the Group includes the following Long-term Negotiable Certificates of Time Deposits (LTNCDs):

| Issue Date        | Maturity Date     | Face Value<br>(In Thousands) | Carrying Value<br>(In Thousands) | Coupon Rate | Interest Repayment<br>Terms |
|-------------------|-------------------|------------------------------|----------------------------------|-------------|-----------------------------|
| October 26, 2017  | April 26, 2023    | ₱6,350,000                   | ₱6,310,032                       | 3.88%       | Quarterly                   |
| April 27, 2017    | October 27, 2022  | 3,765,000                    | 3,743,546                        | 3.75%       | Quarterly                   |
| December 6, 2016  | June 6, 2022      | 5,380,000                    | 5,349,341                        | 3.25%       | Quarterly                   |
| December 12, 2014 | June 12, 2020     | 7,000,000                    | 6,976,118                        | 4.13%       | Quarterly                   |
| October 21, 2013  | April 22, 2019    | 4,000,000                    | 3,992,376                        | 3.25%       | Quarterly                   |
| August 5, 2013    | February 5, 2019  | 5,000,000                    | 4,992,542                        | 3.00%       | Quarterly                   |
| November 18, 2011 | February 17, 2017 | 3,100,000                    | —                                | 5.18%       | Quarterly                   |

Other significant terms and conditions of the above LTNCDs follow:

- Issue price at 100.00% of the face value of each LTNCD.
- The LTNCDs bear interest rate per annum on its principal amount from and including the Issue Date thereof, up to but excluding the Early Redemption Date or Maturity Date (as the case may be).

Interest in respect of the LTNCD will be calculated on an annual basis and will be paid in arrears quarterly on the last day of each successive Interest Period.

- Unless earlier redeemed, the LTNCDs shall be redeemed by PNB on maturity date at an amount equal to one hundred percent (100%) of the aggregate issue price thereof, plus any accrued and unpaid interest thereon. The LTNCDs may not be redeemed at the option of the holders.
- The LTNCDs constitute direct, unconditional, unsecured, and unsubordinated obligations of PNB, enforceable according to the related Terms and Conditions, and shall at all times rank paripassu and without any preference or priority among themselves and at least paripassu with all other present and future direct, unconditional, unsecured, and unsubordinated obligations of the Issuer, except for any obligation enjoying a statutory preference or priority established under Philippine laws.

- e. Subject to the “Events of Default” in the Terms and Conditions, the LTNCDs cannot be pre-terminated at the instance of any CD Holder before Maturity Date. In the case of an event of default, none of the CD Holders may accelerate the CDs on behalf of other CD Holders, and a CD Holder may only collect from PNB to the extent of his holdings in the CDs. However, PNB may, subject to the General Banking Law of 2000, Section X233.9 of the Manual of Regulations for Banks, Circular No. 304 Series of 2001 of the BSP and other related circulars and issuances, as may be amended from time to time, redeem all and not only part of the outstanding CDs on any Interest Payment Date prior to Maturity Date, at an Early Redemption Amount equal to the Issue Price plus interest accrued and unpaid up to but excluding the Early Redemption Date.
- f. The LTNCDs are insured by the PDIC up to a maximum amount of ₱0.5 million subject to applicable laws, rules and regulations, as the same may be amended from time to time.
- g. Each Holder, by accepting the LTNCDs, irrevocably agrees and acknowledges that: (a) it may not exercise or claim any right of set-off in respect of any amount owed to it by PNB arising under or in connection with the LTNCDs; and (b) it shall, to the fullest extent permitted by applicable law, waive and be deemed to have waived all such rights of set-off.

Interest expense on deposit liabilities presented under “Cost of banking services” amounted to ₱4.8 billion, ₱3.8 billion and ₱3.0 billion in 2017, 2016 and 2015, respectively (see Note 24).

In 2017, 2016 and 2015, interest expense on LTNCDs of the Group includes amortization of transaction costs amounting to ₱32.1 million, ₱25.3 million and ₱16.9 million, respectively. Unamortized transaction costs of the LTNCDs amounted to ₱131.0 million and ₱97.9 million as of December 31, 2017 and 2016, respectively.

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

Financial liabilities at fair value through profit or loss consist of derivatives liabilities amounting to ₱343.5 million and ₱232.8 million as of December 31, 2017 and 2016 respectively (see Notes 21 and 33).

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#### 17. Bills and Acceptances Payable

Bills and acceptances payable consist of:

|                               | 2017                  | 2016        |
|-------------------------------|-----------------------|-------------|
|                               | <i>(In Thousands)</i> |             |
| Bills payable to:             |                       |             |
| BSP and local banks (Note 22) | ₱41,435,696           | ₱26,575,782 |
| Foreign banks                 | 157,849               | 7,632,548   |
| Others                        | 91,255                | 18,277      |
|                               | <b>41,684,800</b>     | 34,226,607  |
| Acceptances outstanding       | <b>2,231,887</b>      | 1,659,340   |
|                               | <b>43,916,687</b>     | 35,885,947  |
| Less noncurrent portion       | <b>7,282,350</b>      | 10,817,679  |
|                               | <b>₱36,634,337</b>    | ₱25,068,268 |

Annual interest rates are shown below:

|                                         | 2017 | 2016 | 2015 |
|-----------------------------------------|------|------|------|
| Foreign currency-denominated borrowings |      |      |      |
| Peso-denominated borrowings             |      |      |      |

PNB's bills payable to BSP includes the transferred liabilities from Maybank amounting to ₱1.8 billion as of December 31, 2015 which were applied against the principal component of the transferred receivables in May 2016 (see Note 8).

Bills payable to foreign banks consist of various repurchase agreements and a three-year syndicated borrowing, with carrying value of ₱7.4 billion as of December 31, 2016 and was preterminated on August 29, 2017.

Significant terms and conditions of the three-year syndicated borrowing include the following:

- The lenders agree to provide PNB with a term loan facility of up to US\$150.00 million (₱7.5 billion). PNB must repay all utilized loans at April 24, 2018, the final maturity date, which is three years from the agreement date.
- The borrowing bears interest at 1.38% over USD LIBOR. PNB may select an interest period of one or three months for each utilization, provided that the interest period for a utilization shall not extend beyond the final maturity date.
- PNB shall ensure that so long as any amount of the facility is utilized, the Common Equity Tier 1 Risk Weighted Ratio, the Tier 1 Risk Weighted Ratio, and the Qualifying Capital Risk Weighted Ratio will, at all times, be equal to or greater than the percentage prescribed by BSP from time to time. Failure to comply with such financial covenants will result to cancellation of the total commitments of the lenders and declare all or part of the loans, together with accrued interest, be immediately due and payable.
- PNB may voluntarily prepay whole or any part of any loan outstanding and in integral multiples of US\$1.0 million (₱49.7 million), subject to prior notice of the Agent for not less than 15 business days. Prepayment shall be made on the last day of an interest period applicable to the loan. Mandatory prepayment may occur if a change of control or credit rating downgrade occurs. In this case, the lenders may cancel the facility and declare all outstanding loans, together with accrued interest, immediately due and demandable.

As of December 31, 2016, PNB has complied with the above debt covenants.

As of December 31, 2016, the unamortized transaction cost of the syndicated borrowing amounted to ₱32.7 million.

As of December 31, 2017, bills payable with a carrying amount of ₱35.4 billion is secured by a pledge of certain AFS investments with carrying value and fair value of ₱26.7 billion and ₱26.5 billion, respectively and HTM investments with carrying value and fair value of ₱16.5 billion and ₱17.8 billion, respectively (Note 7).

As of December 31, 2016, bills payable with a carrying amount of ₱20.6 billion is secured by a pledge of certain AFS investments with carrying value and fair value of ₱10.0 billion and ₱9.8 billion, respectively, and HTM investments with carrying value and fair value of ₱14.5 billion and ₱15.3 billion, respectively (see Note 7).

Following are the significant terms and conditions of the repurchase agreements entered into by PNB:

- a. Each party represents and warrants to the other that it is duly authorized to execute and deliver the Agreement, and to perform its obligations and has taken all the necessary action to authorize such execution, delivery and performance;
- b. The term or life of this borrowing is up to three years;
- c. Some borrowings bear a fixed interest rate while others have floating interest rate;
- d. PNB has pledged its AFS and ATM investments, in form of ROP Global bonds, in order to fulfill its collateral requirement;
- e. Haircut from market value ranges from 15.00% to 25.00% depending on the tenor of the bond;
- f. Certain borrowings are subject to margin call up to US\$ 1.4 million; and
- g. Substitution of pledged securities is allowed if one party requested and the other one so agrees.

Interest expense on bills payable is included under “Cost of banking services” amounting to ₱0.7 billion in 2017, ₱1.0 billion in 2016 and ₱1.0 billion in 2015 (see Note 24).

## 18. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of:

|                                                  | 2017                  | 2016        |
|--------------------------------------------------|-----------------------|-------------|
|                                                  | <i>(In Thousands)</i> |             |
| Trade payables                                   | <b>₱11,895,949</b>    | ₱8,407,159  |
| Nontrade payables                                | <b>776,558</b>        | 281,765     |
| Accrued expenses:                                |                       |             |
| Other benefits - monetary value of leave credits | <b>1,637,877</b>      | 1,506,395   |
| Purchase of materials and supplies and others    | <b>1,266,078</b>      | 946,185     |
| Rent and utilities payable                       | <b>1,165,156</b>      | 542,631     |
| Taxes and licenses                               | <b>861,390</b>        | 613,023     |
| Retention payable                                | <b>799,105</b>        | 658,346     |
| Project development costs                        | <b>707,328</b>        | 1,663,547   |
| PDIC insurance premiums                          | <b>660,290</b>        | 517,148     |
| Interest                                         | <b>632,907</b>        | 591,310     |
| Advertising and promotional expenses             | <b>484,827</b>        | 415,536     |
| Due to government agencies                       | <b>464,911</b>        | 353,234     |
| Information technology-related expenses          | <b>204,666</b>        | 122,039     |
| Output value added tax                           | <b>66,500</b>         | 67,393      |
| Other payables                                   | <b>400,430</b>        | 605,566     |
|                                                  | <b>₱22,023,972</b>    | ₱17,291,277 |

### Trade Payables

Trade payables are non-interest bearing and are normally settled on 30 to 60 days terms. Trade payables arise mostly from trade purchases of the banking group and purchases of inventories, which include raw materials and indirect materials (i.e., packaging materials) and supplies, for use in manufacturing and other operations.

Trade payables also include importation charges related to raw materials purchases, as well as occasional acquisitions of production equipment and spare parts.

#### Accrued Project Development Costs

Accrued project development costs represent costs incurred by the Property Development segment in the development and construction of real estate projects.

#### Accrued Expenses

Other accrued expenses consist of accruals for commission, outside services, fuel and oil, and professional fees which are individually not significant as to amounts.

#### Retention Payable

Retention payable is the amount deducted from the total billing of the contractor which will be paid upon completion of the contracted services of Eton.

#### Other Payables

Other payables include cash bond payable to haulers as security for inventories and payable other than to suppliers of raw materials which include, but not limited to advertising and freight companies.

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### 19. Short-term and Long-term Debts

#### Short-term Debts

As of December 31, 2017 and 2016, outstanding unsecured short-term debts amounted to ₱1,550.0 million and ₱1,750.0 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. In 2015, the Group obtained additional short-term loans from BDO amounting to ₱1.1 billion which are payable in lump-sum after 60 days.

#### Long-term Debts

|                     | 2017                  | 2016              |
|---------------------|-----------------------|-------------------|
|                     | <i>(In Thousands)</i> |                   |
| Subordinated debts  | ₱—                    | ₱3,497,798        |
| Unsecured term loan | 1,475,466             | 1,604,003         |
| Notes payable       | 114,681               | 466,946           |
|                     | 1,590,147             | 5,568,747         |
| Current portion     | (114,681)             | (466,946)         |
|                     | <b>₱1,475,466</b>     | <b>₱5,101,801</b> |

#### *PNB's Subordinated Debts*

#### 5.875% ₱3.5 Billion Subordinated Notes

On May 9, 2012, PNB's BOD approved the issuance of unsecured subordinated notes of ₱3.5 billion that qualify as Lower Tier 2 capital. EIR on this note is 6.04%.

Significant terms and conditions of the subordinated notes follow:

- (1) The 2012 Notes bear interest at the rate of 5.88% per annum from and including May 9, 2012 to but excluding May 9, 2022. Interest will be payable quarterly in arrears on the 9th of August, November, February and May of each year, commencing on May 9, 2012, unless the 2012 Notes are redeemed at a redemption price equal to 100% of the principal amount on May 10, 2017, Call Option Date.

- (2) Each noteholder, by accepting the 2012 Notes, irrevocably agrees and acknowledges that it may not exercise or claim any right of set-off in respect of any amount owed by PNB arising under or in connection with the 2012 Notes.

In a resolution dated January 26, 2017, the BSP Monetary Board approved the request of the Parent Company to exercise its call option on the ₱3.5 Billion Subordinated Notes, subject to compliance of relevant regulations. The 2012 Notes was redeemed on May 10, 2017 at an amount equal to the aggregate issue price of the Notes plus accrued and unpaid interest thereon up to but excluding May 10, 2017.

#### 6.75% ₱6.5 Billion Subordinated Notes

On May 15, 2011, PNB's BOD approved the issuance of unsecured subordinated notes of ₱6.5 billion that qualify as Lower Tier 2 capital. EIR on this note is 6.94%.

Significant terms and conditions of the subordinated notes follow:

- (1) The 2011 Notes bear interest at the rate of 6.75% per annum from and including June 15, 2011 to but excluding June 15, 2021. Interest will be payable quarterly in arrears on the 15th of September, December, March and June of each year, commencing on June 15, 2011, unless the 2011 Notes are redeemed at a redemption price equal to 100% of the principal amount on June 16, 2016, Call Option Date.
- (2) Each noteholder, by accepting the 2011 Notes, irrevocably agrees and acknowledges that it may not exercise or claim any right of set-off in respect of any amount owed by PNB arising under or in connection with the 2011 Notes.

On June 16, 2016, PNB exercised its call option and paid ₱6.5 billion to all noteholders as of June 1, 2016.

As of December 31, 2017 and 2016, the unamortized transaction cost of subordinated debt amounted to nil and ₱2.2 million, respectively. In 2017, 2016 and 2015, amortization of transaction costs amounting to ₱2.2 million, ₱11.4 million, ₱16.9 million, respectively, were charged to "Cost of banking services" in the consolidated statements of income (see Note 24).

#### *Unsecured term loans of Eton*

On January 28, 2013, Eton entered into an unsecured term loan agreement with BDO amounting to ₱2.0 billion to finance the construction of Eton projects. The term loan bears a nominal interest rate of 5.53% and will mature on January 26, 2018. Principal repayments will start one year from the date of availment and are due annually while interest payments are due quarterly starting April 28, 2014. Effective on October 28, 2013, Eton and BDO agreed to the new interest rate of 4.75%.

In 2016, Eton entered into an unsecured term loan agreement with Asia United Bank (AUB) amounting to ₱1.5 billion, to finance the construction of Eton's projects. The term loan bears a nominal interest rate of 5% and will mature on September 28, 2023. Principal repayments will commence two years from the date of availment and are due quarterly while interest payments are due quarterly starting December 28, 2016.

#### *Notes payable of Eton*

Notes payable include various notes from BDO which arose from the assignment of Eton's contract receivables on a with recourse basis in 2013 and 2012 (see Note 8). These notes bear interest based on Philippine Dealing System Treasury Fixing (PDSTF) rate for one year plus 1.5% net of gross

receipts tax. In 2016 and 2015, interest rates ranged from 5.10% to 6.66%, subject to annual repricing. Interest is due monthly in arrears during the first two years of the term and thereafter, interest shall be collected with the principal covering the term of three years or the term of the contracts to sell, whichever comes first. In 2016, the outstanding notes payable were fully paid by Eton.

Interest on loans payable from general borrowings capitalized as part of real estate inventories amounted to ₱61.9 million in 2015 wherein capitalization rate was 4.5%. The Group stopped capitalizing interest on loans payable as construction of projects involved in the loans are substantially done as of December 31, 2016.

#### *Finance costs*

Interest recognized in profit or loss on short-term and long-term debts, except for subordinated debts, are presented under “Finance costs” in the consolidated statements of income (see Note 27). Interest costs from subordinated debts are included in the “Cost of banking services” (see Note 24).

#### *Compliance with debt covenants*

As of December 31, 2017 and 2016, the Group has complied with the covenants of its long-term debts.

## 20. Other Liabilities

|                                                | 2017                  | 2016        |
|------------------------------------------------|-----------------------|-------------|
|                                                | <i>(In Thousands)</i> |             |
| Insurance contract liabilities                 | <b>₱4,929,392</b>     | ₱4,581,800  |
| Managers’ checks and demand drafts outstanding | <b>2,345,787</b>      | 1,174,872   |
| Payable to landowners                          | <b>1,505,191</b>      | 3,250,573   |
| Bills purchased - contra (Note 8)              | <b>1,323,896</b>      | 3,260,308   |
| Reserve for unearned premiums                  | <b>1,273,279</b>      | 1,075,732   |
| Due to other banks                             | <b>1,212,436</b>      | 923,777     |
| Other dormant credits                          | <b>1,078,052</b>      | 918,217     |
| Customers’ deposits                            | <b>987,862</b>        | 892,286     |
| Provisions (Note 38)                           | <b>969,107</b>        | 1,300,290   |
| Deposit on lease contracts                     | <b>890,736</b>        | 805,377     |
| Other deferred revenue (Note 12)               | <b>866,473</b>        | 939,672     |
| Due to Treasurer of the Philippines            | <b>574,261</b>        | 543,002     |
| Tenants’ rental deposits                       | <b>452,372</b>        | 428,785     |
| Miscellaneous tax securities                   | <b>295,250</b>        | 300,226     |
| Margin deposits and cash letters of credit     | <b>55,058</b>         | 174,206     |
| Advance rentals                                | <b>51,786</b>         | 167,203     |
| Accounts payable - electronic money            | —                     | 791,223     |
| Payment order payable                          | —                     | 292,336     |
| Transmission liability                         | —                     | 31,732      |
| Others                                         | <b>1,074,263</b>      | 924,254     |
|                                                | <b>19,885,201</b>     | 22,775,871  |
| Presented as noncurrent                        | <b>(4,718,832)</b>    | (5,411,870) |
|                                                | <b>₱15,166,369</b>    | ₱17,364,001 |

#### Payables to Landowners

In November 2012, Eton executed a promissory note to a landowner amounting to ₱740.0 million, subject to interest rate of PDSTF 3 years +0.50%, in relation to its purchase of land located in Quezon City with total purchase price of ₱1.0 billion. The promissory note is due on the third year from its execution date. In November 2015, the promissory note was extended and was subsequently settled in February 2016.

In various dates in 2014, Eton executed a ₱1,061.2 million promissory note, subject to interest rate of PDSTF 3 years +0.50%, to various landowners in relation to its purchase of land located in Laguna with total purchase price of ₱1.3 billion. In June 2017, the payment of the various promissory notes were extended for another three years.

Interest expense recognized related to these promissory notes amounted to ₱137.5 million, ₱180.7 million, ₱55.3 million in 2017, 2016, and 2015, respectively, net of capitalized portion amounting to ₱13.5 million in 2017 and nil in 2016 and 2015 (see Notes 12, 13 and 27).

#### Customers' Deposits

Customers' deposits represent payments from buyers of residential units which will be applied against the corresponding contracts receivables which are recognized based on the revenue recognition policy of the Group. This account includes the excess of collections over the recognized receivables amounting to ₱1.0 billion and ₱0.9 billion as of December 31, 2017 and 2016, respectively.

#### Deposits and Other Deferred Credits

Other liabilities of the property development segment include tenants' rental deposits, advance rentals and other deferred credits. Security deposits pertain to the amounts paid by the tenants at the inception of the lease which is refundable at the end of the lease term. Advance rentals pertain to deposits from tenants which will be applied against receivables either at the beginning or at the end of lease term depending on the lease contract. Deferred credits represent the excess of the principal amount of the security deposits over its fair value. Amortization of deferred credits is included in "Rental income" in the consolidated statement of income (see Note 14).

#### Banking Segment Liabilities

Other liabilities of the banking segment include insurance contract liabilities, accounts payable, bills purchased - contra, managers' checks and demand drafts outstanding, margin deposits and cash letters of credit.

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## **21. Derivative Financial Instruments**

The tables in the next page show the fair values of derivative financial instruments entered into by the Group, recorded as derivative assets or derivative liabilities (included under "Financial assets and liabilities at FVPL"), together with the notional amounts. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding as of December 31, 2017 and 2016 and are not indicative of either market risk or credit risk (amounts in thousands, except average forward rate).

|                           | December 31, 2017     |                 |                      |                  | December 31, 2016 |                 |                      |                  |
|---------------------------|-----------------------|-----------------|----------------------|------------------|-------------------|-----------------|----------------------|------------------|
|                           | Assets                | Liabilities     | Average Forward Rate | Notional Amount* | Assets            | Liabilities     | Average Forward Rate | Notional Amount* |
|                           | <i>(In Thousands)</i> |                 |                      |                  |                   |                 |                      |                  |
| Freestanding derivatives: |                       |                 |                      |                  |                   |                 |                      |                  |
| Currency forwards         |                       |                 |                      |                  |                   |                 |                      |                  |
| BUY:                      |                       |                 |                      |                  |                   |                 |                      |                  |
| USD                       | ₱11,347               | ₱87,446         | ₱50.44               | ₱573,545         | ₱99               | ₱3,766          | ₱49.99               | ₱200,498         |
| CAD                       | 108                   | —               | 0.78                 | 1,258            | 277               | —               | 0.74                 | 1,861            |
| GBP                       | 72                    | —               | 1.34                 | 518              | —                 | 160             | 1.23                 | 2,595            |
| HKD                       | 1,548                 | 102             | 0.13                 | 211,050          | 630               | —               | 0.13                 | 412,710          |
| EUR                       | 98                    | —               | 1.19                 | 3,328            | 94                | 48              | 1.05                 | 979              |
| JPY                       | 8,413                 | 44,371          | 0.01                 | 16,555,042       | —                 | —               | —                    | —                |
| SGD                       | 3                     | —               | 0.75                 | 50               | —                 | —               | —                    | —                |
| SELL:                     |                       |                 |                      |                  |                   |                 |                      |                  |
| USD                       | 222,225               | 4,382           | 50.44                | 680,164          | 46,155            | 10,601          | 49.85                | 382,664          |
| JPY                       | 33,105                | 529             | 0.01                 | 6,766,560        | 45,957            | 504             | 0.01                 | 16,524,949       |
| GBP                       | 142                   | 857             | 1.34                 | 6,560            | 5,227             | —               | 1.24                 | 9,550            |
| EUR                       | —                     | 891             | 1.19                 | 2,990            | 740               | —               | 1.05                 | 4,000            |
| CAD                       | —                     | 328             | 0.79                 | 2,705            | 873               | 258             | 0.74                 | 1,861            |
| SGD                       | —                     | —               | —                    | —                | —                 | 361             | 0.69                 | 5,573            |
| AUD                       | —                     | —               | —                    | —                | 483               | —               | 0.74                 | 450              |
| HKD                       | 102                   | 207             | 0.13                 | 39,059           | —                 | 1,032           | 0.13                 | 144,748          |
| CHF                       | 28                    | —               | 1.02                 | 200              | —                 | —               | —                    | —                |
| NZD                       | 13                    | —               | 0.71                 | 150              | —                 | —               | —                    | —                |
| Interest rate swaps (Php) | 230,842               | 204,409         | —                    | —                | 257,042           | 216,102         | —                    | —                |
| Warrants                  | 54,938                | —               | —                    | —                | 61,545            | —               | —                    | —                |
|                           | <b>₱562,984</b>       | <b>₱343,522</b> |                      |                  | <b>₱419,122</b>   | <b>₱232,832</b> |                      |                  |

\* The notional amounts pertain to the original currency except for the embedded derivatives, which represent the equivalent to USD amount.

- As of December 31, 2017 and 2016, PNB holds 306,405 shares of ROP Warrants Series B1 at their fair value of US\$1.1 million (₱54.9 million) and US\$1.2 million (₱56.7 million), respectively.
- The table below shows the rollforward analysis of net derivatives assets (liabilities):

|                                    | 2017                  | 2016             |
|------------------------------------|-----------------------|------------------|
|                                    | <i>(In Thousands)</i> |                  |
| Balance at beginning of year       |                       |                  |
| Derivative assets                  | ₱419,122              | ₱181,348         |
| Derivative liabilities             | 232,832               | 135,193          |
|                                    | <b>186,290</b>        | <b>46,155</b>    |
| Changes in fair value              |                       |                  |
| Currency forwards and spots*       | 136,382               | (723,245)        |
| Interest rate swaps and warrants** | (7,965)               | 25,174           |
|                                    | <b>128,417</b>        | <b>(698,071)</b> |
| Availments                         | <b>(95,245)</b>       | <b>838,206</b>   |
| Balance at end of year             |                       |                  |
| Derivative assets                  | 562,984               | 419,122          |
| Derivative liabilities             | 343,522               | 232,832          |
|                                    | <b>₱219,462</b>       | <b>₱186,290</b>  |

\* Presented as part of "Foreign exchange gains".

\*\* Presented as part of "Trading and investment securities gains-net"

The changes in fair value of the derivatives are included in "Trading and investments securities gains" presented as part of "Banking revenues" in the consolidated statements of income (see Note 24).

## 22. Related Party Transactions

The Company has transacted with its subsidiaries, associates and other related parties as follows:

| Parent Company, Subsidiaries,<br>Associates and Joint Ventures | Entities Under Common Control               |
|----------------------------------------------------------------|---------------------------------------------|
| <i>Parent Company</i>                                          | Ascot Holdings, Inc.                        |
| Tangent                                                        | Pol Holdings, Inc.                          |
|                                                                | Sierra Holdings & Equities, Inc.            |
|                                                                | Grand Cargo and Warehousing Services., Inc. |
| <i>Subsidiaries</i>                                            | Basic Holdings Corporation                  |
| TDI and Subsidiaries                                           | Foremost Farms Inc.                         |
| ADI                                                            | Grandspan Development Corp.                 |
| AAC                                                            | Himmel Industries Inc.                      |
| TBI                                                            | Lapu Lapu Packaging                         |
| ABI and Subsidiaries                                           | Lucky Travel Corporation                    |
| Agua Vida Systems, Inc.                                        | Philippine Airlines, Inc.                   |
| Interbev                                                       | Rapid Movers & Forwarders Co. Inc.          |
| Waterich                                                       | Upright Profits Ltd.                        |
| Packageworld                                                   | Dyzum Distillery Inc.                       |
| AB Nutrivev                                                    | Heritage Holdings Corp.                     |
| Asia Pacific Beverage Pte Ltd                                  | Maxell Holdings, Corp.                      |
| Asia Pacific Beverage Myanmar Pte Ltd                          | Networks Holdings & Equities, Inc.          |
| FTC                                                            | Cube Factor Holdings, Inc.                  |
| Shareholdings                                                  | Trustmark Holdings Corporation              |
| Saturn                                                         | Polima International Limited                |
| Paramount and Subsidiaries                                     | Cosmic Holdings Corp.                       |
| Eton                                                           | Negros Biochem Corporation                  |
| BCI                                                            | Grandway Konstruct, Inc.                    |
| ECI                                                            | Harmonic Holdings Corp.                     |
| FHI                                                            | Proton Realty & Development Corporation     |
| EPMC                                                           | Billinge Investments Limited                |
| Bank Holding Companies:                                        | Step Dragon Co. Limited                     |
| Allmark Holdings Corp.                                         | High Above Properties Ltd.                  |
| Dunmore Development Corp.                                      | Penick Group Limited                        |
| Kenrock Holdings Corp.                                         | In Shape Group Ltd.                         |
| Leadway Holdings, Inc.                                         | Hibersham Assets Ltd.                       |
| Multiple Star Holdings Corp.                                   | Orient Legend Developments Ltd.             |
| Pioneer Holdings & Equities, Inc.                              | Complete Best Development Ltd.              |
| Donfar Management Ltd.                                         | Cormack Investments Ltd                     |
| Fast Return Enterprises Ltd.                                   | Link Great International Ltd.               |
| Mavelstone International Ltd.                                  | Bright Able Holdings Ltd.                   |
| Uttermost Success, Ltd.                                        |                                             |
| Ivory Holdings, Inc.                                           |                                             |
| Merit Holdings & Equities Corp.                                |                                             |
| True Success Profits Ltd.                                      |                                             |
| Key Landmark Investments Ltd.                                  |                                             |
| Fragile Touch Investments Ltd.                                 |                                             |
| Caravan Holdings, Corp.                                        |                                             |
| Solar Holdings Corp.                                           |                                             |
| All Seasons Realty Corp.                                       |                                             |
| Dynaworld Holdings Inc.                                        |                                             |
| Fil-Care Holdings Inc.                                         |                                             |
| Kentwood Development Corp.                                     |                                             |
| La Vida Development Corp.                                      |                                             |
| Profound Holdings Inc.                                         |                                             |
| Purple Crystal Holdings, Inc.                                  |                                             |
| Safeway Holdings & Equities Inc.                               |                                             |
| Society Holdings Corp.                                         |                                             |
| Total Holdings Corp.                                           |                                             |
| PNB and Subsidiaries                                           |                                             |
| <i>Associates</i>                                              |                                             |
| PMFTC                                                          |                                             |
| VMC                                                            |                                             |
| APLII                                                          |                                             |
| AB HPI                                                         |                                             |
| <i>Joint Ventures</i>                                          |                                             |
| ABI Pascual Holdings                                           |                                             |
| ABI Pascual Foods                                              |                                             |
| AEPMC                                                          |                                             |

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:

|                                          | <b>Nature</b>                                                         | <b>2017</b>       | <b>2016</b> | <b>2015</b> |
|------------------------------------------|-----------------------------------------------------------------------|-------------------|-------------|-------------|
| <b>Associates</b>                        | Dividend income                                                       | <b>₱4,086,596</b> | ₱2,555,576  | ₱1,695,969  |
|                                          | Purchases of inventories                                              | <b>(971,081)</b>  | (1,793,767) | (1,203,300) |
|                                          | Sales                                                                 | <b>1,094,616</b>  | 423,335     | –           |
|                                          | Leases                                                                | <b>35,100</b>     | 4,388       | –           |
| <b>Entities Under<br/>Common Control</b> | Banking revenue - interest on<br>loans and receivables                | <b>609,817</b>    | 388,599     | 337,899     |
|                                          | Sales of consumer products                                            | <b>28,865</b>     | 26,752      | 24,519      |
|                                          | Interest income on loans and<br>advances                              | <b>18,588</b>     | 12,853      | 22,613      |
|                                          | Rent income                                                           | <b>32,179</b>     | 30,647      | 27,861      |
|                                          | Other income                                                          | <b>124,894</b>    | 150,599     | 136,908     |
|                                          | Freight and handling                                                  | <b>(6,937)</b>    | (15,004)    | (4,716)     |
|                                          | Purchases of inventories                                              | <b>(9,747)</b>    | (123,426)   | –           |
|                                          | Cost of banking services - interest<br>expense on deposit liabilities | <b>(75,798)</b>   | (25,807)    | (23,461)    |
|                                          | Cost of sales and services                                            | <b>(41,485)</b>   | (38,901)    | (26,296)    |
|                                          | Management and professional fees                                      | <b>(566,937)</b>  | (263,142)   | (527,279)   |
|                                          | Outside services                                                      | <b>(52,215)</b>   | (62,865)    | (59,400)    |
|                                          | Rent expense                                                          | <b>(53,361)</b>   | (27,890)    | (58,710)    |
|                                          | Advertising expense                                                   | <b>(12,329)</b>   | –           | –           |
|                                          |                                                                       |                   |             |             |
| <b>Key Management</b>                    | Short-term employee benefits                                          | <b>(667,920)</b>  | (636,114)   | (716,317)   |
|                                          | Post-employment benefits                                              | <b>(77,651)</b>   | (72,891)    | (62,633)    |

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

| Financial Statement Account   |                                       | Terms and Conditions                                                                                                                                                                                                                                                               | Amount/Volume |             | Outstanding Balance |             |
|-------------------------------|---------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|-------------|---------------------|-------------|
|                               |                                       |                                                                                                                                                                                                                                                                                    | 2017          | 2016        | 2017                | 2016        |
| (In Thousands)                |                                       |                                                                                                                                                                                                                                                                                    |               |             |                     |             |
| Parent Company                | Due to related parties                | On demand; non-interest bearing                                                                                                                                                                                                                                                    | P–            | P–          | (P41,975)           | (P41,975)   |
|                               | Due from related parties              | On demand; non-interest bearing                                                                                                                                                                                                                                                    | 189,000       | 320,000     | 509,000             | 320,000     |
| Associates                    | Other receivables - dividends         | 30 to 90 days terms; non-interest bearing                                                                                                                                                                                                                                          | 4,086,596     | 2,555,576   | 513,610             | 337,810     |
|                               | Trade receivables                     | - do -                                                                                                                                                                                                                                                                             | 1,094,616     | 423,335     | 861,794             | 234,825     |
|                               | Nontrade receivables                  | - do -                                                                                                                                                                                                                                                                             | –             | –           | 132,691             | 213,314     |
|                               | Account payable and other liabilities | 30 to 60 days terms; non-interest bearing                                                                                                                                                                                                                                          | (971,081)     | (1,793,767) | (352,649)           | (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 | 609,817       | 388,599     | 23,881,936          | 17,226,371  |
|                               | Trade receivables                     | - do -                                                                                                                                                                                                                                                                             | 28,865        | 26,752      | 7,743               | 12,986      |
|                               | Other receivables                     | - do -                                                                                                                                                                                                                                                                             | 124,894       | 150,599     | 28,594              | –           |
|                               | Due from related parties              | On demand; non-interest bearing                                                                                                                                                                                                                                                    | (83,519)      | 9,613       | 1,519,625           | 1,602,467   |
|                               | Advances to suppliers                 | - do -                                                                                                                                                                                                                                                                             | (26,742)      | 20,659      | –                   | 26,742      |
|                               | Deposit liabilities                   | With annual rates ranging from 0.38% to 1.73% and maturity ranging from 30 days to one year                                                                                                                                                                                        | (5,851,911)   | 225,851     | (13,496,612)        | (7,644,701) |
|                               | Account payable and other liabilities | 30 to 90 days terms; non-interest bearing                                                                                                                                                                                                                                          | (76,848)      | 123,426     | (343,190)           | (283,819)   |
|                               | Due to related parties                | On demand; non-interest bearing                                                                                                                                                                                                                                                    | (22,620)      | 10,284      | (14,867)            | (15,079)    |
|                               | Other payables                        | 30 to 90 days terms; non-interest bearing                                                                                                                                                                                                                                          | (6,213)       | 197         | –                   | (4,142)     |
|                               |                                       |                                                                                                                                                                                                                                                                                    |               |             |                     |             |

As of December 31, 2017 and 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.

Other terms and conditions related to the above related party balances and transactions are as follows:

*Transactions with Tangent, parent company*

- On March 14, 2017 and April 12, 2016, LTG declared cash dividends of ₱0.18 and ₱0.15 per share to all stockholders of record as of March 29, 2017 and April 28, 2016, respectively, of which ₱1.4 billion in 2017 and ₱1.2 billion in 2016 were paid to Tangent.

*Transactions with Associates*

- Dividend income from PMFTC amounted to ₱4.1 billion in 2017, ₱2.6 billion in 2016 and ₱1.7 billion in 2015 (see Note 11). Dividends receivable from PMFTC as of December 31, 2016 and 2015 are presented as part of nontrade receivables.
- The Group purchases raw materials such as raw and refined sugar and molasses from VMC.
- ABI entered into an operating lease agreement with AB HPI to lease portions of its two breweries, in Cabuyao, Laguna and El Salvador, Misamis Oriental, subject to the terms and conditions of an asset lease agreement signed last November 15, 2016. The lease has a fixed yearly increase as specified in the contract. As of December 31, 2017 and 2016, the related rent receivable for the lease of land amounted to ₱35.1 million and ₱4.4 million, respectively.
- ABI sold inventories to AB HPI aside from the nonmonetary assets sold on November 15, 2016, including work in progress, amounting to ₱423.3 million.

*Transactions with Entities under Common Control*

- Due to related parties include cash advances provided to the Group to support its working capital requirements.
- Several subsidiaries of the Group entered into management services agreements with Basic Holdings Corporation for certain considerations. Management fees are recorded under “Outside services” in “Cost of goods sold” and “Professional fees” in the “General and administrative expenses”.
- The property development segment purchases parcels of land from other related parties for use in its various projects.
- Several entities under common control maintain peso and foreign currency denominated deposits and short-term and long-term loans with PNB. Interest income and financing charges related to these transactions are reported under “Banking revenue” and “Cost of banking services”, respectively (see Note 24).

## 23. Retirement Benefits

The Group has funded, noncontributory defined benefit retirement plans, administered by a trustee, covering all of its permanent employees. As of December 31, 2017 and 2016, the Group is in compliance with Article 287 of the Labor Code, as amended by Republic Act No. 7641.

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

|                                    | 2017                  | 2016       |
|------------------------------------|-----------------------|------------|
|                                    | <i>(In Thousands)</i> |            |
| Net retirement plan assets:        |                       |            |
| FTC                                | <b>₱241,729</b>       | ₱233,604   |
| TDI                                | <b>15,515</b>         | 20,836     |
| AAC                                | <b>8,286</b>          | 13,038     |
| LTG                                | <b>8,180</b>          | 9,392      |
|                                    | <b>₱273,710</b>       | ₱276,870   |
| Net retirement benefits liability: |                       |            |
| PNB                                | <b>₱1,526,962</b>     | ₱3,138,824 |
| ABI and subsidiaries               | <b>588,227</b>        | 682,396    |
| ADI                                | <b>21,797</b>         | 22,004     |
| Eton                               | <b>68,243</b>         | 56,118     |
|                                    | <b>₱2,205,229</b>     | ₱3,899,342 |

The following tables summarize the components of net retirement plan assets and net retirement benefits liability recognized in the consolidated balance sheets, the net benefit expenses recognized in the consolidated statements of income and the re-measurement losses (gains) recognized in consolidated statements of comprehensive income.

Net retirement plan assets:

|                                                                                                          | 2017                              |                              |                                  | 2016                              |                              |                                  | 2015                              |                              |                               |
|----------------------------------------------------------------------------------------------------------|-----------------------------------|------------------------------|----------------------------------|-----------------------------------|------------------------------|----------------------------------|-----------------------------------|------------------------------|-------------------------------|
|                                                                                                          | Defined<br>Benefit<br>Obligations | Fair Value of<br>Plan Assets | Net<br>Retirement<br>Plan Assets | Defined<br>Benefit<br>Obligations | Fair Value of<br>Plan Assets | Net<br>Retirement<br>Plan Assets | Defined<br>Benefit<br>Obligations | Fair Value of<br>Plan Assets | Net Retirement<br>Plan Assets |
|                                                                                                          | <i>(In Thousands)</i>             |                              |                                  |                                   |                              |                                  |                                   |                              |                               |
| Beginning balance                                                                                        | <b>P228,448</b>                   | <b>(P505,318)</b>            | <b>(P276,870)</b>                | P161,701                          | (P417,417)                   | (P255,716)                       | P131,057                          | (P395,175)                   | (P264,118)                    |
| Change in status of retirement plan                                                                      | –                                 | –                            | –                                | 96,347                            | (82,267)                     | 14,080                           | 18,453                            | (11,392)                     | 7,061                         |
| Net retirement benefits expense (income) in profit or loss:                                              |                                   |                              |                                  |                                   |                              |                                  |                                   |                              |                               |
| Current service cost                                                                                     | <b>18,376</b>                     | –                            | <b>18,376</b>                    | 17,832                            | –                            | 17,832                           | 29,759                            | –                            | 29,759                        |
| Net interest cost                                                                                        | <b>7,581</b>                      | <b>(21,823)</b>              | <b>(14,242)</b>                  | 9,126                             | (21,674)                     | (12,548)                         | 4,107                             | (15,112)                     | (11,005)                      |
| Curtailment gain                                                                                         | –                                 | –                            | –                                | –                                 | –                            | –                                | (12,523)                          | –                            | (12,523)                      |
|                                                                                                          | <b>25,957</b>                     | <b>(21,823)</b>              | <b>4,134</b>                     | 26,958                            | (21,674)                     | 5,284                            | 21,343                            | (15,112)                     | 6,231                         |
| Contributions                                                                                            | –                                 | <b>(1,200)</b>               | <b>(1,200)</b>                   | –                                 | (2,252)                      | (2,252)                          | –                                 | (5,084)                      | (5,084)                       |
| Benefits paid                                                                                            | <b>(10,487)</b>                   | <b>10,487</b>                | –                                | (2,820)                           | 2,820                        | –                                | (3,642)                           | 3,642                        | –                             |
| Re-measurement losses (gains) in other comprehensive income - actuarial changes arising from changes in: |                                   |                              |                                  |                                   |                              |                                  |                                   |                              |                               |
| Financial assumptions                                                                                    | <b>(8,250)</b>                    | –                            | <b>(8,250)</b>                   | (38,796)                          | –                            | (38,796)                         | –                                 | –                            | –                             |
| Demographic assumptions                                                                                  | –                                 | –                            | –                                | (851)                             | –                            | (851)                            | –                                 | –                            | –                             |
| Experience adjustments                                                                                   | <b>(1,928)</b>                    | <b>10,404</b>                | <b>8,476</b>                     | (14,091)                          | 15,472                       | 1,381                            | (5,510)                           | 5,704                        | 194                           |
|                                                                                                          | <b>(10,178)</b>                   | <b>10,404</b>                | <b>226</b>                       | (53,738)                          | 15,472                       | (38,266)                         | (5,510)                           | 5,704                        | 194                           |
| Ending balance                                                                                           | <b>P233,740</b>                   | <b>(P507,450)</b>            | <b>(P273,710)</b>                | P228,448                          | (P505,318)                   | (P276,870)                       | P161,701                          | (P417,417)                   | (P255,716)                    |

Net retirement benefits:

|                                                                                                          | 2017                              |                              |                                   | 2016                              |                              |                                   | 2015                              |                              |                                   |
|----------------------------------------------------------------------------------------------------------|-----------------------------------|------------------------------|-----------------------------------|-----------------------------------|------------------------------|-----------------------------------|-----------------------------------|------------------------------|-----------------------------------|
|                                                                                                          | Defined<br>Benefit<br>Obligations | Fair Value of<br>Plan Assets | Accrued<br>Retirement<br>Benefits | Defined<br>Benefit<br>Obligations | Fair Value of<br>Plan Assets | Accrued<br>Retirement<br>Benefits | Defined<br>Benefit<br>Obligations | Fair Value of<br>Plan Assets | Accrued<br>Retirement<br>Benefits |
|                                                                                                          | <i>(In Thousands)</i>             |                              |                                   |                                   |                              |                                   |                                   |                              |                                   |
| Beginning balance                                                                                        | <b>₱10,193,817</b>                | <b>(₱6,294,475)</b>          | <b>₱3,899,342</b>                 | ₱9,666,274                        | (₱5,765,348)                 | ₱3,900,926                        | ₱9,290,310                        | (₱5,514,049)                 | ₱3,776,261                        |
| Change in status of retirement plan                                                                      | –                                 | –                            | –                                 | (96,347)                          | 82,267                       | (14,080)                          | (18,453)                          | 11,392                       | (7,061)                           |
| Net retirement benefits cost in profit or loss:                                                          |                                   |                              |                                   |                                   |                              |                                   |                                   |                              |                                   |
| Current service cost                                                                                     | 756,172                           | –                            | 756,172                           | 701,627                           | –                            | 701,627                           | 889,132                           | –                            | 889,132                           |
| Net interest cost                                                                                        | 435,361                           | (234,088)                    | 201,273                           | 377,343                           | (190,977)                    | 186,366                           | 343,297                           | (165,172)                    | 178,125                           |
| Past service cost                                                                                        | –                                 | –                            | –                                 | –                                 | –                            | –                                 | 7,529                             | –                            | 7,529                             |
|                                                                                                          | <b>1,191,533</b>                  | <b>(234,088)</b>             | <b>957,445</b>                    | 1,078,970                         | (190,977)                    | 887,993                           | 1,239,958                         | (165,172)                    | 1,074,786                         |
| Contributions                                                                                            | –                                 | (1,472,899)                  | (1,472,899)                       | –                                 | (1,123,041)                  | (1,123,041)                       | –                                 | (996,283)                    | (996,283)                         |
| Benefits paid from plan assets                                                                           | (584,444)                         | 584,444                      | –                                 | (728,330)                         | 650,142                      | (78,188)                          | (527,023)                         | 527,023                      | –                                 |
| Benefits paid directly from book reserves                                                                | –                                 | –                            | –                                 | –                                 | –                            | –                                 | (23)                              | –                            | (23)                              |
| Others                                                                                                   | –                                 | –                            | –                                 | –                                 | –                            | –                                 | 69,366                            | 34,084                       | 103,450                           |
| Re-measurement losses (gains) in other comprehensive income - actuarial changes arising from changes in: |                                   |                              |                                   |                                   |                              |                                   |                                   |                              |                                   |
| Financial assumptions                                                                                    | (330,733)                         | –                            | (330,733)                         | 302,114                           | –                            | 302,114                           | (471,608)                         | (69)                         | (471,677)                         |
| Demographic assumptions                                                                                  | (682,083)                         | –                            | (682,083)                         | –                                 | –                            | –                                 | 485                               | –                            | 485                               |
| Experience adjustments                                                                                   | (318,920)                         | 153,077                      | (165,843)                         | (28,864)                          | 52,482                       | 23,618                            | 83,262                            | 337,726                      | 420,988                           |
|                                                                                                          | <b>(1,331,736)</b>                | <b>153,077</b>               | <b>(1,178,659)</b>                | 273,250                           | 52,482                       | 325,732                           | (387,861)                         | 337,657                      | (50,204)                          |
| Ending balance                                                                                           | <b>₱9,469,170</b>                 | <b>(₱7,263,941)</b>          | <b>₱2,205,229</b>                 | ₱10,193,817                       | (₱6,294,475)                 | ₱3,899,342                        | ₱9,666,274                        | (₱5,765,348)                 | ₱3,900,926                        |

The fair value of plan assets as of December 31 is as follows:

|                                      | 2017                  | 2016       |
|--------------------------------------|-----------------------|------------|
|                                      | <i>(In Thousands)</i> |            |
| Cash and cash equivalents            | <b>₱2,231,422</b>     | ₱3,165,371 |
| Receivables                          | <b>1,927,174</b>      | 2,007,993  |
| Equity investments:                  |                       |            |
| Financial institutions               | <b>448,357</b>        | 711,701    |
| Other                                | <b>412,674</b>        | 55,613     |
| Investments in government securities | <b>2,731,468</b>      | 663,788    |
| Others                               | <b>20,296</b>         | 195,327    |
| Fair value of plan assets            | <b>₱7,771,391</b>     | ₱6,799,793 |

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

|                                      | 2017        | 2016 |
|--------------------------------------|-------------|------|
| Cash and cash equivalents            | <b>29%</b>  | 47%  |
| Receivables                          | <b>25%</b>  | 29%  |
| Equity investments                   | <b>11%</b>  | 11%  |
| Investments in government securities | <b>35%</b>  | 10%  |
| Others                               | —           | 3%   |
| Fair value of plan assets            | <b>100%</b> | 100% |

The overall investment policy and strategy of the Group's defined benefit plans is guided by the objective of achieving an investment return which, together with contributions, ensures that there will be sufficient assets to pay pension benefits as they fall due while also mitigating the various risk of the plans. The plan assets have diverse investments and do not have concentration risk.

The Group's defined pension plan are funded through the contributions made by the Group to the trust.

The principal assumptions used in determining pension benefit obligations for the Group's plans as of January 1 are shown below:

|                         | 2017          | 2016   | 2015   |
|-------------------------|---------------|--------|--------|
| Discount rate           | <b>5%-6%</b>  | 4%-5%  | 4%-5%  |
| Future salary increases | <b>5%-10%</b> | 5%-10% | 5%-10% |

As of December 31, 2017, the discount and future salary increase rates are 5-6% and 5-10%, respectively.

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligations as of the end of the reporting period, assuming all other assumptions were held constant (in thousands):

|                | 2017                                                                                   | 2016                                                                                   |
|----------------|----------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------|
|                | <b>Increase (Decrease)<br/>in Present<br/>Value of Defined<br/>Benefit Obligations</b> | <b>Increase (Decrease)<br/>in Present<br/>Value of Defined<br/>Benefit Obligations</b> |
| Discount rates | <b>(₱486,672)<br/>604,116</b>                                                          | <b>(₱865,242)<br/>1,014,972</b>                                                        |

|                         | <b>2017</b>                                                                            | <b>2016</b>                                                                            |
|-------------------------|----------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------|
|                         | <b>Increase (Decrease)<br/>in Present<br/>Value of Defined<br/>Benefit Obligations</b> | <b>Increase (Decrease)<br/>in Present<br/>Value of Defined<br/>Benefit Obligations</b> |
| Future salary increases | <b>₱640,688<br/>(517,408)</b>                                                          | <b>₱1,028,578<br/>(886,617)</b>                                                        |

Full actuarial valuations were performed to test the sensitivity of the defined benefit obligation to a 1% increment in salary increase rate, 0.5% decrement in the discount rate and a 10% improvement in the employee turnover rate. The results also provide a good estimate of the sensitivity of the defined benefit obligation to a 1% decrement in salary increase rate, 0.5% increment in the discount rate and a 10% increase in the employee turnover rate but with reverse impact.

The Group employs asset-liability matching strategies to maximize investment returns at the least risk to reduce contribution requirements while maintaining a stable retirement plan. Retirement plans are invested to ensure that liquid funds are available when benefits become due, to minimize losses due to investment pre-terminations and maximize opportunities for higher potential returns at the least risk.

The current plan asset of the Group is allocated to cover benefit payments in the order of their proximity to the present time. Expected benefit payments are projected and classified into short-term or long-term liabilities. Investment instruments that would match the liabilities are identified. This strategy minimizes the possibility of the asset-liability match being distorted due to the Group's failure to contribute in accordance with its general funding strategy.

Shown below is the maturity analysis of the undiscounted benefit payments of the Group (in thousands):

|                                     | <b>2017</b>       |
|-------------------------------------|-------------------|
| One year and less                   | <b>₱1,016,792</b> |
| More than one year up to five years | <b>3,644,928</b>  |
| More than five years up to 10 years | <b>4,758,391</b>  |
| More than 10 years up to 15 years   | <b>4,278,443</b>  |
| More than 15 years                  | <b>46,775,963</b> |

The Group expects to contribute ₱1.6 billion to the defined benefit pension plan in 2018. The average duration of the defined benefit obligations at the end of the reporting period range from 15 to 24 years as of December 31, 2017 and 17 to 24 years as of December 31, 2016.

#### Transactions with Retirement Plans

Management of the retirement funds of the banking segment is handled by the PNB Trust Banking Group (TBG). As of December 31, 2017 and 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 December 31, 2017 and 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.

## 24. Revenue and Cost of Sales and Services

Revenue consists of:

|                          | 2017               | 2016                  | 2015               |
|--------------------------|--------------------|-----------------------|--------------------|
|                          |                    | <i>(In Thousands)</i> |                    |
| Banking revenue (Note 5) | <b>₱31,893,616</b> | ₱29,111,818           | ₱26,600,160        |
| Sale of consumer goods   | <b>29,653,729</b>  | 25,836,669            | 22,388,574         |
| Rental income            | <b>1,388,010</b>   | 1,278,447             | 1,172,539          |
| Real estate sales        | <b>845,053</b>     | 1,573,067             | 1,311,914          |
|                          | <b>₱63,780,408</b> | <b>₱57,800,001</b>    | <b>₱51,473,187</b> |

Banking revenue consists of:

|                                                | 2017               | 2016                  | 2015               |
|------------------------------------------------|--------------------|-----------------------|--------------------|
|                                                |                    | <i>(In Thousands)</i> |                    |
| Interest income on:                            |                    |                       |                    |
| Loans and receivables                          | <b>₱22,401,284</b> | ₱19,505,347           | ₱17,144,366        |
| Trading and investment securities<br>(Note 21) | <b>3,432,907</b>   | 4,026,594             | 3,742,036          |
| Deposits with banks and others                 | <b>1,330,144</b>   | 597,500               | 785,414            |
| Interbank loans receivable                     | <b>185,833</b>     | 33,862                | 36,747             |
|                                                | <b>27,350,168</b>  | 24,163,303            | 21,708,563         |
| Trading and securities gains - net             | <b>560,303</b>     | 1,378,557             | 578,698            |
| Service fees and commission income             | <b>3,983,145</b>   | 3,569,958             | 4,312,899          |
|                                                | <b>₱31,893,616</b> | <b>₱29,111,818</b>    | <b>₱26,600,160</b> |

Sale of consumer goods consists of:

|                                                 | 2017               | 2016                  | 2015               |
|-------------------------------------------------|--------------------|-----------------------|--------------------|
|                                                 |                    | <i>(In Thousands)</i> |                    |
| Gross sales                                     | <b>₱31,557,067</b> | ₱27,810,969           | ₱23,886,547        |
| Less sales returns, discounts and<br>allowances | <b>1,903,338</b>   | 1,974,300             | 1,497,973          |
|                                                 | <b>₱29,653,729</b> | <b>₱25,836,669</b>    | <b>₱22,388,574</b> |

Cost of sales and services consists of:

|                                                       | 2017               | 2016                  | 2015              |
|-------------------------------------------------------|--------------------|-----------------------|-------------------|
|                                                       |                    | <i>(In Thousands)</i> |                   |
| Cost of consumer goods sold:                          |                    |                       |                   |
| Materials used and changes in<br>inventories (Note 9) | <b>₱12,221,165</b> | ₱10,859,240           | ₱12,203,739       |
| Taxes and licenses                                    | <b>4,521,002</b>   | 3,800,493             | 11,370            |
| Depreciation and amortization<br>(Note 12)            | <b>1,420,401</b>   | 1,078,798             | 997,229           |
| Fuel and power                                        | <b>915,246</b>     | 642,949               | 564,609           |
| Personnel costs                                       | <b>841,325</b>     | 531,912               | 621,224           |
| Communication, light and water                        | <b>765,499</b>     | 653,102               | 558,525           |
| Outside services                                      | <b>458,124</b>     | 843,531               | 479,231           |
| Repairs and maintenance                               | <b>412,990</b>     | 408,766               | 340,108           |
| Freight and handling                                  | <b>228,191</b>     | 148,005               | 100,366           |
| Others                                                | <b>851,317</b>     | 134,522               | 212,418           |
|                                                       | <b>22,635,260</b>  | <b>19,101,318</b>     | <b>16,088,819</b> |

(Forward)

|                                 | 2017               | 2016           | 2015        |
|---------------------------------|--------------------|----------------|-------------|
|                                 |                    | (In Thousands) |             |
| Cost of banking services        | <b>₱6,302,228</b>  | ₱5,682,707     | ₱4,734,514  |
| Cost of real estate sales       | <b>433,875</b>     | 1,089,026      | 952,661     |
| Cost of rental income (Note 13) | <b>308,447</b>     | 253,830        | 226,888     |
| Cost of sales and services      | <b>₱29,679,810</b> | ₱26,126,881    | ₱22,002,882 |

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

Cost of banking services consist of:

|                                                        | 2017              | 2016           | 2015       |
|--------------------------------------------------------|-------------------|----------------|------------|
|                                                        |                   | (In Thousands) |            |
| Interest expense on:                                   |                   |                |            |
| Deposit liabilities (Note 15)                          | <b>₱4,767,830</b> | ₱3,770,558     | ₱2,987,670 |
| Bills payable and other borrowings<br>(Notes 7 and 19) | <b>747,481</b>    | 997,621        | 1,029,995  |
| Services fees and commission<br>expense                | <b>786,917</b>    | 914,528        | 716,849    |
|                                                        | <b>₱6,302,228</b> | ₱5,682,707     | ₱4,734,514 |

## 25. Selling Expenses

|                                         | 2017              | 2016           | 2015       |
|-----------------------------------------|-------------------|----------------|------------|
|                                         |                   | (In Thousands) |            |
| Advertising and promotions              | <b>₱1,268,650</b> | ₱1,019,650     | ₱958,441   |
| Freight and handling                    | <b>500,420</b>    | 380,180        | 379,732    |
| Depreciation and amortization (Note 12) | <b>330,508</b>    | 491,555        | 481,492    |
| Personnel costs                         | <b>145,920</b>    | 98,626         | 96,728     |
| Outside services                        | <b>131,429</b>    | 128,990        | 112,307    |
| Materials and consumables               | <b>51,950</b>     | 79,428         | 20,176     |
| Repairs and maintenance                 | <b>40,957</b>     | 52,922         | 44,728     |
| Commissions                             | <b>35,364</b>     | 40,183         | 22,730     |
| Travel and transportation               | <b>32,407</b>     | 19,408         | 12,616     |
| Others                                  | <b>154,820</b>    | 40,580         | 73,491     |
|                                         | <b>₱2,692,425</b> | ₱2,351,522     | ₱2,202,441 |

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

## 26. General and Administrative Expenses

|                                                        | 2017              | 2016           | 2015       |
|--------------------------------------------------------|-------------------|----------------|------------|
|                                                        |                   | (In Thousands) |            |
| Personnel costs                                        | <b>₱9,829,731</b> | ₱9,175,493     | ₱8,799,535 |
| Taxes and licenses                                     | <b>2,794,964</b>  | 2,403,784      | 2,219,798  |
| Depreciation and amortization<br>(Notes 12, 13 and 14) | <b>1,786,310</b>  | 1,554,156      | 1,382,733  |
| Occupancy                                              | <b>1,603,629</b>  | 1,552,248      | 1,451,117  |
| Outside services                                       | <b>1,519,014</b>  | 1,471,963      | 1,306,491  |

(Forward)

|                                                                                  | 2017               | 2016           | 2015        |
|----------------------------------------------------------------------------------|--------------------|----------------|-------------|
|                                                                                  |                    | (In Thousands) |             |
| Insurance                                                                        | <b>₱1,457,699</b>  | ₱1,156,159     | ₱1,089,782  |
| Provision for credit losses (Note 8)                                             | <b>1,192,220</b>   | 2,817,352      | 865,889     |
| Net insurance benefits and claims                                                | <b>1,045,080</b>   | 295,015        | 436,887     |
| Management, consulting and professional fees                                     | <b>933,482</b>     | 993,847        | 800,381     |
| Marketing and promotional                                                        | <b>928,613</b>     | 1,064,993      | 814,767     |
| Information technology                                                           | <b>446,393</b>     | 499,319        | 489,036     |
| Travel and transportation                                                        | <b>355,668</b>     | 350,788        | 281,787     |
| Communication, light and water                                                   | <b>255,531</b>     | 58,481         | 272,827     |
| Materials and consumables                                                        | <b>248,210</b>     | 300,719        | 206,490     |
| Repairs and maintenance                                                          | <b>224,062</b>     | 224,325        | 192,775     |
| Freight and handling                                                             | <b>104,490</b>     | 45,727         | 81,855      |
| Litigation                                                                       | <b>80,139</b>      | 97,097         | 262,551     |
| Fuel and oil                                                                     | <b>27,355</b>      | 31,065         | 36,751      |
| Provision for (reversal of) legal cases and other losses - net (Notes 13 and 38) | <b>(300,730)</b>   | 404,253        | (292,643)   |
| Others                                                                           | <b>1,098,034</b>   | 1,066,300      | 457,724     |
|                                                                                  | <b>₱25,629,894</b> | ₱25,563,084    | ₱21,156,533 |

Others include expense items mainly relating to banking operations, which are individually not significant as to amounts.

## 27. Finance Costs and Finance Income

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

|                                                 | 2017            | 2016           | 2015     |
|-------------------------------------------------|-----------------|----------------|----------|
|                                                 |                 | (In Thousands) |          |
| Finance costs (Note 19):                        |                 |                |          |
| Unsecured term loan and notes payable (Note 20) | <b>₱141,937</b> | ₱202,490       | ₱144,549 |
| Bonds payable                                   | —               | —              | 55,957   |
| Amortization of bond issue costs                | —               | —              | 2,012    |
|                                                 | <b>₱141,937</b> | ₱202,490       | ₱202,518 |
| Finance income:                                 |                 |                |          |
| Cash and other cash items (Note 5)              | <b>₱119,369</b> | ₱55,164        | ₱48,950  |
| FVPL (Note 6)                                   | <b>20,183</b>   | 6,279          | 22,395   |
| Interest-bearing contracts receivable (Note 8)  | <b>16,473</b>   | 41,673         | 34,618   |
| AFS investments (Note 7)                        | <b>1,075</b>    | 3,310          | 4,413    |
|                                                 | <b>₱157,100</b> | ₱106,426       | ₱110,376 |

## 28. Other Income (Charges)

|                                          | 2017              | 2016           | 2015       |
|------------------------------------------|-------------------|----------------|------------|
|                                          |                   | (In Thousands) |            |
| Net gains on sale or exchange of assets  | <b>₱4,163,507</b> | ₱1,823,200     | ₱1,562,020 |
| Recovery from insurance claims (Note 38) | <b>1,276,301</b>  | 630,198        | 709,160    |
| Rental income and dues (Note 13)         | <b>597,612</b>    | 460,224        | 565,083    |

(Forward)

|                                                                     | 2017              | 2016           | 2015       |
|---------------------------------------------------------------------|-------------------|----------------|------------|
|                                                                     |                   | (In Thousands) |            |
| Recoveries from charged off assets                                  | <b>₱67,582</b>    | ₱729,594       | ₱592,181   |
| Dividend income                                                     | <b>62,143</b>     | 53,729         | 22,464     |
| Mark-to-market gain on financial assets designated at FVPL (Note 6) | <b>59,513</b>     | 62,955         | 99,084     |
| Gain on disposal of AFS investments                                 | <b>7,914</b>      | –              | 2,928      |
| Gain on retirement                                                  | <b>6,869</b>      | –              | 12,523     |
| Referral, processing and trust fees                                 | <b>3,448</b>      | 2,811          | 2,382      |
| Gain on re-measurement of a previously held interest (Note 11)      | –                 | 1,644,339      | –          |
| Share in net losses of associates and a joint venture (Note 11)     | –                 | (513,266)      | (2,067)    |
| Others (Note 12)                                                    | <b>374,788</b>    | 58,358         | 121,216    |
|                                                                     | <b>₱6,619,677</b> | ₱4,952,142     | ₱3,686,974 |

- a. Net gains on sale or exchange of assets include sale of investment properties of the banking segment in 2017, 2016 and 2015 amounting to ₱3,755.5 million, ₱1,496.5 million and ₱1,435.8 million, respectively.
- b. Others include income and expense items mainly relating to banking operations, which are individually not significant as to amounts.

## 29. Income Taxes

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

Under Philippine tax laws, PNB and its certain subsidiaries are subject to percentage and other taxes (presented as “Taxes and Licenses” in the consolidated statements of income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax and documentary stamp tax.

FCDU offshore income (income from non-residents) is tax-exempt while gross onshore income (income from residents) is generally subject to 10% income tax. In addition, interest income on deposit placement with other FCDUs and offshore banking units (OBUs) is taxed at 7.50%. Republic Act No. 9294, an act restoring the tax exemption of OBUs and FCDUs, 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% income tax.

a. Details of the Group's deferred income tax assets and liabilities as of December 31 follow:

|                                                                                  | 2017                                                   |                                                             | 2016                                                   |                                                             |
|----------------------------------------------------------------------------------|--------------------------------------------------------|-------------------------------------------------------------|--------------------------------------------------------|-------------------------------------------------------------|
|                                                                                  | Net<br>Deferred<br>Income Tax<br>Assets <sup>(1)</sup> | Net<br>Deferred<br>Income Tax<br>Liabilities <sup>(2)</sup> | Net<br>Deferred<br>Income Tax<br>Assets <sup>(3)</sup> | Net<br>Deferred<br>Income Tax<br>Liabilities <sup>(4)</sup> |
|                                                                                  | (In Thousands)                                         |                                                             |                                                        |                                                             |
| Recognized directly in the consolidated statements of income:                    |                                                        |                                                             |                                                        |                                                             |
| Deferred income tax assets on:                                                   |                                                        |                                                             |                                                        |                                                             |
| Allowance for impairment loss on:                                                |                                                        |                                                             |                                                        |                                                             |
| Receivables                                                                      | ₱5,581,034                                             | ₱12,270                                                     | ₱5,142,623                                             | ₱11,502                                                     |
| Inventories                                                                      | 1,440                                                  | 3,282                                                       | –                                                      | 3,740                                                       |
| Property, plant and equipment                                                    | –                                                      | 51,333                                                      | –                                                      | 48,383                                                      |
| Accumulated depreciation on investment properties                                | 613,875                                                | –                                                           | 611,940                                                | –                                                           |
| Unrealized losses on:                                                            |                                                        |                                                             |                                                        |                                                             |
| Inventory on hand                                                                | –                                                      | 4,675                                                       | –                                                      | 5,356                                                       |
| Sale of property to a subsidiary                                                 | 384,523                                                | 4,529                                                       | 384,523                                                | –                                                           |
| Net retirement benefits liabilities                                              | 134,581                                                | 199,511                                                     | 54,593                                                 | 241,550                                                     |
| Deferred rent expense                                                            | 52,531                                                 | –                                                           | 44,192                                                 | –                                                           |
| Advance rentals                                                                  | 25,278                                                 | –                                                           | 27,350                                                 | –                                                           |
| Accrued expenses                                                                 | 14,395                                                 | –                                                           | 18,505                                                 | 5,697                                                       |
| Excess MCIT                                                                      | 13,624                                                 | 3,315                                                       | 18,445                                                 | –                                                           |
| Reserve for unearned premiums                                                    | 8,871                                                  | –                                                           | 7,498                                                  | –                                                           |
| Unamortized past service cost                                                    | 904                                                    | 7,955                                                       | 4,224                                                  | 15,003                                                      |
| NOLCO                                                                            | 10,217                                                 | 11,617                                                      | –                                                      | –                                                           |
| Difference between tax and book basis of accounting for real estate transactions | 5,092                                                  | –                                                           | 625                                                    | –                                                           |
| Provision for losses                                                             | –                                                      | 4,396                                                       | –                                                      | 3,372                                                       |
| Gain on sale of asset                                                            | –                                                      | –                                                           | –                                                      | 6,678                                                       |
| Reserves and others                                                              | 6,263                                                  | 53,637                                                      | 38,599                                                 | 1,087                                                       |
|                                                                                  | 6,852,628                                              | 356,520                                                     | 6,353,117                                              | 342,368                                                     |
| Deferred income tax liabilities on:                                              |                                                        |                                                             |                                                        |                                                             |
| Revaluation increment on property, plant and equipment                           | (2,139,125)                                            | (895,524)                                                   | (2,398,472)                                            | (830,472)                                                   |
| Fair value gain on investment properties                                         | (1,615,523)                                            | –                                                           | (1,448,798)                                            | –                                                           |
| Unrealized foreign exchange gains                                                | (1,024,651)                                            | (1,337)                                                     | (666,382)                                              | (15,789)                                                    |
| Gain on re-measurement of a previously held interest                             | (160,272)                                              | –                                                           | (160,272)                                              | –                                                           |
| Net changes in fair values of FVPL financial assets                              | (164,480)                                              | (25,503)                                                    | (105,646)                                              | (20,357)                                                    |
| Deferred rental income                                                           | (44,346)                                               | (12,206)                                                    | (47,434)                                               | (1,676)                                                     |
| Difference between tax and book basis of accounting for real estate transactions | (27,117)                                               | –                                                           | (31,613)                                               | –                                                           |
| Net retirement plan assets                                                       | –                                                      | (115,718)                                                   | –                                                      | (116,813)                                                   |
| Borrowing cost capitalized to property, plant, and equipment                     | (25,095)                                               | (10,293)                                                    | –                                                      | (15,306)                                                    |

(Forward)

|                                                                                                                         | 2017                                                   |                                                             | 2016                                                   |                                                             |
|-------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------|-------------------------------------------------------------|--------------------------------------------------------|-------------------------------------------------------------|
|                                                                                                                         | Net<br>Deferred<br>Income Tax<br>Assets <sup>(1)</sup> | Net<br>Deferred<br>Income Tax<br>Liabilities <sup>(2)</sup> | Net<br>Deferred<br>Income Tax<br>Assets <sup>(3)</sup> | Net<br>Deferred<br>Income Tax<br>Liabilities <sup>(4)</sup> |
|                                                                                                                         | <i>(In Thousands)</i>                                  |                                                             |                                                        |                                                             |
| Excess of fair values over carrying values of<br>property, plant and equipment acquired through<br>business combination | P–                                                     | (P13,952)                                                   | P–                                                     | (P33,472)                                                   |
| Unamortized debt cost                                                                                                   | (7,948)                                                | –                                                           | –                                                      | –                                                           |
| Others                                                                                                                  | (76,280)                                               | (371)                                                       | (42,802)                                               | (26,835)                                                    |
|                                                                                                                         | <b>(5,284,837)</b>                                     | <b>(1,074,904)</b>                                          | <b>(4,901,419)</b>                                     | <b>(1,060,720)</b>                                          |
|                                                                                                                         | <b>1,567,791</b>                                       | <b>(718,384)</b>                                            | <b>1,451,698</b>                                       | <b>(718,352)</b>                                            |

Recognized directly in equity:

**Deferred income tax assets on:**

|                                              |       |        |   |        |
|----------------------------------------------|-------|--------|---|--------|
| Re-measurement losses on retirement benefits | 2,787 | 33,622 | – | 30,567 |
|----------------------------------------------|-------|--------|---|--------|

**Deferred income tax liabilities on:**

|                                                           |                   |                     |                   |                     |
|-----------------------------------------------------------|-------------------|---------------------|-------------------|---------------------|
| Re-measurement gains on defined benefit plans             | (109,689)         | (65,738)            | (27,539)          | (26,498)            |
| Change in AFS                                             | –                 | (64,042)            | –                 | (9,032)             |
| Revaluation increment on property, plant and<br>equipment | –                 | (599,806)           | –                 | (599,806)           |
|                                                           | <b>(109,689)</b>  | <b>(729,586)</b>    | <b>(27,539)</b>   | <b>(635,336)</b>    |
|                                                           | <b>(106,902)</b>  | <b>(695,964)</b>    | <b>(27,539)</b>   | <b>(604,769)</b>    |
|                                                           | <b>P1,460,889</b> | <b>(P1,414,348)</b> | <b>P1,424,159</b> | <b>(P1,323,121)</b> |

<sup>(1)</sup> Pertain to PWI, IPI, ADI, Eton and PNB

<sup>(2)</sup> Pertain to LTG, Saturn, PLI, AAC, TDI, ABI and FTC

<sup>(3)</sup> Pertain to LTG, Eton and PNB

<sup>(4)</sup> Pertain to Saturn, PLI, AAC, ADI, PWI, TDI, ABI, FTC and IPI

b. Provision for current income tax consists of:

|                                  | 2017                  | 2016              | 2015              |
|----------------------------------|-----------------------|-------------------|-------------------|
|                                  | <i>(In Thousands)</i> |                   |                   |
| RCIT                             | P2,965,239            | P2,020,769        | P1,900,395        |
| MCIT                             | 11,350                | 10,050            | 14,272            |
| Final tax                        | 636,527               | 505,042           | 575,860           |
| Provision for current income tax | <b>P3,613,116</b>     | <b>P2,535,861</b> | <b>P2,490,527</b> |

- c. As of December 31, 2017 and 2016, the Group has not recognized deferred income tax assets on certain deductible temporary differences such as NOLCO, excess MCIT and other items based on the assessment that sufficient taxable profit will not be available to allow the deferred income tax assets to be utilized as follows:

|                                      | 2017                  | 2016       |
|--------------------------------------|-----------------------|------------|
|                                      | <i>(In Thousands)</i> |            |
| Allowance for credit losses          | P1,817,955            | P2,288,791 |
| Accrued expenses                     | 473,101               | 648,784    |
| Net retirement benefits liability    | 455,720               | 952,686    |
| Unearned income                      | 106,881               | 122,269    |
| Derivative liabilities               | 103,025               | 69,593     |
| Unamortized past service cost        | 41,228                | 666,118    |
| Allowance for inventory obsolescence | –                     | 18,314     |
| NOLCO                                | 414,175               | 711,195    |
| Excess MCIT                          | 18,733                | 13,930     |
| Others                               | 70,760                | 159,208    |

Details of the Group's NOLCO follow (in thousands):

| Year Incurred | Amount          | Applied           | Expired          | Balance         | Expiry Year |
|---------------|-----------------|-------------------|------------------|-----------------|-------------|
| 2014          | ₱231,270        | (₱176,420)        | (₱54,850)        | ₱—              | 2017        |
| 2015          | 314,584         | —                 | —                | 314,584         | 2018        |
| 2016          | 165,341         | —                 | —                | 165,341         | 2019        |
| 2017          | 7,030           | —                 | —                | 7,030           | 2020        |
|               | <b>₱718,225</b> | <b>(₱176,420)</b> | <b>(₱54,850)</b> | <b>₱486,955</b> |             |

Details of the Group's MCIT follow (in thousands):

| Year Incurred | Amount         | Applied   | Expired         | Balance        | Expiry Year |
|---------------|----------------|-----------|-----------------|----------------|-------------|
| 2014          | ₱8,053         | ₱—        | (₱8,053)        | ₱—             | 2017        |
| 2015          | 14,272         | —         | —               | 14,272         | 2018        |
| 2016          | 10,050         | —         | —               | 10,050         | 2019        |
| 2017          | 11,350         | —         | —               | 11,350         | 2020        |
|               | <b>₱43,725</b> | <b>₱—</b> | <b>(₱8,053)</b> | <b>₱35,672</b> |             |

- d. A reconciliation of the Group's provision for income tax computed based on income before income tax at the statutory income tax rates to the provision for income tax shown in the consolidated statements of income is as follows:

|                                                                                                                                        | 2017                  | 2016       | 2015       |
|----------------------------------------------------------------------------------------------------------------------------------------|-----------------------|------------|------------|
|                                                                                                                                        | <i>(In Thousands)</i> |            |            |
| Provision for (benefit from) income tax at statutory income tax rate from:                                                             |                       |            |            |
| Continuing operations                                                                                                                  | <b>₱5,423,313</b>     | ₱3,880,696 | ₱3,665,261 |
| Discontinued operations                                                                                                                | —                     | 415,619    | (29,327)   |
|                                                                                                                                        | <b>5,423,313</b>      | 4,296,315  | 3,635,934  |
| Adjustments resulting from:                                                                                                            |                       |            |            |
| NOLCO and other deductible temporary differences for which no deferred income tax assets were recognized in current year               | <b>306,365</b>        | 284,487    | 2,683      |
| Application of NOLCO and other deductible temporary differences for which no deferred income tax assets were recognized in prior years | <b>(52,926)</b>       | (333,810)  | (153,656)  |
| Nontaxable gain on re-measurement                                                                                                      | —                     | (493,302)  | —          |
| Nontaxable gain on investment in an associate arising from contribution of non-monetary assets                                         | —                     | (316,872)  | —          |
| Nontaxable income                                                                                                                      | <b>(442,855)</b>      | (126,066)  | (553,381)  |
| Difference of itemized deduction against 40% of taxable income                                                                         | <b>(26,198)</b>       | (1,965)    | (30,229)   |
| Income subjected to final tax                                                                                                          | <b>(922,414)</b>      | (618,319)  | (700,972)  |
| Equity in net earnings of associates                                                                                                   | <b>(1,188,987)</b>    | (813,462)  | (356,692)  |
| Non-deductible expenses                                                                                                                | <b>400,757</b>        | 354,889    | 779,439    |
| Provision for income tax                                                                                                               | <b>₱3,497,055</b>     | ₱2,231,895 | ₱2,623,126 |

(Forward)

|                                                                      | 2017                  | 2016       | 2015       |
|----------------------------------------------------------------------|-----------------------|------------|------------|
|                                                                      | <i>(In Thousands)</i> |            |            |
| Provision for income tax from continuing operations                  | <b>₱3,497,055</b>     | ₱2,174,468 | ₱2,728,819 |
| Provision for (benefit from) income tax from discontinued operations | –                     | 57,427     | (105,693)  |
| Provision for income tax                                             | <b>₱3,497,055</b>     | ₱2,231,895 | ₱2,623,126 |

### 30. Equity

#### Capital Stock

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

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

- Capital stock is held by a total of 369 and 376 stockholders as of December 31, 2017 and 2016, respectively.
- Track record of registration:

| Date          | Number of Shares  |                   |
|---------------|-------------------|-------------------|
|               | <del>Listed</del> | Issue/Offer Price |
| August 1948   | 100,000           | ₱1.00             |
| November 1958 | 500,000           | 1.00              |
| December 1961 | 1,000,000         | 1.00              |
| March 1966    | 2,000,000         | 1.00              |
| March 1966    | 6,000,000         | 1.00              |
| October 1995  | 247,500,000       | 1.00              |
| October 2011  | 398,138,889       | 4.22              |
| April 2013    | 1,840,000,000     | 20.50             |

In April 2013, LTG issued 1,840.0 million shares for ₱37.7 billion, where excess over par value amounting to ₱35.9 billion was recorded as capital in excess of par. Stock issue costs amounting to ₱1.1 billion were charged against capital in excess of par in 2013. Other offering-related expenses amounting to ₱59.0 million were charged directly to “General and administrative expenses”.

#### Retained Earnings and Dividends

- On May 12, 2015, LTG’s BOD and stockholders, respectively, approved the declaration and distribution of cash dividends of ₱0.15 per share or a total of ₱1,623.2 million to all stockholders of record as of May 27, 2015 and to be paid not later than June 10, 2015.
- On April 12, 2016, LTG’s BOD and stockholders, respectively, approved the declaration and distribution of cash dividends of ₱0.15 per share or a total of ₱1,623.2 million to all shareholders of record as of April 28, 2016 and to be paid out not later than May 6, 2016.
- On March 14, 2017, LTG’s BOD approved the declaration and distribution of regular cash dividends of ₱0.15 per share and special cash dividends of ₱0.03 per share or a total of ₱1,947.9 million to all stockholders of record as of March 29, 2017, to be paid not later than April 7, 2017.

- d. Retained earnings include undistributed earnings amounting to ₱65.5 billion in 2017, ₱55.7 billion in 2016 and ₱47.0 billion in 2015, representing accumulated earnings of subsidiaries and equity in net earnings of associates and joint ventures, which are not available for dividend declaration until received in the form of dividends from the combining entities and associates.

Retained earnings are further restricted for the payment of dividends to the extent of the cost of the shares held in treasury (shares of stock of the company held by subsidiaries), unrealized foreign exchange gains except those attributable to cash and cash equivalents, fair value adjustment or gains arising from mark-to-market valuation, deferred income tax assets recognized that reduced the income tax expense and increased net income and retained earnings, and other unrealized gains or adjustments as of December 31, 2017 and 2016.

#### Preferred shares of subsidiaries issued to Parent Company

On March 20, 2013, the respective BOD's and stockholders of various Bank Holding Companies approved the increase in their authorized capital stocks comprising of common shares and preferred shares with par value of ₱1.00 per share. The preferred shares were subscribed by Tangent through conversion of its advances into investments in certain Bank Holding Companies (see Note 22). Upon approval of the Philippine SEC of the increase in authorized capital stock of Bank Holding Companies on various dates in October, November and December 2013, preferred shares amounting to ₱7.4 billion presented under "Preferred shares of subsidiary issued to Parent Company" were issued to Tangent. Unissued preferred shares amounting to ₱6.0 billion which are pending approval of the Philippine SEC are presented under "Deposit for future stock subscription" as of December 31, 2013. Upon approval of the Philippine SEC on various dates in 2014, the remaining preferred shares of ₱6.0 billion and additional conversion of advances to preferred shares during the year of ₱4.7 billion were issued to Tangent. As of December 31, 2017 and 2016, preferred shares of the subsidiary issued to the Parent Company amounted to ₱18.1 billion.

The preferred shares have the following features: non-voting, non-cumulative and non-participating as to dividends, non-redeemable for a period of seven years from the issuance and redeemable at the option of the Bank Holding Companies after seven years from the issuance thereof.

#### Other Equity Reserves

Other equity reserves as at December 31, 2017 and 2016 consist of (in thousands):

|                                                                                    |                 |
|------------------------------------------------------------------------------------|-----------------|
| Equity adjustments arising from business combination under common control (Note 1) | ₱445,113        |
| Equity adjustments from sale of the Company's shares of stock held by a subsidiary | 193,212         |
| Effect of transaction with non-controlling interest                                | 66,658          |
| Effect of sale of a subsidiary to Company                                          | 99,655          |
| Effect of sale of direct interest in a subsidiary                                  | (543)           |
|                                                                                    | <u>₱804,095</u> |

#### Shares of stock of the Company Held by Subsidiaries

Shares held by subsidiaries include 4.9 million shares owned by All Seasons amounting to ₱12.5 million as of December 31, 2017 and 2016 and 76.5 million shares owned by Saturn amounting to ₱150.9 million as of December 31, 2011. On July 25, 2012, the shares of stocks owned by Saturn were sold to Tangent at ₱4.50 per share. As a result, the excess of the selling

price over the cost of the treasury shares amounting to ₱193.2 million is presented as an addition to other equity reserves.

#### Non-controlling Interests

Below are the changes in non-controlling interests:

|                                                                         | 2017                  | 2016        | 2015        |
|-------------------------------------------------------------------------|-----------------------|-------------|-------------|
|                                                                         | <i>(In Thousands)</i> |             |             |
| Balance as of January 1                                                 | <b>₱42,506,591</b>    | ₱40,882,077 | ₱38,494,303 |
| Net income attributable to non-controlling interests                    | <b>3,749,883</b>      | 2,698,749   | 2,897,619   |
| Share in other comprehensive income, net of deferred income tax effect: |                       |             |             |
| Net changes in AFS financial assets (Note 7)                            | <b>134,878</b>        | (191,249)   | (746,334)   |
| Cumulative translation adjustments                                      | <b>218,809</b>        | 131,789     | 283,115     |
| Re-measurement gains (losses) on defined benefit plans (Notes 2 and 23) | <b>416,293</b>        | (199,210)   | (39,302)    |
| Share in re-measurement gain on defined benefit plans of an associate   | <b>(25,542)</b>       | —           | —           |
| Dividends received                                                      | —                     | (543,751)   | (7,324)     |
| Effect of changes in ownership interest (Note 37)                       | —                     | (271,814)   | —           |
| Balance as of December 31                                               | <b>₱47,000,912</b>    | ₱42,506,591 | ₱40,882,077 |

### 31. Basic/Diluted Earnings Per Share

The following tables reflect the net income and share data used in the earnings per share computations:

Basic/diluted earnings per share were calculated as follows:

|                                                                                | 2017                  | 2016       | 2015       |
|--------------------------------------------------------------------------------|-----------------------|------------|------------|
|                                                                                | <i>(In Thousands)</i> |            |            |
| Net income attributable to equity holders of the Company                       | <b>₱10,830,773</b>    | ₱9,390,407 | ₱6,599,035 |
| Divided by weighted-average number of shares                                   | <b>10,821,389</b>     | 10,821,389 | 10,821,389 |
| Basic/diluted EPS for net income attributable to equity holders of the Company | <b>₱1.00</b>          | ₱0.87      | ₱0.61      |

Earnings per share attributable to equity holders of the Group from continuing operations:

|                                                                                                           | 2017                  | 2016       | 2015       |
|-----------------------------------------------------------------------------------------------------------|-----------------------|------------|------------|
|                                                                                                           | <i>(In Thousands)</i> |            |            |
| Net income from continuing operations attributable to equity holders of the Company                       | <b>₱10,830,773</b>    | ₱9,342,679 | ₱6,312,690 |
| Divided by weighted-average number of shares                                                              | <b>10,821,389</b>     | 10,821,389 | 10,821,389 |
| Basic/diluted EPS for net income from continuing operations attributable to equity holders of the Company | <b>₱</b>              | ₱0.86      | ₱0.58      |

There are no potential common shares with dilutive effect on the basic earnings per share in 2017, 2016 and 2015.

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### 32. Financial Risk Management Objectives and Policies

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

#### Financial Risk Management Objectives and Policies of the Banking Segment

##### Risk Management Strategies

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

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

- Credit Risk
- Market Risk
- Liquidity Risk
- Operational Risk

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

- Interest Rate Risk in Banking Book (IRRBB)
- Strategic Business Risk
- Reputational Risk
- Credit Concentration Risk
- Cyber Security Risk

The banking segment's BOD has overall responsibility for the establishment and oversight of the Group's risk management framework. As delegated by the banking segment's BOD, the Risk Oversight Committee (ROC) is mandated to set risk appetite, approve frameworks, policies and processes for managing risk, and accept risks beyond the approval discretion provided to management. The ROC advises on the overall current and future risk appetite and strategy and assists in overseeing the implementation of those strategies and business plans by the banking segment's senior management.

The Risk Management Group (RMG) provides the legwork for the ROC in its role of formulating the risk management strategy, the development and maintenance of the internal risk management framework, and the definition of the governing risk management principles. The RMG provides assistance to the Assets and Liabilities Committee (ALCO) on capital management and the Board Policy Committee on the management of regulatory capital.

The mandate of the RMG involves:

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

#### Credit Risk

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

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

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

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

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

*Credit-related commitments*

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

To mitigate this risk, the banking segment requires hard collaterals, as discussed under *Collateral and other credit enhancement*, for standby LCs lines while commercial LCs are collateralized by the underlying shipments of goods to which they relate.

*Derivative financial instruments*

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

*Unit-linked financial assets*

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

*Collateral and other credit enhancement*

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

The main types of collateral obtained are as follows:

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

The disposal of the foreclosed properties is handled by the Asset Management Sector which adheres to the general policy of disposing assets at the highest possible market value.

The banking segment's management regularly monitors the market value of the collateral and requests additional collateral in accordance with the underlying agreement. The existing market value of the collateral is considered during the review of the adequacy of the allowance for credit losses. Generally, collateral is not held over loans and advances to banks except for reverse repurchase agreements.

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

*Maximum exposure to credit risk after collateral held or other credit enhancements*

An analysis of the maximum exposure to credit risk after taking into account any collateral held or other credit enhancements for the Group's banking segment is shown below:

|                                            | 2017                         |                             |                 |                                      |
|--------------------------------------------|------------------------------|-----------------------------|-----------------|--------------------------------------|
|                                            | Gross<br>Maximum<br>Exposure | Fair Value of<br>Collateral | Net<br>Exposure | Financial<br>Effect of<br>Collateral |
|                                            | <i>(In Millions)</i>         |                             |                 |                                      |
| Securities held under agreements to resell | <b>₱14,621</b>               | <b>₱14,473</b>              | <b>₱148</b>     | <b>₱14,473</b>                       |
| Loans and receivables:                     |                              |                             |                 |                                      |
| Receivable from customers*:                |                              |                             |                 |                                      |
| Business loans                             | <b>408,977</b>               | <b>573,329</b>              | <b>280,657</b>  | <b>128,320</b>                       |
| Consumers                                  | <b>45,972</b>                | <b>36,704</b>               | <b>31,580</b>   | <b>14,392</b>                        |
| GOCCs and National Government              |                              |                             |                 |                                      |
| Agencies (NGAs)                            | <b>17,429</b>                | <b>15,117</b>               | <b>2,312</b>    | <b>15,117</b>                        |
| LGUs                                       | <b>7,177</b>                 | <b>1,024</b>                | <b>6,701</b>    | <b>475</b>                           |
| Fringe benefits                            | <b>516</b>                   | <b>553</b>                  | <b>299</b>      | <b>217</b>                           |
| Unquoted debt securities                   | <b>14,674</b>                | <b>—</b>                    | <b>14,674</b>   | <b>—</b>                             |
| Other receivables                          | <b>22,461</b>                | <b>16,086</b>               | <b>21,585</b>   | <b>877</b>                           |
|                                            | <b>₱531,827</b>              | <b>₱657,286</b>             | <b>₱357,956</b> | <b>₱173,871</b>                      |

\* Receivables from customers exclude residual value of the leased asset.

|                                            | 2016                         |                             |                 |                                      |
|--------------------------------------------|------------------------------|-----------------------------|-----------------|--------------------------------------|
|                                            | Gross<br>Maximum<br>Exposure | Fair Value of<br>Collateral | Net<br>Exposure | Financial<br>Effect of<br>Collateral |
|                                            | <i>(In Millions)</i>         |                             |                 |                                      |
| Securities held under agreements to resell | <b>₱1,972</b>                | <b>₱1,969</b>               | <b>₱4</b>       | <b>₱1,969</b>                        |
| Loans and receivables:                     |                              |                             |                 |                                      |
| Receivable from customers*:                |                              |                             |                 |                                      |
| Business loans                             | <b>345,154</b>               | <b>275,990</b>              | <b>276,725</b>  | <b>68,430</b>                        |
| Consumers                                  | <b>41,225</b>                | <b>24,792</b>               | <b>28,464</b>   | <b>12,761</b>                        |
| GOCCs and National Government              |                              |                             |                 |                                      |
| Agencies (NGAs)                            | <b>19,897</b>                | <b>25,595</b>               | <b>3,089</b>    | <b>16,808</b>                        |
| LGUs                                       | <b>7,336</b>                 | <b>1,053</b>                | <b>6,806</b>    | <b>529</b>                           |
| Fringe benefits                            | <b>588</b>                   | <b>743</b>                  | <b>292</b>      | <b>296</b>                           |
| Unquoted debt securities                   | <b>6,973</b>                 | <b>2,789</b>                | <b>4,126</b>    | <b>2,789</b>                         |
| Other receivables                          | <b>21,040</b>                | <b>10,745</b>               | <b>15,156</b>   | <b>5,883</b>                         |
|                                            | <b>₱444,185</b>              | <b>₱343,676</b>             | <b>₱334,662</b> | <b>₱109,465</b>                      |

\* Receivables from customers exclude residual value of the leased asset.

The maximum credit risk, without taking into account the fair value of any collateral and netting agreements, is limited to the amounts on the balance sheet plus commitments to customers such as unused commercial letters of credit, outstanding guarantees and others as disclosed in Note 38 to the financial statements.

*Excessive risk concentration*

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

a. Limit per Client or Counterparty

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

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

b. Geographic Concentration

The table below shows the banking segment's credit risk exposures, before taking into account any collateral held or other credit enhancements, categorized by geographic location:

|                                  | 2017                 | 2016     |
|----------------------------------|----------------------|----------|
|                                  | <i>(In Millions)</i> |          |
| Philippines                      | <b>P675,612</b>      | P598,849 |
| Asia (excluding the Philippines) | <b>56,927</b>        | 49,359   |
| USA and Canada                   | <b>12,225</b>        | 19,821   |
| United Kingdom                   | <b>3,399</b>         | 2,454    |
| Other European Union Countries   | <b>2,448</b>         | 7,012    |
| Oceania                          | <b>9,318</b>         | 3,594    |
| Middle East                      | <b>11</b>            | 40       |
|                                  | <b>P759,940</b>      | P681,129 |

c. Concentration by Industry

The table below show the industry sector analysis of the banking segment's financial assets at amounts before taking into account the fair value of the loan collateral held or other credit enhancements:

|                                              | 2017                   |                                   |                           |                 |
|----------------------------------------------|------------------------|-----------------------------------|---------------------------|-----------------|
|                                              | Loans and receivables* | Trading and investment securities | Other financial assets*** | Total           |
|                                              | <i>(In Millions)</i>   |                                   |                           |                 |
| Primary target industry:                     |                        |                                   |                           |                 |
| Financial intermediaries                     | <b>P81,340</b>         | <b>P11,386</b>                    | <b>P52,731</b>            | <b>P145,457</b> |
| Electricity, gas and water                   | <b>72,591</b>          | —                                 | —                         | <b>72,591</b>   |
| Wholesale and retail                         | <b>63,607</b>          | <b>243</b>                        | —                         | <b>63,850</b>   |
| Manufacturing                                | <b>39,143</b>          | <b>256</b>                        | —                         | <b>39,399</b>   |
| Transport, storage and communication         | <b>30,808</b>          | —                                 | —                         | <b>30,808</b>   |
| Public administration and defense            | <b>23,770</b>          | —                                 | —                         | <b>23,770</b>   |
| Agriculture, hunting and forestry            | <b>7,139</b>           | —                                 | —                         | <b>7,139</b>    |
| Secondary target industry:                   |                        |                                   |                           |                 |
| Government                                   | <b>359</b>             | <b>70,845</b>                     | <b>105,497</b>            | <b>176,701</b>  |
| Real estate, renting and business activities | <b>82,786</b>          | <b>9,218</b>                      | —                         | <b>92,004</b>   |
| Construction                                 | <b>18,743</b>          | —                                 | —                         | <b>18,743</b>   |
| Others**                                     | <b>81,155</b>          | <b>7,577</b>                      | <b>746</b>                | <b>89,478</b>   |
|                                              | <b>P501,441</b>        | <b>P99,525</b>                    | <b>P158,974</b>           | <b>P759,940</b> |

\* Loans and receivables exclude residual value of the leased asset.

\*\* Others include the following sectors - Other community, social and personal services, private household, hotel and restaurant, education, mining and quarrying, and health and social work.

\*\*\* Other financial assets include the following financial assets: "Due from BSP", "Due from other banks", "Interbank loans receivable", "Securities held under agreements to resell" and other financial assets booked under "Other Assets".

|                                                 | 2016                      |                                         |                                 |          |
|-------------------------------------------------|---------------------------|-----------------------------------------|---------------------------------|----------|
|                                                 | Loans and<br>receivables* | Trading and<br>investment<br>securities | Other<br>financial<br>assets*** | Total    |
|                                                 | <i>(In Millions)</i>      |                                         |                                 |          |
| Primary target industry:                        |                           |                                         |                                 |          |
| Financial intermediaries                        | ₱60,774                   | ₱10,066                                 | ₱30,507                         | ₱101,347 |
| Electricity, gas and water                      | 63,359                    | —                                       | 9                               | 63,368   |
| Wholesale and retail                            | 49,858                    | 4,772                                   | 5                               | 54,635   |
| Manufacturing                                   | 38,352                    | 7,250                                   | 1                               | 45,603   |
| Transport, storage and<br>communication         | 40,987                    | 497                                     | —                               | 41,484   |
| Public administration and defense               | 23,290                    | —                                       | —                               | 23,290   |
| Agriculture, hunting and forestry               | 5,971                     | —                                       | —                               | 5,971    |
| Secondary target industry:                      |                           |                                         |                                 |          |
| Government                                      | 626                       | 63,321                                  | 129,310                         | 193,257  |
| Real estate, renting and business<br>activities | 67,321                    | 6,815                                   | 50                              | 74,186   |
| Construction                                    | 18,250                    | 100                                     | 1                               | 18,351   |
| Others**                                        | 58,533                    | 609                                     | 495                             | 59,637   |
|                                                 | ₱427,321                  | ₱93,430                                 | ₱160,378                        | ₱681,129 |

\* Loans and receivables exclude residual value of the leased asset.

\*\* Others include the following sectors - Other community, social and personal services, private household, hotel and restaurant, education, mining and quarrying, and health and social work.

\*\*\* Other financial assets include the following financial assets: "Due from BSP", "Due from other banks", "Interbank loans receivable", "Securities held under agreements to resell" and other financial assets booked under "Other Assets".

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

#### *Credit quality per class of financial assets*

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

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

#### Loans and Receivables

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

- **CRR 1 - Excellent**

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

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

#### Standard

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

#### Sub-standard Grade

- **CRR 9 - Fair**  
These are performing loans receivables from borrowers not qualified as CRRs 1-8. The borrower is able to withstand normal business cycles, although any prolonged unfavorable economic and/or market period would create an immediate deterioration beyond acceptable levels.
- **CRR 10 - Watchlist**  
This rating includes borrower where the credit exposure is not at risk of loss at the moment but the performance of the borrower has weakened and, unless present trends are reversed, could eventually lead to losses.
- **CRR 11 - Special Mention**  
These are loans that have potential weaknesses that deserve management's close attention. These potential weaknesses, if left uncorrected, may affect the repayment of the loan and thus increase credit risk to the banking segment.
- **CRR 12 - Substandard**  
These are loans or portions thereof which appear to involve a substantial and unreasonable degree of risk to PNB because of unfavorable record or unsatisfactory characteristics.

- CRR 13 - Doubtful

These are loans or portions thereof which have the weaknesses inherent in those classified as CRR 12 with the added characteristics that existing facts, conditions and values make collection or liquidation in full highly improbable and in which substantial loss is probable.

- CRR 14 - Loss

These are loans or portions thereof which are considered uncollectible or worthless.

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

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

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

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

The table below shows the banking segment’s receivable from customers, gross of allowance for credit losses and unearned and other deferred income, for each CRR as of December 31, 2017 and 2016, but net of residual values of leased assets.

|                                        | 2017                                                |                                                 |                          |                 |
|----------------------------------------|-----------------------------------------------------|-------------------------------------------------|--------------------------|-----------------|
|                                        | Neither Past<br>Due nor<br>Individually<br>Impaired | Past Due<br>and not<br>Individually<br>Impaired | Individually<br>Impaired | Total           |
|                                        | <i>(In Millions)</i>                                |                                                 |                          |                 |
| <b>Rated Receivable from Customers</b> |                                                     |                                                 |                          |                 |
| 1 - Excellent                          | <b>₱4,291</b>                                       | <b>₱–</b>                                       | <b>₱–</b>                | <b>₱4,291</b>   |
| 2 - Super Prime                        | <b>44,151</b>                                       | <b>–</b>                                        | <b>–</b>                 | <b>44,151</b>   |
| 3 - Prime                              | <b>79,626</b>                                       | <b>–</b>                                        | <b>–</b>                 | <b>79,626</b>   |
| 4 - Very Good                          | <b>51,583</b>                                       | <b>5</b>                                        | <b>–</b>                 | <b>51,588</b>   |
| 5 - Good                               | <b>41,160</b>                                       | <b>–</b>                                        | <b>–</b>                 | <b>41,160</b>   |
| 6 - Satisfactory                       | <b>47,553</b>                                       | <b>105</b>                                      | <b>–</b>                 | <b>47,658</b>   |
| 7 - Average                            | <b>32,300</b>                                       | <b>5</b>                                        | <b>15</b>                | <b>32,320</b>   |
| 8 - Fair                               | <b>26,324</b>                                       | <b>1</b>                                        | <b>–</b>                 | <b>26,325</b>   |
| 9 - Marginal                           | <b>8,112</b>                                        | <b>–</b>                                        | <b>61</b>                | <b>8,173</b>    |
| 10 - Watchlist                         | <b>55,367</b>                                       | <b>65</b>                                       | <b>185</b>               | <b>55,617</b>   |
| 11 - Special Mention                   | <b>3,030</b>                                        | <b>143</b>                                      | <b>160</b>               | <b>3,333</b>    |
| 12 - Substandard                       | <b>958</b>                                          | <b>38</b>                                       | <b>2,245</b>             | <b>3,241</b>    |
| 13 - Doubtful                          | <b>–</b>                                            | <b>322</b>                                      | <b>719</b>               | <b>1,041</b>    |
| 14 - Loss                              | <b>–</b>                                            | <b>11</b>                                       | <b>2,986</b>             | <b>2,997</b>    |
|                                        | <b>₱394,455</b>                                     | <b>₱695</b>                                     | <b>₱6,371</b>            | <b>₱401,521</b> |

(Forward)

| 2017                                     |                                                     |                                                 |                          |          |
|------------------------------------------|-----------------------------------------------------|-------------------------------------------------|--------------------------|----------|
|                                          | Neither Past<br>Due nor<br>Individually<br>Impaired | Past Due<br>and not<br>Individually<br>Impaired | Individually<br>Impaired | Total    |
| <b>Unrated Receivable from Customers</b> |                                                     |                                                 |                          |          |
| Consumers                                | P18,241                                             | P469                                            | P711                     | P19,421  |
| LGUs                                     | 51,342                                              | 1,427                                           | 218                      | 52,987   |
| Fringe Benefits                          | 7,001                                               | 35                                              | 150                      | 7,186    |
| GOCCs and NGAs                           | 493                                                 | 4                                               | 13                       | 510      |
|                                          | 77,077                                              | 1,935                                           | 1,092                    | 80,104   |
|                                          | P471,532                                            | P2,630                                          | P7,463                   | P481,625 |
| 2016                                     |                                                     |                                                 |                          |          |
|                                          | Neither Past<br>Due nor<br>Individually<br>Impaired | Past Due<br>and not<br>Individually<br>Impaired | Individually<br>Impaired | Total    |
| <i>(In Millions)</i>                     |                                                     |                                                 |                          |          |
| <b>Rated Receivable from Customers</b>   |                                                     |                                                 |                          |          |
| 1 - Excellent                            | P5,087                                              | P1                                              | P—                       | P5,088   |
| 2 - Super Prime                          | 50,660                                              | —                                               | —                        | 50,660   |
| 3 - Prime                                | 81,566                                              | —                                               | —                        | 81,566   |
| 4 - Very Good                            | 46,455                                              | —                                               | —                        | 46,455   |
| 5 - Good                                 | 28,223                                              | —                                               | —                        | 28,223   |
| 6 - Satisfactory                         | 37,119                                              | 34                                              | —                        | 37,153   |
| 7 - Average                              | 26,039                                              | 5                                               | —                        | 26,044   |
| 8 - Fair                                 | 21,057                                              | —                                               | —                        | 21,057   |
| 9 - Marginal                             | 5,856                                               | —                                               | —                        | 5,856    |
| 10 - Watchlist                           | 44,136                                              | 5                                               | —                        | 44,141   |
| 11 - Special Mention                     | 2,786                                               | 79                                              | 149                      | 3,014    |
| 12 - Substandard                         | 777                                                 | 484                                             | 611                      | 1,872    |
| 13 - Doubtful                            | 6                                                   | 113                                             | 414                      | 533      |
| 14 - Loss                                | 3                                                   | 257                                             | 3,901                    | 4,161    |
|                                          | 349,770                                             | 978                                             | 5,075                    | 355,823  |
| Business Loans                           | P37,549                                             | P803                                            | P27                      | P38,379  |
| Consumers                                | 12,367                                              | 465                                             | 568                      | 13,400   |
| LGUs                                     | 7,196                                               | 10                                              | 130                      | 7,336    |
| GOCCs and NGAs                           | 561                                                 | 12                                              | —                        | 573      |
| Fringe Benefits                          | 178                                                 | —                                               | —                        | 178      |
|                                          | 57,851                                              | 1,290                                           | 725                      | 59,866   |
|                                          | P407,621                                            | P2,268                                          | P5,800                   | P415,689 |

Under PFRS 7, a financial asset is past due when a counterparty has failed to make a payment when contractually due. The table below shows the aging analysis of the banking segment of past due but not impaired loans and receivables per class.

|                 | 2017                 |                            |        |                            | 2016                |                            |        |
|-----------------|----------------------|----------------------------|--------|----------------------------|---------------------|----------------------------|--------|
|                 | 31 to<br>90<br>days  | More<br>than<br>90<br>days | Total  | Less<br>than<br>30<br>days | 31 to<br>90<br>days | More<br>than<br>90<br>days | Total  |
|                 | <i>(In Millions)</i> |                            |        |                            |                     |                            |        |
| Consumers       | ₱148                 | ₱1,149                     | ₱1,534 | ₱236                       | ₱20                 | ₱583                       | ₱839   |
| Business loans  | 159                  | 773                        | 1,056  | 118                        | 160                 | 1,529                      | 1,807  |
| LGUs            | —                    | —                          | 37     | —                          | —                   | 10                         | 10     |
| Fringe benefits | —                    | 3                          | 3      | —                          | —                   | 12                         | 12     |
| Total           | ₱307                 | ₱1,925                     | ₱2,630 | ₱354                       | ₱180                | ₱2,134                     | ₱2,668 |

#### Trading and Investment Securities and Other Financial Assets

In ensuring quality investment portfolio, PNB uses the credit risk rating based on the external ratings of eligible external credit rating institutions (i.e., Moody's Investors Service) as follows:

Aaa to Aa3 - fixed income are judged to be of high quality and are subject to very low credit risk, but their susceptibility to long-term risks appears somewhat greater.

A1 to A3 - fixed income obligations are considered upper-medium grade and are subject to low credit risk, but have elements present that suggest a susceptibility to impairment over the long term.

Baa1 and below - represents those investments which fall under any of the following grade:

- Baa1, Baa2, Baa3 - fixed income obligations are subject to moderate credit risk. They are considered medium grade and as such protective elements may be lacking or may be characteristically unreliable.
- Ba1, Ba2, Ba3 - obligations are judged to have speculative elements and are subject to substantial credit risk.
- B1, B2, B3 - obligations are considered speculative and are subject to high credit risk.
- Caa1, Caa2, Caa3 - are judged to be of poor standing and are subject to very high credit risk.
- Ca - are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest.
- C - are the lowest rated class of bonds and are typically in default, with little prospect for recovery of principal or interest.

Below are the financial assets of the banking segment, excluding receivables from customers, which are monitored using external ratings.

|                                                   | December 31, 2017 |          |                |          |                       |          |
|---------------------------------------------------|-------------------|----------|----------------|----------|-----------------------|----------|
|                                                   | Rated             |          |                |          |                       |          |
|                                                   | Aaa to Aa3        | A1 to A3 | Baa1 and below | Subtotal | Unrated <sup>6/</sup> | Total    |
|                                                   | (In Millions)     |          |                |          |                       |          |
| Due from BSP <sup>1/</sup>                        | P–                | P–       | P108,744       | P108,744 | P–                    | P108,744 |
| Due from other banks                              | 5,679             | 5,156    | 3,392          | 14,227   | 7,798                 | 22,025   |
| Interbank loans receivables                       | 5,801             | 2,754    | 3,590          | 12,145   | 693                   | 12,838   |
| Securities held under agreements to resell        | –                 | –        | 14,621         | 14,621   | –                     | 14,621   |
| Financial assets at FVPL:                         |                   |          |                |          |                       |          |
| Held-for-trading:                                 |                   |          |                |          |                       |          |
| Government securities                             |                   |          | 1,822          | 1,822    | 386                   | 2,208    |
| Derivative assets <sup>2/</sup>                   |                   |          | 298            | 408      | 155                   | 563      |
| Private debt securities                           |                   |          | –              | –        | 31                    | 31       |
| Equity securities                                 |                   |          | 43             | 43       | 31                    | 74       |
| Investment in Unit Investment Trust Funds (UITFs) |                   |          | 6              | 6        | –                     | 6        |
| AFS investments <sup>5/</sup> :                   |                   |          |                |          |                       |          |
| Government securities                             | 2,240             | –        | 33,736         | 35,976   | 5,645                 | 41,621   |
| Private debt securities                           | 2,284             | 5,942    | 9,044          | 17,270   | 9,650                 | 26,920   |
| Quoted equity securities                          | –                 | –        | 140            | 140      | 1,005                 | 1,145    |
| Unquoted equity securities                        | –                 | –        | 1              | 1        | 146                   | 147      |
| HTM investments                                   |                   |          |                |          |                       |          |
| Government securities                             | 125               | –        | 23,959         | 24,084   | 2,721                 | 26,805   |
| Loans and receivables:                            |                   |          |                |          |                       |          |
| Unquoted debt securities <sup>3/</sup>            | –                 | –        | 149            | 149      | 10,785                | 10,934   |
| Others <sup>4/</sup>                              |                   |          | 12,561         | –        | –                     | 12,561   |

<sup>1/</sup> "Due from BSP" is composed of interest-earning short-term placements with the BSP and a demand deposit account to support the regular operations of PNB.

<sup>2/</sup> Derivative assets represent the value of credit derivatives embedded in host contracts issued by financial intermediaries and the mark-to-market valuation of freestanding derivatives (see Note 21).

<sup>3/</sup> Unquoted debt securities represent investments in bonds and notes issued by financial intermediaries, government and private entities that are not quoted in the market, net of allowances.

<sup>4/</sup> Loans and receivables - Others is composed of accrued interest receivable, accounts receivable, sales contracts receivable and other miscellaneous receivables, net of allowances (see Note 8)

<sup>5/</sup> AFS investments are presented net of allowances (see Note 7).

<sup>6/</sup> As of December 31, 2017, financial assets that are unrated are neither past due nor impaired.

|                                                         | December 31, 2016    |          |                   |          |                       |          |
|---------------------------------------------------------|----------------------|----------|-------------------|----------|-----------------------|----------|
|                                                         | Rated                |          |                   |          |                       |          |
|                                                         | Aaa to Aa3           | A1 to A3 | Baa1<br>and below | Subtotal | Unrated <sup>6/</sup> | Total    |
|                                                         | <i>(In Millions)</i> |          |                   |          |                       |          |
| Due from BSP <sup>1/</sup>                              |                      |          | ₱127,338          | ₱127,338 |                       | ₱127,338 |
| Due from other banks                                    | 5,051                | 6,462    | 10,580            | 22,093   | 617                   | 22,710   |
| Interbank loans receivables                             | 4,929                | 1,867    | 996               | 7,792    | –                     | 7,792    |
| Securities held under agreements<br>to resell           | –                    | –        | 1,972             | 1,972    | –                     | 1,972    |
| Financial assets at FVPL:                               |                      |          |                   |          |                       |          |
| Held-for-trading:                                       |                      |          |                   |          |                       |          |
| Government securities                                   | –                    | –        | 949               | 949      | 364                   | 1,313    |
| Private debt securities                                 | 44                   | 28       | 10                | 82       | 338                   | 420      |
| Derivative assets <sup>2/</sup>                         | –                    | –        | –                 | –        | 121                   | 121      |
| Equity securities                                       | –                    | –        | 27                | 27       | 27                    | 54       |
| Investment in Unit<br>Investment Trust Funds<br>(UITFs) | –                    | –        | 6                 | 6        | –                     | 6        |
| AFS investments <sup>5/</sup> :                         |                      |          |                   |          |                       |          |
| Government securities                                   | 1,548                | –        | 36,202            | 37,750   | 84                    | 37,834   |
| Private debt securities                                 | 4,299                | 2,880    | 4,964             | 12,143   | 16,697                | 28,840   |
| Quoted equity securities                                | –                    | –        | 54                | 54       | 440                   | 494      |
| Unquoted equity securities                              | 17                   | –        | 1                 | 18       | 154                   | 172      |
| HTM investments                                         |                      |          |                   |          |                       |          |
| Government securities                                   | 100                  | –        | 22,842            | 22,942   | 1,233                 | 24,175   |
| Loans and receivables:                                  |                      |          |                   |          |                       |          |
| Unquoted debt securities <sup>3/</sup>                  | –                    | –        | –                 | –        | 3,285                 | 3,285    |
| Others <sup>4/</sup>                                    | –                    | –        | –                 | –        | 18,208                | 18,208   |

<sup>1/</sup> 'Due from BSP' is composed of interest-earning short-term placements with the BSP and a demand deposit account to support the regular operations of PNB.

<sup>2/</sup> Derivative assets represent the value of credit derivatives embedded in host contracts issued by financial intermediaries and the mark-to-market valuation of freestanding derivatives (see Note 21).

<sup>3/</sup> Unquoted debt securities represent investments in bonds and notes issued by financial intermediaries, government and private entities that are not quoted in the market, net of allowances.

<sup>4/</sup> Loans and receivables - Others is composed of accrued interest receivable, accounts receivable, sales contracts receivable and other miscellaneous receivables, net of allowances (see Note 8)

<sup>5/</sup> AFS investments are presented net of allowances (see Note 7).

<sup>6/</sup> As of December 31, 2016,, financial assets that are unrated are neither past due nor impaired.

### Impairment assessment

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

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

a. Specific (individual) assessment

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

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

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

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

b. Collective assessment

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

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

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

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

Liquidity Risk and Funding Management

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

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

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

The table below shows the banking segment's financial assets and financial liabilities' liquidity information which includes coupon cash flows categorized based on the expected date on which the asset will be realized and the liability will be settled. For other assets, the analysis into maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date or if earlier, the expected date the assets will be realized.

|                                                                | 2017             |                                     |                                      |                                    |             |          |
|----------------------------------------------------------------|------------------|-------------------------------------|--------------------------------------|------------------------------------|-------------|----------|
|                                                                | Up to 1<br>Month | More than<br>1 Month to<br>3 Months | More than<br>3 Months to<br>6 Months | More than<br>6 Months to<br>1 Year | Beyond<br>1 | Total    |
|                                                                | (In Millions)    |                                     |                                      |                                    |             |          |
| Financial Assets                                               |                  |                                     |                                      |                                    |             |          |
| COCI                                                           | ₱12,391          | ₱—                                  | ₱—                                   | ₱—                                 | ₱—          | ₱12,391  |
| Due from BSP and other banks                                   | 130,769          | —                                   | —                                    | —                                  | —           | 130,769  |
| Interbank loans receivable                                     | 12,287           | 228                                 | 173                                  | 150                                | —           | 12,838   |
| Securities held under agreements to<br>resell                  | 14,621           | —                                   | —                                    | —                                  | —           | 14,621   |
| Financial assets at FVPL:                                      |                  |                                     |                                      |                                    |             |          |
| Held-for-trading:                                              |                  |                                     |                                      |                                    |             |          |
| Government securities                                          | 2,208            | —                                   | —                                    | —                                  | —           | 2,208    |
| Equity securities                                              | 74               | —                                   | —                                    | —                                  | —           | 74       |
| Private debt securities                                        | 31               | —                                   | —                                    | —                                  | —           | 31       |
| Derivative assets:                                             |                  |                                     |                                      |                                    |             |          |
| Gross contractual<br>receivable                                | 30,057           | 5,364                               | 565                                  | 104                                | 788         | 36,878   |
| Gross contractual payable                                      | (29,835)         | (5,327)                             | (541)                                | (81)                               | (530)       | (36,314) |
|                                                                | 172,603          | 265                                 | 197                                  | 173                                | 258         | 173,496  |
| Designated at FVPL:                                            |                  |                                     |                                      |                                    |             |          |
| Investment in UITFs                                            |                  | —                                   | —                                    | —                                  | —           | 6        |
| AFS investments:                                               |                  |                                     |                                      |                                    |             |          |
| Government securities                                          | 467              | 575                                 | 936                                  | 1,330                              | 45,921      | 49,229   |
| Private debt securities                                        | 124              | 122                                 | 342                                  | 2,260                              | 29,676      | 32,524   |
| Equity securities                                              | —                | —                                   | —                                    | —                                  | 1,291       | 1,291    |
| HTM investments:                                               |                  |                                     |                                      |                                    |             |          |
| Government securities                                          | 189              | 212                                 | 304                                  | 757                                | 44,208      | 45,670   |
| Loans and receivables:                                         |                  |                                     |                                      |                                    |             |          |
| Receivables from customers                                     | 80,262           | 67,820                              | 22,814                               | 12,711                             | 388,954     | 572,561  |
| Unquoted debt securities                                       | 6,385            | 4,997                               | 3,218                                | —                                  | 85          | 14,685   |
| Other receivables                                              | 6,366            | 811                                 | 852                                  | 870                                | 14,480      | 23,379   |
| Other assets                                                   | 887              | —                                   | —                                    | —                                  | 47          | 934      |
| Total financial assets                                         | ₱94,686          | ₱74,537                             | ₱ 28,466                             | ₱17,928                            | ₱524,662    | ₱740,279 |
| Financial Liabilities                                          |                  |                                     |                                      |                                    |             |          |
| Deposit liabilities:                                           |                  |                                     |                                      |                                    |             |          |
| Demand                                                         | ₱125,582         | ₱—                                  | ₱—                                   | ₱—                                 | ₱—          | ₱125,582 |
| Savings                                                        | 291,611          | 31,169                              | 12,960                               | 18,754                             | 15,869      | 370,363  |
| Time                                                           | 44,892           | 41,380                              | 12,008                               | 10,078                             | 59,496      | 167,854  |
| Financial liabilities at FVPL:                                 |                  |                                     |                                      |                                    |             |          |
| Derivative liabilities:                                        |                  |                                     |                                      |                                    |             |          |
| Gross contractual payable                                      | (17,063)         | (2,950)                             | (44)                                 | (104)                              | (598)       | (20,759) |
| Gross contractual receivable                                   | 16,935           | 2,942                               | 41                                   | 83                                 | 415         | 20,416   |
|                                                                | (128)            | (8)                                 | (3)                                  | (21)                               | (183)       | (343)    |
| Bills and acceptances payable                                  | 14,828           | 1,108                               | 4,390                                | 5,075                              | 12,967      | 38,368   |
| Subordinated debt                                              |                  |                                     |                                      |                                    |             |          |
| Accrued interest payable and<br>accrued other expenses payable | 1,544            | 156                                 | 30                                   | 10                                 | 17          | 1,757    |
| Other liabilities                                              | 19,622           | 180                                 | 75                                   | 183                                | 1,502       | 21,562   |
| Total financial liabilities                                    | ₱497,951         | ₱73,985                             | ₱29,460                              | ₱34,079                            | ₱89,668     | ₱725,143 |

|                                                             | 2017             |                                     |                                      |                                       |                  |          |
|-------------------------------------------------------------|------------------|-------------------------------------|--------------------------------------|---------------------------------------|------------------|----------|
|                                                             | Up to 1<br>Month | More than<br>1 Month to<br>3 Months | More than<br>3 Months to<br>6 Months | More than<br>6 Months to<br>1 Year    | Beyond<br>1 year | Total    |
|                                                             | 2016             |                                     |                                      |                                       |                  |          |
|                                                             | Up to 1<br>Month | More than<br>1 Month to<br>3 Months | More than<br>3 Months to<br>6 Months | More than<br>6 Months<br>to<br>1 Year | Beyond<br>1 year | Total    |
|                                                             | (In Millions)    |                                     |                                      |                                       |                  |          |
| Financial Assets                                            |                  |                                     |                                      |                                       |                  |          |
| COCI                                                        | ₱11,015          | ₱–                                  | ₱–                                   | ₱–                                    | ₱–               | ₱11,015  |
| Due from BSP and other banks                                | 150,054          | –                                   | –                                    | –                                     | –                | 150,054  |
| Interbank loans receivable                                  | 6,488            | 1,006                               | 150                                  | 151                                   | –                | 7,795    |
| Securities held under agreements to resell                  | 1,973            | –                                   | –                                    | –                                     | –                | 1,973    |
| Financial assets at FVPL:                                   |                  |                                     |                                      |                                       |                  |          |
| Held-for-trading:                                           |                  |                                     |                                      |                                       |                  |          |
| Government securities                                       | 1,318            | –                                   | –                                    | –                                     | –                | 1,318    |
| Equity securities                                           | 55               | –                                   | –                                    | –                                     | –                | 55       |
| Private debt securities                                     | 121              | –                                   | –                                    | –                                     | –                | 121      |
| Derivative assets:                                          |                  |                                     |                                      |                                       |                  |          |
| Gross contractual receivable                                | 23,135           | 603                                 | 363                                  | 97                                    | 945              | 25,143   |
| Gross contractual payable                                   | (23,027)         | (603)                               | (360)                                | (82)                                  | (652)            | (24,724) |
|                                                             | 108              | –                                   | 3                                    | 15                                    | 293              | 419      |
| Designated at FVPL:                                         |                  |                                     |                                      |                                       |                  |          |
| Investment in UITFs                                         | 6                | –                                   | –                                    | –                                     | –                | 6        |
| AFS investments:                                            |                  |                                     |                                      |                                       |                  |          |
| Government securities                                       | 445              | 1,360                               | 833                                  | 952                                   | 44,484           | 48,074   |
| Private debt securities                                     | 216              | 181                                 | 312                                  | 608                                   | 33,527           | 34,844   |
| Equity securities                                           | –                | –                                   | –                                    | –                                     | 666              | 666      |
| HTM investments:                                            |                  |                                     |                                      |                                       |                  |          |
| Government securities                                       | 187              | 188                                 | 268                                  | 639                                   | 42,326           | 43,608   |
| Loans and receivables:                                      |                  |                                     |                                      |                                       |                  |          |
| Receivables from customers                                  | 51,282           | 61,017                              | 22,992                               | 21,983                                | 322,823          | 480,097  |
| Unquoted debt securities                                    | 58               | 2,732                               | 3                                    | 3                                     | 4,211            | 7,007    |
| Other receivables                                           | 7,747            | 690                                 | 1,609                                | 330                                   | 12,234           | 22,610   |
| Other assets                                                | 459              | 1                                   | 2                                    | 20                                    | 86               | 568      |
| Total financial assets                                      | ₱231,532         | ₱67,175                             | ₱26,172                              | ₱24,701                               | ₱460,650         | ₱810,230 |
| Financial Liabilities                                       |                  |                                     |                                      |                                       |                  |          |
| Deposit liabilities:                                        |                  |                                     |                                      |                                       |                  |          |
| Demand                                                      | ₱117,329         | ₱–                                  | ₱–                                   | ₱–                                    | ₱–               | ₱117,329 |
| Savings                                                     | 291,611          | 31,169                              | 12,960                               | 18,754                                | 15,869           | 370,363  |
| Time                                                        | 23,862           | 17,471                              | 8,226                                | 6,372                                 | 33,651           | 89,582   |
| Financial liabilities at FVPL:                              |                  |                                     |                                      |                                       |                  |          |
| Derivative liabilities:                                     |                  |                                     |                                      |                                       |                  |          |
| Gross contractual payable                                   | 4,267            | 1,032                               | 338                                  | 97                                    | 795              | 6,529    |
| Gross contractual receivable                                | (4,259)          | (1,028)                             | (336)                                | (85)                                  | (589)            | (6,297)  |
|                                                             | 8                | 4                                   | 2                                    | 12                                    | 206              | 232      |
| Bills and acceptances payable                               | 14,828           | 1,108                               | 4,390                                | 5,075                                 | 12,967           | 38,368   |
| Subordinated debt                                           | –                | 51                                  | 51                                   | 103                                   | 4,425            | 4,630    |
| Accrued interest payable and accrued other expenses payable | 586              | 233                                 | 248                                  | 620                                   | –                | 1,687    |
| Other liabilities                                           | 19,115           | 57                                  | 58                                   | 12                                    | 1,483            | 20,725   |
| Total financial liabilities                                 | ₱467,339         | ₱50,093                             | ₱25,935                              | ₱30,948                               | ₱68,601          | ₱642,916 |

### Market Risks

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

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

#### *Trading market risk*

Trading market risk exists in the banking segment as the values of its trading positions are sensitive to changes in market rates such as interest rates, foreign exchange rates and equity prices. PNB is exposed to trading market risk in the course of market making as well as from taking advantage of market opportunities. For internal monitoring of the risk in the trading portfolio, the banking segment uses the Value-at-Risk (VaR) as a primary risk measurement tool. It adopts both the Parametric VaR methodology and Historical Simulation methodology (with 99% confidence level) models were validated by an external independent validator. Volatilities used in the parametric are updated on a daily basis and are based on historical data for a rolling 261-day period while yields and prices in the historical VaR approach are also updated daily. The RMG reports the VaR utilization and breaches to limits to the risk taking personnel on a daily basis and to the ALCO and ROC on a monthly basis. All risk reports discussed in the ROC meeting are noted by the banking segment's BOD. The VaR figures are back-tested to validate the robustness of the VaR model. Results of backtesting on a rolling one year period are also reported to the ROC. Below are the objectives and limitations of the VaR methodology, VaR assumptions/parameters, backtesting, stress testing and VaR limits.

#### a. Objectives and limitations of the VaR methodology

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

#### b. VaR assumptions/parameters

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

#### c. Backtesting

The validity of the assumptions underlying the banking segment's VaR models can only be checked by appropriate backtesting procedures. Backtesting is a formal statistical framework that consists of verifying that actual losses are within the projected VaR approximations. The banking segment adopts both the clean backtesting and dirty backtesting approaches approach in backtesting. Clean backtesting, consists of comparing the VaR estimates with some

hypothetical P&L values of the portfolio, having kept its composition unchanged. In this case, the same portfolio is repriced or marked-to-market at the end of the time interval and the hypothetical P&L is then compared with the VaR. The other method, called dirty backtesting, consists of comparing the VaR estimates with the actual P&L values at the end of the time horizon. This method, however, may pose a problem if the portfolio has changed drastically because of trading activities between the beginning and the end of the time horizon since VaR models assume that the portfolio is "frozen" over the horizon. The Parent Company uses the regulatory 3-zone (green, yellow and red) boundaries in evaluating the backtesting results. For the years 2016 and 2015, the number of observations which fell outside the VaR is within the allowable number of exceptions in the green and yellow zones to conclude that there is no problem with the quality and accuracy of the VaR models at 99.00% confidence level. Nonetheless, closer monitoring and regular review of the model's parameters and assumptions are being conducted.

d. Stress Testing

To complement the VaR approximations, the banking segment conducts stress testing on a quarterly basis, the results of which are being reported to the banking segment's BOD. Scenarios used in the conduct of stress test are event driven and represent the worst one-off event of a specific risk factor. Results of stress testing are analyzed in terms of the impact to earnings and capital.

e. VaR Limits

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

| Trading Portfolio        | Foreign<br>Exchange* | Interest<br>Rate | Equities<br>Price | Total VaR**    |
|--------------------------|----------------------|------------------|-------------------|----------------|
| <i>(In Millions)</i>     |                      |                  |                   |                |
| <b>December 31, 2017</b> | <b>₱7.30</b>         | <b>₱179.72</b>   | <b>₱1.29</b>      | <b>₱188.31</b> |
| <b>Average Daily</b>     | <b>3.75</b>          | <b>178.20</b>    | <b>0.74</b>       | <b>182.69</b>  |
| <b>Highest</b>           | <b>18.25</b>         | <b>324.06</b>    | <b>1.52</b>       | <b>343.83</b>  |
| <b>Lowest</b>            | <b>0.63</b>          | <b>58.00</b>     | <b>0.26</b>       | <b>58.89</b>   |
| December 31, 2016        | 1.65                 | 77.87            | 1.39              | 80.91          |
| Average Daily            | 3.35                 | 161.09           | 4.73              | 169.17         |
| Highest                  | 12.09                | 444.55           | 9.14              | 465.78         |
| Lowest                   | 0.62                 | 34.67            | 1.33              | 36.62          |

\* FX VaR is the bankwide foreign exchange risk

\*\* The high and low for the total portfolio may not equal the sum of the individual components as the highs and lows of the individual trading portfolios may have occurred on different trading days

The table below shows the interest rate VaR for AFS investments:

|                      | 2017          | 2016   |
|----------------------|---------------|--------|
| <i>(In Millions)</i> |               |        |
| End of year          | <b>₱1,342</b> | ₱1,399 |
| Average Daily        | <b>1,245</b>  | 1,262  |
| Highest              | <b>1,917</b>  | 1,575  |
| Lowest               | <b>812</b>    | 859    |

## Structural Market Risk of the Banking Segment

### Non-trading Market Risk

#### *Interest rate risk*

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

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

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

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

The following table sets forth the repricing gap position of the banking segment:

|                                                              | December 31, 2017    |                               |                               |                                |                   |                   |
|--------------------------------------------------------------|----------------------|-------------------------------|-------------------------------|--------------------------------|-------------------|-------------------|
|                                                              | Up to 1<br>Month     | More than<br>1 to 3<br>Months | More than<br>3 to 6<br>Months | More than<br>6 to 12<br>months | Beyond<br>1 year  | Total             |
|                                                              | <i>(In Millions)</i> |                               |                               |                                |                   |                   |
| <b>Financial Assets*</b>                                     |                      |                               |                               |                                |                   |                   |
| Due from BSP and other banks                                 | <b>P24,660</b>       | <b>P2,121</b>                 | <b>P728</b>                   | <b>P186</b>                    | <b>P4,590</b>     | <b>P32,285</b>    |
| Interbank loans receivable                                   | <b>19,962</b>        | <b>7,327</b>                  | <b>170</b>                    | <b>—</b>                       | <b>—</b>          | <b>27,459</b>     |
| Receivable from customers and<br>other receivables - gross** | <b>133,507</b>       | <b>75,008</b>                 | <b>17,509</b>                 | <b>23,249</b>                  | <b>89,054</b>     | <b>338,327</b>    |
| <b>Total financial assets</b>                                | <b>P178,129</b>      | <b>P84,456</b>                | <b>P18,407</b>                | <b>P23,435</b>                 | <b>P93,644</b>    | <b>P398,071</b>   |
| <b>Financial Liabilities*</b>                                |                      |                               |                               |                                |                   |                   |
| Deposit liabilities:                                         |                      |                               |                               |                                |                   |                   |
| Savings                                                      | <b>P75,794</b>       | <b>P22,624</b>                | <b>P12,265</b>                | <b>P17,355</b>                 | <b>P223,384</b>   | <b>P351,422</b>   |
| Time***                                                      | <b>59,937</b>        | <b>25,560</b>                 | <b>10,091</b>                 | <b>10,243</b>                  | <b>23,721</b>     | <b>129,552</b>    |
| Bills and acceptances payable                                | <b>22,795</b>        | <b>15,547</b>                 | <b>753</b>                    | <b>885</b>                     | <b>3,937</b>      | <b>43,917</b>     |
| <b>Total financial liabilities</b>                           | <b>P158,526</b>      | <b>P63,731</b>                | <b>P23,109</b>                | <b>P28,483</b>                 | <b>P251,042</b>   | <b>P524,891</b>   |
| <b>Repricing gap</b>                                         | <b>P19,603</b>       | <b>P20,725</b>                | <b>(P4,702)</b>               | <b>(P5,048)</b>                | <b>(P157,398)</b> | <b>(P126,820)</b> |
| <b>Cumulative gap</b>                                        | <b>19,603</b>        | <b>40,328</b>                 | <b>35,626</b>                 | <b>30,579</b>                  | <b>(126,820)</b>  | <b>—</b>          |

\*Financial instruments that are not subject to repricing/rollforward were excluded.

\*\*Receivable from customers excludes residual value of leased assets.

\*\*\*Excludes LTNCD

|                                                              | December 31, 2016 |                               |                               |                                |                  |          |
|--------------------------------------------------------------|-------------------|-------------------------------|-------------------------------|--------------------------------|------------------|----------|
|                                                              | Up to 1<br>Month  | More than<br>1 to 3<br>Months | More than<br>3 to 6<br>Months | More than<br>6 to 12<br>months | Beyond<br>1 year | Total    |
|                                                              | (In Millions)     |                               |                               |                                |                  |          |
| <b>Financial Assets*</b>                                     |                   |                               |                               |                                |                  |          |
| Due from BSP and other banks                                 | ₱57,092           | ₱36                           | ₱15                           | ₱14                            | ₱191             | ₱62,948  |
| Interbank loans receivable                                   | 6,483             | 1,159                         | —                             | 149                            | —                | 7,791    |
| Receivable from customers and other<br>receivables - gross** | 112,590           | 69,562                        | 13,940                        | 3,331                          | 66,612           | 266,035  |
| Total financial assets                                       | ₱176,165          | ₱74,685                       | ₱15,492                       | ₱3,629                         | ₱66,803          | ₱336,774 |
| <b>Financial Liabilities*</b>                                |                   |                               |                               |                                |                  |          |
| Deposit liabilities:                                         |                   |                               |                               |                                |                  |          |
| Savings                                                      | ₱87,935           | ₱30,745                       | ₱19,342                       | ₱26,084                        | ₱14,471          | ₱178,577 |
| Time                                                         | 22,628            | 11,628                        | 8,195                         | 6,214                          | 11,328           | 59,993   |
| Bills and acceptances payable                                | 11,917            | 13,623                        | 5,417                         | 1,085                          | 3,844            | 35,886   |
| Total financial liabilities                                  | ₱122,480          | ₱55,996                       | ₱32,954                       | ₱33,383                        | ₱29,643          | ₱274,456 |
| <b>Repricing gap</b>                                         | ₱53,685           | ₱18,689                       | (₱17,462)                     | (₱29,754)                      | ₱37,160          | ₱62,318  |
| <b>Cumulative gap</b>                                        | 53,685            | 72,374                        | 54,912                        | 25,158                         | 62,318           | —        |

\*Financial instruments that are not subject to repricing/rollforward were excluded.

\*\*Receivable from customers excludes residual value of leased assets.

The following table sets forth, for the year indicated, the impact of changes in interest rates on the banking segment's repricing gap for the years ended December 31:

|                      | 2017                        |        | 2016                        |        |
|----------------------|-----------------------------|--------|-----------------------------|--------|
|                      | Income Before<br>Income Tax | Equity | Income Before<br>Income Tax | Equity |
| <i>(In Millions)</i> |                             |        |                             |        |
| +50bps               | ₱196                        | ₱196   | ₱358                        | ₱358   |
| -50bps               | (196)                       | (196)  | (358)                       | (358)  |
| +100bps              | 391                         | 391    | 716                         | 716    |
| -100bps              | (391)                       | (391)  | (716)                       | (716)  |

As one of the long-term goals in the risk management process, the banking segment has also implemented the adoption of the economic value approach in measuring the impact of the interest rate risk in the banking books to complement the earnings at risk approach using the modified duration approach. Cognizant of this requirement, the Parent Company has undertaken the initial activities such as identification of the business requirement and design of templates for each account and the inclusion of this requirement in the Asset Liability Management business requirement definition.

#### *Foreign currency risk*

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

Foreign currency liabilities generally consist of foreign currency deposits in PNB's FCDU books, accounts made in the Philippines or which are generated from remittances to the Philippines by Filipino expatriates and overseas Filipino workers who retain for their own benefit or for the benefit of a third party, foreign currency deposit accounts with PNB and foreign currency-denominated borrowings appearing in the regular books of PNB.

Foreign currency deposits are generally used to fund PNB's foreign currency-denominated loan and investment portfolio in the FCDU. Banks are required by the BSP to match the foreign currency liabilities with the foreign currency assets held through FCDUs. In addition, the BSP requires a 30.00% liquidity reserve on all foreign currency liabilities held through FCDUs.

Outside the FCDU, PNB has additional foreign currency assets and liabilities in its foreign branch network.

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

The table below summarizes the banking segment's exposure to foreign exchange rate risk. Included in the table are the financial assets and liabilities at carrying amounts, categorized by currency (amounts in Philippine peso equivalent).

|                                                                           | December 31, 2017    |                 |                  | December 31, 2016 |                |                  |
|---------------------------------------------------------------------------|----------------------|-----------------|------------------|-------------------|----------------|------------------|
|                                                                           | USD                  | Others*         | Total            | USD               | Others         | Total            |
|                                                                           | <i>(In Millions)</i> |                 |                  |                   |                |                  |
| <b>Assets</b>                                                             |                      |                 |                  |                   |                |                  |
| COCI and due from BSP                                                     | <b>₱29</b>           | <b>₱519</b>     | <b>₱548</b>      | ₱2,440            | ₱365           | ₱2,805           |
| Due from other banks                                                      | <b>2,682</b>         | <b>7,082</b>    | <b>9,764</b>     | 6,964             | 12,843         | 19,807           |
| Interbank loans receivable and securities held under agreements to resell | <b>2,904</b>         | <b>1,679</b>    | <b>4,583</b>     | 2,466             | 1,650          | 4,116            |
| Loans and receivables                                                     | <b>12,579</b>        | <b>941</b>      | <b>13,520</b>    | 13,444            | 697            | 14,141           |
| AFS investments                                                           | <b>14,380</b>        | <b>1,593</b>    | <b>15,973</b>    | 1,877             | 1,959          | 3,836            |
| HTM investments                                                           | <b>10,727</b>        | <b>180</b>      | <b>10,907</b>    | 8                 | —              | 8                |
| Other assets                                                              | <b>56</b>            | <b>210</b>      | <b>266</b>       | 93                | 82             | 175              |
| <b>Total assets</b>                                                       | <b>₱43,357</b>       | <b>₱12,204</b>  | <b>₱55,561</b>   | <b>₱27,292</b>    | <b>₱17,596</b> | <b>₱44,888</b>   |
| <b>Liabilities</b>                                                        |                      |                 |                  |                   |                |                  |
| Deposit liabilities                                                       | <b>₱117,280</b>      | <b>₱5,230</b>   | <b>₱122,510</b>  | ₱99,641           | ₱4,444         | ₱104,085         |
| Bills and acceptances payable                                             | <b>12,465</b>        | <b>7,667</b>    | <b>20,132</b>    | 4,932             | 226            | 5,158            |
| Accrued taxes, interest and other expenses                                | <b>44</b>            | <b>37</b>       | <b>81</b>        | 41                | 106            | 147              |
| Other liabilities                                                         | <b>10,637</b>        | <b>436</b>      | <b>11,073</b>    | 1,070             | 521            | 1,591            |
| <b>Total liabilities</b>                                                  | <b>140,426</b>       | <b>13,370</b>   | <b>153,796</b>   | <b>105,684</b>    | <b>5,297</b>   | <b>110,981</b>   |
| <b>Net Exposure</b>                                                       | <b>(₱97,069)</b>     | <b>(₱1,166)</b> | <b>(₱98,235)</b> | <b>(₱78,392)</b>  | <b>₱12,299</b> | <b>(₱66,093)</b> |

\* Other currencies include UAE Dirham (AED), Australia dollar (AUD), Bahrain dollar (BHD), Brunei dollar (BND), Canada dollar (CAD), Swiss franc (CHF), China Yuan (CNY), Denmark kroner (DKK), Euro (EUR), UK pound (GBP), Hong Kong dollar (HKD), Indonesia rupiah (IDR), Japanese yen (JPY), New Zealand dollar (NZD), PHP, Saudi Arabia riyal (SAR), Sweden kroner (SEK), Singapore dollar (SGD), South Korean won (SKW), Thailand baht (THB) and Taiwan dollar (TWD).

Information relating to the banking segment's currency derivatives is contained in Note 21.

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

### Risk Management Strategies

The Group's principal financial instruments comprise of short-term and long-term debts and COCI. The main purpose of these financial instruments is to ensure adequate funds for the Group's operations and capital expansion. Excess funds are invested in available-for-sale financial assets with a view to liquidate these to meet various operational requirements when needed. The Group has various other financial assets and financial liabilities such as receivables and accounts payable and accrued expenses which arise directly from its operations.

The main risks arising from the use of financial instruments are credit risk, liquidity risk and market risks (consisting of foreign exchange risk, interest rate risk and equity price risk).

### Credit Risk

The Group manages its credit risk by transacting with counterparties of good financial condition and selecting investment grade securities. The Group trades only with recognized, creditworthy

third parties. In addition, receivable balances are monitored on an on-going basis with the result that the Group's exposure to bad debts is not significant. Management closely monitors the fund and financial condition of the Group.

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

#### *Concentration risk*

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

- Distilled spirits segment's annual sales pertain mainly to two trusted parties with sales to them comprising about 84% of the total segment revenue.
- Beverage segment annual sales pertain mainly to 13 parties with sales to them comprising about 100% of the total beverage sales.
- Tobacco and property development segments are not exposed to concentration risk because it has diverse base of counterparties.

#### *Credit quality per class of financial assets*

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

The tables below show the credit quality of financial assets and an aging analysis of past due but not impaired accounts of the Group except for the banking segment:

December 31, 2017:

|  | Neither past due nor<br>impaired |                           | Past due but not impaired |                  |                   |                     | Impaired<br>Financial<br>Assets | Total |
|--|----------------------------------|---------------------------|---------------------------|------------------|-------------------|---------------------|---------------------------------|-------|
|  | Standard<br>Grade                | Sub-<br>standard<br>Grade | 31 to<br>60 days          | 61 to<br>90 days | 91 to<br>120 days | Over<br>120<br>Days |                                 |       |
|  |                                  |                           |                           |                  |                   |                     |                                 |       |
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|  |                                  |                           |                           |                  |                   |                     |                                 |       |

December 31, 2016:

|                                                | Neither past due nor<br>impaired |                           | Past due but not impaired |                  |                   |                     |                                 |         |
|------------------------------------------------|----------------------------------|---------------------------|---------------------------|------------------|-------------------|---------------------|---------------------------------|---------|
|                                                | Standard<br>Grade                | Sub-<br>standard<br>Grade | 31 to<br>60 days          | 61 to<br>90 days | 91 to<br>120 days | Over<br>120<br>Days | Impaired<br>Financial<br>Assets | Total   |
|                                                | (In Millions)                    |                           |                           |                  |                   |                     |                                 |         |
| Loans and receivables:                         |                                  |                           |                           |                  |                   |                     |                                 |         |
| Cash, cash equivalents and<br>other cash items | P3,779                           | —                         | P—                        | P—               | P—                | P—                  | P—                              | P3,779  |
| Trade receivables                              | 3,106                            | —                         | 3,354                     | 1,445            | 3,486             | 648                 | 665                             | 12,704  |
| Other receivables                              | 1,595                            | —                         | 4                         | 11               | 2                 | 152                 | 17                              | 1,785   |
| Due from related parties                       | 1,922                            | —                         | —                         | —                | —                 | —                   | —                               | 1,922   |
| Refundable deposits                            | 8                                | —                         | 5                         | 142              | —                 | —                   | —                               | 155     |
| Financial assets at FVPL                       | 4,451                            | —                         | —                         | —                | —                 | —                   | —                               | 4,451   |
| AFS investments                                | 2,205                            | —                         | —                         | —                | —                 | —                   | —                               | 2,205   |
|                                                | P17,066                          | 4                         | P3,363                    | P1,598           | P3,488            | P800                | P682                            | P27,001 |

**Liquidity Risk and Funding Management**

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

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

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

The following tables show the maturity profile of the Group's other financial liabilities (undiscounted amounts of principal and related interest) as well as the financial assets used for liquidity management (in millions):

|                                            | 2017                  |                              |         | 2016                  |                              |         |
|--------------------------------------------|-----------------------|------------------------------|---------|-----------------------|------------------------------|---------|
|                                            | Less than<br>one year | 1 to less<br>than<br>3 years | Total   | Less than<br>one year | 1 to less<br>than<br>3 years | Total   |
| Cash and other cash items                  | P3,405                | P—                           | P3,405  | P3,779                | P—                           | P3,779  |
| Trade receivables                          | 13,267                | —                            | 13,267  | 12,704                | —                            | 12,704  |
| Other receivables                          | 2,732                 | —                            | 2,732   | 1,769                 | 15                           | 1,784   |
| Due from related parties                   | 2,028                 | —                            | 2,028   | 1,387                 | 536                          | 1,923   |
| Refundable deposits                        | 186                   | —                            | 186     | 155                   | —                            | 155     |
| Financial assets at FVPL                   | 3,564                 | —                            | 3,564   | 4,451                 | —                            | 4,451   |
| AFS investments                            | —                     | 3,373                        | 3,373   | —                     | 2,205                        | 2,205   |
|                                            | P25,182               | P3,373                       | P28,555 | P24,245               | P2,756                       | P27,001 |
| Short term debts                           | P1,550                | P—                           | P1,550  | P1,750                | P—                           | P1,750  |
| Accounts payable and other<br>liabilities* | 8,071                 | —                            | 8,071   | 6,835                 | —                            | 6,835   |
| Long-term debts                            | 115                   | 1,475                        | 1,590   | 1,171                 | 433                          | 1,604   |
| Due to related parties                     | —                     | —                            | —       | —                     | —                            | —       |
| Other liabilities                          | 196                   | 2,220                        | 2,416   | 608                   | 1,238                        | 1,846   |
|                                            | P9,932                | P3,695                       | P13,627 | P10,364               | P1,671                       | P12,035 |

\*Excluding non-financial liabilities amounting to P181.43 million and P95.75 million as of December 31, 2017 and 2016, respectively.

### Market Risks of the Group other than the Banking Segment

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

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

#### *Equity price risk*

Equity price risk is the risk that the fair value of equities will decrease as a result of changes in the levels of equity indices and value of individual stocks. In 2017, 2016 and 2015, changes in fair value of equity instruments held as AFS equity instruments due to a reasonable possible change in equity interest, with all other variables held constant, will increase profit by P327.4 million, P44.2 million and P42.1 million, respectively, if equity prices will increase by 10.3%, 8.9% and 5.2%, respectively. An equal change in the opposite direction would have decrease equity by the same amount.

#### *Interest rate risk*

Interest rate risk arises from the possibility that changes in interest rates would unfavorably affect future cash flows from financial instruments. As of December 31, 2017 and 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.

#### *Foreign currency risk*

The non-banking segment of the Group is not significantly affected by foreign currency risk since the Group has no significant foreign currency transactions.

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### **33. Offsetting of Financial Assets and Financial Liabilities**

The amendments to PFRS 7, which is effective January 1, 2013, require the Group to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreements or similar arrangements. The effects of these arrangements are disclosed in the succeeding tables.

*Financial assets*

| December 31, 2017                                                       |                                                        |                                                                                   |                                                                             |                                                                                                                                                  |                         |                       |
|-------------------------------------------------------------------------|--------------------------------------------------------|-----------------------------------------------------------------------------------|-----------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|-----------------------|
| Financial assets<br>recognized at<br>end of reporting<br>period by type | Gross<br>carrying<br>Amounts<br>(before<br>offsetting) | Gross<br>amounts<br>offset in<br>accordance<br>with the<br>offsetting<br>criteria | Net amount<br>presented<br>in the<br>consolidated<br>balance sheet<br>[a-b] | Effect of remaining rights of<br>set-off (including rights to set<br>off financial collateral) that<br>do not meet PAS 32 offsetting<br>criteria |                         |                       |
|                                                                         |                                                        |                                                                                   |                                                                             | Fair value of                                                                                                                                    |                         | Net exposure<br>[c-d] |
|                                                                         |                                                        |                                                                                   |                                                                             | Financial<br>instruments                                                                                                                         | Financial<br>collateral |                       |
|                                                                         | [a]                                                    | [b]                                                                               | [c]                                                                         | [d]                                                                                                                                              |                         | [e]                   |
| <i>(In Thousands)</i>                                                   |                                                        |                                                                                   |                                                                             |                                                                                                                                                  |                         |                       |
| Derivative assets<br>(Notes 6 and 21)                                   | ₱37,138,999                                            | (₱36,646,558)                                                                     | ₱492,441                                                                    | (₱44,921)                                                                                                                                        | ₱–                      | ₱492,441              |
| Securities sold under<br>agreements to<br>repurchase<br>(Note 8)        | 14,621,483                                             | –                                                                                 | 14,621,483                                                                  | (148,225)                                                                                                                                        | (14,473,258)            | 148,225               |
|                                                                         | ₱51,760,482                                            | (₱36,646,558)                                                                     | ₱15,113,924                                                                 | (₱193,146)                                                                                                                                       | (₱14,473,258)           | ₱640,666              |

\* Included in bills and acceptances payable in the consolidated balance sheets.

| December 31, 2016                                                       |                                                        |                                                                                   |                                                                             |                                                                                                                                                  |                         |                       |
|-------------------------------------------------------------------------|--------------------------------------------------------|-----------------------------------------------------------------------------------|-----------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|-----------------------|
| Financial assets<br>recognized at<br>end of reporting<br>period by type | Gross<br>carrying<br>Amounts<br>(before<br>offsetting) | Gross<br>amounts<br>offset in<br>accordance<br>with the<br>offsetting<br>criteria | Net amount<br>presented<br>in the<br>consolidated<br>balance sheet<br>[a-b] | Effect of remaining rights of<br>set-off (including rights to set<br>off financial collateral) that<br>do not meet PAS 32 offsetting<br>criteria |                         |                       |
|                                                                         |                                                        |                                                                                   |                                                                             | Fair value of                                                                                                                                    |                         | Net exposure<br>[c-d] |
|                                                                         |                                                        |                                                                                   |                                                                             | Financial<br>instruments                                                                                                                         | Financial<br>collateral |                       |
|                                                                         | [a]                                                    | [b]                                                                               | [c]                                                                         | [d]                                                                                                                                              |                         | [e]                   |
| <i>(In Thousands)</i>                                                   |                                                        |                                                                                   |                                                                             |                                                                                                                                                  |                         |                       |
| Derivative assets<br>(Notes 6 and 21)                                   | ₱28,500,758                                            | (₱28,152,954)                                                                     | ₱347,804                                                                    | ₱199,855                                                                                                                                         | ₱–                      | ₱147,949              |
| Securities sold under<br>agreements to<br>repurchase<br>(Note 8)        | 1,972,310                                              | –                                                                                 | 1,972,310                                                                   | –                                                                                                                                                | 1,968,603*              | 3,707                 |
|                                                                         | ₱30,473,068                                            | (₱28,152,954)                                                                     | ₱2,320,114                                                                  | ₱199,855                                                                                                                                         | ₱1,968,603              | ₱151,656              |

\* Included in bills and acceptances payable in the consolidated balance sheets.

*Financial liabilities*

| December 31, 2017                                                       |                                                        |                                                                                   |                                                                             |                                                                                                                                                  |                         |                       |
|-------------------------------------------------------------------------|--------------------------------------------------------|-----------------------------------------------------------------------------------|-----------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|-----------------------|
| Financial assets<br>recognized at<br>end of reporting<br>period by type | Gross<br>carrying<br>Amounts<br>(before<br>offsetting) | Gross<br>amounts<br>offset in<br>accordance<br>with the<br>offsetting<br>criteria | Net amount<br>presented<br>in the<br>consolidated<br>balance sheet<br>[a-b] | Effect of remaining rights of<br>set-off (including rights to set<br>off financial collateral) that<br>do not meet PAS 32 offsetting<br>criteria |                         |                       |
|                                                                         |                                                        |                                                                                   |                                                                             | Fair value of                                                                                                                                    |                         | Net exposure<br>[c-d] |
|                                                                         |                                                        |                                                                                   |                                                                             | Financial<br>instruments                                                                                                                         | Financial<br>collateral |                       |
|                                                                         | [a]                                                    | [b]                                                                               | [c]                                                                         | [d]                                                                                                                                              |                         | [e]                   |
| <i>(In Thousands)</i>                                                   |                                                        |                                                                                   |                                                                             |                                                                                                                                                  |                         |                       |
| Derivative liabilities<br>(Notes 16 and 21)                             | ₱19,126,140                                            | (₱19,390,528)                                                                     | (₱264,388)                                                                  | ₱91,071                                                                                                                                          | ₱–                      | (₱249,459)            |
| Securities sold under<br>agreements to<br>repurchase (Note 8)*          | 35,350,259                                             | –                                                                                 | 35,350,259                                                                  | –                                                                                                                                                | (39,827,898)            | –                     |
| Total                                                                   | ₱54,476,399                                            | (₱19,390,528)                                                                     | ₱35,085,871                                                                 | ₱91,071                                                                                                                                          | (₱39,827,898)           | (₱249,459)            |

\* Included in bills and acceptances payable in the consolidated balance sheets.

| December 31, 2016                                                       |                                                        |                                                                                   |                                                                             |                                                                                                                                                  |                         |                       |
|-------------------------------------------------------------------------|--------------------------------------------------------|-----------------------------------------------------------------------------------|-----------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|-----------------------|
| Financial assets<br>recognized at<br>end of reporting<br>period by type | Gross<br>carrying<br>Amounts<br>(before<br>offsetting) | Gross<br>amounts<br>offset in<br>accordance<br>with the<br>offsetting<br>criteria | Net amount<br>presented<br>in the<br>consolidated<br>balance sheet<br>[a-b] | Effect of remaining rights of<br>set-off (including rights to set<br>off financial collateral) that<br>do not meet PAS 32 offsetting<br>criteria |                         |                       |
|                                                                         |                                                        |                                                                                   |                                                                             | Fair value of                                                                                                                                    |                         | Net exposure<br>[c-d] |
|                                                                         |                                                        |                                                                                   |                                                                             | Financial<br>instruments                                                                                                                         | Financial<br>collateral |                       |
|                                                                         | [a]                                                    | [b]                                                                               | [c]                                                                         | [d]                                                                                                                                              |                         | [e]                   |
| <i>(In Thousands)</i>                                                   |                                                        |                                                                                   |                                                                             |                                                                                                                                                  |                         |                       |
| Derivative liabilities<br>(Notes 16 and 21)                             | ₱15,217,658                                            | (₱15,449,106)                                                                     | (₱231,448)                                                                  | ₱273,191                                                                                                                                         | ₱—                      | ₱—                    |
| Securities sold under<br>agreements to<br>repurchase (Note 17)*         | 20,635,171                                             | —                                                                                 | 20,635,171                                                                  | —                                                                                                                                                | 24,657,929              | —                     |
| <b>Total</b>                                                            | <b>₱35,852,829</b>                                     | <b>(₱15,449,106)</b>                                                              | <b>₱20,403,723</b>                                                          | <b>₱273,191</b>                                                                                                                                  | <b>₱24,657,929</b>      | <b>₱—</b>             |

\* Included in bills and acceptances payable in the consolidated balance sheets.

The amounts disclosed in column (d) include those rights to set-off amounts that are only enforceable and exercisable in the event of default, insolvency or bankruptcy. This includes amounts related to financial collateral both received and pledged, whether cash or non-cash collateral, excluding the extent of over-collateralization.

### 34. Fair Value Measurement

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

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

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

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

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

|                                          | December 31, 2017     |                     | December, 31, 2016 |              |
|------------------------------------------|-----------------------|---------------------|--------------------|--------------|
|                                          | Carrying Value        | Fair Value          | Carrying Value     | Fair Value   |
|                                          | <i>(In Thousands)</i> |                     |                    |              |
| <b>Financial Assets:</b>                 |                       |                     |                    |              |
| HTM investments                          | <b>₱26,732,182</b>    | <b>₱27,924,081</b>  | ₱24,102,594        | ₱24,174,479  |
| Loans and receivables:                   |                       |                     |                    |              |
| Receivables from customers               | <b>472,471,979</b>    | <b>481,012,205</b>  | 406,505,998        | 412,208,402  |
| Unquoted debt securities                 | <b>10,934,147</b>     | <b>10,942,367</b>   | 3,285,222          | 3,305,345    |
|                                          | <b>₱510,138,308</b>   | <b>₱519,878,653</b> | ₱433,893,814       | ₱439,688,226 |
| <b>Financial Liabilities:</b>            |                       |                     |                    |              |
| Financial liabilities at amortized cost: |                       |                     |                    |              |
| Deposit liabilities -                    |                       |                     |                    |              |
| Time deposits                            | <b>₱160,915,991</b>   | <b>₱179,058,554</b> | ₱84,364,874        | ₱86,098,591  |
| Bills payables                           | <b>41,684,801</b>     | <b>41,765,052</b>   | 34,226,607         | 38,468,732   |
| Long term debts:                         |                       |                     |                    |              |
| Subordinated debt                        | —                     | —                   | 3,497,797          | 3,551,484    |
| Unsecured term loan                      | <b>6,080,146</b>      | <b>5,443,815</b>    | 4,070,949          | 3,712,316    |
| Other liabilities:                       |                       |                     |                    |              |
| Payable to landowners                    | <b>1,937,568</b>      | <b>1,934,286</b>    | 3,250,573          | 3,186,369    |
| Tenants' rental deposits                 | <b>452,372</b>        | <b>414,362</b>      | 428,785            | 390,791      |
|                                          | <b>₱211,070,878</b>   | <b>₱228,616,069</b> | ₱129,839,585       | ₱135,408,283 |

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

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

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

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

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

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

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

Time deposit liabilities, bills payable with long term maturity and subordinated debt including designated at FVPL - Fair value is determined using the discounted cash flow methodology. The discount rate used in estimating the fair values of the subordinated debt and time deposits ranges, from 3.00% to 4.13% and 2.70% to 6.75% as of December 31, 2017 and 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 2.36% to 4.73% as of December 31, 2017 and from 1.89% to 3.88% as of December 31, 2016, respectively.

#### *Fair value hierarchy*

The Group uses the following hierarchy for determining and disclosing the fair value of assets and liabilities by valuation technique. These levels are based in the inputs that are used to determine the fair value and can be summarized in:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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

|                                            | December 31, 2017  |                    |                    |                    |
|--------------------------------------------|--------------------|--------------------|--------------------|--------------------|
|                                            | Level 1            | Level 2            | Level 3            | Total              |
|                                            | (In Thousands)     |                    |                    |                    |
| <b>Assets measured at fair value:</b>      |                    |                    |                    |                    |
| <b>Financial Assets</b>                    |                    |                    |                    |                    |
| Financial assets at FVPL:                  |                    |                    |                    |                    |
| Held-for-trading:                          |                    |                    |                    |                    |
| Government securities                      | P1,534,791         | P673,162           | P—                 | P2,207,953         |
| Derivative assets                          | —                  | 508,045            | 54,938             | 562,983            |
| Private debt securities                    |                    | 31,305             | —                  | 31,305             |
| Equity securities                          | 151,628            | —                  | —                  | 151,628            |
| Designated at FVPL:                        |                    |                    |                    |                    |
| Investment in UITFs                        | —                  | 6,303              | —                  | 6,303              |
|                                            | <b>P1,686,419</b>  | <b>P1,218,815</b>  | <b>P54,938</b>     | <b>P2,960,172</b>  |
| AFS investments:                           |                    |                    |                    |                    |
| Government securities                      | P37,083,207        | P4,583,318         | P—                 | P41,666,525        |
| Private debt securities                    | 21,018,127         | 5,928,190          | —                  | 26,946,317         |
| Equity securities**                        | —                  | 1,077,221          | 147,353            | 1,224,574          |
|                                            | <b>P58,101,334</b> | <b>P11,588,729</b> | <b>P147,353</b>    | <b>P69,837,416</b> |
| <b>Non-financial assets</b>                |                    |                    |                    |                    |
| Property, plant and equipment***           |                    |                    |                    |                    |
| Land and land improvements                 | P—                 | P—                 | P15,783,538        | P15,783,538        |
| Plant buildings and building improvements  | —                  | —                  | 13,135,848         | 13,135,848         |
| Machineries and equipment                  | —                  | —                  | 7,295,561          | 7,295,561          |
|                                            | <b>P—</b>          | <b>P—</b>          | <b>P36,214,947</b> | <b>P36,214,947</b> |
| <b>Liabilities measured at fair value:</b> |                    |                    |                    |                    |
| <b>Financial liabilities</b>               |                    |                    |                    |                    |
| Financial liabilities at FVPL:             |                    |                    |                    |                    |
| Designated at FVPL:                        |                    |                    |                    |                    |
| Derivative liabilities                     | P—                 | P343,522           | P—                 | P343,522           |
|                                            | <b>P—</b>          | <b>P343,522</b>    | <b>P—</b>          | <b>P343,522</b>    |

(Forward)

| December 31, 2017                                       |             |            |              |              |
|---------------------------------------------------------|-------------|------------|--------------|--------------|
|                                                         | Level 1     | Level 2    | Level 3      | Total        |
| <i>(In Thousands)</i>                                   |             |            |              |              |
| <b>Assets for which fair values are disclosed:</b>      |             |            |              |              |
| <b>Financial Assets</b>                                 |             |            |              |              |
| HTM investment                                          | ₱23,735,468 | ₱4,188,612 | ₱—           | ₱27,924,080  |
| Loans and receivables:                                  |             |            |              |              |
| Receivables from customers                              | —           | —          | 481,012,205  | 481,012,205  |
| Unquoted debt securities                                | —           | —          | 10,942,367   | 10,942,367   |
|                                                         | ₱23,735,468 | ₱4,188,612 | ₱491,954,572 | ₱519,878,652 |
| <b>Non-financial Assets</b>                             |             |            |              |              |
| Investment properties***                                |             |            |              |              |
| Land                                                    | ₱—          | ₱—         | ₱37,007,466  | ₱37,007,466  |
| Buildings and improvements                              | —           | —          | 16,935,051   | 16,935,051   |
|                                                         | ₱—          | ₱—         | ₱53,942,517  | ₱53,942,517  |
| <b>Liabilities for which fair values are disclosed:</b> |             |            |              |              |
| <b>Financial liabilities</b>                            |             |            |              |              |
| Financial liabilities at amortized cost:                |             |            |              |              |
| Deposit liabilities:                                    |             |            |              |              |
| Time deposits                                           | ₱—          | ₱—         | ₱179,058,533 | ₱179,058,533 |
| Long term debts:                                        |             |            |              |              |
| Bills payable                                           | —           | —          | 41,765,052   | 41,765,052   |
| Unsecured term loan                                     | —           | —          | 5,443,815    | 5,443,815    |
| Other liabilities:                                      |             |            |              |              |
| Payable to landowners                                   | —           | —          | 1,934,286    | 1,934,286    |
| Tenants' rental deposits                                | —           | —          | 414,362      | 414,362      |
|                                                         | ₱—          | ₱—         | ₱228,616,048 | ₱228,616,048 |

\* Excludes cash component

\*\* Excludes unquoted available-for-sale securities

\*\*\* Based on the fair values from appraisal reports which are different from their carrying amounts which are carried at cost.

| December 31, 2016                         |             |            |             |             |
|-------------------------------------------|-------------|------------|-------------|-------------|
|                                           | Level 1     | Level 2    | Level 3     | Total       |
| <i>(In Thousands)</i>                     |             |            |             |             |
| 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 |

(Forward)

|                                                  | December 31, 2016 |            |              |              |
|--------------------------------------------------|-------------------|------------|--------------|--------------|
|                                                  | Level 1           | Level 2    | Level 3      | Total        |
| <i>(In Thousands)</i>                            |                   |            |              |              |
| Liabilities measured at fair value:              |                   |            |              |              |
| Financial liabilities                            |                   |            |              |              |
| Financial liabilities at FVPL:                   |                   |            |              |              |
| Designated at FVPL:                              |                   |            |              |              |
| Derivative liabilities                           | P—                | P232,832   | P—           | P232,832     |
|                                                  | P—                | P232,832   | P—           | P232,832     |
| Assets for which fair values are disclosed:      |                   |            |              |              |
| Financial Assets                                 |                   |            |              |              |
| HTM investment                                   | P21,010,056       | P3,164,423 | P—           | P24,174,479  |
| Loans and receivables:                           |                   |            |              |              |
| Receivables from customers                       | —                 | —          | 412,208,402  | 412,208,402  |
| Unquoted debt securities                         | —                 | —          | 3,305,345    | 3,305,345    |
|                                                  | P21,010,056       | P3,164,423 | P415,513,747 | P439,688,226 |
| Non-financial Assets                             |                   |            |              |              |
| Investment properties***                         |                   |            |              |              |
| Land                                             | P—                | P—         | P24,971,630  | P24,971,630  |
| Buildings and improvements                       | —                 | —          | 8,810,139    | 8,810,139    |
|                                                  | P—                | P—         | P33,781,769  | P33,781,769  |
| Liabilities for which fair values are disclosed: |                   |            |              |              |
| Financial liabilities                            |                   |            |              |              |
| Financial liabilities at amortized cost:         |                   |            |              |              |
| Deposit liabilities:                             |                   |            |              |              |
| Time deposits                                    | P—                | P—         | P86,098,591  | P86,098,591  |
| Long term debts:                                 |                   |            |              |              |
| Subordinated debt                                | —                 | —          | 3,551,484    | 3,551,484    |
| Bills payable                                    | —                 | —          | 38,468,732   | 38,468,732   |
| Unsecured term loan                              | —                 | —          | 3,712,316    | 3,712,316    |
| Other liabilities:                               |                   |            |              |              |
| Payable to landowners                            | —                 | —          | 3,186,369    | 3,186,369    |
| Tenants' rental deposits                         | —                 | —          | 390,791      | 390,791      |
|                                                  | P—                | P—         | P135,408,283 | P135,408,283 |

\* Excludes cash component

\*\* Excludes unquoted available-for-sale securities

\*\*\* Based on the fair values from appraisal reports which are different from their carrying amounts which are carried at cost.

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

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

Significant input used in determining fair values of financial instruments under Level 2 comprises of interpolated market rates of benchmark securities. For investments in UITFs, fair values are determined based on published NAVPU as of reporting date.

As of December 31, 2017 and 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:

|                                                                         | 2017                  | 2016        |
|-------------------------------------------------------------------------|-----------------------|-------------|
|                                                                         | <i>(In Thousands)</i> |             |
| <b>Financial assets</b>                                                 |                       |             |
| Balance at beginning of year                                            | <b>P61,545</b>        | P5,843,569  |
| Add (deduct) total gain (loss) recorded in profit or loss               | <b>(6,607)</b>        | (5,782,024) |
| Balance at end of year                                                  | <b>P54,938</b>        | P61,545     |
| <b>Nonfinancial assets</b>                                              |                       |             |
| Balance at beginning of year                                            | <b>P36,104,048</b>    | P39,538,145 |
| Additions during the year                                               | <b>1,343,745</b>      | 2,242,250   |
| Revaluation decrement during the year                                   | —                     | (720,604)   |
| Depreciation and amortization                                           | <b>(1,637,533)</b>    | (1,574,243) |
| Net carrying value of disposed/transferred assets and other adjustments | <b>404,687</b>        | (3,381,500) |
| Balance at end of the year                                              | <b>P36,214,947</b>    | P36,104,048 |
| <b>Financial liabilities</b>                                            |                       |             |
| Balance at beginning of year                                            | <b>P—</b>             | P5,780,237  |
| Add (deduct) total loss (gain) recorded in profit or loss               | —                     | (5,780,237) |
| Balance at end of year                                                  | <b>P—</b>             | P—          |

Equity and/or Credit-Linked Notes are shown as “Asset of Disposal Group Classified as Held for Sale” as of December 31, 2015 (Note 37).

The structured Variable Unit-Linked Notes can be decomposed into bond components and options components. The fair value of structured notes has been computed by counterparties using present value calculations and option pricing models, as applicable. The valuation requires management to make certain assumptions about the model inputs particularly the credit spread of the Issuer. The model also used certain market observable inputs including the counterparty’s credit default swap (CDS), PHP interest rate swap (IRS) rates (for the Peso-denominated issuances) and ROP CDS rates (for the USD-denominated issuances).

Description of valuation techniques are as follows:

| <b>Structured Notes</b> | <b>Valuation Methods</b>            | <b>Significant Unobservable Inputs</b>        | <b>Significant Observable Inputs</b> |
|-------------------------|-------------------------------------|-----------------------------------------------|--------------------------------------|
| Peso-denominated        | DCF Method / Monte Carlo Simulation | Issuer’s Funding rate / Issuer’s CDS as proxy | PHP IRS                              |
| Dollar-denominated      | DCF Method / Monte Carlo Simulation | Issuer’s Funding rate / Issuer’s CDS as proxy | ROP CDS / USD IRS                    |

The sensitivity analysis of the fair market value of the structured notes as of December 31, 2015 is performed for the reasonable possible movement in the significant inputs with all other variables held constant, showing the impact to profit and loss follows:

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

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

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

| Structured Investments | Significant Observable Input | 2015                |                                                                                                                                    |
|------------------------|------------------------------|---------------------|------------------------------------------------------------------------------------------------------------------------------------|
|                        |                              | Range of Input      | Sensitivity of the Input to Fair Value*                                                                                            |
| Peso-denominated       | PHP IRS (3Y)                 | 180.25 - 355.00 bps | 50 bps increase/(decrease) in change inputs would result in a (decrease) / increase in the market value of the note by ₱65,500,462 |
| Dollar-denominated     | ROP CDS (5Y)                 | 126.15 - 193.33 bps | 50 bps increase/(decrease) in change inputs would result in a (decrease) / increase in the market value of the note by ₱28,095,617 |

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

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

The table below summarizes the valuation techniques used and the significant unobservable inputs valuation for each type of property, plant and equipment and investment properties held by the Group:

|                                           | <b>Valuation Techniques</b>                        | <b>Significant Unobservable Inputs</b>                                           | <b>Range of Estimates</b>    |
|-------------------------------------------|----------------------------------------------------|----------------------------------------------------------------------------------|------------------------------|
| Property, plant and equipment:            |                                                    |                                                                                  |                              |
| Land and land improvements                | Market Data Approach                               | Price per square meter                                                           | ₱6,000 - ₱6,200              |
| Plant buildings and building improvements | Replaceable Fixed Asset Valuation Approach         | Replacement cost                                                                 | ₱4,287 - ₱10,000             |
| Building                                  | Replaceable Fixed Asset Valuation Approach         | Estimated total floor area                                                       | 24 - 1548 sq.m               |
| Building improvements                     | Replaceable Fixed Asset Valuation Approach         | Replacement cost                                                                 | ₱2.8 million - ₱26.5 million |
|                                           |                                                    | Estimated number of components                                                   | 315 - 723 components         |
| Machineries and equipment                 | Replaceable Fixed Asset Valuation Approach         | Replacement cost                                                                 | ₱3,200 - ₱8.6 million        |
|                                           |                                                    | Estimated number of components                                                   | 465 - 1,162 components       |
| Investment properties:                    |                                                    |                                                                                  |                              |
| Land                                      | Market Data Approach                               | Price per square meter, size, location, shape, time element and corner influence | ₱800 - ₱100,000              |
| Land and building                         | Market Data Approach and Replacement Cost Approach | New Reproduction Cost                                                            |                              |

Significant favorable (unfavorable) adjustments to the aforementioned factors based on the professional judgment of the independent appraisers would increase (decrease) the fair value of land. Significant increases (decreases) in the current replacement cost would result in significantly higher (lower) appraised values whereas significant increase (decrease) in the remaining useful life of the property, plant and equipment over their total useful life would result in significantly higher (lower) appraised values.

Description of the valuation techniques and significant unobservable inputs used in the valuation of the Group's property, plant and equipment and investment properties are as follows:

|                                            | <b>Description</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|--------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Valuation Techniques</b>                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| Market Data Approach                       | A process of comparing the subject property being appraised to similar comparable properties recently sold or being offered for sale.                                                                                                                                                                                                                                                                                                                                                  |
| Replaceable Fixed Asset Valuation Approach | This method requires an analysis of the buildings and other land improvements by breaking them down into major components. Bills of quantities for each component using the appropriate basic unit are prepared and related to the unit cost for each component developed on the basis of current costs of materials, labor, plant and equipment prevailing in the locality to arrive at the direct costs of the components. Accrued depreciation was based on the observed condition. |
| Replacement Cost Approach                  | It is an estimate of the investment required to duplicate the property in its present condition. It is reached by estimating the value of the building "as if new" and then deducting the depreciated cost. Fundamental to the Cost Approach is the estimate of Reproduction Cost New of the improvements.                                                                                                                                                                             |
| Reproduction Cost New                      | The cost to create a virtual replica of the existing structure, employing the same design and similar building materials.                                                                                                                                                                                                                                                                                                                                                              |

|                             | Description                                                                                                                                                                                                                                                                                     |
|-----------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <u>Valuation Techniques</u> |                                                                                                                                                                                                                                                                                                 |
| Size                        | Size of lot in terms of area. Evaluate if the lot size of property or comparable conforms to the average cut of the lots in the area and estimate the impact of lot size differences on land value.                                                                                             |
| Shape                       | Particular form or configuration of the lot. A highly irregular shape limits the usable area whereas an ideal lot configuration maximizes the usable area of the lot which is associated in designing an improvement which conforms with the highest and best use of the property.              |
| Location                    | Location of comparative properties whether on a main road, or secondary road. Road width could also be a consideration if data is available. As a rule, properties located along a main road are superior to properties located along a secondary road.                                         |
| Time Element                | “An adjustment for market conditions is made if general property values have appreciated or depreciated since the transaction dates due to inflation or deflation or a change in investors’ perceptions of the market over time”. In which case, the current data is superior to historic data. |
| Discount                    | Generally, asking prices in ads posted for sale are negotiable. Discount is the amount the seller or developer is willing to deduct from the posted selling price if the transaction will be in cash or equivalent.                                                                             |
| Corner influence            | Bounded by two (2) roads.                                                                                                                                                                                                                                                                       |

### 35. Notes to Consolidated Statements of Cash Flows

#### *Non-cash Investing Activities*

- a. As of December 31, 2017 and 2016, unpaid additions to property, plant and equipment amounted to ₱163.0 million and ₱86.6 million, respectively, which is included as part of “Accounts payable and accrued expenses”.
- b. In 2017, 2016 and 2015, the Group reclassified cost of land, which was previously recognized as real estate inventory, amounting to ₱536.7 million, ₱2.5 billion and ₱1.1 billion, respectively, to investment property.
- c. In 2017, the Group reclassified costs of condominium units and furniture, fixtures and equipment totaling to ₱973.7 million to property and equipment,
- d. In 2016, the Group reclassified certain properties from property, plant and equipment with aggregate carrying amount of ₱4.7 billion to investment properties.
- e. In 2015, the Group transferred investment properties with a carrying value of ₱2.0 billion and ₱1.2 billion to inventories, respectively.
- f. In 2015, the Group classified APLII as disposal group held for sale and as discontinued operations and classified assets, liabilities and equity and reserves of APLII amounting to ₱23.5 billion, ₱21.5 billion and ₱0.6 billion, respectively.
- g. Construction costs of building intended for leasing amounting to ₱105.5 million under real estate inventory, which were still under construction as of December 31, 2015, were transferred to investment properties.

### *Non-cash Financing Activities*

- a. In July 2013, all the existing advances to Tangent amounting to ₱11.0 billion were offset with the existing advances from the Tangent.
- b. As of December 31, 2017 and 2016, accrued interest payable amounted to ₱632.9 million and ₱662.3 billion, respectively. Finance costs and cost of hauling services include amortization of bond issue costs and unamortized transaction cost of subordinates debt amounting to nil and nil in 2017 and ₱2.0 million and ₱17.3 million in 2016, respectively.
- c. As discussed in Note 30, LTG issued additional common shares to Tangent amounting to ₱5.4 billion upon conversion of its deposit for future stock subscription of ₱1.6 billion resulting in an increase in additional paid in capital of ₱1.2 billion. Transactions costs incurred for the share issuance in 2012 amounted to ₱67.5 million which are deducted from additional paid in capital.

## **36. Capital Management**

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

|                              | <b>2017</b>                          | <b>2016</b>  |
|------------------------------|--------------------------------------|--------------|
|                              | <i>(In Thousands, except ratios)</i> |              |
| Total liabilities            | <b>₱721,780,274</b>                  | ₱650,486,448 |
| Total equity                 | <b>195,315,415</b>                   | 178,604,576  |
| Total liabilities and equity | <b>₱917,095,689</b>                  | ₱829,091,024 |
| Debt ratio                   | <b>0.79:1</b>                        | 0.78:1       |
| Debt-to-equity ratio         | <b>3.70:1</b>                        | 3.64:1       |

### Regulatory Qualifying Capital for the Banking Segment

Under existing BSP regulations, the determination of PNB's compliance with regulatory requirements and ratios is based on the amount of PNB's "unimpaired capital" (regulatory net worth) reported to the BSP, which is determined on the basis of regulatory policies, which differ from PFRSs in some respects.

In addition, the risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10.00% for both solo basis (head office and branches) and consolidated basis (parent bank and subsidiaries engaged in financial allied undertakings but excluding insurance companies). Qualifying capital and risk-weighted assets are computed based on BSP regulations. Risk-weighted assets consist of total assets less cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits and other non-risk items determined by the MB of the BSP.

PNB and its individually regulated subsidiaries/operations have complied with all externally imposed capital requirement throughout the year.

On January 15, 2013, the BSP issued Circular No. 781, Basel III Implementing Guidelines on Minimum Capital Requirements, which provides the implementing guidelines on the revised risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards. The circular is effective on January 1, 2014.

The Circular No. 781 sets out a minimum Common Equity Tier 1 (CET1) ratio of 6.0% and Tier 1 capital ratio of 7.5%. It also introduces a capital conservation buffer of 2.5% comprised of CET1 capital. The BSP's existing requirement for Total CAR remains unchanged at 10% and these ratios shall be maintained at all times.

Further, existing capital instruments as of December 31, 2010 which do not meet the eligibility criteria for capital instruments under the revised capital framework shall no longer be recognized as capital upon the effectivity of Basel III. Capital instruments issued under BSP Circular Nos. 709 and 716 (the circulars amending the definition of qualifying capital particularly on Hybrid Tier 1 and Lower Tier 2 capitals), starting January 1, 2011 and before the effectivity of BSP Circular No. 781, shall be recognized as qualifying capital until December 31, 2015. In addition to changes in minimum capital requirements, this Circular also requires various regulatory adjustments in the calculation of qualifying capital.

The Group has taken into consideration the impact of the foregoing requirements on the banking segment to ensure that the appropriate level and quality of capital are maintained on an ongoing basis.

#### Internal Capital Adequacy Assessment Process (ICAAP) Implementation

In compliance with BSP Circular 639, PNB (the Bank) has adopted its live ICAAP Document for 2011 to 2013. However, the BOD and the Management recognized that ICAAP is beyond compliance, i.e., it is about how to effectively run the Bank's operations by ensuring that the Bank maintains at all times an appropriate level and quality of capital to meet its business objective and commensurate to its risk profile. In line with its ICAAP principles, the Bank shall maintain a capital level that will not only meet the BSP CAR requirement but will also cover all material risks that it may encounter in the course of its business. The ICAAP process highlights close integration of capital planning/strategic management with risk management. The Bank has in place a risk management framework that involves a collaborative process for assessing and managing identified Pillar 1 and Pillar 2 risks. The Bank complies with the required annual submission of updated ICAAP.

### 37. Assets and Liabilities of Disposal Group Classified as Held for Sale 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 (see Note 20).

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.

The results of operation of APLII are presented below:

|                                                     | <b>Years Ended December 31</b> |             |
|-----------------------------------------------------|--------------------------------|-------------|
|                                                     | <b>2016</b>                    | <b>2015</b> |
|                                                     | <i>(In Thousands)</i>          |             |
| <b>Interest income</b>                              |                                |             |
| Loans and receivables                               | <b>₱7,610</b>                  | ₱20,343     |
| Trading and investment securities                   | <b>195,605</b>                 | 443,116     |
| Deposits with banks and others                      | <b>5,151</b>                   | 3,504       |
|                                                     | <b>208,366</b>                 | 466,963     |
| <b>Net service fees and commission expense</b>      | <b>(67,591)</b>                | (281,639)   |
| Net insurance premiums                              | <b>508,770</b>                 | 1,716,308   |
| Net insurance benefits and claims                   | <b>(441,090)</b>               | (1,290,439) |
| <b>Net insurance premiums</b>                       | <b>67,680</b>                  | 425,869     |
| <b>Other income (charges)</b>                       |                                |             |
| Trading and investment securities gains - net       | <b>1,800</b>                   | 20,874      |
| Foreign exchange gains (losses) - net               | <b>(876)</b>                   | 11,806      |
| Miscellaneous                                       | <b>80,667</b>                  | 149,061     |
| <b>Total operating income</b>                       | <b>290,046</b>                 | 792,934     |
| <b>General and administrative expenses</b>          |                                |             |
| Compensation and fringe benefits                    | <b>71,741</b>                  | 223,322     |
| Taxes and licenses                                  | <b>16,759</b>                  | 39,570      |
| Occupancy and equipment-related costs               | <b>7,610</b>                   | 9,764       |
| Depreciation and amortization                       | <b>4,707</b>                   | 10,704      |
| Provision for impairment, credit and other losses   | <b>4,704</b>                   | 32,765      |
| Miscellaneous                                       | <b>39,692</b>                  | 74,573      |
| <b>Total general and administrative expenses</b>    | <b>145,213</b>                 | 390,698     |
| <b>Result from operating activities</b>             | <b>144,833</b>                 | 402,236     |
| Provision for income tax                            | <b>(21,049)</b>                | (44,305)    |
| <b>Result from operating activities, net of tax</b> | <b>123,784</b>                 | 357,931     |
| Gain on sale of discontinued operation              | <b>834,535</b>                 | —           |
| Transaction cost                                    | <b>(153,307)</b>               | —           |
| Provision for income tax                            | <b>(185,449)</b>               | —           |
| <b>Net income from discontinued operations</b>      | <b>₱619,563</b>                | ₱357,931    |
| <b>Attributable to:</b>                             |                                |             |
| Equity holders of the Company                       | <b>₱279,894</b>                | ₱161,699    |
| Non-controlling interests                           | <b>339,669</b>                 | 196,232     |
|                                                     | <b>₱619,563</b>                | ₱357,931    |

Earnings per share attributable to equity holders of the Company from discontinued operations are computed as follows:

|                                                                       | <b>2016</b>       | <b>2015</b> | <b>2014</b> |
|-----------------------------------------------------------------------|-------------------|-------------|-------------|
| Net income attributable to equity holders of the banking segment      | <b>₱279,894</b>   | ₱161,699    | ₱119,339    |
| Weighted average number of common shares for basic earnings per share | <b>10,821,389</b> | 10,821,389  | 10,821,389  |
| Basic earnings per share                                              | <b>₱0.03</b>      | ₱0.02       | ₱0.01       |

The net cash flows directly associated with the disposal group follow:

|                                           | 2016           | 2015       |
|-------------------------------------------|----------------|------------|
|                                           | (In Thousands) |            |
| Net cash provided by operating activities | ₱171,535       | ₱1,210,588 |
| Net cash used in investing activities     | (267,458)      | (903,161)  |

The major classes of assets and liabilities of APLII classified as disposal group held for sale as of December 31, 2015 are as follows (in thousands):

**Assets**

|                                                             |                    |
|-------------------------------------------------------------|--------------------|
| Cash and other cash items                                   | ₱642,544           |
| Financial assets at fair value through profit or loss       |                    |
| Segregated fund assets                                      | 13,634,687         |
| AFS investments                                             | 7,468,653          |
| HTM investments                                             | 1,269,398          |
| Other receivables                                           | 437,210            |
| Property and equipment - net                                | 29,546             |
| Other assets                                                | 44,719             |
| <b>Assets of disposal group classified as held for sale</b> | <b>₱23,526,757</b> |

**Liabilities**

|                                                                  |                    |
|------------------------------------------------------------------|--------------------|
| Financial liabilities at fair value through profit or loss       |                    |
| Segregated fund liabilities                                      | ₱13,725,321        |
| Accrued taxes, interest and other expenses                       | 161,817            |
| Insurance contract liabilities                                   | 6,837,144          |
| Other liabilities                                                | 728,339            |
| <b>Liabilities of disposal group classified as held for sale</b> | <b>₱21,452,621</b> |

**Reserves**

|                                                               |                 |
|---------------------------------------------------------------|-----------------|
| Net unrealized gain on AFS investments                        | ₱617,649        |
| Re-measurement losses on retirement plan                      | (24,412)        |
| <b>Reserves of disposal group classified as held for sale</b> | <b>₱593,237</b> |

Attributable to:

|                               |                 |
|-------------------------------|-----------------|
| Equity holders of the Company | ₱335,000        |
| Non-controlling interests     | 258,237         |
|                               | <b>₱593,237</b> |

*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 (see Note 6). These amounts are presented as part of discontinued operations in 2016.

The results generated from discontinued operations of the beer segment of the Group follow (in thousands):

|                                                                                     | <b>Years Ended December 31</b> |                   |
|-------------------------------------------------------------------------------------|--------------------------------|-------------------|
|                                                                                     | <b>2016</b>                    | <b>2015</b>       |
| <b>NET SALES</b>                                                                    | <b>₱3,136,595</b>              | <b>₱2,900,686</b> |
| <b>COST OF GOODS SOLD</b>                                                           |                                |                   |
| Taxes and licenses                                                                  | 1,306,050                      | 1,352,173         |
| Materials used and changes in inventories                                           | 816,349                        | 458,775           |
| Depreciation and amortization                                                       | 249,654                        | 289,436           |
| Utilities                                                                           | 77,478                         | 83,417            |
| Outside services                                                                    | 63,056                         | 135,265           |
| Fuel and oil                                                                        | 90,191                         | 107,400           |
| Repairs and maintenance                                                             | 79,347                         | 102,491           |
| Salaries, wages and other employee benefits:                                        |                                |                   |
| Salaries and wages                                                                  | 108,093                        | 125,696           |
| Retirement benefits costs                                                           | 32,080                         | 32,458            |
| Professional fees                                                                   | 49,181                         | 59,875            |
| Supplies                                                                            | 86,625                         | 72,416            |
| Others                                                                              | 81,446                         | 58,088            |
|                                                                                     | <b>3,039,550</b>               | <b>2,877,490</b>  |
| <b>GROSS PROFIT</b>                                                                 | <b>97,045</b>                  | <b>23,196</b>     |
| <b>SELLING EXPENSES</b>                                                             |                                |                   |
| Advertising and promotions                                                          | 305,174                        | 167,369           |
| Depreciation and amortization (Note 12)                                             | 141,031                        | 160,431           |
| Personnel costs                                                                     | 36,175                         | 37,343            |
| Materials and consumables                                                           | 7,371                          | 39,486            |
| Repairs and maintenance                                                             | 2,516                          | 2,946             |
| Travel and transportation                                                           | 8,639                          | 8,385             |
| Others                                                                              | 30,754                         | 25,695            |
|                                                                                     | <b>531,660</b>                 | <b>441,655</b>    |
| <b>GENERAL AND ADMINISTRATIVE EXPENSES</b>                                          |                                |                   |
| Taxes and licenses                                                                  | 40,442                         | 31,792            |
| Management, consulting and professional fees                                        | 34,595                         | 26,097            |
| Personnel costs                                                                     | 26,918                         | 22,405            |
| Travel and transportation                                                           | 3,779                          | 4,781             |
| Communication, light and water                                                      | 3,042                          | 1,751             |
| Repairs and maintenance                                                             | 865                            | 940               |
| Occupancy                                                                           | 490                            | —                 |
| Materials and consumables                                                           | 284                            | 73                |
| Insurance                                                                           | 53                             | 36                |
| Others                                                                              | 1,584                          | 794               |
|                                                                                     | <b>112,052</b>                 | <b>88,669</b>     |
| <b>OPERATING LOSS</b>                                                               | <b>(546,667)</b>               | <b>(507,128)</b>  |
| <b>OTHER INCOME</b>                                                                 |                                |                   |
| Gain on investment in an associate arising from contribution of non-monetary assets | 1,056,240                      | —                 |
| Gain on sale of brands                                                              | 46,300                         | —                 |
| Others                                                                              | 3,463                          | 7,135             |
| <b>INCOME (LOSS) FROM DISCONTINUED OPERATIONS BEFORE INCOME TAX</b>                 | <b>559,336</b>                 | <b>(499,993)</b>  |

(Forward)

|                                     | <b>Years Ended December 31</b> |             |
|-------------------------------------|--------------------------------|-------------|
|                                     | <b>2016</b>                    | <b>2015</b> |
| <b>PROVISION FOR (BENEFIT FROM)</b> |                                |             |
| <b>INCOME TAX</b>                   |                                |             |
| Current                             | <b>(P132,184)</b>              | (P131,000)  |
| Deferred                            | <b>(16,887)</b>                | (18,998)    |
|                                     | <b>(149,071)</b>               | (149,998)   |
| <b>NET INCOME (LOSS) FROM</b>       |                                |             |
| <b>DISCONTINUED OPERATIONS</b>      | <b>P708,407</b>                | (P349,995)  |

The net cash flows directly associated from discontinued operations follow:

|                                           | <b>2016</b>           | <b>2015</b>    |
|-------------------------------------------|-----------------------|----------------|
|                                           | <i>(In Thousands)</i> |                |
| Net cash provided by operating activities | <b>(P401,289,143)</b> | P185,264,589   |
| Net cash used in investing activities     | <b>(230,836,659)</b>  | (807,443,468)  |
|                                           | <b>(P632,125,802)</b> | (P622,178,879) |

### 38. Commitments, Provision and Contingencies and Other Matters

#### Commitments

##### *Operating lease commitments - the Group as lessor*

The Group entered into lease agreements with third parties covering its investment property portfolio, certain motor vehicles and items of machinery. These leases generally provide for either (a) fixed monthly rent, or (b) minimum rent or a certain percentage of gross revenues, whichever is higher. The Group records rental income on a straight-line basis over less noncancellable lease term. Any difference between the calculated rental income and amount actually received is recognized as “Deferred rent” (see Note 8).

The Group has tenants’ rental deposits and advance rentals which are presented under “Other noncurrent liabilities”. Tenants’ rental deposits pertain to the amounts paid by the tenants at the inception of the lease which is refundable at the end of the lease term. Advance rentals pertain to deposits from tenants which will be applied against receivables either at the beginning or at the end of lease term depending on the lease contract. Tenants’ rental deposits and advance rentals amounted to P452.4 million and P51.8 million as of December 31, 2017 and P428.8 million and P167.2 million as of December 31, 2016, respectively.

Future minimum rental receivables under noncancellable operating leases as of December 31 are as follows:

|                                             | <b>2017</b>           | <b>2016</b> |
|---------------------------------------------|-----------------------|-------------|
|                                             | <i>(In Thousands)</i> |             |
| Within one year                             | <b>P1,185,458</b>     | P1,130,072  |
| After one year but not more than five years | <b>1,817,706</b>      | 1,605,790   |
| More than five years                        | <b>145,505</b>        | 305,486     |
|                                             | <b>P3,148,669</b>     | P3,041,348  |

*Operating lease commitments - the Group as lessee*

The future aggregate minimum lease payments under several operating leases of the Group are as follows:

|                          | 2017                  | 2016       |
|--------------------------|-----------------------|------------|
|                          | <i>(In Thousands)</i> |            |
| Within one year          | <b>₱761,675</b>       | ₱457,055   |
| Within two to five years | <b>1,729,169</b>      | 1,066,976  |
| More than five years     | <b>1,758,887</b>      | 1,667,333  |
|                          | <b>₱4,249,731</b>     | ₱3,191,364 |

Future minimum lease receivables under finance leases are as follows:

|                                              | 2017                  | 2016       |
|----------------------------------------------|-----------------------|------------|
|                                              | <i>(In Thousands)</i> |            |
| Within one year                              | <b>₱1,557,543</b>     | ₱1,738,954 |
| Beyond one year but not more than five years | <b>1,308,300</b>      | 1,273,921  |
| More than five years                         | <b>25,200</b>         | 36,500     |
| Total                                        | <b>2,891,043</b>      | 3,049,375  |
| Less amounts representing finance charges    | <b>62,612</b>         | 355,743    |
| Present value of minimum lease payments      | <b>₱2,828,431</b>     | ₱2,693,632 |

*Trust Operations*

Securities and other properties held by PNB in fiduciary or agency capacities for its customers are not included in the accompanying statements of financial position since these are not assets of PNB. Such assets held in trust were carried at a value of ₱88.0 billion and ₱75.2 billion as of December 31, 2017 and 2016, respectively. In connection with the trust functions of PNB, government securities amounting to ₱1.0 billion and ₱924.8 million (included under 'AFS Investments') as of December 31, 2017 and 2016, respectively, are deposited with the BSP in compliance with trust regulations.

In compliance with existing banking regulations, PNB transferred from surplus to surplus reserves the amounts of ₱23.9 million, ₱19.4 million and ₱16.6 million in 2017, 2016 and 2015, respectively, which correspond to 10% of the net income realized in the preceding years from its trust, investment management and other fiduciary business until such related surplus reserve constitutes 20% of its regulatory capital.

*Provisions and Contingencies*

In the normal course of business, the Group makes various commitments and incurs certain contingent liabilities that are not presented in the financial statements including several suits and claims which remain unsettled. No specific disclosures on such unsettled assets and claims are made because any such specific disclosures would prejudice the Group's position with the other parties with whom it is in dispute. Such exemption from disclosures is allowed under PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. The Group and its legal counsel believe that any losses arising from these contingencies which are not specifically provided for will not have a material adverse effect on the financial statements.

*Claim from PNB Gen*

In 2015, PNB recognized income amounting to ₱716.2 million under "Other income (charges)" arising from the fire insurance claims of PNB from PNB Gen involving the Ever Gotesco Grand Central ("Insured Property") which was mortgaged to PNB by Gotesco Investment, Inc. and Ever Emporium, Inc. (collectively "Ever Gotesco Group") to secure certain credit accommodations.

The insurable interest of PNB (as mortgagee) was insured with PNB Gen. The Insured Property was razed by fire on March 19, 2012, which justified the payment by PNB Gen of the insurance claims of PNB, after the Court cleared the legal issues between PNB and Ever Gotesco Group that might potentially bar the payment thereof.

Movements of provision for legal claims included in “Other liabilities” in the consolidated balance sheets for the Group are as follows (see Note 20):

|                                                     | 2017                  | 2016       |
|-----------------------------------------------------|-----------------------|------------|
|                                                     | <i>(In Thousands)</i> |            |
| Balance at beginning of year                        | <b>₱1,300,290</b>     | ₱898,737   |
| Provisions (reversals) during the year<br>(Note 26) | <b>(331,183)</b>      | 401,553    |
| Balance at end of year                              | <b>₱969,107</b>       | ₱1,300,290 |

#### *Excise Tax Refund Claim*

The new excise tax law or RA 10351 became effective on January 1, 2013, and increased the excise tax rates of, among others, distilled spirits. Another change that was brought in by the new law is the shift in the tax burden of distilled spirits from raw materials to the finished product.

To implement the said law, the Secretary of Finance issued Revenue Regulations No. 17-2012 (RR 17-2012), which, in one of its transitory provisions, disallowed the tax crediting of the excise taxes that were already paid under the old law on the raw materials inventory by end of the year 2012 or by the effectivity of RA 10351 in favor of the excise taxes due on the finished goods inventory.

The Commissioner of Internal Revenue issued on January 9, 2013 Revenue Memorandum Circular (RMC) No. 3-2013. This RMC sought to clarify further certain provisions of RR No. 17-2012 but in effect extended the imposition of the excise tax on both the (1) ethyl alcohol as raw materials in the production of compounded liquors and (2) the manufactured finished product. Per the RMC, both ethyl alcohol and compounded liquor are considered as distinct distilled spirits products and are thus separate taxable items under the new law. This interpretation of the law was however modified with the issuance of RMC No. 18-2013. The new RMC allowed the non-payment of excise tax on ethyl alcohol that were purchased after the issuance of RMC No. 3-2013 to be used as raw materials in the manufacture of compounded liquors provided certain requirements such as posting of surety bonds are complied with. RMC No. 18-2013, however, still maintained that taxes previously paid on the raw materials, i.e., ethyl alcohol/ethanol inventory, at the time of the effectivity of the new excise tax law are still not subject to refund/tax credit to the manufacturers.

Under RR No. 17-2012, the amount of excise tax that was disallowed for tax credit was ₱725.8 million (included under “Other current assets”). Said amount represented taxes paid previously on raw materials and were not allowed to be deducted from the excise taxes that became due on the finished goods as taxed under the new law. TDI is contesting the disallowance of the tax credit and is undertaking appropriate legal measures to obtain a favorable outcome.

TDI has paid a total of ₱45.9 million (included under “Other current assets”) in excise taxes for the raw materials that were purchased/imported for purposes of compounding during the subsistence of RMC No. 3-2013. TDI also would claim this amount on the basis that the RMC was issued without basis and beyond the authority granted by law to the administrative agency.

Other Matter*Effluent Supply Agreement*

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

On January 15, 2018, Aseagas issued a letter notifying the Company for the termination of the Effluent Supply Agreement effective January 16, 2018.

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**39. Events after the Reporting Period**

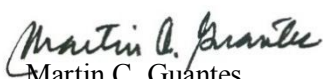
On March 13, 2018, LTG's BOD approved the declaration and distribution of regular cash dividends of ₱0.15 per share and special cash dividends of ₱0.05 per share to all stockholders of record as of March 28, 2018, to be paid not later than April 11, 2018.

## **INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES**

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

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of LT Group, Inc. and Subsidiaries as at December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017, included in this Form 17-A, and have issued our report thereon dated March 13, 2018. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for the purpose of complying with Securities Regulation Code Rule 68, As Amended (2011), and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Martin C. Guantes

Partner

CPA Certificate No. 88494

SEC Accreditation No. 0325-AR-3 (Group A),

August 25, 2015, valid until August 24, 2018

Tax Identification No. 152-884-272

BIR Accreditation No. 08-001998-52-2018,

February 26, 2018, valid until February 25, 2021

PTR No. 6621267, January 9, 2018, Makati City

March 13, 2018



**LT GROUP, INC. AND SUBSIDIARIES**  
**SCHEDULE A. – Financial Assets**  
**DECEMBER 31, 2017**  
**(in thousands)**

| Name of Issuing Entity and Association of each Issue | Number of Shares | Principal Amount of Bonds and Notes | Amount shown in the Balance Sheet based on bid prices on the balance sheet date | Income received and accrued |
|------------------------------------------------------|------------------|-------------------------------------|---------------------------------------------------------------------------------|-----------------------------|
| <b>Government securities</b>                         |                  |                                     |                                                                                 |                             |
| Republic of the Philippines (ROP) Bonds              | -                | 6,340                               | 317,307                                                                         | 10,845                      |
| Fixed Rate Treasury Notes                            | -                | 1,335,482                           | 1,314,719                                                                       | 21,627                      |
| Retail Treasury Bonds                                | -                | 154,288                             | 150,498                                                                         | 3,978                       |
| Power Sector Assets & Liab Mgt Corp                  | -                | -                                   | -                                                                               | 35                          |
| Treasury Bills                                       | -                | 434,217                             | 425,428                                                                         | -                           |
| US Treasury Notes                                    | -                | -                                   | -                                                                               | 176                         |
|                                                      | -                | <b>1,930,327</b>                    | <b>2,207,952</b>                                                                | <b>36,661</b>               |
| <b>Private debt securities</b>                       |                  |                                     |                                                                                 |                             |
| SM Investments Corporation                           | -                | -                                   | -                                                                               | 374                         |
| International Container Terminal Svc Inc             | -                | -                                   | -                                                                               | 377                         |
| Ayala Land Inc                                       | -                | 6,550                               | 6,689                                                                           | 369                         |
| Fil-Invest Land Inc                                  | -                | -                                   | -                                                                               | 1                           |
| SM Prime Holdings Inc.                               | -                | 21,753                              | 21,770                                                                          | 1,022                       |
| San Miguel Global Power Holdings Corp                | -                | 2,880                               | 2,846                                                                           | 4                           |
|                                                      | -                | <b>31,183</b>                       | <b>31,305</b>                                                                   | <b>2,147</b>                |

| Name of Issuing Entity and Association of each Issue | Number of Shares | Principal Amount of Bonds and Notes | Amount shown in the Balance Sheet based on bid prices on the balance sheet date | Income received and accrued |
|------------------------------------------------------|------------------|-------------------------------------|---------------------------------------------------------------------------------|-----------------------------|
| <b>Equity securities</b>                             |                  |                                     |                                                                                 |                             |
| Jollibee Food Corp                                   | 27,000           | -                                   | 6,830                                                                           | -                           |
| Puregold Price Club                                  | 130,000          | -                                   | 6,500                                                                           | -                           |
| Petron Corp                                          | 610,000          | -                                   | 5,594                                                                           | -                           |
| Metro Pacific Investment Corp                        | 700,000          | -                                   | 4,795                                                                           | -                           |
| Filinvest Land Inc                                   | 1,551,000        | -                                   | 2,916                                                                           | -                           |
| Sm Prime Holdings                                    | 70,000           | -                                   | 2,590                                                                           | -                           |
| D & L Industries Inc                                 | 107,300          | -                                   | 1,187                                                                           | -                           |
| Ayala Land Inc                                       | 10,000           | -                                   | 446                                                                             | -                           |
| Universal Rightfield Prop. Inc.                      | 2,883,000        | -                                   | 69                                                                              | -                           |
| Semirara Mining Corporation                          | 260,000          | -                                   | 9,569                                                                           | -                           |
| Philippine Long Distance Telephone Co.               | 6,000            | -                                   | 8,880                                                                           | -                           |
| Globe Telecom                                        | 4,000            | -                                   | 7,600                                                                           | -                           |
| Security Bank Corp                                   | 16,000           | -                                   | 4,022                                                                           | -                           |
| First Gen Corporation                                | 200,000          | -                                   | 3,400                                                                           | -                           |
| San Miguel Corp - Pref 2I                            | 25,970           | -                                   | 2,072                                                                           | -                           |
| San Miguel Corp - Pref 2H                            | 26,000           | -                                   | 2,067                                                                           | -                           |
| Robinsons Land Corp                                  | 90,000           | -                                   | 1,917                                                                           | -                           |

| <b>Name of Issuing Entity and Association of each Issue</b> | <b>Number of Shares</b> | <b>Principal Amount of Bonds and Notes</b> | <b>Amount shown in the Balance Sheet based on bid prices on the balance sheet date</b> | <b>Income received and accrued</b> |
|-------------------------------------------------------------|-------------------------|--------------------------------------------|----------------------------------------------------------------------------------------|------------------------------------|
| Chase Manhattan Bank London                                 | -                       | 1,620,384                                  | 5,477                                                                                  | -                                  |
| Hongkong And Shanghai Bkg Corp Mla                          | -                       | 1,254,925                                  | 5,270                                                                                  | -                                  |
| Bank Of Tokyo-Mitsubishi Manila Br.                         | -                       | 503,350                                    | 3,488                                                                                  | -                                  |
| Goldman Sachs International                                 | -                       | 1,748,830                                  | 2,762                                                                                  | -                                  |
| Mizuho Bank Ltd., Singapore Branch                          | -                       | 2,246,850                                  | 2,680                                                                                  | -                                  |
| PLDT                                                        | -                       | -                                          | 2,606                                                                                  | -                                  |
| Citibank N.A. London                                        | -                       | 750,247                                    | 1,888                                                                                  | -                                  |
| Atlas Fertilizer Corporation                                | -                       | 60,917                                     | 1,728                                                                                  | -                                  |
| Nomura International Plc                                    | -                       | 249,650                                    | 1,707                                                                                  | -                                  |
| Chinatrust Commercial Bank Manila                           | -                       | 151,150                                    | 1,334                                                                                  | -                                  |
| Internationale Nederlanden Bk Mla.                          | -                       | 501,000                                    | 1,138                                                                                  | -                                  |
| BNP Paribas Paris                                           | -                       | 106,635                                    | 628                                                                                    | -                                  |
| UBS Ag                                                      | -                       | 499,300                                    | 623                                                                                    | -                                  |
| Australia And N. Zealand Bk                                 | -                       | 998,600                                    | 479                                                                                    | -                                  |
| Internationale Nederlanden Bank                             | -                       | 249,650                                    | 292                                                                                    | -                                  |
| Mizuho Bank Ltd Manila                                      | -                       | 200,000                                    | 280                                                                                    | -                                  |
| Metropolitan Bank And Trust Company                         | -                       | 199,980                                    | 260                                                                                    | -                                  |
| Rizal Commercial Banking Corp.                              | -                       | 100,010                                    | 150                                                                                    | -                                  |

| Name of Issuing Entity and Association of each Issue               | Number of Shares | Principal Amount of Bonds and Notes | Amount shown in the Balance Sheet based on bid prices on the balance sheet date | Income received and accrued |
|--------------------------------------------------------------------|------------------|-------------------------------------|---------------------------------------------------------------------------------|-----------------------------|
| Bank Of The Philippine Islands                                     | -                | 349,630                             | 120                                                                             | -                           |
| Union Bank Of The Philippines                                      | -                | 99,980                              | 120                                                                             | -                           |
| Deutsche Bank Ag Mla Br                                            | -                | 149,890                             | 110                                                                             | -                           |
| PNB Intl Investments Corp                                          | -                | 50,002                              | 108                                                                             | -                           |
| Getz Advanced Materials, Inc.                                      | -                | 9,509                               | 107                                                                             | -                           |
| PNB Hongkong Branch                                                | -                | 99,860                              | 102                                                                             | -                           |
| I-Remit Inc.                                                       | -                | 34,797                              | 72                                                                              | -                           |
| JPMorgan Chase Bank Mla.                                           | -                | 100,020                             | 48                                                                              | -                           |
| CSFS-Credit Suisse London                                          | -                | 10,211                              | 28                                                                              | -                           |
| RFM Corporation                                                    | -                | 24,983                              | 18                                                                              | -                           |
| ACR Corporation                                                    | -                | 3,292                               | 3,293                                                                           | -                           |
|                                                                    | -                | 59,175,557                          | 562,984                                                                         | -                           |
| <b>Designated at FVPL</b>                                          |                  |                                     |                                                                                 |                             |
| Peso Money Market Fund                                             | -                | 3,431,386                           | 3,642,262                                                                       | 59,513                      |
| <b>Total Financial Assets at Fair Value through Profit or Loss</b> | <b>6,760,035</b> | <b>64,568,453</b>                   | <b>6,518,419</b>                                                                | <b>98,321</b>               |

**Available-for-Sale (AFS) Securities****(Amounts in thousands, except for number of shares)**

| <b>Name of Issuing Entity and Association of each Issue</b> | <b>Number of Shares</b> | <b>Principal Amount of Bonds and Notes</b> | <b>Amount shown in the Balance Sheet based on bid prices on the balance sheet date</b> | <b>Income received and accrued</b> |
|-------------------------------------------------------------|-------------------------|--------------------------------------------|----------------------------------------------------------------------------------------|------------------------------------|
| <b>Government Securities</b>                                |                         |                                            |                                                                                        |                                    |
| Bangko Sentral ng Pilipinas                                 | -                       | 149,790                                    | 208,343                                                                                | 8,839                              |
| Fixed Rate Treasury Notes                                   | -                       | 9,493,598                                  | 9,576,629                                                                              | 237,258                            |
| Global Peso Notes (ROP)                                     | -                       | 400,000                                    | 385,362                                                                                | 12,992                             |
| Power Sector Assets and Liabilities Mgmt Corp.              | -                       | 6,850,496                                  | 8,220,228                                                                              | 225,259                            |
| Republic of the Philippines (ROP) Bonds                     | -                       | 7,746,620                                  | 9,098,771                                                                              | 271,575                            |
| Retail Treasury Bonds                                       | -                       | 6,692,686                                  | 6,819,471                                                                              | 165,117                            |
| Treasury Bills                                              | -                       | 1,140,958                                  | 1,135,239                                                                              | 23,111                             |
| Republic Of Indonesia                                       | -                       | 5,482,064                                  | 5,663,250                                                                              | 149,355                            |
| U.S. Treasury                                               | -                       | 322,101                                    | 349,699                                                                                | 21,306                             |
| Small Business Loan asset backed securities                 | -                       | 18,512                                     | 18,512                                                                                 | -                                  |
| Treasury Bills - SGD                                        | -                       | 504,806                                    | 446,856                                                                                | 6,826                              |
| Philippine Sovereign Bonds (USD)                            | -                       | 76,223                                     | 78,497                                                                                 | -                                  |
| Treasury Notes -Sgd                                         | -                       | 25,000                                     | 24,957                                                                                 | -                                  |
| Treasury Gilts                                              | -                       | 73,912                                     | 74,383                                                                                 | 21                                 |
|                                                             | -                       | 38,976,766                                 | 42,100,197                                                                             | 1,121,659                          |

**Available-for-Sale (AFS) Securities****(Amounts in thousands, except for number of shares)**

| <b>Name of Issuing Entity and Association of each Issue</b> | <b>Number of Shares</b> | <b>Principal Amount of Bonds and Notes</b> | <b>Amount shown in the Balance Sheet based on bid prices on the balance sheet date</b> | <b>Income received and accrued</b> |
|-------------------------------------------------------------|-------------------------|--------------------------------------------|----------------------------------------------------------------------------------------|------------------------------------|
| <b>Private Debt Securities</b>                              |                         |                                            |                                                                                        |                                    |
| Apple Inc                                                   | -                       | 499,300                                    | 497,702                                                                                | 9,480                              |
| At&T Inc.                                                   | -                       | 1,447,970                                  | 1,448,297                                                                              | 15,259                             |
| Ayala Land Inc                                              | -                       | 1,504,175                                  | 1,491,412                                                                              | 56,789                             |
| Banco De Oro                                                | -                       | 2,739,160                                  | 2,695,964                                                                              | 62,472                             |
| Bank of China                                               | -                       | 399,440                                    | 412,170                                                                                | 20,307                             |
| BNPParibas                                                  | -                       | -                                          | -                                                                                      | 49                                 |
| CPI                                                         | -                       | 38,400                                     | 38,433                                                                                 | 932                                |
| Cyberzone Properties Inc                                    | -                       | 803,680                                    | 804,393                                                                                | 19,502                             |
| Development Bank of the Philippines                         | -                       | 2,181,392                                  | 2,373,572                                                                              | 56,602                             |
| Energy Development Corp                                     | -                       | 22,120                                     | 65,457                                                                                 | 92,768                             |
| European Investment Bank                                    | -                       | -                                          | -                                                                                      | 81                                 |
| Export-Import Bank Of Korea                                 | -                       | 848,810                                    | 823,461                                                                                | 18,691                             |
| Filinvest Development Cayman Islands                        | -                       | 344,517                                    | 352,338                                                                                | 31,855                             |
| Filinvest Land Inc                                          | -                       | 818,230                                    | 820,501                                                                                | 32,011                             |
| First Gen Corporation                                       | -                       | 5,061                                      | 5,420                                                                                  | 69,879                             |
| Fpc Finance Ltd                                             | -                       | 855,401                                    | 891,695                                                                                | 41,275                             |
| Fpc Treasury Limited (Fpc)                                  | -                       | -                                          | -                                                                                      | 6,062                              |
| Fpt Finance Limited                                         | -                       | 74,895                                     | 81,092                                                                                 | 3,058                              |
| Hsbc Holdings Plc                                           | -                       | 476,971                                    | 487,065                                                                                | 755                                |

**Available-for-Sale (AFS) Securities****(Amounts in thousands, except for number of shares)**

| <b>Name of Issuing Entity and Association of each Issue</b> | <b>Number of Shares</b> | <b>Principal Amount of Bonds and Notes</b> | <b>Amount shown in the Balance Sheet based on bid prices on the balance sheet date</b> | <b>Income received and accrued</b> |
|-------------------------------------------------------------|-------------------------|--------------------------------------------|----------------------------------------------------------------------------------------|------------------------------------|
| <b>Private Debt Securities</b>                              |                         |                                            |                                                                                        |                                    |
| Hutchison Whampoa Limited                                   | -                       | 1,007,587                                  | 1,070,380                                                                              | 31,695                             |
| Icici Bank Limited                                          | -                       | 959,155                                    | 959,597                                                                                | 20,590                             |
| Industrial And Com Bank Of China Asia                       | -                       | 199,720                                    | 211,366                                                                                | 9,384                              |
| International Container Terminal Services Inc.              | -                       | 1,147,741                                  | 1,223,900                                                                              | 95,656                             |
| Korea Devt Bank                                             | -                       | 369,482                                    | 363,837                                                                                | 9,934                              |
| Manila North Tollway Corporation Bonds                      | -                       | 50,000                                     | 50,207                                                                                 | 2,535                              |
| Megaworld Corp                                              | -                       | 860,000                                    | 871,373                                                                                | 34,786                             |
| Metropolitan Bank & Trust Co.                               | -                       | 567,100                                    | 543,204                                                                                | 30,482                             |
| Petron Corp                                                 | -                       | 10,000                                     | 9,788                                                                                  | 400                                |
| Philippine Long Distance Telephone Company                  | -                       | -                                          | 88                                                                                     | 4,283                              |
| Philippine Saving Bank                                      | -                       | 75,000                                     | 70,534                                                                                 | 4,125                              |
| Rizal Commercial Banking Corp                               | -                       | 144,447                                    | 148,635                                                                                | 11,508                             |
| San Miguel Corp                                             | -                       | 394,900                                    | 394,897                                                                                | 548                                |
| Security Bank Corp                                          | -                       | 119,832                                    | 121,582                                                                                | 2,755                              |
| Sinopec Corp                                                | -                       | 3,701,061                                  | 3,695,678                                                                              | 67,539                             |
| SM Investments Corp                                         | -                       | 1,388,269                                  | 1,424,746                                                                              | 74,564                             |
| SM Prime Holdings                                           | -                       | 596,560                                    | 604,349                                                                                | 15,739                             |
| South Luzon Tollway Corp                                    | -                       | 355,860                                    | 330,576                                                                                | 15,962                             |
| Standard Chartered Bank Ldn                                 | -                       | 575,347                                    | 584,569                                                                                | 3,368                              |
| State Bank Of India                                         | -                       | 499,300                                    | 500,753                                                                                | 21,830                             |
| Sti Education                                               | -                       | 50,000                                     | 51,329                                                                                 | 2,235                              |
| Sumitomo Bank Tokyo                                         | -                       | 249,650                                    | 249,510                                                                                | 4,888                              |
| Verizon Communications Inc                                  | -                       | -                                          | -                                                                                      | 4,731                              |
| Westpac Bank Sydney                                         | -                       | 149,790                                    | 150,263                                                                                | 3,363                              |
|                                                             | -                       | 26,530,323                                 | 26,920,133                                                                             | 1,010,727                          |

**Available-for-Sale (AFS) Securities****(Amounts in thousands, except for number of shares)**

| <b>Name of Issuing Entity and Association of each Issue</b> | <b>Number of Shares</b> | <b>Principal Amount of Bonds and Notes</b> | <b>Amount shown in the Balance Sheet based on bid prices on the balance sheet date</b> | <b>Income received and accrued</b> |
|-------------------------------------------------------------|-------------------------|--------------------------------------------|----------------------------------------------------------------------------------------|------------------------------------|
| <b>Equity Securities</b>                                    |                         |                                            |                                                                                        |                                    |
| Allied Banker Insurance                                     | 200,000                 | -                                          | 20,000                                                                                 | -                                  |
| Apo Golf                                                    | 1                       | -                                          | 2                                                                                      | -                                  |
| Aptrudev                                                    | -                       | -                                          | 1,500                                                                                  | -                                  |
| Bacnotan Steel Industries                                   | 3,345,000               | -                                          | -                                                                                      | -                                  |
| Baguio City Country Club                                    | -                       | -                                          | 1,500                                                                                  | -                                  |
| Bancnet, Inc.                                               | 49,999                  | -                                          | 5,000                                                                                  | -                                  |
| BAP Credit Guaranty                                         | 29,800                  | -                                          | 1,138                                                                                  | -                                  |
| Bayantel 31% Tranche B                                      | 83,997                  | -                                          | -                                                                                      | -                                  |
| Bulawan Mining (Bumico)                                     | 2,500,000               | -                                          | -                                                                                      | -                                  |
| Camp John Hay Golf Club                                     | 2                       | -                                          | 400                                                                                    | -                                  |
| Capitol Hills Golf Club                                     | -                       | -                                          | 800                                                                                    | -                                  |
| Club Filipino                                               | 1                       | -                                          | 370                                                                                    | -                                  |
| Cruz Tel Co.                                                | -                       | -                                          | 3                                                                                      | -                                  |
| Eagle Ridge Golf & Country Club                             | 30                      | -                                          | 2,700                                                                                  | -                                  |
| Evercrest Golf Club-A                                       | 2                       | -                                          | 1,000                                                                                  | -                                  |
| Fairways &Bluewater Resort                                  | 294                     | -                                          | -                                                                                      | -                                  |
| Fastech Synergy                                             | 1,337,807               | -                                          | -                                                                                      | -                                  |
| Heavenly Garden                                             | 5,000                   | -                                          | 500                                                                                    | -                                  |
| Iligan Golf & Country Club                                  | -                       | -                                          | 1                                                                                      | -                                  |

**Available-for-Sale (AFS) Securities****(Amounts in thousands, except for number of shares)**

| <b>Name of Issuing Entity and Association of each Issue</b> | <b>Number of Shares</b> | <b>Principal Amount of Bonds and Notes</b> | <b>Amount shown in the Balance Sheet based on bid prices on the balance sheet date</b> | <b>Income received and accrued</b> |
|-------------------------------------------------------------|-------------------------|--------------------------------------------|----------------------------------------------------------------------------------------|------------------------------------|
| <b>Equity Securities</b>                                    |                         |                                            |                                                                                        |                                    |
| LGU Guarantee Corp.                                         | 50,000                  | -                                          | 10,000                                                                                 | -                                  |
| Manila Golf Country Club-Corporate                          | 100                     | -                                          | 168,000                                                                                | -                                  |
| Manila Polo Club                                            | -                       | -                                          | 12,500                                                                                 | -                                  |
| Manila Southwoods Golf Club                                 | 1                       | -                                          | 1,638                                                                                  | -                                  |
| Meralco                                                     | 2,873                   | -                                          | 44,358                                                                                 | -                                  |
| Mimosa Golf & Country Club                                  | 1                       | -                                          | 800                                                                                    | -                                  |
| Mla Southwoods Golf & Country Club                          | -                       | -                                          | 1,750                                                                                  | -                                  |
| Mount Malarayat Golf & Country Club                         | 15                      | -                                          | -                                                                                      | -                                  |
| Northern Telephone Company                                  | -                       | -                                          | 18                                                                                     | -                                  |
| NRCP Common Stock                                           | 1,000                   | -                                          | 1                                                                                      | -                                  |
| Orchard Golf & Country Club                                 | -                       | -                                          | 150                                                                                    | -                                  |
| Pal Holdings Inc                                            | 146,000,000             | -                                          | 51,442                                                                                 | -                                  |
| PCDI Preferred Shares                                       | 175                     | -                                          | 44                                                                                     | -                                  |
| Phil Dealing System-Fixed Income                            | 73,000                  | -                                          | -                                                                                      | -                                  |
| Phil. Central Depository Inc.                               | 28,291                  | -                                          | -                                                                                      | -                                  |
| Phil. Clearing House                                        | 21,000                  | -                                          | 4,200                                                                                  | -                                  |
| Phil. Dealing House                                         | -                       | -                                          | 7,300                                                                                  | -                                  |
| Phil. Depository & Trust Corp.-BAP as trustee               | 31,690                  | -                                          | 2,392                                                                                  | -                                  |
| Phil. Electric Corp Shares                                  | 202,440                 | -                                          | 95                                                                                     | -                                  |
| Philippine Long Distance Company                            | 2,860                   | -                                          | 1,762                                                                                  | -                                  |

**Available-for-Sale (AFS) Securities****(Amounts in thousands, except for number of shares)**

| <b>Name of Issuing Entity and Association of each Issue</b> | <b>Number of Shares</b> | <b>Principal Amount of Bonds and Notes</b> | <b>Amount shown in the Balance Sheet based on bid prices on the balance sheet date</b> | <b>Income received and accrued</b> |
|-------------------------------------------------------------|-------------------------|--------------------------------------------|----------------------------------------------------------------------------------------|------------------------------------|
| <b>Equity Securities</b>                                    |                         |                                            |                                                                                        |                                    |
| Philippine Racing Club                                      | 30,331,103              | -                                          | 272,373                                                                                | -                                  |
| Philodrill                                                  | 695,625                 | -                                          | 8                                                                                      | -                                  |
| PICOP Resources                                             | 19,008,000              | -                                          | -                                                                                      | -                                  |
| Pldt Comm. And Energy Venture                               | -                       | -                                          | 9                                                                                      | -                                  |
| Pldt Preferred Shares                                       | -                       | -                                          | 1,084                                                                                  | -                                  |
| Pnb Madecor                                                 | -                       | -                                          | 1,932                                                                                  | -                                  |
| Pnb Prime Peso Money Market                                 | -                       | -                                          | 1,300                                                                                  | -                                  |
| Pnb Venture                                                 | -                       | -                                          | 5,062                                                                                  | -                                  |
| Primo Oleo Chemicals                                        | 6,638,151               | -                                          | -                                                                                      | -                                  |
| Proton Chemical Industries Comm Shares                      | 44,419                  | -                                          | -                                                                                      | -                                  |
| Pse Shares                                                  | 17,820                  | -                                          | 4,277                                                                                  | -                                  |
| Pt&T                                                        | 5,000,000               | -                                          | -                                                                                      | -                                  |
| Pueblo De Oro Golf Country Club                             | -                       | -                                          | 820                                                                                    | -                                  |
| Quezon City Sports Club                                     | -                       | -                                          | 420                                                                                    | -                                  |
| Retelco                                                     | -                       | -                                          | 5                                                                                      | -                                  |
| Riviera Golf Shares "C"                                     | 3                       | -                                          | 300                                                                                    | -                                  |
| Santa Elena Golf & Country Club                             | -                       | -                                          | 2,800                                                                                  | -                                  |
| Sierra Grande Country                                       | 100                     | -                                          | 32                                                                                     | -                                  |
| Small Business Guarantee                                    | 400,000                 | -                                          | 40,000                                                                                 | -                                  |
| Southern Iloilo Telephone Co.                               | -                       | -                                          | 2                                                                                      | -                                  |
| Sta. Elena Properties, Inc. "A"                             | 2                       | -                                          | 6,400                                                                                  | -                                  |
| Subic Bay Yatch Club                                        | 58                      | -                                          | -                                                                                      | -                                  |
| Tagaytay Highlands                                          | 268                     | -                                          | 147,400                                                                                | -                                  |
| Tagaytay Midlands                                           | 1                       | -                                          | 500                                                                                    | -                                  |
| Ternate Dev't Corporation                                   | -                       | -                                          | 170                                                                                    | -                                  |
| Valley Golf & Country Club                                  | -                       | -                                          | 930                                                                                    | -                                  |
| Macroasia Corporation                                       | 131,500,000             | -                                          | 3,004,775                                                                              | -                                  |
| Victorias Milling Corporation                               | -                       | -                                          | -                                                                                      | -                                  |
| Wack Wack Golf & Country Club                               | 5                       | -                                          | 357,118                                                                                | -                                  |
|                                                             | 347,600,934             | -                                          | 4,189,081                                                                              | -                                  |
| <b>Total Available-for-Sale Securities</b>                  | <b>347,600,934</b>      | <b>65,507,089</b>                          | <b>73,209,412</b>                                                                      | <b>2,132,386</b>                   |

**Held to Maturity Securities****(Amounts in thousands except for Number of Shares)**

| <b>Name of Issuing Entity and Association of each Issue</b> | <b>Number of Shares</b> | <b>Principal Amount of<br/>Bonds and Notes</b> | <b>Amount shown in the<br/>Balance Sheet based<br/>on bid prices on the<br/>balance sheet date</b> | <b>Income received and<br/>accrued</b> |
|-------------------------------------------------------------|-------------------------|------------------------------------------------|----------------------------------------------------------------------------------------------------|----------------------------------------|
| <b>Government Securities</b>                                |                         |                                                |                                                                                                    |                                        |
| Republic of the Philippines (ROP) Bonds                     | -                       | 14,876,644                                     | 17,047,617                                                                                         | 654,327                                |
| Fixed Rate Treasury Notes                                   | -                       | 3,237,693                                      | 3,977,116                                                                                          | 162,616                                |
| Retail Treasury Bonds                                       | -                       | 4,885,515                                      | 5,103,210                                                                                          | 142,346                                |
| Republic of Indonesia                                       | -                       | 249,650                                        | 257,044                                                                                            | 12,437                                 |
| Federal Reserve                                             | -                       | 5,103                                          | 5,103                                                                                              | 21                                     |
| Federal Home Loan Mortgage Corp.                            | -                       | 9,999                                          | 9,973                                                                                              | 27                                     |
| Federal National Mortgage Association                       | -                       | 64,915                                         | 64,807                                                                                             | 781                                    |
| US Treasury Notes                                           | -                       | 50,020                                         | 49,868                                                                                             | 154                                    |
|                                                             | -                       | 23,379,539                                     | 26,514,738                                                                                         | 972,709                                |
| <b>Private Debt Securities</b>                              |                         |                                                |                                                                                                    |                                        |
| Energy Development Corporation                              | -                       | 199,720                                        | 217,444                                                                                            | 5,971                                  |
|                                                             | -                       | 199,720                                        | 217,444                                                                                            | 5,971                                  |
| <b>Total Held to Maturity Securities</b>                    | -                       | 23,579,259                                     | 26,732,182                                                                                         | 978,680                                |

**Loans and Receivables****(Amounts in thousands except for Number of Shares)**

| <b>Name of Issuing Entity and Association of each Issue</b> | <b>Principal Amount of Bonds and Notes</b> | <b>Amount shown in the Balance Sheet based on bid prices on the balance sheet date</b> | <b>Valued based on Discounted Cash Flows at end of Reporting Period</b> | <b>Income received and accrued</b> |
|-------------------------------------------------------------|--------------------------------------------|----------------------------------------------------------------------------------------|-------------------------------------------------------------------------|------------------------------------|
| <b>Government Securities</b>                                | -                                          | -                                                                                      | -                                                                       | -                                  |
| Landbank of the Philippines                                 | 148,723                                    | 148,723                                                                                | 148,723                                                                 | 7,651                              |
| National Food Authority                                     | 256,822                                    | 256,833                                                                                | 250,476                                                                 | 17,313                             |
| Caticlan Super Marina                                       | 72,222                                     | 72,222                                                                                 | 71,684                                                                  | 3,872                              |
| Home Guaranty Corporation                                   | 10,241                                     | 10,242                                                                                 | 9,915                                                                   | 430                                |
| Home Development and Mutual Fund                            | -                                          | 752                                                                                    | 752                                                                     | 1,134                              |
|                                                             | <b>488,008</b>                             | <b>488,772</b>                                                                         | <b>481,550</b>                                                          | <b>30,400</b>                      |
| <b>Private Securities</b>                                   |                                            |                                                                                        |                                                                         |                                    |
| Agricultural Bank of China Ltd HK                           | 2,526,500                                  | 3,988,496                                                                              | 3,988,496                                                               | 25,712                             |
| Bank of China Ltd Sydney                                    | 2,746,150                                  | 2,723,127                                                                              | 2,723,127                                                               | 42,099                             |
| China Construction Bank HK                                  | 2,766,150                                  | 3,733,753                                                                              | 3,733,753                                                               | 41,638                             |
| Industrial & Commercial Bank of China                       | -                                          | -                                                                                      | -                                                                       | 6,163                              |
| Pilipinas Hino Incorporated                                 | 6,988                                      | -                                                                                      | -                                                                       | -                                  |
| Golden Dragon Star Equities Inc./OPAL                       | -                                          | -                                                                                      | -                                                                       | -                                  |
| Global Steel (NSC)                                          | 3,676,245                                  | -                                                                                      | -                                                                       | -                                  |
|                                                             | <b>11,722,033</b>                          | <b>10,445,376</b>                                                                      | <b>10,445,376</b>                                                       | <b>115,612</b>                     |
| <b>Total Loans and Receivables</b>                          | <b>12,210,041</b>                          | <b>10,934,148</b>                                                                      | <b>10,926,926</b>                                                       | <b>146,012</b>                     |

**LT GROUP, INC. AND SUBSIDIARIES**  
**SCHEDULE B. – Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)**  
**DECEMBER 31, 2017**  
**(in thousands)**

| <b>Name and Designation of Debtor</b> | <b>Balance at beginning of period</b> | <b>Additions</b> | <b>Amounts collected</b> | <b>Amounts written off</b> | <b>Current</b> | <b>Non-current</b> | <b>Balance at end of period</b> |
|---------------------------------------|---------------------------------------|------------------|--------------------------|----------------------------|----------------|--------------------|---------------------------------|
| Related party:                        |                                       |                  |                          |                            |                |                    |                                 |
| Tangent Holdings Corporation          | 320,000                               | 189,000          | -                        | -                          | 509,000        | -                  | 509,000                         |
|                                       | <b>320,000</b>                        | <b>189,000</b>   | <b>-</b>                 | <b>-</b>                   | <b>509,000</b> | <b>-</b>           | <b>509,000</b>                  |
|                                       |                                       |                  |                          |                            |                |                    |                                 |

Other than the above related party, all amounts receivable from Directors, Officers, Employees, other Related Parties and Principal Stockholders pertained to purchases subject to usual terms, for ordinary travel and expense advances and for other such items arose in the ordinary course of business were excluded.

**LT GROUP, INC. AND SUBSIDIARIES**  
**SCHEDULE C. – Amounts Receivable from Related Parties which are eliminated during the consolidation of financial statements**  
**DECEMBER 31, 2017**  
**(in thousands)**

| <b>Name and Designation of Debtor</b> | <b>Balance at beginning of period</b> | <b>Additions</b> | <b>Amounts collected</b> | <b>Amounts written off</b> | <b>Current</b> | <b>Non-current</b> | <b>Balance at end of period</b> |
|---------------------------------------|---------------------------------------|------------------|--------------------------|----------------------------|----------------|--------------------|---------------------------------|
| Allmark Holdings Corp.                | 7,535                                 | -                | -                        | -                          | 7,535          | -                  | 7,535                           |
| Caravan Holdings Corp.                | 12,830                                | -                | -                        | -                          | 12,830         | -                  | 12,830                          |
| Dunmore Development Corp.             | 2,840                                 | -                | -                        | -                          | 2,840          | -                  | 2,840                           |
| Eton Properties Philippines, Inc.     | 660,621                               | -                | (659,965)                | -                          | 656            | -                  | 656                             |
| Fil-Care Holdings, Inc.               | 12,930                                | -                | -                        | -                          | 12,930         | -                  | 12,930                          |
| Ivory Holdings, Inc.                  | 8,945                                 | -                | -                        | -                          | 8,945          | -                  | 8,945                           |
| Kenrock Holdings Corp.                | 14,110                                | -                | -                        | -                          | 14,110         | -                  | 14,110                          |
| Kentwood Development Corp.            | 4,050                                 | -                | -                        | -                          | 4,050          | -                  | 4,050                           |
| La Vida Development Corp.             | 15,090                                | -                | -                        | -                          | 15,090         | -                  | 15,090                          |
| Leadway Holdings, Inc.                | 36,500                                | -                | -                        | -                          | 36,500         | -                  | 36,500                          |
| LT Group, Inc. (Parent)               | 525                                   | -                | (525)                    | -                          | -              | -                  | -                               |
| Merit Holdings & Equities Corp.       | 175                                   | -                | -                        | -                          | 175            | -                  | 175                             |
| Multiple Star Holdings Corp.          | 9,550                                 | -                | -                        | -                          | 9,550          | -                  | 9,550                           |
| Philippine National Bank (PNB)        | 10,288                                | -                | (10,288)                 | -                          | -              | -                  | -                               |
| Pioneer Holdings Equities, Inc.       | 3,500                                 | -                | -                        | -                          | 3,500          | -                  | 3,500                           |
| Society Holdings Corp.                | 9,600                                 | -                | -                        | -                          | 9,600          | -                  | 9,600                           |
| Solar Holdings Corp.                  | 20,300                                | -                | -                        | -                          | 20,300         | -                  | 20,300                          |
| Tanduay Brands International, Inc.    | -                                     | -                | -                        | -                          | -              | -                  | -                               |
| Tanduay Distillers, Inc.              | 502,588                               | -                | (2,249)                  | -                          | 500,339        | -                  | 500,339                         |
| Total Holdings, Corp.                 | 1,970                                 | -                | -                        | -                          | 1,970          | -                  | 1,970                           |
|                                       | <b>1,333,947</b>                      | <b>-</b>         | <b>(673,027)</b>         | <b>-</b>                   | <b>660,920</b> | <b>-</b>           | <b>660,920</b>                  |

**LT GROUP, INC. AND SUBSIDIARIES**  
**SCHEDULE D. – Intangible Assets – Other Assets**  
**DECEMBER 31, 2017**  
**(in thousands)**

| <b>Description</b> | <b>Beginning<br/>balance</b> | <b>Additions<br/>at cost</b> | <b>Charged<br/>to costs<br/>and<br/>expenses</b> | <b>Disposals</b> | <b>Other<br/>changes,<br/>additions<br/>(deductions)</b> | <b>Ending<br/>Balance</b> |
|--------------------|------------------------------|------------------------------|--------------------------------------------------|------------------|----------------------------------------------------------|---------------------------|
| Goodwill           | ₱163,735                     | –                            | –                                                | –                | –                                                        | ₱163,735                  |
| Software           | 1,448,022                    | 1,113,038                    | (195,962)                                        | –                | (76,174)                                                 | 2,288,924                 |

Intangibles are presented in “Other noncurrent assets” in the consolidated balance sheets.

**LT GROUP, INC. AND SUBSIDIARIES**  
**SCHEDULE E. – Long term debts**  
**DECEMBER 31, 2017**  
**(in thousands)**

| <b>Title of Issue and type of obligation</b> | <b>Amount authorized by indenture</b> | <b>Amount shown under caption<br/>“Short-term and long-term debt<br/>current” in related balance sheet</b> | <b>Amount shown under caption<br/>“Long-term debt net of current<br/>portion” in related balance sheet</b> |
|----------------------------------------------|---------------------------------------|------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------|
| 1. Unsecured term loan                       |                                       | –                                                                                                          | ₱1,475,466                                                                                                 |
| 2. Note payable                              |                                       | ₱114,681                                                                                                   | –                                                                                                          |

**LT GROUP, INC. AND SUBSIDIARIES**  
**SCHEDULE H - Capital Stock**  
**DECEMBER 31, 2017**

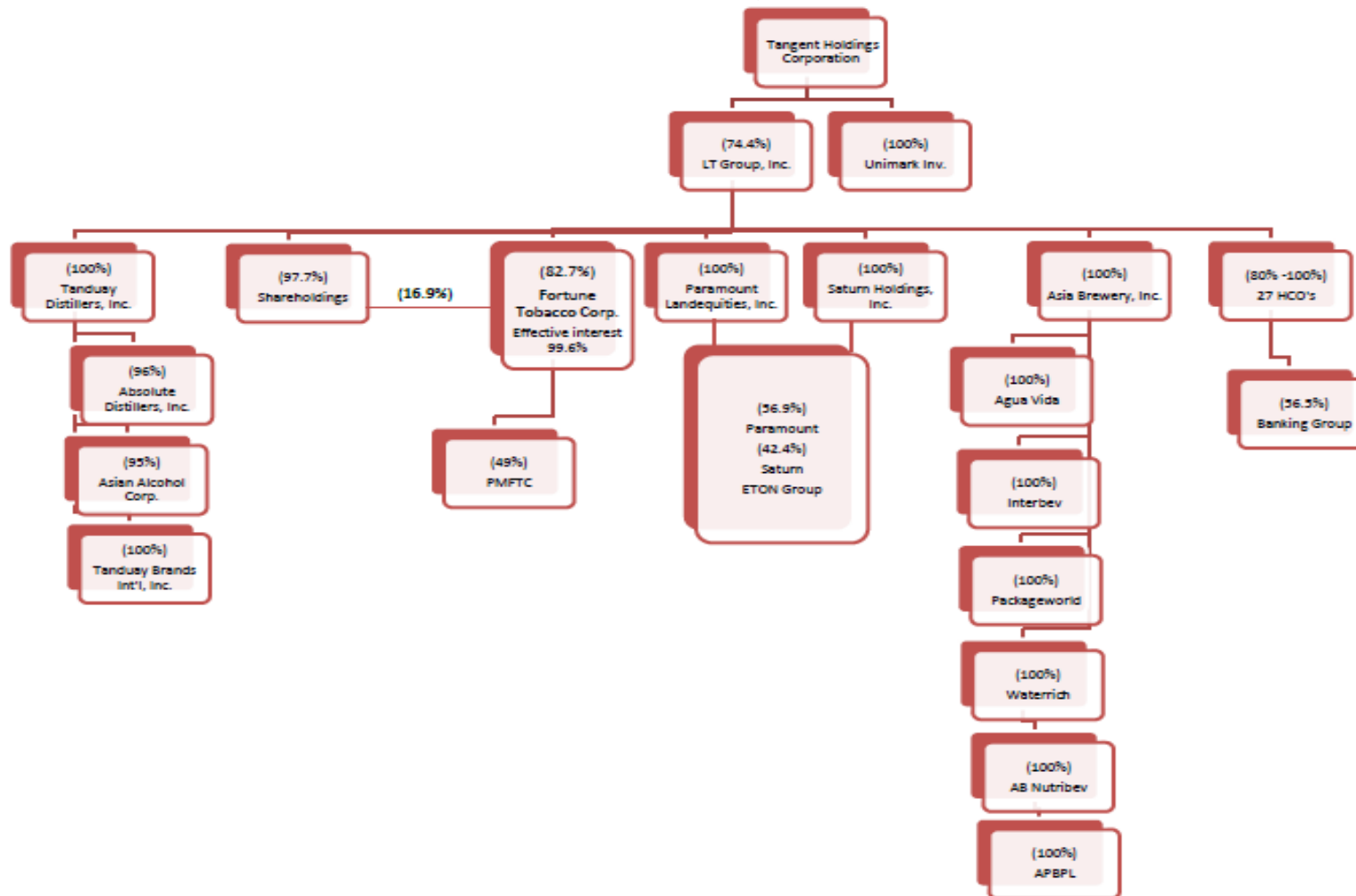
| Title of Issue | Number of<br>Shares<br>Authorized | Number of<br>Shares Issued<br>And Outstanding as<br>Shown under<br>Related Balance<br>Sheet caption | Number of shares<br>Reserved for<br>Options, Warrants,<br>Conversions,<br>and Other Rights | Number of shares<br>Held by related<br>Parties | Directors,<br>Officers and<br>Employees | Others        |
|----------------|-----------------------------------|-----------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------|------------------------------------------------|-----------------------------------------|---------------|
| Common Stock   | 25,000,000,000                    | 10,821,388,889                                                                                      | -                                                                                          | 8,046,318,193                                  | 21,500                                  | 2,775,049,196 |

**LT GROUP, INC.**  
**SCHEDULE I - Reconciliation of Retained Earnings Available for Dividend Declaration**  
**DECEMBER 31, 2017**

|                                                                                                                                       |                        |
|---------------------------------------------------------------------------------------------------------------------------------------|------------------------|
| Unappropriated retained earnings as of December 31, 2016,<br>as adjusted to available for dividend declaration                        | <b>₱12,128,609,103</b> |
| Net income based on the face of audited financial statements                                                                          | ₱1,923,519,854         |
| Less: Non-actual/unrealized income net of tax                                                                                         |                        |
| Equity in net income of associate/joint venture                                                                                       | —                      |
| Unrealized foreign exchange gain - net (except those<br>attributable to cash and cash equivalents)                                    | —                      |
| Movement of deferred income tax assets                                                                                                | —                      |
| Fair value adjustment (M2M gains)                                                                                                     | 17,889,138             |
| Fair value adjustment of Investment Property<br>resulting to gain                                                                     | —                      |
| Adjustment due to deviation from PFRS/GAAP - gain                                                                                     | —                      |
| Other unrealized gains or adjustments to the retained<br>earnings as a result of certain transactions accounted<br>for under the PFRS | —                      |
| Add: Non-actual losses                                                                                                                |                        |
| Depreciation on revaluation increment (after tax)                                                                                     | —                      |
| Adjustment due to deviation from PFRS/GAAP - loss                                                                                     | —                      |
| Loss on fair value adjustment of investment<br>property (after tax)                                                                   | —                      |
| <b>Net income actual/realized</b>                                                                                                     | <b>1,905,630,716</b>   |
| Adjustments:                                                                                                                          |                        |
| Appropriation of retained earnings during the year                                                                                    | —                      |
| Dividend declarations during the period                                                                                               | <b>(1,947,850,000)</b> |
| Reversal of appropriations during the year                                                                                            | —                      |
| Effects of prior year adjustments                                                                                                     | —                      |
| Treasury shares                                                                                                                       | —                      |
|                                                                                                                                       | <b>(42,219,284)</b>    |
| <b>RETAINED EARNINGS AVAILABLE FOR DIVIDEND<br/>DECLARATION AS AT DECEMBER 31, 2016</b>                                               | <b>₱12,086,389,819</b> |

Note: In accordance with Philippine SEC Financial Reporting Bulletin No. 14, the reconciliation is based on the separate/parent company financial statements of LT Group, Inc.

**LT GROUP, INC. AND SUBSIDIARIES**  
**SCHEDULE J – Relationships between & among the Group and its Parent**  
**DECEMBER 31, 2017**



**LT GROUP, INC. AND SUBSIDIARIES**  
**SCHEDULE K – List of all effective Standards and Interpretations under the**  
**Philippine Financial Reporting Standards (PFRS) effective as of**  
**DECEMBER 31, 2017**

| <b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b><br>Effective as of December 31, 2017                                                  |                                                                                                                | <b>Adopted</b> | <b>Not Early Adopted</b> | <b>Not Applicable</b> |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------|----------------|--------------------------|-----------------------|
| <b>Framework for the Preparation and Presentation of Financial Statements</b><br>Conceptual Framework Phase A: Objectives and qualitative characteristics |                                                                                                                | ✓              |                          |                       |
| <b>PFRSs Practice Statement Management Commentary</b>                                                                                                     |                                                                                                                | ✓              |                          |                       |
| <b>Philippine Financial Reporting Standards</b>                                                                                                           |                                                                                                                |                |                          |                       |
| <b>PFRS 1 (Revised)</b>                                                                                                                                   | First-time Adoption of Philippine Financial Reporting Standards                                                | ✓              |                          |                       |
|                                                                                                                                                           | Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate | ✓              |                          |                       |
|                                                                                                                                                           | Amendments to PFRS 1: Additional Exemptions for First-time Adopters                                            |                |                          | ✓                     |
|                                                                                                                                                           | Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters             |                |                          | ✓                     |
|                                                                                                                                                           | Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters                  |                |                          | ✓                     |
|                                                                                                                                                           | Amendments to PFRS 1: Government Loans                                                                         |                |                          | ✓                     |
| <b>PFRS 2</b>                                                                                                                                             | Share-based Payment                                                                                            |                |                          | ✓                     |
|                                                                                                                                                           | Amendments to PFRS 2: Vesting Conditions and Cancellations                                                     |                |                          | ✓                     |
|                                                                                                                                                           | Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions                                      |                |                          | ✓                     |
|                                                                                                                                                           | Amendments to PFRS 2: Definition of Vesting Condition                                                          |                |                          | ✓                     |
|                                                                                                                                                           | Amendment to PFRS 2: Classification and Measurement of Share-based Payment Transactions*                       |                | ✓                        |                       |
| <b>PFRS 3 (Revised)</b>                                                                                                                                   | Business Combinations                                                                                          | ✓              |                          |                       |
|                                                                                                                                                           | Amendments to PFRS 3: Accounting for Contingent Consideration in a Business Combination                        | ✓              |                          |                       |
|                                                                                                                                                           | Amendments to PFRS 3: Scope Exceptions for Joint Arrangements                                                  |                |                          | ✓                     |

*\*These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2017. The Company did not early adopt these standards, interpretations and amendments*

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of December 31, 2017 |                                                                                                                                                   | Adopted | Not Early Adopted | Not Applicable |
|---------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------|---------|-------------------|----------------|
| <b>PFRS 4</b>                                                                                     | Insurance Contracts                                                                                                                               |         |                   | ✓              |
|                                                                                                   | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts                                                                                    |         |                   | ✓              |
|                                                                                                   | Amendments to PFRS 4: Applying PFRS 9, <i>Financial Instruments</i> , with PFRS 4*                                                                |         | ✓                 |                |
| <b>PFRS 5</b>                                                                                     | Non-current Assets Held for Sale and Discontinued Operations                                                                                      | ✓       |                   |                |
|                                                                                                   | Changes in Method of Disposal                                                                                                                     |         |                   | ✓              |
| <b>PFRS 6</b>                                                                                     | Exploration for and Evaluation of Mineral Resources                                                                                               |         |                   | ✓              |
| <b>PFRS 7</b>                                                                                     | Financial Instruments Disclosures                                                                                                                 | ✓       |                   |                |
|                                                                                                   | Amendments to PFRS 7: Transition                                                                                                                  | ✓       |                   |                |
|                                                                                                   | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets                                                                             | ✓       |                   |                |
|                                                                                                   | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition                                             | ✓       |                   |                |
|                                                                                                   | Amendments to PFRS 7: Improving Disclosures about Financial Instruments                                                                           | ✓       |                   |                |
|                                                                                                   | Amendments to PFRS 7: Disclosures - Transfers of Financial Assets                                                                                 | ✓       |                   |                |
|                                                                                                   | Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities                                                         | ✓       |                   |                |
|                                                                                                   | Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures                                                               | ✓       |                   |                |
|                                                                                                   | Amendments to PFRS 7: Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements                                         |         |                   | ✓              |
|                                                                                                   | Amendments to PFRS 7: Servicing Contracts                                                                                                         |         |                   | ✓              |
| <b>PFRS 8</b>                                                                                     | Operating Segments                                                                                                                                | ✓       |                   |                |
|                                                                                                   | Amendments to PFRS 8 : Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Asset | ✓       |                   |                |
| <b>PFRS 9</b>                                                                                     | Financial Instruments*                                                                                                                            |         | ✓                 |                |
|                                                                                                   | Amendments to PFRS 9: Prepayment Features with Negative Compensation                                                                              |         |                   | ✓              |
| <b>PFRS 10</b>                                                                                    | Consolidated Financial Statements                                                                                                                 | ✓       |                   |                |
|                                                                                                   | Amendments to PFRS 10: Transition Guidance                                                                                                        | ✓       |                   |                |

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| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of December 31, 2017 |                                                                                                                          | Adopted | Not Early Adopted | Not Applicable |
|---------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------|---------|-------------------|----------------|
| <b>PFRS 10 (cont'd)</b>                                                                           | Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities                                                           |         |                   | ✓              |
|                                                                                                   | Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* |         | ✓                 |                |
|                                                                                                   | Amendments to PFRS 10, PFRS 12 and PAS 28, Investment Entities: Applying the Consolidation Exception**                   |         | ✓                 |                |
| <b>PFRS 11</b>                                                                                    | Joint Arrangements                                                                                                       | ✓       |                   |                |
|                                                                                                   | Amendments to PFRS 11: Transition Guidance                                                                               | ✓       |                   |                |
|                                                                                                   | Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations                                      |         |                   | ✓              |
| <b>PFRS 12</b>                                                                                    | Disclosure of Interests in Other Entities                                                                                | ✓       |                   |                |
|                                                                                                   | Amendments to PFRS 12: Transition Guidance                                                                               | ✓       |                   |                |
|                                                                                                   | Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities                                                           |         |                   | ✓              |
|                                                                                                   | Amendments to PFRS 10, PFRS 12 and PAS 28, Investment Entities: Applying the Consolidation Exception                     |         |                   | ✓              |
|                                                                                                   | Amendments to PFRS 12: Clarification of the Scope of the Standard*                                                       |         | ✓                 |                |
| <b>PFRS 13</b>                                                                                    | Fair Value Measurement                                                                                                   | ✓       |                   |                |
|                                                                                                   | Amendments to PFRS 13: Portfolio Exception                                                                               |         |                   | ✓              |
| <b>PFRS 14</b>                                                                                    | Regulatory Deferral Accounts                                                                                             |         |                   | ✓              |
| <b>IFRS 15</b>                                                                                    | Revenue from Contracts with Customers*                                                                                   |         | ✓                 |                |
| <b>IFRS 16</b>                                                                                    | Leases*                                                                                                                  |         | ✓                 |                |
| <b>Philippine Accounting Standards</b>                                                            |                                                                                                                          |         |                   |                |
| <b>PAS 1 (Revised)</b>                                                                            | Presentation of Financial Statements                                                                                     | ✓       |                   |                |
|                                                                                                   | Amendment to PAS 1: Capital Disclosures                                                                                  | ✓       |                   |                |
|                                                                                                   | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation                    |         |                   | ✓              |
|                                                                                                   | Amendment to PAS 1: Presentation of Items of Other Comprehensive Income                                                  | ✓       |                   |                |
|                                                                                                   | Amendment to PAS 1: Disclosure Initiative                                                                                | ✓       |                   |                |
| <b>PAS 2</b>                                                                                      | Inventories                                                                                                              | ✓       |                   |                |

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\*\*Deferred activity

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of December 31, 2017 |                                                                                                       | Adopted | Not Early Adopted | Not Applicable |
|---------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------|---------|-------------------|----------------|
| PAS 7                                                                                             | Statement of Cash Flows                                                                               | ✓       |                   |                |
|                                                                                                   | Amendments to PAS 7: Disclosure Initiative                                                            | ✓       |                   |                |
| PAS 8                                                                                             | Accounting Policies, Changes in Accounting Estimates and Errors                                       | ✓       |                   |                |
| PAS 10                                                                                            | Events after the Reporting Period                                                                     | ✓       |                   |                |
| PAS 11                                                                                            | Construction Contracts                                                                                |         |                   | ✓              |
| PAS 12                                                                                            | Income Taxes                                                                                          | ✓       |                   |                |
|                                                                                                   | Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets                                     | ✓       |                   |                |
|                                                                                                   | Amendments to PAS 12: Recognition of Deferred Tax Assets for Unrealized Losses                        | ✓       |                   |                |
| PAS 16                                                                                            | Property, Plant and Equipment                                                                         | ✓       |                   |                |
|                                                                                                   | Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization |         |                   | ✓              |
|                                                                                                   | Amendments to PAS 16 and 38: Proportionate Restatement of Accumulated Amortization                    |         |                   | ✓              |
|                                                                                                   | Amendments to PAS 16 and PAS 41: Bearer Plants                                                        |         |                   | ✓              |
| PAS 17                                                                                            | Leases                                                                                                | ✓       |                   |                |
| PAS 18                                                                                            | Revenue                                                                                               | ✓       |                   |                |
| PAS 19<br>(Revised)                                                                               | Employee Benefits                                                                                     | ✓       |                   |                |
|                                                                                                   | Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures                         | ✓       |                   |                |
|                                                                                                   | Regional Market Issue Regarding Discount Rate*                                                        |         | ✓                 |                |
|                                                                                                   | Amendments to PAS 19: Defined Benefit Plans: Employee Contributions                                   |         |                   | ✓              |
| PAS 20                                                                                            | Accounting for Government Grants and Disclosure of Government Assistance                              |         |                   | ✓              |
| PAS 21                                                                                            | The Effects of Changes in Foreign Exchange Rates                                                      | ✓       |                   |                |
|                                                                                                   | Amendment: Net Investment in a Foreign Operation                                                      |         |                   | ✓              |
| PAS 23<br>(Revised)                                                                               | Borrowing Costs                                                                                       | ✓       |                   |                |
| PAS 24<br>(Revised)                                                                               | Related Party Disclosures                                                                             | ✓       |                   |                |
|                                                                                                   | Amendments to PAS 24: Key Management Personnel                                                        | ✓       |                   |                |
| PAS 26                                                                                            | Accounting and Reporting by Retirement Benefit Plans                                                  |         |                   | ✓              |

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| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of December 31, 2017 |                                                                                                               | Adopted | Not Early Adopted | Not Applicable |
|---------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------|---------|-------------------|----------------|
| <b>PAS 27<br/>(Amended)</b>                                                                       | Separate Financial Statements                                                                                 | ✓       |                   |                |
|                                                                                                   | Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities                                                |         |                   | ✓              |
|                                                                                                   | Amendment: Equity Method in Separate Financial Statements                                                     | ✓       |                   |                |
| <b>PAS 28<br/>(Amended)</b>                                                                       | Investments in Associates and Joint Ventures                                                                  | ✓       |                   |                |
|                                                                                                   | Amendments to PFRS 10, PFRS 12 and PAS 28, Investment Entities: Applying the Consolidation Exception          |         |                   | ✓              |
|                                                                                                   | Amendments to PAS 28: Measuring an Associate or Joint Venture at Fair Value*                                  |         | ✓                 |                |
|                                                                                                   | Amendments to PAS 28: Long-term Interests in Associates and Joint Ventures                                    | ✓       |                   |                |
|                                                                                                   | Amendments to PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture** |         | ✓                 |                |
| <b>PAS 29</b>                                                                                     | Financial Reporting in Hyperinflationary Economies                                                            |         |                   | ✓              |
| <b>PAS 32</b>                                                                                     | Financial Instruments: Disclosure and Presentation                                                            | ✓       |                   |                |
|                                                                                                   | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation         | ✓       |                   |                |
|                                                                                                   | Amendment to PAS 32: Classification of Rights Issues                                                          | ✓       |                   |                |
|                                                                                                   | Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities                                   | ✓       |                   |                |
| <b>PAS 33</b>                                                                                     | Earnings per Share                                                                                            | ✓       |                   |                |
| <b>PAS 34</b>                                                                                     | Interim Financial Reporting                                                                                   | ✓       |                   |                |
|                                                                                                   | Amendment to PAS 34: Disclosure of information 'elsewhere in the interim financial report'                    | ✓       |                   |                |
| <b>PAS 36</b>                                                                                     | Impairment of Assets                                                                                          | ✓       |                   |                |
|                                                                                                   | Amendment to PAS 36: Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets           | ✓       |                   |                |
| <b>PAS 37</b>                                                                                     | Provisions, Contingent Liabilities and Contingent Assets                                                      | ✓       |                   |                |
| <b>PAS 38</b>                                                                                     | Intangible Assets                                                                                             | ✓       |                   |                |

|                            |                                                                                                        |  |   |  |
|----------------------------|--------------------------------------------------------------------------------------------------------|--|---|--|
| <b>PAS 38<br/>(cont'd)</b> | Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization* |  | ✓ |  |
|----------------------------|--------------------------------------------------------------------------------------------------------|--|---|--|

| <b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b><br><b>Effective as of December 31, 2017</b> |                                                                                                                                                              | <b>Adopted</b> | <b>Not Early Adopted</b> | <b>Not Applicable</b> |
|-----------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|--------------------------|-----------------------|
| <b>PAS 39</b>                                                                                                   | Financial Instruments: Recognition and Measurement                                                                                                           | ✓              |                          |                       |
|                                                                                                                 | Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities                                                       | ✓              |                          |                       |
|                                                                                                                 | Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions                                                                         |                |                          | ✓                     |
|                                                                                                                 | Amendments to PAS 39: The Fair Value Option                                                                                                                  |                |                          | ✓                     |
|                                                                                                                 | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts                                                                                               |                |                          | ✓                     |
|                                                                                                                 | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets                                                                                        | ✓              |                          |                       |
|                                                                                                                 | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition                                                        | ✓              |                          |                       |
|                                                                                                                 | Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives                                                                             | ✓              |                          |                       |
|                                                                                                                 | Amendment to PAS 39: Eligible Hedged Items                                                                                                                   |                |                          | ✓                     |
|                                                                                                                 | Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting                                                                            |                |                          | ✓                     |
| <b>PAS 40</b>                                                                                                   | Investment Property                                                                                                                                          | ✓              |                          |                       |
|                                                                                                                 | Amendments to PAS 40: Clarifying the Interrelationship between PFRS 3 and PAS 40 when Classifying Property as Investment Property or Owner-Occupied Property | ✓              |                          |                       |
|                                                                                                                 | Amendments to PAS 40: Transfers of Investment Property*                                                                                                      |                | ✓                        |                       |
| <b>PAS 41</b>                                                                                                   | Agriculture                                                                                                                                                  |                |                          | ✓                     |
| <b>Philippine Interpretations</b>                                                                               |                                                                                                                                                              |                |                          |                       |
| <b>IFRIC 1</b>                                                                                                  | Changes in Existing Decommissioning, Restoration and Similar Liabilities                                                                                     |                |                          | ✓                     |
| <b>IFRIC 2</b>                                                                                                  | Members' Share in Co-operative Entities and Similar Instruments                                                                                              |                |                          | ✓                     |
| <b>IFRIC 4</b>                                                                                                  | Determining Whether an Arrangement Contains a Lease                                                                                                          | ✓              |                          |                       |
| <b>IFRIC 5</b>                                                                                                  | Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds                                                         |                |                          | ✓                     |
| <b>IFRIC 6</b>                                                                                                  | Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment                                                      |                |                          | ✓                     |

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|                 |                                                                                                  |   |   |   |
|-----------------|--------------------------------------------------------------------------------------------------|---|---|---|
| <b>IFRIC 9</b>  | Reassessment of Embedded Derivatives                                                             | ✓ |   |   |
|                 | Amendments to Philippine Interpretation IFRIC - 9 and PAS 39: Embedded Derivatives               | ✓ |   |   |
| <b>IFRIC 10</b> | Interim Financial Reporting and Impairment                                                       | ✓ |   |   |
| <b>IFRIC 12</b> | Service Concession Arrangements                                                                  |   |   | ✓ |
| <b>IFRIC 13</b> | Customer Loyalty Programmes                                                                      |   |   | ✓ |
| <b>IFRIC 14</b> | The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction         | ✓ |   |   |
|                 | Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement |   |   | ✓ |
| <b>IFRIC 15</b> | Agreements for the Construction of Real Estate*                                                  |   | ✓ |   |
| <b>IFRIC 16</b> | Hedges of a Net Investment in a Foreign Operation                                                |   |   | ✓ |
| <b>IFRIC 17</b> | Distributions of Non-cash Assets to Owners                                                       | ✓ |   |   |
| <b>IFRIC 18</b> | Transfers of Assets from Customers                                                               |   |   | ✓ |
| <b>IFRIC 19</b> | Extinguishing Financial Liabilities with Equity Instruments                                      |   |   | ✓ |
| <b>IFRIC 20</b> | Stripping Costs in the Production Phase of a Surface Mine                                        |   |   | ✓ |
| <b>IFRIC 21</b> | Levies                                                                                           | ✓ |   |   |
| <b>IFRIC 22</b> | Foreign Currency Transactions and Advance Consideration*                                         |   | ✓ |   |
| <b>IFRIC 23</b> | Uncertainty over Income Tax Treatments*                                                          |   | ✓ |   |
| <b>SIC-7</b>    | Introduction of the Euro                                                                         |   |   | ✓ |
| <b>SIC-10</b>   | Government Assistance - No Specific Relation to Operating Activities                             |   |   | ✓ |
| <b>SIC-15</b>   | Operating Leases - Incentives                                                                    |   |   | ✓ |
| <b>SIC-25</b>   | Income Taxes - Changes in the Tax Status of an Entity or its Shareholders                        |   |   | ✓ |
| <b>SIC-27</b>   | Evaluating the Substance of Transactions Involving the Legal Form of a Lease                     | ✓ |   |   |
| <b>SIC-29</b>   | Service Concession Arrangements: Disclosures                                                     |   |   | ✓ |
| <b>SIC-31</b>   | Revenue - Barter Transactions Involving Advertising Services                                     |   |   | ✓ |
| <b>SIC-32</b>   | Intangible Assets - Web Site Costs                                                               | ✓ |   |   |

*\*These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2017. The Company did not early adopt these standards, interpretations and amendments.*

**LT GROUP, INC. AND SUBSIDIARIES**  
**SCHEDULE L – Index to Exhibits**  
**SEC FORM 17-A**

|                                                                                                                              | <u><b>Page</b></u> |
|------------------------------------------------------------------------------------------------------------------------------|--------------------|
| (1) Publication of Notice re: Filing                                                                                         | *                  |
| (2) Underwriting Agreement                                                                                                   | *                  |
| (3) Plan of Acquisition, Reorganization, Arrangement, Liquidation or Succession                                              | *                  |
| (4) Articles of Incorporation and By-laws                                                                                    | *                  |
| (5) Instruments Defining The Rights of Security Holders, Including Indentures                                                | *                  |
| (6) Opinion Re: Legality                                                                                                     | *                  |
| (7) Opinion Re: Tax Matters                                                                                                  | *                  |
| (8) Voting Trust Agreement                                                                                                   | *                  |
| (9) Material Contracts                                                                                                       | *                  |
| (10) Annual Report to Security Holders, FORM 17-Q or Quarterly Reports To Security Holders                                   | *                  |
| (11) Material Foreign Patents                                                                                                | *                  |
| (12) Letter Re: Unaudited Interim Financial Information                                                                      | *                  |
| (13) Letter Re: Change in Certifying Accountant                                                                              | *                  |
| (14) Letter Re: Director Resignation                                                                                         | *                  |
| (15) Letter Re: Change In Accounting Principles                                                                              | *                  |
| (16) Report Furnished To Security Holders                                                                                    | *                  |
| (17) Other Documents Or Statements To Security Holders                                                                       | *                  |
| (18) Subsidiaries Of The Registrant                                                                                          | 275                |
| (19) Published Report Regarding Matters Submitted To Vote Of Security Holders                                                | *                  |
| (20) Consents Of Experts and Independent Counsel                                                                             | *                  |
| (21) Power of Attorney                                                                                                       | *                  |
| (22) Statement Of Eligibility Of Trustee                                                                                     | *                  |
| (23) Exhibits to be Filed With Bond Issues                                                                                   | *                  |
| (24) Exhibits to be Filed With Stock Options Issues                                                                          | *                  |
| (25) Exhibits to be Filed by Investment Companies                                                                            | *                  |
| (26) Copy of Board of Investment Certificate in the case of Board of Investment Registered Companies                         | *                  |
| (27) Authorization to Commission to Access Registrant's Bank Accounts                                                        | *                  |
| (28) Additional Exhibits                                                                                                     | 276                |
| (29) Copy of the Board Resolution approving the securities offering and authorizing the filing of the registration statement | *                  |
| (30) Duly verified resolution of the issuer's Board of Directors                                                             | *                  |

These exhibits are either not applicable to the Group or require no answer.

## EXHIBIT 18 Subsidiaries of the Registrant

LT GROUP, Inc. has the following subsidiaries as of December 31, 2017:

| <b><u>Distilled Spirits</u></b>        | <b><u>Jurisdiction</u></b> |
|----------------------------------------|----------------------------|
| 1. TDI and subsidiaries                | Philippines                |
| a. Absolut Distillers, Inc.            |                            |
| b. Asian Alcohol Corp                  |                            |
| c. Tanduay Brands Int'l Inc.           |                            |
| <b><u>Beverages</u></b>                |                            |
| ABI and subsidiaries                   | Philippines                |
| a. Agua Vida Systems, Inc.             |                            |
| b. Interbev Philippines, Inc.          |                            |
| c. Waterich Resources Corporation      |                            |
| d. Packageworld, Inc.                  |                            |
| e. AB Nutribev, Inc.                   |                            |
| f. Asia Pacific Beverage Pte. Ltd.     |                            |
| <b><u>Tobacco</u></b>                  |                            |
| Fortune Tobacco Corp.                  | Philippines                |
| <b><u>Banking</u></b>                  |                            |
| a. PNB and subsidiaries (see page 7)   | Philippines                |
| b. Bank Holding Companies (see page 8) | Philippines                |
| <b><u>Property Development</u></b>     |                            |
| a. Saturn                              | Philippines                |
| b. Paramount                           | Philippines                |
| 1. Eton                                | Philippines                |
| i. Belton Communities, Inc. (BCI)      |                            |
| ii. Eton City, Inc. (ECI)              |                            |
| iii. FirstHomes, Inc. (FHI)            |                            |

**EXHIBIT 28. Additional Exhibits - Other Documents to be filed with the  
Consolidated Financial Statements**

**I. FINANCIAL SOUNDNESS INDICATORS**

|                                     | <b>2017</b> | <b>2016</b> |
|-------------------------------------|-------------|-------------|
| <b>Current Ratio</b>                | 0.63        | 0.70        |
| <b>Debt to Equity Ratio</b>         | 3.70        | 3.64        |
| <b>Asset to Equity Ratio</b>        | 4.70        | 4.64        |
| <b>Interest Rate Coverage Ratio</b> | 154.59      | 80.99       |
| <b>Solvency Ratio</b>               | 5.68        | 1.47        |
| <b>Profitability Ratios:</b>        |             |             |
| <b>Profit Margin</b>                | 0.17        | 0.16        |
| <b>Return on Asset (ROA)</b>        | 0.016       | 0.011       |
| <b>Return on Equity (ROE)</b>       | 0.073       | 0.069       |