COVER SHEET

SEC Registration Number

PW-00000343

Company Name

LT GROUP, INC. AND SUBSIDIARIES

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

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

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

COMPANY INFORMATION

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

No. of Stockholders	Annual Meeting Month/Day	Fiscal Year Month/Day
368	May/8	December/31

CONTACT PERSON INFORMATION

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

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Jose Gabriel D. Olives	josegabriel.olives@ltg. com.ph	808-1266	N/A

Contact Person's Address

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

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

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended March 31, 2018

2. SEC Identification Number PW-343

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

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

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

6. Industry Classification Code: (SEC Use Only)

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

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

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

   N/A

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

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

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

    Yes [/] No [ ]

12. Indicate by check mark whether the registrant:

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

    Yes [/] No [ ]

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

    Yes [/] No [ ]

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

The unaudited interim condensed financial statements of LT Group, Inc. (the Company) and its subsidiaries as of and for the period ended March 31, 2018 (with comparative figures as of December 31, 2017 and for the period ended March 31, 2017) are filed as part of this form 17-Q as Annex "A".

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

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

PART II – OTHER INFORMATION

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

SIGNATURES

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

Issuer/Registrant	:	**LT GROUP, INC.**
Signature and Title	:	**JOSE GABRIEL D. OLIVES** Chief Finance Officer
Signature and Title	:	**NESTOR C. MENDONES** Deputy CFO
Date	:	May 11, 2018

Annex "A"

LT GROUP, INC. AND SUBSIDIARIES

Interim Condensed Consolidated Financial Statements
As at March 31, 2018 and December 31, 2017
And for the Three Months Ended March 31, 2018 and 2017

LT Group, Inc. and Subsidiaries

Interim Consolidated Financial Statements
As of March 31, 2018 and December 31, 2017
and for the three months ended March 31, 2018 and 2017

LT GROUP, INC. AND SUBSIDIARIES

INTERIM CONSOLIDATED BALANCE SHEETS

(Amounts in Thousands)

	March 31, 2018 (Unaudited)	December 31, 2017 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	**₱173,194,792**	₱174,024,418
Financial assets at fair value through profit or loss (Notes 5 and 19)	**5,089,280**	6,518,419
Available-for-sale (AFS) investments (Note 6)	**13,662,952**	2,544,589
Loans and receivables (Note 7)	**209,959,886**	204,622,577
Due from related parties (Note 20)	**2,028,625**	2,028,625
Inventories (Note 8)	**13,342,932**	13,365,089
Other current assets (Note 9)	**12,891,841**	13,483,801
Total Current Assets	**430,170,308**	416,587,518
Noncurrent Assets		
Loans and receivables - net of current portion (Note 7)	**306,124,418**	307,622,788
AFS investments (Note 6)	**55,700,189**	70,664,823
Held-to-maturity (HTM) investments	**47,802,344**	26,732,182
Investment in associates and joint ventures (Note 10)	**17,790,732**	17,230,925
Property, plant and equipment (Note 11):		
At appraised values	**36,102,059**	36,214,947
At cost	**7,246,274**	6,990,286
Investment properties (Note 11)	**29,849,786**	28,890,793
Deferred income tax assets (Note 27)	**1,459,265**	1,460,889
Other noncurrent assets (Note 12)	**4,670,766**	4,700,538
Total Noncurrent Assets	**506,745,833**	500,508,171
TOTAL ASSETS	**₱936,916,141**	₱917,095,689

LIABILITIES AND EQUITY		
Current Liabilities		
Short-term debts (Note 17)	**₱1,650,000**	₱1,550,000
Deposit liabilities (Note 13)	**607,308,306**	588,394,301
Financial liabilities at fair value through profit or loss (Notes 14 and 19)	**478,335**	343,522
Bills and acceptances payable (Note 15)	**27,403,507**	36,634,337
Accounts payable and accrued expenses (Note 16)	**25,948,928**	22,023,972
Income tax payable	**749,694**	1,113,799
Due to related parties (Note 20)	**56,842**	56,842
Current portion of long-term debts (Note 17)	**–**	114,681
Other current liabilities (Note 18)	**15,094,332**	15,166,369
Total Current Liabilities (Carried Forward)	**678,689,944**	665,397,823

	March 31, 2018 (Unaudited)	December 31, 2017 (Audited)
Total Current Liabilities (Brought Forward)	**₱678,689,944**	₱665,397,823
Noncurrent Liabilities		
Deposit liabilities - net of current portion (Note 13)	**39,499,607**	39,286,226
Bills and acceptances payable (Note 15)	**7,478,675**	7,282,350
Long-term debts - net of current portion (Note 17)	**1,482,587**	1,475,466
Net retirement benefits liability (Note 21)	**2,155,167**	2,205,229
Deferred income tax liabilities (Note 27)	**1,562,620**	1,414,348
Other noncurrent liabilities (Note 18)	**6,963,617**	4,718,832
Total Noncurrent Liabilities	**59,142,273**	56,382,451
Total Liabilities	**737,832,217**	721,780,274
Equity		
Attributable to equity holders of the Company (Notes 1 and 28):		
Capital stock	**10,821,389**	10,821,389
Capital in excess of par	**35,906,231**	35,906,231
Preferred shares of subsidiaries issued to Parent Company	**18,060,000**	18,060,000
Other equity reserves	**804,095**	804,095
Other comprehensive income, net of deferred income tax effect	**5,447,580**	4,299,674
Retained earnings	**80,111,783**	78,435,633
Shares of the Company held by subsidiaries	**(12,519)**	(12,519)
	151,138,559	148,314,503
Non-controlling interests (Notes 1 and 28)	**47,945,365**	47,000,912
Total Equity	**199,083,924**	195,315,415
TOTAL LIABILITIES AND EQUITY	**₱936,916,141**	₱917,095,689

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

LT GROUP, INC. AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF INCOME

(Amounts in Thousands, Except for Basic/Diluted Earnings Per Share)

	Three Months Ended March 31	
	2018	2017
	(Unaudited)	(Unaudited)
REVENUE (Note 22)		
Banking	**₱9,232,549**	₱7,503,442
Beverage	**3,105,982**	2,864,169
Distilled spirits	**4,222,644**	4,224,574
Property development	**578,539**	535,096
	17,139,714	15,127,281
COST OF SALES AND SERVICES (Note 22)	**7,665,103**	7,092,620
GROSS INCOME	**9,474,611**	8,034,661
EQUITY IN NET EARNINGS OF ASSOCIATES (Note 10)	**2,168,211**	997,892
	11,642,822	9,032,553
OPERATING EXPENSES		
Selling expenses (Note 23)	**635,642**	695,719
General and administrative expenses (Note 24)	**6,940,149**	5,959,475
	7,575,791	6,655,194
OPERATING INCOME	**4,067,031**	2,377,359
OTHER INCOME (CHARGES)		
Finance costs (Note 25)	**(30,007)**	(70,631)
Finance income (Note 25)	**23,342**	23,904
Foreign exchange gains - net	**30,138**	407,592
Others - net (Note 26)	**989,042**	716,180
	1,012,515	1,077,045
INCOME BEFORE INCOME TAX	**5,079,546**	3,454,404
PROVISION FOR INCOME TAX (Note 27)		
Current	**751,776**	639,899
Deferred	**21,359**	(7,228)
	773,135	632,671
NET INCOME	**₱4,306,411**	₱2,821,733
NET INCOME ATTRIBUTABLE TO:		
Equity holders of the Company	**₱3,630,528**	₱2,245,057
Non-controlling interests	**675,883**	576,676
	₱4,306,411	₱2,821,733
Basic/Diluted Earnings Per Share (Note 29)	**₱0.34**	₱0.21

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

LT GROUP, INC. AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Thousands)

	Three Months Ended March 31	
	2018 (Unaudited)	2017 (Unaudited)
NET INCOME	**₱4,306,411**	₱2,821,733
OTHER COMPREHENSIVE INCOME (LOSS)		
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:		
Accumulated translation adjustment	**1,075,401**	(65,830)
Net changes in fair value of AFS financial assets, net of deferred income tax effect	**342,406**	817,153
	1,417,807	751,323
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:		
Re-measurement gains on defined benefit plans, net of deferred income tax effect	**208,567**	–
	208,567	–
OTHER COMPREHENSIVE INCOME, Net of income tax effect	**1,626,374**	751,323
TOTAL COMPREHENSIVE INCOME	**₱5,932,785**	₱3,573,056
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:		
Equity holders of the Company	**₱4,988,332**	₱2,749,486
Non-controlling interests	**944,453**	823,570
	₱5,932,785	₱3,573,056

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

LT GROUP, INC. AND SUBSIDIARIES

INTERIMCONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE THREE MONTHS ENDED MARCH 31, 2018 AND 2017

(Amounts in Thousands)

	Attributable to Equity Holders of the Company (Notes 1 and 28)											
	Capital Stock	Capital in Excess of Par	Deposit for Future Stock Subscription	Preferred shares of Subsidiaries Issued to Parent Company	Other Equity Reserves	Reserves of Disposal Group Classified as Held for Sale	Other Comprehensive Income (Loss), Net of Deferred Income Tax Effect	Retained Earnings	Shares of the Company Held by Subsidiaries	Total	Non-controlling Interests (Notes 1 and 28)	Total
BALANCES AT DECEMBER 31, 2016	**₱10,821,389**	**₱35,906,231**	**₱–**	**₱18,060,000**	**₱804,095**	**₱–**	**₱1,878,006**	**₱68,640,783**	**(₱12,519)**	**₱136,097,985**	**₱42,506,591**	**₱178,604,576**
Net income for the period	–	–	–	–	–	–	–	**2,245,057**	–	**2,245,057**	**576,676**	**2,821,733**
Other comprehensive income	–	–	–	–	–	–	**504,429**	–	–	**504,429**	**246,894**	**751,323**
Total comprehensive income for the period	–	–	–	–	–	–	**504,429**	**2,245,057**	–	**2,749,486**	**823,570**	**3,573,056**
Dividends declared	–	–	–	–	–	–	–	**(1,947,850)**	–	**(1,947,850)**	–	**(1,947,850)**
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	–	–	–	–	–	–	**(261,163)**	**261,163**	–	–	–	–
BALANCES AT MARCH 31, 2017	**₱10,821,389**	**₱ 35,906,231**	**₱–**	**₱18,060,000**	**₱804,095**	**₱–**	**₱2,121,272**	**₱69,199,153**	**(₱12,519)**	**₱136,899,621**	**₱43,330,161**	**₱180,229,782**
BALANCES AT DECEMBER 31, 2017	**₱10,821,389**	**₱ 35,906,231**	**₱–**	**₱18,060,000**	**₱804,095**	**₱–**	**₱4,299,674**	**₱78,435,633**	**(₱12,519)**	**₱148,314,503**	**₱47,000,912**	**₱195,315,415**
Net income for the period	–	–	–	–	–	–	–	**3,630,528**	–	**3,630,528**	**675,883**	**4,306,411**
Other comprehensive income	–	–	–	–	–	–	**1,357,804**	–	–	**1,357,804**	**268,570**	**1,626,374**
Total comprehensive income for the period	–	–	–	–	–	–	**1,357,804**	**3,630,528**	–	**4,988,332**	**944,453**	**5,932,785**
Dividends declared	–	–	–	–	–	–	–	**(2,164,276)**	–	**(2,164,276)**	–	**(2,164,276)**
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	–	–	–	–	–	–	**(209,898)**	**209,898**	–	–	–	–
BALANCES AT MARCH 31, 2018	**₱10,821,389**	**₱ 35,906,231**	**₱–**	**₱18,060,000**	**₱804,095**	**₱–**	**₱5,447,580**	**₱80,111,783**	**(₱12,519)**	**₱151,138,559**	**₱47,945,365**	**₱199,083,924**

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

LT GROUP, INC. AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

	Three Months Ended March 31	
	2018 (Unaudited)	2017 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱5,079,546**	₱3,454,404
Adjustments for:		
Depreciation and amortization	**1,016,943**	905,869
Provision for losses	**70,390**	94,112
Loss (gain) on disposal of other assets (Note 26)	**(272,321)**	101,539
Equity in net earnings of associates (Note 10)	**(2,168,211)**	(997,892)
Finance costs (Note 25)	**30,007**	70,631
Movements in accrued retirement benefits (Note 21)	**160,217**	(121,150)
Share in losses of joint venture	**4,463**	–
Mark-to-mark gain on financial assets at FVPL	**(8,525)**	–
Dividend income	**(18,410)**	–
Finance income (Note 25)	**(23,342)**	(23,904)
Operating income before changes in working capital	**3,870,757**	3,483,609
Decrease (increase) in:		
Financial assets at fair value through profit or loss	**1,437,664**	1,930,489
Receivables	**(4,326,183)**	(5,692,818)
Inventories	**22,157**	(997,673)
Other assets	**1,043,063**	(2,310,928)
Increase (decrease) in:		
Deposit liabilities	**19,127,386**	19,356,284
Financial liabilities at fair value through profit or loss	**134,813**	158,274
Accounts payable and accrued expenses	**1,760,680**	6,909,653
Other liabilities	**3,396,421**	(413,547)
Cash generated from operations	**26,466,758**	22,423,343
Dividends received	**1,547,791**	905,294
Interest paid	**(30,007)**	–
Interest received	**23,341**	23,904
Income taxes paid, including creditable withholding and final taxes	**(1,150,130)**	(632,671)
Net cash from operating activities	**26,857,753**	22,719,870
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of:		
AFS investments (Note 6)	**–**	(5,429,223)
Property, plant and equipment (Note 11)	**(665,879)**	(923,211)
Investment properties (Note 11)	**(958,993)**	–
Held to maturity investments	**(21,070,162)**	(331,233)
Software	**(1,012,526)**	–
Proceeds from sale of:		
AFS investments(Note 6)	**4,188,677**	–
Other assets (Note 11)	**873,569**	178,630
Investment properties (Note 11)	**–**	162,520
Net cash used in investing activities	**(18,645,314)**	(6,342,517)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Short-term debts	**100,000**	–
Bills and acceptances payable	–	5,550,785
Payments of:		
Bills and acceptances payable	**(9,034,505)**	–
Long-term debts (Note 17)	**(107,560)**	(465,303)
Due to affiliates (Note 20)	–	(212)
Finance cost	–	(70,631)
Dividends paid	–	(1,956,077)
Net cash generated from financing activities	**(9,042,065)**	3,058,562
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(829,626)**	19,435,915
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**174,024,418**	174,676,789
CASH AND CASH EQUIVALENTS AT END OF PERIOD (Note 4)	**₱173,194,792**	₱194,112,704

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

LT GROUP, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

1. Corporate Information

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

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

As of March 31, 2018, and December 31, 2017, LTG is 74.36%-owned by its ultimate parent company, Tangent, which is also incorporated in the Philippines.

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

2. Summary of Significant Accounting and Financial Reporting Policies

Basis of Preparation

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

The interim condensed consolidated financial statements of LTG have been prepared in accordance with Philippine Accounting Standards (PAS) 34, *Interim Financial Reporting*. The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's December 31, 2017 annual consolidated financial statements.

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

Basis of Consolidation

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

	Percentage of Ownership						
	March 31, 2018		December 31, 2017		March 31, 2017		Country of
	Direct	**Indirect**	Direct	Indirect	Direct	Indirect	Incorporation
Distilled Spirits							
TDI and subsidiaries	**100.0**	**–**	100.0	–	100.0	–	Philippines
Absolut Distillers, Inc. (ADI)	**–**	**95.0**	–	95.0	–	95.0	Philippines
Asian Alcohol Corporation (AAC)	**–**	**96.0**	–	96.0	–	96.0	Philippines
Tanduay Brands International, Inc. (TBI)(1)	**–**	**100.0**	–	100.0	–	100.0	Philippines
Beverages							
Asia Brewery, Inc.(ABI) and subsidiaries	**99.9**	**–**	99.9	–	99.9	–	Philippines
Agua Vida Systems, Inc.	**–**	**99.9**	–	99.9	–	99.9	Philippines
Interbev Philippines, Inc.	**–**	**99.9**	–	99.9	–	99.9	Philippines
Waterich Resources Corp.	**–**	**99.9**	–	99.9	–	99.9	Philippines
Packageworld, Inc.	**–**	**99.9**	–	99.9	–	99.9	Philippines
AB Nutribev Corp.	**–**	**99.9**	–	99.9	–	99.9	Philippines
Asia Pacific Beverage Pte Ltd	**–**	**99.9**	–	99.9	–	99.9	Singapore
Asia Pacific Beverages Myanmar Company Limited (2)	**–**	**90.0**	–	90.0	–	90.0	Myanmar
Tobacco							
Shareholdings, Inc. (Shareholdings)	**97.7**	**–**	97.7	–	97.7	–	Philippines
Fortune Tobacco Corporation (FTC)	**82.7**	**16.9**	82.7	16.9	82.7	16.9	Philippines
Property Development							
Saturn Holdings, Inc.	**100.0**	**–**	100.0	–	100.0	–	Philippines
Paramount Landequities, Inc. (PLI) and subsidiaries	**100.0**	**–**	100.0	–	100.0	–	Philippines
Eton Properties Philippines, Inc. (Eton)	**–**	**99.6**	–	99.6	–	99.6	Philippines
Belton Communities, Inc. (BCI)	**–**	**99.6**	–	99.6	–	99.6	Philippines
Eton City, Inc. (ECI)	**–**	**99.6**	–	99.6	–	99.6	Philippines
FirstHomes, Inc. (FHI)	**–**	**99.6**	–	99.6	–	99.6	Philippines
Eton Properties Management Corporation (EPMC)	**–**	**99.6**	–	99.6	–	99.6	Philippines
Banking							
Bank Holding Companies (Note 22) (3)	**80-100**	**–**	80-100	–	80-100	–	Various
Philippine National Bank (PNB) and Subsidiaries(4)	**–**	**56.5**	–	56.5	–	56.5	Philippines
PNB Capital and Investment Corporation (PNB Capital)	**–**	**56.5**	–	56.5	–	56.5	Philippines
PNB Securities, Inc. (PNB Securities)	**–**	**56.5**	–	56.5	–	56.5	Philippines
PNB Forex, Inc.	**–**	**56.5**	–	56.5	–	56.5	Philippines
PNB Holdings Corporation (PNB Holdings)	**–**	**56.5**	–	56.5	–	56.5	Philippines
PNB General Insurers, Inc. (PNB Gen)	**–**	**56.5**	–	56.5	–	56.5	Philippines
PNB Corporation - Guam (PNB Guam)	**–**	**56.5**	–	56.5	–	56.5	United States of America (USA)
PNB International Investments Corporation (PNB IIC)	**–**	**56.5**	–	56.5	–	56.5	USA
PNB Remittance Centers, Inc. (PNBRCI)	**–**	**56.5**	–	56.5	–	56.5	USA
PNB RCI Holding Co. Ltd.	**–**	**56.5**	–	56.5	–	56.5	USA
PNB Remittance Co. (Canada)	**–**	**56.5**	–	56.5	–	56.5	Canada

(Forward)

	Percentage of Ownership						
	March 31, 2018		December 31, 2017		March 31, 2017		Country of
	Direct	**Indirect**	Direct	Indirect	Direct	Indirect	Incorporation
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)	**–**	**–**	–	–	–	56.5	Italy
Japan-PNB Leasing and Finance Corporation (Japan-PNB Leasing)	**–**	**50.8**	–	50.8	–	50.8	Philippines
Japan - PNB Equipment Rentals Corporation	**–**	**50.8**	–	50.8	–	50.8	Philippines
PNB Savings Bank	**–**	**56.5**	–	56.5	–	56.5	Philippines
Allied Bank Philippines (UK) Plc (ABUK)	**–**	**56.5**	–	56.5	–	56.5	United Kingdom
Allied Commercial Bank (ACB)	**–**	**55.9**	–	55.9	–	55.9	Republic of China
Allianz-PNB Life Insurance, Inc. (APLII) (formerly PNB LII) [5]	**–**	**24.8**	–	24.8	–	24.8	Philippines
Allied Leasing and Finance Corporation (ALFC)	**–**	**32.3**	–	32.3	–	32.3	Philippines
Allied Banking Corporation (Hongkong) Limited (ABCHKL)	**–**	**28.8**	–	28.8	–	28.8	Hong Kong
ACR Nominees Limited	**–**	**28.8**	–	28.8	–	28.8	Hong Kong
Oceanic Holdings (BVI) Ltd. (OHBVI)	**–**	**15.7**	–	15.7	–	15.7	USA

(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 20).*

(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 35).*

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except that the Group has adopted the following new accounting pronouncements starting January 1, 2018. Adoption of these pronouncements did not have any significant impact on the Group's financial position or performance, unless as otherwise indicated.

- 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.

- 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.

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 Group is still completing its assessment of the quantitative 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.

- 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 adopted the new standard 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. 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.

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

- Philippine Interpretation 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.

Standards Issued but not yet Effective

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

- 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.

- 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

Effective in 2019

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

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

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

Deferred effectivity

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

  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 consolidated financial statements in the period of initial application. Additional disclosures required by these amendments will be included in the consolidated financial statements when these amendments are adopted.

3. Segment Information

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

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

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

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

- Beverage, which is engaged in brewing and soft drinks and bottled water manufacturing in the Philippines. It also operates other plants, which includes commercial glass division and corrugated cartons and metal closures production facility, to support the requirements of its brewing, bottled water, non-beer products operations and to act as a service contractor and enter into service agreements for the supply of services. The Group conducts its beverage business through ABI and its consolidated subsidiaries.

- Tobacco, which is a supplier and manufacturer of cigarettes, casings, tobacco, packaging, labels and filters. The Group conducts its tobacco business through FTC's interest in PMFTC.

- Property Development, which is engaged in ownership, development, leasing and management of residential properties, including but not limited to, all kinds of housing projects, commercial, industrial, urban or other kinds of real property; acquisition, purchasing, development and selling of subdivision lots. The Group conducts its property development business through Eton and its consolidated subsidiaries.

- Others, consist of various holding companies (LTG, Paramount, Saturn, Shareholdings, TBI and Bank Holding Companies) that provide financing for working capital and capital expenditure requirements of the operating businesses of the Group.

The BOD reviews the operating results of the business units to make decisions on resource allocation and assesses performance. Segment revenue and segment expenses are measured in accordance with PFRS. The presentation and classification of segment revenues and segment expenses are consistent with the consolidated statements of income. Finance costs (including interest expense) and income taxes are managed per business segment.

The Group's assets are located mainly in the Philippines. The Group operates and derives principally all of its revenue from domestic operations. The Group's banking segment operates in key cities in the USA, Canada, Western Europe, Middle East and Asia. The distribution of assets and revenues of the banking segment outside the Philippines constitute 10.3% 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% and 84% of the segment's total revenue in 2018 and 2017, respectively. The other segments of the Group have no significant customer, which contributes 10% or more of their segment revenues.

The following tables present the information about the Group's operating segments:

For the three months ended March 31, 2018:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
				(In Thousands)			
Segment revenue:							
External customers	**₱9,232,549**	**₱4,222,644**	**₱3,105,982**	**₱–**	**₱578,539**	**₱–**	**₱17,139,714**
Inter-segment	**71,602**	**20,280**	**293,643**	**–**	**–**	**(385,525)**	**–**
	9,304,151	**4,242,924**	**3,399,625**	**–**	**578,539**	**(385,525)**	**17,139,714**
Cost of sales	**1,888,317**	**3,519,844**	**2,395,745**	**–**	**192,154**	**(330,957)**	**7,665,103**
Gross profit	**7,415,834**	**723,080**	**1,003,880**	**–**	**386,385**	**(54,568)**	**9,474,611**
Equity in net earnings (loss) of associates and joint ventures	**15,003**	**–**	**(194,199)**	**2,298,040**	**–**	**49,367**	**2,168,211**
	7,430,837	**723,080**	**809,681**	**2,298,040**	**386,385**	**(5,201)**	**11,642,822**
Selling expenses	**–**	**366,507**	**251,776**	**–**	**17,359**	**–**	**635,642**
General and administrative expenses	**6,209,986**	**168,033**	**304,333**	**38,155**	**176,950**	**42,692**	**6,940,149**
Operating income	**1,220,851**	**188,540**	**253,572**	**2,259,885**	**192,076**	**(47,893)**	**4,067,031**
Finance costs	**–**	**(10,596)**	**(16,233)**	**–**	**(80,476)**	**77,298**	**(30,007)**
Finance income	**–**	**309**	**1,842**	**26,350**	**8,256**	**(13,415)**	**23,342**
Foreign exchange gains (losses)- net	**(87,001)**	**(2,277)**	**6,064**	**98,397**	**3,689**	**11,266**	**30,138**
Other income (charges) - net	**895,710**	**9,287**	**23,421**	**5,860**	**22,115**	**32,649**	**989,042**
Income before income tax	**2,029,560**	**185,263**	**268,666**	**2,390,492**	**145,660**	**59,905**	**5,079,546**
Provision for income tax	**530,374**	**50,446**	**119,305**	**19,901**	**48,548**	**4,561**	**773,135**
Segment profit	**₱1,499,186**	**₱134,817**	**₱149,361**	**₱2,370,591**	**₱97,112**	**₱55,344**	**₱4,306,411**
Depreciation and amortization expense	**₱426,206**	**₱159,186**	**₱350,774**	**₱5,050**	**₱70,100**	**₱5,627**	**₱1,016,943**
Segment profit attributable to:							
Equity holders of the Company	**833,111**	**134,394**	**150,301**	**2,360,635**	**96,743**	**55,344**	**3,630,528**
Non-controlling interests	**666,075**	**423**	**(940)**	**9,956**	**369**	**–**	**675,883**

Other financial information of the operating segments as of March 31, 2018 is as follows:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
				(In Thousands)			
Assets:							
Current assets	**₱387,704,849**	**₱12,618,448**	**₱13,782,415**	**₱13,074,374**	**₱10,774,029**	**(₱7,783,807)**	**₱430,170,308**
Noncurrent assets	**452,190,739**	**7,088,114**	**14,994,198**	**15,325,089**	**19,000,014**	**(1,852,321)**	**506,745,833**
	₱839,895,588	**₱19,706,562**	**₱28,776,613**	**₱28,399,463**	**₱29,774,043**	**(9,636,128)**	**₱936,916,141**
Liabilities:							
Current liabilities	**₱676,501,317**	**₱2,996,194**	**₱5,057,798**	**₱2,848,792**	**₱5,028,962**	**(₱13,743,119)**	**₱678,689,944**
Noncurrent liabilities	**54,195,106**	**613,848**	**1,010,334**	**101,877**	**7,957,882**	**(4,736,774)**	**59,142,273**
	₱730,696,423	**₱3,610,042**	**₱6,068,132**	**₱2,950,669**	**₱12,986,844**	**(₱18,479,893)**	**₱737,832,217**
Investments in associates and joint ventures	**₱2,299,687**	**₱–**	**₱837,950**	**₱12,215,697**	**₱–**	**₱2,437,398**	**₱17,790,732**
Equity attributable to:							
Equity holders of the Company	**106,451,771**	**15,957,577**	**22,670,222**	**25,448,794**	**16,787,199**	**(36,177,004)**	**151,138,559**
Non-controlling interests	**2,747,394**	**138,943**	**38,259**	**–**	**–**	**45,020,769**	**47,945,365**
Short-term debts	**–**	**380,000**	**1,650,000**	**–**	**–**	**(380,000)**	**1,650,000**
Long-term debts	**–**	**–**	**–**	**–**	**5,568,487**	**(4,085,900)**	**1,482,587**

For the three months ended March 31, 2017:

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

Other financial information of the operating segments as of 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
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

4. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	March 31, 2018 (Unaudited)	December 31, 2017 (Audited)
	(In Thousands)	
Cash and other cash items	**₱17,564,730**	₱17,782,966
Cash equivalents:		
Due from *Bangko Sentral ng Pilipinas* (BSP)	**118,037,438**	108,743,985
Due from other banks	**22,780,266**	20,038,263
Interbank loans receivable	**10,880,463**	27,459,204
Securities held under agreements to resell	**3,931,895**	–
	₱173,194,792	₱174,024,418

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

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

c. Interest earned on cash and other cash items and cash equivalents are presented under "Finance income" and "Banking revenue", respectively (see Note 22 and 25).

5. Financial Assets at Fair Value through Profit or Loss

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

	March 31, 2018 (Unaudited)	December 31, 2017 (Audited)
	(In Thousands)	
Held for trading:		
Government securities	**₱2,187,682**	₱2,207,953
Equity securities	**578,216**	73,917
Derivative assets (Note 19)	**592,315**	562,984
Private debt securities	**403,652**	109,081
	3,761,865	2,953,935
Designated at FVPL		
Unit investment trust fund	**1,327,415**	3,564,484
	₱5,089,280	₱6,518,419

6. Available-for-Sale Investments

Available-for-sale investments consist of:

	March 31, 2018 (Unaudited)	December 31, 2017 (Audited)
	(In Thousands)	
Government securities	**₱35,822,408**	₱41,625,900
Other debt securities	**28,807,210**	27,394,342
Equity securities:		
Quoted	**4,401,167**	3,833,789
Unquoted	**1,039,468**	1,051,616
	70,071,253	73,905,647
Allowance for impairment losses	**(708,112)**	(696,235)
	69,363,141	73,209,412
Noncurrent portion	**(55,700,189)**	(70,664,823)
	₱13,662,952	₱2,544,589

7. Loans and Receivables

Loans and receivables consist of:

	March 31, 2018 (Unaudited)	December 31, 2017 (Audited)
	(In Thousands)	
Finance receivables	**₱512,814,917**	₱514,363,730
Trade receivables	**14,017,298**	13,266,725
Other receivables	**3,107,809**	2,731,658
	529,940,024	530,362,113
Allowance for credit losses	**(13,855,720)**	(18,116,748)
	516,084,304	512,245,365
Noncurrent portion	**(306,124,418)**	(307,622,788)
	₱209,959,886	₱204,622,577

<u>Finance Receivables</u>
Finance receivables pertain to receivables of the banking segment which consist of:

	March 31, 2018 (Unaudited)	December 31, 2017 (Audited)
	(In Thousands)	
Receivables from customers:		
Loans and discounts	**₱464,523,017**	₱452,206,784
Customers' liabilities on acceptances, letters of credit and trust receipts	**11,578,919**	11,912,916
Bills purchased	**1,757,183**	1,723,514

(Forward)

	March 31, 2018 (Unaudited)	December 31, 2017 (Audited)
	(In Thousands)	
Credit card receivables	**10,908,276**	10,145,474
Finance lease receivables	**3,011,063**	2,891,043
	491,778,458	478,879,731
Unquoted debt securities	**56,945**	14,674,130
Other receivables:		
Accounts receivable	**9,623,330**	10,215,695
Accrued interest receivable	**5,354,689**	4,414,165
Sales contract receivables	**6,953,642**	7,155,924
Miscellaneous	**570,859**	577,369
	22,502,520	22,363,153
	514,337,923	515,917,014
Unearned interest and other deferred income	**(1,523,006)**	(1,553,284)
	512,814,917	514,363,730
Allowance for credit losses	**(13,784,038)**	(18,056,306)
	499,030,879	496,307,424
Noncurrent portion	**(305,357,622)**	(306,855,992)
	₱193,673,257	₱189,451,432

Trade receivables

Trade receivables consist of:

	March 31, 2018 (Unaudited)	December 31, 2017 (Audited)
	(In Thousands)	
Consumer goods	**₱12,694,581**	₱12,183,109
Contract receivables	**1,289,391**	1,055,912
Lease receivables	**33,326**	27,704
	14,017,298	13,266,725
Allowance for credit losses	**(60,442)**	(49,202)
	13,956,856	13,217,523
Noncurrent portion of contract receivables	**(766,796)**	(766,796)
	₱13,190,060	₱12,450,727

8. Inventories

Inventories consist of:

	March 31, 2018 (Unaudited)	December 31, 2017 (Audited)
	(In Thousands)	
At Cost:		
Consumer goods:		
Alcohol	**₱3,208,320**	₱3,341,553
Beverage	**2,242,128**	2,034,272
	5,450,448	5,375,825
Real estate inventories:		
Condominium and residential units for sale	**1,367,080**	926,139
Subdivision land under development	**3,959,601**	4,459,621
Land held for future development	**1,099,584**	1,099,584
	6,426,265	6,485,344
Fuel, materials and supplies	**734,360**	881,267
	12,611,073	12,742,436
At NRV -Materials and supplies	**731,859**	622,653
	₱13,342,932	₱13,365,089

9. Other Current Assets

Other current assets consist of:

	March 31, 2018 (Unaudited)	December 31, 2017 (Audited)
	(In Thousands)	
Creditable withholding taxes (CWT)	**₱5,294,185**	₱5,926,539
Advances to suppliers	**2,860,783**	1,998,939
Input VAT	**1,398,450**	1,080,287
Excise tax	**870,840**	1,186,082
Prepaid expenses	**810,476**	603,706
Deferred reinsurance premiums	**630,234**	820,757
Miscellaneous cash and other cash items	**371,442**	666,761
Stationeries, office supplies and stamps on hand	**323,672**	323,630
Deferred rent	**181,457**	184,628
Sundry debits	**5,836**	27,248
Deferred charges	**3,554**	2,040
Others	**140,912**	663,184
	₱12,891,841	₱13,483,801

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

Investments in Associates and Joint Ventures

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

	Ownership		Amount	
	March 31, 2018	December 31, 2017	**March 31, 2018**	December 31, 2017
			(In Thousands)	
Associates:				
PMFTC	**49.6%**	49.6%	**₱11,510,250**	₱10,751,235
VMC	**30.9%**	30.9%	**2,470,345**	2,411,284
AB HPI	**50.0%**	50.0%	**807,999**	997,736
APLII	**44.0%**	44.0%	**2,299,687**	2,363,757
Joint Ventures:				
ABI Pascual Holdings	**50.0%**	50.0%	**29,951**	34,413
AEDC	**50.0%**	50.0%	**672,500**	672,500
			₱17,790,732	₱17,230,925

Investment in PMFTC

On February 25, 2010, FTC and PMPMI combined their respective domestic business operations by transferring selected assets and liabilities to PMFTC in accordance with the provisions of the Asset Purchase Agreement (APA) between FTC and its related parties and PMPMI. The establishment of PMFTC allows FTC and PMPMI to benefit from their respective, complementary brand portfolios as well as cost synergies from the resulting integration of manufacturing, distribution and procurement, and the further development and advancement of tobacco industry growing in the Philippines. FTC and PMPMI hold equal economic interest in PMFTC. Since PMPMI has majority of the members of the BOD, it has control over PMFTC. FTC considers PMFTC as an associate.

As a result of FTC's divestment of its cigarette business to PMFTC, FTC initially recognized the investment amounting to ₱13.5 billion, representing the fair value of the net assets contributed by FTC, net of unrealized gain of ₱5.1 billion. The transaction was accounted for similar to a contribution in a joint venture based on Standing Interpretations Committee (SIC) Interpretation 13, *Jointly Controlled Entities-Non-Monetary Contributions by Venturers*, where FTC recognized only that portion of the gain which is attributable to the interests of PMPMI amounting to₱5.1 billion in 2010. The portion attributable to FTC is being recognized once the related assets and liabilities are realized, disposed or settled. FTC recognized a gain of about ₱293.0 million each year starting 2011 until 2017 and an outright loss of ₱2.0 billion in 2010, which are included in the "Equity in net earnings" in these periods. Further, as a result of the transfer of selected assets and liabilities, portion of the revaluation increment on FTC's property, plant and equipment amounting to ₱1.9 billion was transferred to retained earnings.

Also, as a result of the transaction, FTC has obtained the right to sell (put option) its interest in PMFTC to PMPMI, except in certain circumstances, during the period from February 25, 2015 through February 24, 2018, at an agreed-upon value. On December 10, 2013, the BOD of LTG approved the waiver by FTC of its rights under the Exit Rights Agreement entered into with PMI and confirmed the execution of the Termination Agreement.

Investment in VMC
On December 21, 2007, the Company acquired 170.1 million shares representing 10.67% ownership in the shares of stock of VMC for ₱85.1 million presented as AFS investments as of December 31, 2013.

On various dates in April and May 2014, LTG acquired shares of stock of VMC amounting to ₱413.6 million, which increased its ownership interest to 17.5%, and convertible notes amounting to ₱359.3 million, which would increase LTG's interest to 23.5% upon conversion. In 2014, portion of the convertible notes amounting to ₱117.8 million was converted to shares of stock of VMC resulting in an increase in LTG's ownership interest to 20.2% as of December 31, 2014. The cost-based approach was applied in accounting for the step acquisition of VMC as an associate. Accordingly, LTG reclassified the original cost of its AFS investments to investment in an associate and derecognized the net changes in fair value of AFS investments amounting to ₱ 238.2 million. The difference of ₱334.8 million between the sum of the consideration for the 17.5% ownership interest amounting to ₱498.7 million and the share in fair value of net assets of VMC at the date the investment became an associate amounting to₱833.5 million was recognized as part of the equity in net earnings of VMC in 2014.

In 2015, a portion of the convertible notes amounting to ₱124.1 million was converted to shares of stock of VMC resulting to an increase in LTG's ownership interest to 22.5% as of December 31, 2015. The difference of ₱17.6 million between the sum of the consideration for the additional 2.3% ownership interest amounting to ₱124.1 million and the share in fair value of net assets of VMC at the date of the conversion amounting to₱141.7 million was recognized as part of the equity in net earnings of VMC in 2015.

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

On May 23, 2017, portions of the convertible notes amounting to ₱58.94 million were converted to shares of stock of VMC resulting to an increase in the Group's percentage of ownership to 30.9% as of December 31, 2017.

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

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

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

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

Investment in APLII

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

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

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

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

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

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

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

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

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

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

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

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.

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

Additions to property, plant and equipment amounted to ₱1,177.4million while retirement and disposals amounted to ₱225.4 million for the period ended March 31, 2018.

Additions to investment properties amounted to ₱1,312.9million while retirement and disposals amounted to ₱115.4 million for the period ended March 31, 2018.

12. Other Noncurrent Assets

Other noncurrent assets consist of:

	March 31, 2018 (Unaudited)	December 31, 2017 (Audited)
	(In Thousands)	
Software costs	**₱2,310,277**	₱2,288,924
Deferred charges	**566,213**	23,545
Deferred input VAT	**314,751**	324,666
Distribution network access	**283,167**	286,751
Net retirement plan assets (Note 21)	**271,998**	273,710
Refundable and security deposits	**234,173**	231,292
Chattel properties - net	**225,791**	149,347
Deposit for purchase of land	**200,000**	700,000
Goodwill	**163,735**	163,735
Other investments	**4,184**	26,309
Others - net	**96,477**	232,259
	₱4,670,766	₱4,700,538

13. Deposit Liabilities

Deposit liabilities consists of:

	March 31, 2018 (Unaudited)	December 31, 2017 (Audited)
	(In Thousands)	
Demand	**₱113,475,938**	₱125,581,889
Savings	**354,958,201**	341,182,647
Time	**178,373,774**	160,915,991
	646,807,913	627,680,527
Presented as noncurrent	**(39,499,607)**	(39,286,226)
Presented as current	**₱607,308,306**	₱588,394,301

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

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

	March 31, 2018 (Unaudited)	December 31, 2017 (Audited)
	(In Thousands)	
Derivative liabilities (Note 19)	**₱478,335**	₱343,522
Less noncurrent portion	**–**	–
Current portion	**₱478,335**	₱343,522

15. Bills and Acceptances Payable

Bills and acceptance payable consists of:

	March 31, 2018 (Unaudited)	December 31, 2017 (Audited)
	(In Thousands)	
Bills payable to:		
BSP and local banks	**₱32,780,832**	₱41,435,696
Foreign banks	**311,205**	157,849
Others	**1,781**	91,255
	33,093,818	41,684,800
Acceptances outstanding	**1,788,364**	2,231,887
	34,882,182	43,916,687
Less noncurrent portion	**7,478,675**	7,282,350
Current portion	**₱27,403,507**	₱36,634,337

16. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of:

	March 31, 2018 (Unaudited)	December 31, 2017 (Audited)
	(In Thousands)	
Trade payables	**₱12,965,835**	₱11,895,949
Dividends payable	**2,173,859**	–
Nontrade payables	**986,791**	776,558
Accrued expenses:		
Other benefits - monetary value of leave	**1,637,877**	1,637,877
Purchase of materials and supplies and others	**1,180,856**	1,266,078
Rent and utilities payable	**990,724**	1,165,156
Taxes and licenses	**905,093**	861,390
Interest	**769,856**	632,907
Project development costs	**701,241**	707,328
PDIC insurance premiums	**630,290**	660,290
Retention payable	**626,553**	799,105
Advertising and promotional expenses	**483,570**	484,827
Information technology-related expenses	**204,666**	204,666
Due to government agencies	**211,456**	464,911
Output value added tax	**95,374**	66,500
Other payables	**1,384,887**	400,430
	₱25,948,928	₱22,023,972

17. Short-term and Long-term Debts

Short-term Debts

As of March 31, 2018 and December 31, 2017, outstanding unsecured short-term debts amounted to ₱1,650 million and ₱1,550.0 million, respectively. The loans are subject to annual interest rates ranging from 3.3% to 3.5% in 2018 and 2017, are payable lump-sum on various dates within one year and subject to renewal upon agreement by the Group and counterparty banks.

Long-term Debts

	March 31, 2018 (Unaudited)	December 31, 2017 (Audited)
	(In Thousands)	
Unsecured term loan	**₱1,482,587**	₱1,475,466
Notes payable	**–**	114,681
	1,482,587	1,590,147
Current portion	**–**	(114,681)
Noncurrent portion	**₱1,482,587**	₱1,475,466

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.

18. Other Liabilities

	March 31, 2018 (Unaudited)	December 31, 2017 (Audited)
	(In Thousands)	
Insurance contract liabilities	**₱4,797,970**	₱4,929,392
Other deferred revenue (Note 12)	**2,981,761**	866,473
Managers' checks and demand drafts outstanding	**1,542,236**	2,345,787
Payable to landowners	**1,505,191**	1,505,191
Bills purchased - contra (Note 8)	**1,415,203**	1,323,896
Due to other banks	**1,142,278**	1,212,436
Reserve for unearned premiums	**1,093,532**	1,273,279
Customers' deposits	**1,058,436**	987,862
Interoffice float items – others	**1,004,716**	–
Payment order payable	**979,154**	–
Other dormant credits	**978,335**	1,078,052
Provisions	**969,107**	969,107
Deposit on lease contracts	**833,653**	890,736
Due to Treasurer of the Philippines	**571,866**	574,261
Miscellaneous tax securities	**378,002**	295,250
Tenants' rental deposits	**338,256**	452,372
Margin deposits and cash letters of credit	**81,975**	55,058
Transmission liability	**75,945**	–
Advance rentals	**60,531**	51,786
Others	**249,802**	1,074,263
	22,057,949	19,885,201
Presented as noncurrent	**(6,963,617)**	(4,718,832)
	₱15,094,332	₱15,166,369

19. Derivative Financial Instruments

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

	March 31, 2018 (Unaudited)	December 31, 2017 (Audited)
	(In Thousands)	
Balance at beginning of year	**₱219,462**	₱186,290
Changes in fair value	**(18,656)**	128,417
Settlements	**(86,826)**	(95,245)
	₱113,980	₱219,462

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

20. Related Party Transactions

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

		Three Months Ended March 31	
		2018 (Unaudited)	2017 (Unaudited)
		(In Thousands)	
Associate	Dividend income	**₱1,529,381**	₱905,294
	Purchases of inventories	**358,705**	225,075
	Sales	**89,849**	11,166
	Lease	**8,775**	–
Entities Under Common Control	Banking revenue - interest on loans and receivables	**59,240**	64,006
	Sales of consumer products	**6,180**	6,366
	Rent income	**1,794**	1,320
	Freight and handling	**(334)**	(857)
	Cost of banking services - interest expense on deposit liabilities	**(29,620)**	(44,009)
	Cost of sales and services	**(501)**	–
	Management and professional fee	**(124,527)**	(83,152)
	Rent expense	**(15,474)**	(8,930)

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

	Financial Statement Account	Terms and Conditions	Outstanding Balance **March 31, 2018 (Unaudited)**	 December 31, 2017 (Audited)
			(In Thousands)	
Parent Company	Due to related parties	On demand; non-interest bearing	**(₱41,975)**	(₱41,975)
	Due from related parties	On demand; non-interest bearing	**509,000**	509,000
Associate	Other receivables - dividends	30 to 90 days terms; non-interest bearing	**558,716**	513,610
	Trade receivables	- do -	**703,075**	861,794
	Nontrade receivables	- do -	**94,546**	132,691
	Account payable and other liabilities	30 to 60 days terms; non-interest bearing	**(27,290)**	(352,649)
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	**29,086,592**	23,881,936
	Trade receivables	- do -	**8,137**	7,743
	Other receivables	- do -	**16,577**	28,594
	Due from related parties	On demand; non-interest bearing	**1,519,625**	1,519,625
	Advances to suppliers	- do -	**1,110**	–
	Deposit liabilities	With annual rates ranging from 0.38% to 1.73% and maturity ranging from 30 days to one year	**(11,331,184)**	(13,496,612)
	Account payable and other liabilities	30 to 90 days terms; non-interest bearing	**(437,850)**	(343,190)
	Due to related parties	On demand; non-interest bearing	**(14,867)**	(14,867)

As of March 31, 2018 and December 31, 2017, the outstanding related party balances are unsecured and settlement occurs in cash, unless otherwise indicated. The Group has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related parties and the market in which these related parties operate.

21. Retirement Benefits

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

	March 31, 2018 (Unaudited)	December 31, 2017 (Audited)
	(In Thousands)	
Net retirement plan assets:		
FTC	**₱244,542**	₱241,729
TDI	**13,177**	15,515
AAC	**6,099**	8,286
LTG	**8,180**	8,180
	₱271,998	₱273,710
Accrued retirement benefits:		
PNB	**₱1,455,199**	₱1,526,962
ABI and subsidiaries	**603,305**	588,227
ADI	**22,973**	21,797
Eton	**73,690**	68,243
	₱2,155,167	₱2,205,229

Transactions with Retirement Plans

Management of the retirement funds of the banking segment is handled by the PNB Trust Banking Group (TBG). As of March 31, 2018 and December 31, 2017, the retirement fund of the Group includes 9,008,864 shares of PNB classified under HFT. No limitations and restrictions are provided and voting rights over these shares are exercised by a trust officer or any of its designated alternate officer of TBG.

As of March 31, 2018 and December 31, 2017, AFS and HTM investments include government and private debt securities and various funds. Deposits with other banks pertain to Special Deposit Accounts (SDA) placement with BSP.

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

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

Revenue consists of:

	Three Months Ended March 31	
	2018 (Unaudited)	2017 (Unaudited)
	(In Thousands)	
Banking revenue	**₱9,232,549**	₱7,503,442
Sale of consumer goods	**7,328,626**	7,088,743
Real estate sales	**225,767**	207,110
Rental income	**352,772**	327,986
	₱17,139,714	₱15,127,281

Sale of consumer goods consists of:

	Three Months Ended March 31	
	2018 (Unaudited)	2017 (Unaudited)
	(In Thousands)	
Gross sales	**₱7,812,209**	₱7,552,846
Less sales returns, discounts and allowances	**483,583**	464,103
	₱7,328,626	₱7,088,743

Banking revenue consists of:

	Three Months Ended March 31	
	2018 (Unaudited)	2017 (Unaudited)
	(In Thousands)	
Interest income on:		
Loans and receivables	**₱6,743,549**	₱5,173,914
Trading and investment securities	**987,440**	877,616
Deposits with banks and others	**228,907**	407,004
Interbank loans receivable	**89,541**	48,303
	8,049,437	6,506,837
Trading and securities gains	**133,734**	97,469
Service fees and commission income	**1,049,378**	899,136
	₱9,232,549	₱7,503,442

Cost of sales and services consists of:

	Three Months Ended March 31	
	2018 (Unaudited)	2017 (Unaudited)
	(In Thousands)	
Cost of consumer goods sold:		
Materials used and changes in inventories	**₱3,869,035**	₱3,859,139
Depreciation and amortization (Note 11)	**388,238**	348,620
Fuel and power	**245,435**	241,799
Taxes and licenses	**243,172**	4,150
Personnel costs	**227,756**	190,645
Communication, light and water	**181,880**	186,567
Outside services	**112,201**	155,884
Repairs and maintenance	**94,493**	119,590
Freight and handling	**68,159**	67,208
Others	**171,297**	138,084
	5,601,666	5,311,686
Cost of banking services	**1,871,283**	1,577,753
Cost of real estate sales	**110,833**	134,267
Cost of rental income	**81,321**	68,914
Cost of sales and services	**₱7,665,103**	₱7,092,620

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

Cost of banking services consist of:

	Three Months Ended March 31	
	2018 (Unaudited)	2017 (Unaudited)
	(In Thousands)	
Interest expense on:		
Deposit liabilities	**₱1,523,100**	₱1,163,083
Bills payable and other borrowings	**150,953**	225,156
Services fees and commission expense	**197,230**	189,514
	₱1,871,283	₱1,577,753

23. **Selling Expenses**

	Three Months Ended March 31	
	2018 (Unaudited)	2017 (Unaudited)
	(In Thousands)	
Advertising and promotions	**₱299,444**	₱301,550
Freight and handling	**111,561**	137,762
Depreciation and amortization	**73,384**	116,335
Management, consulting and professional fees	**38,429**	32,900
Personnel costs	**30,484**	37,522
Commissions	**13,691**	8,602
Materials and consumables	**12,444**	4,440
Repairs and maintenance	**5,817**	7,158
Others	**50,388**	49,450
	₱635,642	₱695,719

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

24. **General and Administrative Expenses**

	Three Months Ended March 31	
	2018 (Unaudited)	2017 (Unaudited)
	(In Thousands)	
Personnel costs	**₱2,519,020**	₱2,447,257
Taxes and licenses	**838,390**	645,508
Depreciation and amortization	**501,804**	403,727
Policyholder benefits and claim benefits	**462,095**	256,851
Insurance	**442,395**	339,717
Occupancy	**380,473**	354,040
Outside services	**365,844**	297,260
Marketing expenses	**280,889**	266,974
Management, consulting and professional fees	**249,388**	225,546
Information technology	**103,839**	77,062
Travel and transportation	**86,794**	82,502
Provision for losses	**70,390**	94,112
Repairs and maintenance	**65,307**	48,031
Communication, light and water	**60,288**	14,137
Materials and consumables	**58,248**	16,745
Freight and handling	**14,776**	21,466
Fuel and oil	**5,471**	3,808
Others	**434,738**	364,732
	₱6,940,149	₱5,959,475

25. Finance Costs and Finance Income

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

	Three Months Ended March 31	
	2018 (Unaudited)	2017 (Unaudited)
	(In Thousands)	
Finance costs (Note 17):		
Short-term debts	**₱16,233**	₱11,731
Unsecured term loan and notes payable	**13,774**	58,900
Finance costs	**₱30,007**	₱70,631
Finance income:		
Cash and other cash items (Note 4)	**₱19,051**	₱15,661
Interest-bearing contracts receivable (Note 7)	**4,291**	8,243
	₱23,342	₱23,904

26. Other Income (Charges) - net

	Three Months Ended March 31	
	2018 (Unaudited)	2017 (Unaudited)
	(In Thousands)	
Premiums - net of reinsurance	**₱319,815**	₱315,277
Net gains on sale or exchange of assets	**272,321**	101,539
Rental income	**163,994**	72,107
Dividend income	**19,039**	10,520
Recoveries	**15,757**	20,430
Mark-to-market gain on financial assets designated at FVPL	**9,820**	6,331
Processing and referral fees	**3,448**	1,347
Gain on retirement	**2,215**	1,196
Others	**182,633**	187,433
	₱989,042	₱716,180

27. Income Taxes

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

Under Philippine tax laws, PNB and its certain subsidiaries are subject to percentage and other taxes (presented as “Taxes and Licenses” in the statements of income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax and documentary stamp tax.

FCDU offshore income (income from non-residents) is tax-exempt while gross onshore income (income from residents) is generally subject to 10% income tax. In addition, interest income on deposit placement with other FCDUs and offshore banking units (OBUs) is taxed at 7.50%. RA No. 9294 provides that the income derived by the FCDU from foreign currency transactions with non-residents, OBUs, local commercial banks including branches of foreign banks is tax-exempt while interest income on foreign currency loans from residents other than OBUs or other depository banks under the expanded system is subject to 10.00% income tax.

Provision for current income tax consists of:

	Three Months Ended March 31	
	2018 Unaudited)	2017 (Unaudited)
	(In Thousands)	
RCIT/MCIT	**₱595,518**	₱486,963
Final tax	**156,258**	152,936
Provision for current income tax	**₱751,776**	₱639,899

28. Equity

Capital Stock

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

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

29. Basic/Diluted Earnings Per Share

Basic/diluted earnings per share were calculated as follows:

	Three Months Ended March 31	
	2018 (Unaudited)	2017 (Unaudited)
	(In Thousands)	
Net income attributable to equity holders of the Company	**₱3,630,528**	₱2,245,057
Divided by weighted-average number of shares	**10,821,389**	10,821,389
Basic/diluted EPS for net income attributable to equity holders of the Company	**₱0.34**	₱0.21

30. Financial Risk Management Objectives and Policies

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

Financial Risk Management Objectives and Policies of the Banking Segment

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

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

- Credit Risk
- Market Risk
- Liquidity Risk
- Operational Risk

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

- Interest Rate Risk in Banking Book (IRRBB)
- Strategic Business Risk
- Reputational Risk
- Credit Concentration Risk
- Cyber Security Risk

The banking segment's BOD has overall responsibility for the establishment and oversight of the Group's risk management framework. As delegated by the banking segment's BOD, the Risk Oversight Committee (ROC) is mandated to set risk appetite, approve frameworks, policies and processes for managing risk, and accept risks beyond the approval discretion provided to management. The ROC advises on the overall current and future risk appetite and strategy and assists in overseeing the implementation of those strategies and business plans by the banking segment's senior management.

The Risk Management Group (RMG) provides the legwork for the ROC in its role of formulating the risk management strategy, the development and maintenance of the internal risk management framework, and the definition of the governing risk management principles. The RMG provides assistance to the Assets and Liabilities Committee (ALCO) on capital management and the Board Policy Committee on the management of regulatory capital.

The mandate of the RMG involves:

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

Credit Risk

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

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

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

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

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

Credit-related commitments

The exposures represent guarantees, standby letters of credit (LCs) issued by the banking segment and documentary/commercial LCs which are written undertakings by the banking segment.

To mitigate this risk, the banking segment requires hard collaterals, as discussed under *Collateral and other credit enhancement*, for standby LCs lines while commercial LCs are collateralized by the underlying shipments of goods to which they relate.

Derivative financial instruments

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

Unit-linked financial assets
The banking segment issues unit-linked insurance policies. In the unit-linked business, the policy holder bears the investment risk in the assets held in the unit-linked funds as the policy benefits are directly linked to the values of the assets in the fund. Therefore, the banking segment has no material credit risk on unit-linked financial assets.

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

The main types of collateral obtained are as follows:

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

The disposal of the foreclosed properties is handled by the Asset Management Sector which adheres to the general policy of disposing assets at the highest possible market value.

The banking segment's management regularly monitors the market value of the collateral and requests additional collateral in accordance with the underlying agreement. The existing market value of the collateral is considered during the review of the adequacy of the allowance for credit losses. Generally, collateral is not held over loans and advances to banks except for reverse repurchase agreements.

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

Maximum exposure to credit risk after collateral held or other credit enhancements
The maximum credit risk, without taking into account the fair value of any collateral and netting agreements, is limited to the amounts on the balance sheet plus commitments to customers such as unused commercial letters of credit, outstanding guarantees and others 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. Concentration by Industry

The internal limit of the banking segment based on the Philippine Standard Industry Classification (PSIC) sub-industry is 12% for priority industry, 8% for regular industry and 30% for power industry, versus total loan portfolio.

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

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

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

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

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

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

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

Standard

- CRR 6 - Satisfactory
  These are loans receivables to borrowers whose ability to service all debt and meet financial obligations remains unquestioned, but with somewhat lesser capacity than in CRR 5 accounts.
- CRR 7 - Average
  These are loans receivables to borrowers having ability to repay the loan in the normal course of business activity, although may not be strong enough to sustain a major setback.

- CRR 8 - Acceptable
  These are loans receivables to borrowers possessing the characteristics of borrowers rated as CRR7 with slightly lesser quality in financial strength, earnings, performance and/or outlook.

Sub-standard Grade

- CRR 9 - Fair
  These are performing loans receivables from borrowers not qualified as CRRs 1-8. The borrower is able to withstand normal business cycles, although any prolonged unfavorable economic and/or market period would create an immediate deterioration beyond acceptable levels.

- CRR 10 - Watchlist
  This rating includes borrower where the credit exposure is not at risk of loss at the moment but the performance of the borrower has weakened and, unless present trends are reversed, could eventually lead to losses.

- CRR 11 - Special Mention
  These are loans that have potential weaknesses that deserve management's close attention. These potential weaknesses, if left uncorrected, may affect the repayment of the loan and thus increase credit risk to the banking segment.

- CRR 12 - Substandard
  These are loans or portions thereof which appear to involve a substantial and unreasonable degree of risk to PNB because of unfavorable record or unsatisfactory characteristics.

- CRR 13 - Doubtful
  These are loans or portions thereof which have the weaknesses inherent in those classified as CRR 12 with the added characteristics that existing facts, conditions and values make collection or liquidation in full highly improbable and in which substantial loss is probable.

- CRR 14 - Loss
  These are loans or portions thereof which are considered uncollectible or worthless.

The banking segment is using the Credit Scoring for evaluating borrowers with assets size below ₱15.0 million. Credit scoring details the financial capability of the borrower to pay for any future obligation.

GOCCs and LGUs are rated using the "means and purpose" test whereby borrowers have to pass the two major parameters, namely:

- "Means" test - the borrower must have resources or revenues of its own sufficient to service its debt obligations.
- "Purpose" test - the loan must be obtained for a purpose consistent with the borrower's general business.

LGU loans are backed-up by assignment of Internal Revenue Allotment. Consumer loans are covered by mortgages in residential properties and vehicles financed and guarantees from Home Guaranty Corporation. Fringe benefit loans are repaid through automatic salary deductions and exposure is secured by mortgage on house or vehicles financed.

Trading and Investment Securities and Other Financial Assets
In ensuring quality investment portfolio, PNB uses the credit risk rating based on the external ratings of eligible external credit rating institutions (i.e., Moody's Investors Service) as follows:

Aaa to Aa3 - fixed income is judged to be of high quality and is subject to very low credit risk, but their susceptibility to long-term risks appears somewhat greater.

A1 to A3 - fixed income obligations are considered upper-medium grade and are subject to low credit risk, but have elements present that suggest a susceptibility to impairment over the long term.

Baa1 and below - represents those investments which fall under any of the following grade:

- Baa1, Baa2, Baa3 - fixed income obligations are subject to moderate credit risk. They are considered medium grade and as such protective elements may be lacking or may be characteristically unreliable.
- Ba1, Ba2, Ba3 - obligations are judged to have speculative elements and are subject to substantial credit risk.
- B1, B2, B3 - obligations are considered speculative and are subject to high credit risk.
- Caa1, Caa2, Caa3 - are judged to be of poor standing and are subject to very high credit risk.
- Ca - are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest.
- C - are the lowest rated class of bonds and are typically in default, with little prospect for recovery of principal or interest.

Impairment assessment
The Group recognizes impairment or credit losses based on the results of specific (individual) and collective assessment of its credit exposures. A possible impairment has taken place when there 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.

Market Risks

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

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

Trading market risk
Trading market risk exists in the banking segment as the values of its trading positions are sensitive to changes in market rates such as interest rates, foreign exchange rates and equity prices. PNB is exposed to trading market risk in the course of market making as well as from taking advantage of market opportunities. For internal monitoring of the risk in the trading portfolio, the banking segment uses the Value-at-Risk (VaR) as a primary risk measurement tool. It adopts both the Parametric VaR methodology and Historical Simulation methodology (with 99% confidence level) models were validated by an external independent validator. Volatilities used in the parameter updated on a daily basis and are based on historical data for a rolling 261-day period while yields and prices in the historical VaR approach are also updated daily. The RMG reports the VaR utilization and breaches to limits to the risk taking personnel on a daily basis and to the ALCO and ROC on a monthly basis. All risk reports discussed in the ROC meeting are noted by the banking segment’s BOD. The VaR figures are back-tested to validate the robustness of the VaR model. Results of backtesting on a rolling one year period are also reported to the ROC. Below are the objectives and limitations of the VaR methodology, VaR assumptions/parameters, backtesting, stress testing and VaR limits.

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

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

c. Backtesting
   The validity of the assumptions underlying the banking segment’s VaR models can only bechecked by appropriate backtesting procedures. Backtesting is a formal statistical framework that consists of verifying that actual losses are within the projected VaR approximations. The banking segment adopts both the clean backtesting and dirty backtesting approaches approach in backtesting. Clean backtesting, consists of comparing the VaR estimates with some hypothetical P&L values of the portfolio, having kept its composition unchanged. In this case, the same portfolio is repriced or marked-to-market at the end of the time interval and the hypothetical P&L is then compared with the VaR. The other method, called dirty backtesting, consists of comparing the VA estimates with the actual P&L values at the end of the time horizon. This method, however, may pose a problem if the portfolio has changed drastically because of trading activities between the beginning and the end of the time horizon since VaR models assume that the portfolio is "frozen" over the horizon. The Parent Company uses the regulatory 3-zone (green, yellow and red) boundaries in evaluating the backtesting results. For the years 2016 and 2015, the number of observations which fell

outside the VaR is within the allowable number of exceptions in the green and yellow zones to conclude that there is no problem with the quality and accuracy of the VaR models at 99.00% confidence level. Nonetheless, closer monitoring and regular review of the model's parameters and assumptions are being conducted.

d. Stress Testing
To complement the VaR approximations, the baking segment conducts stress testing on a quarterly basis, the results of which are being reported to the banking segment's BOD. Scenarios used in the conduct of stress test are event driven and represent the worst one-off event of a specific risk factor. Results of stress testing are analyzed in terms of the impact to earnings and capital.

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

Structural Market Risk of the Banking Segment

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

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

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

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

As one of the long-term goals in the risk management process, the banking segment has also implemented the adoption of the economic value approach in measuring the impact of the interest rate risk in the banking books to complement the earnings at risk approach using the modified duration approach. Cognizant of this requirement, the Parent Company has undertaken the initial activities such as identification of the business requirement and design of templates for each account and the inclusion of this requirement in the Asset Liability Management business requirement definition.

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

Foreign currency liabilities generally consist of foreign currency deposits in PNB's FCDU books, accounts made in the Philippines or which are generated from remittances to the Philippines by Filipino expatriates and overseas Filipino workers who retain for their own benefit or for the benefit of a third party, foreign currency deposit accounts with PNB and foreign currency-denominated borrowings appearing in the regular books of PNB.

Foreign currency deposits are generally used to fund PNB's foreign currency-denominated loan and investment portfolio in the FCDU. Banks are required by the BSP to match the foreign currency liabilities with the foreign currency assets held through FCDUs. In addition, the BSP requires a 30.00% liquidity reserve on all foreign currency liabilities held through FCDUs. Outside the FCDU, PNB has additional foreign currency assets and liabilities in its foreign branch network.

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

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

Risk Management Strategies
The Group's principal financial instruments comprise of short-term and long-term debts and COCI. The main purpose of these financial instruments is to ensure adequate funds for the Group's operations and capital expansion. Excess funds are invested in available-for-sale financial assets with a view to liquidate these to meet various operational requirements when needed. The Group has various other financial assets and financial liabilities such as receivables and accounts payable and accrued expenses which arise directly from its operations.

The main risks arising from the use of financial instruments are credit risk, liquidity risk and market risks (consisting of foreign exchange risk, interest rate risk and equity price risk).

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

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

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

- Distilled spirits segment's annual sales pertain mainly to two trusted parties with sales to them comprising about 84% of the total segment revenue.
- Beverage segment annual sales pertain mainly to 13 parties with sales to them comprising about 100% of the total beverage sales.
- Tobacco and property development segments are not exposed to concentration risk because it has diverse base of counterparties.

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

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

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

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

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

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

Interest rate risk
Interest rate risk arises from the possibility that changes in interest rates would unfavorably affect future cash flows from financial instruments. As of 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.

31. Fair Values of Financial Instruments

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

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

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

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

As of March 31, 2018 and December 31, 2017, the carrying values of the Group's financial assets and liabilities approximate their respective fair values, except for the following financial instruments:

	March31,2018 (Unaudited)		December, 31, 2017(Audited)	
	Carrying Value	**Fair Market Value**	Carrying Value	Fair Market Value
		(In Thousands)		
Financial Assets:				
HTM investments	**₱47,802,344**	**₱47,883,124**	₱26,732,182	₱27,924,081
Loans and receivables:				
Receivables from customers	**483,875,023**	**495,780,617**	472,471,979	481,012,205
Unquoted debt securities	**195**	**195**	10,934,147	10,942,367
	₱531,677,562	**₱543,663,936**	₱510,138,308	₱519,878,653
Financial Liabilities:				
Financial liabilities at amortized cost:				
Deposit liabilities -				
Time deposits	**₱178,373,774**	**₱176,585,162**	₱160,915,991	₱179,058,554
Bills Payables	**33,093,818**	**33,093,818**	41,684,801	41,765,052
Long term debts:				
Subordinated debt	**–**	**–**	–	–
Unsecured term loan	**5,966,782**	**5,027,045**	6,080,146	5,443,815
Other liabilities:				
Payable to landowners	**1,924,688**	**1,922,930**	1,937,568	1,934,286
Tenants' rental deposits	**457,056**	**420,011**	452,372	414,362
	₱219,816,118	**₱217,048,966**	₱211,070,878	₱228,616,069

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

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

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

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

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

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

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

Time deposit liabilities and subordinated debt including designated at FVPL - Fair value is determined using the discounted cash flow methodology. The discount rate used in estimating the fair values of the subordinated debt and time deposits ranges from 3.00% to 4.13%as of March 31, 2018 and December 31, 2017, 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 March 31, 2018 and December 31, 2017, respectively.

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

Fair value hierarchy
The Group uses the following hierarchy for determining and disclosing the fair value of assets and liabilities by valuation technique. These levels are based in the inputs that are used to determine the fair value and can be summarized in:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that
are not based on observable market data.

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

	March 31, 2018 (Unaudited)			
	Level 1	**Level 2**	**Level 3**	**Total**
		(In Thousands)		
Assets measured at fair value:				
Financial Assets				
Financial assets at FVPL:				
Held-for-trading:				
Government securities	**₱1,158,695**	**₱1,028,987**	**₱–**	**2,187,682**
Derivative assets	**–**	**534,924**	**57,391**	**592,315**
Private debt securities	**79,829**	**323,823**	**–**	**403,652**
Equity securities	**578,216**	**–**	**–**	**578,216**
Designated at FVPL:				
Investment in UITFs	**–**	**6,263**	**–**	**6,263**
	₱1,816,740	**₱1,893,997**	**₱57,391**	**₱3,768,128**
AFS investments:				
Government securities	**₱33,849,850**	**₱1,507,022**	**₱–**	**₱35,356,872**
Private debt securities	**25,150,733**	**3,656,477**	**–**	**28,807,210**
Equity securities**	**466,393**	**208,414**	**–**	**674,807**
	₱59,466,976	**₱5,371,913**	**₱–**	**₱64,838,889**
Non-financial assets				
Property, plant and equipment**				
Land and land improvements	**₱–**	**₱–**	**₱15,829,899**	**₱15,829,899**
Plant buildings and building improvements	**–**	**–**	**13,280,878**	**13,280,878**
Machineries and equipment	**–**	**–**	**6,991,282**	**6,991,282**
	₱–	**₱–**	**₱36,102,059**	**₱36,102,059**
Liabilities measured at fair value:				
Financial liabilities				
Financial liabilities at FVPL:				
Designated at FVPL:				
Derivative liabilities	**₱–**	**₱478,335**	**₱–**	**₱478,335**
	₱–	**₱478,335**	**₱–**	**₱478,335**

	March 31, 2018 (Unaudited)			
	Level 1	**Level 2**	**Level 3**	**Total**
		(In Thousands)		
Assets for which fair values are disclosed:				
Financial Assets				
HTM investment	**₱43,691,979**	**₱4,191,145**	**₱–**	**₱47,883,124**
Loans and receivables:				
Receivables from customers	**–**	**–**	**495,780,617**	**495,780,617**
Unquoted debt securities	**–**	**–**	**195**	**195**
	₱43,691,979	**₱4,191,145**	**₱495,780,812**	**₱543,663,936**
Non-financial Assets				
Investment properties**				
Land	**₱–**	**₱–**	**₱37,007,466**	**₱37,007,466**
Buildings and improvements	**–**	**–**	**16,935,051**	**16,935,051**
	₱–	**₱–**	**₱53,942,517**	**₱53,942,517**
Liabilities for which fair values are disclosed:				
Financial liabilities				
Financial liabilities at amortized cost:				
Deposit liabilities:				
Time deposits	**₱–**	**₱–**	**₱176,585,162**	**₱176,585,162**
Long term debts:				
Bills payables	**–**	**–**	**33,093,818**	**33,093,818**
Unsecured term loan	**–**	**–**	**5,027,045**	**5,027,045**
Other liabilities:				
Payable to landowners	**–**	**–**	**1,922,930**	**1,922,930**
Tenants' rental deposits	**–**	**–**	**420,011**	**420,011**
	₱–	**₱–**	**₱217,048,966**	**₱27,924,080**

* *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, 2017			
	Level 1	Level 2	Level 3	Total
		(In Thousands)		
Assets measured at fair value:				
Financial Assets				
Financial assets at FVPL:				
Held-for-trading:				
Government securities	₱1,534,791	₱673,162	₱–	₱2,207,953
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
	₱1,686,419	₱1,218,815	₱54,938	₱2,960,172
AFS investments:				
Government securities	₱37,083,207	₱4,583,318	₱–	₱41,666,525
Private debt securities	21,018,127	5,928,190	–	26,946,317
Equity securities*	–	1,077,221	147,353	1,224,574
	₱58,101,334	₱11,588,729	₱147,353	₱69,837,416
Non-financial assets				
Property, plant and equipment**				
Land and land improvements	₱–	₱–	₱15,783,538	₱15,783,538
Plant buildings and building improvements	–	–	13,135,848	13,135,848
Machineries and equipment	–	–	7,295,561	7,295,561
	₱–	₱–	₱36,214,947	₱36,214,947
Liabilities measured at fair value:				
Financial liabilities				
Financial liabilities at FVPL:				
Designated at FVPL:				
Derivative liabilities	₱–	₱343,522	₱–	₱343,522
	₱–	₱343,522	₱–	₱343,522

	December 31, 2017			
	Level 1	Level 2	Level 3	Total
		(In Thousands)		
Assets for which fair values are disclosed:				
Financial Assets				
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
Non-financial Assets				
Investment properties**				
Land	₱–	₱–	₱37,007,466	₱37,007,466
Buildings and improvements	–	–	16,935,051	16,935,051
	₱–	₱–	₱53,942,517	₱53,942,517
Liabilities for which fair values are disclosed:				
Financial liabilities				
Financial liabilities at amortized cost:				
Deposit liabilities:				
Time deposits				
Long term debts:	₱–	₱–	₱179,058,533	₱179,058,533
Bills payable				
Unsecured term loan	–	–	41,765,052	41,765,052
Other liabilities:	–	–	5,443,815	5,443,815
Payable to landowners				
Tenants' rental deposits	–	–	1,934,286	1,934,286
Deposit liabilities:	–	–	414,362	414,362
Time deposits	₱–	₱–	₱228,616,048	₱228,616,048

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

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

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

Instruments included in Level 3 include those for which there is currently no active market. In applying the discounted cash flow analysis to determine the fair value of financial liabilities designated at FVPL, the Group used discount rates ranging from 1.26% to 3.25%as of March 31, 2018.

As of March 31, 2018 and December 31, 2017, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of level 3 fair value measurements.

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

	March 31, 2018 (Unaudited)	December 31, 2017 (Audited)
	(In Thousands)	
Financial assets		
Balance at beginning of year	**₱54,938**	₱61,545
Add total gain (loss) recorded in profit or loss	**(2,453)**	(6,607)
Balance at end of year	**₱54,938**	₱54,938
Nonfinancial assets		
Balance at beginning of year	**₱36,214,947**	₱36,104,048
Additions during the year	**1,524,645**	1,343,745
Revaluation decrement during the year	**–**	–
Depreciation and amortization	**(1,637,533)**	(1,637,533)
Net carrying value of disposed/transferred assets and other adjustments	**–**	404,687
Balance at end of the year	**₱36,102,059**	₱36,214,947
Financial liabilities		
Balance at beginning of year	**₱–**	₱–
Less total loss (gain) recorded in profit and loss	**–**	–
Balance at end of year	**₱–**	₱–

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

		2017	
Structured Investments	**Significant Unobservable Input**	**Range of Input***	**Sensitivity of the Input to Fair Value****
Peso-denominated	**Bank CDS Levels**	**47.28 - 93.27bps**	**50 bps increase/(decrease) in change inputs would result in a (decrease) / increase in the market value of the note by ₱65,500,462**
Dollar-denominated	**Bank CDS Levels**	**40.719 - 76.344 bps**	**50 bps increase/(decrease) in change inputs would result in a (decrease) / increase in the market value of the note by ₱41,710,217**

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

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

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

32. Capital Management

The main thrust of the Group's capital management policy is to ensure that the Group complies with externally imposed capital requirements, maintains a good credit standing and has a sound capital ratio to be able to support its business and maximize the value of its shareholder's equity. The Group is also required to maintain debt-to-equity ratios to comply with certain loan agreements and covenants in 2018 and 2017.

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 2018 and 2017.

The Group considers its total equity reflected in the consolidated balance sheets as its capital. The Group monitors its use of capital and the Group's capital adequacy by using leverage ratios, specifically, debt ratio (total debt/total equity and total debt) and debt-to-equity ratio (total debt/total equity). Included as debt are the Group's total liabilities while equity pertains to total equity as shown in the consolidated balance sheets.

The table below shows the leverage ratios of the Group:

	March 31, 2018 (Unaudited)	December 31, 2017 (Audited)
	(In Thousands, except ratios)	
Total liabilities	**₱737,832,217**	₱721,780,274
Total equity	**199,083,924**	195,315,415
Total liabilities and equity	**936,916,141**	₱917,095,689
Debt ratio	**0.79:1**	0.79:1
Debt-to-equity ratio	**3.71:1**	3.70:1

33. Commitments and Contingencies

There were no changes in the Group's commitments and contingencies from those disclosed in the December 31, 2017 annual consolidated financial statements.

34. Seasonality of Interim Operations

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

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

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

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

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

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

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

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

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

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

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

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

PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, requires assets and liabilities of APLII, together with the results of operations, to be classified separately from continuing operations. As a result, the Group reclassified all the assets and liabilities of APLII to "Assets of disposal group classified as held for sale" and "Liabilities of disposal group classified as held for sale", respectively, in the 2015 consolidated balance sheet.

The business of APLII represented the entirety of PNB's life insurance business until December 21, 2015. APLII was previously presented in the "Others" section of the business segment disclosure. With APLII being classified as a discontinued operation in 2015, the comparative consolidated statement of income and comprehensive income in 2014 have been re-presented to show the discontinued operations separately from the continued operations.

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

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

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

36. **Events After the Reporting Date**

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

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

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

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

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

LT GROUP, INC. AND SUBSIDIARIES
SELECTED EXPLANATORY NOTES
As at March 31, 2018 and December 31, 2017
And for the Three Months Ended March 31, 2018 and 2017
(As required under Par. 7 (d) Selected Explanatory Notes Required Under SRC Rule 68, as Amended 2011)

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

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

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

Beverage Segment is affected by seasonality of operations.

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

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

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

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

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

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

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

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

On March 13, 2018, the Board of Directors of LTG approved the declaration and distribution of regular cash dividends of ₱0.15 per share and special cash dividends of ₱0.05 per share to all stockholders of record as of March 28, 2018. The dividends were paid on April 11, 2018.

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

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

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

None.

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

None.

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

None. The Company has no contingent liabilities or assets.

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

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

Beverage
ABI maintains a legal department whose main function is to pursue collection cases and handle litigation arising from labor disputes. As of March 31, 2018, ABI does not have any significant legal proceedings either against it or in pursuit of another party besides those arising from the ordinary course of business.

Distilled Spirits

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

Trademark Infringement Suit

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

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

On July 25, 2012, the Mandaluyong RTC issued its decision in favor of TDI and dismissing the instant complaint for trademark infringement and unfair competition for lack of merit. GSMI filed a Motion for Reconsideration with the Mandaluyong RTC on September 3, 2012. On October 5, 2012, the Mandaluyong RTC denied the Motion for Reconsideration of GSMI. GSMI filed an appeal with the Court of Appeals (CA). On August 15, 2013, the CA rendered a decision in favor of GSMI ordering TDI to recall all gin products bearing the Ginebra brand name, cease and desist from using GINEBRA in any of its gin products, pay GSMI 50% of the gross sales of GINEBRA KAPITAN and ₱2 million as exemplary fees. TDI filed its appeal on October 18, 2013. On November 22 2013, the CA sustained its decision in favor of GSMI.

On December 18, 2013, the Company filed a petition before the Supreme Court questioning the decision of the CA. In 2014, the Company filed a motion for reconsideration with the Court of Appeals. But such motion was denied. On September 29, 2015 the Company filed another petition for review before the Supreme Court. The Company is currently awaiting for the Supreme Court's resolution as of March 31, 2018.

Opposition to Registration of Brand Name

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

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

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

On August 22, 2014, TDI filed a Motion for Reconsideration with the Court of Appeals. On November 13, 2014, the Court of Appeals sustained its decision dated July 23, 2014. On December 12, 2014, TDI filed a Petition for Review with the Supreme Court to reverse the decision of Court of Appeals and reinstate the findings of IPO. TDI is currently awaiting Supreme Court's decision as of March 31, 2018.

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, CristetaBabaison, et al. vs. Paramount Holding Equities and Eton Properties Philippines, Inc."

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

In its Answer, the defendants, including the Company raised the defense that the property was acquired through public bidding from the Land Bank of the Philippines where Paramount was the highest bidder at Php1.03 Billion and which sale was approved by the President of the Philippines then. Further, there is no adverse claim or notice of listeners, encumbrance, or annotation of any overlapping claim on the Company's title. Based on an investigation conducted into the plaintiffs' title, it appeared that the technical descriptions of TCT No. 300828 overlap several titled properties when plotted. It was also found by the NBI that plaintiff's title was not regularly issued and, upon further examination, the technical description overlaps other titled properties located in Aurora Boulevard, and Manga Street, among others, showing that the plaintiffs' property was located elsewhere when plotted.

Additionally, defendants challenged the standing of the plaintiffs as not being the real parties in interest and subsequently requested the Court for a hearing on its affirmative defenses raised in its Motion to Dismiss. After due hearing, the Court, on December 14, 2014 issued a Resolution dismissing the complaint against the Company. The plaintiffs filed a Motion for reconsideration which was denied by the Court on October 13, 2015. Thereafter the plaintiffs elevated the case with the Court of Appeals where the case remains pending.

Tobacco

Sandiganbayan case against Tan Companies

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

Annex "B"

LT GROUP, INC. AND SUBSIDIARIES

Management Discussion and Analysis of
Financial Condition and Results of Operations

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

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

<u>**RESULTS OF OPERATIONS**</u>

LT Group, Inc. (LTG) recorded consolidated net income of ₱4.3 billion for the quarter ended March 31, 2018, 52.6% higher than the ₱2.8 billion reported in the same period last year.

The consolidated net income attributable to equity holders of LTG was ₱3.6 billion for 1Q18, 61.7% more than 1Q17. This was on account of the improvement in the operating results of the tobacco, banking and property development segments, which more than offsets the lower net income of the distilled spirits and beverage segments. The tobacco segment's net income increased by ₱1.4 billion from ₱1.0 billion in 2017to ₱2.4 billion in 2018. The banking segment's net income was up by 17.8% from ₱1.3 billion for the quarter ended March 31, 2017 to ₱1.5 billion in the same period of 2018. Property development segments net income was ₱97 million, 29% higher than the ₱75 million in 1Q17.The beverage segment's net income of ₱149 million in 1Q18 was slightly lower by 1.3% compared to the reported income of ₱151 million in the same period last year. Distilled spirits segment net income was ₱135 million, 34.8% lower than the ₱207 million recognized for the period ended March 31, 2017. Equity in net earnings from the30.9% stake in VMC contributed ₱59 million.

Consolidated revenues amounted to ₱17.1 billion for the quarter ended March 31, 2018, 13.3% higher than the ₱15.1 billion recognized in 2017 on account of the increased revenues in the banking, beverage, and property development segment.

Cost of sales and services increased by 8.1% from ₱7.1 billion for the quarter ended March 31, 2017 to ₱7.7 billion in the same period in 2018, primarily attributable to higher interest expense on deposit liabilities and increased cost of sales of the beverage segments mainly due to the sugar tax and raw material costs.

Operating expenses amounted to ₱7.6 billion in 1Q18 from ₱6.7 billion in 1Q17or an increase of 13.8%. This was as a result of increased general and administrative expenses by 16.5%, from ₱6.0 billion in 2017 to ₱6.9 billion in 2018, partially offset by the decrease of 8.6% in selling expenses, which amounted to ₱696 million in 2017 as against ₱636 million in 2018.

SEGMENT OPERATIONS

Banking

The banking segment's net income was ₱1.5 billion for the quarter ended March 31, 2018, 17.8% higher than the ₱1.3 billion recorded for the same period in 2017.

Interest income from banking operations was at ₱8.1 billion in 2018, 24.2% higher than the ₱6.5 billion earned last year, mainly on account of higher interest income from loans and receivables.

Interest expense was at ₱1.7 billion for the quarter ended March 31, 2018, up 21.4% from ₱1.4 billion in same period of 2017 resulting to a net interest income of ₱6.4 billion, 24.9% higher year-on-year.

Net service fees and commission income improved from the previous period's ₱709 million to ₱852 million due to higher loan related, bancassurance and other commission, deposit and trade related fees income.

Miscellaneous income declined by 12.8% to ₱1.0 billion from ₱1.1 billion, due to lower trading and foreign exchange gains. On the other hand, gain from the sale of ROPA was higher at ₱271 million in 1Q18 than 1Q17's ₱102 million.

Operating expenses increased by 17.1% primarily due to higher taxes and licenses, depreciation, personnel costs and miscellaneous expenses.

Beverage

The beverage segment's net income was slightly lower by 1.3% to₱149 million for the quarter ended March 31, 2018 from ₱151million in the same period last year.

Revenues of the beverage segment were higher by 8.3% to ₱3.4 billion in 2018 from ₱3.1 billion in 2017. This was driven by the growth in revenues in energy drinks, bottled water, soymilk and packaging. Overall gross profit declined to 30% from 35% as a result of product mix as well as higher costs attributed to the depreciation of the peso.

Operating expenses decreased by 16.9% to ₱556 million in 2018 from ₱669 million in 2017 on account of lower advertising and promotional expenses.

Distilled Spirits

The distilled spirits segment posted a net income of ₱135 million for the quarter ended March 31, 2018, a 34.8% decrease from the net income of ₱207 million reported in the same period last year.

Net revenues were relatively flat to ₱4.2 billion in 1Q18 and 1Q17.

Cost of sales decreased by 1.3% to ₱3.5 billion in the current period as against ₱3.6 billion in the same period last year primarily due to lower alcohol costs. Consequently, gross profit margin was at 17.0% in 1Q18, slightly higher than the 16.0% in 1Q17.

Operating expenses were higher by ₱117 million at ₱535million in 1Q18, due to increased selling and administrative expenses.

Property Development

The property development segment reported a net income of ₱97 million for the first three months of 2018, higher than the ₱75 million for the same period last year.

Rental revenue for the first quarter of 2018 accounted for ₱353 million or 61.0% of revenues, representing 7.6% growth over the same period in 2017, as the lease contracts were renewed at higher rates for the BPO offices as well as the additional retail space completed in December 2017.

Operating expenses were higher by 19.8% from ₱162 million in 1Q17 to ₱194 million in 1Q18.

Tobacco

The tobacco segment's net income was ₱2.4 billion for the quarter ended March 31, 2018, significantly higher than the ₱1.0 billion of the same period last year on account of the increase in equity in net earnings from PMFTC (FTC's 49.6% owned associate) from ₱1.0 billion last year to ₱2.3 billion in 2018.

FINANCIAL CONDITION

The Company's consolidated Total Assets as of March 31, 2018 amounted to ₱936.9 billion, an increase of 2.2% from ₱917.1 billion as of December 31, 2017. This was mainly on account of the increase in Current Assets by 3.3% or ₱13.6 billion and increase in Noncurrent Assets of ₱6.2 billion or 1.3%.

The increase in consolidated Current Assets by 3.3% from ₱416.6 billion as of December 31, 2017 to ₱430.2 billion was primarily due to the higher Available For Sale Investments (AFS) resulting from various reclassifications from noncurrent to current by the bank. Financial Assets at Fair Value through Profit or Loss declined by ₱1.4 billion, mainly due to the banking segments lower levels of FXTN.

The 1.3% increase in Total Noncurrent Assets was mainly due to the movements in the Noncurrent Held to Maturity (HTM) and AFS Investments. Noncurrent HTM investments were higher by 78.8% due to banks reclassification of AFS Investments to HTM investments. Noncurrent AFS Investments decreased by 21.2% to ₱55.7 billion from ₱70.7 billion.

Consolidated Total Liabilities increased by 2.2% to ₱737.8 billion as of March 31, 2018 from ₱721.8 billion as of December 31, 2017. This was on account of the increase in Total Current Liabilities by 2.0% from ₱665.4 billion in December 31, 2017 to ₱678.7 billion as of the end of the current period and increase in Noncurrent Liabilities of 4.9% from ₱56.4 billion to ₱59.1 billion.

Current portion of the banking segment's Deposit Liabilities amounted to ₱607.3 billion as of March 31, 2018, 3.2% higher than December 31, 2017. Accounts Payable and Accrued Expenses increased to ₱25.9 billion or 17.8% higher than ₱22.0 billion as of December 31, 2017 due to the various accruals in the first quarter of 2018. Financial liabilities at Fair Value through Profit or Loss were higher by 39.2% from ₱0.34 billion in December 31, 2017 to ₱0.48 billion as of March 31, 2018, on account of the bank's higher derivative liabilities. Short-term debt was higher by 6.5% to ₱1.7 billion in the current period from ₱1.6 billion in December 31, 2017, due to the availment of loan by the beverage segment. Current portion of Bills and Acceptances Payable decreased by 25.2% mainly due to the settlements of currently maturing bills and acceptances payable by the banking segment. Income tax payable is lower by 32.7% versus the December 31, 2017 level due to the payments made in 2018. Current portion of long-term debts outstanding of ₱115 million as of December 31, 2017 was settled as of March 31, 2018.

The increase in the Noncurrent Liabilities was on account of higher Other Noncurrent Liabilities of the banking segment which increased by 47.6% or ₱2.2 billion. Deposit Liabilities (noncurrent) of the banking segment increased from ₱39.3 billion as of December 31, 2017 to ₱39.5 billion as of March 31, 2018. Deferred income tax liabilities were higher by ₱148 million mainly due to various time difference tax adjustments in 2018.

LT Group's consolidated Total Equity grew 1.9% to ₱199.1 billion as of March 31, 2018, on account of the increase in Retained Earnings coming from the net earnings during the period and other comprehensive income.

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

1.) Revenue

Revenues for the period ended March 31, 2018 amounted to ₱17.1 billion, 13.3% higher from last year's ₱15.1 billion.

2.) Net Income

Consolidated Net Income for the quarters ended March 31, 2018 and 2017amounted to ₱4.3 billion and ₱2.8 billion, respectively.

3.) Current Ratio

Current ratio was 0.63:1 as of December 31, 2017 and as of March 31, 2018.

4.) Debt to Equity Ratio

Debt-to-equity ratio increased from 3.70:1 in December 2017 to 3.71:1 as of March 31, 2017.

5.) Earnings/ (Loss) Per Share

LTGI's earnings per share attributable to holders of the parent company for March 2018 and 2017 were ₱0.34 and ₱0.21, respectively.

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

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

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

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

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

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

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

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

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

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

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

1. Financial assets at fair value through profit or loss - current – H, (22%)
2. Available-for-sale investments - current – H, 437%
3. Available-for-sale investments-noncurrent – H, (21%)
4. Held to maturity investments-noncurrent – H, 79%
5. Financial liabilities at fair value through profit or loss – current – H, 39%
6. Bills and acceptances payable - current – H, (25%)
7. Short-term debts – H, 6%
8. Accounts payable and accrued expenses – H, 19%
9. Income tax payable- H, (33%)
10. Current portion of long-term debts – H, (100%)
11. Deferred income tax liabilities – H, 10%
12. Other noncurrent liabilities- H, 48%
13. Other comprehensive income – H, 27%
14. Banking revenue – H, 23%
15. Beverage revenue – H, 8%
16. Property development revenue – H, 8%
17. Cost of sales and services – H, 8%
18. Equity in net earnings of associates – H, 117%
19. Selling expenses – H, (9%)
20. General and administrative expenses – H, 16%
21. Finance cost – H, (58%)
22. Foreign exchange gains – H, (93%)
23. Others-net – H, 38%
24. Provision for income tax – current – H, 17%
25. Provision for income tax – deferred – H, (396%)
26. Net income- H, 53%

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

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

LT GROUP, INC. and SUBSIDIARIES
AGING OF LOANS AND RECEIVABLE
As of March 31, 2018 (Unaudited)
(In thousands)

TYPE OF ACCOUNTS RECEIVABLE		TOTAL	up to 12 months	1 year to 3 years	Over 3 years to 5 years	Over 5 years	Past due and items in litigation
(a) Finance Receivable		514,337,923	193,673,257	95,645,196	65,824,779	141,033,791	18,160,900
Less: Unearned interest and other deferred income		1,523,006	-	-	-	1,523,006	-
Less: Allowance for credit losses		13,784,038	-	-	-	-	13,784,038
NET FINANCE RECEIVABLES	P	499,030,879	193,673,257	95,645,196	65,824,779	139,510,785	4,376,862
(b) Trade Receivables		14,017,298	13,190,060	-	-	-	827,238
Less: Allowance for credit losses		60,442	-	-	-	-	60,442
NET TRADE RECEIVABLES	P	13,956,856	13,190,060	-	-	-	766,796
(c) Other Receivables		3,107,809	3,096,569	-	-	-	11,240
Less: Allowance for credit losses		11,240	-	-	-	-	11,240
NET OTHER RECEIVABLES		3,096,569	3,096,569	-	-	-	-
NET LOANS AND RECEIVABLES	P	516,084,304	209,959,886	95,645,196	65,824,779	139,510,785	5,143,658

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

LT GROUP, INC. and Subsidiaries
FINANCIAL SOUNDNESS INDICATORS

	March 31, 2018	December 31, 2017
Current Ratio	0.63	0.63
Debt to Equity Ratio	3.71	3.70
Asset to Equity Ratio	4.71	4.70
	March 31, 2018	**March 31, 2017**
Interest Rate Coverage Ratio	204.17	62.73
Solvency Ratio	1.66	0.41
Profitability Ratios:		
Profit Margin	0.21	0.15
Return on Asset (ROA)	0.015	0.010
Return on Equity (ROE)	0.096	0.066