COVER SHEET

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SEC Registration Number

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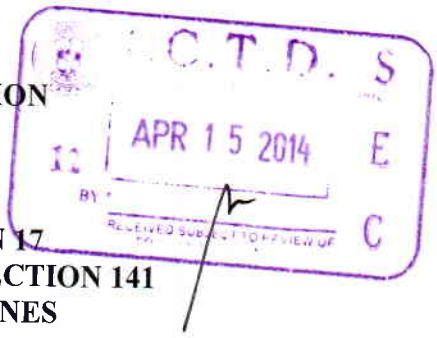

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

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

1. For the calendar year ended **December 31, 2013**

2. SEC Identification Number **PW-343**

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

4. Exact name of registrant as specified in its charter **LT Group, Inc.**

5. **Philippines**
Province, Country or other jurisdiction of incorporation or organization

6. (SEC Use Only)
Industry Classification Code:

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

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

9. **Tanduay Holdings, Inc., 7th Floor Allied Bank Center, 6754 Ayala Avenue Makati City 1200**
Former name, former address, and former fiscal year, if changed since last report.

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

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

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

Yes [✓] No [ ]

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

12. Check whether the registrant:

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

Yes [✓] No [ ]

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

Yes [✓] No [ ]

13. Aggregate market value of the voting stock held by non-affiliates of the registrant ₱42,846,790,466 as of December 31, 2013

14. Not applicable

DOCUMENTS INCORPORATED BY REFERENCE

PART I – BUSINESS AND GENERAL INFORMATION

Item 1. Business

Corporate History

LT Group, Inc. (LTG) formerly known as Tanduay Holdings, Inc., (THI), was originally incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on May 27, 1937 under the name "The Manila Wine Merchants, Inc.". LTG's corporate life is 50 years from the date of incorporation and was extended for another 50 years from and after May 27, 1987. The Philippine SEC approved the change of name to "Asian Pacific Equity Corporation" on September 22, 1995 and change of its primary purpose to that of a holding company.

On July 30, 1999, the Company acquired Twin Ace Holdings Corp., now known as Tanduay Distillers, Inc. (TDI), a producer of distilled spirits, through a share swap with Tangent Holdings Corporation (Tangent). The share swap resulted in THI wholly owning TDI and Tangent increasing its ownership in THI to 97.0%. On August 24, 1999, the stockholders approved the increase in capital stock from One Billion Pesos to Five Billion Pesos with a par value of one peso per share. This was approved by the Securities and Exchange Commission on November 10, 1999 together with the change in LTG's corporate name from "Asian Pacific Equity Corporation" to "Tanduay Holdings, Inc."

Three Billion shares were issued by the Company for the acquisition in 1999 of Twin Ace Holdings Corp. now known as Tanduay Distillers, Inc. (TDI). An agreement to subscribe was executed between Tangent Holdings Corporation (THC), the sole shareholder of TDI, and LTG in exchange for 600,000,000 shares in TDI. This share swap resulted in LTG wholly owning TDI.

On June 30, 2005, TDI acquired controlling interests in Asian Alcohol Corporation (AAC) and Absolut Distillers, Incorporated (ADI), formerly known as Absolut Chemicals, Inc. (ACI). AAC and ADI are domestic corporations registered with the Philippine Securities and Exchange Commission (SEC) which are the suppliers of TDI's alcohol requirements.

In December 2006, TDI converted certain advances to AAC and ADI amounting to ₱200 million and ₱185 million, respectively, into equity in the subsidiaries thereby resulting in the increase in ownership by TDI over AAC and ADI to 93% and 96% respectively. In October 2007, the Philippine SEC approved ADI's equity restructuring. On the other hand, the increase in authorized capital stock of AAC was approved on January 10, 2008. In June 2008, TDI bought additional shares in AAC amounting to ₱150 million, which increased TDI's ownership from 93% to 95%. For purposes of consolidation as of December 31, 2011, TDI's ownership over AAC and ADI was 95% and 96% respectively.

In December 2011, the Company undertook a capital raising exercise to complete the financing of the capital expenditure requirements of its subsidiary, TDI and the latter's subsidiaries, ADI and AAC and to improve operational efficiencies and rationalize operations. This involved a sale of 398,138,889 existing Company shares owned by THC at an offer price of ₱ 4.22 per share, for a total gross proceeds of ₱ 1,680.1 million which THC re-invested into the Company.

On September 24, 2012, THI's stockholders approved the amendment in its Articles of Incorporation and By-Laws to reflect the change in its corporate name from "Tanduay Holdings, Inc." to "LT Group, Inc." which was approved by the Philippine SEC on September 28, 2012. The Company's primary purpose is to engage in the acquisition by purchase, exchange, assignment, gift or otherwise; and to hold, own and use for investment or otherwise; and to sell, assign, transfer, exchange, lease, let, develop, mortgage, enjoy and dispose of, any and all properties of every kind and description and wherever situated, as to and to the extent permitted by law.

After a series of restructuring activities in 2012 and 2013, LTG expanded and diversified its investments to include the beverages, tobacco, property development and banking businesses, all belonging to Mr. Lucio C. Tan and his family and assignees (collectively referred to as the "Controlling Shareholders").

As of December 31, 2013 and 2012, LTG is 74.36%-owned by its ultimate parent company, THC, which is also incorporated in the Philippines.

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

The Company has interests in the following companies:

- **Distilled Spirits**—the Company conducts its distilled spirits business through its 100%-owned subsidiary TDI. TDI is the second-largest distilled spirits producer in the Philippines according to Nielsen Philippines, with an approximate 23.3% share of the Philippine spirits market in 2013.

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

- **Tobacco**—the Company conducts its tobacco business through its 99.6% ownership in Fortune Tobacco Corporation (FTC), which in turn owns 49.6% of PMFTC, a company formed in 2010 as a result of business combination between Philip Morris Philippines Manufacturing, Inc. (PMPMI) and FTC. PMFTC is the leading tobacco manufacturer and distributor in the Philippines with an estimated 79.3% market share by volume in the year 2013 and has a diversified portfolio of brands across all consumer segments, including *Fortune, Hope, Marlboro* and *Philip Morris*.

- **Banking**—the Company conducts its banking business through Philippine National Bank (PNB). PNB is a universal bank currently listed with the Philippine Stock Exchange (PSE). It recently merged with Allied Banking Corporation (Allied Bank) another universal bank listed in the PSE. After obtaining necessary regulatory approvals, the Company increased its indirect ownership to approximately 56.47% of the merged PNB and Allied Bank. PNB is the Philippines' fourth largest private commercial bank in terms of total assets, deposits and net loans and receivables in 2013.

- **Property Development**—the Company conducts its property development business through Paramount Landequities, Inc. and Saturn Holdings, Inc. resulting to an effective indirect ownership of 99.3% in Eton Properties Philippines, Inc. (ETON). Eton has a diverse portfolio of property development projects in various areas throughout the Philippines, primarily in Metro Manila and surrounding areas, and access to the large land bank of the Tan Companies. Eton's project portfolio mainly comprises residential real estate projects (including large-scale township projects), but Eton also develops and leases out commercial properties for retail, office and BPO tenants.

Description of Subsidiaries

Distilled Spirits

Tanduay Distillers, Inc. (TDI)

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

The following companies are majority owned by TDI:

- **Asian Alcohol Corporation (AAC) – 95%**
  AAC is a domestic corporation registered with the Philippine Securities and Exchange Commission (SEC) on September 27, 1973. The company is primarily involved in the manufacture of ethyl alcohol and and to market, sell, distribute, and generally deal in any or all of such liquids or products.
- **Absolut Distillers, Inc. (ADI) – 96%**
  ADI was incorporated in the Philippines on September 14, 1990, to engage in, operate, conduct and maintain the business of manufacturing, distilling, importing, exporting, buying, selling or otherwise deal in chemicals including ethyl alcohol and molasses, at wholesale and retail and any and all equipment, materials, supplies used or employed in or related to the manufacture of such finished products.

Tanduay Brands International, Inc. (TBI)

On May 06, 2003, TBI was incorporated in the Philippines to handle the marketing of TDI's products in the export market. TBI has not yet started commercial operations as of December 31, 2013.

Beverage

Asia Brewery, Inc. (ABI)

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

The following companies are 100%-owned by ABI:

- **Interbev Philippines, Inc. (IPI)**
  IPI was incorporated in the Philippines on April 28, 2003. Its primary business is the production and distribution of *Cobra and Sunkist carbonated soft drinks.*
- **Waterich Resources Corporation (WRC)**
  WRC was incorporated in the Philippines on September 27, 1997. Its primary business is the toll manufacturing for ABI of *Absolute Pure Distilled Drinking Water* and *Summit Water*.
- **Packageworld, Inc. (PWI)**
  PWI was incorporated in the Philippines on January 15, 1998. Its primary business is the production and distribution of packaging materials for alcoholic and non-alcoholic beverages and bottled water.
- **Agua Vida Systems, Inc. (AVSI)**
  AVSI was incorporated in the Philippines on August 15, 1994. Its primary business is the distribution and refilling of purified water and water dispensers for use primarily in homes and offices.

Tobacco

Fortune Tobacco Corporation (FTC)

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

Banking

Philippine National Bank (PNB)

PNB was incorporated in the Philippines on July 22, 1916. PNB provides a full range of banking and other financial services to diversified customer bases including government entities, large corporate, middle market, SME and retail customers, with PNB having the distinction of being one of the only five authorized Government depository banks in the Philippines. Prior to its merger with PNB, Allied Bank was a universal bank which provided a full range of banking, insurance, financing and leasing services to personal, commercial, corporate and institutional clients. In addition, Allied Bank engaged in regular financial derivatives as a means of reducing and managing Allied Bank's and its customers' foreign exchange exposure. Following the merger between PNB and Allied Bank all operations previously conducted by Allied Bank have been conducted by the newly merged entity, operating as PNB. Allied Banking Corporation operations and the Allied Bank brand are already integrated with those of PNB, to be conducted solely under the PNB brand.

The following companies are owned by PNB:

Subsidiaries	Nature of Business	Country of Incorporation	Percentage of Ownership		Functional Currency
			Direct	Indirect	
ASB	Banking	Philippines	100.00	–	Php
PNB Capital and Investment Corporation (PNB Capital)	Investment	- do -	100.00	–	Php
PNB Forex, Inc.	FX trading	- do -	100.00	–	Php
PNB Holdings Corporation (PNB Holdings)	Investment	- do -	100.00	–	Php
PNB General Insurers, Inc. (PNB Gen) [(a)]	Insurance	- do -	–	100.00	Php
PNB Securities, Inc. (PNB Securities)	Securities Brokerage	- do -	100.00	–	Php
PNB Corporation – Guam	Remittance	USA	100.00	–	USD
PNB International Investments Corporation (PNB IIC)	Investment	- do -	100.00	–	USD
PNB Remittance Centers, Inc. (PNB RCC) [(b)]	Remittance	- do -	–	100.00	USD
PNB RCI Holding Co. Ltd. [(b)]	Holding Company of PNB RCC	- do -	–	100.00	USD
Allied Bank Philippines (UK) Plc (ABUK)*	Banking	United Kingdom	100.00	–	Great Britain Pound (GBP)
PNB Europe PLC	Banking	- do -	100.00	–	GBP
PNB Remittance Co. (Canada) [(c)]	Remittance	Canada	–	100.00	Canadian Dollar (CAD)
PNB Global Remittance & Financial Co. (HK) Ltd. (PNB GRF)	Remittance	Hong Kong	100.00	–	Hong Kong Dollar (HKD)
PNB Italy SpA (PISpA)	Remittance	Italy	100.00	–	Euro
Allied Commercial Bank (ACB)*	Banking	People's Republic of China	90.41	–	USD
Japan - PNB Leasing and Finance Corporation (Japan-PNB Leasing)	Leasing/Financing	Philippines	90.00	–	Php
Japan -PNB Equipment Rentals Corporation[(d)]	Rental	- do -	–	90.00	Php
PNB Life Insurance, Inc. (PNB LII) *	Insurance	- do -	80.00	–	Php
Allied Leasing and Finance Corporation (ALFC)	Rental	- do -	57.21	–	Php
ACR Nominees Limited [(e)] *	Banking	Hong Kong	–	51.00	HKD
Allied Banking Corporation (Hong Kong) Limited (ABCHKL) *	Banking	- do -	51.00	–	HKD
Oceanic Holding (BVI) Ltd. (OHBVI) *	Holding Company	British Virgin Islands	27.78	–	USD

** Subsidiaries acquired as a result of the merger with Allied Banking Corporation*

(a) Owned through PNB Holdings
(b) Owned through PNB IIC
(c) Owned through PNB RCI Holding Co. Ltd.
(d) Owned through Japan - PNB Leasing
(e) Owned through ABCHKL

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

The following are the 27 bank holding companies:

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

Property Development

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

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

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

The following companies are 100%-owned by ETON:

- **Belton Communities, Inc. (BCI)**
  BCI was incorporated and registered with the SEC on November 5, 2007 and engaged in real estate development.
- **Eton City, Inc. (ECI)**
  ECI was incorporated and registered with the SEC on October 8, 2008 and engaged in real estate development.
- **FirstHomes, Inc. (FHI)**
  On October 15, 2010, FHI was incorporated and registered with Philippine SEC as a wholly-owned subsidiary of Eton and engaged in real estate development.
- **Eton Properties Management Corporation (EPMC)**
  EPMC was incorporated and registered with the SEC on September 29, 2011 to manage, operate, lease, in whole or in part, real estate of all kinds, including buildings, house, apartments and other structures of the Corporation or of other persons provided that they shall not engage as property manager of a real estate investment trust. EPMC has not yet started its operations as of December 31, 2013.

Products

Distilled Spirits

Rum Products

1. Tanduay Five Years Fine Dark Rhum
2. Tanduay Rhum 65 Fine Dark Rhum ("Rhum 65")
3. Tanduay E.S.Q. Fine Dark Rhum ("E.S.Q.")
4. Tanduay White Premium Rhum
5. Tanduay Superior Dark Rhum
6. Tanduay Rum 1854
7. T5 Light
8. Tanduay Extra Strong Rhum
9. Boracay Rhum
10. Tanduay Five Years Light Rum
11. Tanduay Cocktails
12. Tanduay Asian Rum

Gin Products

1. London Gin
2. Gin Kapitan

Brandy Products

1. Barcelona Brandy
2. Compañero Light Brandy

Vodka Products

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

Whiskey Products

1. Embassy Whiskey

Beverage

Energy Drinks

1. Cobra

Beer

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

Alcopop

1. Tanduay Ice
2. Tanduay Black

Bottled Water

1. Absolute Pure Distilled Drinking Water
2. Summit Water

Others

1. Vitamilk
2. Sunkist carbonated soft drinks
3. Nestea ready-to-drink ice tea
4. Coco Fresh Coconut Water
5. Creamy Delight Yogurt

Commercial Glass

Tobacco

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

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

Banking

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

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

Property Development

Recently Completed Developments:

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

Ongoing Developments:

1. South Lake Village
2. West Wing Residences at North Belton Communities
3. West Wing Residences at Eton City
4. The Manors
5. 8 Adriatico
6. 68 Roces
7. Eton Tower Makati
8. West Wing Villas
9. TierraBela
10. One Centris Place
11. West Wing Tropics
12. First Homes Makati
13. Aurora Heights Residences

Distribution method of the products

Distilled Spirits

As of December 31, 2013, TDI served more than 117,000 points of sale throughout the Philippines through nine exclusive distributors, who in turn may work with a large number of sub-distributors.
TDI has generally maintained good business relationships with its distributors since 1988. As of December 31, 2013, TDI's distributors operated 22 sales offices and 27 warehouses located throughout the Philippines and TDI employs in-house sales staff who provides general administrative support to TDI's distributors. TDI's products are transported from production facilities to distributors' warehouses by third party transportation companies for the account of the distributors.

Beverage

ABI markets, sells and distributes its products throughout the Philippines through 13 exclusive major distributors. As of December 31, 2013, ABI's exclusive distributors have a network of 58 sales offices and 72 depots**.** This extensive network assures product availability to ABI consumers and also provides ABI expeditious nationwide placement of new products. ABI's products are transported to distributors' warehouses by third party transportation companies, with the costs for the account of such distributors.

Tobacco

FTC has no selling activities anymore in 2013. PMFTC however, distribute to approximately 210,000 points of sale throughout the Philippines. PMFTC segments its distribution into two separate channels:

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

Banking

PNB, through its Head Office and 656 domestic branches/offices and 80 overseas branches, representative offices, remittance centers and subsidiaries, provides a full range of banking and financial services to large corporate, middle-market, small medium enterprises (SMEs) and retail customers, including OFWs, as well as to the Philippine National Government, national government agencies (NGAs), local government units (LGUs) and GOCCs in the Philippines. PNB's principal commercial banking activities include deposit-taking, lending, trade financing, foreign exchange dealings, bills discounting, fund transfers/remittance servicing, asset management, treasury operations, comprehensive trust services, retail banking and other related financial services.

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

Institutional Banking Group

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

Retail Banking Group

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

Consumer Finance Group

The Consumer Finance Group provides multi-purpose personal loans, home mortgage loans, motor vehicle financing and credit card services to the Bank's retail clients.

Global Filipino Banking Group

The Global Filipino Banking Group covers the Bank's overseas offices which essentially provide convenient and safe remittance services to numerous OFWs abroad and full banking services in selected jurisdictions. PNB has the largest overseas network among Philippine banks with 80 branches, representative offices, remittance centers and subsidiaries in the United States of America (USA), Canada, Europe, the Middle East and Asia. PNB also maintains correspondent relationships with 1,120 other banks and financial institutions worldwide.

Treasury Group

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

Trust Banking Group

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

Remedial and Credit Management Group
The Remedial and Credit Management Group was established to focus on reducing the level of the Bank's non-performing loans (NPLs) to within the industry average.

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

Property Development
The company markets its projects to various residential market segments, office locators and investment entities through sales and marketing channels. The company employs a leasing team who coordinates with business entities for leasing opportunities in the company's various projects.

With its new corporate directive to build recurring income through its leasing business, the company plans to develop more BPO offices, commercial centers and hotels that offer more lifestyle choices to address the needs to the Filipino family.

Status of any publicly-announced new product or services

Distilled Spirits
TDI launched Compañero Light Brandy on November 2013 to compete against light brandies, both in Luzon and in VisMin. Compañero is certainly providing the desired conversion of brandy consumers into a TDI brand with positive feedback from consumers.

TDI introduced its Asian Rum products specifically developed for the international market which was launched in the U.S. in July 2013 and plans to sell domestically in 2014. This move is expected to expand Tanduay's footprint in the middle/upper class sectors in the Philippines, uplift consumer's perception of the Tanduay brand, and protect TDI's share against imports which have become relatively more accessible in price. Tanduay Asian Rum is now available in more than 400 stores in Florida and Connecticut.

Beverage
In 2013, two non-alcoholic products were introduced to the market:
1. Nestea (flavored tea drinks)
2. Sunkist (carbonated drinks)

Banking
The Bank has launched the following products and services in 2013:
- Enhanced Internet Banking System
- PNB Web Remit
- Healthy Ka Pinoy (HKP) Emergency Card
- PNB UITF Online and PNB Auto Invest Plan

There were no publicly-announced new products in the Tobacco and Property Development segments.

Competitive business condition/position in the industry

Distilled Spirits
Despite a series of calamities in 2013, the Philippines posted strong GDP growth at 7.2%, driven by high household consumption and growths in the industry and service sectors. However, total retail sales volumes for Spirits and Wine as reported by Nielsen declined by 5% versus the previous year, caused primarily by higher retail prices brought about by the higher excise tax imposed on liquor products.

Brandy continued to grow but at a slower rate than 2012, and accounted for 48% of the market while rum and gin contributed 24% and 23% respectively. EDI's growth (driven by Emperador Light brandy) was also slower than prior years at 9%, with market share growing by 6 share-points to 48% at the expense of both TDI and GSMI.

The opportunity for TDI is very clearly in the brandy sector, and TDI launched Compañero Light Brandy in November 2013 to address this and protect/grow its market share in 2014. Compañero has won in blind taste tests prior to launch, and consumer acceptance has been very encouraging to date.

While TDI continues to dominate the rum sector with 99% market share, it was poised to defend rums against the growing popularity of low-strength brandies with Tanduay Light (launched 2012) which contributed 2% to total TDI's market share nationally and 5% in Visayas and Mindanao where it helped block the entry of light brandies. A few more new products are also planned for 2014 to protect and grow the rum sector as well as to open new categories.

Beverage

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

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

Tobacco

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

Banking

In the Philippines, the Bank faces competition in all its principal areas of business, from both Philippine and foreign banks, as well as finance companies, mutual funds and investment banks. The competition that the Bank faces from both domestic and foreign banks was in part a result of the liberalization of the banking industry by the National Government in 1994 which allowed the entry of more foreign banks and the recent mergers and consolidations in the banking industry. As of December 31, 2013, there were 36 universal and commercial banks, of which 17 are private domestic banks, 3 are government banks and 16 are branches or subsidiaries of foreign banks. In some instances, some competitor banks have greater financial resources, wider networks and greater market share. Said banks also offer a wider range of commercial banking services and products, have larger lending limits and stronger balance sheets than the Bank. To maintain its market position in the industry, the Bank offers diverse products and services, invests in technology, leverages on the synergies within the Tan Group of Companies and with its Government customers, as well as builds on relationships with the Bank's other key customers.

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

As of December 31, 2013, the merged Bank has a combined distribution network of 656 branches and offices and 859 ATMs nationwide. The merged entity was the fourth largest local private commercial bank in the Philippines in terms of local branches and the fourth largest in terms of consolidated total assets, net loans and receivables, capital and deposits. In addition, it has the widest international footprint among Philippine banks spanning Asia, Europe, the Middle East and North America with its overseas branches, representative offices, remittance centers and subsidiaries

Property Development

Eton Properties is among the country's top 10 property developers. Since starting operations in 2007, the company has launched a total of 12 residential condominiums, 14 mid-rise buildings, 8 horizontal projects, 7 commercial centers and 6 BPO offices. Its closest competitors are Ayala Land, Megaworld Corporation, Robinsons Land and Filinvest Land.

Product innovation and location are main differentiators for Eton's projects. As showcased in Centris Walk, an upscale commercial center within the Eton Centris township, innovation plays a major role in land development. The state-of-the-art dining complex is now Quezon's City newest lifestyle destination offering a unique mix of restaurants and bars and lifestyle establishments. Eton Centris promises to change the landscape of Quezon City and is recognized as the gateway to the emerging Triangle Park Central Business District.

All of the company's BPO offices and malls are set in prime locations in the country's major cities, offering more value for outsourcing firms and communities surrounding the projects. Cyberpod Centris One and Cyberpod Centris Two are fully leased to top multinational outsourcing companies.

Raw Materials and Principal Suppliers

Distilled Spirits

- **Ethyl Alcohol**
  TDI uses ethyl alcohol which is distilled from sugar cane molasses. TDI procures a majority of its ethyl alcohol requirements from its subsidiaries ADI and, prior to the suspension of its operations in 2009, AAC. It procures the rest from other third party suppliers. AAC and ADI sell substantially all of the distilled spirits they produce to TDI. AAC and ADI source their molasses from domestic sugar mills and traders based on contractual relationships with these third-party suppliers. The temporary shutdown of AAC's operations increased TDI's importation of alcohol from India, Indonesia, Pakistan and South Africa.

- **Sugar**
  Sugar is added to alcohol as needed to enhance taste and aroma. TDI's main suppliers for sugar are Victorias as well as other suppliers, such as All Asian Countertrade Inc.

- **Water**
  All of TDI's demineralized water for blending is procured from water utility firms and from deep wells located on provincial plants. Each of TDI's plants has its own water storage and demineralization facilities.

- **Flavoring Agents**
  TDI adds essences and other flavoring agents to some of its products to attain the desired color, flavor and aroma as well as to reinforce the natural quality of rum as derived from molasses and ageing in oak barrels. TDI's major suppliers of flavoring agents comprise large international suppliers.

- **Packaging Materials**
  Aside from the main ingredients in distilled spirits production, the other primary raw materials used in TDI's operations include bottles, caps and labels. TDI does not maintain any purchase contracts with any supplier for these materials; rather purchases are made through purchase orders on a per need basis from various Philippine and international sources. In particular, the majority of TDI's new bottles are supplied by ABI, and various local suppliers provide the bulk of TDI's caps, and Papercon Philippines and Able Printing Press provide the majority of TDI's labels.

  In addition, TDI maintains a network of secondhand bottle dealers across the Philippines. These dealers retrieve used bottles in the market and resell them to TDI. Approximately 60% of bottles used for TDI products in the year ended December 31, 2012 were secondhand bottles. The cost of secondhand bottles, including cleaning costs, is significantly lower than the cost of purchasing new bottles.

Beverage

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

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

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

Tobacco

FTC's main source of income is dividends from PMFTC. The main raw materials of PMFTC in its tobacco production are:

- Tobacco: The most important raw material in cigarette is the tobacco. Before February 25, 2010 FTC bought tobacco locally from the farmers of Vigan and Mindoro and from various local dealers. However, after February 25, FTC no longer manufactures various cigarette brands as the operations were transferred to PMFTC. FTC manufactured cigarettes only for JT International (Philippines), Inc. (JTI) to honor the Contract Manufacturing Agreement (CMA) which expired on December 31, 2012.

- Sugar: This is added as necessary to enhance the taste of cigarettes.

  The company purchased sugar from Hermano Oil Manufacturing and Sugar Corp and Pilipinas Kao, Inc.

- Packing Materials such as cartons, closure, labels, foils, polyfilms, tear tape, tipping paper and shipping case were sourced from JT International SA, Tann Phils, Amcor Tobacco, DTM Print and Label, Goldever Printing and Malinta Corrugated Boxes.

- Flavoring Agents are added to attain the desired taste of various brands of cigarettes. The primary source of flavors was JT International SA.

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

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

Banking
This is not applicable for banks.

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

Dependence on one or two major customers

Distilled Spirits
TDI's major customers comprise its principal distributors, who in turn distribute TDI products to retail points of sale such as supermarket and restaurant chains, wholesalers and individual outlets such as supermarkets, restaurants, sari-sari stores and small neighborhood restaurants known as "carinderias." TDI believes that its distributors have access to and long-standing relationships with all major retailers in the Philippines.

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

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

Banking
PNB offers a wide range of financial services in the Philippines. In addition, it also provides remittance services in the USA, Canada, Asia, the Middle East and Europe.

Property Development
This is not applicable for property development.

Transactions with and/or dependence on related parties

The Company has various transactions with its subsidiaries and associates and other related parties. These are enumerated in detail in Note 23 of the Notes to Consolidated Financial Statements on pages 200-205.

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

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

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

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

TDI has existing labor supply contracts with seven (3) manpower agencies and one (1) labor cooperative covering its four plants.

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

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

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

The Bank has licenses to use the following IT softwares and systems in its operations:

- Corebanking System (FLEXCUBE) (July 01, 2013 to June 30, 2014) – Provides support services to various bank operations for workflow development.

- IBM Websphere MQ Processor (July 1, 2013 to June 30, 2014) – As part of the requirement for the Flexcube implementation, this software is vital for in-house and other third party systems connecting directly to Flexcube.

- OPICSPLUS3.1– The system used for Treasury supporting foreign exchange, money market, securities and Reuters interface. Implemented February 28, 2011. License is perpetual. Annual maintenance agreement is for five (5) years.

- Anti-Virus Software Sophos (July 17, 2013 to March 16, 2016) – Unless revoked by the PNB, the agreement will automatically be renewed on a year-to-year basis.

- IBM Lotus Domino Enterprise Server Processor Value Unit (PVU) License SW Subscription and Support for 12 months (January 1, 2014 to October 31, 2014) – Unless revoked by the Bank, the agreement shall automatically be renewed on a year-to-year basis.

• Trust Application Processing Management System (License term is perpetual and scope of use is for one [1] Production Database, thirty five [35] Pro-IV Runtime Licenses) with the following breakdown: thirty (30) concurrent users for production, three (3) concurrent users in UAT and two (2) concurrent users in DR. Provides support for trust transactions. There is continuous payment of annual maintenance fees.

• Phonebanking System – Provides support for PNB's phonebanking system. The PNB Version has reached end of life and project to replace it has been initiated.

• Internet Banking System – Provides support for the Internet Banking System of the Bank. License term is perpetual. There is continuous payment of annual maintenance fees.

• GIFTSWEBB and Enhanced Due Diligence System (November 5, 2013 to November 5, 2014) – Provides support services to various bank operations for workflow development.

• Cash Management System License (Perpetual renewal starting August 9, 2009) – Provides support services to various bank operations for workflow development. There is a continuous payment of annual maintenance fees.

• ASG Zena – Job Scheduler (December 22, 2013 to December 21, 2014) – Provides support services to various bank operations for workflow development.

• Microsoft MS Premiere Support Agreement – 180 hours (December 28, 2013 to December 27, 2014) – Provides support services, problem resolution and technical advice on issues/problems on all Microsoft software products.

• PNB Public IP Address and Autonomous System Number (February 1, 2014 to January 31, 2015) – Enables the Bank to have its own Internet identity in the World Wide Web and helps achieve a lower latency response by maintaining a standard routing system in the Internet.

• Security/Network Devices – Purchase of McAfee Nitro Solution to deliver full Security Information and Events Management (SIEM) function approved this January 2013. The solution will initially handle 34 security/network devices and 185 Windows servers. The benefit of acquiring this solution will enhance the Bank's security capability.

• Enterprise Monitoring System (January 1, 2014 to December 1, 2015) – OpenView support maintenance.

• Oracle Adaptive Access Manager (November 9, 2013 to November 8, 2014) – Maintenance support for OAAM Authentication System.

• ePLDT (formerly MySecuresign)
- Verisign Global Server ID (IBS Internet) – IBS, PNB.COM.PH (March 13, 2013 to March 12, 2015)
- Verisign Global Server ID for MDC GCash Servers (GCASH.PNB.COM.PH and CGASH2.PNB.COM.PH) (October 9, 2013 to October 7, 2015)
- Verisign Global Server ID (128-bit Encryption Strength) Verisign Digital Server License – Portal OAAM (July 6, 2012 to July 6, 2014)
- Verisign Global Server ID (128-bit Encryption Strength) Verisign Digital Server License – IRS World Application (October 4, 2012 to October 4, 2014)
- Verisign Global Server ID for CMS (September 5, 2012 to September 5, 2014)

Property Development
As of December 31, 2013, the Intellectual Property Office (IPO) approved Eton's application for the trademark of the following names and devices: In 2008, Eton City, Eton corporate name and device; The Eton Residences Greenbelt; Eton Baypark Manila; Eton Centris; Eton Emerald Lofts; and the Move-In Ready labels. In 2009, IPO approved the trademark of The Makati of the South. In 2011 the IPO approved the trademarks of the following names and devices: Centris Walk, Eton Tower Makati, Riverbend, Eton Parkview Greenbelt, South Lake Village, Eton Cyberpod, First Homes, Centris Station, 8 Adriatico, Belton Pace, E-Life, West Wing Villas, Green Podium, Aurora Heights Residences, West Wing Residences, One Archers Place and 68 Roces. In 2012 IPO approved the trademark of One Centris Place and West Wing Tropics. These trademarks shall valid for a period of ten (10) years from notice of approval.

Need for any government approval of principal products

Distilled Spirits & Beverage
The approval of the Bureau of Food & Drugs and Bureau of Internal Revenue is required before manufacturing a new product. In addition, all new products must be registered with the BIR prior to production.

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

Banking
Generally, e-banking products and services require BSP approval. New deposit products require notification to the BSP. The Bank has complied with the aforementioned BSP requirements.

Property Development
The company complies with all government agencies in securing license to sell, development permits, ECC and all other mandated requirements of the industry.

Effect of existing or probable governmental regulations on the business

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

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

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

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

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

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

Tobacco

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

During the first year of R.A. 10351's implementation, high-priced cigarettes will be taxed at a rate of P25.00 per pack and low-priced cigarettes will be taxed at P12.00 per pack. In the second year, the rates will be increased to P27.00 and P17.00 per pack, respectively. In 2015, the high priced cigarettes will be taxed at P28.00 per pack and the low-priced cigarettes will be taxed at P21.00 per pack. Said rates will increase in 2016 to P29.00 and P25.00 per pack, respectively. In 2017, a unitary tax rate of P30.00 per pack will be implemented. In 2018 and every year thereafter, R.A. 10351 will impose a 4% excise tax rate increase.

Banking

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

Property Development

The Philippines' property development industry is highly regulated. The development of condominium projects, subdivision and other residential projects is subject to a wide range of government regulations, which, while varying from one locality to another, typically include zoning considerations as well as the requirement to procure a variety of environmental and construction-related permits. In addition, projects that are to be located on agricultural land must get clearance from the DAR so that the land can be reclassified as non-agricultural land and, in certain cases, tenants occupying agricultural land may have to be relocated at Eton's expense. Presidential Decree No. 957, as amended, ("P.D. 957"), Republic Act No. 4726, as amended, ("R.A. 4726"), Republic Act No. 6552 ("the Maceda Law") and *Batas Pambansa Blg.* 220 ("B.P. 220") are the principal statutes which regulate the development and sale of real property as part of a condominium project or subdivision. P.D. 957, R.A. 4726 and B.P. 220 cover subdivision projects for residential, commercial, industrial and recreational purposes and condominium projects for residential or commercial purposes. The Maceda Law deals with the sale of property on installment. The Housing and Land Use Regulatory Board ("HLURB") is the administrative agency of the Government which enforces these statutes.

All condominium and subdivision development plans are also required to be filed with and approved by the LGU with jurisdiction over the area where the project is located.

In addition, developers, owners of or dealers in real estate projects are required to obtain licenses to sell before making sales or other dispositions of condominium units, subdivision lots and housing units. Project permits and any license to sell may be suspended, cancelled or revoked by HLURB based on its own findings or upon complaint from an interested party and there can be no assurance that Eton, its subsidiaries, associates or partners will in all circumstances, receive the requisite approvals, permits or licenses or that such permits, approvals or licenses will not be cancelled or suspended. Any of the foregoing circumstances or events could affect Eton's ability to complete projects on time, within budget or at all, and could materially and adversely affect Eton's business, financial condition and results of operations.

Research and development activities

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

Costs and effects of compliance with environmental laws

Distilled Spirits

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

Environmental Management Facilities

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

Bottle Recycling

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

Bottling Plants

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

Distillation Plants

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

AAC and ADI have methane recovery systems that prevent emissions of harmful gases into the atmosphere and utilize the methane as biogas fuel for the distillation process. ADI's system was implemented in a joint venture with Mitsubishi Corp. of Japan and is registered with the U.N. sponsored Clean Development Mechanism ("CDM") Program. ADI, in a joint venture with Mitsubishi Corporation of Japan, installed a high-rate thermophilic anaerobic digester and lagoon system that will capture methane from the distillation process and use it for a plant's power requirements. This system will enable ADI to reduce its power expense by approximately 50% of current consumption levels.

The project with Mitsubishi is being undertaken under the CDM Project of the 1997 Kyoto Protocol ("the Protocol")—a UN sponsored program that aims to reduce the emissions into the atmosphere of harmful gases like methane which emissions are the primary cause of global warming. Under the Protocol, developed countries are mandated to reduce their carbon emission levels by 2012. As an alternative compliance mechanism, developed countries may invest in CDM projects in developing countries like the Philippines. Mitsubishi provided the funding for the project in exchange for certified emission reduction credits to be generated from the project, which are part of the alternative compliance mechanisms under the Protocol. As a result of its programs aimed at environmental protection, ADI was awarded the Presidential Certificate of Recognition in 2010 for exemplary environmental undertakings. In addition, ADI received the 2011 International Green Apple Environment Award from the Green Organization in London for its CDM project and its agro recycling of distillery effluent.

Beverage

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

Tobacco

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

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

Banking

This is not applicable to banks.

Property Development

The Company's development plans provide for full compliance with environmental safety and protection in accordance with law. The Company provides the necessary sewage systems and ecological enhancements such as open space landscaping with greenery. The Company complies with the various government approvals such as the Environment Compliance Certificate (ECC), development permit and license to sell etc. and incurs expenses for complying with the environment laws. This consists mainly of payments of government regulatory fees which are standard in the industry and are minimal.

Human Resources and Labor Matters

LTG has 13 administrative and 4 regular monthly employees as of December 31, 2013. The total workforce of the Group inclusive of contractual employees is as follows:

Distilled Spirits	1,508
Beverage	1,939
Tobacco	60
Banking	8,634
Property development	293
Total	12,434

Distilled Spirits

As of December 31, 2013, TDI employed a total of 251 employees inclusive of 203 regular monthly employees and 48 regular daily employees. AAC employed a total of 14 persons as of December 31, 2013, including 2 administrative employees, 5 regular monthly employees and 7 regular daily employees. ADI employed a total of 73 persons, 60 of whom are regular monthly employees and 13 are daily employees.

In addition, TDI also has about 1,170 outsourced laborers working in its facilities, mostly as manual laborers. TDI contracts with third party manpower and services firms for the supply of this labor.

Except for the Cagayan De Oro Plant, all regular daily employees of the TDI Plants have separately formed a labor union. On April 1, 2013, TDI closed its Quiapo plant and paid retrenchment benefit to 153 affected employees. TDI-Cabuyao has a CBA with the NAGKAKAISANG LAKAS MANGGAGAWA NG TDI-FSM, which is effective from August 1, 2011 up to August 1, 2014. TDI's Negros plant concluded its own collective bargaining agreement with its union in June 2012, with the agreement to be effective until 2015.

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

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

Beverage

As of December 31, 2013, ABI and its subsidiaries employed approximately 1,939 people, of which approximately 78% were employed in manufacturing and logistics, 2% were in sales and distribution operations, 17% were in general and administrative functions and 3% were in marketing. In addition, ABI and its subsidiaries generally employ a number of outsourced laborers in its businesses, mostly as manual laborers; typically, ABI contracts with third party manpower and services firms for the supply of these additional laborers.

ABI is party to a collective bargaining agreement for its employees at its Cabuyao plant. The CBA was signed on February 2, 2010, which is effective from November 2009 to October 2012. The Company is still in the process of negotiating the new CBA as of December 31, 2013.

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

Tobacco

FTC has 60 regular monthly employees as of December 31, 2013. Effective Jan. 1, 2012 FTC no longer has daily (regular or casual) employees because of the business combination of FTC and PMPMI on Feb. 25, 2010. The operations of FTC and the manufacturing of cigarettes were all transferred to PMFTC, the new company.

Banking

The total employees of the Bank as of December 31, 2013 is 8,634 wherein 3,541 were classified as Bank officers and 5,093 as rank and file employees. The Bank shall continue to pursue selective and purposive hiring strictly based on business requirements.

The Bank anticipates gradual reduction in the number of employees on a per group basis based on identified milestone.

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

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

Property Development

Eton has 293 and 324 employees at the close of the calendar year December 31, 2013 and 2012, respectively.

The breakdown of Eton's employees as of December 31, 2013, according to type as follows:

Executive	20
Managers	45
Supervisors	90
Rank and File	138
Total	293

Eton will continue to hire qualified and competent employees for the next twelve months to support plans and programs to achieve revenue and growth as well efficiency targets. The change in the workforce compared to last year is attributed to manpower rationalization efforts and business process streamlining and productivity monitoring activities. The employees do not belong to any labor union or federation.

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

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

Distilled Spirits

Market / Competitor Risk

TDI's core consumer base for its products are lower-income consumers TDI classifies to be in the "standard" and "economy" markets, with monthly income levels of up to P10,000 and P100,000, respectively. According to the 2006 Philippine National Statistics Coordination Board ("NSCB") Family Expenditure Survey and a 2009 Usage, Attitude and Image Survey conducted by the Philippine Survey Research Council, this consumer base comprises approximately 80% of the Philippine population and likewise accounts for approximately 90% of liquor consumption. The preferences of these consumers change for various reasons driven largely by demographics, social trends in leisure

activities and health effects. Entrants of new competitive and substitute products to address these customers' preferences may adversely affect the business prospects of TDI if it does not adapt or respond to these changes.

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

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

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

TDI addresses this risk by regularly monitoring its molasses and alcohol requirements. At the start of each annual sugar milling season, TDI normally negotiates with major sugar millers for the purchase in advance of the mill's molasses output at agreed upon prices and terms. It also imports raw materials in the event that the local supply is not sufficient or the prices are not favorable.

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

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

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

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

Regulatory Risk
TDI is subject to extensive regulatory requirements regarding production, distribution, marketing, advertising and labeling both in the Philippines and in the countries where it distributes its products.

Specifically in the Philippines, these include the Bureau of Food and Drugs, Department of Environment and Natural Resources, Bureau of Internal Revenue and Intellectual Property Office.

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

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

Safety, health and environmental laws risk

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

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

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

Counterfeiting risk

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

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

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

Beverage

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

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

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

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

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

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

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

ABI would employ an increase in its selling prices and make efforts to reduce costs to address such risks. Close monitoring and coordination with the regulatory agencies on the application and renewal of permits are implementing so as to manage other regulatory risks.

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

Strict compliance with environmental laws and regulations will be implemented by ABI to address the risk.

Tobacco

The tobacco or cigarette industry generally has the following risks:

Market / Competitor Risk

PMFTC competes primarily on the basis of product quality, brand recognition, brand loyalty, taste, innovation, packaging, service, marketing, advertising and price. Although PMFTC has historically been able to maintain its leadership position in the Philippine tobacco market, the Company believes that the market landscape is constantly evolving, and market players can gain or lose market share very quickly. The competitive environment and PMFTC's competitive position can be significantly influenced by erosion of consumer confidence, competitors' introduction of lower-priced products or innovative products, as well as product regulation that diminishes the ability to differentiate tobacco products.

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

Regulatory Risk

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

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

Safety, health and environmental laws risk

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

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

Banking

In February 9, 2013, Allied Banking Corporation and Philippine National Bank implemented the BSP, SEC approved merger. The process of harmonizing began in 2008 when the respective Board of

Directors of PNB and Allied Banking Corporation (ABC) passed resolutions approving the plan to merge the two banks.

The risk management function is embedded in all levels of the organization. Headed by the Chief Risk Officer (CRO) and reporting to the Risk Oversight Committee, the Risk Management Group (RMG) is primarily responsible for the risk management functions to ensure that a robust organization is maintained. The RMG, independent from the business lines, is organized into 4 divisions: (i) Credit Risk and BASEL II and ICAAP Implementation Division, (ii) Market & ALM Division, (iii) Operational & Information Technology Security Risk Management, and (iv) Business Intelligence Division.

Each division maintains, monitors, and enhances, as needed, policies for risk management applicable to the organization. These policies clearly define the kinds of risks to be managed, set forth the organizational structure and provide appropriate training necessary. The policies also provide for audits to measure the effectiveness and suitability of the risk management structure. In line with these basic policies, the RMG continues to implement risk management tools and reporting requirements to strengthen and enhance the Bank's risk management system and address the volatile risk environment.

Under the Bank's Enterprise Risk Management (ERM) framework, all the risk taking business units of the Bank, including its subsidiaries and affiliate, shall perform comprehensive assessment of all material risks.

In line with the integration of the ICAAP and risk management processes, PNB currently monitors 14 Material Risks (three for Pillar 1 and eleven for Pillar 2). These material risks are as follows:

Pillar 1 Risks:
1. Credit Risk (includes Counterparty and Country Risks)
2. Market Risk
3. Operational Risk

Pillar 2 Risks:
4. Compliance Risk (includes Regulatory risk)
5. Credit Concentration Risk
6. Human Resource Risk
7. Information Technology risk (includes Information Security risk)
8. Interest Rate Risk in Banking Book (IRRBB)
9. Liquidity risk
10. Legal risk
11. Customer Franchise/ Reputational risk
12. Strategic Business risk
13. Post-Merger Integration risk
14. Acquired Asset Disposal risk

Pillar 1 Risk Weighted Assets are computed based on the guidelines set forth in BSP circular 538 using the Standard Approach for Credit and Market Risks and Basic Indicator Approach for Operational Risks. Discussions that follow below are for Pillar 1 Risks:

Credit Risk

Credit risk is the risk to earnings or capital that arises from an obligor/s, customer/s or counterparty's failure to perform and meet the terms of its contract. It arises any time bank funds are extended, committed, invested, or otherwise exposed through actual or implied contractual agreements, whether reflected on or off the balance sheet *(BSP Circ. 510, dated 03 Feb 2006)*.

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

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

1. Credit Policies and Procedures

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

(a) the risk tolerance and/or risk appetite
(b) the required return on asset that the Bank expects to achieve
(c) the adequacy of capital for credit risk

2. Credit Risk Functional Organization

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

(a) risk-taking personnel
(b) risk management function
(c) the compliance function

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

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

3. Credit Limit Structure

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

4. Stringent Credit Evaluation

Repayment capacity of prospective borrowers is evaluated using an effective internal risk rating model for corporate and micro small medium enterprise (MSME) accounts and appropriate credit scoring program for consumer loans. These models are validated to determine predictive ability.

5. Reporting System

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

6. Remedial Management System

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

7. Event-driven Stress Testing

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

Market Risk

Market risk is the risk to earnings or capital arising from adverse movements in factors that affect the market value of financial instruments, products and transactions in an institution's overall portfolio, both on or off balance sheet and contingent financial contracts. Market risk arises from market-making; dealing and position taking in interest rate, foreign exchange, equity, and commodities market *(BSP Circular 544 Series of 2006)*.

1. Price Risk in the Trading Portfolio

The Bank's trading positions are sensitive to changes in the market prices and rates. PNB is subject to trading market risk in its position-taking activities for fixed income, foreign exchange and equity markets. To calculate the risks in the trading portfolio, the Bank employs the Value-at-Risk (VAR) methodology with 99% confidence level and a one (1) day holding period (equities and FX VAR) to a ten (10) day holding period for fixed income VAR.

VAR limits have been established annually and exposures against the VAR limits are monitored on a daily basis. The VAR figures are back-tested against actual (interest rates) and hypothetical profit and loss figures (FX and equities) to validate the robustness of the VAR model.

The Bank also employs the stop-loss monitoring tools to monitor the exposure in the price risks. Stop-loss limits are set up to prevent actual losses resulting from mark-to-market. To complement the VAR measure, the Bank performs stress testing and scenario analysis wherein the trading portfolios are valued under several market scenarios.

2. Structural Market Risk

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

3. Liquidity and Funding Risk

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

Operational Risk

1. People Risk

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

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

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

2. Process Risk

In financial institutions, most processes are designed with audited fail-safe features and checking procedures. Since processes interact with other risky variables - the external environment, business strategy and people - it is difficult to sound the all-clear. However, processes can make the institution vulnerable in many ways. To address this risk, the Bank has documented policies and procedures duly approved by the Board. The Internal Audit Group, as well as the various officers tasked with the review function, regularly monitors the implementation of these documented policies and procedures.

3. Business Strategy Risk

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

4. Business Environment Risk

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

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

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

Regulatory Capital Requirements under BASEL II – Pillar 1

The Bank's total regulatory requirements as of December 31, 2013 are as follows:

(Amounts in ₱0.000 million)	Weighted Exposures
Total Credit risk-weighted assets	327,919.714
Total Market risk-weighted assets	9,337.189
Total Operational risk-weighted assets	40,938.779
Total Risk-Weighted Assets	**378,195.682**
PNB's Risk-based Capital Adequacy Ratio	**19.684%**

Credit Risk –Weighted Assets

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

	Exposure, Net of Specific Provision	Exposures covered by Credit Risk Mitigants*	Net Exposure	0%	20%	50%	75%	100%	150%
Cash & Cash Items	10,940		10,940	10,539	401				
Due from BSP	153,271		153,271	153,271					
Due from Other Banks	17,143		17,143		6,377	3,337		7,429	
Financial Asset at FVPL	2		2					2	
Available for Sale	79,775	18,908	60,867	30,025	3,182	11,172		16,488	
Unquoted Debt Securities	9,308		9,308					4,120	5,188
Loans & Receivables	257,139	28,843	228,296		6,868	13,418	20,657	184,057	3,296
Sales Contracts Receivable	3,519		3,519					2,564	955
Real & Other Properties Acquired	15,552		15,552						15,552
Other Assets	34,507		34,507					34,507	
Total On-Balance Sheet Asset	581,156	47,751	533,405	193,835	16,828	27,927	20,657	249,167	24,991
Risk Weighted Asset - On-Balance Sheet			319,475	0	3,366	13,964	15,493	249,167	37,485
Total Off-Balance Sheet Asset			10,648	171	172	4,662	693	4,950	0
Total Risk Weighted Off-Balance Sheet Asset			7,835	0	34	2,331	520	4,950	0
Counterparty Risk Weighted Asset in Banking Book			600		2	428		170	
Counterparty Risk Weighted Asset in Trading Book			10					10	

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

Market Risk -Weighted Assets

- For market risk, the Bank's regulatory capital requirements uses the standardized approach ("TSA") under which a ***general market risk*** charge for trading portfolio is calculated based on the instrument's coupon and remaining maturity with risk weights ranging from 0% for items with very low market risk (i.e., tenor of less than 30 days) to a high of 12.5% for high risk-items (i.e., tenor greater than 20 years). Further, capital requirements for ***specific risk*** are also calculated for exposures with risk weights ranging from 0% to 8% depending on the issuer's credit rating.

Capital Requirements by Market Risk Type under Standardized Approach

(Amounts in ₱0.000Million)	Capital Charge	Adjusted Capital Charge	Market Risk Weighted Exposures
Interest Rate Exposures	200.627	250.784	2,507.836
Foreign Exchange Exposures	506.741	633.426	495.090
Equity Exposures	39.607	49.509	6,334.263
Total	746.975	933.719	9,337.189

The following are the Bank's exposure with assigned risk weights held for trading (HFT) portfolio:

Interest Rate Exposures
Specific Risk

- Specific Risk from the held for trading (HFT) portfolio is P43.296M. ROPs compose 51% of the portfolio with risk weight ranging from 1.0% and 1.6%, 45% of the portfolio are peso government bonds with zero risk weight and 6% are unrated corporate bonds with attracts 8.00% risk weight.

Part IV.1a INTEREST RATE EXPOSURES – SPECIFIC RISK (Amounts in ₱0.000 million)	Risk Weight					
	0.00%	0.25%	1.0%	1.60%	8.00%	Total
PHP-denominated debt securities issued by the Philippine National Government (NG) and BSP	1,441.747			-	-	1,441.747
FCY-denominated debt securities issued by the Philippine NG/BSP	-	9.997	210.155	1,445.776	-	1,665.928
Debt securities/derivatives with credit rating of AAA to BBB-issued by other entities	-	-		35.707	-	35.707
Subtotal	1,441.747	9.997	210.155	1,481.483	218.320	3,361.702
Specific Risk Capital Charge for Credit Default Swaps	-			-	-	-
SPECIFIC RISK CAPITAL CHARGE FOR DEBT SECURITIES AND DEBT DERIVATIVES	-	0.025	2.102	23.704	17.466	43.296

General Market Risk –Peso

- The Bank's exposure to Peso General Market Risk is ₱60.182M, contributed mostly by debt securities with average remaining maturity ranging from 5 to 10 years with risk weight at 3.25% to 3.75%. The Bank's portfolio under the Over 20 years' time band attracts 6% risk weight or ₱ 18.643M representing 21% of the total Peso General Market Risk.

Currency: PESO							
PART IV.1d GENERAL MARKET RISK (Amounts in ₱0.000 million)							
Zone	Times Bands		Individual Positions		Risk Weight	Weighted Positions	
	Coupon 3% or more	Coupon less than 3%	Total				
			Long	Short		Long	short
1	1 month or less	1 month or less	1.538	-	0.00%	-	-
	Over 1 month to 3 months	Over 1 month to 3 months	-	-	.20%	-	-
	Over 3 months to 6 months	Over 3 months to 6 months	0.024	-	0.40%	-	-
	Over 6 months to 12 months	Over 6 months to 12 months	12.498	-	0.70%	0.087	-
2	Over 1 year to 2 years	Over 1.0 year to 1.9 years	25.631	-	1.25%	0.320	-
	Over 2 years to 3 years	Over 1.9 years to 2.8 years	50.357	-	1.75%	0.881	-
	Over 3 years to 4 years	Over 2.8 years to 3.6 years	22.778	-	2.25%	0.513	-
3	Over 4 years to 5 years	Over 3.6 years to 4.3 years	9.434	-	2.75%	0.259	-

	Over 5 years to 7 years	Over 4.3 years to 5.7 years	407.539	-	3.25%	13.245	-
	Over 7 years to 10 years	Over 5.7 years to 7.3 years	434.965	-	3.75%	16.311	-
	Over 10 years to 15 years	Over 7.3 years to 9.3 years	90.942	-	4.50%	4.092	-
	Over 15 years to 20 years	Over 9.3 years to 10.6 years	111.032	-	5.25%	5.829	-
	Over 20 years	Over 10.6 years to 12 years	310.717	-	6.00%	18.643	-
		Over 12 years to 20 years	-	-	8.00%	-	-
		Over 20 years	-	-	12.50%	-	-
Total			1,477.455	-		60.182	-
Overall Net Open Position						60.182	-
Vertical Disallowance						-	-
Horizontal Disallowance						-	-
TOTAL GENERAL MARKET RISK CAPITAL CHARGE						60.182	-

General Market Risk - USD

The Bank's exposure on General Market Risk of the dollar denominated HFT portfolio is P96.801M caused by debt securities, forward contracts and dollar-denominated interest rate swaps. Approximately 82% of dollar denominated debt securities have an average remaining maturity ranging from 5 years to over 20 years thus attracting a risk weight of 3.25% to 6%. On the other hand, the IRS attracts risk weight of 3.25% under the over 5 to 7 years bucket while the Bank's forward contracts have less than one year remaining maturity, thus, attracting a risk weight of less than 1%.

PART IV.1d GENERAL MARKET RISK (Amounts in P0.000 million)											
Currency: USD											
Maturity Method 1/											
Zone	Times Bands		Individual Positions						Risk Weight	Weighted Positions	
	Coupon 3% or more	Coupon less than 3%	Debt Securities & Debt Derivatives		Interest Rate Derivatives		Total				
			Long	Short	Long	Short	Long	Short		Long	Short
1	1 month or less	1 month or less	9.997	-	11,080.514	1,473.098	11,090.511	1,473.098	0.00%	-	-
	Over 1 month to 3 months	Over 1 month to 3 months	-	-	2,426.187	-	2,426.187	-	0.20%	4.852	
	Over 3 months to 6 months	Over 3 months to 6 months	-	-	1,876.845	-	1,876.845		0.40%	7.507	
	Over 6 months to 12 months	Over 6 months to 12 months	-	-	221.975	-	221.975	-	0.70%	1.554	
2	Over 1 year to 2 years	Over 1.0 year to 1.9 years	210.155	-	-	-	-	-	1.25%	2.627	
	Over 2 years to 3 years	Over 1.9 years to 2.8 years	94.013	-	-	-	-	-	1.75%	1.645	
	Over 3 years to 4 years	Over 2.8 years to 3.6 years	25.446	-	-	-	-	-	2.25%	0.573	
3	Over 4 years to 5 years	Over 3.6 years to 4.3 years	-	-	-	-	-	-	2.75%	-	
	Over 5 years to 7 years	Over 4.3 years to 5.7 years	170.453	-	1,452.086	1,444.295	1,622.539	1,444.295	3.25%	52.733	46.940
	Over 7 years to 10 years	Over 5.7 years to 7.3 years	417.258	-	-	-	417.258-	-	3.75%	15.647	
	Over 10 years to 15 years	Over 7.3 years to 9.3 years	224.347	-	-	-	224.347-	-	4.50%	10.096	
	Over 15 years to 20 years	Over 9.3 years to 10.6 years	285.461	-	-	-	285.461	-	5.25%	14.987	
	Over 20 years	Over 10.6 years to 12 years	447.118	-	-	-	447.118	-	6.00%	26.827	
		Over 12 years to 20 years	-	--	--	--	--	-	8.00%		
		Over 20 years	-	--	--	--	--	-	12.50%		
Total			1,884.248	-	17,057.607	2,917.393	18,941.855	2,917.393		139.047	46.940
Overall Net Open Position											92.107
Vertical Disallowance											4.694
Horizontal Disallowance											-
TOTAL GENERAL MARKET RISK CAPITAL CHARGE											96.801

General Market Risk - AUD

The Bank's exposure on General Market Risk- AUD is at P0.261M representing forward contracts under the Over 1 months to 6 months category.

PART IV.1d GENERAL MARKET RISK (Amounts in P0.000 million)							
Currency: AUD							
Maturity Method 1/							
Zone	Times Bands		Individual Positions			Risk Weight	Weighted Positions
	Coupon 3% or more	Coupon less than 3%	Debt Securities & Debt Derivatives	Interest Rate Derivatives	Total		

			Long	Short	Long	Short	Long	Short		Long	Short
1	1 month or less	1 month or less	-	-	886.850	11.000	886.850	11.000	0.00%	-	-
	Over 1 month to 3 months	Over 1 month to 3 months	-	-	43.359	-	43.539	-	0.20%	0.087	
	Over 3 months to 6 months	Over 3 months to 6 months	-	-	43.539	-	43.539	-	0.40%	0.174	
Total			-	-	973.928	11.000	973.928	11.000		0.261	
Overall Net Open Position										0.261	
Vertical Disallowance										-	
Horizontal Disallowance										-	
TOTAL GENERAL MARKET RISK CAPITAL CHARGE										0.261	

General Market Risk – HKD

The Bank's exposure on General Market Risk- HKD is minimally at P0.087M representing forward contracts under the 1 month to 3 months category.

PART IV.1d GENERAL MARKET RISK (Amounts in P0.000 million)											
Currency: HKD											
Maturity Method 1/											
Zone	Times Bands		Individual Positions						Risk Weight	Weighted Positions	
	Coupon 3% or more	Coupon less than 3%	Debt Securities & Debt Derivatives		Interest Rate Derivatives		Total				
			Long	Short	Long	Short	Long	Short		Long	Short
1	1 month or less	1 month or less	-	-	-	870.853	-	870.853	0.00%	-	-
	Over 1 month to 3 months	Over 1 month to 3 months	-	-	-	43.544	-	43.544	0.20%	-	0.087
Total			-	-	-	914.397	-	914.397	-	-	0.087
Overall Net Open Position										-	0.087
Vertical Disallowance										-	-
Horizontal Disallowance										-	-
TOTAL GENERAL MARKET RISK CAPITAL CHARGE										-	0.087

Equity Exposures

- The Bank’s exposure to Equity Risk attracts adjusted capital charge of P49.509M or Risk weighted equity exposures of P495.09M. The Bank’s holdings are in the form of common stocks traded in the Philippine Stock Exchange, with 8% risk weight both for specific and general market risk.

PART 14.2. EQUITY EXPOSURES (Amounts in ₱0.000 million)				
Item	Nature of Item	Positions	Stock Markets	Total
			Philippines	
A.1	Common Stocks	Long	247.545	247.545
		Short		
		Short		
A.10	TOTAL (SUM of A.1 to A.9)	Long	247.545	247.545
		Short		
B.	Gross (long plus short) positions (A.10)		247.545	247.545
C.	Risk Weights		8%	8%
D.	Specific risk capital (B. times C.)		19.804	19.804
E.	Net long or short positions		247.545	247.545
F.	Risk Weights		8%	8%
G.	General market risk capital charges (E. times F.)		19.804	19.804
H.	Total Capital Charge For Equity Exposures (sum of D. and G.)			39.607
I.	Adjusted Capital Charge For Equity Exposures (H. times 125%)			49.509
J.	TOTAL RISK-WEIGHTED EQUITY EXPOSURES (I. X 10)			495.090

Foreign Exchange Exposures

- The Bank's exposure to Foreign Exchange (FX) Risk carries an adjusted capital charge of P633.426M or Risk Weighted FX Exposures of 6.334B based on 8% risk weight. The exposure arises mostly from FX assets and FX liabilities in USD/PHP. The Bank also holds third currencies in JPY, CHF, GBP, EUR, CAD, AUD, SGD and other minor currencies.

Part IV. 3 FOREIGN EXCHANGE EXPOSURES							
					Closing Rate USD/PHP:		44.398
Item	Nature of Item	Currency	In Million USD Equivalent				In Million Pesos
			Net Long/(Short) Position (excluding options)		Net Delta-Weighted Positions of FX Options	Total Net Long/(Short) Positions	Total Net Long/(Short) Position
			Banks	Subsidiaries /Affiliates			
			1	2	3	4=1+2+3	5
A.10	Sum of net long positions						6,334.263
A.11	Sum of net short positions						(42.533)
B.	Overall net open positions						6,334.263
C.	Risk Weight						8%
D.	Total Capital Charge For Foreign Exchange Exposures (B. times C.)						506.741
E.	Adjusted Capital Charge For Foreign Exchange Exposures (D. times 125%)						633.426
F.	Total Risk-Weighted Foreign Exchange Exposures, Excluding Incremental Risk-Weighted Foreign Exchange Exposures Arising From NDF Transactions (E. times 10)						6,334.263
G.	Incremental Risk-Weighted Foreign Exchange Exposures Arising From NDF Transactions (Part IV.3a, Item F)						--
H.	Total Risk-Weighted Foreign Exchange Exposures (Sum of F. and G.)						6,334.263

Operational Risk – Weighted Assets

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

(amounts in ₱0.000 Million)	**Gross Income**	**Capital Requirement (15% x Gross Income)**
2010	22,498.508	3,374.776
2011	19,969.805	2,995.471
2012 (last year)	23,033.734	3,455.060
Average for 3 years		3,275.102
Adjusted Capital Charge	Ave x 125%	4,093.878
Total Operational Risk weighted Asset		40,938.779

The risk management function is embedded in all levels of the organization. Headed by the Chief Risk Officer (CRO) and reporting to the Risk Management Committee, she is primarily responsible for the risk management functions to ensure that a robust organization is maintained. The group, independent from the business lines is organized in 4 divisions: Credit Risk and BASEL II and ICAAP Implementation Division, Market & ALM Division, Operational & Information Technology Security Risk Management and Business Intelligence Division.

Each division maintains, monitors and enhances as needed, policies for risk management applicable to the organization. These policies clearly define the kinds of risks to be managed, set forth the organizational structure and provide appropriate training necessary. The policies also provide for audits to measure the effectiveness and suitability of the risk management structure. In line with these basic policies, the group continues to implement the following risk management tools and reporting requirements to strengthen and enhance the sophistication of our risk management system and address the volatile risk environment

Property Development

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

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

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

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

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

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

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

Eton intends to leverage its ties with PNB and Allied Bank by developing financial solutions for its real estate customers. In particular, Eton believes these partnerships with PNB and Allied Bank will allow Eton to more quickly and efficiently present financing solutions to its customers and to streamline the loan application process for end-buyers of its properties.

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

In order to reduce its earnings volatility and diversify its revenue streams, Eton has targeted to derive approximately 30-35% of its revenue from recurring sources within the next five years, primarily through rentals from its BPO properties and retail malls. Eton believes this will complement Eton's overall growth strategy by providing recurring cash flows to support its development capital expenditure requirements and driving demand for its master-planned community residential offerings.

Item 2. Properties

Distilled Spirits

TDI and its subsidiaries own the following real estate properties:

Location	Area (sqm)	Present Use
Owned by TDI		
Quiapo, Manila*	26,587	Office/Plant
Makati City	71	Investment/Condo
Talisay, Neg. Occ.	3,813	Bottle Storage
Davao City	3,000	Investment
Owned by AAC		
Pulupandan, Neg. Occ.	119,082	Distillation Plant
San Mateo, Rizal	11,401	Investment
Talisay, Batangas	139,299	Investment
Tanza, Cavite	67,507	Investment
Owned by ADI		
Ayala Ave., Makati	89.395	Investment/Condo
Lian, Batangas	91,722	Distillation Plant

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

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

Location	Present Use	Area (sqm)	Monthly Rental	Lease Expiry Date
Leased by TDI				
Laguna	Production Plant	188,202	1,875,812	2014
Pinamucan, Batangas	Land rental	18,522	350,000	2014
Calaca, Batangas	Tank rental		555,915	2014
Murcia, Neg. Occ.	Production Plant	29,583	650,000	2014
El Salvador, Mis. Or.	Production Plant	108,843	106,293	2014
Leased by ADI				
Lian, Batangas	Distillation Plant	50,000	50,000	2021
	Totals	**395,150**	**3,588,020**	

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

The plant and equipment are located at the following areas:

Location	**Condition**
Quiapo plant	In good condition
Cabuyao plant	In good condition
Bacolod plant	In good condition
El Salvador plant	In good condition

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

ADI on the other hand owns a distillery plant in Lian, Batangas. All transportation equipment owned by ADI are in good condition. There are no mortgage or lien or encumbrance over the properties and there are no limitations as to its ownership and usage.

Beverage

ABI and its subsidiaries own the following real estate properties:

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

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

Location	Present Use	Area (sqm)	Monthly Rental	Lease Expiry Date
Leased by ABI				
Ayala, Makati City	Head Office	1,677	747,495	Mar 3, 2011 to Mar 2, 2014
Cabuyao, Laguna	Production Plant	3,000,891	1,650,000.	Apr 1, 2013 to Mar 31, 2015
El Salvador, Mis. Or.*	Production Plant	1,088,133	-0-	N/A
Leased by IPI				
San Fernando, Pampanga	Production Plant	85,000	600,000	Jan 1 2012 to Dec 31, 2014
	Totals	**4,090,072**	**2,847,495**	

*All lease contracts are renewable at the end of the lease term except for El Salvador, Misamis Oriental Plant, which pays Real Property Tax (RPT) instead of monthly rentals

The plant and equipment are located at the following areas:

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

Tobacco

The following comprises properties of FTC:

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

The following are the leased properties of FTC:

LOCATION	Present use	Monthly Rental	Lease Expiry Date
Brgy. Kapitolyo, Pasig	Office use	100,000.00	12/31/14
Brgy. Fortune, Marikina	Warehouse	150,000.00	10/31/13

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

Banking

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

LIST OF BANK OWNED PROPERTIES

AS OF DECEMBER 31, 2013

Branch Name	Address
Metro Manila	
Angono	Quezon Ave., E. dela Paz St., Angono, Rizal
Arranque	Soler Citiriser Building, 1427 Soler St., Sta. Cruz, Manila
Ayala Avenue	G/F Manila Bank Bldg., 6772 Ayala Avenue, Makati City
Bayanan - Muntinlupa	National Road, Bayanan, Muntinlupa City
Better Living	ABC Bldg., Doña soledad Ave., Better Living Subd., Parañaque City
Buendia	56 Gil Puyat Ave., (Buendia), Makati City
Caloocan	GEN. SAN MIGUEL ST. BRGY 4 ZONE 1 SANGANDAAN,DIST. II,CALOOCAN CITY
Caloocan	1716 Rizal Ave. Ext., cor. L. Bustamante St., Caloocan City
Cubao	cor Gen Araneta and Aurora Blvd Cubao Quezon City
Dapitan	Dapitan St. cor. M. dela Fuente St., Metro Manila
Divisoria (Sto. Cristo)	Sto. Cristo cor. M. delos Santos Sts., Divisoria, Metro Manila
Earnshaw	Earnshaw corner Jhocson Sts., Sampaloc, Manila
Felix Avenue	F. P. Felix Avenue, Brgy. San Isidro, Cainta, Rizal 1900
Head Office (Main Branch)	G/F Allied Bank Center, 6754 Ayala Ave. cor. Legazpi St., Makati City
J. Abad Santos	Unit B, Dynasty Towers, J. Abad Santos corner Bambang Sts., Manila
Kamuning	118 Kamuning Road, Quezon City
Las Piñas	#19 Alabang Zapote Road Pamplona II, Las Piñas City
Main	G/F PNB Financial Center, Pres. Diosdado Macapagal Blvd., Pasay City
Makat i- C. Palanca	GF Unit G1 & G2, BSA Suites, G103 C. Palanca cor. Dela Rosa St., Makati City
Makati Poblacion	1204 JP Rizal St., corner Angono & Cardona Streets, Makati City
Malabon	F. SEVILLA BLVD. TAÑONG, MALABON CITY
Malabon	701 Rizal Ave., cor. Magsaysay St., Malabon, Metro Manila

Mandaluyong	471 SHAW BLVD. MANDALUYONG CITY
Manila Downtown Office	Alliance Bldg., 410 Quintin Paredes St., Binondo, Manila
Marikina - Main	Mayor Gil Fernando Ave. (Angel Tuason Ave.), cor. Chestnut St. San Roque, Marikina City
Navotas	865 M. Naval St., Navotas, Metro Manila
New Manila	322 E. Rodriguez, Sr. Blvd., New Manila, Quezon City
NIA	EDSA corner Nia Road., Brgy Piñahan, Diliman Quezon City
Novaliches	Quirino Hi-way cor. Sarmiento St., Novaliches, Quezon City
Ortigas	GF JMT BLDG ADB AVENUE,ORTIGAS CENTER PASIG CITY
P. Tuazon	279 P. Tuazon Blvd., Cubao, Quezon City
Paco	Pedro Gil cor. Pasaje-Rosario Sts., Paco, Metro Manila
Pasay	2976 Mexico Avenue, Pasay City
Pasig - Shaw	Jade Center Condominium, 105 Shaw Blvd., Pasig City
Petron Mega Plaza	G/F Petron Mega Plaza Building 358 Sen. Gil Puyat Avenue, Makati City
Plaza del Conde	San Fernando Towers, Plaza del Conde. Binondo Manila
Project 3 - Aurora Blvd.	1003 Aurora Blvd., cor. Lauan St., Quirino Dist., Quezon City
Quadrangle	Unit I Paramount Condominium, EDSA corner West Ave., Quezon City
Quezon City Circle	Elliptical Road cor. Kalayaan Avenue, Diliman, Quezon City
Rizal Avenue	RIZAL AVENUE corner SATURNINO HERRERA ST., STA. CRUZ, MANILA
San Lorenzo	Ground Floor, Jackson Bldg., 926 A. Arnaiz Avenue, Makati City
Valenzuela	313 SAN VICENTE ST COR MC ARTHUR HIGHWAY, KARUHATAN, VALENZUELA CITY
Valenzuela	101 McArthur Hi-way, Bo. Marulas, Valenzuela City
Wack-wack	Summit One Tower, Shaw Blvd., Wack-Wack, Mandaluyong City
West Avenue	92 West Ave. Quezon City
West Triangle	1396 Quezon Ave., Quezon City
Northern Luzon	
Agoo	VERCELES ST., CONSOLACION, AGOO, LA UNION
Alaminos	Quezon Avenue, Poblacion, Alaminos City, Pangasinan
Angeles	730 Sto. Rosario St., Angeles City, Pampanga 2009
Aparri	J.P.Rizal St., Aparri, Cagayan 3515
Baguio	51 SESSION ROAD cor MABINI STREET, BAGUIO CITY, 2600
Balanga	Zulueta St., Poblacion, Balanga, Bataan 2100
Baliuag	015 RIZAL ST., SAN JOSE, BALIUAG, BULACAN
Bangued	Cor. Taft & Magallanes Sts., Bangued, Abra
Bangued	MCKINLEY CORNER PEÑARRUBIA STREETS, ZONE 4, BANGUED, ABRA , 2800
Basco	NHA Bldg., Caspo Fiesta Road Kaychanarianan, Basco, Batanes
Batac	cor SAN MARCELINO AND CONCEPCION STS., BATAC, ILOCOS NORTE
Bayombong	JP RIZAL ST., DISTRICT 4, BAYOMBONG, NUEVA VIZCAYA
Cabanatuan	CORNER PACO ROMAN AND DEL PILAR STS., CABANATUAN CITY, NUEVA ECIJA
Candon	National Hi-way, Candon, Ilocos Sur
Candon	NATIONAL HIGHWAY COR. DARIO ST., SAN ANTONIO, CANDON CITY 2700
Cauayan	Maharlika Hi-way cor Cabatuan Rd., Cauayan, Isabela 3305
Concepcion	A. Dizon St., San Nicolas, Concepcion, Tarlac 2316
Dagupan	A. B. FERNANDEZ AVE., DAGUPAN CITY

Dau	MacArthur Highway, Dau, Mabalacat, Pampanga 2010
Gapan	Tinio Street, Poblacion, Gapan, Nueva Ecija
Gapan	TINIO STREET, SAN VICENTE, GAPAN CITY, NUEVA ECIJA
Guagua 1/	Sto. Cristo, Guagua, Pampanga
Iba	1032 R. MAGSAYSAY AVE., ZONE I, IBA, ZAMBALES 2201
Ilagan	Old Capitol Site Calamagui 2, Ilagan City, Isabela 3300
La Union	Quezon Ave., City of San Fernando, La Union
Laoag	BRGY. 10 TRECE MARTIRES ST. CORNER J P RIZAL ST., LAOAG CITY 2900
Lingayen	Avenida Rizal East cor. Maramba Blvd., Lingayen, Pangasinan
Mallig Plains	Cor. Don Mariano Marcos Ave. & Bernabe Sts., Roxas, Isabela 3320
Malolos	Sto. Niño, Malolos City, Bulacan
Meycauayan	Mc Arthur Highway, Saluysoy, Meycauayan City, Bulacan
Muñoz	D. Delos Santos St. Cor. Tobias St., Science City of Munoz, Nueva Ecija
Olongapo	2440 Rizal Ave., East Bajac-Bajac, Olongapo city, Zambales 2200
Paniqui	M.H. Del Pilar St., corner Mc Arthur Hi-way Paniqui Tarlac
Rosales	MC Arthur Highway, Carmen East, Rosales, Pangasinan
San Fernando	A Consunji St., Sto. Rosario, City of San Fernando, Pampanga
San Fernando - La Union	612 Quezon Ave., San Fernando, La Union
San Jose Nueva Ecija	Maharlika Hi-way Cor. Cardenas St. San Jose City Nueva Ecija 3121
Santiago	Marcos Highway cor. Camacam St., Centro East, Santiago City, Isabela 3311
Solano	Maharlika National Highway, Solano, Nueva Vizcaya
Tarlac	F. Tanedo St., San Nicolas, Tarlac City
Tayug	PNB Tayug Branch, Zaragoza Street, Poblacion, Tayug, Pangasinan 2445
Tuguegarao	Bonifacio St., Tuguegarao City, Cagayan 3500
Urdaneta	MC Arthur Highway, Nancayasan, Urdaneta City, Pangasinan 2428
Vigan	LEONA FLORENTINO ST., VIGAN CITY, ILOCOS SUR 2700
1/ For renovation	
Southern Luzon	
Bacoor	KM 17 AGUINALDO HIGHWAY BACOOR CAVITE
Balayan	147 Plaza Mabini, Balayan, Batangas
Batangas	P. Burgos St., Cor. C. Tirona St., Batangas City
Calamba	BURGOS ST., CALAMBA CITY
Calapan	J.P.Rizal St. Camilmil, Calapan City, Oriental Mindoro
Candelaria	National Road, Poblacion, Candelaria, Quezon
Cavite	P. BURGOS AVENUE, CARIDAD, CAVITE CITY
Daet	Carlos II St., Brgy, 3, Daet, Camarines Norte
Daraga	Baylon Compound, Market Site, Rizal St. Daraga, Albay
Iriga	Highway 1, San Roque, Iriga City
Kawit	Allied Bank Bldg., Gen. Tirona Highway, Binakayan, Kawit, Cavite
Legaspi	Corner Rizal and Gov. Forbes Sts., Brgy. Baybay, Legaspi City
Lipa	B. Morada Ave., Lipa City, Batangas
Lopez	San Francisco St. Talolong Lopez Quezon
Lucena	Quezon Ave. Brgy IX, Lucena City

Mamburao	National Road, Brgy. Payompon, Mamburao, Occidental Mindoro
Mangarin	Quirino corner M.H. del Pilar Sts. Brgry 6, San Jose, Occidental Mindoro 5100
Masbate	Quezon St., Brgy. Pating, Masbate City, Masbate
Naga	Gen. Luna St., Brgy. Abella, Naga City
Odiongan	#15 J.P. Laurel St., cor M. Formilliza St., Ligawa, Odiongan, Romblon
Puerto Princesa	Valencia St. Cor. Rizal Avenue. Brgy. Tagumpay, Pto Princesa City
Puerto Princesa, Palawan	Rizal Ave., Mangahan, Puerto Princesa, Palawan
San Pablo	M. Paulino St., San Pablo City, Laguna
San Pedro	KM 30 NATIONAL HI-WAY, SAN PEDRO, LAGUNA
Silang	166 J.P. RIZAL ST., SILANG, CAVITE
Sorsogon	Rizal St., Sorsogon City
Sta. Cruz	Pedro Guevarra Avenue Brgy. Uno Sta. Cruz, Laguna
Tabaco	Ziga Avenue, Cor. Bonifacio St., Tayhi, Tabaco City
Tagaytay	E. Aguinaldo Hi-way, Tagaytay City, Cavite
Visayas	
Amelia Avenue	Cor. Amelia and Margarita Sts., Libertad, Bacolod City
Antique	T. Fornier St., Bantayan, San Jose, Antique 5700
Bacolod	10th Lacson St., Bacolod City
Bacolod – Locsin	Barcel's Bldg., Locsin St., Bacolod City, Negros Occ.
Bacolod - Main	Araneta Ave., near cor. Luzuriaga St., Bacolod City, Negros Occidental
Bayawan	National Highway cor Mabini St., Brgy. Suba, Bayawan City
Baybay	148 R. Magsaysay Ave., Baybay, Leyte
Binalbagan	Don Pedro R. Yulo St., Binalbagan, Negros Occidental 6107
Boracay	Branch - Bgy. Balabag, Boracay Island, Malay, Aklan
Borongan	Real St., Brgy Songco, Borongan City, Samar
Cadiz	Cor Luna and Cabahug Sts., Cadiz City, Negros Occidental 6121
Calbayog	Maharlika Highway, Brgy Obrero, Calbayog City, Leyte
Catarman	Cor. Jacinto & Carlos P Garcia St., Brgy Narra, Catarman, Nothern Samar
Catbalogan	Imelda Park Site, Catbalogan, Western Samar 6700
Catbalogan	Del Rosario St. cor. Allen Ave., Catbalogan, Samar
Cebu	Corner M.C. Briones and Jakosalem Streets, Cebu City
Cebu - Danao	Beatriz VIII & Juan Luna St., Cebu City
Cebu - Jakosalem	D. Jakosalem cor. Legaspi Sts., Cebu City
Dumaguete	Siliman Avenue cor Real St., Dumaguete City, Negros Occidental
Dumaguete	33 Dr. V. Locsin St., Dumaguete City, Negros Oriental
Iloilo	Cor. Gen Luna & Valeria Street, Iloilo City
Iloilo - Ledesma	Ledesma cor. Quezon Sts., Iloilo City
Iloilo - Pototan	Guanco St., Pototan, Iloilo
Kabankalan	NOAC National Highway cor Guanzon St., Kabankalan City
Kalibo	0508 G. PASTRANA ST., KALIBO, AKLAN
Lapu - lapu	Manuel L. Quezon National Highway, Pajo, Lapulapu City
Larena, Siquijor	Roxas St., Larena, Siquijor
Luzuriaga	Cor Luzuriaga and Araneta Sts., Bacolod City

Maasin	Cor. Allen & Juan Luna St., Brgy. Tunga-tunga, Maasin City, Leyte
Naval	Cor. Caneja & Ballesteros Sts., Naval, Biliran Province 6543 ,Leyte
Ormoc	Cor. Cata-ag & Bonifacio Sts., Ormoc City, Leyte
Plaza Libertad	JM Basa Street, Iloilo City 5000
Roxas	Cor. CM Recto & G. Del Pilar Streets, Brgy. III, Roxas City, Capiz 5800
Roxas City	Roxas Ave., Roxas City, Capiz
San Carlos	V. Gustilo St., San Carlos City
Silay	Rizal St., Silay City
Tacloban	Cor. Sto. Niño & Justice Romualdez Sts., Tacloban City, Leyte 6500
Tacloban	Zamora St, Tacloban City, Leyte
Tagbilaran	C. P. Garcia Ave. cor. J. A. Clarin St., Poblacion, Tagbilaran City, Bohol
Tanjay	Magallanes cor. E. Romero Sts (formerly Lopez Jaena), Tanjay City, Negros Or.
Toledo	RAFOLS ST., POBLACION, TOLEDO CITY, CEBU
Tubigon	Corner Cabangbang Avenue & Jesus Vaño Street, Centro, Tubigon, Bohol, Philippines
Victorias	Cor. Ascalon and Montinola Sts., Victorias City
Mindanao	
Agusan del Sur	Roxas St., Brgy 4, San Francsico, Agusan del Sur
Basilan	Strong Blvd., Isabela, Basilan
Basilan	Roxas Ave., Sta. Cruz, Isabela, Basilan
Bislig	Cor. Abarca & Espiritu Sts., Mangagoy, Bislig, Surigao del Sur
Bug	National Highway, Poblacion, Buug, Zamboanga, Sibugay
Butuan	Montilla Blvd., Brgy. Dagohoy, Butuan City, Agusan del Norte
Cagayan de Oro	Corrales Ave., cor. T. Chavez St., Cagayan de Oro City, Misamis Oriental
Cagayan de Oro – Cogon	JP Borja cor. V. Rosa Sts., CDO City, Misamis Oriental
Cagayan de Oro – Divisoria	Tiano Brothers cor., Cruz Taal Sts., CDO City
Cagayan de Oro - Lapasan	Lim Ket Kai Development Center, CDO City, Misamis Oriental
Cotabato	39 Makakua St., Cotabato City, Maguindanao
Cotabato	Alejandro Dorotheo St. (formerly Jose Lim Sr.) cor. Corcuera St., Cotabato City, No. Cot.
Davao	San Pedro St., cor. C.M. Recto St., Davao City, Davao del Sur
Davao – C. M. Recto	G/F Imperial Hotel, CM Recto St., Davao City, Davao
Davao - San Pedro	San Pedro St., Davao City
Digos	Quezon Avenue, Digos, Davao del Sur
Dipolog	Gen. Luna St. cor. C.P. Garcia Sts., Dipolog City, Zamboanga del Norte
General Santos	City Hall Dr. Osmena St., General Santos City, South Cotabato
Gingoog	National Highway, Brgy. 23, Gingoog City, Misamis Oriental
Iligan	Cor. Gen. Aguinaldo & Labao Sts., Poblacion, Iligan City, Lanao del Norte
Ipil	National Hi-way, Poblacion, Ipil, Zamboanga Sibugay
Jolo	Serantes St., Jolo, Sulu
Jolo	Serrates St., Jolo, Sulu
Kidapawan	Quezon Blvd., Kidapawan City, North Cotabato
Koronadal	Morrow St., Koronadal, South Cotabato
Koronadal	Gen. Santos Drive Zone, Poblacion, Koronadal, South Cotabato
Limketkai	Limketkai Center, Lapasan, Cagayan de Oro City, Misamis Oriental

Mambajao	Cor. Gen. Aranas & Burgos Sts., Brgy. Poblacion, Mambajao, Camiguin
Maranding	Maranding, Lala, Lanao del Norte
Marawi	Perez St., Poblacion, Marawi City, Lanao del Sur
Mati	Rizal Ext., Brgy. Central, Mati, Davao Oriental
Midsayap	Quezon Avenue, Midsayap, North Cotabato
Oroquieta	Sen. Jose Ozamis St., Lower Lamac, Oroquieta City, Misamis Occidental
Ozamis	Rizal Ave., Aguada, Ozamis City, Misamis Occidental
Pagadian	Rizal, Ave., Balangasan District, Pagadian City, Zamboanga del Sur
Pagadian	F.S. Pajares St., cor Cabrera Sts., San Francisco District, Pagadian City, Zamboanga Del Sur
S. K. Pendatun	near corner S. K. Pendatun St. & Quezon Ave., Cotabato City
Surigao	45 Rizal St., Brgy. Washington, Surigao City, Surigao del Norte
Tacurong	Alunan Drive, Poblacion, Tacurong, Sultan Kudarat
Tagum	Rizal St., Magugpo, Poblacion, Tagum City, Davao del Norte
tandag	Napo, National Highway, Tandag, Surigao del Sur
Tawi - tawi	Bagay St., Poblacion, Bongao, Tawi-Tawi
Tawi-tawi	Datu-Halun St., Bongao, Tawi-Tawi
Zamboaga del Sur - Molave	Mabini St., Molave, Zamboanga del Sur
Zamboaga del Sur - Sucabon	Mayor MS Jaldon St., Zamboanga City, Zamboanga del Sur
Zamboanga	J.S. Alano St., Zamboanga City, Zamboanga del Sur

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

LIST OF BRANCHES UNDER LEASE

AS OF DECEMBER 31, 2013

Branch Name	Address	Monthly Rent (in Pesos)	Expiration of Lease
Metro Manila			
A. Bonifacio	789 A. Bonifacio Ave., cor. Galino St., Balintawak, Quezon City	99,220.97	05/14/2014
Acropolis	90 E. Rodriguez Jr. Avenue, Barangay Bagumbayan, Quezon City, (formerly 251 E. Rodriguez Jr., Ave., Libis, Quezon City)	154,873.69	10/31/2015
Adriatico	G/F Pearl Garden Hotel, 1700 M. Adriatico cor. Malvar Sts., Malate, Manila	201,097.37	06/30/2014
Aguilar - Las Piñas	G/F Las Pinas Doctors' Hospital, Aguilar Ave., Citadella Subd., Las Pinas City	123,050.00	03/14/2016
Aguirre	G/F RICOGEN Bldg., 112 Aguirre St., Legaspi Village, Makati City	113,468.58	09/25/2014
Alabang	G/F Page 1 Building 1215 Acacia Avenue Madrigal Business Park, Ayala Alabang, Muntinlupa	191,290.64	05/15/2017
Alabang - Las Pinas	Don Mariano Lim Industrial Compound, Alabang Zapote Rd., cor. Concha Cruz Rd., Las Pinas City	90,000.00	12/31/2017
Ali Mall	ALIMALL II BLDG., GEN. ROMULO AVE., COR P. TUAZON BLVD., CUBAO, Q.C.	94,190.00	12/31/2014
Almanza	Hernz Arcade, Alabang-Zapote Road Almanza, Las Piñas City 1750	133,872.54	03/31/2013

Amorsolo	Don Pablo Building, 114 Amorsolo St., Legaspi Village, Makati City	168,140.07	07/31/2013
Annapolis	Annapolis Tower, 43 Annapolis St., Greenhills, San Juan, Metro Manila	for reloc	10/31/2012
Antipolo	89 P. Oliveros St., Kapitoloyo Arcade, San Roque, Antipolo City 1870 RIZAL	57,828.77	12/31/2014
Antipolo	Circumferential Road, Quezon Ave., Antipolo, Rizal	9,000.00	04/21/2016
Aurora Blvd.	Unit 3S-04, 3rd Floor 168 Shopping Mall, Sta. Elena, Soller Sts., Binondo, Manila	133,245.00	09/30/2016
Aurora Blvd. - Katipunan	Aurora Blvd., (near PSBA), Bgy. Loyola Heights, Quezon City	36,750.00	11/15/2014
Balic-balic	AGB Bldg., 1816 G. Tuason cor. Prudencio Sts., Balic-Balic, Sampaloc, Manila	-	03/31/2013
Bambang - Masangkay	G/F ST Condominium, 1480 G. Masangkay St., Sta. Cruz, Manila	115,500.00	02/29/2016
Banawe	Banawe Fortune Center, Banawe cor. Quezon. Avenue, Quezon City	45,943.55	12/31/2013
Banawe -N. Roxas	Prosperity Bldg. 395 Banawe cor. N. Roxas Street, Quezon City	188,992.32	12/31/2014
Bangkal	G/F E. P. Hernandez Bldg., 1646 Evangelista St., Bangkal, Makati City	103,439.82	11/01/2017
Batasang Pambansa	Main Entrance, Batasan Pambansa Complex, Constitutional Hills, Quezon City		1/
Bel-air Makati	52 Jupiter St., Bel-Air, Makati City	27,040.67	12/31/2020
Bellevue - Filinvest	North Bridgeway, Filinvest Corporate City, Alabang, Muntinlupa City(effective Aug 14, 2009)	174,606.32	07/31/2014
Benavidez	Unit G-1D, G/F BSA Mansion, 108 Benavidez St.Legaspi Village, Makati City	104,987.00	06/15/2016
BF Homes	43 President's Ave., BF Homes, Paranaque City	85,085.44	12/31/2013
BF Homes – Phase 3	CFB Building, 322 Aguirre Avenue, BF Homes, Paranaque		
BF Homes -Aguirre Avenue	47 Aguirre Ave. corner Tirona St., B.F. Homes, Parañaque City 1718	92,059.84	08/01/2017
Bicutan	VCD Building, 89 Doña Soledad Avenue Betterliving Subdivision, Bicutan Parañaque City	71,368.08	05/24/2016
Bicutan West Service Road	Km. 16, West Service Road, South Super Highway, Bicutan, Paranaque	52,500.00	12/31/2017
Binondo	452 San Fernando St. cor. Elcano St., Binondo, Manila	14,116.67	12/31/2016
Blumentritt	PNB KASSCO BLDG., cor. LICO and CAVITE STS. STA CRUZ MANILA		1/
blumentritt	2229-2231 Rizal Avenue (between Batangas & Laguna Sts.), Blumentritt, Sta. Cruz, Manila	80,000.00	12/31/2017
Boni Avenue	654 Boni Ave., Mandaluyong City	111,249.00	12/31/2016
Bonifacio global City	PNB Shop 2, The Luxe Residences 28th St., cor 4th Ave., Bonifacio Global City, Taguig	100,734.28	11/15/2014
BSP Sub Unit	Ground Floor Cafetorium Building, BSP Complex, A. Mabini cor. P. Ocampo Sts. Malate, Manila	107,354.24	06/30/2013
C. Palanca	C. Palanca cor Quezon Boulevard, Quiapo Manila	115,473.09	11/30/2013
Cainta	RRCG Transport Building, Km. 18 Ortigas Avenue Extension, Brgy. San Isidro, Cainta, Rizal	77,315.42	10/26/2016
Cainta	G/F Arellano Bldg., Felix Ave., cor.	46,444.30	02/15/2017

	Village East Ave., Cainta, Rizal		
Caloocan-A.Mabini	451 A. MABINI corner J. RODRIGUEZ ST., CALOOCAN CITY	71,117.75	01/31/2013
Cartimar-Taft	SATA Corp. Bldg., 2217 Taft Avenue, Pasay City	97,852.33	10/16/2014
Century Park	G/F Century Park Hotel, P. Ocampo (Vito Cruz Ext.) cor. M. Adriatico Sts., Malate, Manila	162,592.10	02/28/2014
CM Recto	Unit 6 & 7 PSPCA 2026-2028 C.M Recto Ave., Quiapo, Manila	127,938.91	03/31/2015
COA	COA Building, Commonwealth Avenue, Quezon City	56,347.23	12/31/2013
Commonwealth	G/F LC Square Bldg., 529 Commonwealth Avenue., Quezon City	84,138.26	12/01/2014
Congressional	149 Congressional Ave., Project 8, Quezon City	103,078.87	04/19/2017
Cubao	SRMC Bldg. 901 Aurora Blvd. Cor Harvard & Stanford Sts., Cubao, Quezon City	100,000.00	09/30/2013
Dapitan-Gelinos	G/F NORTH FORBES PLACE 1221 GELINOS ST. SAMPALOC, MANILA	118,279.62	05/04/2014
Dasma-Makati	2284 Allegro Center, Chino Roces Avenue Extension, Makati City	122,484.83	10/31/2015
Del Monte	Relocated to 116 Del Monte Ave., QC (Old Site 131 Del Monte Ave., cor. D. Tuazon St., Quezon City)	114,450.00	07/31/2016
Delta	101-N dela Merced Bldg. West Avenue corner Quezon Avenue, QC	101,850.36	08/31/2013
Divisoria	869 Sto. Cristo St., Binondo, Manila	504,000.00	09/07/2015
Divisoria Market	Unit 14 & 15, New Divisoria Mall, Calle Commercio & Tabora Sts., Divisoria, Metro Manila	25,272.35	02/28/2015
Domestic Airport	G/F PAL Data Center, Domestic Road, Pasay City	21,272.70	12/31/2011
Don Antonio Heights	G/F Puno Foundation Bldg., Holy Spirit Drive, Don Antonio Heights, Quezon City	-	11/30/2011
E. Rodriguez	1706 E. Rodriguez Ave., Cubao, QC	88,777.70	05/31/2016
E. Rodriguez - G. Araneta	599 Araneta Ave. cor. E. Rodriguez Ave.,Quezon City	36,750.00	08/31/2014
E. Rodriguez Sr. Ave. - Banaue	97 ECCOI Building E Rodriguez Sr. Avenue, Brgy Tatalon, Quezon City 1102	57,933.50	08/31/2016
1/ Contract of Lease renewal is still in process			
Eastwood City	MDC 100 Building, Mezzanine Level, Unit M3, E. Rodriguez, Jr. Ave., corner Eastwood Ave., Brgy. Bagumbayan, Libis, Q.C 1110	267,474.54	11/11/2018
Edison-Buendia	Visard Bldg, #19 Sen. Gil Puyat Ave., Makati City	70,430.32	02/07/2016
EDSA - Caloocan	Insular Life Bldg., EDSA B. Serrano St., Caloocan City	71,483.34	07/31/2014
EDSA - Balintawak	337 - 339 EDSA Cor. Don Vicente Ang St., Caloocan City	87,846.00	06/10/2014
EDSA Eton Cyberpod Centris	One Cyberpod Centris, G/F Eton Centris, EDSA cor. Quezon Avenue, Quezon City, MM	97,890.98	02/28/2015
EDSA Extension	235 EDSA Extension corner Loring St., Pasay City	112,185.15	05/28/2014
EDSA Roosevelt	1024 Global trade center Bldg. EDSA Quezon City	148,693.64	01/31/2014
Elcano	706-708 Elcano St, Manila	104,186.00	11/30/2017
Ermita	1343 A. Mabini Street, Ermita, Manila	147,392.78	09/30/2016

Ermita	Physician's Tower, 533 U.N. Avenue, cor. San Carlos Sts., Ermita, Manila	131,000.00	01/31/2018
Escolta	# 324 G/F Regina Bldg., Escolta, Manila	184,063.40	09/30/2015
España	Unit 104 St. Thomas Square, 1150 España Blvd. cor Padre Campa St., Sampaloc East, Manila	4,757.87	06/15/2018
España	Dona Natividad Bldg., Espana-Quezon Blvd., Rotonda, Quezon city	59,082.66	02/28/2013
Eton-Corinthian	Unit 78 E-Life Eton Cyberpod Corinthian, EDSA cor. Ortigas Ave., Brgy Ugong Norte, Quezon City	117,384.55	03/14/2015
Ever Gotesco	Lower G/F Stall No. 20, Ever Gotesco Commonwealth, Quezon City	190,425.87	03/06/2015
Fairview	No. 41 Regalado Ave. West Fairview, Quezon City	103,364.77	05/30/2016
Fairview	70 Commonwealth Ave., Fairview Park Subd., Fairview, Quezon City	79,000.00	03/31/2018
Filinvest Avenue	BC Group Center, Filinvest Avenue & East Asia Drive, Filinvest Corporate City, Muntinlupa City	140,477.89	01/15/2017
Fort Bonifacio-Infinity	G/F 101, The Infinity Tower, 26th Street, Fort Bonifacio, Taguig City	254,036.38	05/15/2016
Fort Bonifacio-McKinley Hill	G/F Unit B, Mc Kinley Hill 810 Bldg. Upper McKinley Road, McKinley Town Center, Fort Bonifacio, Taguig City	403,080.42	04/07/2016
Frisco	Unit E/F. MCY Bldg. #136 Roosevelt Ave. SFDM, Quezon City	40,787.60	08/19/2014
Frisco	972 Del Monte Ave., corner San Pedro St., SFDM, Quezon City	75,000.00	01/23/2018
FTI	Lot 52 G/F New Admin Bldg., FTI Complex, Taguig City	97,722.00	10/31/2016
G.Aaraneta	1-B G. Araneta Ave., Quezon City	98,398.13	05/10/2014
Galas	20 A. Bayani St., corner Bustamante, Galas, Quezon City	98,913.94	05/31/2016
Gen. T. de Leon	4024 Gen. T. De Leon St., Barangay Gen. T. De Leon, Valenzuela City	56,000.00	07/31/2016
Gil Puyat	G/F Burgundy Corporate Tower, #252 Sen. Gil Puyat Ave., Makati	236,749.71	05/14/2016
Gilmore	Gilmore IT Center No. 08 Gilmore Ave., cor 1st st., New Manila, Quezon City	19,075.89	12/31/2014
Gov. Pascual	19 Gov. Pascual St., Acacia, Malabon City	38,783.21	06/15/2013
Grace Park	354 A-C 10TH AVE., GRACE PARK CALOOCAN CITY	84,962.00	09/30/2014
Grace Park	322 Rizal Ave. Ext. near cor. 7th Ave., Grace Park, Caloocan City	70,000.00	08/15/2017
Grace Park - 3rd Avenue	128 Rizal Avenue Ext.,Between 2nd and 3rd Avenue,Grace Park, Caloocan City	84,000.00	10/31/2016
Grace Village	G/F TSPS Condominium Bldg., Christian cor. Hope Sts., Grace Village, QC	93,168.56	12/31/2016
Granada	Xavier Hill Tower 1, Granada cor. N. Domingo Sts., Quezon City	121,869.85	02/28/2015
Greenbelt	G/F The Charter House 114 Legaspi Street, Makati City	92,386.74	09/30/2013
Greenhills	G/F One Kennedy Place, Club Filipino Drive Greenhills, San Juan City	204,331.60	03/15/2015
Greenhills	G/F Limketkai Bldg., Ortigas Ave., Greenhills, San Juan, MM	312,987.65	06/18/2013
GSIS	Level 1 GSIS Bldg., Financial Center, Roxas Blvd., Pasay City	79,138.05	05/31/2013
Guadalupe	Pacmac Bldg., 23 EDSA Guadalupe, Makati City	80,187.12	09/01/2017
Harrison Plaza	RMSC BLDG. A. ADRIATICO ST MALATE MANILA		[1/]

Intramuros	G/F Marine Teachnology Bldg. Cor.A Soriano Ave. & Arzobispo Sts., Intramuros,Manila	140,068.50	06/30/2014
Intramuros	707 Aduana cor Cabildo Shipping Center Condominium, Intramuros, Manila	91,947.18	11/30/2014
J. P. Laurel	G/F Gama Bldg., J. P. Laurel cor. Minerva Sts., San Miguel, Manila	107,100.00	02/28/2015
Jade – Ortigas	Unit G-04 Antel Global Corporate Center, Jade Drive, Ortigas Center, Pasig City	102,240.00	02/29/2016
Juan Luna	451 Juan Luna St., Binondo, Manila		1/
Juan Luna	CK Bldg., 750 Juan Luna St., Binondo Manila	130,277.25	03/31/2015
Kamias	Topaz Building, 99-101 Kamias Road, Kamias, Quezon City	90,235.34	05/31/2014
Kapasigan	EMILIANO A. SANTOS BLDG., A. MABINI COR. DR. SIXTO ANTONIO AVE., PASIG CITY	140,872.40	09/30/2015
Katipunan	335 Agcor Bldg., Katipunan Ave., Loyola Heights, Quezon City	176,223.18	12/31/2016
Katipunan	G/F Linear Building, Katipunan Road, Quezon City	126,000.00	03/05/2013
Lagro	BDI Center Inc., Lot 33, Blk. 114, Regalado Ave., Greater Lagro, Quezon City	130,000.00	05/31/2013
Largo	Quirino Ave., Lagro, Quezon City	91,461.51	06/30/2014
Las Piñas	Consolidated Asiatic Proj., Inc. Bldg., Alabang-Zapote Road, Bgy. Almanza, Las Pinas City	126,000.00	03/31/2017
Legaspi Village	First Life Center 174 Salcedo St., Legaspi Village, Makati City	126,000.53	10/14/2014
Leon Guinto	G/F Marlow Bldg. 2120 Leon Guinto St., Malate Manila	169,377.01	07/15/2015
Luneta	Nat'l. Historical Institute (NHI) Cmpd.,T.M. Kalaw St.,Ermita, Manila	40,000.00	04/26/2018
Malinta	G/f M@M Building, 407 Mac Arthur Highway, Malinta, Valenzuela City.	80,592.75	08/31/2015
Mandaluyong - Shaw	2 Acacia Lane corner Shaw Boulevard and Pinagtipunan Sts, Mandaluyong City (effective 07/24/2009)	109,974.38	06/15/2014
Marikina	SHOE AVE. CORNER W. PAZ ST., STA. ELENA, MARIKINA CITY 1800	199,843.00	11/13/2015
Marikina - Concepcion	Bayan-bayanan Ave. cor. Eustaquio St., Concepcion, Marikina, Metro Manila	140,000.00	06/30/2017
Marikina - Sta. Elena	314 J. P. Rizal St., Bgy. Sta. Elena, Marikina City	72,930.38	07/31/2013
Marulas	8 AGS BLDG, MC ARTHUR HIGHWAY MARULAS, VALENZUELA CITY	37,170.88	06/14/2016
Masangkay	916 Masangkay St. Binondo Manila	133,100.00	11/30/2013
Masinag	SILICON VALLEY BLDG., 169 SUMULONG HIGHWAY, MAYAMOT, ANTIPOLO CITY	65,228.00	12/31/2016
Masinag	241 Sumulong Highway, Mayamot, Masinag, Antipolo City	80,405.74	02/28/2015
Matalino	Tempus I Bldg., Matalino St., Diliman, Quezon City	82,640.81	06/30/2014
Montalban	San Jose Highway corner Midtown Subdivision, Rodriguez, Rizal	63,000.00	05/31/2016
1/ Contract of Lease renewal is still in process			
Monumento	419 D&I BLDG., EDSA, CALOOCAN CITY	9,333.33	06/30/2017

Morayta	Consuelo Building, 929 N. Reyes St., (Formerly Morayta), Sampaloc, Manila	122,000.00	07/31/2017
Muntinlupa	G/F Arbar Building, National Highway, Poblacion Muntinlupa City	90,994.30	06/19/2014
MWSS	MWSS Compound. Katipunan Road, Balara, Quezon City	102,790.33	12/31/2016
N. S. Amoranto	Unit 103, "R" Place Building, 255 N.S. Amoranto Sr. Avenue, Quezon City	for reloc	09/30/2012
Naga Road - Las Piñas	Lot 2A, Naga Road corner DBP Extension, Pulang Lupa Dos, Las Piñas City	42,460.50	04/12/2022
NAIA	Arrival Area Lobby, NAIA Complex, Pasay City	5,300.53	04/01/2013
NAIA 1 - Manila Int'l Airport	Departure Area, NAIA Terminal Bldg., Imelda Ave., Paranaque, Metro Manila	33,917.57	11/30/2011
NAIA 2 - Terminal 2	NAIA Centennial Terminal II Northwing Level Departure Intl.,Bldg., Pasay City	21,400.00	08/05/2012
NAIA 3	Arrival Area Lobby, NAIA Terminal 3 Complex, Pasay City 1300	4,311.33	01/00/1900
Navotas - Fish Port	Navotas Fish Port Complex, Navotas City	31,198.06	03/15/2013
NFA	SRA Building, Brgy. Vastra, North Avenue, Quezon City	37,265.92	06/01/2016
north Bay	511 Honorio Lopez Blvd., Balut, Tondo, Manila	33,178.70	10/31/2015
Novaliches	513 Quirino Highway Talipapa Novaliches, Quezon City	45,063.00	02/24/2015
NPC	Agham Road, Diliman, Quezon City		1/
Ongpin	917 Prestige Tower Condominium, Ongpin St., Sta Cruz, Manila	140,475.44	04/18/2014
Ortigas Center	Unit 104, Taipan Place, Emerald Avenue, Ortigas Center, Pasig City	110,000.00	10/15/2017
Oyster Plaza	Unit D1, Oyster Plaza Bldg., Ninoy Aquino Ave., Metro Manila	66,150.00	10/31/2015
Padre Faura	PAL Learning Center Bldg., 540 Padre Faura cor. Adriatico Sts., Ermita, Manila	86,908.70	06/30/2012
Padre Rada	RCS Bldg., Padre Rada St., Tondo, Manila	126,813.02	10/31/2014
Pamplona	Alabang Zapote Road, Pamplona, Las Pinas City	90,000.00	02/07/2018
Pandacan	Jesus Street, Cor. T. San Luis, Pandacan, Manila	59,521.57	10/31/2015
Parang Marikina	105 BG Molino St., Parang, Marikina	86,821.88	06/30/2014
Pasay	2480 Taft Avenue, Pasay City	160,000.00	01/31/2018
Pasay – EDSA	765 EDSA, Malibay, Pasay City	89,250.00	09/14/2013
Pasay - Libertad	P. Villanueva St., Libertad, Pasay City	84,892.50	12/31/2014
Pasay Road	G/F G&A Building, 2303 Chino Roces Ave Extension (Pasong Tamo Ext), Makati City (07/18/2011)	85,725.25	05/15/2016
Pasig	Ground Floor Westar Bldg., 611 Shaw Blvd., Pasig City 1600	146,687.57	09/30/2014
Pasig	Ortigas Ave., Rosario, Pasig City	99,220.97	08/31/2013
Pasig - Riverside	CTIP Compound, Ortigas Avenue Extension, Rosario, Pasig City	88,200.00	06/30/2015
Pasig-Santolan	Amang Rodriguez Ave., Brgy. Dela Paz, Santolan, Pasig City	83,775.15	12/07/2013
Paso de Blas	292 Paso de Blas, Valenzuela, Metro Manila	95,166.50	05/31/2014
Pasong Tamo	2233 Pasong Tamo Ave., Makati City	107,625.00	06/30/2014
Pasong Tamo - Kamagong	G/F NYS Building. 1156 Pasong Tamo St., Makati City	140,072.63	09/30/2015

PCSO	Philippine International Convention Center-CCP Complex, Roxas Blvd., Pasay City	71,668.80	10/21/2013
PGH	PGH Compound, Taft Avenue, Ermita Manila		1/
Pioneer	G/F Bldg. B, Guerro Complex, 123 Pioneer St., Mandaluyong City	100,066.58	04/14/2014
Plaza Sta. Cruz	740 Florentino Torres St., Sta. Cruz, Manila 1003	175,106.77	11/30/2022
Port Area	G/F Bureau of Customs Compound, , South Harbor, Port Area, Manila	76,266.94	11/01/2013
Pritil	MTSC BLDG. JUAN LUNA cor. CAPULONG EXT., TONDO, MANILA 1012	115,000.00	10/31/2015
Project 8	Mecca Trading Bldg., Congressional Avenue., Project 8, Quezon City	87,166.67	06/01/2016
Quiapo	516 Evangelista near Ronquillo St., Quiapo, Metro Manila	132,490.18	02/15/2014
Remedies	Unit G07 Ground Floor, Royal Plaza Twin Towers, 648 Remedios cor. Ma. Orosa Sts., Malate, Manila	88,200.00	08/31/2015
Retiro	422 N.S. Amoranto St. Edificio Enriqueta Bldg. Sta. Mesa Heights, Quezon City	141,102.52	04/15/2013
Roces Avenue	54 Alejandro Roces Ave., Quezon City	36,750.00	08/31/2014
Rockwell Center	Stall No. RS-03, G/F Manansala Tower, Estrella St., Rockwell Center, Makati City	106,431.36	05/30/2015
Roosevelt	256 Roosevelt Ave., San Francisco del Monte, Quezon City	127,338.75	04/30/2014
Rosario-Pasig	Unit 117-118 G/F Ever Gotesco Mall, Ortigas Extension, Pasig City		1/
Roxas Blvd.	Suite 101, CTC Building 2232 roxas Boulevard, Pasay City	136,088.40	02/28/2017
Salcedo Village	G/F LPL Mansions Condominium, 122 L.P. Leviste St., Salcedo Village, Makati City 1227	170,232.36	05/19/2016
Salcedo Village	Classica Towers, 114 HV dela Costa St., Salcedo Village, Makati City	58,983.75	09/30/2014
Samson Road	149 Samson Road corner P. Bonifacio St. Caloocan City	69,457.50	01/31/2014
San Andres	Linao Street, San Andres, Metro Manila	102,876.48	07/31/2014
San Juan	213 F. Blumentritt St. cor. Lope K Santos, San Juan City	66,304.06	03/31/2013
San Lorenzo Village	GF Power Realty Bldg., 1012 A. Arnaiz Avenue, Makati City	73,500.00	06/30/2014
San Mateo	19 Gen. Luna St., Banaba, San Mateo, Rizal	43,050.00	10/31/2016
San Nicolas	Gedisco Tower, 534 Asuncion St., San Nicolas, Manila City	157,493.60	03/31/2014
Shangri-la Plaza	Unit AX 116 P3 Carpark Bldg.Shangri-la Annex Plaza Mall, Edsa Corner Shaw Blvd. Mandaluyong City	137,974.05	09/30/2015
Shaw Blvd.	Starmall Shaw Blvd., EDSA, Mandaluyong City	84,381.07	07/31/2015
SSS Diliman	G/F SSS Building., East Avenue Diliman, Quezon City	95,482.91	02/28/2013
Starmall Alabang	Upper Ground Level, Starmall Alabang, South Superhighway, Alabang Muntinlupa City, 1770	69,615.84	01/01/2016
Sucat	G/F Kingsland Bldg., Dr. A. Santos Avenue Sucat, Parañaque	117,065.44	10/31/2014
Sucat	AC Raftel Center, 8193 Dr. A. Santos Ave., Sucat, P'que City	150,491.25	05/30/2014
T. Alonzo	T. Alonzo cor. Ongpin Sts., Sta. Cruz, Manila	162,750.00	03/31/2015
T. Mapua	1067 Felipe II St., Binondo, Manila (near 168 Mall) relocated 23 June 06	63,000.00	05/31/2016

Taft - Malate	Marc 1 Building 1973 Taft Avenue, Malate , Manila 1004	99,303.75	06/17/2016
Taft Avenue	G/F One Archers' Place, Taft Avenue, Malate, Manila (new site effective 01/10/2011)	94,234.35	01/31/2016
Tanay	Tanay New Public Market Road, Brgy Plaza Aldea, Tanay Rizal	44,000.00	10/30/2017
Tandang Sora	102 cor. San Miguel Village and Tandang Sora Ave., Brgy. Pasong Tamo, Quezon City	61,600.00	09/01/2016
Tandang Sora	Yrreverre Square Building, 888 Mindanao Ave., Brgy. Talipapa, Novaliches, QC ///	70,195.48	06/30/2016
Taytay	Ilog Pugad National Road, Brgy San Juan, Taytay, Rizal	87,000.00	03/04/2016
1/ Contract of Lease renewal is still in process			
The Fort- Burgos Circle	Unit GF-4, The Fort Residences, 30th St. cor. 2nd Avenue, Padre Burgos Circle, Bonifacio Global City, Taguig	160,833.14	11/30/2017
Timog	Ground Floor NEWGRANGE BLDG., 32 TIMOG AVE., BRGY. LAGING HANDA, QUEZON CITY	96,768.00	11/14/2016
Tondo	1941-43 Juan Luna St., Tondo, Manila	103,318.03	10/31/2017
Tutuban	G/F & Podium Level, Prime Block Mall, Tutuban Center, Divisoria, Manila	94,737.12	06/14/2014
Tutuban-Abad Santos	1450-1452 Coyuco Bldg., Jose Abad Santos, Tondo, Manila	52,435.82	08/31/2016
U. E. Recto	G/F Dalupan Bldg., Unversity of the East Campus, Claro M. Recto Ave., Manila	under nego	03/31/2013
U.N. Avenue	G/F UMC BLDG., 900 U.N. AVENUE, ERMITA, MANILA	71,930.43	11/30/2017
United parañaque	Iba cor. Malugay Sts., East Service Road, Bgy. San Martin de Porres, United Pque., Pque. City	-	09/22/2012
UP Campus	NO. 3 APACIBLE STREET, UP CAMPUS, DILIMAN, QUEZON CITY 1101	463,400.00	12/31/2014
Uratex - East Service Road	Uratex Bldg., Km. 23, East Service Road, Barangay Cupang, Muntinlupa City	53,697.00	10/31/2018
Villamor Air Base	G/F Airmens Mall Bldg. cor Andrews & Sales sts. Villamor Air Base, Pasay City		1/
Visayas - Congressional	22 Congressional Avenue near corner Visayas Avenue, Quezon City	87,127.70	03/15/2016
Vito Cruz	550 Pablo Ocampo St.(formerly Vito Cruz Ext.), Malate, Manila	91,350.00	08/31/2014
Zabarte - Quirino Hiway	1131 Quirino Hi-way, Bgy. Kaligayahan, Novaliches, Quezon City	73,705.25	07/31/2016
Zapote	59 Alabang-Zapote Road, Las Piñas City	72,765.00	08/14/2015
[1/] Contract of Lease renewal is still in process			
Northern Luzon			
Abanao	90 NRC BUILDING, ABANAO ST., BAGUIO CITY	94,481.42	10/16/2013
Agoo	T. Asper St., San Nicolas Norte, Agoo, La Union	6,000.00	06/01/2015
Angeles	McArthur Hi-way, Bgy. Salapungan, Angeles City, Pampanga	77,175.00	07/31/2015
Apalit	Mc Arthur Highway, San Vicente, Apalit, Pampanga	11,051.26	07/31/2018

Baguio	G/F Baguio Center Mall, Magsaysay Ave., Baguio City	50,000.00	06/30/2013
Balagtas	G/F D&A Bldg., Mc Arthur Highway, San Juan, Balagtas, Bulacan	58,497.60	06/30/2013
BEPZ	Bataan Economic Zone, Luzon Ave., Marivels, Bataan 2106	27,164.30	03/07/2019
Bocaue	McArthur Hi-way, Lolomboy, Bocaue, Bulacan	-	10/07/2012
Bontoc	G/F Mt. Province Commercial Center, Pob. Bontoc, Bontoc, Mountain Province	27,030.00	09/11/2016
Cabanatuan	Paco Roman St., Cabanatuan City, Nueva Ecija	36,465.19	04/29/2014
Camiling	Poblacion G, Camiling Tarlac	77,437.50	05/18/2017
Camiling	Rizal St., Camiling, Tarlac (LOT LEASE)	19,073.49	03/15/2016
Capas	Capas Comm'l Complex, Concepcion Junction, Bo. Sto. Domingo, Capas, Tarlac	59,298.75	10/15/2016
cauayan	Disston Lumber and Electrical Supply, National Road, San Fermin, Cauayan City, Isabela (effective 04/01/2009)	69,457.50	03/31/2014
Centro Ilagan	J. Rizal St., Centro, Ilagan City, Isabela 3300	31,500.00	08/04/2013
Clark Field	Retail 4 & 5, Berthaphil III, Clark field Center 2, Jose Abad Santos Ave., Clark Field Freeport Zone, Clark Field, Pampanga 2023	100,776.56	05/31/2019
Dagupan	A. B. Fernandez Ave., cor. Noble St., Dagupan City	80,000.00	12/31/2014
Dagupan - Perez Blvd	Orient Pacific Center Building Perez Blvd. cor. Rizal St. Extension, Dagupan City (former Abrabar Building Perez Blvd Dagupan City.)	65,000.00	03/31/2017
Dinalupihan	BDA Bldg., San Ramon Highway, Dinalupihan, Bataan 2110	51,434.58	03/20/2017
Dolores	Units 4&5 G/F, Peninsula Plaza Bldg., Mc Arthur Highway, Dolores, City of San Fernando, Pampanga	83,956.98	06/01/2014
Dolores	Relocation: Tagle Building, McArthur Hiway, Brgy. San Agustin, San Fernando, Pampanga (Old SiteGopiao Bldg., McArthur Hi-way, Dolores, San Fernando, Pampanga)	95,220.00	08/15/2018
East Gate City walk	East Gate CW Commercial Center, Olongapo Gapan Rd., San Jose, City of San Fernando, Pampanga	58,730.50	05/15/2013
Guimba	CATMAN Bldg., Provincial Road corner Faigal St., Saranay District , Guimba, Nueva Ecija	45,885.75	09/30/2017
La Trinidad	AAG Building 2, Alexander St., Urdaneta City, Pangasinan	75,000.00	12/14/2017
La Trinidad	Benguet State University Compound, Brgy Balili, Kilometer 5, La Trinidad, Benguet 2601	32,191.83	10/05/2032
Lagawe	JDT BLDG., INGUILING DRIVE, POBLACION EAST, LAGAWE,IFUGAO	15,120.00	10/10/2013
Laoag	F.R. Castro Ave. (formerly A. Bonifacio St.), Laoag City, Ilocos Norte	90,000.00	03/31/2019
Lubao	Olongapo Rd., Sta. Cruz, Lubao, Pampanga	41,895.00	12/31/2015
Mabalacat	McArthur Highway, Bgy., Mabiga, Mabalacat, Pampanga	37,268.00	01/31/2015
Macabebe	Y N CEE Commercial Bldg. Poblacion, San Gabriel Macabebe, Pampanga	35,427.59	03/28/2016

Magsaysay Avenue	G/F Lyman Ogilby Centrum Bldg., 358 Magsaysay Ave., Baguio City 2600	91,121.75	06/30/2017
Malolos	McArthur Hiway, Sumapang Matanda, Malolos City, Bulacan	69,300.00	12/31/2016
Mangaldan	G/F Abad Biascan Bldg., 5 Rizal Ave., Poblacion, Mangaldan, Pang.	-	02/28/2012
Meycauayan	GF Stalls 8 & 9 Esperanza Mall, Mc Arthur Highway, Brgy. Calvario, Meycauayan, Bulacan (new site effective 11/14/2011)	70,449.75	10/31/2016
Naguilian Road -Bbaguio	G/F High Country Inn, Naguilian Road, Baguio City	70,000.00	10/31/2016
Narvacan	ANNEX BLDG., NARVACAN MUNICIPAL HALL, STA. LUCIA, NARVACAN, ILOCOS SUR	55,000.00	09/01/2017
North Zambales	BRGY. HALL POB. SOUTH STA. CRUZ, ZAMBALES	15,000.00	12/31/2017
Olongapo - Magsaysay	YBC Mall, 97 Magsaysay Drive, East Tapinac, Olongapo City	for reloc	01/31/2013
Orani	Agustina Bldg., McArthur HIghway, Parang-Parang, Orani, Bataan	27,940.00	02/01/2014
Pasuquin	FARMERS TRADING CENTER BLDG., Maharlika Hi-way, POB. 1, Pasuquin, Ilocos Norte	20,000.00	02/12/2022
Plaridel	Cagayan Valley Road, Bonga, Plaridel, Bulacan (LOT LEASE)	15,944.05	07/30/2017
Robinsons Pulilan	Robinsons Mall Pulilan, Maharlika Highway, Cutcut, Pulilan, Bulacan	40,834.92	12/21/2014
San Carlos	Plaza Jaycee St., San Carlos City, Pangasinan	60,046.01	08/14/2014
San Fernando, Pamp.	LNG Bldg., Mc Arthur Highway Dolores Junction, San Fernando, Pampanga	64,163.78	09/27/2013
San Jose Del monte	Dalisay Bldg., Quirino Hi-way, Tungkong Mangga, City of San Jose Del Monte, Bulacan	87,084.93	12/31/2012
Sanchez Mira	C-2 Maharlika Highway Sanchez Mira, Cagayan 3518	33,100.00	03/01/2023
Sangitan	R. Macapagal Bldg, Maharlika Highway, Brgy Dicarma, Cabanatuan City	47,432.00	08/31/2013
Santiago, Isabela	Municipal Integrated Bldg., Panganiban cor. Barrera St., Santiago, Is.	5,023.50	08/28/2015
Solano	National Highway. Poblacion South, Solano, Nueva Vizcaya	47,753.71	08/31/2017
Sta. Maria	Jose Corazon De Jesus St., Poblacion, Sta. Maria, Bulacan	77,358.84	09/30/2013
Sta. Rosa, NE	G/F, JNB Bldg., Bgy. Cojuangco, Cagayan Valley Road, Sta. Rosa, NE	37,800.00	09/30/2016
Subic	Lot 5 Retail 2, Times Square mall, Sta. Rita Road, Subic Bay Freeport Zone, Olongapo City, Zambales 2220	74,886.00	10/09/2014
Tabuk	Lua Bldg., Mayangao St., Tabuk, Kalinga 3800	28,300.26	05/31/2015
Tarlac	#6 Zamora St. Tarlac City	-	10/31/2012
Tuao	GF, Villacete Bldg., National Highway, Pata, Tuao, Cagayan		1/
Tuguegarao	G/F Brickstone Mall, Km. 482, Maharlika Highway, Pengue Ruyu, Tuguegarao City, Cagayan (new site effective Dec 20, 2010)	65,488.50	11/15/2015
Vigan	36 Quezon Ave., Vigan, Ilocos Sur (LOT LEASE)	54,697.78	04/30/2013
[1/] Contract of Lease renewal is still in process			

Southern Luzon			
Albay Capitol	ANST Bldg. II, Rizal St., Brgy. 14, Albay District., Legaspi City	65,135.27	07/30/2014
Atimonan	Our Lady of the Angels Parish Compund, Quezon Street, Atimonan,Quezon	19,892.36	07/16/2015
Bacoor	Casa San Miguel 215 E. Aguinaldo Highway, Barangay Panapaan, Bacoor, Cavite	65,000.00	05/13/2017
Batangas	Diego Silang St., Batangas City	85,000.00	07/15/2013
Batangas - Kumintang	JPA AMA Bldg., Kumintang Ilaya, Batangas City, Batangas	72,802.75	02/28/2015
Bauan	G/F ADD Building, J.P. Rizal St., Poblacion, Bauan, Batangas	36,004.21	07/11/2016
Biñan	Ammar Commercial Center, Nepa National Highway, Brgy. Sto. Domingo, Biñan, Laguna	98,951.35	03/31/2023
Boac	Gov. Damian Reyes St., Murallon, Boac,Marinduque	31,215.00	09/30/2014
Bulan	R. Magsaysay cor. MH del Pilar Sts., Bulan, Sorsogon	35,000.00	07/31/2017
Cabuyao	Asia Brewery Complex, National Hi-way, Bgy. Sala, Cabuyao, Laguna	36,931.93	03/31/2013
Calamba	G/F Sta. Cecilia Business Center, Nat'l Hi-way, Bgy. Parian, Calamba, Laguna	39,000.00	10/15/2016
Calamba - Bucal	GF PrimeUnit 103 Carolina Center Bldg. COR. Ipilipil St. Brgy.Bucal Calamba, Laguna	96,757.27	11/30/2013
Calamba Crossing	G/F Unit Building, J. Alcasid Business Center, Crossing Calamba City, Laguna	103,355.13	02/15/2016
Carmona	9767 Brgy. Maduya, Carmona, Cavite	71,662.50	08/31/2015
Cavite - Dasmariñas	G/F LCVM BLDG, Aguinaldo Hi-Way Zone IV, DASMARINAS CITY, CAVITE	142,864.70	12/31/2015
CEPZ	GEN. TRIAS DRIVE, ROSARIO, CAVITE	27,563.51	01/01/2016
Daet	Pimentel Ave., cor. Dasmarinas St., Daet, Camarines Norte	71,662.50	03/16/2015
Dasmariñas	G/F, Amada-Felix Bldg., Aguinaldo Hi-way, Burol Main, Dasmarinas, Cavite	75,000.00	10/31/2012
Gen. Trias	129 Governor's Drive, Manggahan, General Trias, Cavite	57,750.00	08/31/2016
Goa	Juan Go Bldg., cor. Rizal & Bautista Sts., Goa, Camarines sur	46,415.30	08/31/2017
Gumaca	Andres Bonifacio St., Poblacion, Gumaca, Quezon (LOT LEASE)	14,280.50	11/29/2015
Imus	GF, J. Antonio Bldg. 1167 Gen. Aguinaldo Highway, Bayan Luma 7, Imus, Cavite 4103	155,157.07	11/01/2016
Imus	Sayoc-Abella Blsg., E. Aguinaldo Hi-way, Imus, Cavite	86,821.88	08/31/2014
Legazpi	35 F. Imperial St., Legaspi, Albay (LOT LEASE)	under nego	05/31/2012
Lemery	Humarang Bldg. Corner Ilustre Ave. and P. De Joya St., Lemery Batangas	57,083.33	06/30/2016
Ligao	San Jose St., Dunao, Ligao City	59,473.40	09/30/2017
Lipa City	K-Pointe Plaza, Ayala Hi-way, Lipa City, Batangas	50,715.00	10/31/2015
Lucena	New Site: Enriquez cor Enverga St., Poblacion, Lucena City (Quezon Ave., cor. Leon Guinto St., Lucena City, Quezon)	70,000.00	09/15/2017

Maharlika	Kadiwa Center Building, Poblacion, Sta. Cruz, Marinduque	6,768.27	06/20/2015
Molino	I.K. Commercial Building, Molino III, Paliparan Highway, Bacoor, Cavite	62,842.50	05/31/2015
Naga Magsaysay	G-Square Building Magsaysay Avenue cor Catmon II St., Balatas, Naga City	74,088.00	04/14/2014
Naga Panganiban	DECA Corporate Center, Panganiban Drive, Brgy. Tinago, Naga City	121,000.00	08/31/2015
Naic	P. POBLETE STREET, IBAYO SILANGAN, NAIC, CAVITE	5,300.53	02/15/2017
Nasugbu	JP Rizal St. cor F. Alix St., Nasugbu Batanagas (effective 06/01/2009)	83,482.35	05/31/2014
Pacita Complex	Old National Hiway, Brgy Nueva, San Pedro, Laguna	52,000.00	05/31/2016
Paseo de Santa Rosa	Blk. 5 Lot 3B Sta. Rosa Estate 2-A, Balibago Tagaytay Road, Bo. Sto. Domingo, Sta. Rosa City, 4026 Laguna	155,538.18	06/30/2016
Pili	Cu Bldg, Old San Roque, Pili, Camarines Sur	64,409.69	08/31/2017
Pinamalayan	Mabini St. Zone IV, Pinamalayan, Oriental Mindoro	43,502.38	10/01/2020
Polangui	National Road, Ubaliw, Polangui, Albay	11,297.00	04/30/2013
Romblon	SAL Building, Republika St., Brgy. 1, Romblon, Romblon	16,000.00	10/12/2014
San Pablo	Mary Grace Building,Colago Ave. cor. Quezon Ave.,San Pablo City, Laguna	47,250.00	11/30/2016
San Pedro	Alex Bldg., National Hi-way, Bgy.Poblacion, San Pedro, Laguna	68,250.00	09/30/2018
San Rafael	Cagayan Valley Road, Bo. Cruz na Daan, San Rafael, Bulacan	-	12/31/2011
Siniloan	G. Redor St. Siniloan Laguna	64,263.61	01/17/2016
Sorsogon - Sorsogon	Doña Nening Building, R. Magsaysay St., Sorsogon City, Sorsogon	42,443.06	03/13/2013
Sta. Cruz	Regidor St., Poblacion, Sta. Cruz, Laguna	81,033.75	02/21/2014
Sta. Rosa	NATIONAL HIGHWAY BALIBAGO CITY OF STA ROSA LAGUNA	98,433.46	07/01/2016
Sta. Rosa, Laguna	G/F Don F. Tan Gana Bldg., National hi-way, Balibago, Sta. Rosa, Laguna	88,200.00	09/30/2015
Tagaytay	Vistamart Bldg., Gen. E. Aguilnado Highway, Mendez Crossing West, Tagaytay City	79,992.57	11/01/2019
Tanauan	G/F V. Luansing Bldg, J.P. Laurel Highway, Tanauan City, Batangas	44,000.00	08/22/2016
Tanza	G/F Annie's Plaza, A. Soriano Highway, Daang Amaya, Tanza Cavite	46,305.00	10/15/2015
UP los Baños	LANZONES ST. UPLB COLLEGE LOS BANOS, LAGUNA	-	03/15/2014
Virac	055 Quezon Ave., Brgy Salvacion, Virac, Catanduanes		1/
[1/] Contract of Lease renewal is still in process			
Visayas			
Bacolod - Hilado	Hilado corner L..N. Agustin Sts., Bacolod City	-	
Bacolod - Libertad	Libertad St., near Poinsetia St., Bacolod City, Negros Occidental	47,250.00	11/03/2016
Bais	Rosa Dy-Teves Bldg, Quezon St., Bais City	27,500.00	11/30/2016
Banilad	Gov. M. Cuenco Ave., cor. Paseo Saturnino St., Banilad, Cebu City	110,004.27	02/28/2015

Bayawan	G/F Trias Bldg., Magsaysay St., Bayawan, Negros Oriental	36,842.11	03/31/2017
Baybay	Baybay Multipurpose Gym, Magsaysay Ave., Baybay City, Leyte	1,000.00	12/24/2017
Bogo	Cor. R. Fernan & San Vicente Sts., Bogo City, Cebu	23,098.25	04/14/2016
Cebu - A. C. Cortes	AC Cortes Ave., Mandaue City, Cebu	96,032.77	02/29/2016
Cebu - Banilad	AS Fortuna St., Banilad, Mandaue City, Cebu (LOT LEASE)	37,000.18	03/23/2015
Cebu - Bantayan	Escario St., Bantayan Island, Cebu	61,233.51	10/23/2014
Cebu - Carbon	41-43 Plaridel St., Carbon district, Cebu City, Cebu	104,186.25	10/31/2014
Cebu - Carcar	Jose Rizal St., Poblacion 1, Rotonda, Carcar, Cebu	59,850.00	02/21/2016
Cebu - Colon	G/F J. Avila Bldg., Collonade Mall Oriente, Colon St., Cebu City	155,469.04	12/31/2014
Cebu - Consolacion	Cansaga (Poblacion), Consolacion, Cebu	40,000.00	11/15/2011
Cebu - Fuente Osmeña	C. A. O. Mercado Bldg., Osmeña Blvd., Cebu City	132,037.94	05/31/2013
Cebu - Gorordo	Machay Bldg., Gorordo Ave., Lahug, Cebu City	61,000.00	08/15/2012
Cebu - Lapu-lapu	Mangubat cor. Rizal Sts., Lapu-Lapu City, Cebu	under nego	05/19/2010
Cebu - Mambaling	G/F Super Metro Mambaling, F. Llamas St., corner Cebu South Road, Basak, San Nicolas, Cebu City	73,740.71	09/30/2014
Cebu - Mandaue	KRC Bldg., National Highway, Subangdaku, Mandaue City, Cebu	54,305.48	08/15/2016
Cebu - Minglanilla	Ward 4, Poblacion, Minglanilla, Cebu City	52,000.00	10/14/2017
Cebu - Pusok	Highway, Pusok, Lapu-Lapu City (LOT LEASE)	23,579.48	02/29/2016
Cebu - Tabunok	Viva Lumber Bldg., Talisay, Tabunok, Cebu	51,243.50	06/17/2014
Cebu - Talamban	DCR Bldg., National Highway, Talamban, Cebu City	63,425.75	08/14/2013
Cebu IT Park	G/F, TGU Tower, Cebu IT Park, Salinas Drive cor. J.M del Mar St., Apas, Cebu City	47,578.72	10/05/2012
Centro Mandaue	G/F M2, Gaisano Grand Mall, Mandaue Centro, A. Del Rosario St., Mandaue City 6014, Cebu	80,634.65	02/28/2017
De Leon	ATM Bldg., corner Jalandoni and Ledesma Sts., Iloilo City	84,672.00	06/30/2014
Downtown Tacloban	G/F, Washington Trading Bldg., Rizal Ave., Tacloban City, Leyte 6500	104,780.08	10/22/2016
Fuente Osmeña	BF Paray Bldg., Osmena Blvd., Cebu city	134,400.00	05/26/2013
Guihulngan	New Guihulngan Public Market, S. Villegas St., Guihulngan, Negros Oriental	2,423.52	02/09/2015
Guiuan	Cor. San Nicolas & Guimbaolibot Sts., Guiuan, Eastern Samar 6809	21,052.63	11/01/2012
Iloilo - Aldeguer	Lope Locsin Bldg., Aldeguer St., Iloilo City	84,000.00	11/30/2015
Iloilo - Gen. Luna	Sarabia Manor Bldg., 101 Gen. Luna St., Iloilo City	60,637.50	12/17/2014
Iloilo - Jaro	Simon Ledesma St., Jaro, Iloilo	57,750.00	02/28/2017
Iloilo - Sta. barbara	Bga. Dama, Brgy Bolong Oeste, Sta. Barbara, Iloilo City	52,032.55	10/31/2013
Island City Mall - Tagbilaran	Upper Ground Floor 33-34, Island City Mall, Dampas District, Tagbilaran City	62,105.72	07/31/2016
Jaro	#8 Lopez Jaena St., Jaro, Iloilo City	125,537.07	05/02/2016
Kalibo	Martelino St., Kalibo, Aklan (beside Jolibee - near corner Arch. Gabriel Reyes Street) (LOT LEASE)	35,890.70	12/29/1904

La Carlota	Cor La Paz and Rizal Sts., La Carlota City	37,235.94	05/31/2016
La Paz	Inayan Bldg., cor. Huevana & Rizal Sts.,La Paz, Iloilo City 5000	50,153.62	12/31/2013
Lahug	G/F Juanita Bldg., Escario St. Cor. Gorordo Ave., Brgy. Camputhaw, Lahug, Cebu City	43,419.50	02/07/2016
Mandaue	JD Building, Lopez Jaena Street, Tipolo, Mandaue City, Cebu 6014	95,551.17	04/15/2015
MEPZ	1st Ave., MEPZ 1, Mactan Island, Lapu-Lapu City, Cebu 6015		[1/]
Miag-ao	One TGN Building, Cor. Noble & Sto. Tomas Sts., Miagao., Iloilo	39,000.50	05/15/2013
North Road – Mandaue	Insular Square, 31 JP Rizal St., Tabok, Mandaue City		
One Pavilion Mall- Cebu City	One Pavilion Mall, R. Duterte St., Banawa, Cebu City, 6000	100,097.43	10/07/2017
Ormoc	Reat St., Ormoc City., Leyte	55,125.00	09/30/2016
Palompon	Ground Floor, Municipal Bldg., Rizal St., Palompon, Leyte	3,556.08	05/17/2018
Passi	5037 F. Palmares Street, Passi City, Iloilo	39,332.89	10/03/2013
San Jose, Antique	San Isidro St., San Jose de Buenavista, Antique	56,227.50	06/11/2015
Tabunok	Paul Sy Bldg., National Highway, Tabunok, Talisay City	15,568.00	01/17/2017
Tagbilaran	GIE Garden Hotel, cor. CP Garcia Ave. & MH del Pilar St., Tagbilaran, Bohol	70,000.00	07/31/2012
Ubay - Bohol	G/F LM Commercial Bldg.,National Hi-way Cor.Tan Pentong St.,Poblacion, Ubay, Bohol	59,901.58	06/14/2018
Uptown Cebu	Ground Floor, Jethouse Bldg., #36 Osmena Blvd., Cebu City	134,220.70	09/15/2015
[1/] Contract of Lease renewal is still in process			
Minadanao			
Agdao	LA Bldg., Doors 5 & 6, Lapu-Lapu St., Davao City, Davao del Sur	72,800.00	12/31/2013
Bajada	G/F Quibod Bldg., J. P. Laurel St. Cor. A. Loyola St., Davao City, Davao del Sur	71,400.00	06/30/2013
Bangoy	G/F Amigleo Bldg., cor. Bonifacio & C. Bangoy Sts., Davao City, Davao del Sur	60,000.00	03/31/2013
Bankerohan	Units 101-102, JLF Parkway Bldg., cor. Quirino & Magallanes Sts., Davao City, Davao del Sur	74,000.00	06/30/2015
Bayugan	358 Narra Ave., Bayugan, Agusan del Sur	23,100.00	05/31/2016
Butuan - J. C. Aquino	J.C. Aquino Avenue, Butuan City, Agusan del Norte		
Carmen	Premier Bldg., Elipe Park, R.M. Pelaez St. Cor. Agoho Drive, Brgy. Carmen, Cagayan de Oro City, Misamis Oriental	46,217.49	09/02/2014
Climaco	JNB Bldg., Buenavista St., Zamboanga City, Zamboanga del Sur	88,255.38	06/25/2017
Dadiangas	RD Realty Development Bldg., Santiago Blvd., General Santos City, South Cotabato	60,184.34	02/28/2013
Davao - Agdao	Lapu-Lapu St., Agdao, Davao City	78,718.50	11/30/2014
Davao - Digos	Gen. Luna St. (near Katipunan), Digos, Davao del Sur	40,262.75	09/30/2015
Davao - Lanang	ABI Compound, Km. 7, Lanang, Davao City, Davao	31,598.54	07/24/2016
Davao - Monteverde	Monteverde cor. Banguy Sts., Davao City	96,850.22	03/13/2015

Davao - Sta. Ana	R. Magsaysay Ave., cor. Lizada St., Davao City, Davao	99,750.00	05/24/2016
Davao - Tagum	GL 04-06 (G/F) Gaisano Grand Arcade, Apokon Road cor. Lapu-Lapu Ext., Brgy. Visayan Village, Tagum City, Davao del Norte	45,000.00	09/15/2017
Gaisano Capital - Surigao	Gaisano Capital, KM 4, National Highway, Barangay Luna, Surigao City	38,744.28	07/10/2017
General Santos	Pedro Acharon Blvd., General Santos City, South Cotabato (LOT LEASE)		[1/]
Iligan	Juan Luna St., Iligan City, Lanao del Norte	80,000.00	10/31/2016
Isulan	Aristoza Bldg., National Highway, Isulan, Sultan Kudarat	37,383.28	05/31/2017
KCC Mall- Gen. Santos City	Unit 018 Lower G/F KCC Mall of Gensan, Jose Catolico Sr. Ave. General Santos City, South Cotabato	110,197.72	04/10/2016
Kidapawan	Unit I, Yaoto Bldg., National Hi-way cor. Dayao St. Kidapawan, North Cotabato	62,500.00	04/26/2013
Liloy	Chan Bldg., Baybay, Liloy, Zamboanga del Norte	14,112.00	04/30/2015
Limketkai Mall - North Concourse	G/F North Concourse, Limketkai Mall, Limketkai Center, Lapasan, Cagayan de Oro City, Misamis Oriental	156,990.97	09/30/2014
Malaybalay	Flores Bldg., cor. Rizal & Tabios Sts., Brgy. 5, Malaybalay City, Bukidnon	57,349.35	04/30/2017
Malaybalay	Fortich corner Kapitan Juan Melendez Sts., Malaybalay, Bukidnon	42,350.00	03/31/2018
Matina	HIJ Bldg., Mc Arthur Highway, Brgy. Matina, Davao City	64,276.97	06/30/2018
Matina Crossing	80 Gen. Mac Arthur Highway, Matina Crossing, Davao City (formerly Saavedra St., Toril, Davao City)	44,100.00	09/15/2015
Monteverde	Mintrade Bldg., Monteverde St. cor. Sales St., Davao City,Davao del Sur	96,630.60	03/31/2017
Ozamis	Gomez cor. Burgos Sts., Ozamis City, Misamis Occidental	50,000.00	09/30/2013
Pala-o	G/F Iligan Day Inn Bldg., Benito S. Ong St., Pala-O, Iligan City, Lanao del Norte	56,449.70	09/30/2017
Panabo City	G/F Gaisano Grand Mall of Panabo, Quezon St., Brgy. Sto. Niño, Panabo City, Davao Del Norte	80,586.22	11/21/2016
Sasa	Carmart Bldg., Km 8 Sasa Davao City	42,200.00	06/15/2015
Sindangan	Corner Rizal & Bonifacio Sts., Poblacion, Sindangan, Zamboanga del Norte	8,929.92	08/11/2022
Sta. Ana Davao	Bonifacio Tan Bldg., Rosemary cor. Bangoy Sts., Sta. Ana Dist., Davao City, Davao del Sur	64,260.00	04/30/2018
Surigao	San Nicolas St., Washington, Surigao City, Surigao del Norte	98,100.00	03/31/2016
Tetuan	G/F, AL Gonzalez & Sons Bldg., Veterans Ave., Zamboanga City 7000	82,632.13	05/15/2017
Toril	Anecita G. Uy Bldg., Saavedra St., Toril, Davao City, Davao del Sur	57,455.36	06/01/2017
Valencia	Tamay Lang Bldg., G. Lavina St., Poblacion, Valencia, Bukidnon	69,805.12	04/01/2017
Valencia	Lavina Bldg., Mabini Street, Valencia, Bukidnon	58,593.75	02/28/2021
Zamboanga - Canelar	G/F, Blue Shark Hotel, Mayor Jaldon St., Canelar, Zamboanga City	48,315.30	08/31/2022
Zamboanga - Guiwan	National Hi-way, Guiwan Zamboanga City	17,280.00	02/28/2017

Zamboanga - Nuñez Ext (Gov. Alvarez)	Ciudad Medical Zamboanga, Nuñez Ext., Zamboanga City	53,589.72	05/31/2013
Zamboanga del Norte - Dipolog	Rizal Ave., cor. Osmena St., Dipolog City, Zamboanga del Norte	85,000.00	04/16/2017
Zamboanga del Sur - San Jose	San Jose Road, Zamboanga City, Zamboanga del Sur	30,000.00	04/22/2014
Zamboanga del Sur - Veterans Avenue	Zamboanga Doctors' Hospital, G/F Annex Bldg., Veterans Ave., Zamboanga City, Zamboanga del Sur	63,800.00	05/15/2017
1/ Contract of Lease renewal is still in process			

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

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

Property Development

The Company's investment properties consist of:

Description	Location
Buildings	*Eton Cyberpod Corinthian, Ortigas Ctr., Pasig City*;* *Eton Centris, Quezon Ave., Cor. EDSA, Diliman, Quezon City.*
Office condominium unit	*6th Floor, Sagittarius Condominium, H. V. dela Costa Street, Salcedo Village, Makati City*
Residential unit	*Ocean Villa, Ternate, Cavite*
Land	*Ternate, Cavite;* *Cor. Quezon Avenue and EDSA, Diliman, Quezon City ;* *Brgy. Malitlit, Sta. Rosa City, Laguna*

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

*Land under lease arrangement.

The Company's real estate properties consist of :

ETON PROPERTIES PHILIPPINES, INC.

Eton Baypark Manila	*Corner Roxas Boulevard and Kalaw Street, Manila City*
Eton Parkview Greenbelt	*Gamboa St., Greenbelt, Makati City*
Eton Residences Greenbelt	*Legaspi St., Greenbelt, Makati City*
Eton Emerald Lofts	*Corner of Emerald Avenue, Sapphire and Garnet Streets, Ortigas Center, Pasig City*
One Archer's Place	*Taft Avenue beside De La Salle University, Manila City*
68 Roces	*Don Alejandro Roces Avenue, Quezon City*
Belton Place	*Yakal St., Makati City*
8 Adriatico	*Pedro Gil corner Bocobo Extension, Manila City*
Eton Tower Makati	*Corner Dela Rosa and V.A. Rufino Streets (formerly Herrera Street) in Legazpi Village, Makati City*
Westwing Tropics	*S. Francisco St. corner Quirino Highway, Novaliches, Quezon City*

One Centris Place	*Eton Centris, Quezon Ave., Cor. EDSA, Diliman, Quezon City*
First Homes Makati	*First Homes Makati*

BELTON COMMUNITIES, INC.

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

FIRST HOMES INC.

Aurora Heights Residences	*Loyola Heights, Quezon City*

ETON CITY INC.

South Lake Village	*Sta. Rosa, Laguna*
Riverbend	*Sta. Rosa, Laguna*
Riverbend 2 - Tierra Bella	*Sta. Rosa, Laguna*
Village Walk	*Sta. Rosa, Laguna*

With the exception of One Archers Place, Eton Residences Greenbelt, One Centris Place and Aurora Heights where the Company is both land owner and developer, the above properties are under joint venture arrangement with the Company as the project developer. These properties are in good condition and are not covered by any material existing mortgage, liens or encumbrances.

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

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

Various real estate properties with the following locations are intended to be purchased in the next twelve (12) months. These will be funded from a combination of internally generated funds and borrowings.

1. Contiguous lots in Sta. Rosa, Laguna (₱1.5 billion)
2. Padre Faura, Ermita Manila (₱93 million)
3. Novaliches, Quezon City (₱515 million)
4. Emerald Avenue, Ortigas (₱170 million)

Item 3. Legal Proceedings

Distilled Spirits

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

Trademark Infringement Suit

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

On November 11, 2003, the Court of Appeals issued a 60-day TRO versus the Mandaluyong RTC, effectively allowing TDI to resume making and selling Ginebra Kapitan. The Court of Appeals (CA) 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 CA 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 (SC) reversed the decision of the CA and nullified the writ of preliminary injunction issued by the Mandaluyong RTC. GSMI filed a motion for reconsideration but the SC denied the GSMIs motion with finality on Nov. 25, 2009.

On August 1, 2012, TDI received a copy of the decision of the Mandaluyong RTC dismissing the instant complaint for trademark infringement and unfair competition for lack of merit. GSMI filed a Motion for Reconsideration with the Mandaluyong RTC or appeal with the CA on September 3, 2012. On October 5, 2012, the Mandaluyong RTC denied the Motion for Reconsideration of GSMI.

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 product, pay GSMI 50% of the gross sales of GINEBRA KAPITAN and ₱2 million as exemplary fees. TDI filed its appeal on October 18, 2013.

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 of the Intellectual Property Office (IPO) ruled on April 23, 2008 that the word "GINEBRA" is a generic term that is not capable of exclusive appropriation. The decision paves the way for the registration with the IPO of TDI's brand name "GINEBRA KAPITAN".

On May 29, 2008, TDI's legal counsel filed a manifestation case for the consideration of the IPO ruling in the pending cases regarding the GINEBRA brand name at the Mandaluyong RTC.

On March 4, 2009, the IPO denied GSMI's motion for reconsideration but the latter filed its appeal memorandum on April 7, 2009. TDI on the other hand filed its comment on said appeal last May 18, 2009. TDI received a copy of the Supreme Court's Resolution dated November 25, 2009 on January 5, 2010 denying San Miguel's motion for reconsideration with finality meaning they cannot file another motion for reconsideration. The Supreme Court ruled that there was no basis for the issuance of the injunction restraining Tanduay from using GINEBRA KAPITAN as a trademark for its gin product. GSMI has also filed its opposition to the use of the brand names GINEBRA ESPECIAL, GINEBRA LIME, GINEBRA ORANGE and GINEBRA POMELO. These are all currently pending with the IPO.

DENR-Administrative Proceedings

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

On August 8, 2008, the PAB issued a TLO to AAC for purposes of allowing AAC to operate and implement the committed remedial measures. The said TLO was subsequently extended for successive

3-month periods based on the favourable results of PABs inspection and samplings of the wastewater discharged (effluents) by the AAC plant.

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

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

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

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

In September 2011, the local government of Pulupandan granted AAC a permit repair the damaged water line and to operate the alcohol and storage facilities. It also allowed AAC to remove and transfer its new distillery columns, which were to be used for its previous expansion plans, to ADI's plant in Batangas where expansion will now instead be pursued. As of December 31, 2013, the Company's water line is already repaired. The Company also paid the permit to rehabilitate the plant. As of March 18, 2014, AAC is still on shut down.

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

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

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

this authority is with the Provincial Treasurer with the Municipal Treasurer of a municipality within the Metropolitan Manila Area.

The Municipal Treasurer replied on February 22, 2011 defending his authority and duty to issue a warrant of levy.

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

1. Under the Local Government Code on rules on appeals, the LBAA is given 120 days from receipt of appeal to decide on the appeal; and
2. The 120th period expired on February 18, 2011.

On June 3, 2011, the Municipal Treasurer of Pulupandan again sent a demand letter to AAC for the payment of the ₱263.7 million realty tax assessments and threatened to avail of the administrative remedy to levy.
On June 16, 2011, AAC replied to the demand letter reiterating that:

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

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

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

Beverage

ABI maintains a legal department whose main function is to pursue collection cases and handle litigation arising from labor disputes. As of December 31, 2013, ABI does not have any significant legal proceedings either against it or in pursuit of another party besides those arising from the ordinary course of business.

Tobacco

- **Sandiganbayan case against Tan Companies**

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

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

Property Development
Eton is involved in litigation in the normal course of its business, and it believes none of these litigations, if resolved unfavorably, would have a material adverse effect on its operations.

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

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

PART II - OPERATIONAL AND FINANCIAL INFORMATION

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

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

1. Market Information

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

STOCK PRICES

	CLOSE	HIGH	LOW
2011			
1st Quarter	3.10	4.00	2.80
2nd Quarter	4.80	5.46	3.00
3rd Quarter	4.02	5.30	4.01
4th Quarter	4.40	5.15	3.30
2012			
1st Quarter	3.85	4.37	3.85
2nd Quarter	4.50	4.65	3.70
3rd Quarter	12.30	14.66	4.25
4th Quarter	13.38	13.90	11.34
2013			
1st Quarter	17.84	17.86	12.82
2nd Quarter	22.60	28.40	17.62
3rd Quarter	18.00	25.25	15.30
4th Quarter	15.44	19.56	12.96
2014			
March 18, 2014*	18.38	19.20	18.38

*Latest practicable trading date

2. Holders

The number of shareholders of record as of December 31, 2013 was 572. Common shares outstanding as of December 31, 2013 were 10,821,388,889. The top 20 stockholders as of December 31, 2013 are as follows:

Stockholders' Name	No. of Common Shares Held	% to Total
Tangent Holdings, Corp.	8,046,318,193	74.3557
The Hongkong & Shanghai Banking Corp. Ltd.	965,673,003	8.9237
Deutsche Bank Manila	739,701,694	6.8356
Dragon Castle Holdings Ltd.	198,535,900	1.8347
Hinner Resources Ltd.	157,195,600	1.4526
Advance Goal Ltd.	152,812,600	1.4121
Citibank N.A.	137,406,098	1.2698
Absolute Classic Ltd.	95,811,000	0.8854

Conqueror Vision Ltd.	81,913,000	0.7570
Standered Chartered Bank	55,328,922	0.5113
Pan Asia Securities Corp.	32,433,500	0.2997
Pru Life Insurance Corp. of UK	21,469,100	0.1984
Col Financial Group, Inc.	12,333,711	0.1140
Banco De Oro – Trust Banking Group	8,670,550	0.0801
First Metro Securities Brokerage Corp.	7,139,473	0.0660
BDO Securities Corp.	7,107,100	0.0657
Abacus Securities Corp.	6,274,505	0.0580
All Seasons Realty Corp.	4,974,794	0.0460
Government Service Insurance System	4,775,600	0.0441
DW Capital, Inc.	4,488,400	0.0415

***** LTG has no preferred shares.

3. Dividends

a.) Dividend declarations

On March 22, 2011, the Board of Directors of LTG approved the declaration and distribution of cash dividends of ₱0.115 to all of its stockholders of record as of April 6, 2011. This was paid on April 28, 2011.

On December 20, 2011, the Board of Directors of LTG met and approved the declaration and distribution of cash dividends of ₱0.20 to all stockholders of record of the Company as of January 5, 2012 which was paid on February 1, 2012.

On June 19, 2013, the Board of Directors of LTG met and approved the declaration and distribution of cash dividends of ₱0.15 per share or a total of ₱1.6 billion.

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

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

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

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

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

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

RESULTS OF OPERATIONS

The following discussion and analysis of the Group's financial condition and results of operations should be read in conjunction with the consolidated financial statements as at December 31, 2013, 2012 and 2011 included in this report.

The business combinations in 2013 and 2012 involving LTG and ABI and Subsidiaries, FTC, Saturn, Paramount and Subsidiaries and PNB and Subsidiaries (collectively referred to as "Acquired Subsidiaries"), all belonging to the Controlling Shareholders and under common control, were accounted for using pooling of interest method. Accordingly, LTG recognized the net assets of the acquired subsidiaries equivalent to their carrying values. Comparatives were restated to include the balances and transactions as if the subsidiaries had been acquired at the beginning of the earliest period presented.

2013 vs 2012

CONSOLIDATED RESULTS OF OPERATIONS

(In millions)	2013	2012
Revenue	₱55,792	₱62,657
Cost of Sales	26,021	30,440
Equity in Net Earnings of an Associate	3,704	6,499
Operating Expenses	24,458	25,904
Operating Income	9,016	12,812
Other income-net	4,568	5,425
Income Before Income Tax	13,584	18,237
Total Net Income	11,475	15,546
Net Income Attributable to Equity Holders of the Parent Company	8,669	12,757

LT Group, Inc. posted an ₱11.5 billion consolidated net income for the year ended December 31, 2013, 25.8% lower than the previous period of ₱15.5 billion.

Net income attributable to equity holders of LTG was ₱8.7 billion for 2013, 32.0% lower than the previous period of ₱12.8 billion. The tobacco segment contributed ₱3.9 billion, followed by the banking segment at ₱3.4 billion, which accounted for 45% and 39% of total net income attributable to equity holders of LTG, respectively. The beverage segment accounted for ₱1.0 billion or 12%, while distilled spirits segment added ₱0.2 billion or 2%. Property development segment and other income from business combination accounted for the balance.

Consolidated revenues amounted to ₱55.8 billion for the year ended December 31, 2013, lower by 11.0% from the previous period of ₱62.7 billion. The tobacco segment contributed mainly to the decrease as a result of the transfer of its JTI operations to PMFTC. The distilled spirits segment also contributed to the decrease in revenues by 18.3% mainly due to the impact of the new excise tax law and stiffer competition. The property development segment realized a significant increase of 36.2% on account of higher percentage of completion of its residential and condominium projects while the banking segment showed a decrease of 9.9%.

Cost of sales and services declined by 14.5% from ₱30.4 billion for the year ended December 31, 2012 to ₱26.0 billion in the current period. This is on account of lower interest expense on bank deposit liabilities and lower volumes in the distilled spirits segment.

Consolidated operating expenses is lower by 5.6% mainly on account of lower general and administrative expenses by 6.5%.

SEGMENT OPERATIONS

Distilled Spirits

The increase in excise taxes that prompted manufacturers to raise prices resulted to a slight decline in the total market volume of distilled spirits this year. However, Tanduay was able to maintain its dominance in the Visayas and Mindanao regions. Due to higher selling prices, coupled with stiff competition, the distilled spirits segment reported an 18.6% decline in revenue to ₱10.5 billion for the year ended December 31, 2013 as against ₱12.9 billion from the previous period.

In line with the movement in revenues, cost of sales decreased by 16.4% from ₱9.9 billion in the previous year to ₱8.3 billion in the current period. Gross profit margin was at 21.3% in 2013 compared to 23.4% last year as the average increase in selling prices was not able to fully cover the increase in costs.

Operating expenses this year was 28.5% higher with majority coming from the ₱295.0 million increase in general and administrative expenses which was due mainly to the closing of the Quiapo plant, effective April 1, 2013, where ₱105 million was spent for separation benefits. The closing of the Quiapo plant was a move to reduce costs and transfer the segment's production to the larger and more cost-efficient Cabuyao plant. Meanwhile, TDI launched a premium product, Tanduay Asian Rum in the United States during the third quarter of this year. The rum won the Gold Medal and Best in Class Award in the Gold Rum Category by the International Rum Expert Panel in the 2013 Miami Rum Renaissance Festival.

Beverage

The beverage sector's net sales remained stable at ₱13.4 billion in 2013, just slightly below the ₱13.5 billion generated in 2012. Improved sales of bottled water and energy drinks by 34.7% and 3.4%, respectively, and the continuous traction of the new products, supported 2013 sales and offset the decline in beer and alcopop. The drop in beer and alcopop sales was attributed to reduced volumes due mainly to price increases in response to R.A. 10351 raising excise taxes on beer and distilled spirits starting 2013. Cobra maintained its status as the segment's flagship product and continued to gain more share in the product mix. Beer was still the second biggest contributor in the segments' sales, followed by water. ABI expects that the positive trend in non-alcoholic beverages and the price increase implemented in beer will improve ABI's financial results in 2014.

Cost of sales declined minimally by 0.1%, from ₱9.8 billion in 2012 to ₱9.7 billion in 2013. The decrease resulted from the lower prices of sugar used in the production of energy drinks and other carbonated soft drinks, which mitigated the increase in excise taxes on beer and alcopop. Gross profit margin slightly declined to 27.2% in 2013 from 27.5% in 2012.

General and administrative expenses increased by 17.0% from ₱634.9 million in 2012 to ₱743.2 million in 2013. Main drivers of this change were the increase in salaries and wages, capital gains tax paid by ABI on the sale of its investment property and prior year tax assessments. Selling expenses decreased by 3.1% to ₱1.8 billion mainly due to lower freight and handling and royalty fees. Total operating cost remains at ₱2.5 billion.

In 2013, ABI recognized ₱290.8 million gain from the sale of its investment property and ₱20.1 million share in net income from its joint venture. Finance cost was lower as the Group paid off ₱1.9 billion loans during the year while finance income declined due to lower interest income on its time deposit. Income tax was slightly lower due to decline in revenues.

All these factors have helped the beverage segment to post continuous growth in net income with an increase of 32.6% from ₱787.0 million in 2012 to ₱1,043.5 million in 2013.

Tobacco

Net income for the year ended December 31, 2013 of ₱3.9 billion of the tobacco segment was lower by 43.0% from last year's ₱6.9 billion. This is mainly a result of lower equity in net earnings from PMFTC from ₱6.5 billion to ₱3.7 billion in 2013. Philip Morris International (PMI), FTC's partner in PMFTC, has disclosed that volume reached 68.5 billion sticks in 2013, 26% lower than the 92.8 billion sticks sold in 2012, resulting in a drop in average market share to 79.3% from 90.7%, respectively, according to Nielsen estimates.

The tobacco segment ceased its manufacturing operations, effective January 1, 2013, after completing its Contract Manufacturing Agreement (CMA) with JTI in December 2012 and transferred the CMA to PMFTC, FTC's associate. As a result, revenues declined by 94.9% to ₱151.7 million, which mainly came from the segment's sale of its remaining inventories to JTI and PMFTC in February 2013.

Consequently, cost of goods sold also declined by 94.5%, due to the termination of FTC's manufacturing operations and operating expenses by 55.8%.

Banking

The banking segment's net income reached ₱6.2 billion, a 4.4% decline y-o-y, mainly due to the ₱875 million casualty loss from the impact of Typhoon Yolanda (international name Haiyan) that was booked by the general insurance business.

Interest income declined 6.8% to ₱19.4 billion this year mainly due to the sale of government securities last year that led to lower income on investment securities this year. Interest expense also decreased by 24.9% on account of the redemption of the ₱4.5 billion and ₱6.0 billion subordinated debts in March and June 2013, respectively, as well as lower average cost rates on liabilities.

Net service fees and commission income increased by 10.6% to ₱2.5 billion in 2013.

The decrease of ₱2.2 billion on gains on trading and investment securities had the biggest impact to the segment's bottom line of ₱6.2 billion. Miscellaneous income also decreased 13.0% on account of lower leasing income, decline in gain on sale or exchange of assets by 9.5% and 6.1% and lower level of foreign exchange gains of ₱241 million by 17.3% y-o-y.

Operating expenses decreased 9.1% with the biggest decline coming from lower provision for impairment and credit losses of ₱1.7 billion and occupancy expenses which declined by 19.1%. This decline overshadowed the 18.8% increase of depreciation and amortization by ₱226.8 million.

Property development

The property development segment posted a three-digit growth in net income by 122.9% from ₱47 million for the year ended December 31, 2012 to ₱105.1 million in the current period.

This was on account of higher revenues by 36.2% to ₱3.7 billion in 2013, mainly because of the increases in percentages of completion of its projects. Real estate sales went up by 40.1% this year, coming from the following projects: high rise condominiums Eton Tower in the Makati central business district and 8 Adriatico in Manila, horizontal projects 68 Roces, West Wing Residences and West Wing Villas at North Belton Communities and mid-rise buildings in The Manors and at North

Belton Communities in Quezon City, and the West Wing Residences in Eton City, the segment's flagship township project in Sta. Rosa, Laguna. Rental income grew 13.1%.

Cost of sales went up by 46.0% in relation to the increase in revenues. Gross profit rate decreased from 31.6% in 2012 to 26.7% in 2013.

Operating expenses increased by 9.5%, as a result of higher depreciation but offset by lower personnel costs due to the reduction of its marketing force, occupancy and entertainment costs under the general and administrative expenses.

2012 vs 2011

CONSOLIDATED RESULTS OF OPERATIONS

(In millions)	2012	2011
Revenue	₱62,657	₱62,235
Cost of Sales	30,440	32,615
Equity in Net Earnings of an Associate	6,499	4,118
Operating Expenses	25,904	24,274
Operating Income	12,812	9,463
Other income-net	5,425	5,645
Income Before Income Tax	18,237	15,108
Total Net Income	15,546	12,872
Net Income Attributable to Equity Holders of the Parent Company	12,757	10,031

LTG posted a double-digit growth in net income attributable to equity holders this year, increasing by 27.2% to ₱12.8 billion in 2012 from ₱10.0 billion in 2011. This can be attributable mainly to the significant increase in operating income by 35.4% coming from the equity in net earnings of PMFTC which LTG owns through FTC.

Consolidated revenues slightly increased from ₱62.2 billion in 2011 to ₱62.7 billion in 2012. This is as a result of combined effects of increase in revenues from the banking, distilled and beverage segment by 8.6%, 4.4% and 1.6%, respectively and the decrease in revenues of the tobacco and property development segments by 11.2% and 48.3%, respectively. Revenues from the banking segment increased by ₱2.6 billion or 8.6% on account of increased trading and securities gain. Revenues of the beverage segment increased by 1.6% on account of improved sales of energy drinks and bottled water while distilled spirits increased by 4.2% on account of increase in sales volume by 5.6%. The decline in tobacco revenues is due mainly to the termination in 2011 of the transitional services agreement under which FTC received fees for providing employee and other administrative services to PMFTC. Eton's revenue decline was due to delays in the construction of some projects as a result of design changes and delay in securing necessary permits.

LTG's consolidated cost of sales decreased by 6.7% from ₱32.6 billion in 2011 to ₱30.4 billion in 2012. The decline resulted primarily from decrease in the banking segments interest expense by ₱1.4 billion or 21.8% and lower cost of sales in the beverage and property development segments which decreased by 2.9% and 49.2%, respectively, offset by the increase in tobacco cost of sales by 25.3% and 4.6% in distilled spirits. Gross profit rate slightly increased from 47.6% in 2011 to 51.4% in 2012.

Consolidated operating expenses increased by 6.7% from ₱24.3 billion in 2011 to ₱25.9 billion in 2012. This is due to the banking segments increase of 9.8% in general and administrative arising from increased provision for probable losses of about ₱1.3 billion and increase in general and administrative expenses by the beverage segment of 32.5% on account of higher taxes, depreciation and personnel costs and the property development's 16.4% increase on account of higher repairs and maintenance, outside services and business taxes. This was partially offset by lower selling costs mainly attributable to the beverage group which decreased by 9.4% due to reductions in promotional expenses and freight and handling charges, and property development which is significantly lower by 34.7% due to lower sales. Increases in operating expenses were also partially offset by the significant movements in the tobacco segment which decreased by 47.8% due to the retrenchment program as part of the business combination which reduced costs associated with salaries and wages.

Other income-net slightly decreased from ₱5.6 billion in 2011 to ₱5.4 billion on account of foreign exchange gains decreased substantially from ₱1.4 billion in 2011 to ₱0.8 billion in 2012, reflecting the loss in the value of US dollar denominated receivables of FTC due to the appreciation of the Philippine Peso and the net effect of banking segments foreign exchange transaction.

SEGMENT OPERATIONS

Distilled Spirits

Net sales of the distilled spirits segment grew from ₱12.4 billion in 2011 to ₱12.9 billion in 2012, posting a 4.4% increase. This growth is in line with the Philippine economy's GDP growth of 6.6% in 2012, which was partly driven by the 5.1% increase in household consumption of alcoholic beverages and tobacco. While sales volume of the distilled spirits increased by 6%, average selling price dipped by 2% as products with lower selling prices such as the new 55 proof Tanduay Light increased their share in the product mix. Tanduay Rhum Five Years, which accounted for approximately 76% of TDI's consolidated revenue, decreased by 4% but this was offset by the additional revenue brought in by Tanduay Light which is showing high market potential.

Cost of sales grew by 4.5% from ₱9.5 billion in 2011 to ₱9.9 billion in 2012, driven by the higher sales volume. The segment maintained its gross profit at 23%.

Operating expenses remained steady at ₱1.2 billion in 2012, representing 9.3% of revenues. Finance income grew by 603.0% from ₱1.0 million in 2011 to ₱6.7 million in 2012.

The segment net income was about the same level at ₱1.02 billion for 2012 and 2011.

Beverage

The beverage sector's net sales grew from ₱13.2 billion in 2011 to ₱13.5 billion in 2012, showing a 1.6% improvement. Main contributors of this increase were the improved sales of energy drinks and bottled water by 11.3% and 10.1%, respectively. Cobra maintained its status as the segment's flagship product and continued to gain more share in the product mix. Beer was still the second biggest contributor in the segments' sales, followed by water.

Cost of sales declined by 3%, from ₱10 billion in 2011 to ₱9.8 billion in 2012. The decrease resulted from the lower prices of sugar used in the production of energy drinks and other carbonated soft drinks. Gross profit margin improved to 27.5% in 2012 from 24.7% in 2011.

General and administrative expenses increased by 14.5% from ₱554.3 million in 2011 to ₱634.9 million in 2012. Main drivers of this change were the increase in salaries and wages and documentary stamp taxes paid by ABI on the acquisition of subsidiaries. Selling expenses decreased by 8.3% to ₱ 1.8 billion with decline in depreciation, freight and handling, and promotions as major causes.

Finance cost was lower in 2012 due to lower borrowings while higher finance income was posted due to a high interest income on its time deposit. Income tax grew due to growth in revenues.

All these factors have helped the beverage segment to continue its year-on-year 3-digit growth in net income with an increase of 216.4% from ₱248.7 million in 2011 to ₱787.0 million in 2012.

Tobacco

Sale of goods and service income compose the tobacco segment's revenue. Sale of goods went up by 56.8% from ₱1.9 billion in 2011 to ₱3.0 billion in 2012. This increase is attributable to the sale of all remaining finished goods to JTI in December 2012 as well as the impact of higher average selling price. The 2011 revenue of the tobacco segment included service income of ₱1.5 billion under the Transitional Service Agreement where FTC rendered management services to PMFTC such as procurement, marketing, sales and merchandising, human resource, financial and administrative, legal and information systems services. No service income was recorded in 2012 since the Transitional Service Agreement was terminated in mid 2011. This in turn caused the 2012 revenue of the segment to decrease by 11.2%.

The tobacco segment posted higher cost of sales, from ₱2.2 billion in 2011 to ₱2.8 billion in 2012, resulting from the higher sales volumes as well as the increase in purchase cost and manufacturing overhead. Gross profit rate declined to 6.9% in 2012 from 34.0% in 2011 due to the increase in overhead cost in 2012.

Operating expenses decreased to ₱273.8 million in 2012 from ₱554.7 million in 2011. The major cause of the 50.6% decline is the downsizing of FTC's operations and transfer of majority of its domestic business operations to PMFTC.

The increase in equity in net earnings of an associate from ₱4.1 billion to ₱6.5 billion contributed to the increase in net income by 47.0%.

Banking

The banking segment's generated a ₱6.5 billion net income for the year ended December 31, 2012, an improvement of 5.5% as compared with the same period in 2011.

Interest income decreased by 6.3% to ₱20.8 billion in the current year. Interest expense also decreased by 15.9% on account of payments of subordinated debts as well as lower average cost rates on liabilities. Net service fees and commission income decreased by 10.6% to ₱2.3 billion in 2012.

The increase of ₱4.1 billion on gains on trading and investment securities had the biggest impact to the segment's bottom line of ₱6.5 billion. Miscellaneous income also decreased 16.5% on account of lower net of gain on sale or exchange of assets and foreign exchange gains declined by 58.7% and 33.4%, respectively partially offset by the increase in other income by 5.2%.

Operating expenses increased by 10.9% from ₱19.0 billion in 2011 to ₱21.1 billion in 2012. The increase in the provision for losses by ₱1.3 billion provided caused the movement in expenses.

Property development

Revenues from the property segment decreased by 48.3% from ₱5.2 billion in 2011 to ₱2.7 billion in 2012. This was on account of delays in the construction of some projects due to changes in design to include additional amenities as well as one-off delays in securing government permits.

The decline in cost of sales by 49.2% from ₱3.6 billion in 2011 to ₱1.8 billion in 2012 was also attributable to the decrease in sales.

A 16.4% increase in general and administrative expenses from ₱425.9 million in 2011 to ₱495.7 million in 2012 resulted primarily from an increase in organizational overhead, which includes an acquisition of an enterprise planning software aimed at streamlining Eton's business processes. Also included in the overhead cost is the increase in employee headcount, outside services, business taxes and repairs & maintenance expenses for completed but not yet turned over projects.

Finance income increased by 33.1% from ₱40.7 million in 2011 to ₱54.2 million in 2012. This growth mainly came from the contracts receivables of Eton. Finance cost went up mainly due to the additional loans obtained by the company. Marketing fee and commission income were received by Eton in 2011. No income of these types was received by the company in 2012 causing other income to drop by 47.7% to ₱73.0 million.

All the aforementioned contributed to the decline in the property segment's net income.

FINANCIAL CONDITION

2013

The Company's total consolidated assets as of December 31, 2013 amounted to ₱678.5 billion, an increase of 11.2% from ₱610.1 billion as of December 31, 2012.

Consolidated current assets increased by 23.1% from ₱248.2 billion last December 31, 2012 to ₱305.6 billion as of December 31, 2013 on account of higher cash and cash equivalents, which increased by 49%. This is due to increased deposits in BSP and the proceeds from LT Group's equity offering. Other movements in the current assets are higher prepayments by 44.4%. However, financial assets through fair value through profit or loss (FVPL), current portion of available for sale financial assets and due from related parties decreased by 17%, 45% and 76%, respectively. Financial asset through FVPL had decreased, mainly on account of lower level of bank's segregated fund assets and lower fair values of the remaining financial asset through FVPL. Current portion of available for sale financial assets had declined by 45% due to net disposals. The decrease in the due from related parties accounts is on account payments made and offset of advances.

The 3.0% increase in total noncurrent assets was mainly on account of significant movements in noncurrent loans and receivables which went up by 14.5%, as a result of increased corporate and consumer loans in the banking segment and the property segment's increase in receivables. This was partially offset by the decrease in the retirement plan assets by 79% by FTC as the excess fund contribution was reverted to FTC and decrease of 16.2% in the noncurrent available for sale financial assets.

Consolidated total liabilities grew 2.4% to ₱528.7 billion as of December 31, 2013 from ₱516.4 billion as of December 31, 2012. This was on account of the increase in total current liabilities by 5.4% from ₱458.5 billion in 2012 to ₱483.3 billion in the current period offset by the decrease in the noncurrent liabilities of 19.0% from ₱56.1 billion to ₱45.4 billion. The increase in the consolidated current liabilities is attributable to the growth in the banking segment's current portion of deposit liabilities by 18% to ₱416 billion and accounts payable and other current liabilities by 10.2% to ₱13 billion as at December 31, 2013. Customer's deposit increased by 8.5% from the property development's account. The decrease in the financial liabilities at fair value through profit or loss is due mainly to the banking segment's redemption of the ₱6.0 subordinated notes issued on June 19, 2009. This is also part of a group of financial instruments that are managed on a fair value basis, in accordance with the Group's documented risk management and investment strategy. Bills and acceptances payable had decreased from ₱18.1 billion in 2012 to ₱11.4 billion in 2013 on account of various settlements in 2013. Short-term bank debts decreased by 81.5% due to the beverage segment's settlement of its bank loans. Other movements in liabilities are the maturity of the bank's ₱4.5 billion subordinated debt which reduced

the current portion of long-term debt by 78.9% and reclassification of deferred tax from liabilities to assets.

Consolidated total noncurrent liabilities had decreased by 19.0% to ₱45.4 billion. This was on account of decreased total noncurrent deposit liabilities by 57.9% to ₱10.5 billion, mainly due to banking segment's decreased level of time deposits and increase in other noncurrent liabilities by 40.6%. This was partially offset by increases in the noncurrent bills and acceptances payable, financial liabilities at FVPL account, which increased by 27.2% and 432.1%, respectively. Noncurrent portion of long-term debt increased by 6.8% mainly on account of the property development segment's availment of loan in 2013. Accrued retirement benefits account decreased from ₱5.4 billion to ₱4.3 billion due to the net effect of additional provisions during the year and adjustments to reflect new standards in retirement benefit accounting. Deferred tax liabilities had increased by 13.2% to ₱1.8 billion due to banking segment's provision for future tax liabilities.

LT Group's consolidated total equity grew 59.8% to ₱149.8 billion as of December 31, 2013, primarily as a result of the Company's share offering in April 2013 which raised ₱37.7 billion, as well as a 19.5% higher retained earnings from its subsidiaries' income.

2012

LTG's consolidated total assets for the period ended December 31, 2012 amounted to ₱610.1 billion, an increase of 5.5% from last years' same period of ₱578.1 billion. The significant growth can be attributable to the increase in total current assets by 3.2% from ₱240.4 billion in 2011 to ₱248.2 billion in 2012. Total consolidated noncurrent assets increased from ₱337.7 billion in 2011 to ₱361.9 billion in 2012.

Financial assets through fair value through profit or loss of the banking segment increased by 69.4% from ₱8.9 billion in 2011 to ₱15.1 billion in 2012. Receivables went up by 7.7% from ₱236.0 billion in 2011 to ₱254.6 billion in 2012 mainly on account of the distilled spirits segment which increased by 75.5%. This is due to the significant increase in sales in December 2012 due to the anticipated price increase in January 2013 to cover the increase in excise taxes. Property development and beverage segments' receivables have declined while the tobacco segment increased by 32.8% on account of related party transactions. Due from related parties grew by 174.1% from ₱4.1 billion in 2011 to ₱11.3 billion in 2012 as part of the Company's restructuring in 2012.

Inventories went up by 14.6% to ₱10.2 billion in 2012 from ₱8.9 billion in 2011 which is mainly attributable to the property development segment which increased its condominium and residential units for sale by 181.5% on account of lower sales. Alcohol inventory decreased by 15.9%. Tobacco inventory declined by 67.3% resulting from the downsizing of its operations. Beverage inventory increased by 4.9%.

The noncurrent available-for-sale financial assets increased significantly by 15% due to changes in the fair value of quoted equity shares and additional government debt securities

Consolidated liabilities grew by 2.5% from ₱503.8 billion in 2011 to ₱516.4 billion in 2012. The Company's total current liabilities amounted to ₱458.5 billion in 2012 or an increase of 2%. The main contributor of this growth are the current portion of the bank's financial liabilities at fair value through profit or loss and bills and acceptances payable which grew by 153.7% and 47%, respectively. Customers' Deposits also increased by 50.5% as these can be applied only against the corresponding contracts receivables based on percentage of completion. Short-term debt, accounts payable and other current liabilities and due to related parties increased by 32.8%, 5.0% and 13.7%, respectively, contributed to the increase in total current liabilities.

Noncurrent liabilities increased slightly by 1%, mainly on account of increased noncurrent deposit liabilities and other noncurrent liabilities which increased by 13.1% and 120.4%, respectively largely coming from the banking segment accounts.

Total equity increased by 26.2% from ₱74.3 billion in 2011 to ₱93.7 billion in 2012. Main drivers for this growth were the 150.6% and 46.2% increase in capital stock and retained earnings, respectively. Capital stock increased by ₱5.4 billion from ₱3.6 billion in 2011 to ₱9.0 billion in 2012 mainly due to the increased ownership of Tangent in the Company by subscribing to additional 5,398,138,889 shares on May 2, 2012 and July 27,2012 . The increase in retained earnings was due mainly to the favorable performance of most of the Company's subsidiaries during the period.

KEY PERFORMANCE INDICATORS

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

1.) **Gross Profit Ratio**

Gross profit ratio in 2013 was 53.4% versus 51.4% in 2012.

2.) **Return on Equity**

Consolidated Net Income Attributable to Equity Holders of the Parent Company for 2013 amounted to ₱8.7 billion; lower by 32% from last year's ₱12.8 billion. Ratio of net income to equity is 5.8% in 2013 and 13.6% in 2012.

3.) **Current Ratio**

Current Ratio for 2013 is 0.63:1 while last year's was 0.54:1.

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

Debt-to-equity ratio for 2013 is 3.53:1 as compared to last year's 5.51:1.

5.) **Earnings per share**

Earnings per share attributable to holders of the parent company for 2013 is ₱0.85 and ₱1.44 in 2012.

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

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

OTHER MATTERS

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

In April 2013, Tangent sold 1.84 million shares to the public and agreed to subscribe to the same number of shares newly issued by LTG. The entire proceeds from the sale of LTG's shares was used by Tangent as payment for the subscription to new shares amounting to ₱36.6 billion, net of stock issuance costs. As a result of the placing and subscription transaction, Tangent's ownership in LTG decreased to 74.36% as of December 31, 2013.

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

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

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

(iv) The Group has on-going and planned capital expenditure projects as follows:

Beverage

ABI undertook major capex projects for its glass manufacturing and beer production facilities in order to improve production efficiencies. ABI is rebuilding one furnace which is scheduled to start commercial operations in the second quarter of 2014. This more fuel-efficient furnace is designed to double the capacity of the existing furnace and is expected to support the growth in Cobra Energy Drinks, Beer and alcopop drinks.

In the first quarter of 2014, ABI completed the construction of the new Head Office building at the Cabuyao complex. The LEED office building currently houses the majority of administrative and support staff previously located in Allied Banking Center, Makati.

(v) Aside from the impact on the new law, R.A. 10351, which modified the excise tax rates on alcohol and tobacco products effective January 1, 2013, 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 arose from the Company's continuing operations.

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

Results of our Horizontal (H) and Vertical (V) analyses showed the following material changes as of and for the years ended December 31, 2013 and 2012:

1. Cash – H- 49%; V- 7%
2. Financial assets at fair value through profit or loss – H- (17%)
3. Available-for-sale financial assets - current – H- (45%)
4. Due from related parties – H- (76%)
5. Other current assets – H- 44%
6. Loans and receivables-noncurrent – H- 14.5%
7. Available-for-sale financial assets - noncurrent – H- (16%)
8. Property, plant and equipment – at cost – H- (6%)
9. Net retirement plan assets – H- (79%)
10. Deferred tax assets- H- 63%
11. Other non-current assets- H- (4.5%)
12. Deposit liabilities – current – H- 17%
13. Financial liabilities at fair value through profit or loss – current – H- (95%)
14. Bills and acceptances payable - current – H- (37%)
15. Short term bank debts – H - (82%)
16. Accounts payable and accrued expenses – H- 13.2%
17. Income tax payable- H- (61%)
18. Customer's deposit – H- 8%
19. Current portion of long-term debt – H- (79%)
20. Current portion of due to related parties – H- (80%); V- (5%)
21. Other current liabilities – H- 42%
22. Deposit liabilities – noncurrent – H- (58%)
23. Financial liabilities at fair value through profit or loss - noncurrent – H- 27%
24. Bills and acceptances payable - noncurrent – H- 432%
25. Long-term debt – net of current portion – H- 7%
26. Accrued retirement – H- (19%)
27. Deferred tax liabilities- H- 13%
28. Other noncurrent liabilities- H- (41%)
29. Capital stock – H- 21%
30. Capital in excess of par – H- 2959%
31. Other comprehensive income – H- (34%)
32. Other equity reserves- H- (20%)
33. Retained earnings- H- 20%
34. Banking revenue – H- (10%)
35. Distilled spirit revenue– H- (18%)
36. Property development Revenue – H- (36%)
37. Tobacco revenue – H- (95%)
38. Cost of sales – H- (15%)
39. Equity in net earnings of associate – H-(43%)
40. General and administrative expenses- H- (7%)
41. Finance cost – H- (12%)
42. Finance income – H- (12%)
43. Foreign exchange gains – H- 53%
44. Others-net – H- (27%)

45. Net income- H- (26%)

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

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

A. Information on Independent Accountant and other Related Matters

(1) External Audit Fees and Services

a.) Audit and Audit-Related Fees

1. The audit of the Group's annual financial statements or services that are normally provided by the external auditor in connection with statutory and regulatory filings or engagements for 2013 and 2012.

LT Group, Inc.
Yr. 2013- ₱ 1,500,000
Yr. 2012- ₱ 1,000,000

Tanduay Brands International, Inc.
Yr. 2013- ₱ 60,000
Yr. 2012- ₱ 55,000

Distilled Spirits
Yr. 2013- ₱ 2,650,000
Yr. 2012- ₱ 2,610,000

Beverage
Yr. 2013- ₱ 3,800,000
Yr. 2012- ₱ 4,935,000

Tobacco
Yr. 2013- ₱ 600,000
Yr. 2012- ₱ 600,000

Banking
Yr. 2013- ₱5,992,000
Yr. 2012- ₱7,500,000

Property Development
Yr. 2013- ₱ 1,995,000
Yr. 2012- ₱ 1,880,000

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

none

b.) Tax Fees
none

c.) All Other Fees

Yr. 2013

LT Group, Inc. and its subsidiaries incurred ₱6,900,000 during the year 2013 for its quarterly review of financial statements.

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

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

Item 7. Financial Statements

The consolidated financial statements and schedules listed in the accompanying Index to Financial Statements and Supplementary Schedules (page 97) are filed as part of this Form 17-A (pages 100 to 291)

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

There are no changes in and disagreements with accountants on any accounting and financial disclosures during the past two years ended December 31, 2013 or during any subsequent interim period.

PART III – CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers

1. Directors

Name	Age	Citizenship	Business Experience/Other Directorship within the Last five (5) years	Position/Term of Office/Period Served
Lucio C. Tan	80	Filipino	Chairman of Philippine Airlines, Inc., Asia Brewery Inc., Eton Properties Philippines, Inc., Fortune Tobacco Corp., PMFTC Inc., Grandspan Development Corp., Himmel Industries Inc., Lucky Travel Corp., **PAL Holdings, Inc.**, **Tanduay Distillers**, Inc., Tanduay Brands International, Inc., The Charter House, Inc., AlliedBankers Insurance Corp., Allied Leasing and Finance Corp., Asian Alcohol Corp., Absolut Distillers, Inc., Progressive Farms, Inc., Eton City, Inc., Belton Communities, Inc., FirstHomes, Inc., Manufacturing Services & Trade Corp., REM Development Corp.,	Chairman/ 1Year/ 2 July 1999 to present

			Foremost Farms, Inc., Basic Holdings Corp., Dominium Realty & Construction Corp., Shareholdings, Inc., Sipalay Trading Corp. and Fortune Tobacco International Corp.; Director of **Philippine National Bank** and Air Philippines Corporation; majority stockholder of Century Park Hotel	
Carmen K. Tan	72	Filipino	Director of Asia Brewery, Inc., The Charter House, Inc., Dominium Realty & Construction Corp., Eton City, Inc., Foremost Farms, Inc., Fortune Tobacco Corp., Fortune Tobacco International Corp., Himmel Industries, Inc., Lucky Travel Corp., **MacroAsia Corp.**, Manufacturing Services & Trade Corp., Progressive Farms, Inc., REM Development Corp., PMFTC Inc., Shareholdings, Inc., and Sipalay Trading Corp.	Director/ 1 Year/ 05 May 2010 to present
Harry C. Tan	68	Filipino	Chairman of Air Philippines Corp.; Vice Chairman of Eton Properties Philippines, Inc., Eton City, Inc., Belton Communities, Inc., Pan Asia Securities, Inc., and Lucky Travel Corp.; Managing Director of The Charter House, Inc.; Director/Chairman for Tobacco Board of Fortune Tobacco Corp., Director/President of Century Park Hotel, and Landcom Realty Corp., Director of Asia Brewery Inc., AlliedBankers Insurance Corp., Asian Alcohol Corp., Absolut Distillers, Inc., Basic Holdings Corp., Foremost Farms, Inc., Himmel Industries, Inc., **MacroAsia Corp.**, Manufacturing Services & Trade Corp., PMFTC Inc., Philippine Airlines Inc., **Philippine National Bank**, **PAL Holdings, Inc.**, Progressive Farms, Inc., REM Development Corp., Grandspan Development Corp., Dominium Realty & Construction Corp., Fortune Tobacco International Corp., Shareholdings, Inc., Sipalay Trading Corp., Tanduay Brands International, Inc., and **Tanduay Distillers, Inc.**	Vice Chairman; Nomination and Compensation Committee Chairman/ 1 Year/ 27 May 2009 to present (Director since 28 May 2008)

Michael G. Tan	48	Filipino	Director/Chief Operating Officer of Asia Brewery, Inc., Director of AlliedBankers Insurance Corp., Air Philippines Corp., Eton Properties Philippines, Inc., PMFTC Inc., Grandway Konstruct, Inc., Lucky Travel Corp., Philippine Airlines, Inc., Philippine Airlines Foundation, Inc., **PAL Holdings, Inc., Philippine National Bank**, Tanduay Brands International, Inc., Absolut Distillers, Inc., Eton City, Inc., Shareholdings, Inc., and **Victorias Milling Company, Inc.**	Director/President; Audit Committee Member; Nomination and Compensation Committee Member/ 1 Year/ 05 May 2010 to present (Director since 21 February 2003)
Lucio K. Tan, Jr.	47	Filipino	Director/President of Tanduay Distillers, Inc. and Eton Properties Philippines, Inc.; Director/EVP of Fortune Tobacco Corp.; Director of AlliedBankers Insurance Corp., Philippine Airlines, Inc., **Philippine National Bank**, **PAL Holdings, Inc.**, **MacroAsia Corp.**, PMFTC Inc., Lucky Travel Corp., Air Philippines Corp., Tanduay Brands International, Inc, Asian Alcohol Corp., Absolut Distillers, Inc., Asia Brewery, Inc., Foremost Farms, Inc., Himmel Industries, Inc., Progressive Farms, Inc., The Charter House, Inc., Eton City, Inc., Belton Communities, Inc., FirstHomes, Inc., REM Development Corporation, Grandspan Development Corporation, Dominium Realty & Construction Corp., Manufacturing Services & Trade Corp., Fortune Tobacco International Corp., and Shareholdings, Inc.	Director; Audit Committee Member; Nomination and Compensation Committee Member/ 1 Year/ 21 February 2003 to present
Wilson T. Young	57	Filipino	Chairman of **Victorias Milling Co., Inc.**; Vice Chairman of the Board of Trustees of UERM Medical Center; Director/President of Tanduay Brands International, Inc.; Chief Operating Officer of Tanduay Distillers, Inc**.**, Asian Alcohol Corp., Absolut Distillers, Inc., and Total Bulk Corp.; Director of Flor De Caña Shipping, Inc.; Board of Trustees Member of the University of the East	Director; Audit Committee Member/ 1 Year/ 31 March 1999 to present Served as Managing Director/Deputy CEO from 05 May 2010 to 31 July 2012
Juanita Tan Lee	71	Filipino	Director/Treasurer of Eton Properties Philippines, Inc., Director/ Corporate Secretary of Asia Brewery, Inc., Fortune Tobacco Corp., Dominium Realty and Construction Corp., and	Director; Nomination and Compensation Committee Member/ 1 Year/ 02 May 2012 to present

			Shareholdings, Inc.; Corporate Secretary of Asian Alcohol Corp., Absolut Distillers, Inc., The Charter House, Inc., Far East Molasses Corp., Foremost Farms, Inc., Fortune Tobacco Int'l Corp., Grandspan Development Corp., Himmel Industries, Inc., Landcom Realty Corp., Lucky Travel Corp., Manufacturing Services & Trade Corp., Marcuenco Realty & Development Corp., PMFTC Inc., Progressive Farms, Inc., REM Development Corp., **Tanduay Distillers, Inc.**, Tanduay Brands International Inc., Tobacco Recyclers Corp., Total Bulk Corp., Zebra Holdings, Inc.; Assistant Corporate Secretary of Basic Holdings Corp.	Assistant Corporate Secretary/ 1 Year/ 13 September 2000 to 17 September 2012
Washington Z. Sycip	92	American	Founder of SyCip Gorres Velayo & Co.; Chairman Emeritus of the Board of T rustees and Governors of the Asian Institute of Management; Chairman of **MacroAsia Corp.**, Cityland Development Corporation, Lufthansa Technik Philippines, Inc., STEAG State Power, Inc. and State Properties Corporation; Independent Director of Asian Eye Institute, Belle Corporation, Lopez Holdings Corp., Commonwealth Foods, Inc., First Philippine Holdings, Corp., Highlands Prime Inc., Metro Pacific Investments Corp., Philippine Equity Management Inc., Philippine Hotelier, Inc., Philamlife, Inc., Realty Investment Inc., The PHINMA Group, State Land, Inc., and Century Properties Group Inc.; Director of Philippine Airlines, Inc. and Philippine National Bank	Director/ 1 year/ 9 July 2013 to present
Antonino L. Alindogan, Jr.	75	Filipino	Chairman of An-Cor Holdings, Inc.; Chairman/President of Landrum Holdings, Inc.; Independent Director of Philippine Airlines, Inc., Eton Properties Philippines, Inc., **Rizal Commercial Banking Corp.**, **PAL Holdings, Inc.**, **House of Investments, Inc.**, Great Life Financial Assurance Corp., and Bankard Inc.; Former President of C55, Inc.; Former Chairman of the Board of Directors of Development	Independent Director; Audit Committee Chairman/ 1 year/ 31 July 2012 to present

			Bank of the Philippines (DBP)**;** Former Consultant for Microfinance of DBP; Former Member of the Monetary Board of Bangko Sentral ng Pilipinas	
Wilfrido E. Sanchez	77	Filipino	Tax Counsel of Quiason Makalintal Barot Torres Ibarra & Sison Law Offices; Vice Chairman of Center for Leadership & Change, Inc.; Independent Director of Adventure International Tours, Inc., Amon Trading Corp., EEI Corporation, Grepalife Asset Management Corp., Grepalife Fixed Income Fund Corp., **House of Investments, Inc**., JVR Foundation, Inc., Kawasaki Motor Corp., Magellan Capital Holdings, Corp., Omico Corporation; PETNET, Inc., PETPLANS, Inc., Transnational Diversified Corp., Transnational Diversified Group, Inc., Transnational Financial Services, Inc., and Universal Rubina Corp.; Independent Director of Eton Properties Philippines, Inc. and **Rizal Commercial Banking Corporation**	Independent Director; Audit Committee Member; Nomination and Compensation Committee Member/ 1 year/ 31 July 2012 to present
Florencia G. Tarriela	67	Filipino	Chairman of **Philippine National Bank**, PNB Global Remittance & Financial Co., HK Ltd.; Trustee/Advisor/Director of Foundation for Filipino Entrepreneurship, Inc., Summer Institute of Linguistics, and Tulay sa Pagunlad, Inc.; Columnist of Manila Bulletin	Independent Director; Audit Committee Member/ 1 year/ 9 August 2012 to present

2. Executive Officers

Name/Position	**Age**	Citizenship	**Current Affiliations and Business Experiences in the last 5 years**	**Term of Office/ Period Served**
Lucio C. Tan/ Chairman	80	Filipino	See above	1 Year/ 2 July 1999 to present
Harry C. Tan/ Vice Chairman/ Treasurer	68	Filipino	See above	1 Year/ 27 May 2009 to present/ 31 July 2012 to present
Michael G. Tan/ President	48	Filipino	See above	1 Year/ 05 May 2010 to present
Ma. Cecilia L. Pesayco/ Corporate Secretary	61	Filipino	Corporate Secretary of Allied Savings Bank and East Silverlane Realty and Development Corp.; Assistant Corporate Secretary of	1 Year/ 31 March 1998 to present

			Tanduay Distillers, Inc., **PAL Holdings, Inc.** and Air Philippines Corp.; Former Corporate Secretary of Allied Banking Corp. and Eton Properties Philippines, Inc.	
Jose Gabriel D. Olives/ Chief Financial Officer	67	Filipino	Former Senior Vice President – Finance & Chief Financial Officer of Philippine Airlines, Inc., and Former Chief Finance Officer of Asia Brewery, Inc.	1 Year/ 9 August 2012 to present
Nestor C. Mendones/ Deputy Chief Financial Officer	59	Filipino	Senior Vice President-Finance and Chief Finance Officer of Tanduay Distillers, Inc.	1 Year/ 9 August 2012 to present
Erolyne C. Go/ Assistant Corporate Secretary	33	Filipino	Corporate Secretary of PNB Life Insurance, Inc. and Eton Properties Philippines, Inc.	1 Year/ 17 September 2012 to present

Independent Directors and their qualifications:

1. Antonino L. Alindogan, Jr., 75, and was elected as Independent Director since July 31, 2012.

   Term of office – 1 year
   Period served – 1 year

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

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

2. Wilfrido E. Sanchez, 76, Filipino, and was elected as an Independent Director since July 31, 2012.

   Term of office – 1 year
   Period served – 1 year

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

   Positions held in the last 5 years:

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

3. Florencia G. Tarriela, 66, Filipino, and was elected as Independent Director since August 9, 2012.

Term of office – 1 year
Period served – 1 year

Educational Attainment:

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

Positions held in the last 5 years:

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

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

2. Significant Employees

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

3. Family Relationship

Mr. Lucio C. Tan, Chairman, is the brother of Mr. Harry C. Tan. He is also the father of Mr. Lucio K. Tan, Jr. and Mr. Michael G. Tan. Ms. Carmen K. Tan is the wife of Mr. Lucio C. Tan and the mother of Mr. Lucio K. Tan, Jr..

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

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

Item 10. Executive Compensation

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

Summary Compensation Table

Annual Compensation

	Year	Salary	Bonus	Others*
Four (4) most highly compensated executive officers (see below)	2014 (Estimate)	9,470,780	807,565	2,249,500
	2013	8,609,800	734,150	2,045,000
	2012	6,341,500	534,150	2,175,000
All other officers and directors as a group unnamed	2014 (Estimate)	7,315,000	605,000	7,188,500
	2013	6,650,000	550,000	6,535,000
	2012	6,790,000	700,000	3,090,000

* Others – includes per diem of directors

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

1. Mr. Lucio C. Tan is the Chairman of the Board of Directors and Chief Executive Officer (CEO).
2. Mr. Michael Tan is the President.
3. Mr. Nestor C. Mendones is the Deputy Chief Finance Officer.
4. Atty. Ma. Cecilia Pesayco is the Corporate Secretary.

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

b) Other Arrangements – None

c) Employment contract or compensatory plan or arrangement – None

Warrants and Options Outstanding: Repricing

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

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

Item 11. Security Ownership of Certain Record and Beneficial Owners and Management as of December 31, 2013.

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

Title of Class	Name and Address of Record Owner and relationship with Issuer	Name of Beneficial Ownership and relationship with Record Owner	Citizenship	No. of Shares	Percent of Class
Common	Tangent Holdings Corporation Unit 3, 11/F, Bench Tower, 30th Street corner Rizal Drive, Crescent Park West, Bonifacio Global City, Taguig City Controlling Stockholder	Lucio C. Tan Majority Shareholder	Filipino	8,046,318,193/ Record Owner	74.4%

2. Security Ownership of Management

Title of Class	Name of Beneficial owner	Amount and Nature of Beneficial Ownership	Citizenship	Percent of Beneficial Ownership
Common	Lucio C. Tan	2,200 R (direct)	Filipino	Nil
Common	Harry C. Tan	3,300 R (direct)	Filipino	Nil
Common	Carmen K. Tan	2,200 R (direct)	Filipino	Nil

Common	Lucio K. Tan Jr.	1,100 R (direct)	Filipino	Nil
Common	Michael G. Tan	1,100 R (direct)	Filipino	Nil
Common	Lucio K. Tan Jr.	1,100 R (direct)	Filipino	Nil
Common	Wilson T. Young	2,200 R (direct)	Filipino	Nil
Common	Juanita Tan Lee	1,100 R (direct)	Filipino	Nil
Common	Washington Z. Sycip	1,000 R (direct)	American	Nil
Common	Wilfrido E. Sanchez	1,000 R (direct)	Filipino	Nil
Common	Florencia G. Tarriela	1,000 R (direct)	Filipino	Nil
Common	Antonino Alindogan Jr.	1,000 R (direct)	Filipino	Nil
Common	Ma. Cecilia L. Pesayco	2,200 R (direct)	Filipino	Nil
N/A	Jose Gabriel D. Olives	None N/A	Filipino	N/A
N/A	Nestor C. Mendones	None N/A	Filipino	N/A
N/A	Erolyne C. Go	None N/A	Filipino	N/A

Security ownership of all directors and officers as a group unnamed is 19,500 representing 0% of LTG's total outstanding capital stock.

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

The Board of Directors of THC listed below have the right to vote or direct the voting or disposition of LTG's shares held by THC:

		No of Shares Held in THC	Total Par Value
1.	PNB Trust Banking Group (Trust Account)	3,600,000,000	P 3,600,000,000.00
2.	High Able Investment Ltd.	265,650,875	265,650,875.00
3.	Make Perfect Ltd.	278,299,515	278,299,515.00
4.	Top Trade Resources Ltd.	865,494,125	865,494,125.00
5.	Lucio C. Tan	23,999,996	23,999,996.00
6.	Harry C. Tan	1	1.00
7.	Carmen K. Tan	1	1.00
8.	Lucio K. Tan Jr.	1	1.00
9.	Michael G. Tan	1	1.00
		5,009,444,515	P 5,009,444,515.00

Each of the above named shareholders is entitled to vote only to the extent of the number of shares registered in his/her name.

3. Voting Trust Holders of 5% or more

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

4. Changes in Control

None

Item 12. Certain Relationships and Related Transactions

In addition to Note 23 of the Notes to the Consolidated Financial Statements on pages 200 to 205 the following are additional relevant related party disclosures:

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

a.) Business purpose of the arrangements:

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

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

1. PNB – bank deposits/investments/loans/services
2. THC – advances
3. VMC – supplier of sugar and molasses

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

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

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

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

The effects of the related party transactions on the financial statements have been identified in Note 23 of the Notes to Consolidated Financial Statements.

PART IV – CORPORATE GOVERNANCE

Item 13. Corporate Governance

In accordance with SEC Memorandum Circular No. 5, Series of 2013, the Annual Corporate Governance Reporof LTG was duly submitted to the SEC on July 1, 2013.

PART V - EXHIBITS AND SCHEDULES

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

a. Exhibits - see accompanying Index to Exhibits (page 97)

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

b. Reports on SEC Form 17-C

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

LIST OF ITEMS REPORTED UNDER SEC FORM 17-C
(FOR THE PERIOD OF JULY 2013 TO DECEMBER 2013)

Date of Report	Subject Matter Disclosed
July 9, 2013	During the Board of Directors' Meeting held on July 9, 2013, Atty. Estelito P. Mendoza informed the Board of his inability to accept his election as Director of LTG due to existing commitments with other conglomerates. Thereafter, the Board approved the nomination and election of Mr. Washington Z. Sycip as Director of LTG vice Atty. Mendoza.
August 14, 2013	Official Media Release of LTG for August 14, 2013 – LT Group Reports a Net Income of P9.5Billion for the First Half of 2013; Up by 35% from 2012. * * * * * It was reported that LTG changed its official business address from 7th Floor, Allied Bank Center, 6754 Ayala Avenue, Makati City to 11th Floor Unit 3 Bench Tower, 30th Street corner Rizal Drive, Crescent Park West 5, Bonifacio Gl0bal City, Taguig City.
November 8, 2013	The approval by the Hong Kong Monetary Authority (HKMA) of the application of LTG to be a minority shareholder controller of Allied Banking Corporation (Hong Kong) Limited (ABCHK) and, subsequently, to be a majority shareholder controller of ABCHK which is owned 51% by Philippine National Bank (PNB). LTG's present interest in PNB is equivalent to 45.51%.
November 14, 2013	Official Media Release of LTG for November 14, 2013 – LT Group, Inc. Reports a Net Income of Php6.9 billion for the First Nine Months of 2013
December 10, 2013	At the respective Board of Directors' meetings held on December 10, 2013 of Fortune Tobacco Corp. (FTC) and LT Group, Inc. (LTG), both boards have agreed to terminate the Exit Rights Agreement entered into in 2010 between FTC and Philip Morris Philippines Manufacturing Inc. (PMPMI), as mutually

	agreed with PMPMI. Additionally, the boards of both FTC and LTG were informed today that PMFTC has approved an amended dividend policy effective January 2014 that will substantially increase the benefits to its shareholders. In a related matter, the Board of FTC likewise approved the declaration of Stock Dividend corresponding to Nine Billion Six Hundred Twenty Five Million (9,625,000,000) common shares. Finally, the Board of LTG approved and confirmed the Corporation's firm commitment to subscribe to at least Ninety Seven Million Eight Hundred Thousand (97,800,000) shares of Philippine National Bank (the "Bank") through the Corporation's holding companies pursuant to the Bank's planned Stock Rights Offering.
December 23, 2013	We have been informed on December 23, 2013 by our counsel that the Securities and Exchange Commission (SEC) has approved the applications for increases in authorized capital stocks of the following companies: 1. All Seasons Realty Corp. (All Seasons) 2. Society Holdings Corp. (Society) 3. Profound Holdings, Inc. (Profound) 4. Total Holdings Corp. (Total) 5. Kentwood Development Corp. (Kentwood) 6. Fil-Care Holdings, Inc. (Fil-Care) 7. Safeway Holdings & Equities, Inc. (Safeway) 8. Purple Crystal Holdings, Inc. (Purple Crystal) 9. Dynaworld Holdings Inc. (Dynaworld) 10. La Vida Development Corp. (La Vida) The increase in authorized capital stock of the above-named companies allowed LTG to acquire additional indirect control of Philippine National Bank (PNB) in the aggregate of 11.27% thereby bringing up its indirect voting control from 48.61% to 59.88%.

SIGNATURES

Pursuant to the requirements of Section 17 of the Securities Regulation Code (SRC) and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned thereunto duly authorized in the City of Makati on April 11, 2014.

By:

Lucio C. Tan
Principal Executive Officer

Nestor C. Mendones
Deputy Chief Financial Officer

Michael G. Tan
Principal Operating Officer

Susan T. Lee
Principal Accounting Officer

Jose Gabriel D. Olives
Principal Financial Officer

Ma. Cecilia L. Pesayco
Corporate Secretary

SUBSCRIBED AND SWORN to before me this APR 14 2014 day of _____ 2014 affiants exhibiting to me their Passport numbers, as follows:

NAMES	PASSPORT NO.	DATE OF ISSUE	PLACE OF ISSUE
Lucio C. Tan	EB1465663	11/26/2010	Manila, Philippines
Michael G. Tan	EC0229876	2/6/2014	Manila, Philippines
Jose Gabriel D. Olives	EC0224969	2/6/2014	Manila, Philippines
Nestor C. Mendones	XX5338790	1/22/2010	Manila, Philippines
Ma. Cecilia L. Pesayco	EB4720800	2/16/2012	Manila, Philippines
Susan T. Lee	EB1787129	1/14/2011	Manila, Philippines

Doc. No. 445
Page No. 89
Book No. II
Series of 2014

KAREN L. DIALINO
Notary Public Until 31 December 2014
19th/F BDO Plaza, 8737 Paseo de Roxas, Makati City
PTR No. 3911144, Makati, 10 May 2013
IBP No. 937537, Makati, 23 May 2013
Roll No. 62561, Commission No. M-578

LT GROUP, INC.
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SEC FORM 17-A

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

LT GROUP, INC.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of LT Group, Inc. is responsible for the preparation and fair presentation of the consolidated financial statements for each of the three years in the period ended December 31, 2013, including the additional components attached therein, in accordance with the Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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

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

Signed under oath by the following:

Lucio C. Tan
Chairman and Chief Executive Officer

Michael G. Tan
President

Jose Gabriel D. Olives
Chief Finance Officer

Signed this 18th day of March 2014

REPUBLIC OF THE PHILIPPINES)
CITY OF MAKATI)

BEFORE ME, personally appeared the following persons on April 14, 2014

Name	Passport No.	Date Issue	Place of Issue
Lucio C. Tan	EB1465663	11/26/2010	Manila, Philippines
Michael G. Tan	EC0229876	2/6/2014	Manila, Philippines
Jose Gabriel D. Olives	EC0224969	2/6/2014	Manila, Philippines

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

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

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal, this day of APR 14 2014 2014 at Makati City Philippines

KAREN L. DIALINO
Notary Public Until 31 December 2014
19th/F BDO Plaza, 8737 Paseo de Roxas, Makati City
PTR No. 3911144, Makati, 10 May 2013
IBP No. 937537, Makati, 23 May 2013
Roll No. 62561, Commission No. M-578

Doc. No. 441
Page No. 89
Book No. II
Series of 2014

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

Consolidated Financial Statements
As of December 31, 2013 and 2012
and for the years ended December 31, 2013, 2012 and 2011

COVER SHEET

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SEC Registration Number

L	T		G	R	O	U	P	,		I	N	C	.																	
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C	o	r	p	o	r	a	t	i	o	n	)																			
A	N	D		S	U	B	S	I	D	I	A	R	I	E	S															

(Company's Full Name)

1	1	t	h		F	l	o	o	r	,		U	n	i	t		3		B	e	n	c	h		T	o	w	e	r	,		
3	0	t	h		S	t	.		c	o	r	n	e	r		R	i	z	a	l		d	r	i	v	e							
C	r	e	s	c	e	n	t		P	a	r	k		W	e	s	t		5		B	o	n	i	f	a	c	i	o				
G	l	o	b	a	l		C	i	t	y	,		T	a	g	u	i	g		C	i	t	y										

(Business Address: No. Street City/Town/Province)

Jose Gabriel D. Olives

(Contact Person)

(632) 808-1266

(Company Telephone Number)

1	2

Month

3	1

Day

(Calendar Year)

A	A	C	F	S

(Form Type)

0	6

Month

0	9

Day

(Annual Meeting)

Not Applicable

(Secondary License Type, If Applicable)

SEC

Dept. Requiring this Doc.

Not Applicable

Amended /Section

Total Amount of Borrowings

572

Total No. of Stockholders

Domestic | Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

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SGV
Building a better working world

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

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

BOA/PRC Reg. No. 0001,
December 28, 2012, valid until December 31, 2015
SEC Accreditation No. 0012-FR-3 (Group A),
November 15, 2012, valid until November 16, 2015

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of LT Group, Inc. (a subsidiary of Tangent Holdings Corporation) and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2013 and 2012, and the consolidated statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the three years in the period ended December 31, 2013, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

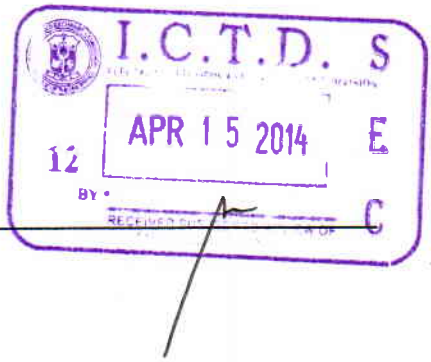
Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of LT Group, Inc. and its subsidiaries as at December 31, 2013 and 2012 and their financial performance and their cash flows for the three years in the period ended December 31, 2013, in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Josephine H. Estomo
Partner
CPA Certificate No. 46349
SEC Accreditation No. 0078-AR-3 (Group A),
February 14, 2013, valid until February 13, 2016
Tax Identification No. 102-086-208
BIR Accreditation No. 08-001998-18-2012,
April 11, 2012, valid until April 10, 2015
PTR No. 4225170, January 2, 2014, Makati City

March 18, 2014



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

CONSOLIDATED BALANCE SHEETS
(Amounts in Thousands)

	December 31, 2013	December 31, 2012 (As Restated, Note 36)	January 1, 2012 (As Restated, Note 36)
ASSETS			
Current Assets			
Cash and cash equivalents (Note 5)	**₱188,319,662**	₱126,620,890	₱132,405,098
Financial assets at fair value through profit or loss (Notes 6 and 21)	**12,556,152**	15,140,351	8,938,448
Available for sale (AFS) investments (Note 7)	**2,926,104**	5,315,452	13,470,573
Loans and receivables (Note 8)	**83,185,666**	75,763,578	69,160,140
Due from related parties (Note 23)	**2,710,185**	11,269,627	4,111,401
Inventories (Note 9)	**10,279,959**	10,238,455	8,931,159
Other current assets (Note 10)	**5,627,293**	3,896,091	3,424,742
Total Current Assets	**305,605,021**	248,244,444	240,441,561
Noncurrent Assets			
Loans and receivables - net of current portion (Note 8)	**204,749,366**	178,818,367	167,286,705
AFS investments (Note 7)	**78,029,572**	93,158,186	81,038,501
Investment in an associate and a joint venture (Note 11)	**13,664,449**	13,906,189	11,623,387
Property, plant and equipment (Note 12):			
At appraised values	**37,834,527**	38,080,668	37,423,270
At cost	**4,846,852**	5,159,758	5,138,124
Investment properties (Note 13)	**26,187,597**	25,119,022	28,117,761
Net retirement plan assets (Note 24)	**243,793**	1,173,073	1,044,554
Deferred income tax assets (Note 29)	**2,681,327**	1,645,814	2,434,459
Other noncurrent assets (Note 14)	**4,607,718**	4,826,120	3,554,829
Total Noncurrent Assets	**372,845,201**	361,887,197	337,661,590
TOTAL ASSETS	**₱678,450,222**	₱610,131,641	₱578,103,151
LIABILITIES AND EQUITY			
Current Liabilities			
Deposit liabilities (Note 15)	**₱415,690,524**	₱353,942,590	₱361,044,305
Financial liabilities at fair value through profit or loss (Notes 16 and 21)	**192,195**	4,129,393	1,627,421
Bills and acceptances payable (Note 17)	**11,423,153**	18,113,598	12,319,199
Short-term debts (Note 19)	**300,000**	1,620,000	1,220,000
Accounts payable and accrued expenses (Note 18)	**13,360,700**	11,805,052	11,582,350
Income tax payable	**164,045**	424,739	413,454
Current portion of long-term debts (Note 19)	**1,009,915**	4,777,872	543,650
Current portion of due to related parties (Note 23)	**8,036,519**	40,319,226	35,451,980
Other current liabilities (Note 20)	**33,077,731**	23,329,454	21,855,340
Total Current Liabilities (Carried Forward)	**483,254,782**	458,461,924	446,057,699

(Forward)

	December 31, 2013	December 31, 2012 (As Restated, Note 36)	January 1, 2012 (As Restated, Note 36)
Total Current Liabilities (Brought Forward)	**₱483,254,782**	₱458,461,924	₱446,057,699
Noncurrent Liabilities			
Deposit liabilities - net of current portion (Note 15)	**10,451,554**	24,805,196	21,923,074
Financial liabilities at fair value through profit or loss (Notes 16 and 21)	**7,882,700**	6,196,070	6,479,170
Bills and acceptances payable (Note 17)	**1,748,844**	328,654	1,391,525
Long-term debts - net of current portion (Note 19)	**16,879,755**	15,801,329	16,337,192
Due to related parties (Note 23)	**–**	–	1,350,332
Accrued retirement benefits (Note 24)	**4,346,262**	5,358,016	6,142,023
Deferred income tax liabilities (Note 29)	**1,815,777**	1,603,972	2,399,171
Other noncurrent liabilities (Note 20)	**2,299,948**	3,870,370	1,756,306
Total Noncurrent Liabilities	**45,424,840**	56,109,149	55,683,588
Total Liabilities	**528,679,622**	516,425,531	503,836,492
Equity			
Attributable to equity holders of the Company (Notes 1, 3, 12, 24 and 30):			
Capital stock	**10,821,389**	8,981,389	3,583,250
Capital in excess of par	**35,906,231**	1,173,772	–
Deposits for future stock subscription	**6,048,534**	–	1,639,401
Preferred shares of subsidiaries issued to Parent Company	**7,405,000**	–	–
Other comprehensive income, net of deferred income tax effect	**6,070,799**	9,257,162	10,421,017
Other equity reserves	**790,136**	987,057	1,162,223
Retained earnings	**50,505,944**	42,268,202	28,901,385
Shares of the Company held by subsidiaries	**(12,518)**	(12,518)	(163,407)
	117,535,515	62,655,064	45,543,869
Non-controlling interests (Notes 1, 7, 12 and 30)	**32,235,085**	31,051,046	28,722,790
Total Equity	**149,770,600**	93,706,110	74,266,659
TOTAL LIABILITIES AND EQUITY	**₱678,450,222**	₱610,131,641	₱578,103,151

See accompanying Notes to Consolidated Financial Statements.

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

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

	Years Ended December 31		
	2013	2012 (As Restated, Note 36)	2011 (As Restated, Note 36)
REVENUE (Note 25)			
Banking	**₱28,855,871**	₱32,040,683	₱29,498,704
Beverage	**12,701,784**	12,188,007	11,938,021
Distilled spirits	**10,425,603**	12,767,679	12,256,165
Tobacco (Note 11)	**151,722**	2,974,897	3,350,002
Property development	**3,656,950**	2,685,795	5,191,651
	55,791,930	62,657,061	62,234,543
COST OF SALES AND SERVICES (Note 25)	**26,021,935**	30,439,722	32,615,372
GROSS INCOME	**29,769,995**	32,217,339	29,619,171
EQUITY IN NET EARNINGS OF AN ASSOCIATE (Note 11)	**3,704,117**	6,498,972	4,117,904
	33,474,112	38,716,311	33,737,075
OPERATING EXPENSES			
Selling expenses (Note 26)	**2,776,946**	2,716,118	3,040,944
General and administrative expenses (Note 27)	**21,681,011**	23,187,897	21,233,381
	24,457,957	25,904,015	24,274,325
OPERATING INCOME	**9,016,155**	12,812,296	9,462,750
OTHER INCOME (CHARGES)			
Finance costs (Note 22)	**(480,892)**	(548,187)	(543,804)
Finance income (Note 22)	**139,093**	158,244	104,524
Foreign exchange gains - net	**1,260,899**	824,036	1,390,856
Others - net (Note 28)	**3,648,639**	4,991,086	4,693,867
	4,567,739	5,425,179	5,645,443
INCOME BEFORE INCOME TAX	**13,583,894**	18,237,475	15,108,193
PROVISION FOR INCOME TAX (Note 29)			
Current	**2,509,506**	2,645,034	2,123,176
Deferred	**(400,676)**	46,214	113,200
	2,108,830	2,691,248	2,236,376
NET INCOME	**₱11,475,064**	₱15,546,227	₱12,871,817
NET INCOME ATTRIBUTABLE TO:			
Equity holders of the Company	**₱8,669,220**	₱12,757,189	₱10,030,717
Non-controlling interests	**2,805,844**	2,789,038	2,841,100
	₱11,475,064	₱15,546,227	₱12,871,817
Basic/Diluted Earnings Per Share (Note 31)	**₱0.85**	₱1.44	₱1.17

See accompanying Notes to Consolidated Financial Statements.

LT GROUP, INC.
(a Subsidiary of Tangent Holdings Corporation)
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in Thousands)

	Years Ended December 31		
	2013	2012 (As Restated, Notes 2 and 36)	2011 (As Restated, Notes 2 and 36)
NET INCOME	**₱11,475,064**	₱15,546,227	₱12,871,817
OTHER COMPREHENSIVE INCOME (LOSS)			
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:			
Accumulated translation adjustment	**1,607,973**	(1,130,819)	136,441
Net changes in fair value of AFS financial assets (Note 7)	**(5,561,739)**	(790,115)	4,732,451
Income tax effect	**84,034**	110,067	12,077
	(5,477,705)	(680,048)	4,744,528
Net other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods	**(3,869,732)**	(1,810,867)	4,880,969
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:			
Re-measurement gains (losses) on defined benefit plans (Note 24)	**(369,329)**	513,336	(1,509,903)
Income tax effect	**24,318**	46,455	34,566
	(345,011)	559,791	(1,475,337)
Revaluation increment on property, plant and equipment (Note 12)	**1,300,593**	184,572	4,853,904
Income tax effect	**(390,178)**	(55,372)	(1,456,171)
	910,415	129,200	3,397,733
Share in re-measurement gains on defined benefit plans of an associate (Note 11)	**27,453**	–	–
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	**592,857**	688,991	1,922,396
OTHER COMPREHENSIVE INCOME (LOSS) - Net of income tax effect	**(3,276,875)**	(1,121,876)	6,803,365
TOTAL COMPREHENSIVE INCOME	**₱8,198,189**	₱14,424,351	₱19,675,182
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Equity holders of the Company	**₱6,702,822**	₱12,209,440	₱14,668,397
Noncontrolling interests	**1,495,367**	2,214,911	5,006,785
	₱8,198,189	₱14,424,351	₱19,675,182

See accompanying Notes to Consolidated Financial Statements.

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 and 2011
(Amounts in Thousands)

	Attributable to Equity Holders of the Company (Notes 1, 7, 12, 24, 30 and 36)																
						Other Comprehensive Income (Loss)											
	Capital Stock	Capital in Excess of Par	Deposit for Future Stock Subscription	Preferred shares of Subsidiaries Issued to Parent Company	Other Equity Reserves	Accumulated Translation Adjustment	Net Changes in AFS Financial Assets (Note 7)	Re-Measurement Gains (Losses) on Defined Benefit Plans (Note 24)	Revaluation Increment on Property Plant and Equipment (Note 12)	Revaluation Increment on Property Plant and Equipment Transferred to Associate (Notes 2, 11 and 12)	Re-measurement Gains on Defined Benefit Plans of an Associate (Note 11)	Total Other Comprehensive Income (Loss), Net of Deferred Income Tax Effect	Retained Earnings	Shares of the Company Held by Subsidiaries	Total	Non-controlling Interests (Notes 1 and 30)	Total
BALANCES AT DECEMBER 31, 2010, AS PREVIOUSLY REPORTED	**₱3,583,250**	**₱–**	**₱–**	**₱–**	**₱1,536,400**	**₱–**	**₱41,378**	**₱–**	**₱2,128,384**	**₱1,619,626**	**₱–**	**₱3,789,388**	**₱18,135,144**	**(₱150,889)**	**₱26,893,293**	**₱3,842,166**	**₱30,735,459**
Effect of restatements (Note 36)	–	–	–	–	(430,298)	(13,833)	(215,634)	(4,157)	2,413,054	339,587	–	2,519,017	1,319,155	(12,518)	3,395,356	19,951,365	23,346,721
BALANCES AT DECEMBER 31, 2010, AS RESTATED	**3,583,250**	**–**	**–**	**–**	**1,106,102**	**(13,833)**	**(174,256)**	**(4,157)**	**4,541,438**	**1,959,213**	**–**	**6,308,405**	**19,454,299**	**(163,407)**	**30,288,649**	**23,793,531**	**54,082,180**
Net income for the year, as restated	–	–	–	–	–	–	–	–	–	–	–	–	10,030,717	–	10,030,717	2,841,100	12,871,817
Other comprehensive income (loss), as restated	–	–	–	–	–	72,454	2,680,690	(861,985)	2,746,521	–	–	4,637,680	–	–	4,637,680	2,165,685	6,803,365
Total comprehensive income (loss) for the year, as restated	–	–	–	–	–	72,454	2,680,690	(861,985)	2,746,521	–	–	4,637,680	10,030,717	–	14,668,397	5,006,785	19,675,182
Deposit for future stock subscription	–	–	1,680,146	–	–	–	–	–	–	–	–	–	–	–	1,680,146	–	1,680,146
Stock issue costs	–	–	(40,745)	–	–	–	–	–	–	–	–	–	–	–	(40,745)	–	(40,745)
Business combination adjustments	–	–	–	–	–	–	–	–	–	–	–	–	18,455	–	18,455	(21,405)	(2,950)
Acquisition of non-controlling interest	–	–	–	–	56,121	–	–	–	–	–	–	–	–	–	56,121	(56,121)	–
Cash dividend	–	–	–	–	–	–	–	–	–	–	–	–	(1,127,154)	–	(1,127,154)	–	(1,127,154)
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal, as restated	–	–	–	–	–	–	–	–	(227,283)	(297,785)	–	(525,068)	525,068	–	–	–	–
BALANCES AT DECEMBER 31, 2011, AS RESTATED	**₱3,583,250**	**₱–**	**₱1,639,401**	**₱–**	**₱1,162,223**	**₱58,621**	**₱2,506,434**	**(₱866,142)**	**₱7,060,676**	**₱1,661,428**	**₱–**	**₱10,421,017**	**₱28,901,385**	**(₱163,407)**	**₱45,543,869**	**₱28,722,790**	**₱74,266,659**
BALANCES AT DECEMBER 31, 2011, AS PREVIOUSLY REPORTED	**₱3,583,250**	**₱–**	**₱1,639,401**	**₱–**	**₱1,592,521**	**₱–**	**₱43,653**	**₱–**	**₱3,916,997**	**₱1,373,455**	**₱–**	**₱5,334,105**	**₱23,297,289**	**(₱150,889)**	**₱35,295,677**	**₱4,644,869**	**₱39,940,546**
Effect of restatements (Note 36)	–	–	–	–	(430,298)	58,621	2,462,781	(866,142)	3,143,679	287,973	–	5,086,912	5,604,096	(12,518)	10,248,192	24,077,921	34,326,113
BALANCES AT DECEMBER 31, 2011, AS RESTATED	**3,583,250**	**–**	**1,639,401**	**–**	**1,162,223**	**58,621**	**2,506,434**	**(866,142)**	**7,060,676**	**1,661,428**	**–**	**10,421,017**	**28,901,385**	**(163,407)**	**45,543,869**	**28,722,790**	**74,266,659**
Net income for the year, as restated	–	–	–	–	–	–	–	–	–	–	–	–	12,757,189	–	12,757,189	2,789,038	15,546,227
Other comprehensive income (loss), as restated	–	–	–	–	–	(456,300)	(418,825)	259,446	67,930	–	–	(547,749)	–	–	(547,749)	(574,127)	(1,121,876)
Total comprehensive income (loss) for the year, as restated **(Carried Forward)**	–	–	–	–	–	(456,300)	(418,825)	259,446	67,930	–	–	(547,749)	12,757,189	–	12,209,440	2,214,911	14,424,351

	Attributable to Equity Holders of the Company (Notes 1, 7, 12, 24, 30 and 36)																
						Other Comprehensive Income (Loss)											
	Capital Stock	Capital in Excess of Par	Deposit for Future Stock Subscription	Preferred shares of Subsidiaries Issued to Parent Company	Other Equity Reserves	Accumulated Translation Adjustment	Net Changes in AFS Financial Assets (Note 7)	Re-Measurement Gains (Losses) on Defined Benefit Plans (Note 24)	Revaluation Increment on Property Plant and Equipment (Note 12)	Revaluation Increment on Property Plant and Equipment Transferred to Associate (Notes 2, 11 and 12)	Re-measurement Gains on Defined Benefit Plans of an Associate (Note 11)	Total Other Comprehensive Income (Loss), Net of Deferred Income Tax Effect	Retained Earnings	Shares of the Company Held by Subsidiaries	Total	Non-controlling Interests (Notes 1 and 30)	Total
Total comprehensive income (loss) for the year, as restated **(Brought Forward)**	~~₱–~~	~~₱–~~	~~₱–~~	~~₱–~~	~~₱–~~	(₱456,300)	(₱418,825)	₱259,446	₱67,930	~~₱–~~	~~₱–~~	(₱547,749)	₱12,757,189	~~₱–~~	₱12,209,440	₱2,214,911	₱14,424,351
Issuance of capital stock	5,398,139	1,241,262	(1,639,401)	–	–	–	–	–	–	–	–	–	–	–	5,000,000	–	5,000,000
Stock issue costs	–	(67,490)	–	–	–	–	–	–	–	–	–	–	–	–	(67,490)	–	(67,490)
Acquisition of shares of subsidiaries from the Controlling Shareholders	–	–	–	–	(390,906)	–	–	–	–	–	–	–	–	–	(390,906)	–	(390,906)
Sale of shares of the Company held by a subsidiary	–	–	–	–	193,212	–	–	–	–	–	–	–	–	150,889	344,101	–	344,101
Acquisition of non-controlling interest	–	–	–	–	22,528	–	–	–	–	–	–	–	–	–	22,528	(22,528)	–
Business combination adjustments	–	–	–	–	–	–	–	–	–	–	–	–	10,458	–	10,458	151,382	161,840
Dividends declared by subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	(16,936)	–	(16,936)	(15,509)	(32,445)
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal, as restated	–	–	–	–	–	–	–	–	(318,321)	(297,785)	–	(616,106)	616,106	–	–	–	–
BALANCES AT DECEMBER 31, 2012, AS RESTATED	**₱8,981,389**	**₱1,173,772**	**~~₱–~~**	**~~₱–~~**	**₱987,057**	**(₱397,679)**	**₱2,087,609**	**(₱606,696)**	**₱6,810,285**	**₱1,363,643**	**~~₱–~~**	**₱9,257,162**	**₱42,268,202**	**(₱12,518)**	**₱62,655,064**	**₱31,051,046**	**₱93,706,110**
BALANCES AT DECEMBER 31, 2012, AS PREVIOUSLY REPORTED	**₱8,981,389**	**₱1,173,772**	**~~₱–~~**	**~~₱–~~**	**₱797,011**	**~~₱–~~**	**₱229,768**	**~~₱–~~**	**₱3,635,956**	**₱1,127,284**	**~~₱–~~**	**₱4,993,008**	**₱30,811,336**	**~~₱–~~**	**₱46,756,516**	**₱5,853,550**	**₱52,610,066**
Effect of restatements (Note 30)	–	–	–	–	190,046	(397,679)	1,857,841	(606,696)	3,174,329	236,359	–	4,264,154	11,456,866	(12,518)	15,898,548	25,197,496	41,096,044
BALANCES AT DECEMBER 31, 2012, AS RESTATEDE	**8,981,389**	**1,173,772**	**–**	**–**	**987,057**	**(397,679)**	**2,087,609**	**(606,696)**	**6,810,285**	**1,363,643**	**–**	**9,257,162**	**42,268,202**	**(12,518)**	**62,655,064**	**31,051,046**	**93,706,110**
Net income for the year	–	–	–	–	–	–	–	–	–	–	–	–	8,669,220	–	8,669,220	2,805,844	11,475,064
Other comprehensive income (loss)	–	–	–	–	–	696,922	(2,963,582)	(217,159)	490,083	–	27,338	(1,966,398)	–	–	(1,966,398)	(1,310,477)	(3,276,875)
Total comprehensive income (loss) for the year	–	–	–	–	–	696,922	(2,963,582)	(217,159)	490,083	–	27,228	(1,966,398)	8,669,220	–	6,702,822	1,495,367	8,198,189
Issuance of capital stock	1,840,000	35,880,000	–	–	–	–	–	–	–	–	–	–	–	–	37,720,000	–	37,720,000
Issuance of preferred shares of subsidiaries	–	–	6,048,534	7,405,000	–	–	–	–	–	–	–	–	–	–	13,453,534	–	13,453,534
Stock issue costs	–	(1,147,541)	–	–	–	–	–	–	–	–	–	–	–	–	(1,147,541)	–	(1,147,541)
Acquisition of shares of subsidiaries from the Controlling Shareholders	–	–	–	–	(196,921)	–	–	–	–	–	–	–	–	–	(196,921)	–	(196,921)
Business combination adjustments	–	–	–	–	–	–	–	–	–	–	–	–	(29,094)	–	(29,094)	(247,112)	(276,206)
Cash dividends declared	–	–	–	–	–	–	–	–	–	–	–	–	(1,622,349)	–	(1,622,349)	(64,216)	(1,686,565)
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	–	–	–	–	–	–	–	–	(922,180)	(297,785)	–	(1,219,965)	1,219,965	–	–	–	–
BALANCES AT DECEMBER 31, 2013, AS RESTATED	**₱10,821,389**	**₱35,906,231**	**₱6,048,534**	**₱7,405,000**	**₱790,136**	**₱299,243**	**(₱875,973)**	**(₱823,855)**	**₱6,378,188**	**₱1,065,858**	**₱27,338**	**₱6,070,799**	**₱50,505,944**	**(₱12,518)**	**₱117,535,515**	**₱32,235,085**	**₱149,770,600**

See accompanying Notes to Consolidated Financial Statements.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)

	Years Ended December 31		
	2013	2012 (As Restated, Note 36)	2011 (As Restated, Note 36)
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱13,583,894**	₱18,237,475	₱15,108,193
Adjustments for:			
Depreciation and amortization (Notes 12 and 13)	**4,034,210**	3,677,908	3,581,501
Provision for losses (Notes 8 and 9)	**979,839**	2,738,189	1,570,070
Gain on disposal of:			
AFS (Notes 7 and 28)	**(290,505)**	78	–
Other assets (Notes 12, 13 and 28)	**(528,632)**	(620,547)	(1,499,121)
Equity in net earnings of an associate (Note 11)	**(3,704,117)**	(6,498,972)	(4,117,904)
Share in losses in joint venture (Note 10)	**20,091**	–	–
Finance costs (Note 22)	**480,892**	548,187	543,804
Finance income (Notes 22)	**(139,093)**	(158,244)	(104,524)
Movement in accrued retirement benefits (Note 24)	**(451,688)**	(399,190)	328,280
Dividend income (Note 28)	**(19,123)**	(31,072)	(30,860)
Operating income before changes in working capital	**13,965,768**	17,493,812	15,379,439
Decrease (increase) in:			
Financial assets at fair value through profit or loss	**2,584,199**	(6,201,903)	10,549,210
Receivables - net	**(33,367,165)**	(18,075,815)	(33,373,308)
Inventories	**(41,504)**	(1,307,296)	(302,357)
Other assets	**(879,379)**	(5,916,847)	(2,472,828)
Increase (decrease) in:			
Deposit liabilities	**47,394,292**	(4,219,593)	16,713,488
Accounts payable and accrued expenses	**1,525,867**	253,285	(102,142)
Customers' deposits	**222,759**	881,608	(87,109)
Financial liabilities at fair value through profit or loss	**(2,250,568)**	2,218,872	1,531,995
Other liabilities	**7,953,877**	2,781,700	9,462,976
Cash generated from (used in) operations	**37,108,146**	(12,092,177)	17,299,364
Dividends received	**3,980,680**	4,208,048	3,522,465
Interest received	**114,551**	158,244	104,524
Income taxes paid, including creditable withholding and final taxes	**(3,013,291)**	(2,560,494)	(2,271,062)
Net cash from (used in) operating activities	**38,190,086**	(10,286,379)	18,655,291

(Forward)

	Years Ended December 31		
	2013	2012 (As Restated, Note 36)	2011 (As Restated, Note 36)
Acquisition of:			
AFS financial assets (Note 7)	**(₱122,879,759)**	(₱274,740,921)	(₱170,706,573)
Investment in a joint venture (Note 11)	**–**	(20,091)	–
Property, plant and equipment (Note 12)	**(3,081,169)**	(4,182,600)	(4,767,286)
Investment properties (Note 13)	**(3,706,501)**	(1,906,922)	(1,525,200)
Software (Note 8)	**–**	(131,392)	(85,293)
Proceeds from sale of:			
AFS (Note 7)	**135,126,488**	269,986,164	194,899,945
Other assets (Notes 12 and 13)	**3,717,822**	5,956,061	417,509
Advances granted to affiliates (Note 23)	**(1,755,327)**	(3,176,552)	(2,708,093)
Net cash from (used in) investing activities	**7,421,554**	(8,216,253)	15,525,009
CASH FLOWS FROM FINANCING ACTIVITIES			
Net availments (payments) of short-term debts (Note 19)	**(1,320,000)**	400,000	820,000
Proceeds from (payments of) bill and acceptance payable	**(5,270,255)**	4,731,528	(1,537,856)
Deposit for future stock subscription (Note 30)	**–**	**–**	1,680,146
Availments (payments) of long term debts (Note 19)	**(2,703,780)**	3,658,466	947,754
Proceeds from issuance of shares (Note 30)	**37,720,000**	5,000,000	**–**
Sale of Company shares held by subsidiary	**–**	344,101	**–**
Payment of stock issue costs (Note 30)	**(1,147,541)**	(68,740)	(40,745)
Dividends paid (Note 30)	**(1,685,349)**	(32,445)	(3,265)
Acquisition of non-controlling interest	**(444,033)**	(227,817)	–
Advances from affiliates (Note 23)	**733,138**	1,566,201	71,039
Payment of advances from affiliates (Note 23)	**(9,223,000)**	(2,030,961)	**–**
Payment of finance cost	**(572,048)**	(621,909)	(544,480)
Net cash from financing activities	**16,087,132**	12,718,424	1,392,593
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**61,698,772**	(5,784,208)	35,572,893
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**126,620,890**	132,405,098	96,832,205
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	**₱188,319,662**	₱126,620,890	₱132,405,098

See accompanying Notes to Consolidated Financial Statements.

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

Corporate Information

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

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

As of December 31, 2013 and 2012, LTG is 74.36% and 89.59%-owned, respectively, 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.

Capital Raising of LTG

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

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

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

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

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

In April 2013, Tangent sold 1.84 million shares to the public and agreed to subscribe to the same number of shares newly issued by LTG. The entire proceeds from the sale of LTG's shares was used by Tangent as payment for the subscription to new shares amounting to ₱36.6 billion, net of stock issuance costs (see Note 30). As a result of the placing and subscription transaction, Tangent's ownership in LTG decreased to 74.36% as of December 31, 2013.

Corporate Restructuring

Consolidation of Businesses under LTG

In preparation for, and prior to the completion of the capital raising exercise approved by the stockholders on September 24, 2012 as discussed above, the Group has undergone certain transactions to transfer certain businesses of the Controlling Shareholders to LTG. This restructuring exercise was approved by LTG's BOD on July 31, 2012. In support of LTG's restructuring activities, Tangent subscribed in cash to 5,000,000,000 common shares on the increase in LTG's authorized capital (see Note 30).

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

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

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

b. Acquisition of Fortune Tobacco Corporation (FTC)

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

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

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

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

As of December 31, 2012, LTG has direct ownership interest in FTC of 82.32%, while the balance of 17.33% and 0.35% is owned by Shareholdings and the Controlling Shareholders, respectively, and was previously presented as non-controlling interest in the 2012 consolidated financial statements.

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

- Acquired subscription rights to 453,500,000 shares of Shareholdings, which represents 90.70% ownership interest in Shareholdings or equivalent to 15.71% indirect ownership interest in FTC;
- Assumed certain liabilities of Shareholdings from Controlling Shareholders amounting to ₱1.5 billion, which was used as payment for the subscription of 1,500,000,000 out of the unissued capital stock of Shareholdings thereby increasing the ownership interest in Shareholdings to 97.68% (equivalent to 1.21% indirect ownership in FTC);
- Acquired additional 0.34% direct ownership interest in FTC through purchase of FTC's 104,330,633 outstanding shares held by the Controlling Shareholders.

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

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

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

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

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

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

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

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

On March 6, 2012, PNB held a Special Stockholders' Meeting approving the amended terms of the Plan of Merger of PNB with ABC. Under the approved amended terms, merger will be effected via a share-for-share exchange with PNB as the surviving entity. PNB will issue to ABC shareholders 130 Parent Company common shares for every ABC common share and 22.763 PNB common shares for every ABC preferred share. As of January 17, 2013, PNB has received all the necessary approvals from SEC and foreign regulatory agencies to effectuate the merger. On February 9, 2013, PNB completed its planned merger with ABC (the merger of PNB and ABC will be referred to herein as "Merged PNB") as approved and confirmed by the BOD of PNB and ABC on January 22 and January 23, 2013, respectively.

The merger of PNB and ABC was accounted for using the pooling of interests method by the Company since both entities are under the common control of Mr. Tan (see Note 30).

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

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

These business combinations were accounted for using pooling of interests method. Accordingly, LTG recognized the net assets of the acquired subsidiaries equivalent to their carrying values. The December 31, 2012 and January 1, 2012 comparative financial information were restated at the beginning of the earliest period presented (see Note 30).

Authorization for Issue of the Consolidated Financial Statements

The consolidated financial statements as at December 31, 2013 and 2012 and January 1, 2012 and for the three years in the period ended December 31, 2013, were authorized for issue by the BOD on March 18, 2014.

2. Summary of Significant Accounting and Financial Reporting Policies

Basis of Preparation and Statement of Compliance

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

The consolidated financial statements provide comparative information in respect of the previous period. In addition, the Group presents an additional statement of financial position at the beginning of the earliest period presented when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in financial statements. An additional consolidated statement of financial position as at January 1, 2012 is presented in these consolidated financial statements due to accounting for business combination under common control and retrospective application of certain accounting policies (see Changes in Accounting Policies and Disclosures).

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

Basis of Consolidation

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

	Percentage of Ownership						
	December 31						
	2013		2012[1]			January 1, 2012[1]	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)[2]	**100.0**	**–**	100.0	–	100.0	–	Philippines
Beverages							Philippines
ABI and subsidiaries	**99.9**	**–**	99.9	–	99.9	–	Philippines
Agua Vida Systems, Inc.	**–**	**99.9**	–	99.9	–	99.9	Philippines
Interbev	**–**	**99.9**	–	99.9	–	99.9	Philippines
Waterich	**–**	**99.9**	–	99.9	–	99.9	Philippines
Packageworld	**–**	**99.9**	–	99.9	–	99.9	Philippines
Tobacco							
Shareholdings, Inc.	**97.7**	**–**	97.7	**–**	97.7	**–**	Philippines
FTC	**82.7**	**16.9**	82.7	16.9	82.7	16.9	Philippines
Property Development							
Saturn[3]	**100.0**	**–**	100.0	–	100.0	–	Philippines
Paramount and subsidiaries[3]	**100.0**	**–**	100.0	–	100.0	–	Philippines
Eton	**–**	**99.3**	–	99.3	–	99.3	Philippines
Belton Communities, Inc. (BCI)	**–**	**99.3**	–	99.3	–	99.3	Philippines
Eton City, Inc. (ECI)	**–**	**99.3**	–	99.3	–	99.3	Philippines
FirstHomes, Inc. (FHI)	**–**	**99.3**	–	99.3	–	99.3	Philippines
Eton Properties Management Corporation (EPMC)	**–**	**99.3**	–	99.3	–	99.3	Philippines
Banking							
Bank Holding Companies (Note 23)[4]	**80-100**	**–**	80-100	–	80-100	–	Various
PNB and Subsidiaries[5]	**–**	**56.5**	**–**	56.5	**–**	56.5	Philippines
PNB Capital and Investment Corporation (PNB Capital)	**–**	**56.5**	**–**	56.5	**–**	56.5	Philippines
PNB Securities, Inc. (PNB Securities)	**–**	**56.5**	**–**	56.5	**–**	56.5	Philippines

(Forward)

	Percentage of Ownership						
	December 31					January 1,	
	2013		2012[1]			2012[1]	Country of
	Direct	Indirect	Direct	Indirect	Direct	Indirect	Incorporation
Banking (continued)							
PNB Forex, Inc.	–	**56.5**	–	56.5	–	56.5	Philippines
PNB Holdings Corporation (PNB Holdings)	–	**56.5**	–	56.5	–	56.5	Philippines
PNB General Insurers, Inc. (PNB Gen)	–	**56.5**	–	56.5	–	56.5	Philippines
PNB Corporation - Guam	–	**56.5**	–	56.5	–	56.5	United States of America (USA)
PNB International Investments Corporation (PNB IIC)	–	**56.5**	–	56.5	–	56.5	USA
PNB Remittance Centers, Inc. (PNBRCC)	–	**56.5**	–	56.5	–	56.5	USA
PNB RCI Holding Co. Ltd.	–	**56.5**	–	56.5	–	56.5	USA
PNB Remittance Co. (Canada)	–	**56.5**	–	56.5	–	56.5	Canada
PNB Europe PLC	–	**56.5**	–	56.5	–	56.5	United Kingdom
PNB Global Remittance & Financial Co. (HK) Ltd. (PNB GRF)	–	**56.5**	–	56.5	–	56.5	Hong Kong
PNB Italy SpA	–	**56.5**	–	56.5	–	56.5	Italy
Japan - PNB Leasing and Finance Corporation (Japan-PNB Leasing)	–	**50.8**	–	50.8	–	50.8	Philippines
Japan - PNB Equipment Rentals Corporation	–	**50.8**	–	50.8	–	50.8	Philippines
Allied Savings Bank (ASB)	–	**56.5**	–	56.5	–	56.5	Philippines
Allied Bank Philippines (UK) Plc (ABUK)	–	**56.5**	–	56.5	–	56.5	United Kingdom
Allied Commercial Bank (ACB)	–	**50.8**	–	50.8	–	50.8	People's Republic of China
Allied Banking Corporation (Hongkong) Limited (ABCHKL)	–	**28.8**	–	28.8	–	28.8	Hong Kong
ACR Nominees Limited	–	**28.8**	–	28.8	–	28.8	Hong Kong
PNB Life Insurance, Inc. (PLII)	–	**45.2**	–	45.2	–	45.2	Philippines
Allied Leasing and Finance Corporation (ALFC)	–	**32.3**	–	32.3	–	32.3	Philippines
Oceanic Holdings (BVI) Ltd. (OHBVI)	–	**15.7**	–	15.7	–	15.7	USA

(1) *Effective percentage of ownership as of December 31, 2012 and January 1, 2012 was restated to reflect pooling of interest as if the newly acquired subsidiaries have always been combined.*

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

(3) *In July 2011, upon approval by the Philippine SEC of the asset-for-share swap which was filed in 2009, Paramount acquired 1.6 billion unissued shares of Eton, which is equivalent to 55.07% ownership interest in Eton. The acquisition resulted to dilution of Saturn and the non-controlling ownership interest in Eton from 94.4% and 5.6% as of December 31, 2010 to 42.39% and 2.54% as of December 31, 2011, respectively.*

(4) *As of December 31, 2013, the Bank Holding Companies consist of 27 entites with aggregate direct ownership interest of 59.83% in PNB, of which 20 companies are incorporated in the Philippines and seven (7) companies are incorporated in the British Virgin Islands (see Note 23).*

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

Subsidiaries are entities over which the Company has control. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect that return through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- The assets and liabilities of the combining entities are reflected in the consolidated financial statements at their carrying amounts. No adjustments are made to reflect fair values, or recognize any new assets or liabilities, at the date of the combination. The only adjustments that are made are those adjustments to harmonize accounting policies.
- No new goodwill is recognized as a result of the combination. The only goodwill that is recognized is any existing goodwill relating to either of the combining entities. Any difference between the consideration paid or transferred and the equity acquired is reflected within equity as other equity reserve, i.e., either contribution or distribution of equity.
- The consolidated statement of income reflects the results of the combining entities for the full year, irrespective of when the combination took place.
- As a policy, comparatives are presented as if the entities had always been combined.

Changes in Accounting Policies and Disclosures
The accounting policies adopted in the preparation of the Group's consolidated financial statements are consistent with those of the previous financial year except for the following amended PFRSs which were adopted effective beginning January 1, 2013.

The Group applies, for the first time, certain standards and amendments that require restatement of previous financial statements. These include PFRS 10, *Consolidated Financial Statements*, PFRS 11, *Joint Arrangements*, PAS 19 (Revised 2011), *Employee Benefits*, PFRS 13, *Fair Value Measurement* and amendments to PAS 1, *Presentation of Financial Statements* (see Note 36). In addition, the application of PFRS 7, *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities (Amendments)* and PFRS 12, *Disclosure of Interest in Other Entities* would result in additional disclosures in the consolidated financial statements (see Notes 11 and 37).

The nature and the impact of each new standard/amendments are described below:

- PFRS 7, *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities (Amendments)*, requires an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32. These disclosures

also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordancewith PAS 32. The amendments require entities to disclose, in a tabular format, unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

a) The gross amounts of those recognized financial assets and recognized financial liabilities;
b) The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the balance sheet;
c) The net amounts presented in the balance sheet;
d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
   i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
   ii. Amounts related to financial collateral (including cash collateral); and
e) The net amount after deducting the amounts in (d) from the amounts in (c) above.

Refer to Note 37 for the details and the tabular format of the required offsetting disclosures with the Group retrospectively applied.

- PFRS 10, *Consolidated Financial Statements*, replaced the portion of PAS 27, *Consolidated and Separate Financial Statements*, that addressed the accounting for consolidated financial statements. It also included the issues raised in SIC 12, *Consolidation - Special Purpose Entities*. PFRS 10 established a single control model that applied to all entities including special purpose entities. The changes introduced by PFRS 10 require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27.

  Deconsolidation of Instrument in SPV-Opal Portfolio Investments (SPV-APIC), Inc. (OPII)
  Before the effectivity of PFRS 10, Opal Portfolio Investment (SPV-AMC) (OPII) is consolidated by PNB based on the provisions of SIC 12. Under SIC 12, control over an SPE may exist even in cases where an entity owns little or none of the SPE's equity, such as when an entity retains majority of the residual risks related to the SPE in order to obtain benefits from its activities. Beginning January 1, 2013, the Group adopted PFRS 10 which supersedes SIC 12. PFRS 10 establishes control as the basis for determining which entities are consolidated in the consolidated financial statements. Based on management's assessment, PNB should no longer consolidate OPII since it failed to demonstrate control over OPII. Thus, the consolidated financial statements of PNB as of December 31, 2012 and January 1, 2012 were restated to retroactively effect the deconsolidation of Opal in accordance with the transition provision of PFRS 10.

- Amendments to PAS 27, *Separate Financial Statements*. As a consequence of the issuance of the new PFRS 10 and PFRS 12, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in the separate financial statements. The adoption of the amended PAS 27 did not have a significant impact on the separate financial statements of the entities in the Group.

- PFRS 11, *Joint Arrangements*. replaced PAS 31, *Interests in Joint Ventures*, and SIC 13, *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. PFRS 11 removed the option to account for jointly controlled entities using proportionate consolidation. Instead,

jointly controlled entities that meet the definition of a joint venture must be accounted for using the equity method. The application of this new standard does not have an impact on the financial position of the Group since its investments in associates and joint venture are currently accounted for under the equity method.

- PFRS 12, *Disclosure of Interests in Other Entities*, sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in PFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries (for example, where a subsidiary is controlled with less than a majority of voting rights). While the Group has subsidiaries with material noncontrolling interests, there are no unconsolidated structured entities. PFRS 12 disclosures are provided in Note 11.

- Amendments to PAS 28, *Investments in Associates and Joint Ventures*. As a consequence of the issuance of the new PFRS 11 and PFRS 12, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The application of this new standard did not have an impact on the financial position of the Group since its investments in associates and joint venture are currently accounted for under the equity method.

- PFRS 13, *Fair Value Measurement*, establishes a single source of guidance under PFRSs for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS. PFRS 13 defines fair value as an exit price. PFRS 13 also requires additional disclosures.

  As a result of the guidance in PFRS 13, the Group re-assessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. The Group has assessed that the application of PFRS 13 has not materially impacted the fair value measurements of the Group. Additional disclosures, where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in Note 33.

- Amendments to PAS 1, *Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income or OCI*, introduced a grouping of items presented in OCI. Items that will be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) will be presented separately from items that will never be recycled. The amendments affected presentation only and did not have an impact on the Group's financial position or performance.

- Amendments to PAS 19, *Employee Benefits* (Revised PAS 19), require all actuarial gains and losses to be recognized in other comprehensive income and unvested past service costs previously recognized over the average vesting period to be recognized immediately in profit or loss when incurred.

  Prior to adoption of the Revised PAS 19, the Group recognized actuarial gains and losses as income or expense when the net cumulative unrecognized gains and losses for each individual plan at the end of the previous period exceeded 10% of the higher of the defined benefit obligation and the fair value of the plan assets and recognized unvested past service costs as an expense on a straight-line basis over the average vesting period until the benefits become vested. Upon adoption of the Revised PAS 19, the Group changed its accounting policy to

recognize all actuarial gains and losses in other comprehensive income and all past service costs in profit or loss in the period they occur.

The Revised PAS 19 replaced the interest cost and expected return on plan assets with the concept of net interest on defined benefit liability or asset which is calculated by multiplying the net balance sheet defined benefit liability or asset by the discount rate used to measure the employee benefit obligation, each as at the beginning of the annual period.

The Revised PAS 19 also amended the definition of short-term employee benefits and requires employee benefits to be classified as short-term based on expected timing of settlement rather than the employee's entitlement to the benefits. In addition, the Revised PAS 19 modifies the timing of recognition for termination benefits. The modification requires the termination benefits to be recognized at the earlier of when the offer cannot be withdrawn or when the related restructuring costs are recognized.

Changes to definition of short-term employee benefits and timing of recognition for termination benefits do not have any impact to the Group's financial position and financial performance.

The changes in accounting policies have been applied retrospectively. The effects of adoption on the consolidated financial statements, except for the impact of the PAS 19R on the banking segment which were already considered in the accounting for business combination under common control using the pooling of interest method (see Note 36), follow:

Consolidated Balance Sheets

	December 31		January 1,
	2013	2012	2012
	(In Thousands)		
Increase (decrease) in:			
Net retirement plan assets	**(₱96,362)**	(₱42,530)	(₱22,664)
Accrued retirement benefits	**338,173**	321,773	185,223
Deferred income tax assets	**14,643**	19,396	9,894
Deferred income tax liabilities	**(101,329)**	(85,918)	(50,831)
Other comprehensive income	**(258,927)**	(201,893)	(85,967)
Retained earnings	**(60,198)**	(57,839)	(62,415)
Non-controlling interests	**562**	743	1,220

Consolidated Statements of Income

	Years Ended December 31		
	2013	2012	2011
	(In Thousands, except earnings per share)		
Impact on profit or loss:			
Cost of sales	**(₱8,734)**	(₱4,299)	(₱1,345)
Gross profit	**8,734**	4,299	1,345
Selling expenses	**(984)**	(1,086)	(1,252)
General and administrative expenses	**(1,522)**	(810)	(953)
Other income	**(14,696)**	–	–
Income before income tax	**(3,456)**	6,195	3,550
Provision for income tax	**(1,037)**	1,681	1,052
Increase (decrease) in net income	**(₱2,419)**	₱4,514	₱2,498

(Forward)

	Years Ended December 31		
	2013	2012	2011
	(In Thousands, except earnings per share)		
Attributable to:			
Equity holders of the parent	**(₱2,360)**	₱4,577	₱2,567
Non-controlling interests	**(59)**	(63)	(70)
Basic/diluted earnings per share	**–**	–	–

Consolidated Statements of Comprehensive Income

	Years Ended December 31		
	2013	2012	2011
		(In Thousands)	
Increase (decrease) in net income	**(₱2,419)**	₱4,514	₱2,498
Impact on other comprehensive income:			
Re-measurement gain (loss) of defined benefit obligation	**(81,473)**	(162,795)	(116,477)
Income tax effect	**24,318**	46,455	34,566
Other comprehensive income (loss) for the year, net of tax	**(57,155)**	(116,340)	(81,911)
Increase (decrease) in total comprehensive income for the year	**(₱59,574)**	(₱111,826)	(₱79,413)
Attributable to:			
Equity holders of the parent	**(₱59,394)**	(₱111,349)	(₱79,242)
Non-controlling interests	**(180)**	(477)	(172)

The adoption of the Revised PAS 19 did not havea significant impact on the consolidated statements of cash flows for the years ended December 31, 2012 and 2011.

Re-measurement losses on accrued retirement benefits were closed to retained earnings at transition date. Subsequent to January 1, 2011, re-measurement losses on accrued retirement benefits is presented separately under other comprehensive income. The Revised PAS 19 also requires more extensive disclosures which are presented in Note 24 to the financial statements.

- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*, applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. This new interpretation is not relevant to the Group as the Group is not involved in any mining activities.

- Amendment to PFRS 1, *First-time Adoption of International Financial Reporting Standards - Government Loans*, requires first-time adopters to apply the requirements of PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, prospectively to government loans existing at the date of transition to PFRS. However, entities may choose to apply the requirements of PAS 39, *Financial Instruments: Recognition and Measurement*, and PAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for those loans. These amendments are not relevant to the Group as the Group is not a first time adopter of PFRS.

Annual Improvements to PFRSs (2009-2011 cycle)
The *Annual Improvements to PFRSs (2009-2011 cycle)* contain non-urgent but necessary amendments to PFRSs. The Group adopted these amendments for the current year.

- PFRS 1, *First-time Adoption of PFRS - Borrowing Costs*, clarifies that, upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles, may carry forward, without any adjustment, the amount previously capitalized in its opening statement of financial position at the date of transition. Subsequent to the adoption of PFRS, borrowing costs are recognized in accordance with PAS 23, *Borrowing Costs*. The amendment does not apply to the Group as it is not a first-time adopter of PFRS.

- PAS 1, *Presentation of Financial Statements - Clarification of the requirements for comparative information*, clarifies the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. As a result of accounting for business combination under common control and adoption of Revised PAS 19, the Group has included comparative information in respect of the opening balance sheet as at January 1, 2012 and supporting notes for the balance sheet accounts affected. The amendments affected disclosures only and did not have an impact on the Group's financial position or performance.

- PAS 16, *Property, Plant and Equipment - Classification of Servicing Equipment*, clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise. The amendment did not have any significant impact on the Group's financial position or performance.

- PAS 32, *Financial Instruments: Presentation - Tax Effect of Distribution to Holders of Equity Instruments*, clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12, *Income Taxes*. The amendment did not have an impact on the consolidated financial statements for the Group, as there is no tax consequences attached to cash or non-cash distribution.

- PAS 34, *Interim Financial Reporting - Interim Financial Reporting and Segment Information for Total Assets and Liabilities*, clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker (CODM) and there has been a material change from the amount disclosed in the entity's previous annual financial statements for that reportable segment. The amendment affected disclosures only and did not have an impact on the Group's financial position or performance.

New Accounting Standards, Interpretations and Amendments to
Existing Standards Effective Subsequent to December 31, 2013

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

Effective in 2014

- Amendments to PFRS 10, PFRS 12 and PAS 27, *Investment Entities*, provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Group since none of the entities in the Group would qualify to be an investment entity under PFRS 10.

- Amendments to PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*, clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments affect presentation only and will have no impact on the Group's financial position and performance.

- Amendments to PAS 36, *Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets*, remove the unintended consequences of PFRS 13 on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

- Amendments to PAS 39, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting*, provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The amendment is not relevant to the Group as it has no derivatives designated as a hedging instrument.

- Philippine Interpretation IFRIC 21, *Levies* (IFRIC 21), clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. The Group does not expect that IFRIC 21 will have material financial impact in future financial statements.

Effective 2015

- PAS 19, *Employee Benefits - Defined Benefit Plans: Employee Contributions* (Amendments), apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as reductions to current service costs if they are linked to service or as part of the remeasurements of the net defined

benefit asset or liability if they are not linked to service. Contributions that are discretionary shall be accounted for as reductions of current service cost upon payment of these contributions to the plans. The amendments will have no impact on the Group's financial position and performance since the Group has no contributory defined benefit plans.

Annual Improvements to PFRSs (2010-2012 cycle)
The *Annual Improvements to PFRSs* (2010-2012 cycle) contain non-urgent but necessary amendments to the following standards:

- PFRS 2, *Share-based Payment - Definition of Vesting Condition*, revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. This amendment does not apply to the Group as it has no share-based payments.

- PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business Combination*, clarifies that a contingent consideration that meets the definition of a financial instrument should be classified as a financial liability or as equity in accordance with PAS 32. Contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PFRS 9 (or PAS 39, if PFRS 9 is not yet adopted). The Group shall consider this amendment for future business combinations.

- PFRS 8, *Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*, require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

- PFRS 13, *Fair Value Measurement - Short-term Receivables and Payables*, clarifies that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial.

- PAS 16, *Property, Plant and Equipment - Revaluation Method - Proportionate Restatement of Accumulated Depreciation*, clarifies that, upon revaluation of an item of property, plant and equipment, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

  a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
  b. The accumulated depreciation is eliminated against the gross carrying amount of the asset.

The amendment shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The Group shall continue to adopt option (a) for future revaluations.

- PAS 24, *Related Party Disclosures - Key Management Personnel*, clarifies that an entity is a related party of the reporting entity if the said entity, or any member of a group for which it is a part of, provides key management personnel services to the reporting entity or to the parent company of the reporting entity. The amendments also clarify that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the compensation paid or payable by the management entity to its employees or directors. The reporting entity is required to disclose the amounts incurred for the key management personnel services provided by a separate management entity. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

- PAS 38, *Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Amortization*, clarifies that, upon revaluation of an intangible asset, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

  a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
  b. The accumulated amortization is eliminated against the gross carrying amount of the asset.

  The amendments also clarify that the amount of the adjustment of the accumulated amortization should form part of the increase or decrease in the carrying amount accounted for in accordance with the standard.

  The amendments will have no impact on the Group's financial position and performance.

Annual Improvements to PFRSs (2011-2013 cycle)
The *Annual Improvements to PFRSs* (2011-2013 cycle) contain non-urgent but necessary amendments to the following standards:

- PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards - Meaning of 'Effective PFRSs'*, clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but that permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements. This amendment is not applicable to the Group as it is not a first-time adopter of PFRS.

- PFRS 3, *Business Combinations - Scope Exceptions for Joint Arrangements*, clarifies that PFRS 3 does not apply to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself. The amendments will have no impact on the Group's financial position and performance.

- PFRS 13, *Fair Value Measurement - Portfolio Exception*, clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts. The amendment has no significant impact on the Group's financial position or performance.

- PAS 40, *Investment Property*, clarifies the interrelationship between PFRS 3 and PAS 40 when classifying property as investment property or owner-occupied property. The amendment stated that judgment is needed when determining whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination within the scope of PFRS 3. This judgment is based on the guidance of PFRS 3. The amendment has no significant impact on the Group's financial position or performance.

Standard with no mandatory effective date

- PFRS 9, *Financial Instruments*, reflects the first and third phases of the project to replace PAS 39 and applies to the classification and measurement of financial assets and liabilities and hedge accounting, respectively. Work on the second phase, which relate to impairment of financial instruments, and the limited amendments to the classification and measurement model is still ongoing, with a view to replace PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For liabilities designated as at FVPL using the fair value option, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change relating to the entity's own credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward to PFRS 9, including the embedded derivative bifurcation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

  On hedge accounting, PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items, but also for non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a financial instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

  PFRS 9 currently has no mandatory effective date. PFRS 9 may be applied before the completion of the limited amendments to the classification and measurement model and impairment methodology. An evaluation of the requirements was conducted to determine the impact of early adoption of PFRS 9 and the accounts affected are "Available for sale investments" and "Loans and receivables". As at December 31, 2013, the Group opted not to early adopt the standard before the completion of the limited amendments and the second phase of the project.

Effectivity date to be determined

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11 or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The SEC and the Financial Reporting Standards Council (FRSC) have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. The adoption of this Philippine Interpretation may significantly affect the determination of the revenue from real estate sales and the corresponding costs, and the related contracts receivables, deferred income tax assets and retained earnings accounts. The adoption of this Philippine Interpretation will be accounted for retrospectively, and will result to restatement of prior period financial statements. The Group is currently assessing the impact of this amendment on its financial position or performance.

Significant Accounting Policies

Investments in an Associate and a Joint Venture

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

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

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

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

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

Fair Value Measurement

The Group measures certain financial instruments and nonfinancial assets at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortized cost and investment properties carried at cost are disclosed in Note 33.

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

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

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

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

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

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

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

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

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

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

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

Cash and Cash Equivalents

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

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

Financial Instruments

Date of recognition

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

Initial recognition of financial instruments

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

As of December 31, 2013 and 2012, the Group has no HTM investments.

Reclassification of financial assets

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

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

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

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

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

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

Other financial assets or financial liabilities held-for-trading
Other financial assets or financial liabilities held for trading (classified as 'Financial assets at FVPL' or 'Financial liabilities at FVPL') are recorded in the consolidated balance sheet at fair value. Changes in fair value relating to the held-for-trading positions are recognized in 'Trading

and investment securities gains - net'. Interest earned or incurred is recorded in 'Interest income' or 'Interest expense', respectively, while dividend income is recorded in 'Miscellaneous income' when the right to receive payment has been established.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Derecognition of Financial Assets and Liabilities

Financial asset

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

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

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

Financial liability

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

Offsetting Financial Instruments

Financial instruments are offset and the net amount reported in the consolidated balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated balance sheet.

Product Classification

Insurance contracts are those contracts where the Group (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Group determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant.

Insurance and investment contracts are further classified as being with or without discretionary participation features (DPF).

DPF is a contractual right to receive, as a supplement to guaranteed contracts, additional benefits that are likely to be a significant portion of the total contractual benefits, whose amount or timing is contractually at the discretion of the issuer, and that are contractually based on the performance of a specified pool of contracts or a specified type of contract, realized and or unrealized investment returns on a specified pool of assets held by the issuer, or the profit or loss of the company, fund or other entity that issues the contract.

Investment contracts are those contracts that transfer significant financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign currency exchange rate, index of price or rates, a credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

Repurchase and Reverse Repurchase Agreements

Securities sold under agreements to repurchase at a specified future date ('repos') are not derecognized from the consolidated balance sheet. The corresponding cash received, including accrued interest, is recognized in the consolidated balance sheet as a loan to the Group, reflecting the economic substance of such transaction.

Conversely, securities purchased under agreements to resell at a specified future date ('reverse repos') are not recognized in the consolidated balance sheet. The Group is not permitted to sell or repledge the securities in the absence of default by the owner of the collateral. The corresponding cash paid, including accrued interest, is recognized on the consolidated balance sheet as "Securities held under agreements to resell", and is considered a loan to the counterparty. The difference between the purchase price and resale price is treated as interest income and is accrued over the life of the agreement using the effective interest method.

Financial Guarantees

In the ordinary course of business, the Group gives financial guarantees consisting of letters of credit, letters of guarantees, and acceptances. Financial guarantees are initially recognized in the financial statements at fair value under 'Other liabilities'. Subsequent to initial recognition, the Group's liabilities under such guarantees are each measured at the higher of the initial fair value less, when appropriate, cumulative amortization calculated to recognize the fee in the consolidated statement of income in "Service fees and commission income", over the term of the guarantee, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the consolidated statement of income in "Provision for impairment and credit losses"'. Any financial guarantee liability remaining is recognized in the consolidated statement of income in 'Service fees and commission income', when the guarantee is discharged, cancelled or has expired.

Management, in conjunction with the Group's external valuers, also compares each change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

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

Inventories

Inventories are valued at the lower of cost and net realizable value (NRV). Costs incurred in bringing the inventory to its present location and condition are accounted for as follows:

Consumer goods inventories

Finished goods and work in process include direct materials, direct labor, and manufacturing overhead costs. Raw materials include purchase cost. The cost of these inventories is determined using the following:

	Distilled Spirits	Beverage	Tobacco
Consumer goods:			
Finished goods	Moving-average	Weighted-average	Moving-average
Work in process	Moving-average	Weighted-average	First-in first-out
Raw materials	Moving-average	Moving-average	First-in first-out

NRV of finished goods is the estimated selling price less the estimated costs of marketing and distribution. NRV of work in process is the estimated selling price less estimated costs of completion and the estimated costs necessary to make the sale. For raw materials, NRV is current replacement cost.

Materials and supplies

Materials and supplies include purchase cost. The cost of these inventories is determined using moving-average method. NRV of materials and supplies is the estimated realizable value of the materials and supplies when disposed of at their condition at the end of the reporting period.

Real estate inventories

Property acquired or being constructed for sale in the ordinary course of business, rather than to be held for rental or capital appreciation, is held as inventory and is measured at the lower of cost and net realizable value (NRV). Cost includes: (a) land cost; (b) amounts paid to contractors for construction; (c) borrowing costs, planning and design costs, costs of site preparation, professional fees, property transfer taxes, construction overheads and other related costs.

NRV is the estimated selling price in the ordinary course of the business, based on market prices at the reporting date, less estimated costs of completion and the estimated costs of sale.

Other Current Assets

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

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

Property, Plant and Equipment

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

The initial cost of property, plant and equipment consists of its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use and any estimated cost of dismantling and removing the property, plant and equipment item and restoring the site on which it is located to the extent that the Group had recognized the obligation of that cost. Such cost includes the cost of replacing part of the property, plant and equipment if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of property, plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are expensed in the consolidated statement of income as incurred. Borrowing costs incurred during the construction of a qualifying asset is likewise included in the initial cost of property, plant and equipment.

Land and land improvements, plant buildings and building improvements, and machineries and equipment are stated at revalued amounts based on a valuation performed by professionally qualified, independent appraisers. Revaluation is made every three to five years such that the carrying amount does not differ materially from that which would be determined using fair value at the end of reporting period. For subsequent revaluations, the accumulated depreciation at the date of revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals the revalued amount. Any resulting increase in the asset's carrying amount as a result of the revaluation is credited directly to "Revaluation increment on property, plant and equipment, net of related deferred income tax effect" (presented as part of "Other comprehensive income" in the equity section of the consolidated balance sheet). Any resulting decrease is directly charged against any related revaluation increment to the extent that the decrease does not exceed the amount of the revaluation increment in respect of the same asset. Further, the revaluation increment of depreciable property, plant and equipment is transferred to retained earnings as the asset is used by the Group. The amount of the revaluation increment transferred would be the difference between the depreciation and amortization based on the revalued carrying amount of the asset and depreciation and amortization based on the asset's original cost. In case the asset is retired or disposed of, the related remaining revaluation increment is transferred directly to retained earnings. Transfers from revaluation increment to retained earnings are not made through profit or loss.

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

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

made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets' original cost.

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

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

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

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

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

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

Leasehold improvements are amortized on a straight-line basis over the terms of the leases or the estimated useful lives, whichever is shorter.

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

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

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

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

Investment Properties

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

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

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

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

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

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

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

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

Other Properties Acquired

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

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

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

Intangible Assets

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

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

Software costs

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

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

Impairment of Noncurrent Nonfinancial Assets

Property, plant and equipment, investment properties, investments in an associate and a joint venture, and software costs

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

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

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of accumulated depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation or amortization expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Goodwill
Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount of the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated (or to the aggregate carrying amount of a group of cash-generating units to which the goodwill relates but cannot be allocated), an impairment loss is recognized immediately in the consolidated statement of income. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods. The Group performs its annual impairment test of goodwill at the end of the reporting period.

Customers' Deposits including Excess of Collections over Recognized Receivables
Customers' deposits represent payments from buyers of property development segment which will be applied against the related contracts receivables. This account also includes the excess of collections over the recognized contracts receivables, which is based on the revenue recognition policy of the Group.

Security Deposits
Security deposits, included in the "Other current liabilities" and "Other noncurrent liabilities" accounts in the liabilities section of the consolidated balance sheet, are measured initially at fair value and are subsequently measured at amortized cost using the effective interest method.

The difference between the cash received and its fair value is deferred, included in the "Other noncurrent liabilities" account in the consolidated balance sheet, and amortized using the straight-line method under the "Rental income" account in the consolidated statement of income.

Revenue
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The Group assesses its revenue arrangement against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as principal in all its revenue arrangements except for their brokerage transactions. The following specific recognition criteria must also be met before revenue is recognized:

Sale of goods
Revenue from the sale of goods is recognized when goods are delivered to and accepted by customers. Revenue is measured at fair value of the consideration received or receivable, excluding discounts, returns and value-added tax (VAT).

Real estate sales
The percentage-of-completion method is used to recognize income from sales of projects where the Group has material obligations under the sales contract to complete the project after the property is sold, the equitable interest has been transferred to the buyer, construction is beyond preliminary stage (i.e., engineering, design work, construction contracts execution, site clearance and preparation, excavation and the building foundation are finished), and the costs incurred or to be incurred can be measured reliably. Under this method, revenue is recognized as the related obligations are fulfilled, measured principally on the basis of the estimated completion of a physical proportion of the contract work.

When a sale of real estate does not meet the requirements for income recognition, the sale is accounted for under the deposit method. Under this method, revenue is not recognized and the receivable from the buyer is not recorded. The real estate inventory continues to be reported in the Group's consolidated balance sheet as part of real estate inventories and the deposit as part of liabilities as "Customers' deposits".

Rental income
Rental income under noncancellable and cancellable leases on investment properties is recognized in the consolidated statement of income on a straight-line basis over the lease term, or based on a certain percentage of the gross revenue of the tenants, as provided under the terms of the lease contract.

Charges and expenses recoverable from tenants
Income arising from expenses recharged to tenants in Other income account is recognized in the period in which the compensation becomes receivable.

Interest income
For all financial instruments measured at amortized cost and interest-bearing financial instruments classified as HFT and AFS investments, interest income is recorded at the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses. The adjusted carrying amount is calculated based on the original EIR. The change in carrying amount is recorded as interest income. Once the recorded value of a financial asset or group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original EIR applied to the new carrying amount.

Service fees and commission income
The Group earns fee and commission income from diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

- *Fee income earned from services that are provided over a certain period of time*
  Fees earned for the provision of services over a period of time are accrued over that period. These fees include investment fund fees, custodian fees, fiduciary fees, commission income, credit-related fees, trust fees, portfolio and other management fees, and advisory fees. However, loan commitment fees for loans that are likely to be drawn down are deferred (together with any incremental costs) and recognized as an adjustment to the EIR of the loan.

- *Fee income from providing transaction services*
  Fees arising from negotiating or participating in the negotiation of a transaction for a third party - such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses - are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria. These fees include underwriting fees, corporate finance fees, remittance fees, brokerage fees, deposit-related and other credit-related fees. Loan syndication fees are recognized in the statement of income when the syndication has been completed and the Group retains no part of the loans for itself or retains part at the same EIR as for the other participants.

Interchange fee and awards revenue on credit cards
Discounts lodged under 'Interchange fees' are taken up as income upon receipt from member establishments of charges arising from credit availments by the Group's cardholders. These discounts are computed based on certain agreed rates and are deducted from amounts remitted to the member establishments.

The Group operates a loyalty points program which allows customers to accumulate points when they purchase from member establishments using the issued card of the Group. The points can then be redeemed for free products subject to a minimum number of points being obtained. Consideration received is allocated between the discounts earned, interchange fee and the points earned, with the consideration allocated to the points equal to its fair value. The fair value is determined by applying statistical analysis. The fair value of the points issued is deferred and recognized as revenue when the points are redeemed.

Commissions earned on credit cards
Commissions earned are taken up as income upon receipt from member establishments of charges arising from credit availments by credit cardholders. These commissions are computed based on certain agreed rates and are deducted from amounts remittable to member establishments.

Purchases by the credit cardholders, collectible on installment basis, are recorded at the cost of the items purchased plus certain percentage of cost. The excess over cost is credited to "Unearned and other deferred income" account and is shown as a deduction from "Loans and receivables" in the consolidated balance sheet. The unearned and other deferred income is taken up to income over the installment terms and is computed using the effective interest method.

Commission earned on reinsurance
Reinsurance commissions are recognized as revenue over the period of the contracts. The portion of the commissions that relates to the unexpired periods of the policies at the end of the reporting period is accounted for as 'Other liabilities' in the consolidated balance sheet.

Dividend income
Dividend income is recognized when the Group's right to receive payment is established.

Trading and investment securities gains - net
Trading and investment securities gains - net includes results arising from trading activities and all gains and losses from changes in fair value of financial assets and financial liabilities at FVPL and gains and losses from disposal of AFS investments.

Income on direct financing leases and receivables financed
Income of the Group on loans and receivables financed is recognized using the effective interest method.

Unearned discounts included under "Unearned and other deferred income" which are amortized over the term of the note or lease using the effective interest method consist of:

- Transaction and finance fees on finance leases and loans and receivables financed with long-term maturities; and
- Excess of the aggregate lease rentals plus the estimated residual value of the leased equipment over its cost.

Premiums revenue

Gross insurance written premiums comprise the total premiums receivable for the whole period cover provided by contracts entered into during the accounting period. Premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior periods. Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method except for the marine cargo where the provision for unearned premiums pertains to the premiums for the last two months of the year. The portion of the premiums written that relate to the unexpired periods of the policies at end of reporting period are accounted for as provision for unearned premiums and presented as part of "Other liabilities" in the consolidated balance sheet. The related reinsurance premiums ceded that pertain to the unexpired periods at the end of the reporting periods are accounted for as deferred reinsurance premiums shown as part of "Other noncurrent assets" in the consolidated balance sheet. The net changes in these accounts between end of the reporting periods are credited to or charged against the consolidated statement of income for the year.

Other income

Income from sale of services is recognized upon rendition of the service. Income from sale of properties is recognized upon completion of the earning process and the collectibility of the sales price is reasonably assured.

Costs and Expenses

Costs and expenses are recognized in the consolidated statement of income when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably.

Cost of sales and services

Cost of sales and services is recognized as expense where the related goods are sold and the service is rendered.

Cost of real estate sales is recognized consistent with the revenue recognition method applied. Cost of subdivision land and condominium units sold before the completion of the development is determined on the basis of the acquisition cost of the land plus its full development costs, which include estimated costs for future development works, as determined by the Group's in-house technical staff.

The cost of inventory recognized in profit or loss on disposal is determined with reference to the specific costs incurred on the property, allocated to saleable area based on relative size and takes into account the percentage of completion used for revenue recognition purposes.

Selling and general and administrative expenses

Selling expenses are costs incurred to sell or distribute merchandise, it includes advertising and promotions and freight and handling, among others. General and administrative expenses constitute costs of administering the business. Selling and general and administrative expenses are expensed as incurred.

Taxes and licenses
Taxes and licenses include all other taxes, local and national, including gross receipts taxes (GRT), documentary stamp taxes, real estate taxes, licenses and permit fees and are recognized as costs and expenses when incurred.

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

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

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

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

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as industry, collateral type, past-due status and term. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with changes in related observable data from period to period (such changes in property prices,

payment status, or other factors that are indicative of incurred losses in the Group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

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

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

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

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

Policy Loans
Policy loans included under loans and receivables are carried at their unpaid balances plus accrued interest and are fully secured by the policy values on which the loans are made.

Reinsurance

The Group cedes insurance risk in the normal course of business. Reinsurance assets represent balances due from reinsurance companies. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contract.

An impairment review is performed at each end of the reporting period or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that the Group may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Group will receive from the reinsurer can be measured reliably. The impairment loss is charged against the consolidated statement of income.

Ceded reinsurance arrangements do not relieve the Group from its obligations to policyholders.

The Group also assumes reinsurance risk in the normal course of business for insurance contracts. Premiums and claims on assumed reinsurance are recognized as income and expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to ceding companies. Amounts payable are estimated in a manner consistent with the associated reinsurance contract.

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

Reinsurance assets or liabilities are derecognized when the contractual rights are extinguished or expired or when the contract is transferred to another party.

Deferred Acquisition Cost (DAC)

Commission and other acquisition costs incurred during the financial period that vary with and are related to securing new insurance contracts and/or renewing existing insurance contracts, but which relates to subsequent financial periods, are deferred to the extent that they are recoverable out of future revenue margins. All other acquisition costs are recognized as an expense when incurred.

Subsequent to initial recognition, these costs are amortized using the 24th method except for marine cargo where the DAC pertains to the commissions for the last two months of the year. Amortization is charged to the consolidated statement of income. The unamortized acquisition costs are shown as “Deferred acquisition costs” in the assets section of the consolidated balance sheet.

An impairment review is performed at each end of the reporting period or more frequently when an indication of impairment arises. The carrying value is written down to the recoverable amount and the impairment loss is charged to the consolidated statement of income. The DAC is also considered in the liability adequacy test for each reporting period.

Commissions

Commissions paid to sales or marketing agents on the sale of pre-completed real estate units are initially deferred and recorded as prepaid commissions when recovery is reasonably expected and charged to expense in the period in which the related revenue is recognized as earned. Accordingly, when the percentage of completion method is used, commissions are recognized in the consolidated statement of income in the period the related revenue is recognized.

Retirement Benefits

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Re-measurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

Re-measurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Re-measurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations).

The Group's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Employee leave entitlement

Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled wholly before twelve months after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period.

Borrowing Costs

Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalization of borrowing costs commences when the activities necessary to prepare the asset for intended use are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the asset is available for their intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognized. Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, as well as exchange differences arising from foreign currency borrowings used to finance these projects, to the extent that they are regarded as an adjustment to interest costs. All other borrowing costs are expensed as incurred.

Debt Issue Costs

Issuance, underwriting and other related expenses incurred in connection with the issuance of debt instruments (other than debt instruments designated at FVPL) are deferred and amortized over the terms of the instruments using the effective interest method. Unamortized debt issuance costs are included in the measurement of the related carrying value of the debt instruments in the consolidated balance sheet.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

a. there is a change in contractual terms, other than a renewal or extension of the arrangement;
b. a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
c. there is a change in the determination of whether fulfillment is dependent on a specified asset; or
d. there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

The Group as lessor

Finance leases, where the Group transfers substantially all the risks and benefits incidental to ownership of the leased item to the lessee, are included in the consolidated statement of financial position under 'Loans and receivables' account. A lease receivable is recognized at an amount equivalent to the net investment (asset cost) in the lease. All income resulting from the receivable is included in 'Interest income' in the consolidated statement of income.

Leases where the Group does not transfer substantially all the risks and benefits of the ownership of the asset are classified as operating leases. Fixed lease payments for noncancellable lease are recognized in consolidated statement of income on a straight-line basis over the lease term. Any difference between the calculated rental income and amount actually received or to be received is recognized as deferred rent in the consolidated balance sheet. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Variable rent is recognized as income based on the terms of the lease contract.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized under "Other income" account in the consolidated statement of income.

The Group as lessee
Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments and included in "Property and equipment" account with the corresponding liability to the lessor included in "Other liabilities" account. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to 'Interest expense'.

Capitalized leased assets are depreciated over the shorter of the estimated useful lives of the assets or the respective lease terms, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Fixed lease payments for noncancellable lease are recognized as an expense in the consolidated statement of income on a straight-line basis over the lease term while the variable rent is recognized as an expense based on terms of the lease contract.

Residual Value of Leased Assets and Deposits on Finance Leases
The residual value of leased assets, which approximates the amount of guaranty deposit paid by the lessee at the inception of the lease, is the estimated proceeds from the sale of the leased asset at the end of the lease term. At the end of the lease term, the residual value of the leased asset is generally applied against the guaranty deposit of the lessee when the lessee decides to buy the leased asset.

Life Insurance Contract Liabilities
Life insurance liabilities
Life insurance liabilities refer to liabilities of the company that are recognized due to the obligations arising from policy contracts issued by PNB LII. The reserves for life insurance contracts are calculated based on prudent statutory assumptions in accordance with generally accepted actuarial methods that are compliant with existing regulations.

Insurance contracts with fixed and guaranteed terms
The liability is determined as the expected discounted value of the benefit payments less the expected discounted value of the theoretical premiums that would be required to meet the benefits based on the valuation assumptions used. The liability is based on mortality, morbidity and investment income assumptions that are established at the time the contract is issued.

For unpaid claims and benefits, a provision is made for the estimated cost of all claims and dividends notified but not settled at the reporting date less reinsurance recoveries, using the information available at the time.

Provision is also made for the cost of claims incurred but not reported until after the reporting date based on the PNB LII's experience and historical data. Differences between the provision for outstanding claims at the reporting date and subsequent revisions and settlements are included in the consolidated statement of income in later years. Policy and contract claims payable forms part of the liability section of the consolidated balance sheet under "Other liabilities - Insurance contract liabilities".

Aggregate reserve for life policies represents the accumulated total liability for policies in force on the statement of financial position date. Such reserves are established at amounts adequate to meet the estimated future obligations of all life insurance policies in force. The reserves are calculated using actuarial methods and assumptions in accordance with statutory requirements and as approved by the Insurance Commission (IC), subject to the minimum liability adequacy test.

Unit-linked insurance contracts
PNB LLI issues unit-linked insurance contracts. Considerations received from unit-linked insurance contracts, in excess of the portion that is placed under a withdrawable segregated account, are recognized as revenue.

PNB LLI's revenue from unit-linked contracts consists of charges deducted from the policyholder's separate account, in accordance with the unit-linked policy contract. Since the segregated fund assets belong to the unit-linked policyholders, corresponding segregated fund liabilities are set-up equal to the segregated fund assets less redemptions outside the segregated funds. The segregated fund assets are valued at market price. Changes in the segregated fund assets due to investment earnings or market value fluctuations result in the same corresponding change in the segregated fund liabilities. Such changes in fund value have no effect in the consolidated statement of income. Collections received from unit-linked policies are separated to segregated fund assets from which PNB LLI withdraws administrative and cost of insurance charges in accordance with the policy provisions of the unit-linked insurance contracts. After deduction of these charges, the remaining amounts in the segregated fund assets are equal to the surrender value of the unit-linked policyholders, and are withdrawable anytime.

The equity of each unit-linked policyholder in the fund is monitored through the designation of outstanding units for each policy. Hence, the equity of each unit-linked insurance contract in the fund is equal to the total number of outstanding units of the policyholder multiplied by the net asset value per unit (NAVPU). The NAVPU is the market value of the fund divided by the total number of outstanding units.

Nonlife Insurance Contract Liabilities
Provision for unearned premiums
The proportion of written premiums, gross of commissions payable to intermediaries, attributable to subsequent periods or to risks that have not yet expired is deferred as provision for unearned premiums. Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method except for marine cargo where the provision for unearned premiums pertains to the premiums for the last two months of the year. The portion of the premiums written that relate to the unexpired periods of the policies at the end of reporting period are accounted for as provision for unearned premiums and presented as part of "Insurance contract liabilities" in the liabilities section of the consolidated balance sheet. The change in the provision for unearned premiums is taken to the consolidated statement of income in the order that revenue is recognized over the period of risk. Further provisions are made to cover claims under unexpired insurance contracts which may exceed the unearned premiums and the premiums due in respect of these contracts.

Claims provision and incurred but not reported losses
Outstanding claims provisions are based on the estimated ultimate cost to all claims incurred but not settled at the end of the reporting period, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of which cannot be known with certainty at the end of the reporting period. The liability is

not discounted for the time value of money and includes provision for IBNR. No provision for equalization or catastrophic reserves is recognized. The liability is derecognized when the contract has expired, discharged or cancelled.

Liability Adequacy Test

Liability adequacy tests on life insurance contracts are performed annually to ensure the adequacy of the insurance contract liabilities. In performing these tests, current best estimates of future contractual cash flows, claims handling and policy administration expenses are used. Any deficiency is immediately charged against profit or loss initially by establishing a provision for losses arising from the liability adequacy tests.

For nonlife insurance contracts, liability adequacy tests are performed at the end of each reporting date to ensure the adequacy of insurance contract liabilities, net of related DAC assets. The provision for unearned premiums is increased to the extent that the future claims and expenses in respect of current insurance contracts exceed future premiums plus the current provision for unearned premiums.

Reserve for Policyholders' Dividends

A number of insurance contracts are participating and contain a DPF. This feature entitles the policy holder to receive, as a supplement to guaranteed benefits, annual policy dividends that are credited at each policy anniversary, as long as the policy is in force. These annual policy dividends represent a portion of the theoretical investment and underwriting gains from the pool of contracts. Policy dividends are not guaranteed and may change based on the periodic experience review of the Group. Further, in accordance with regulatory requirements, dividends payable in the following year are prudently set-up as a liability in the consolidated balance sheet.

Local statutory regulations and the terms and conditions of these contracts set out the bases for the determination of the annual cash dividends at the time the product is priced. The Group may exercise its discretion to revise the dividend scale in consideration of the emerging actual experience on each block of participating policies. Reserve for dividends to policyholders on contracts with DPF is shown in the consolidated balance sheet under "Other noncurrent liabilities".

Foreign Currency-denominated Transaction and Translation

The Group's consolidated financial statements are presented in Philippine peso, which is also LTG's functional currency. Each of the subsidiaries determines its own functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded by the individual entities in the Group in their respective functional currencies at the foreign exchange rates prevailing at the dates of the transactions. Outstanding monetary assets and liabilities denominated in foreign currencies are translated using the closing foreign exchange rate prevailing at the reporting date. All differences are charged to profit or loss in the consolidated statement of income.

Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the dates of initial transactions. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

FCDU and Overseas Subsidiaries
As of reporting date, the assets and liabilities of foreign subsidiaries, with functional currencies other than the functional currency of the Company, are translated into the presentation currency of the Group using the closing foreign exchange rate prevailing at the reporting date, and their respective income and expenses are translated at the monthly weighted average exchange rates for the year. The exchange differences arising on the translation are recognized in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation shall be recognized in profit or loss.

Taxes
Current income tax
Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the end of reporting period.

Deferred income tax
Deferred income tax is recognized on all temporary differences at the end of reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits from excess of minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences, carryforward benefits of unused tax credits from excess of MCIT over RCIT and unused NOLCO can be utilized. Deferred income tax liabilities are recognized for all taxable temporary differences.

Deferred income tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or loss nor taxable profit or loss.

Deferred income tax liabilities are not provided on non-taxable temporary differences associated with investments in domestic subsidiaries, associates and interest in joint ventures. With respect to investments in other subsidiaries, associates and interests in joint ventures, deferred income tax liabilities are recognized except when the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting period and are recognized to the extent that it has become probable that sufficient future taxable profits will allow the deferred income tax assets to be recovered. It is probable that sufficient future taxable profits will be available against which a deductible temporary difference can be utilized when there are sufficient taxable temporary difference relating to the same taxation authority and the same taxable entity which are expected to reverse in the same period as the expected reversal of the deductible temporary difference. In such circumstances, the deferred income tax asset is recognized in the period in which the deductible temporary difference arises.

Deferred income tax assets and deferred income tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of reporting period.

In the consolidated financial statements, deferred income tax assets and deferred income tax liabilities are offset if a legally enforceable right exists to set-off the current income tax asset against the current income tax liabilities and deferred income taxes relate to the same taxable entity and the same taxation authority.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Provisions and Contingencies

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. When the Group expects a provision or loss to be reimbursed, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain and its amount is estimable. The expense relating to any provision is presented in the consolidated statement of income, net of any reimbursement.

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the consolidated financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the consolidated financial statements.

Fiduciary Activities

Assets and income arising from fiduciary activities together with related undertakings to return such assets to customers are excluded from the financial statements where the Group acts in a fiduciary capacity such as nominee, trustee or agent.

Equity

Capital stock is measured at par value for all shares issued by the Company. When the Company issue more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax.

Capital in excess of par is the portion of the paid-in capital representing excess over the par or stated value.

Treasury shares are owned equity instruments that are reacquired. Where any member of the Group purchases the Company's capital stock (presented as "Shares held by a subsidiary"), the consideration paid, including any directly attributable incremental costs (net of related taxes), is deducted from equity until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transactions costs and the related income tax effect, is included in equity attributable to the equity holders of the Company.

Deposits for future stock subscription are cash received from a stockholder for subscription of shares out of the Company's increase in authorized capital stock with pending approval from the Philippine SEC as of the end of the reporting period. These deposits are to be settled only by issuance of a fixed number of equity shares.

Preferred shares of subsidiaries issued to Parent Company are owned equity instruments by the Bank Holding Companies that are issued to Tangent (see Note 30).

Retained earnings represent the cumulative balance of net income or loss, dividend distributions, prior period adjustments, effects of the changes in accounting policies and other capital adjustments. Unappropriated retained earnings represent that portion which can be declared as dividends to stockholders after adjustments for any unrealized items which are considered not available for dividend declaration. Appropriated retained earnings represent that portion which has been restricted and therefore is not available for any dividend declaration.

Other comprehensive income (loss) comprises items of income and expense (including items previously presented under the consolidated statement of changes in equity) that are not recognized in the consolidated statement of income for the year in accordance with PFRS. Other comprehensive income (loss) of the Group includes cumulative translation adjustments, net changes in fair values of AFS investments, re-measurement gains (losses) on defined benefit plans, revaluation increment in property, plant and equipment and share in other comprehensive income of an associate.

Other equity reserves include effect of transactions with non-controlling interest and equity adjustments arising from business combination under common control and other group restructuring transactions.

Earnings Per Share

Basic earnings per share (EPS) is computed by dividing net income for the period attributable to common shareholders by the weighted average number of common shares outstanding during the period after giving retroactive effect to stock dividends declared and stock rights exercised during the period, if any.

Diluted EPS is calculated by dividing the aggregate of net income attributable to common shareholders by the weighted average number of common shares outstanding during the period adjusted for the effects of any dilutive shares.

Dividends on Common Shares

Cash dividends on common shares are recognized as a liability and deducted from equity when approved by the BOD of the Company. Stock dividends are treated as transfers from retained earnings to capital stock. Dividends for the year that are approved after the end of reporting period are dealt with as a non-adjusting event after the end of reporting period.

Events after the Reporting Period
Events after the end of reporting period that provides additional information about the Group's position at the end of reporting period (adjusting event) are reflected in the consolidated financial statements. Events after the end of reporting period that are not adjusting events, if any, are disclosed when material to the consolidated financial statements.

Segment Reporting
The Group's operating segments are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on operating segments is presented in Note 4 to the consolidated financial statements.

3. Management's Use of Significant Judgments, Accounting Estimates and Assumptions

The preparation of the consolidated financial statements requires the Group to exercise judgments, make accounting estimates and use assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the accounting estimates to change. The effects of any change in accounting estimates are reflected in the consolidated financial statements as they become reasonably determinable.

Accounting estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments
In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effects on amounts recognized in the consolidated financial statements:

Determination of functional currency
Judgment is exercised in assessing various factors in determining the functional currency of each entity within the Group, including prices of goods and services, competition, cost and expenses and other factors including the currency in which financing is primarily undertaken by each entity.

Additional factors are considered in determining the functional currency of a foreign operation, including whether its activities are carried as an extension of that of a parent company rather than being carried out with significant autonomy.

Each entity within the Group, based on the relevant economic substance of the underlying circumstances, have determined their functional currency to be Philippine peso. It is the currency of the primary economic environment in which the entities in the Group operate.

Classification of financial instruments
The Group exercises judgment in classifying financial instruments in accordance with PAS 39. The Group classifies a financial instrument, or its components, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the Group's consolidated balance sheets.

The Group's Bank Holding Companies have redeemable preferred shares which can be redeemed at the option of the Bank Holding companies after seven years from the date of issuance. The Group classified these redeemable preferred shares amounting to ₱7.4 billion as equity as of December 31, 2013 (see Note 30).

Revenue recognition on real estate sales
Selecting an appropriate revenue recognition method for a particular real estate sale transaction requires certain judgments based on, among others, the buyer's commitment on the sale which may be ascertained through the significance of the buyer's initial investment and stage of completion of the project. Based on the judgment of the Group, the percentage-of-completion method is appropriate in recognizing revenue on real estate sale transactions in 2013, 2012 and 2011.

Operating lease commitments - the Group as lessor
The Group has entered into commercial property leases on its investment properties and certain motor vehicles and items of machinery.

The Group has determined, based on an evaluation of the terms and conditions of the lease agreements (i.e., the lease does not transfer ownership of the asset to the lessee by the end of the lease term, the lessee has no option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option is exercisable and the lease term is not for the major part of the asset's economic life), that it retains all the significant risks and rewards of ownership of these properties and so accounts for these leases as operating leases (see Note 35).

Operating lease commitments - the Group as lessee
Currently, the Group has land lease agreements with several non-related and related parties. Based on an evaluation of the terms and conditions of the arrangements, management assessed that there is no transfer of ownership of the properties by the end of the lease term and the lease term is not a major part of the economic life of the properties. Thus, the Group does not acquire all the significant risks and rewards of ownership of these properties, thus, accounts for the lease agreements as operating leases (see Note 35).

Finance lease commitments - the Group as a lessee
The Group has also entered into a finance lease agreement covering real estate, certain transportation equipment and various machineries and other types of equipment. The Group has determined that it bears substantially all the risks and benefits incidental to ownership of said properties based on the terms of the contracts (such as existence of bargain purchase option and the present value of minimum lease payments amount to at least substantially all of the fair value of the leased asset) (see Note 35).

Classification of properties
The Group determines whether a property is classified as real estate inventory, investment property or owner-occupied property. In making its judgment, the Group considers whether the property generates cash flow largely independent of the other assets held by an entity.

Real estate inventory comprises of property that is held for sale in the ordinary course of business. Principally, this is residential property that the Group develops and intends to sell before or on completion of construction. Investment property comprises land and buildings (principally offices, commercial and retail property) which are not occupied substantially for use by, or in the operations of the Group, nor for sale in the ordinary course of business, but are held primarily to earn rental income and for capital appreciation. Owner-occupied properties classified and

presented as property, plant and equipment, generate cash flows that are attributable not only to property but also to the other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions cannot be sold separately as of the financial reporting date, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgment.

Determination of fair value of financial instruments
Where the fair values of financial assets and financial liabilities recorded in the consolidated balance sheet cannot be derived from active markets, they are determined using valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives.

Determination of fair value of financial assets not quoted in an active market
The Group classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's length basis.

The Group has AFS investments in unquoted equity securities. As of December 31, 2013 and 2012 and January 1, 2012, management assessed that the fair value of these instruments cannot be measured reliably since the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed. Therefore, the instruments are measured at cost less any impairment in value.

As of December 31, 2013 and 2012 and January 1, 2012, investment in unquoted shares of stock amounted to ₱2.7 billion, ₱2.3 billion and ₱1.9 billion, respectively (see Note 7).

Bifurcation of embedded derivatives
Where a hybrid instrument is not classified as financial assets at FVPL, the Group evaluates whether the embedded derivative should be bifurcated and accounted for separately. This includes assessing whether the embedded derivative has a close economic relationship to the host contract.

Classification of Bank's Product
The Group classified its unit-linked products as insurance contracts due to the significant insurance risk at issue. All of the Group's products are classified and treated as insurance contracts.

Assessment of control over the entities for consolidation
The Group has majority owned subsidiaries discussed in Note 2. Management concluded that the Group controls these majority owned subsidiaries arising from voting rights and, therefore, consolidates the entity in its consolidated financial statements. In addition, the Group accounts for its investments in OHBVI as a subsidiary although the Group holds less than 50.00% of OHBVI's

issued share capital on the basis of the voting rights of 42.78% assigned by certain stockholders to the Group. Management concluded that the Group has the ability to control the relevant activities and to affect its returns in OHBVI on the basis of the combined voting rights arising from its direct ownership and assigned voting rights of 70.56%.

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainties at the end of reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

Revenue and cost recognition on real estate sales

The Group's revenue and cost recognition policies on real estate sales require management to make use of estimates and assumptions that may affect the reported amounts of revenue and costs. The Group's revenue and cost of real estate sales are recognized based on the percentage of completion which is measured principally on the basis of the estimated completion of a physical proportion of the contract work.

The Group recognized revenue from real estate sales amounting to ₱3.2 billion, ₱2.3 billion and ₱4.9 billion and cost of real estate sales amounting to ₱2.5 billion, ₱1.7 billion and ₱3.5 billion in 2013, 2012 and 2011, respectively (see Note 25).

Estimation of allowance for credit losses on loans and receivables and receivables from SPV

The Group reviews its impaired loans and receivables at each reporting date to assess whether additional provision for credit losses should be recorded in the consolidated statement of income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of required allowance. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowance against individually significant loans and receivables, the Group also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance takes into consideration any deterioration in the loan or investment rating from the time the account was granted or amended, and such other factors as any deterioration in country risk, industry, and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows and underlying property prices, among others Allowance for credit losses amounted to ₱17.2 billion, ₱18.4 billion and ₱16.9 billion as of December 31, 2013 and 2012 and January 1, 2012 (see Notes 8 and 14).

Impairment of AFS financial assets

The computation for the impairment of AFS financial assets requires an estimation of the present value of the expected future cash flows and the selection of an appropriate discount rate. An impairment issue arises when there is an objective evidence of impairment, which involves significant judgment. In making this judgment, the Group evaluates the financial health of the issuer, among others. In the case of AFS equity instruments, the Group expands its analysis to consider changes in the issuer's industry performance, legal and regulatory framework, and other factors that affect the recoverability of the Group's investments. Further, the impairment assessment would include an analysis of the significant or prolonged decline in fair value of the investments below its cost. The Group treats "significant" generally as 20% or more and "prolonged" as greater than 12 months for quoted equity securities.

As of December 31, 2013 and 2012 and January 1, 2012, the carrying value of the Group's AFS financial assets amounted to ₱81.0 billion, ₱98.5 billion and ₱94.5 billion, respectively (see Note 7).

Valuation of equity-linked free standing derivatives
The fair value of investments in equity instruments that do not have a quoted market price in an active market and derivatives that are linked to and must be settled by delivery of such an unquoted equity instrument is reliably measurable if: (a) the variability in the range of reasonable fair value estimates is not significant for the instrument; or (b) the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value. If the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed, the Group is precluded from measuring the instrument at fair value.

As of December 31, 2012 and January 1, 2012, the Group has concluded that the put option cannot be measured at fair value as the put option is linked to and settled by the delivery of unquoted equity instruments whose fair value cannot be reasonably assessed. In 2013, the put option was cancelled following the termination of the Exit Rights Agreement (see Note 11).

Fair values of structured debt instruments and derivatives
The fair values of structured debt instruments and derivatives that are not quoted in active markets are determined using valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are reviewed before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices.

To the extent practicable, models use only observable data, however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments. Refer to Note 33 for information on the fair values of these instruments.

Aggregate reserves for life insurance
In determining the aggregate reserves for life policies estimates are made as to the expected number of deaths, illness or injury for each of the years in which PNB LII is exposed to risk. These estimates are based on standard mortality and morbidity tables as required by the Insurance Code (IC or the Code). The estimated number of deaths, illness or injury determines the value of possible future benefits to be paid out, which will be factored into ensuring sufficient cover by reserves, which in return is monitored against current and future premiums. Estimates are also made as to future investment income arising from the assets backing life insurance contracts. These estimates are based on current market returns, as well as expectations about future economic and financial developments. The carrying values of aggregate reserves for life insurance policies of the Group presented under "Insurance contract liabilities" in "Other Liabilities" amounted to ₱11.5 billion, ₱4.1 billion and ₱3.3 billion as of December 31, 2013 and 2012 and January 1, 2012, respectively.

Valuation of insurance contracts
Estimates have to be made both for the expected ultimate cost of claims reported at reporting date and for the expected ultimate cost of IBNR at the reporting date. It can take a significant period of time before the ultimate claim costs can be established with certainty. Nonlife insurance contract liabilities are not discounted for the time value of money.

The main assumption underlying the estimation of the claims provision is that a company's past claims development experience can be used to project future claims development and hence ultimate claims costs. Historical claims development is mainly analyzed by accident years as well as by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development.

Measurement of NRV of inventories
The Group's estimates of the NRV of its consumer goods inventories and materials and supplies are based on the most reliable evidence available at the time the estimates are made, of the amount that the inventories are expected to be realized. These estimates consider the fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period. A new assessment is made of NRV in each subsequent period. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is a clear evidence of an increase in NRV because of change in economic circumstances, the amount of the write-down is reversed so that the new carrying amount is the lower of the cost and the revised NRV.

With respect to the Group's real estate inventories, cost of its real estate inventories to NRV based on its assessment of the recoverability of cost of the inventories. NRV for completed real estate inventories is assessed with reference to market conditions and prices existing at the reporting date and is determined by the Group in the light of recent market transactions. NRV in respect of real estate inventories under construction is assessed with reference to market prices at the reporting date for similar completed property, less estimated costs to complete construction and less estimated costs to sell. The amount and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized.

The Group's inventories carried at cost as of December 31, 2013 and 2012 and January 1, 2012 amounted to ₱9.3 billion, ₱9.6 billion and ₱8.3 billion, respectively. Certain materials and supplies amounting to ₱1.0 billion, ₱635.7 million and ₱614.2 million as of December 31, 2013 and 2012 and January 1, 2012, respectively, are carried at NRV (see Note 9).

Valuation of property, plant and equipment under revaluation basis
The Group's land and land improvements, plant buildings and building improvements, and machineries and equipment are carried at revalued amounts, which approximate their fair values at the date of the revaluation, less any subsequent accumulated depreciation and amortization and accumulated impairment losses. The valuations of property, plant and equipment are performed by independent appraisers. Revaluations are made every three to five years to ensure that the carrying amounts do not differ materially from those which would be determined using fair values at the end of reporting period.

Property, plant and equipment at appraised values amounted to ₱37.8 billion, ₱38.1 billion, and ₱37.4 billion as of December 31, 2013 and 2012 and January 1, 2012, respectively (see Note 12).

Estimation of useful lives of property, plant and equipment and investment properties
The Group estimates the useful lives and residual values of property, plant and equipment and investment properties based on internal technical evaluation and experience with similar assets. Estimated useful lives and residual values of property, plant and equipment and investment properties are reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical and commercial obsolescence and other limits on the use of the assets. It is possible, however, that future results of operations could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. A reduction in the estimated useful life of any item of property and equipment and investment properties would increase the recorded depreciation expenses and decrease the carrying value of property, plant and equipment and investment properties. In 2013 and 2012, there were no significant changes made in the useful lives and residual values of the property, plant and equipment and investment properties (see Notes 12 and 13).

In 2011, the Group reassessed and changed the estimated useful lives of distillery buildings and building improvements, and machineries and equipment (see Note 12).

The total carrying amount of depreciable property, plant and equipment as of December 31, 2013 and 2012, and January 1, 2012 amounted to ₱24.3 billion, ₱25.6 billion and ₱25.2 billion, respectively (see Note 12). The carrying amount of depreciable investment properties, net of accumulated depreciation, as of December 31, 2013 and 2012, and January 1, 2012 amounted to ₱1.3 billion, ₱2.6 billion and ₱2.6 billion, respectively (see Note 13).

Assessment of impairment of nonfinancial assets and estimation of recoverable amount
The Group assesses at the end of each reporting period whether there is any indication that the nonfinancial assets listed below may be impaired. If such indication exists, the entity shall estimate the recoverable amount of the asset, which is the higher of an asset's fair value less costs to sell and its value-in-use. In determining fair value less costs to sell, an appropriate valuation model is used, which can be based on quoted prices or other available fair value indicators.

In estimating the value-in-use, the Group is required to make an estimate of the expected future cash flows from the cash generating unit and also to choose an appropriate discount rate in order to calculate the present value of those cash flows.

Determining the recoverable amounts of the nonfinancial assets listed below, which involves the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the use of estimates and assumptions that can materially affect the consolidated financial statements. Future events could indicate that these nonfinancial assets are impaired. Any resulting impairment loss could have a material adverse impact on the financial condition and results of operations of the Group.

The preparation of estimated future cash flows involves significant judgment and estimations. While the Group believes that its assumptions are appropriate and reasonable, significant changes in these assumptions may materially affect its assessment of recoverable values and may lead to future additional impairment changes under PFRS.

Assets that are subject to impairment testing when impairment indicators are present (such as obsolescence, physical damage, significant changes to the manner in which the asset is used, worse than expected economic performance, a drop in revenues or other external indicators) are as follows:

	December 31		January 1,
	2013	2012	2012
		(In Thousands)	
Other current assets (Note 10)	**₱5,627,293**	₱3,896,091	₱3,424,742
Investments in associate and joint venture (Note 11)	**13,664,449**	13,906,189	11,623,387
Property, plant and equipment (Note 12)	**42,681,379**	43,240,426	42,561,394
Investment properties (Note 13)	**26,187,597**	25,119,022	28,117,761
Other noncurrent asses (Note 14)	**4,607,718**	4,826,120	3,554,829

In 2012 and 2011, the Group recognized full impairment losses for certain property, plant and equipment amounting to ₱33.5 million and ₱207.6 million, respectively. Reversal of impairment loss recognized in 2013 amounted to ₱20.2 million (see Notes 12 and 28).

Impairment of goodwill
The Group determines whether goodwill is impaired on an annual basis every December 31, or more frequently, if events or changes in circumstances indicate that it may be impaired. This requires an estimation of the value in use of the CGU to which the goodwill is allocated. Estimating value in use requires management to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Management determined that the goodwill amounting to ₱252.7 million as of December 31, 2013 and 2012 and January 1, 2012 is not impaired (see Note 14).

Estimation of retirement benefits cost and liability
The Group's retirement benefits cost and liability is actuarially computed. This entails using certain assumptions with respect to future annual increase in salary, expected annual rate of return on plan assets and discount rate per annum.

Net retirement plan assets as of December 31, 2013 and 2012 and January 1, 2012 amounted to ₱243.8 million, ₱1.2 billion and ₱1.0 billion, respectively. Accrued retirement benefits amounted to ₱4.3 billion, ₱5.4 billion and ₱6.1 billion as of December 31, 2013 and 2012, and January 1, 2012, respectively (see Note 24).

Provisions and contingencies
The Group is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with the legal counsel handling the defense in these matters and is based upon the analysis of potential results. The Group currently does not believe these proceedings will have a material adverse effect on the consolidated financial statements. It is possible, however, that future financial performance could be materially affected by changes in the estimates or effectiveness of the strategies relating to these proceedings and assessments.

Provision for legal claims amounted to ₱1.6 billion as of December 31, 2013 and 2012 and ₱874.9 million as of January 1, 2012 (see Note 35).

Recognition of deferred income tax assets
The Group reviews the carrying amounts of the deferred income tax assets at the end of each reporting period and adjusts the balance of deferred income tax assets to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. The Group's assessment on the recognition of deferred income tax assets on deductible temporary differences is based on the level and timing of forecasted taxable income of the subsequent reporting periods. This forecast is based on the Group's past results and future expectations on revenues and expenses as well as future tax planning strategies. However, there is no assurance that the Group will generate sufficient future taxable income to allow all or part of the deferred income tax assets to be utilized.

The Group has NOLCO, excess MCIT and other deductible temporary differences, which relate to certain subsidiaries that have a history of losses and may not be used to offset taxable income elsewhere in the Group. The subsidiaries neither have any taxable temporary difference nor was any tax planning opportunities available that could partly support the recognition of these NOLCO, excess MCIT and other deductible temporary differences as deferred income tax assets. On this basis, the Group has determined that it cannot recognize the deferred income tax assets on these NOLCO, excess MCIT and other deductible temporary differences. If the Group is able to recognize all unrecognized deferred income tax assets, profit and equity would have increased by ₱5.6 billion, ₱6.1 billion and ₱2.6 billion in 2013, 2012 and 2011, respectively (see Note 29).

4. Segment Information

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

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

- Banking, provides full range of banking and other financial services to corporate, middle-market and retail customers, the National Government (NG), local government units (LGUs) and government-owned and controlled corporations (GOCCs) and various government agencies, including deposit-taking, lending, bills discounting, foreign exchange dealing, investment banking, fund transfers or remittance servicing and full range of retail banking and trust services. 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 production facility, to support the requirements of its brewing, bottled water and non-beer products operations. The Group conducts its beverage business through ABI, Interbev, Waterich and Packageworld.

- 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, 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 key cities in the USA, Canada, Western Europe, Middle East and Asia.

Further, the measurement of the segments is the same as those described in the summary of significant accounting and financial reporting policies, except for TDI investment properties which are carried at fair value in TDI's consolidated financial statements and certain assets and liabilities of PNB that were recognized at fair value in PNB's consolidated financial statements upon merger of PNB and ABC. 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.

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 99% of its revenue from four major distributors from 2011 to 2013. Revenue from each of the four major distributors averaged 46%, 46%, 6% and 1%, respectively of the total revenue of the segment. 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 seg ments:

For the year ended December 31, 2013:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
				(In Thousands)			
Segment revenue:							
External customers	**₱28,855,871**	**₱10,425,603**	**₱12,701,784**	**₱151,722**	**₱3,656,950**	**₱–**	**₱55,791,930**
Inter-segment	**–**	**114,240**	**683,493**	**–**	**–**	**(797,733)**	**–**
	28,855,871	**10,539,843**	**13,385,277**	**151,722**	**3,656,950**	**(797,733)**	**55,791,930**
Cost of sales	**6,121,012**	**8,293,157**	**9,738,942**	**153,366**	**2,680,123**	**(964,665)**	**26,021,935**
Gross profit	**22,734,859**	**2,246,686**	**3,646,335**	**(1,644)**	**976,827**	**166,932**	**29,769,995**
Equity in net earnings of an associate	**–**	**–**	**–**	**3,704,117**	**–**	**–**	**3,704,117**
	22,734,859	**2,246,686**	**3,646,335**	**3,702,473**	**976,827**	**166,932**	**33,474,112**
Selling expenses	**–**	**648,619**	**1,783,513**	**–**	**365,764**	**(20,950)**	**2,776,946**
General and administrative expenses	**19,133,631**	**894,020**	**743,202**	**121,121**	**515,967**	**273,070**	**21,681,011**
Operating income	**3,601,228**	**704,047**	**1,119,620**	**3,581,352**	**95,096**	**(85,188)**	**9,016,155**
Finance costs	**–**	**(416,999)**	**(37,107)**	**–**	**(35,736)**	**8,950**	**(480,892)**
Finance income	**–**	**404**	**5,940**	**116,227**	**42,833**	**(26,311)**	**139,093**
Foreign exchange gains – net	**1,167,545**	**2,248**	**–**	**67,975**	**3,853**	**19,278**	**1,260,899**
Others - net	**2,693,949**	**75,428**	**285,366**	**345,256**	**159,603**	**89,037**	**3,648,639**
Income before income tax	**7,462,722**	**365,128**	**1,373,819**	**4,110,810**	**265,649**	**5,766**	**13,583,894**
Provision for income tax	**1,228,074**	**179,757**	**330,337**	**174,278**	**160,575**	**35,809**	**2,108,830**
Segment profit	**₱6,234,648**	**₱185,371**	**₱1,043,482**	**₱3,936,532**	**₱105,074**	**(₱30,043)**	**₱11,475,064**
Depreciation and amortization expense	**₱1,608,859**	**₱547,071**	**₱1,713,053**	**₱16,414**	**₱123,433**	**₱16,380**	**₱4,034,210**
Segment income attributable to:							
Equity holders of the Company	**3,435,033**	**196,463**	**1,043,482**	**3,919,999**	**104,286**	**(30,043)**	**8,669,220**
Non-controlling interests	**2,799,615**	**(11,092)**	**–**	**16,533**	**788**	**–**	**2,805,844**

Other financial information of the operating segments as of December 31, 2013 is as follows:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
				(In Thousands)			
Assets:							
Current assets	**₱276,146,858**	**₱10,051,486**	**₱8,103,570**	**₱7,703,222**	**₱9,489,339**	**(₱5,889,454)**	**₱305,605,021**
Noncurrent assets	**325,967,220**	**6,758,658**	**14,229,436**	**15,391,255**	**10,550,852**	**(52,220)**	**372,845,201**
	₱602,114,078	**₱16,810,144**	**₱22,333,006**	**₱23,094,477**	**₱20,040,191**	**(₱5,941,674)**	**₱678,450,222**
Liabilities:							
Current liabilities	**₱498,100,979**	**₱1,537,568**	**₱4,622,420**	**₱378,464**	**₱8,602,241**	**(₱29,986,890)**	**₱483,254,782**
Noncurrent liabilities	**34,622,189**	**5,586,397**	**1,593,065**	**–**	**3,480,131**	**143,058**	**45,424,840**
	₱532,723,168	**₱7,123,965**	**₱6,215,485**	**₱378,464**	**₱12,082,372**	**(₱29,843,832)**	**₱528,679,622**
Investments in an associate and a joint venture	**₱–**	**₱–**	**₱–**	**₱13,664,449**	**₱–**	**₱–**	**₱13,664,449**
Equity attributable to:							
Equity holders of the Company	**37,418,881**	**9,562,171**	**16,117,521**	**22,606,278**	**7,928,506**	**23,902,158**	**117,535,515**
Non-controlling interests	**31,972,029**	**124,008**	**–**	**109,735**	**29,313**	**–**	**32,235,085**
Additions to noncurrent assets:							
Property, plant and equipment	**964,974**	**780,849**	**1,396,895**	**14,464**	**13,377**	**16,587**	**3,187,146**
Investment properties	**1,632,953**	**–**	**–**	**–**	**2,197,321**	**(123,773)**	**3,706,501**
Short-term debts	**–**	**–**	**300,000**	**–**	**–**	**–**	**300,000**
Long-term debts	**9,953,651**	**4,982,544**	**10,919**	**–**	**2,953,475**	**(10,919)**	**17,889,670**

For the year ended December 31, 2012:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
				(In Thousands)			
Segment revenue:							
External customers	₱32,040,683	₱12,767,679	₱12,188,007	₱2,974,897	₱2,685,795	₱–	₱62,657,061
Inter-segment	57,011	181,913	1,263,472	–	–	(1,502,396)	–
	32,097,694	12,949,592	13,451,479	2,974,897	2,685,795	(1,502,396)	62,657,061
Cost of sales	7,666,772	9,925,429	9,752,155	2,769,695	1,835,107	(1,509,436)	30,439,722
Gross profit	24,430,922	3,024,163	3,699,324	205,202	850,688	7,040	32,217,339
Equity in net earnings of an associate	–	–	–	6,498,972	–	–	6,498,972
	24,430,922	3,024,163	3,699,324	6,704,174	850,688	7,040	38,716,311
Selling expenses	–	601,767	1,841,207	–	308,560	(35,416)	2,716,118
General and administrative expenses	21,069,344	599,888	634,875	273,846	495,656	114,288	23,187,897
Operating income	3,361,578	1,822,508	1,223,242	6,430,328	46,472	(71,832)	12,812,296
Finance costs	–	(417,656)	(113,911)	(1,278)	(72,354)	57,012	(548,187)
Finance income	–	6,686	8,767	94,619	54,222	(6,050)	158,244
Foreign exchange gains - net	926,731	(2,745)	–	(100,198)	12,358	(12,110)	824,036
Others - net	3,692,539	107,443	546	524,682	73,042	592,834	4,991,086
Income before income tax	7,980,848	1,516,236	1,118,644	6,948,153	113,740	559,854	18,237,475
Provision for income tax	1,455,436	495,439	331,691	39,550	66,596	302,536	2,691,248
Segment profit	₱6,525,412	₱1,020,797	₱786,953	₱6,908,603	₱47,144	₱257,318	₱15,546,227
Depreciation and amortization expense	₱1,355,893	₱493,158	₱1,644,487	₱61,518	₱107,177	₱15,675	₱3,677,908
Segment income attributable to:							
Equity holders of the Company	3,770,546	1,017,437	786,953	6,879,587	45,348	257,318	12,757,189
Non-controlling interests	2,754,866	3,360	–	29,016	1,796	–	2,789,038

Other financial information of the operating segments as of December 31, 2012 is as follows:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
				(In Thousands)			
Assets:							
Current assets	₱213,316,081	₱9,542,269	₱6,569,699	₱18,119,568	₱10,523,262	(₱9,826,435)	₱248,244,444
Noncurrent assets	316,375,506	6,571,040	14,854,851	16,521,113	7,234,915	329,772	361,887,197
	₱529,691,587	₱16,113,309	₱21,424,550	₱34,640,681	₱17,758,177	(₱9,496,663)	₱610,131,641
Liabilities:							
Current liabilities	₱414,426,470	₱2,183,662	₱13,387,910	₱862,603	₱8,712,545	₱18,888,734	₱458,461,924
Noncurrent liabilities	48,333,888	5,623,380	1,568,735	–	2,303,610	133,994	57,963,607
	₱462,760,358	₱7,807,042	₱14,956,645	₱862,603	₱11,016,155	₱19,022,728	₱516,425,531
Investments in an associate and a joint venture	₱–	₱–	₱20,091	₱13,886,098	₱–	₱–	₱13,906,189
Equity attributable to:							
Equity holders of the Company	36,203,373	8,171,173	6,467,905	33,621,883	6,710,121	(28,519,391)	62,655,064
Non-controlling interests	30,727,856	135,094	–	156,195	31,901	–	31,051,046
Additions to noncurrent assets:							
Property, plant and equipment	1,088,514	1,061,128	2,020,261	867	39,035	29,080	4,238,885
Investment properties	890,530	–	–	500,004	513,040	3,348	1,906,922
Short-term debts	–	–	1,870,000	–	–	(250,000)	1,620,000
Long-term debts	14,436,122	4,968,295	17,996	–	3,628,284	(2,471,496)	20,579,201

For the year ended December 31, 2011:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
				(In Thousands)			
Segment revenue:							
External customers	₱29,498,704	₱12,256,165	₱11,938,021	₱3,350,002	₱5,191,651	₱–	₱62,234,543
Inter-segment	45,263	150,447	1,295,740	–	–	(1,491,450)	–
	29,543,967	12,406,612	13,233,761	3,350,002	5,191,651	(1,491,450)	62,234,543
Cost of sales and services	8,826,010	9,493,585	9,965,660	2,210,839	3,612,181	(1,492,903)	32,615,372
Gross profit	20,717,957	2,913,027	3,268,101	1,139,163	1,579,470	1,453	29,619,171
Equity in net earnings of an associate	–	–	–	4,117,904	–	–	4,117,904
	20,717,957	2,913,027	3,268,101	5,257,067	1,579,470	1,453	33,737,075
Selling expenses	–	599,224	2,007,691	–	472,283	(38,254)	3,040,944
General and administrative expenses	19,006,280	599,508	554,319	554,726	425,915	92,633	21,233,381
Operating income	1,711,677	1,714,295	706,091	4,702,341	681,272	(52,926)	9,462,750
Finance costs	–	(418,547)	(150,085)	–	(9,486)	34,314	(543,804)
Finance income	–	951	1,514	60,894	40,746	419	104,524
Foreign exchange gains - net	1,390,741	1,323	–	–	37	(1,245)	1,390,856
Others - net	4,419,810	223,137	(173,778)	72,004	139,576	13,118	4,693,867
Income before income tax	7,522,228	1,521,159	383,742	4,835,239	852,145	(6,320)	15,108,193
Provision for income tax	1,337,537	504,091	135,030	134,856	118,645	6,217	2,236,376
Segment profit	₱6,184,691	₱1,017,068	₱248,712	₱4,700,383	₱733,500	(₱12,537)	₱12,871,817
Depreciation and amortization expense	₱1,361,582	₱433,358	₱1,602,326	₱66,574	₱102,230	₱15,431	₱3,581,501
Segment income attributable to:							
Equity holders of the Company	3,381,969	1,017,058	248,712	4,680,641	714,874	(12,537)	10,030,717
Non-controlling interests	2,802,722	10	–	19,742	18,626	–	2,841,100

Other financial information of the operating segments as of January 1, 2012 is as follows:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
				(In Thousands)			
Assets							
Current assets	₱217,753,356	₱8,642,266	₱6,215,336	₱12,839,979	₱6,892,890	(₱11,902,266)	₱240,441,561
Noncurrent assets	295,920,756	5,969,936	14,593,459	13,383,657	8,424,861	(631,079)	337,661,590
	₱513,674,112	₱14,612,202	₱20,808,795	₱26,223,636	₱15,317,751	(₱12,533,345)	₱578,103,151
Liabilities							
Current liabilities	₱403,546,703	₱1,602,233	₱14,134,650	₱1,007,932	₱7,766,621	₱17,999,560	₱446,057,699
Noncurrent liabilities	48,817,087	5,677,520	1,787,890	–	1,429,518	66,778	57,778,793
	₱452,363,790	₱7,279,753	₱15,922,540	₱1,007,932	₱9,196,139	₱18,066,338	₱503,836,492
Investment in an associate	₱–	₱–	₱–	₱11,623,387	₱–	₱–	₱11,623,387
Equity attributable to:							
Equity holders of the Company	32,899,386	7,200,378	4,886,255	25,088,555	6,068,978	(30,599,683)	45,543,869
Non-controlling interests	28,410,936	132,071	–	127,149	52,634	–	28,722,790
Additions to noncurrent assets:							
Property, plant and equipment	810,442	637,765	3,396,928	20,678	22,833	–	4,888,646
Investment properties	944,871	7,500	–	–	584,217	(11,388)	1,525,200
Short-term debts	–	250,000	2,164,000	–	–	(1,194,000)	1,220,000
Long-term debts	10,935,265	4,955,148	308,579	–	2,790,930	(2,109,080)	16,880,842

5. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	December 31		January 1,
	2013	2012	2012
		(In Thousands)	
Cash and other cash items	**₱12,651,411**	₱10,081,220	₱9,824,619
Cash equivalents:			
Due from *Bangko Sentral ng Pilipinas* (BSP)	**153,169,330**	63,258,002	56,439,098
Due from other banks	**14,093,671**	15,527,870	17,720,067
Interbank loans receivable and securities held under agreements to resell	**8,405,250**	37,753,798	48,421,314
	₱188,319,662	₱126,620,890	₱132,405,098

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

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

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

d. Interest earned on cash and other cash items and cash equivalents are presented under "Finance income" and "Banking revenue", respectively (see Notes 23 and 25).

6. Financial Assets at Fair Value through Profit or Loss

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

	December 31		January 1,
	2013	2012	2012
		(In Thousands)	
Financial assets at fair value through profit or loss (FVPL):			
Held for trading:			
Government securities	**₱3,355,721**	₱8,329,815	₱2,609,581
Private debt securities	**830,528**	920,822	35,262
Derivative assets (Notes 21 and 36)	**258,697**	603,262	652,324
Equity securities	**249,518**	296,936	225,596
	4,694,464	10,150,835	3,522,763
Designated at FVPL:			
Segregated fund assets (Note 16)	**7,861,688**	3,741,760	1,365,014
Private debt securities	**–**	1,247,756	4,050,671
	₱12,556,152	₱15,140,351	₱8,938,448

a. As of December 31, 2013, 2012 and 2011, unrealized gain (loss) on government and private debt securities amounted to (₱250.5) million, ₱50.1 million and ₱31.9 million, respectively. As of December 31, 2013, 2012, and 2011, the effective interest rates range from 0.88% to 5.48%, from 0.67% to 6.72%, and from 1.94% to 6.88% for the government securities, and 2.38% to 7.38%, from 3.93% to 7.20% and from 1.94% to 6.88% for the private debt securities, respectively.

b. The carrying amount of equity securities includes unrealized gain (loss) of (₱30.6) million, (₱3.9) million and ₱4.8 million as of December 31, 2013, 2012 and 2011, respectively.

c. Segregated fund assets designated as financial asset at FVPL refer to the considerations received from unit-linked insurance contracts invested by PNB LII in designated funds.

On March 15, 2005 and June 17, 2005, the Insurance Committee (IC) approved PNB LII's license to sell single-pay and regular-pay unit-linked insurance products, respectively.

Segregated fund assets and the corresponding segregated fund liabilities are designated as financial assets and liabilities at FVPL since they are managed and their performances are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy. The equity of each policyholder in the segregated fund assets is determined by assigning a number of units to each policyholder, corresponding to the net amount deposited in relation to the market value at the time of contribution. The value per unit may increase or decrease depending on the market value of the underlying assets of the corresponding segregated funds.

As of December 31, 2013, the segregated fund assets consist of ₱6.0 billion peso funds and ₱1.8 billion dollar funds. The segregated fund assets include the following equity-linked notes:

Equity-linked notes	Description
Asian Summit	A single-pay variable life insurance product which invests the single premium, net of premium charges, into a five (5)-Year PHP-Linked USD Participation Note which is linked to the performance of a basket of five Asian equity indices.
Summit Select	A single-pay variable life insurance product which invests the single premium, net of premium charges, into a five (5)-Year PHP-Linked USD Participation Note which is linked to the performance of ING Emerging Markets Consumption VT 10.00% Index.
Dollar Income Optimizer	A single-pay variable life insurance product which invests the single premium, net of premium charges, into UBS seven (7)-Year Structured Note which is linked to the performance of a basket of high quality global funds chosen to offer income and potential for capital appreciation.
Variable Unit-Linked Summit Peso and Dollar	A peso and dollar denominated single-pay 5-year lnked life insurance plan that provide the opportunity to participate in a risk-managed portfolio of six (6) equally-weighted exchange traded funds of ASEAN member countries via the ING ASEAN Equities VT 10% index.

d. As of December 31, 2012, private debt securities designated at FVPL represent USD-denominated investments in credit-linked note (CLN). The CLNs are part of a group of financial instruments that together are managed on a fair value basis in accordance with the documented risk management and investment strategy of the PNB. Unrealized loss from financial assets designated at FVPL amounted to ₱16.3 million as of December 31, 2012.

On March 22 and August 17, 2012, PNB pre-terminated investments in CLN designated as financial assets at FVPL with a total face amount of USD47.5 million or ₱2.0 billion and USD15.0 million or ₱636.3 million, respectively, in which PNB realized trading gain of USD0.2 million or equivalent to ₱8.3 million. The carrying amount of the preterminated securities as of pre-termination dates amounted to USD48.1 million or ₱2.1 billion and USD14.8 million or ₱628.2 million, respectively.

On May 23, 2013, the remaining investments in CLN designated at FVPL with face value of USD30.0 million matured.

7. Available for Sale Investments

Available for sale investments consist of:

	December 31		January 1,
	2013	2012	2012
		(In Thousands)	
Government securities (Notes 19 and 35)	**₱59,380,333**	₱78,441,023	₱73,046,166
Other debt securities	**18,654,987**	17,261,041	18,981,283
Equity securities			
Quoted	**2,663,182**	2,331,541	1,899,357
Unquoted	**1,185,582**	1,437,078	1,574,580
	81,884,084	99,470,683	95,501,386
Allowance for impairment losses	**(928,408)**	(997,045)	(992,312)
	80,955,676	98,473,638	94,509,074
Noncurrent portion	**(78,029,572)**	(93,158,186)	(81,038,501)
	₱2,926,104	₱5,315,452	₱13,470,573

a. As of December 31, 2013 and 2012, government securities include the fair value of the AFS investments in the form of Fixed Rate Treasury Notes pledged to fulfill PNB's collateral requirements for the peso rediscounting facility of BSP amounted to ₱2.4 billion and ₱2.8 billion, respectively (see Notes 17 and 37). BSP has an obligation to return the securities to PNB once the obligations have been settled. In case of default, BSP has the right to hold the securities and sell them as settlement of the rediscounting facility. There are no other significant terms and conditions associated with the pledged investments.

b. As of December 31, 2013 and 2012, the fair value of the AFS investments in the form of Republic of the Philippines bonds pledged to fulfill its collateral requirements with securities sold under repurchase agreements transactions with counterparties amounted to ₱2.7 billion and ₱3.5 billion, respectively (see Note 37). The counterparties have an obligation to return the securities to the PNB once the obligations have been settled. In case of default, BSP has the right to hold the securities and sell them as settlement of the repurchase agreement. There are no other significant terms and conditions associated with the pledged investments.

c. Included in AFS investments are pledged securities for the Surety Bond amounted to ₱977.4 million issued by PNB Gen. As of December 31, 2013 and 2012, the carrying value of these pledged securities amounted to ₱928.3 million and ₱817.1 million, respectively.

d. Other debt securities consist of notes issued by private entities and in 2012 also included the host contracts on the CLN (see Note 21).

e. No impairment loss has been recognized on unquoted debt securities for the years ended December 31, 2013, 2012 and 2011. The unquoted debt securities include the investment in shares of stock of Victorias Milling Company, Inc. (VMC) as of December 31, 2011, which was carried at cost because fair value (i.e., quoted market price) was not readily available due to the suspended trading of its shares. On May 21, 2012, the Philippine Stock Exchange lifted the trading suspension of the shares of stock of VMC, thus, the investment in shares of stock of VMC was reclassified as quoted equity securities as of December 31, 2013 and 2012.

f. As of December 31, effective interest rates for the AFS investments follow:

	2013	2012	2012
Peso-denominated	**1.62% to 8.15%**	2.35% to 8.15%	2.49% to 8.15%
Foreign-currency denominated	**0.22% to 7.40%**	0.98% to 5.23%	1.96% to 6.78%

g. Presented below are the movements in the net changes in fair values of AFS financial assets:

	December 31		January 1,
	2013	2012	2012
		(In Thousands)	
At beginning of year	**₱3,763,651**	₱4,443,699	(₱300,829)
Net changes in fair value of AFS financial assets during the year*:			
Fair value changes during the year on AFS investments	**397,865**	6,188,339	8,719,845
Realized gains**(Note 25)	**(5,875,570)**	(6,868,387)	(3,975,317)
	(5,477,705)	(680,048)	4,744,528
At end of year	**(₱1,714,054)**	₱3,763,651	₱4,443,699
Attributable to:			
Equity holders of the Company	**(₱875,973)**	₱2,087,609	₱2,506,434
Non-controlling interests	**(838,081)**	1,676,042	1,937,265
	(₱1,714,054)	₱3,763,651	₱4,443,699

* *Net of deferred income tax effect amounting to ₱84.0 million, ₱110.1 million and ₱12.1 million in 2013, 2012 and 2011, respectively.*

** *Included in "Trading and securities gains" under "Banking revenue".*

h. The movements in allowance for impairment losses of AFS investments follow:

	December 31		January 1,
	2013	2012	2012
		(In Thousands)	
Balance at beginning of year	**₱997,045**	₱992,312	₱761,876
Provisions during the year	**–**	4,733	249,869
Disposals, transfers and others	**(68,637)**	–	(19,433)
Balance at end of year	**₱928,408**	₱997,045	₱992,312

Reclassification of Financial Assets

On October 12, 2011, PNB had identified a clear change of intent to exit or trade in the short term its HTM investments rather than to hold them until maturity, when it disposed of more than an insignificant amount of its HTM investments. This disposal necessitated the reclassification of the remaining HTM investments to AFS securities in accordance with PAS 39. As of the date of reclassification, the amortized cost of HTM investments reclassified to AFS investments amounted to ₱32.5 billion. Reclassified AFS investments are initially measured at their fair value amounting to ₱35.7 billion. Any difference between the amortized cost of HTM investments and their fair value at reclassification date is recognized in OCI.

As of December 31, 2013 and 2012, the carrying value of the securities reclassified out of HTM investments to AFS investments amounted to nil and ₱1.9 billion, respectively.

For the year ended December 31, 2013, 2012 and 2011, the net unrealized gain (loss) reclassified from equity to profit or loss due to sale of investments reclassified to AFS amounted to nil, ₱299.6 million and ₱2.5 billion, respectively.

8. Loans and Receivables

Loans and receivables consist of:

	December 31		January 1,
	2013	2012	2012
		(In Thousands)	
Finance receivables	**₱291,434,545**	₱259,656,227	₱241,365,032
Trade receivables	**10,784,851**	10,907,163	10,368,530
Other receivables	**2,918,862**	2,166,951	768,729
	305,138,258	272,730,341	252,502,291
Allowance for doubtful accounts and credit losses	**(17,203,226)**	(18,148,396)	(16,055,446)
	287,935,032	254,581,945	236,446,845
Noncurrent portion	**(204,749,366)**	(178,818,367)	(167,286,705)
	₱83,185,666	₱75,763,578	₱69,160,140

Finance Receivables

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

	December 31		January 1,
	2013	2012	2012
		(In Thousands)	
Receivables from customers:			
Loans and discounts	**₱237,061,751**	₱203,976,377	₱183,995,641
Customers' liabilities on acceptances, letters of credit and trust receipts	**10,387,199**	11,141,576	12,610,946
Bills purchased (Note 20)	**3,827,510**	4,521,105	7,128,100
Credit card receivables	**4,105,025**	4,192,998	3,270,731
Finance lease receivables (Note 35)	**2,666,316**	2,205,779	1,849,602
	258,047,801	226,037,835	208,855,020

(Forward)

	December 31		January 1,
	2013	2012	2012
		(In Thousands)	
Unquoted debt securities	**₱11,571,023**	₱14,220,913	₱14,767,613
Other receivables:			
Accounts receivable	**10,308,901**	7,044,592	5,527,734
Accrued interest receivable	**7,514,686**	7,887,081	8,216,133
Sales contract receivables	**4,647,352**	4,956,460	4,702,691
Miscellaneous	**499,314**	593,433	469,008
	22,970,253	20,481,566	18,915,566
	292,589,077	260,740,314	242,538,199
Unearned interest and other deferred income	**(1,154,532)**	(1,084,087)	(1,173,167)
	291,434,545	259,656,227	241,365,032
Allowance for credit losses	**(17,165,122)**	(18,132,898)	(16,037,738)
	274,269,423	241,523,329	225,327,294
Noncurrent portion	**202,512,151**	177,944,077	165,233,836
	₱71,757,272	₱63,579,252	₱60,093,458

a. Loans amounting to ₱219.1 million and ₱2.0 billion as of December 31, 2013 and 2012, respectively, have been pledged to the BSP to secure PNB's availments under the BSP rediscounting privileges which are included in Bills payable (see Notes 17 and 37). The pledged loans will be released when the underlying transaction is terminated. In the event of PNB's default, BSP is entitled to apply the collateral in order to settle the rediscounted bills.

b. Unquoted Debt Securities

Unquoted debt instruments include the zero-coupon notes received by PNB from Special Purpose Vehicle (SPV) Companies on October 15, 2004, at the principal amount of ₱803.5 million (Tranche A Note) payable in five (5) years and at the principal amount of ₱3.4 billion (Tranche B Note) payable in eight (8) years in exchange for the outstanding loans receivable from National Steel Corporation (NSC) of ₱5.3 billion. The notes are secured by a first ranking mortgage and security interest over the NSC Plant Assets. As of December 31, 2013 and 2012, the notes are carried at their recoverable values. Management assessed that these loans are not fully recoverable as a result of the Partial Award granted by the Arbitration Panel to the SPV Companies. The consortium banks, including PNB, has filed a Petition to set aside the Partial Award with the Singapore High Court on July 9, 2012. The Petition is pending as of the financial statement issuance date (see Note 35).

As of December 31, 2013 and 2012, unquoted debt instruments also include bonds issued by Philippine Sugar Corporation (PSC) amounting to ₱2.7 billion with accrued interest included under "Accrued interest receivable" amounting to ₱2.3 billion. The full repayment of principal and accumulated interest to maturity is guaranteed by a sinking fund managed by PNB's Trust Banking Group (TBG). As of December 31, 2013 and 2012, the sinking fund amounted to ₱5.3 billion and ₱5.2 billion, respectively, earning an average rate of return of 8.82% per annum. Management expects that the value of the sinking fund in the year 2014 will be more than adequate to cover the full redemption value of PSC bonds. The bonds matured on February 15, 2014 and was settled through liquidation of the sinking fund.

c. Finance Lease Receivable

An analysis of the Group's finance lease receivables as of December 31, 2013 and 2012 is presented as follows:

	December 31, 2013	December 31, 2012
	(In Thousands)	
Gross investment in finance lease receivables		
Due within one year	**₱1,002,864**	₱793,447
Due beyond one year but not over five years	**1,182,830**	944,806
Due beyond five years	**75,850**	85,800
	2,261,544	1,824,053
Residual value of leased equipment		
Due within one year	**135,310**	125,254
Due beyond one year but not over five years	**229,254**	256,472
Due beyond five years	**40,208**	–
	404,772	381,726
Total finance lease receivable	**₱2,666,316**	₱2,205,779

d. Accounts Receivable

On November 27, 1997, Maybank Philippines, Inc. (Maybank) and PNB signed a deed of assignment transferring to PNB certain Maybank assets (included under "Accounts receivable") and liabilities in connection with the sale of PNB's 60.00% equity in Maybank. As of December 31, 2013 and 2012, the balance of these receivables amounted to ₱3.6 billion and ₱3.4 billion, respectively, and the transferred liabilities (included under "Bills payable to BSP and local banks" and "Accrued interest payable") amounted to ₱3.3 billion and ₱3.1 billion, respectively (see Notes 17 and 18). The excess of the transferred receivables over the transferred liabilities is fully covered by an allowance for credit losses amounting to ₱262.5 million as of December 31, 2013 and 2012. The remaining 40% equity ownership of PNB in Maybank was sold in June 2000 (see Note 35).

e. Interest income on loans and receivables consists of (see Note 25):

	2013	2012	2011
Receivable from customers and sales contract receivables	**₱13,553,287**	₱13,497,201	₱13,059,312
Unquoted debt securities	**216,449**	582,088	790,652
	₱13,769,736	₱14,079,289	₱13,849,964

As of December 31, 2013 and 2012, 88.3% and 90.9%, respectively, of the total receivable from customers of the Group were subject to interest repricing. Remaining receivables carry annual fixed interest rates ranging from 4.8% to 13.0% as of December 31, 2013, from 2.3% to 13.0% as of December 31, 2012 and from 2.6% to 9.0% as of December 31, 2011 for foreign currency-denominated receivables, and from 0.3% to 24.4% as of December 31, 2013, from 0.9% to 18.5% as of December 31, 2012 and from 5.6% to 15.0% as of December 31, 2011 for peso-denominated receivables.

Sales contract receivables bear fixed interest rate per annum ranging from 4.5% to 21.0%, from 1.8% to 15.0% and from 1.8% to 17.0% as of December 31, 2013, 2012 and 2011, respectively.

Interest income accrued on impaired loans and receivable of the Group amounted to ₱289.1 million in 2013, ₱302.8 million in 2012 and ₱373.3 million in 2011.

Trade receivables

Trade receivables consist of:

	December 31		January 1,
	2013	2012	2012
		(In Thousands)	
Consumer goods	**₱7,787,960**	₱8,384,950	₱6,484,027
Contract receivables	**2,947,033**	2,475,770	3,866,778
Lease receivables	**49,858**	46,443	17,725
	10,784,851	10,907,163	10,368,530
Allowance for credit losses	**(32,590)**	(9,984)	(12,194)
	10,752,261	10,897,179	10,356,336
Noncurrent portion of contract receivables	**(2,237,215)**	(874,290)	(2,052,869)
	₱8,515,046	₱10,022,889	₱8,303,467

a. Trade receivables on consumer goods pertain to receivables from various customers of distilled spirits, beverages and tobacco segments, which are noninterest-bearing and generally have 30 to 90 days' terms.

b. Contracts receivables of the property development segment consist of revenues recognized to date based on percentage of completion less collections received from the respective buyers. Interest income from interest-bearing contracts receivables amounted to ₱39.4 million, ₱50.3 million and ₱20.4 million in 2013, 2012 and 2011, respectively, while interest income pertaining to amortization of the discount arising from noninterest-bearing contracts receivable amounted to ₱17.0 million in 2011.

c. The Group assigned certain contracts receivables to Banco de Oro Unibank, Inc. (BDO) on a with recourse basis. The total assigned contracts receivables amounted to ₱463.5 million, ₱524.8 million, and ₱423.1 million as of December 31, 2013 and 2012, and January 1, 2012, respectively (see Note 19).

Other Receivables

Other receivables are due and demandable and include accrued interest receivable pertaining to interest earned on cash and cash equivalents and unpaid utility charges to tenants and receivables from sale of various assets.

Movements of Allowance for Credit Losses

Details and movements of allowance for credit losses, determined using individual and collective assessment follow:

	December 31, 2013			
	Finance Receivables	**Trade Receivables**	**Other Receivables**	**Total**
		(In Thousands)		
Balance at beginning of year	**₱9,984**	**₱18,132,898**	**₱5,514**	**₱18,148,396**
Provisions during the year (Note 27)	**22,606**	**889,084**	**–**	**911,690**
Accounts charged off, transfers and others	**–**	**(1,856,860)**	**–**	**(1,856,860)**
Balance at end of year	**₱32,590**	**₱17,165,122**	**₱5,514**	**₱17,203,226**

	December 31, 2012			
	Finance Receivables	Trade Receivables	Other Receivables	Total
	(In Thousands)			
Balance at beginning of year	₱12,194	₱16,037,738	₱5,514	₱16,055,446
Provisions during the year (Note 27)	–	2,288,793	–	2,288,793
Accounts charged off, transfers and others	(2,210)	(193,633)	–	(195,843)
Balance at end of year	₱9,984	₱18,132,898	₱5,514	₱18,148,396

	December 31, 2011			
	Finance Receivables	Trade Receivables	Other Receivables	Total
	(In Thousands)			
Balance at beginning of year	₱12,013	₱16,296,604	₱5,514	₱16,314,131
Provisions during the year (Note 27)	181	1,365,105	–	1,365,286
Accounts charged off, transfers and others	–	(1,623,971)	–	(1,623,971)
Balance at end of year	₱12,194	₱16,037,738	₱5,514	₱16,055,446

Below is the breakdown of provision for (reversal of) credit losses by type of loans and receivables.

	For the Years Ended December 31		
	2013	2012	2011
		(In Thousands)	
Individual assessment			
Finance receivables:			
Receivable from customers	**₱598,557**	₱1,167,011	₱882,234
Unquoted debt securities	**–**	208,081	240,431
Other receivables	**1,833**	(129,214)	889
Trade receivables from customers of consumer goods	**22,606**	**–**	181
	622,996	1,245,878	1,123,735
Collective assessment			
Finance receivables:			
Receivable from customers	**246,156**	1,032,034	202,762
Other receivables	**42,538**	10,881	38,789
	288,694	1,042,915	241,551
	₱911,690	₱2,288,793	₱1,365,286

9. Inventories

Inventories consist of:

	December 31		January 1,
	2013	2012	2012
		(In Thousands)	
At Cost:			
Consumer goods:			
Alcohol	**₱2,559,043**	₱2,064,430	₱3,319,627
Beverage	**1,461,630**	1,540,703	1,467,087
Tobacco	**–**	153,366	468,426
	4,020,673	3,758,499	5,255,140

(Forward)

	December 31		January 1,
	2013	2012	2012
		(In Thousands)	
Real estate inventories:			
Condominium and residential units for sale	**₱2,933,431**	₱3,310,838	₱1,261,778
Land held for future development	**474,665**	269,522	952,041
Subdivision land under development	**1,524,775**	1,915,081	249,024
	4,932,871	5,495,441	2,462,843
Fuel, materials and supplies	**329,838**	348,863	598,934
	9,283,382	9,602,803	8,316,917
At NRV - Materials and supplies	**996,577**	635,652	614,242
	₱10,279,959	₱10,238,455	₱8,931,159

Allowance for inventory obsolescence on materials and supplies amounted to ₱12.3 million, ₱12.3 million, and ₱10.4 million as of December 31, 2013 and 2012, and January 1, 2012, respectively.

a. Components of the consumer goods inventories are as follows:

	December 31		January 1,
	2013	2012	2012
		(In Thousands)	
Finished goods	**₱472,906**	₱703,415	₱1,461,398
Work in process	**1,018,642**	1,268,307	976,344
Raw materials	**2,529,125**	1,786,777	2,817,398
	₱4,020,673	₱3,758,499	₱5,255,140

Cost of consumer goods inventories recognized as expenses under cost of sales amounted to ₱10.8 billion, ₱12.7 billion and ₱12.1 billion in 2013, 2012 and 2011, respectively (see Note 25).

b. Movements in real estate inventory are set out below:

	December 31		January 1,
	2013	2012	2012
		(In Thousands)	
Opening balance at January 1	**₱5,495,441**	₱2,462,843	₱2,373,199
Land acquired during the year	**238,997**	2,120,184	63,000
Construction/development costs incurred	**1,459,198**	2,548,040	3,432,189
Borrowing costs capitalized (Note 19)	**229,065**	56,576	94,960
Disposals (recognized as cost of real estate sales, Note 25)	**(2,489,830)**	(1,692,202)	(3,500,505)
	₱4,932,871	₱5,495,441	₱2,462,843

Parcels of land acquired in 2013, 2012 and 2011 will be used for development of condominium units for sale and development as part of the consolidation of properties in Eton City, one of the major projects of the Group's property development segment.

10. **Other Current Assets**

	December 31		January 1,
	2013	2012	2012
		(In Thousands)	
Excise tax	**₱925,030**	₱890,018	₱145,664
Creditable withholding taxes (CWT)	**715,174**	472,083	545,338
Advances to suppliers	**685,740**	412,063	365,352
Prepaid expenses	**577,580**	566,748	703,008
Input VAT	**499,167**	428,101	194,510
Advances to contractors	**404,347**	639,815	507,451
Stationeries, office supplies and stamps on hand	**248,768**	155,288	157,748
Miscellaneous cash and other cash items	**182,295**	221,535	107,477
Deferred rent	**54,544**	66,740	59,979
Others	**1,334,648**	43,700	638,215
	₱5,627,293	₱3,896,091	₱3,424,742

a. Excise tax pertains to advance tax payments to the Bureau of Internal Revenue (BIR) pertaining to sale of alcoholic beverages.

b. CWTs pertain mainly to the amounts withheld from income derived from sale of consumer goods and real estate inventories. The CWTs can be applied against any income tax liability of a company in the Group to which the CWTs relate. The CWTs which the Group expects to be used beyond one year are presented under "Other noncurrent assets" (see Note 14).

c. Advances to suppliers pertain to deposits made for raw material purchases and are realized upon delivery of the related inventories.

d. Prepaid expenses include prepaid commission amounting to ₱205.4 million, ₱385.4 million and ₱301.6 million and prepaid importation charges amounting to ₱87.6 million, ₱49.4 million and ₱171.5 million as of December 31, 2013 and 2012 and January 1, 2012, respectively. Prepaid commission consists of payments to agents and brokers which will be charged to the consolidated statements of income in the period in which the related revenue is recognized. Prepaid importation charges pertain to the purchases of raw materials by the distilled spirits and beverage businesses.

e. Advances to contractors are recouped every progress billing payment based on the percentage of accomplishment of each contract package. The activities to which these advances pertain will be completed within the normal operating cycle.

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

Investments in Associates and a Joint Venture

The Group has the power to participate in the financial and operating policy decisions in PMFTC, a 49.6%-owned associate, which does not constitute control or joint control. The Group also has 50.0% interest in ABI Pascual Holdings Private Limited (ABI Pascual Holdings), which is a joint

controlled entity. The Group's investments in its associate and joint venture are accounted for using equity method of accounting.

	December 31		January 1,
	2013	2012	2012
		(In Thousands)	
PMFTC	**₱13,664,449**	₱13,886,098	₱11,623,387
ABI Pascual Holdings	**–**	20,091	–
	₱13,664,449	₱13,906,189	₱11,623,387

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

	December 31		January 1,
	2013	2012	2012
		(In Thousands)	
Acquisition cost	**₱13,483,541**	₱13,483,541	₱13,483,541
Accumulated equity in net earnings (loss):			
Balance at beginning of year	**402,557**	(1,860,154)	(2,294,768)
Equity in net earnings	**3,704,117**	6,498,972	4,117,904
Share in other comprehensive income	**27,454**	–	–
Less cash dividends (Note 23)	**(3,953,220)**	(4,236,261)	(3,683,290)
Balance at end of year	**180,908**	402,557	(1,860,154)
	₱13,664,449	₱13,886,098	₱11,623,387

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

As a result of FTC's divestment of its cigarette business to PMFTC, FTC initially recognized the investment amounting to ₱13.5 billion, representing the fair value of the net assets contributed by FTC, net of unrealized gain of ₱5.1 billion. The transaction was accounted for similar to a contribution in a joint venture using the Standing Interpretations Committee (SIC) Interpretation 13, *Jointly Controlled Entities-Non-Monetary Contributions by Venturers*, where FTC recognized only that portion of the gain or loss which is attributable to the interests of PMPMI amounting to ₱5.1 billion in 2010. The portion attributable to FTC is being recognized once the related assets and liabilities are realized, disposed or settled. FTC recognized the gain amounting to ₱293.0 million each in 2013, 2012 and 2011 and an outright loss of ₱2.0 billion in 2010, which are included in the "Equity in net earnings" in these periods. Further, as a result of the transfer, portion of the revaluation increment on FTC's property, plant and equipment amounting to ₱1.9 billion was transferred to retained earnings.

Details of the carrying values of the contributed assets are indicated below *(In thousands)*:

Cash	₱33,090
Inventories	19,084,092
Other current assets	4,382,894
Property, plant and equipment	8,432,235
Trade and other payable	(2,707,797)
Loans payable	(19,000,000)
Deferred income tax liability	(1,818,551)
	₱8,405,963

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

Summarized financial information of PMFTC, based on its financial statements, and reconciliation with the carrying amount of the investment in the consolidated financial statements are set out below:

	December 31		January 1,
	2013	2012	2012
		(In Millions)	
Current assets	**₱37,814**	₱23,297	₱20,621
Noncurrent assets	**32,973**	32,449	32,884
Current liabilities	**(29,896)**	(15,289)	(6,916)
Noncurrent liabilities	**(4,335)**	(4,269)	(15,961)
Equity	**36,556**	36,188	30,628
Proportionate share in equity	**49.6%**	49.6%	49.6%
	18,132	17,949	15,191
Notional negative goodwill	**(629)**	(629)	(629)
Cumulative excess of dividends received over proportionate share in dividends declared by PMFTC	**2,252**	2,950	3,738
Unrealized gain	**(6,091)**	(6,384)	(6,677)
Carrying amount	**₱13,664**	₱13,886	₱11,623

Summarized statements of income of PMFTC are as follows:

	Years Ended December 31		
	2013	2012	2011
		(In Millions)	
Revenue	**₱89,624**	₱78,941	₱74,640
Cost of sales	**(67,457)**	(50,679)	(52,592)
General and administrative	**(12,652)**	(11,506)	(10,734)
Others - net	**586**	1,145	(317)
Income before income tax	**10,101**	17,901	10,997
Provision for income tax	**(2,971)**	(5,389)	(3,300)
Net income	**7,130**	12,512	7,697
Group's share of income for the year	**₱3,536**	₱6,206	₱3,818

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

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

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

Total assets, liabilities and capital deficiency of ABI Pascual Holdings amounted to ₱66.4 million, ₱135.5 milion and ₱69.1 million as of December 31, 2013. In 2013, ABI Pascual Holdings incurred a net loss of ₱108.9 million. The Group recognized share in net loss of ABI Pascual Holdings to the extent of the carrying value of the investment amounting to ₱20.1 million. The Group discontinued recognition of its share of losses in ABI Pascual Holdings since the carrying value of the Group's investment in ABI Pascual Holdings has been reduced to zero as of December 31, 2013, and the Group has not incurred any obligations or guaranteed any obligations in respect of the joint venture. As of December 31, 2013, the unrecognized amount of the Group's share of losses which has not been equity accounted for amounted to ₱34.4 million.

Disclosures on Subsidiary with Material Non-controlling Interest
The Company has material non-controlling interests of 43.53% in PNB. Following is the financial information of the non-controlling interests in PNB as of and for the years ended December 31:

	2013	2013	2011
		(In Thousands)	
Accumulated balances of material non-controlling interest	**₱28,844,411**	₱27,902,694	₱25,355,809
Net income allocated to material non-controlling interest	**2,647,901**	2,906,532	2,606,996
Comprehensive income allocated to material non-controlling interest	**959,404**	2,550,920	4,621,296
Dividends paid to material non-controlling interest	**–**	13,059	–

As discussed in Note 1, on February 9, 2013, PNB acquired 100.00% of the voting common stock of ABC. PNB accounted the business combination with ABC under the acquisition method of PFRS 3. In the LTG consolidated financial statements, the merger of PNB and ABC and the acquisition of PNB through the Bank Holding Companies are accounted for under pooling of interest method. Thus, the summarized financial information of PNB below is based on the amounts in the consolidated financial statements of PNB prepared under pooling of interest method before the Group's inter-company eliminations.

Statements of Comprehensive Income:

	2013	2012	2011
		(In Thousands)	
Revenue	**₱28,855,871**	₱32,097,694	₱29,543,967
Cost of services	**(6,121,012)**	(7,666,772)	(8,826,010)
General and administrative expenses	**(19,133,631)**	(21,069,344)	(19,006,280)
Foreign exchange gains - net	**1,167,545**	926,731	1,390,741
Other income - net	**2,693,949**	3,692,539	4,419,810
Income before income tax	**7,462,722**	7,980,848	7,522,228
Provision for income tax	**(1,228,074)**	(1,455,436)	(1,337,537)
Net income	**6,234,648**	6,525,412	6,184,691
Other comprehensive income (loss)	**(3,500,920)**	(1,035,144)	4,770,161
Total comprehensive income	**₱2,733,728**	₱5,490,268	₱10,954,852
Net income attributable to:			
Equity holders of PNB	**₱6,082,933**	₱6,677,077	₱5,988,964
Non-controlling interests	**151,715**	(151,665)	195,727
Total comprehensive income attributable to:			
Equty holders of PNB	**2,204,005**	5,860,141	10,616,347
Non-controlling interests	**529,723**	(369,873)	338,505

Balance Sheets:

	December 31		January 1,
	2013	2012	2012
		(In Thousands)	
Current assets	**₱315,217,749**	₱260,658,713	₱240,775,758
Noncurrent assets	**286,896,332**	269,032,874	272,898,354
Current liabilities	**(498,100,982)**	(416,280,928)	(405,641,908)
Noncurrent liabilities	**(34,622,189)**	(46,479,430)	(46,721,882)
Equity attributable to:			
Equity holders of the Company	**(66,263,291)**	(64,106,067)	(58,255,194)
Non-controlling interest	**(3,127,619)**	(2,825,162)	(3,055,128)

Statements of Cash Flows:

	2013	2012	2011
		(In Thousands)	
Operating	**₱48,744,659**	(₱9,626,822)	₱3,858,488
Financing	**70,455,937**	12,971,712	19,456,772
Investing	**(7,555,741)**	8,092,588	(2,713,414)
	₱111,644,855	₱11,437,478	₱20,601,846

12. **Property, Plant and Equipment**

December 31, 2013

	At Appraised Values				At Cost						
	Land and Land Improvements	**Plant Buildings and Building Improvements**	**Machineries and Equipment**	**Subtotal**	**Office and Administration Buildings and Improvements**	**Transportation Equipment**	**Returnable Containers**	**Furniture, Fixtures and Other Equipment**	**Construction in progress**	**Subtotal**	**Total**
					(In Thousands)						
Cost											
Balance at beginning of the year	**₱16,974,126**	**₱20,454,937**	**₱25,568,048**	**₱62,997,111**	**₱1,331,564**	**₱1,714,630**	**₱5,766,085**	**₱8,439,421**	**₱806,996**	**₱18,058,696**	**₱81,055,807**
Additions	**7,649**	**492,780**	**531,931**	**1,032,360**	**103,098**	**98,469**	**544,221**	**917,402**	**491,596**	**2,154,786**	**3,187,146**
Revaluation increment	**275,485**	**1,025,108**	**–**	**1,300,593**	**–**	**–**	**–**	**–**	**–**	**–**	**1,300,593**
Disposals, transfers and other adjustments (Note 28)	**228,523**	**(2,806,922)**	**506,479**	**(2,071,920)**	**(42,261)**	**(2,783)**	**(65,016)**	**(287,679)**	**(799,908)**	**(1,197,647)**	**(3,269,567)**
Balance at end of the year	**17,485,783**	**19,165,903**	**26,606,458**	**63,258,144**	**1,392,401**	**1,810,316**	**6,245,290**	**9,069,144**	**498,684**	**19,015,835**	**82,273,979**
Accumulated Depreciation, Amortization and Impairment Losses											
Balance at beginning of the year	**(845,279)**	**(8,689,820)**	**(15,381,344)**	**(24,916,443)**	**(878,146)**	**(1,329,855)**	**(4,288,174)**	**(6,402,763)**	**–**	**(12,898,938)**	**(37,815,381)**
Depreciation and amortization	**(34,438)**	**(784,660)**	**(986,296)**	**(1,805,394)**	**(147,896)**	**(140,698)**	**(659,596)**	**(532,065)**	**–**	**(1,480,255)**	**(3,285,649)**
Disposals, transfers and other adjustments (Note 28)	**–**	**1,258,873**	**16,054**	**1,274,927**	**50,323**	**2,400**	**37,671**	**122,949**	**–**	**213,343**	**1,488,270**
Impairment loss (Note 28)	**7,574**	**15,719**	**–**	**23,293**	**–**	**–**	**(3,133)**	**–**	**–**	**(3,133)**	**20,160**
Balance at end of the year	**(872,143)**	**(8,199,888)**	**(16,351,586)**	**(25,423,617)**	**975,719**	**(1,468,153)**	**(4,913,232)**	**(6,811,879)**	**–**	**(14,168,983)**	**(39,592,600)**
Net Book Value	**₱16,613,640**	**₱10,966,015**	**₱10,254,872**	**₱37,834,527**	**₱416,682**	**₱342,163**	**₱1,332,058**	**₱2,257,265**	**₱498,684**	**₱4,846,852**	**₱42,681,379**

December 31, 2012

	At Appraised Values				At Cost						
	Land and Land Improvements	Plant Buildings and Building Improvements	Machineries and Equipment	Subtotal	Office and Administration Buildings and Improvements	Transportation Equipment	Returnable Containers	Furniture, Fixtures and Other Equipment	Construction in progress	Subtotal	Total
					(In Thousands)						
Cost											
Balance at beginning of year	₱16,571,088	₱20,283,714	₱23,913,132	60,767,934	₱1,209,749	₱1,634,631	₱5,294,810	₱8,223,804	621,090	16,984,084	₱77,752,018
Additions	44,895	590,347	1,660,823	2,296,065	223,160	114,023	562,814	620,096	422,727	1,942,820	4,238,885
Revaluation increase	464,814	(280,242)	–	184,572	–	–	–	–	–	–	184,572
Disposals, transfers and other adjustments (Note 28)	(106,671)	(87,450)	(5,907)	(200,028)	(101,345)	(34,024)	(91,539)	(404,479)	(236,821)	(868,208)	(1,068,236)
Balance at end of year	16,974,126	20,506,369	25,568,048	63,048,543	1,331,564	1,714,630	5,766,085	8,439,421	806,996	18,058,696	81,107,239

(Forward)

	At Appraised Values				At Cost						
	Land and Land Improvements	Plant Buildings and Building Improvements	Machineries and Equipment	Subtotal	Office and Administration Buildings and Improvements	Transportation Equipment	Returnable Containers	Furniture, Fixtures and Other Equipment	Construction in progress	Subtotal	Total
					(In Thousands)						
Accumulated Depreciation, Amortization and Impairment Losses											
Balance at beginning of year	(₱811,026)	(₱7,988,134)	(₱14,494,072)	(₱23,293,232)	(₱821,146)	(₱1,190,252)	(₱3,711,044)	(₱6,123,518)	₱–	(₱11,845,960)	(₱35,139,192)
Depreciation and amortization	(36,304)	(681,237)	(887,981)	(1,605,522)	(161,283)	(172,929)	(662,190)	(473,253)	–	(1,469,655)	(3,075,177)
Disposals, transfers and other adjustments (Note 28)	–	15,078	709	15,787	104,283	33,326	85,060	194,008	–	416,677	432,464
Impairment loss (Note 28)	2,051	(35,527)	–	(33,476)	–	–	–	–	–	–	(33,476)
Balance at end of year	(845,279)	(8,689,820)	(15,381,344)	(24,916,443)	(878,146)	(1,329,855)	(4,288,174)	(6,402,763)	–	(12,898,938)	(37,815,381)
Net Book Value	₱16,428,847	₱11,765,117	₱10,186,704	₱38,080,668	₱453,418	₱384,775	₱1,477,911	₱2,036,658	₱806,996	₱5,159,758	₱43,240,426

December 31, 2011

	At Appraised Values				At Cost						
	Land and Land Improvements	Plant Buildings and Building Improvements	Machineries and Equipment	Subtotal	Office and Administration Buildings and Improvements	Transportation Equipment	Returnable Containers	Furniture, Fixtures and Other Equipment	Construction in progress	Subtotal	Total
					(In Thousands)						
Cost											
Balance at beginning of the year	₱15,328,276	₱13,931,478	₱18,317,607	₱47,577,361	₱1,088,607	₱1,490,103	₱4,864,647	₱8,167,069	₱291,649	₱ 15,902,075	₱63,479,436
Additions	26,850	327,331	1,441,188	1,795,369	143,887	212,765	1,756,254	597,324	383,047	3,093,277	4,888,646
Appraisal increase	894,999	5,409,453	5,373,114	11,677,566	–	–	–	–	–	–	11,677,566
Disposals, transfers and other adjustments (Note 28)	320,963	564,020	(1,218,777)	(333,794)	(22,745)	(68,237)	(1,326,091)	(540,589)	(53,606)	(2,011,268)	(2,345,062)
Balance at end of the year	16,571,088	20,232,282	23,913,132	60,716,502	1,209,749	1,634,631	5,294,810	8,223,804	621,090	16,984,084	77,700,586
Accumulated Depreciation, Amortization and Impairment Losses											
Balance at beginning of the year	(401,816)	(5,175,035)	(8,968,274)	(14,545,125)	(678,482)	(1,101,583)	(3,255,839)	(6,099,570)	–	(11,135,474)	(25,680,599)
Depreciation and amortization	(25,709)	(496,586)	(958,087)	(1,480,382)	(96,536)	(150,028)	(663,379)	(712,414)	–	(1,622,357)	(3,102,739)
Revaluation increase	(178,194)	(2,077,757)	(4,567,711)	(6,823,662)	–	–	–	–	–	–	(6,823,662)
Disposals, transfers and other adjustments (Note 28)	(178,817)	(175,562)	–	(354,379)	(46,128)	61,359	326,092	688,466	–	1,029,789	675,410
Impairment loss (Note 28)	(26,490)	(63,194)	–	(89,684)	–	–	(117,918)	–	–	(117,918)	(207,602)
Balance at end of the year	(811,026)	(7,988,134)	(14,494,072)	(23,293,232)	(821,146)	(1,190,252)	(3,711,044)	(6,123,518)	–	(11,845,960)	(35,139,192)
Net Book Value	₱15,760,062	₱12,244,148	₱9,419,060	₱ 37,423,270	₱388,603	₱444,379	₱1,583,766	₱2,100,286	₱621,090	₱5,138,124	₱42,561,394

Revaluation of Land and Land Improvements and
Plant Buildings and Machineries and Equipment

The corresponding fair values of land and land improvements, plant buildings and building improvements, and machineries and equipment are determined based on valuation performed by independent appraisers. The fair value of the land was determined using the market data approach based on available market evidence and the fair values for land improvements, plant buildings, and machineries and equipment were derived using the depreciated replacement cost. The dates of the latest appraisal valuations were December 31, 2011 (see Note 33). Movements in revaluation increment, net of deferred income tax effect, are as follows:

	December 31		January 1,
	2013	2012	2012
		(In Thousands)	
Revaluation increment on the property, plant and equipment, net of deferred income tax effect:			
Beginning of year	**₱9,475,117**	₱9,694,977	₱6,544,779
Revaluation increase	**910,415**	129,200	3,397,733
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	**(1,422,368)**	(349,060)	(247,535)
	₱8,963,164	₱9,475,117	₱9,694,977
Attributable to:			
Equity holders of the parent company	**₱6,378,188**	₱6,810,285	₱7,060,676
Non-controlling interests	**2,584,976**	2,664,832	2,634,301
	₱8,963,164	₱9,475,117	₱9,694,977

If land and land improvements, plant buildings and building improvements, and machineries and equipment were measured using cost model, the carrying amount would be as follows:

	December 31		January 1,
	2013	2012	2012
		(In Thousands)	
Cost			
Land and land improvements	**₱7,235,779**	₱7,228,130	₱7,183,236
Plant buildings and improvements	**13,839,217**	13,346,438	12,756,091
Machineries and equipment	**16,429,028**	15,603,918	15,055,225
	37,504,024	36,178,486	34,994,552
Accumulated depreciation			
Plant buildings and improvements	**(3,836,248)**	(3,017,150)	(4,202,224)
Machineries and equipment	**(8,637,769)**	(8,616,549)	(7,219,025)
	(12,474,017)	(11,633,699)	(11,421,249)
	₱25,030,007	₱24,544,787	₱23,573,303

Impairment, Write-off and Disposal of Property, Plant and Equipment

The Group recognized impairment losses for certain property, plant and equipment amounting to ₱2,033.5 million and ₱207.6 million in 2012 and 2011, respectively. Management assessed that the carrying amounts of these assets should be fully impaired since there is no more expected future economic benefit from these assets.

Depreciation

Depreciation of property, plant and equipment charged to operations is as follows:

	December 31		
	2013	2012	2011
		(In Thousands)	
Cost of sales and services (Note 25)	**₱1,298,012**	₱1,278,879	₱1,153,709
Selling expenses (Note 26)	**717,807**	683,885	710,262
General and administrative expenses (Note 27)	**1,269,830**	1,112,413	1,238,768
	₱3,285,649	₱3,075,177	₱3,102,739

The Group has recorded additional depreciation amounting to ₱32.3 million in 2011 due to the revision of the estimated useful lives of certain buildings and building improvements and machineries and equipment of the distilled spirits business.

Fully depreciated property, plant and equipment that are still used in operations amounted to ₱2.2 billion, ₱2.2 billion and ₱2.1 billion as of December 31, 2013 and 2012, and January 1, 2012, respectively.

Borrowing Costs

Borrowing costs capitalized as part of property, plant and equipment under construction amounted to ₱7.1 million in 2011. Unamortized capitalized borrowing costs amounted to ₱15.1 million, ₱15.7 million and ₱15.5 million as of December 31, 2013 and 2012, and January 1, 2012, respectively. The average capitalization rates used to determine the amount of borrowing costs eligible for capitalization is 5.7% in 2011.

Property, Plant and Equipment Held as Collateral

Interbev used its land property amounting to ₱46.5 million to partially secure its outstanding long-term debts as of 2011, which were fully paid in 2012 (see Note 19).

13. Investment Properties

Movements of the Group's investment properties are as follows (in thousands):

	December 31, 2013				
	Land	**Buildings and Improvements**	**Residential Unit**	**Construction in Progress**	**Total**
Cost					
Beginning balance	**₱23,333,720**	**₱7,947,754**	**₱7,620**	**₱306,892**	**₱31,595,986**
Additions	**1,486,023**	**1,191,003**	**–**	**1,029,475**	**3,706,501**
Transfers/disposals/others	**(2,692,425)**	**283,189**	**–**	**(4,677)**	**(2,413,913)**
Ending balance	**22,127,318**	**9,421,946**	**7,620**	**1,331,690**	**32,888,574**
Accumulated Depreciation					
Beginning balance	**3,071,137**	**3,398,207**	**7,620**	**–**	**6,476,964**
Depreciation	**–**	**464,690**	**–**	**–**	**464,690**
Provision for impairment losses	**706,318**	**59,025**	**–**	**–**	**765,343**
Transfer/disposals/others	**(441,348)**	**(564,672)**	**–**	**–**	**(1,006,020)**
Ending balance	**3,336,107**	**3,357,250**	**7,620**	**–**	**6,700,977**
Net Book Value	**₱18,791,211**	**₱6,064,696**	**₱–**	**₱1,331,690**	**₱26,187,597**

	December 31, 2012				
	Land	Buildings and Improvements and Machineries	Residential Unit	Construction in Progress	Total
Cost					
Beginning balance	₱25,882,931	₱9,356,034	₱7,620	₱363,744	₱35,610,329
Additions	1,117,008	482,725	–	307,189	1,906,922
Transfers/disposals/others	(3,666,219)	(1,891,005)	–	(364,041)	(5,921,265)
Ending balance	23,333,720	7,947,754	7,620	306,892	31,595,986
Accumulated Depreciation					
Beginning balance	3,030,498	4,454,450	7,620	–	7,492,568
Depreciation	–	339,845	–	–	339,845
Provision for (reversal of) impairment losses	(155,331)	21,405	–	–	(133,926)
Transfer/disposals/others	195,970	(1,417,493)	–	–	(1,221,523)
Ending balance	3,071,137	3,398,207	7,620	–	6,476,964
Net Book Value	₱20,262,583	₱4,549,547	₱–	₱306,892	₱25,119,022

	December 31, 2011				
	Land	Buildings and Improvements and Machineries	Residential Unit	Construction in Progress	Total
Cost					
Beginning balance	₱26,085,954	₱10,392,428	₱7,620	₱2,143	₱36,488,145
Additions	651,014	410,654	–	463,532	1,525,200
Transfers	(854,037)	(1,447,048)	–	(101,931)	(2,403,016)
Ending balance	25,882,931	9,356,034	7,620	363,744	35,610,329
Accumulated Depreciation					
Beginning balance	4,291,771	4,897,604	7,620	–	9,196,995
Depreciation	–	311,291	–	–	311,291
Provision for (reversal of) impairment losses	(371,947)	171,205	–	–	(200,742)
Transfer/disposal	(889,326)	(925,650)	–	–	(1,814,976)
Ending balance	3,030,498	4,454,450	7,620	–	7,492,568
Net Book Value	₱22,852,433	₱4,902,584	₱–	₱363,744	₱28,117,761

The Group's investment properties consist of parcels of land for appreciation, residential and condominium units for lease and for sale, and real properties foreclosed or acquired in settlement of loans which are all valued at cost. Foreclosed investment properties still subject to redemption period by the borrowers amounted to ₱449.5 million and ₱437.2 million as of December 31, 2013 and 2012, respectively. The Group is exerting continuing efforts to dispose these properties. As discussed in Note 35, investment properties with an aggregate fair value of ₱300.0 million were mortgaged in favor of BSP as of December 31, 2012.

Fair Values of Investment Properties

Below are the fair values of the investment properties which were determined by professionally qualified, independent appraisers based on market values:

	December 31		January 1,
	2013	2012	2012
		(In Thousands)	
Land	**₱35,072,992**	₱36,100,591	₱28,305,035
Buildings and improvements	**4,857,285**	5,044,536	7,823,942
	₱39,930,277	₱41,145,127	₱36,128,977

The fair value of investment properties of the Group was arrived at using various acceptable valuation approaches and both observable and unobservable inputs (see Note 33).

Rent Income and Direct Operating Expenses of Investment Properties
Rental income and direct operating expenses arising from the investment properties amounted to ₱448.7 million and ₱190.3 million in 2013 and ₱396.8 million and ₱142.9 million in 2012, ₱306.9 million and ₱111.7 million in 2011, respectively (see Note 25).

Depreciation of investment properties charged to operations follows:

	December 31		
	2013	2012	2011
		(In Thousands)	
Cost of rental income (Note 25)	**₱94,223**	₱70,671	₱69,062
General and administrative expenses (Note 27)	**370,467**	269,174	242,229
	₱464,690	₱339,845	₱311,291

14. Other Noncurrent Assets

Other noncurrent assets consist of:

	December 31		January 1,
	2013	2012	2012
		(In Thousands)	
Creditable withholding taxes	**₱1,103,798**	₱1,091,752	₱13,893
Deferred input VAT	**539,296**	591,050	603,112
Deferred reinsurance premiums	**245,157**	211,151	–
Deferred charges	**121,156**	97,912	106,868
Refundable deposits	**167,547**	124,959	103,133
Other security deposits	**105,285**	55,558	66,139
Deposit for future investments	**355,716**	272,533	232,301
Investment in Heritage Park	**999,035**	1,012,810	1,034,118
Other investments	**37,233**	24,240	18,857
Software costs	**425,928**	471,112	453,648
Goodwill	**252,671**	252,671	252,671
Chattel properties - net	**120,615**	118,083	71,263
Receivable from SPV - net	**500**	–	–
Others - net	**133,781**	502,289	598,826
	₱4,607,718	₱4,826,120	₱3,554,829

a. Deferred input VAT arises mainly from the acquisition of capital goods.

b. Movements in software costs are as follows:

	December 31		
	2013	2012	2011
		(In Thousands)	
Beginning of year	**₱471,112**	₱453,648	₱525,147
Additions	**238,687**	280,911	95,972
Disposals	**–**	(561)	–
Amortization (Note 27)	**(283,871)**	(262,886)	(167,471)
End of year	**₱425,928**	₱471,112	₱453,648

c. Refundable deposits consist principally of amounts paid by the property development segment to its utility providers for service applications and guarantee deposit to Makati Commercial Estate Association for plans processing, monitoring fee and development charge of the Group's projects. These refundable deposits amounting to ₱167.5 million, ₱125.0 million and ₱103.1 million as of December 31, 2013 and 2012, and January 1, 2012, respectively, will be refunded upon termination of the service contract and completion of the projects' construction.

d. The Group recognized goodwill pertains to ADI and Eton amounting to ₱144.7 million and ₱19.0 million, respectively. As at December 31, 2013, the Group performed its annual impairment testing of goodwill related to ADI, a CGU.

The recoverable amount of ADI is determined based on value in use calculations using cash flow projections from financial budgets approved by management covering a five-year period. The projected cash flows have been updated to reflect the increase in demand for products based on TDI's projected sales volume increase, selling price increase and cost and expenses increase. The pre-tax discount rate applied to the cash flow projection is 8.3%. The growth rate used to extrapolate the cash flows of until beyond the five-year period is 5.5 %. Management assessed that this growth rate is comparable with the average growth for the industry in which ADI operates.

Management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of ADI to exceed its recoverable amount, which is based on value in use. As of December 31, 2013, value in use of API amounted to ₱12.5 billion.

e. As of December 31, 2013 and 2012, accumulated depreciation on chattel mortgage properties acquired by PNB in settlement of loans amounted to ₱77.8 million and ₱56.6 million, respectively.

f. The Group has receivable from SPV, OPII, which was deconsolidated upon adoption of PFRS 10 (see Note 2).

As of December 31, 2013 and 2012, receivable from SPV represents fully provisioned subordinated notes received by PNB from Golden Dragon Star Equities and its assignee, OPII, relative to the sale of the first pool and second pool of its NPAs in December 2006 and March 2007, respectively. The asset sale and purchase agreements (ASPA) between PNB, Golden Dragon Star Equities and OPII for the sale of the NPAs were executed on December 19, 2006. OPII was specifically organized to hold, manage, service and resolve the non-performing assets sold to Golden Dragon Star Equities. OPII has been financed through the issuance of equity securities and subordinated debt securities. No income was recognized from OPII in 2013.

The more significant terms of the sale are as follows:

a. Certain NPAs of PNB were sold to the SPV and divided into two pools. The sale of the first pool of NPAs with an outstanding balance of ₱11.7 billion was made on December 29, 2006 for a total consideration of ₱11.7 billion.

b. The agreed purchase price of the first pool of NPAs shall be paid as follows:

i. An initial amount of ₱1.1 billion, which was received in full and acknowledged by the PNB on February 14, 2007; and

ii. The balance of ₱10.6 billion, through issuance of SPV Notes, shall be paid over five (5) years based on a cash flow waterfall arrangement and at an interest equivalent to the 3-month MART prevailing as of the end of the quarter prior to the payment date.

Under the ASPA, the sale of the second pool of NPAs amounting to ₱7.6 billion with allowance for credit losses of ₱5.5 billion became effective in March 2007. The agreed purchase price of this pool of NPAs were paid as follows:

a. An initial amount of ₱751.1 million, which was received in full and acknowledged by PNB on April 26, 2007; and

b. The balance of ₱6.8 billion through issuance of SPV Notes, shall be paid over five (5) years based on a cash flow waterfall arrangement and at an interest equivalent to the 3-month MART prevailing as of the end of the quarter prior to the payment date. In case of insufficiency of funds for payment of the SPV Notes, the buyer of the NPAs, with the consent of PNB, which consent shall not be unreasonably withheld, may write-off the SPV Notes, including all interest, fees and charges outstanding and payable.

g. Allowance for impairment losses on other noncurrent assets amounting to ₱857.2 million, ₱917.2 million and ₱2.1 billion includes allowance for credit losses on receivable from SPV amounting to ₱0.5 million, ₱258.8 million and ₱833.8 million as of December 31, 2013 and 2012 and January 1, 2012, respectively.

h. Security fund amounting to ₱0.15 million (included under "Others - net") is maintained by PNB LII in compliance with Sections 365 and 367 of the Insurance Code (IC) as of December 31, 2013,. The amount of such fund is determined by and deposited with the IC for the payment of benefit claims against insolvent companies.

15. **Deposit Liabilities**

	December 31		January 1,
	2013	2012	2012
		(In Thousands)	
Demand	**₱90,428,033**	₱70,732,692	₱70,157,833
Savings	**284,599,682**	260,427,479	254,654,359
Time	**51,114,363**	47,587,615	58,155,187
	426,142,078	378,747,786	382,967,379
Presented as noncurrent	**10,451,554**	24,805,196	21,923,074
Presented as current	**₱415,690,524**	₱353,942,590	₱361,044,305

Of the total deposit liabilities of PNB, ₱26.1 billion, ₱12.9 billion and ₱11.1 billion are non-interest bearing as of December 31, 2013 and 2012 and January 1, 2012, respectively. Annual interest rates of the remaining deposit liabilities follow:

	2013	2012	2011
Foreign-currency denominated deposit liabilities	**0.02% to 2.53%**	0.09% to 2.55%	0.20% to 7.00%
Peso-denominated deposit liabilities	**0.11% to 5.59%**	0.25% to 4.32%	0.50% to 10.00%

On March 29, 2012, BSP issued Circular No. 753 which provides for the unification of the statutory and liquidity reserve requirement, non-remuneration of the unified reserve requirement, exclusion of vault cash and demand deposits as eligible forms of reserve requirement compliance, and reduction in the unified reserve requirement ratios.

Under existing BSP regulations, non-FCDU deposit liabilities of PNB and Allied Savings Bank (ASB) are subject to reserves equivalent to 18.00% and 6.00%, respectively. Available reserves follow:

	December 31		January 1,
	2013	2012	2012
		(In Thousands)	
Due from BSP	**₱63,556,710**	₱36,531,047	₱37,513,558
Unquoted debt securities	**2,741,000**	3,092,529	3,096,485
AFS investments	–	6,965,950	4,559,997
Cash and other cash items	–	–	4,166,007
	₱66,297,710	₱46,589,526	₱49,336,047

As of December 31, 2013 and 2012 and January 1, 2012, PNB and ASB were in compliance with such regulations.

Long-term Negotiable Certificates of Time Deposits
Time deposit of the Group includes the following Long-term Negotiable Certificates of Time Deposits (LTNCDs):

Issue Date	Maturity Date	Face Value (In Thousands)	Carrying Value (In Thousands)	Coupon Rate	Interest Repayment Terms
October 21, 2013	April 22, 2019	₱4,000,000	₱3,971,075	3.25%	Quarterly
August 5, 2013	February 5, 2019	₱5,000,000	₱4,968,004	3.00%	Quarterly
November 18, 2011	February 17, 2017	₱3,100,000	₱3,086,513	5.18%	Quarterly
October 22, 2009	October 23, 2014	₱3,500,000	₱3,582,808	7.00%	Quarterly
March 25, 2009	March 31, 2014	₱3,250,000	₱3,248,369	6.50%	Quarterly

Other significant terms and conditions of the above LTNCDs follow:

a. Issue price at 100.00% of the face value of each LTNCD.

b. The LTNCDs bear interest rate per annum on its principal amount from and including the Issue Date thereof, up to but excluding the Early Redemption Date or Maturity Date (as the case may be).

   Interest in respect of the LTNCD will be calculated on an annual basis and will be paid in arrears quarterly on the last day of each successive Interest Period.

c. Unless earlier redeemed, the LTNCDs shall be redeemed by PNB on maturity date at an amount equal to one hundred percent (100%) of the aggregate issue price thereof, plus any accrued and unpaid interest thereon. The LTNCDs may not be redeemed at the option of the holders.

d. The LTNCDs constitute direct, unconditional, unsecured, and unsubordinated obligations of PNB, enforceable according to these Terms and Conditions, and shall at all times rank paripassu and without any preference or priority among themselves and at least paripassu with all other present and future direct, unconditional, unsecured, and unsubordinated obligations

of the Issuer, except for any obligation enjoying a statutory preference or priority established under Philippine laws.

e. Subject to the "Events of Default" in the Terms and Conditions, the LTNCDs cannot be pre-terminated at the instance of any CD Holder before Maturity Date. In the case of an event of default, none of the CD Holders may accelerate the CDs on behalf of other CD Holders, and a CD Holder may only collect from PNB to the extent of his holdings in the CDs. However, PNB may, subject to the General Banking Law of 2000, Section X233.9 of the Manual of Regulations for Banks, Circular No. 304 Series of 2001 of the BSP and other related circulars and issuances, as may be amended from time to time, redeem all and not only part of the outstanding CDs on any Interest Payment Date prior to Maturity Date, at an Early Redemption Amount equal to the Issue Price plus interest accrued and unpaid up to but excluding the Early Redemption Date.

f. The LTNCDs are insured by the PDIC up to a maximum amount of ₱500,000 subject to applicable laws, rules and regulations, as the same may be amended from time to time.

g. Each Holder, by accepting the LTNCDs, irrevocably agrees and acknowledges that: (a) it may not exercise or claim any right of set-off in respect of any amount owed to it by the PNB arising under or in connection with the LTNCDs; and (b) it shall, to the fullest extent permitted by applicable law, waive and be deemed to have waived all such rights of set-off.

Interest expense on deposit liabilities presented under "Cost of banking services" amounted to ₱3.9 billion, ₱5.6 billion and ₱6.4 billion in 2013, 2012 and 2011, respectively (see Note 25).

In 2013, 2012 and 2011, interest expense on LTNCDs for the Group includes amortization of transaction costs amounting to ₱19.4 million, ₱9.5 million and ₱14.6 million, respectively.

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

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

	December 31		January 1,
	2013	2012	2012
		(In Thousands)	
Designated at FVPL			
Segregated fund liabilities	**₱7,911,794**	₱3,739,576	₱1,365,013
Subordinated notes	**–**	6,196,070	6,480,154
Derivative liabilities (Notes 21 and 37)	**163,101**	389,817	261,424
	8,074,895	10,325,463	8,106,591
Presented as noncurrent	**7,882,700**	6,196,070	6,479,170
Presented as current	**₱192,195**	₱4,129,393	₱1,627,421

The balance of segregated fund liabilities consists of:

	December 31, 2013
Segregated funds (Note 6)	₱7,861,688
Additional subscriptions	50,106
Segregated fund liabilities	₱7,911,794

As of December 31, 2012, financial liability designated at FVPL represents the ₱6.0 billion subordinated notes due in 2018 which was issued by PNB on June 19, 2008. The subordinated note is part of a group of financial instruments that together are managed on a fair value basis, in accordance with PNB's documented risk management and investment strategy.

Among the significant terms and conditions of the issuance of such 2008 Notes are:

a. Issue price at 100.00% of the principal amount;

b. The 2008 Notes bear interest at the rate of 8.50% per annum from and including June 19, 2008 to but excluding June 19, 2013. Interest will be payable quarterly in arrears on the 19th of March, June, September and December of each year, commencing on September 19, 2008. Unless the 2008 Notes are previously redeemed, interest from and including June 19, 2013 to but excluding June 19, 2018 will be reset at the equivalent of the higher of (i) five-year PDST-F Fixed Rate Treasury Notes (FXTN) as of reset date multiplied by 80.00%, plus a step-up spread of 2.0123% per annum or (ii) difference of interest rate and five-year PDST-F FXTN as of issue date multiplied by 150% plus five-year PDST-F FXTN as of reset date, and such step-up interest rate shall be payable quarterly in arrears on 19th of March, June, September and December of each year, commencing on September 19, 2013. The 2008 Notes will mature on June 19, 2018, if not redeemed earlier;

c. The 2008 Notes constitute direct, unconditional, unsecured and subordinated obligations of PNB and at all times rank pari passu without preference among themselves and at least equally with all other present and future unsecured and subordinated obligations of the PNB;

d. PNB may redeem the 2008 Notes in whole but not in part at a redemption price equal to 100.00% of the principal amount together with accrued and unpaid interest on the day following the last day of the twentieth (20th) interest period from issue date, subject to the prior consent of the BSP and the compliance by PNB with the prevailing requirements for the granting by the BSP of its consent thereof. The 2008 Notes may not be redeemed at the option of the noteholders; and

e. Each noteholder, by accepting the 2008 Notes, irrevocably agrees and acknowledges that: (i) it may not exercise or claim any right of set-off in respect of any amount owed by PNB arising under or in connection with the 2008 Notes; and (ii) it shall, to the fullest extent permitted by applicable law, waive and be deemed to have waived all such rights of set-off.

On June 18, 2013, PNB exercised its option to redeem the 2008 Notes.

17. **Bills and Acceptances Payable**

Bills and acceptance payable consists of:

	December 31		January 1,
	2013	2012	2012
		(In Thousands)	
Bills payable to:			
BSP and local banks (Note 23)	**₱8,522,539**	₱10,452,727	₱9,268,748
Foreign banks	**2,821,186**	4,736,696	2,609,909
Others	**1,463,979**	2,916,322	1,463,700
	12,807,704	18,105,745	13,342,357

(Forward)

	December 31		January 1,
	2013	2012	2012
		(In Thousands)	
Acceptances outstanding	**₱364,293**	₱336,507	₱368,367
	13,171,997	18,442,252	13,710,724
Presented as noncurrent	**1,748,844**	328,654	1,391,525
Presented as current	**₱11,423,153**	₱18,113,598	₱12,319,199

Annual interest rates are shown below:

	2013	2012	2011
Foreign currency-denominated borrowings	**0.12% - 0.99%**	0.06% - 1.77%	0.06% - 1.75%
Peso-denominated borrowings	**1.09% - 3.50%**	0.03% - 12.00%	1.87% - 12.00%

PNB's bills payable to BSP includes the transferred liabilities from Maybank Philipines, Inc. (Maybank) amounting to ₱1.7 billion, ₱1.6 billion and ₱1.7 billion as of December 31, 2013 and 2012 and January 1, 2012, respectively (see Note 8).

Bills payable includes funding from the Social Security System under which PNB acts as a conduit for certain financing programs of these institutions. Lending to such programs is shown under "Loans and receivables" (see Note 8).

As of December 31, 2013 and 2012 and January 1, 2012, bills payable with a carrying value of ₱2.2 billion, ₱3.0 billion and ₱3.3 billion is secured by a pledge of certain AFS investments with fair value of ₱2.5 billion, ₱2.8 billion and ₱3.0 billion, respectively (see Note 7).

As of December 31, 2013, bills payable under the BSP rediscounting facility with a carrying value of ₱112.6 million is secured by a pledge of loans and certain AFS investments with fair values of ₱219.3 million and ₱2.4 billion, respectively. As of December 31, 2012, bills payable under the BSP rediscounting facility with a carrying value of ₱1.9 billion and ₱1.0 billion is secured by a pledge of loans amounting to ₱2.0 billion and certain AFS investments with face value of ₱2.6 billion, respectively (see Notes 7 and 8).

Following are the significant terms and conditions of the repurchase agreements entered into by PNB:

a. Each party represents and warrants to the other that it is duly authorized to execute and deliver the Agreement, and to perform its obligations and has taken all the necessary action to authorize such execution, delivery and performance;
b. The term or life of this borrowing is up to one year;
c. Some borrowings bear a fixed interest rate while others have floating interest rate;
d. PNB has pledged its AFS investments, in form of US Treasury Notes and ROP Global bonds, in order to fulfill its collateral requirement;
e. Haircut from market value ranges from 20.00% to 30.00% depending on the tenor of the bond;
f. Substitution of pledged securities is allowed if one party requested and the other one so agrees.

Interest expense on bills payable is included under "Cost of banking services" amounting to ₱1.1 billion, ₱1.8 billion and ₱1.7 billion in 2013, 2012 and 2011, respectively (see Note 25).

18. **Accounts Payable and Accrued Expenses**

Accounts payable and accrued expenses consist of:

	December 31		January 1,
	2013	2012	2012
		(In Thousands)	
Trade payables	**₱2,553,547**	₱2,700,340	₱2,343,306
Accrued expenses:			
Interest	**2,151,329**	2,042,051	523,560
Projects development costs	**1,686,872**	1,880,573	1,144,134
Compensation and benefits	**1,295,334**	618,218	571,019
Taxes and licenses	**798,672**	158,801	100,908
Management, directors and other professional fees	**472,968**	150,296	207,974
PDIC insurance premiums	**446,717**	399,044	374,987
Purchase of materials and supplies	**366,810**	376,176	778,053
Information technology-related expenses	**239,308**	231,256	69,504
Promotional expenses	**185,457**	144,309	78,991
Rent and utilities payable	**162,889**	59,497	151,871
Reinstatement premium	**152,734**	–	–
Others	**838,704**	513,079	915,410
Retention payable	**731,493**	706,980	554,393
Nontrade payables	**601,965**	517,212	898,689
Provision for tax contingencies (Note 35)	**335,410**	419,398	326,301
Due to government agencies	**178,545**	216,081	244,767
Output value added tax	**99,622**	385,519	1,146,203
Advances from customers	**2,062**	179,788	90,559
Dividends payable	–	–	652,858
Other payables	**60,262**	106,434	408,863
	₱13,360,700	₱11,805,052	₱11,582,350

Trade Payables

Trade payables are non-interest bearing and are normally settled on 30-to-60 day terms. Trade payables arise mostly from purchases of inventories, which include raw materials and indirect materials (i.e., packaging materials) and supplies, for use in manufacturing and other operations.

Trade payables also include importation charges related to raw materials purchases, as well as occasional acquisitions of production equipment and spare parts.

Accrued Expenses

Other accrued expenses consist of accruals for commission, rent, outside services, fuel and oil, utilities, advertising and promotions and professional fees which are individually not significant as to amounts.

Retention Payable

Retention payable is the amount deducted from the total billing of the contractor which will be paid upon completion of the contracted services of the Eton.

Other Payables
Other payables include cash bond payable to haulers as security for inventories and payable other than to suppliers of raw materials which include, but not limited to advertising and freight companies.

19. Short-term and Long-term Debts

Short-term Debts
At various dates in 2013, 2012 and 2011, the Group obtained short-term loans from various local banks to meet its working capital requirements. As of December 31, 2013 and 2012 and January 1, 2012, outstanding short term debts amounted to ₱300.0 million, ₱1,620.0 million and ₱1,220.0 million, respectively. The loans, which are payable in lump sum on various dates, are subject to annual interest rates ranging from 3.5% to 5.0%, 5.0% to 6.0% and 3.5% to 7.0%, which are payable lump sum on various dates within one year and subject to renewal upon agreement by the Group and counterparty banks. Short-term debts are unsecured except for a ₱400.0 million loan which is secured by corporate guaranty of ABI and Interbev as of December 31, 2012.

Long-term Debts

	December 31		January 1,
	2013	2012	2012
		(In Thousands)	
Subordinated debts	**₱9,953,651**	₱14,436,122	₱10,935,265
Bonds payable	**4,982,544**	4,968,295	4,955,148
Unsecured term loan	**1,990,120**	–	–
Notes payable	**963,355**	1,174,784	990,429
	17,889,670	20,579,201	16,880,842
Less current portion	**1,009,915**	4,777,872	543,650
	₱16,879,755	₱15,801,329	₱16,337,192

PNB's Subordinated Debts

a. 5.88% ₱3.5 billion Subordinated Notes

On May 9, 2012, PNB's BOD approved the issuance of unsecured subordinated notes of ₱3.5 billion that qualify as Lower Tier 2 capital.

The 2012 Notes which bear nominal interest of 5.88% and due in 2022 was issued pursuant to the authority granted by the BSP to the Bank on May 27, 2011. EIR on this note is 6.04%.

Among the significant terms and conditions of the issuance of such 2012 Notes are:

(1) Issue price at 100.00% of the principal amount;

(2) The 2012 Notes bear interest at the rate of 5.88% per annum from and including May 9, 2012 to but excluding May 9, 2022. Interest will be payable quarterly in arrears on the 9th of August, November, February and June of each year, commencing on May 9, 2012, unless the 2012 Notes are previously redeemed at their principal amount on Maturity date or May 9, 2022. The stepped-up interest will be payable quarterly in arrears on 9th of August, November, February and May of each year, commencing on May 9, 2012;

(3) The 2011 Notes constitute direct, unconditional, unsecured and subordinated obligations of PNB and at all times rank *pari passu* without preference among themselves and at least equally with all other present and future unsecured and subordinated obligations of PNB;

(4) PNB may redeem the 2012 Notes in whole but not in part at a redemption price equal to 100.00% of the principal amount together with accrued and unpaid interest on the day following the last day of the fifteenth (15th) interest period from issue date, subject to the prior consent of the BSP and the compliance by PNB with the prevailing requirements for the granting by the BSP of its consent thereof. The 2012 Notes may not be redeemed at the option of the noteholders; and

(5) Each noteholder, by accepting the 2012 Notes, irrevocably agrees and acknowledges that it may not exercise or claim any right of set-off in respect of any amount owed by the PNB arising under or in connection with the 2012 Notes.

b. 6.75% ₱6.5 billion Subordinated Notes

On May 15, 2011, the PNB's BOD approved the issuance of unsecured subordinated notes of ₱6.5 billion that qualify as Lower Tier 2 capital.

The 2011 Notes which bear nominal interest of 6.75% and due in 2021, pursuant to the authority granted by the BSP to PNB on May 27, 2011. EIR on this note is 6.94%.

Among the significant terms and conditions of the issuance of such 2011 Notes are:

(1) Issue price at 100.00% of the principal amount;

(2) The 2011 Notes bear interest at the rate of 6.75% per annum from and including June 15, 2011 to but excluding June 15, 2021. Interest will be payable quarterly in arrears on the 15th of September, December, March and June of each year, commencing on June 15, 2011, unless the 2011 Notes are previously redeemed at their principal amount on Maturity date or June 15, 2021. Interest will be payable quarterly in arrears on 15th of September, December, March and June of each year, commencing on June 15, 2011;

(3) The 2011 Notes constitute direct, unconditional, unsecured and subordinated obligations of PNB and at all times rank *pari passu* without preference among themselves and at least equally with all other present and future unsecured and subordinated obligations of PNB;

(4) PNB may redeem the 2011 Notes in whole but not in part at a redemption price equal to 100.00% of the principal amount together with accrued and unpaid interest on the day following the last day of the fifteenth (15th) interest period from issue date, subject to the prior consent of the BSP and the compliance by PNB with the prevailing requirements for the granting by the BSP of its consent thereof. The 2011 Notes may not be redeemed at the option of the noteholders; and

(5) Each noteholder, by accepting the 2011 Notes, irrevocably agrees and acknowledges that it may not exercise or claim any right of set-off in respect of any amount owed by PNB arising under or in connection with the 2011 Notes.

c. 7.13% ₱4.5 billion Subordinated Notes

On July 25, 2007, the BOD of PNB approved and authorized the management to conduct capital raising activity by way of issuance of Lower Tier 2 capital up to the maximum amount of ₱5.0 billion through a public offering subject to the provisions of BSP Circular No. 280 and BSP Memorandum to all banks and financial institutions dated February 17, 2003.

The issuance of the foregoing subordinated debt was approved by the MB in its Resolution No. 98 dated January 24, 2008.

Relative to this, on March 6, 2008, PNB issued ₱4.5 billion, 7.13% Subordinated Notes due on 2018, callable with step-up in 2013. Among the significant terms and conditions of the issuance of the subordinated notes are:

(1) Issue price is at 100.00% of the Principal amount.

The Subordinated Notes bear interest at 7.13% per annum, payable to the noteholder for the period from and including the issue date up to the maturity date if the call option is not exercised on the call option date. Interest shall be payable quarterly in arrears on March 6, June 6, September 6 and December 6 of each year, commencing June 6, 2008. The Subordinated Notes will mature on March 6, 2018, if not redeemed earlier.

(2) The Subordinated Notes will constitute direct, unconditional, unsecured and subordinated obligations of PNB. The Subordinated Notes will, at all times, rank *pari passu* and without any preference among themselves, but in priority to the rights and claims of holders of all classes of equity securities of PNB, including holders of preferences shares.

(3) PNB may redeem the notes in whole, but not in part, at a redemption price equal to 100.00% of the principal amount of the Notes together with accrued and unpaid interest at first banking day after the 20th interest period from issue date subject to at least 30-day prior written notice to noteholders and prior approval of the BSP, subject to the following conditions: (i) the capital adequacy ratio of PNB is at least equal to the required minimum ratio; and (ii) the Subordinated Note is simultaneously replaced with the issues of new capital which are neither smaller in size nor lower in quality than the Subordinated Notes.

(4) The Subordinated Note shall not be redeemable or terminable at the instance of any noteholder before maturity date.

On March 6, 2013, the 2018 Notes were redeemed by PNB at par/face value.

As of December 31, 2013 and 2012 and January 1, 2012, the unamortized transaction cost of subordinated debt amounted to ₱46.3 million, ₱61.2 million, and ₱47.5 million, respectively. In 2013, 2012 and 2011, amortization of transaction costs amounting to ₱14.8 million, ₱12.2 million and ₱18.0 million, respectively, were charged to "Cost of bank services" in the consolidated statements of income (see Note 25).

TDI's ₱5.0 billion bonds payable
On November 24, 2009, TDI's and LTG's BOD approved and confirmed the issuance of the retail bonds amounting to ₱5.0 billion due in 2015 at 8.055% per annum, payable quarterly, to be used for general corporate purposes, including debt refinancing. On February 12, 2010, TDI completed the bond offering and issued the Retail Bonds with an aggregate principal amount of ₱5.0 billion,

which will mature on February 13, 2015. Bond issue cost incurred amounted to ₱66.7 million. As of December 31, 2013 and 2012 and January 1, 2012, unamortized bond issue cost amounted to ₱17.6 million, ₱31.8 million and ₱44.9 million, respectively (presented as a reduction from the principal loan balance).

The bond provides that TDI may at any time purchase any of the bonds at any price in the open market or by tender or by contract at any price, without any obligation to purchase bonds pro-rata from all bondholders and the bondholders shall not be obliged to sell. Any bonds so purchased shall be redeemed and cancelled and may not be re-issued.

The bond also provides for certain negative covenants on the part of TDI such as:

- TDI shall not create or suffer to exist any lien, security interest or other charge or encumbrance, upon or with respect to any of its properties, whether now owned or hereafter acquired.
- TDI shall not assign any right to receive income for the purpose of securing any other debt, unless at the same time or prior thereto, its obligations under the bond agreement are forthwith secured equally and ratably therewith.
- TDI shall not have the benefit of such other security as shall not be materially less beneficial to the bondholders.
- TDI shall maintain, based on the most recent audited financial statements prepared in accordance with PFRS, a maximum debt-to-equity ratio of 1.75 times and a minimum current ratio of 2.0 times.

As of December 31, 2013 and 2012 and January 1, 2012, TDI has complied with the bond covenants.

Unsecured term loans of Eton
On January 28, 2013, Eton entered into an unsecured term loan agreement with Banco De Oro Unibank, Inc. (BDO) to finance the construction of its projects. The term loan, which has a face value of ₱2,000.00 million, was availed by Eton at a discount for total proceeds amounting to ₱1,987.33 million. The term loan bears a nominal interest rate of 5.53% and will mature on January 26, 2018. Principal repayments will start one year from the date of availment and are due annually while interest payments are due quarterly starting April 28, 2014.

Notes payable of Eton
Notes payable includes various notes from BDO which arose from assigning the Groups' contracts receivables on a with recourse basis in 2013, 2012 and 2011 (see Note 6). These notes bear interest based on Philippine Dealing System Treasury Fixing (PDSTF) rate for one year plus 1.5% net of gross receipts tax, which ranges from 5.22% to 6.00% in 2013 and 6.00% to 6.66% in 2012 and 2011 subject to annual repricing. Interest is due monthly in arrears during the first two years of the term and thereafter, interest shall be collected with the principal covering the term of three years or the term of the contracts to sell, whichever comes first.

Interest on loans payable from general borrowings capitalized as part of investment properties and real estate inventories amounted to ₱34.7 million and ₱68.4 million in 2013, ₱15.8 million and ₱103.9 million in 2012 and ₱21.2 million and ₱95.0 million in 2011, respectively. Capitalization rates were 4.51% in 2013, 5.30% in 2012 and 5.74% in 2011.

Interbev's term loan facility agreement with BDO
On June 24, 2011, Interbev entered into a Facility Agreement with BDO for a term loan facility amounting to ₱1,200.0 million to refinance the its short-term loans and to finance the its capital expenditure requirements for capacity expansion of its Davao and Cagayan de Oro plants and establishment of new bottling lines in San Fernando, Pampanga.

In accordance with the Facility Agreement, Interbev shall be subject to the following terms and conditions:

- Compliance with the following financial ratios: maximum debt to equity ratio of 3.0x in 2011, 2.0x in 2012 and 2013 and 1.0x in succeeding years and minimum debt service coverage ratio of 1.2x in all years;
- Existence of negative pledge on all existing and future assets of Interbev, except for permitted liens;
- Increasing the Interbev paid up capitalization by ₱100.0 million on or before December 31, 2012 and by ₱800.0 million on or before December 31, 2013, with the increase in capitalization to come from a new shareholder which is belonging to the Controlling Shareholders; and
- Continuing suretyship of Interbev.

As of December 31, 2013 and 2012 and January 1, 2012, Interbev has not utilized the term loan facility.

20. **Other Liabilities**

	December 31		January 1,
	2013	2012	2012
		(In Thousands)	
Insurance contract liabilities	**₱11,546,043**	₱4,073,542	₱3,286,717
Banking accounts payable	**9,061,565**	8,802,674	6,630,134
Bills purchased - contra (Note 8)	**3,417,082**	2,553,891	2,296,039
Customers deposits	**2,849,147**	2,626,388	1,744,780
Provisions (Note 35)	**1,771,242**	1,575,433	874,950
Payable to landowners	**1,296,785**	1,296,785	–
Managers' checks and demand drafts outstanding	**1,028,301**	1,062,164	1,403,050
Reserve for unearned premiums	**576,889**	509,488	458,178
Deposit on lease contracts	**502,293**	52,483	401,439
Other dormant credits	**437,715**	345,017	357,129
Margin deposits and cash letters of credit	**393,006**	101,415	400,283
Due to Treasurer of the Philippines	**311,387**	292,973	223,037
Payment order payable	**194,628**	195,149	152,810
Tenants' rental deposits	**161,600**	80,004	75,496
Due to BSP	**117,821**	102,616	102,965
Unearned income and other deferred credits	**16,968**	186,203	213,367
Trasmission liability	**90,005**	–	–
Advanced rentals	**98,658**	29,431	35,437

(Forward)

	December 31		January 1,
	2013	2012	2012
		(In Thousands)	
Interest payable	**₱4,904**	₱217,464	₱1,822,823
Other employee benefits	**–**	1,002,454	557,149
Due to other banks	**–**	196,203	1,180,370
Others	**1,501,640**	1,898,047	1,395,493
	35,377,679	27,199,824	23,611,646
Presented as noncurrent	**2,299,948**	3,870,370	1,756,306
Presented as current	**₱33,077,731**	₱23,329,454	₱21,855,340

Customers' Deposits

Customers' deposits represent payments from buyers of residential units which will be applied against the corresponding contracts receivables which are recognized based on the revenue recognition policy of the Group. This account includes the excess of collections over the recognized receivables amounting to ₱2.8 billion, ₱2.6 billion and ₱1.7 billion as of December 31, 2013 and 2012 and January 1, 2012, respectively.

Payables to Landowners

In September 2012, Eton executed a ₱556.8 million promissory note to a landowner in relation to its purchase of land located at the corner of Dela Rosa and V.A. Rufino Sts., Legaspi Village, Makati City with total purchase price of ₱742.4 million. In November 2012, Eton again executed a promissory note to a landowner amounting to ₱740.0 million in relation to its purchase of land located at Don Alejandro Roces Avenue, Barangay Obrero, Quezon City with total purchase ₱1,000.0 million.

The details of the notes payable are presented below:

Principal amount	Interest rate	Due date
₱556,785,000	PDSTF 3 years + 1.00%	3 years from execution of note
740,000,000	PDSTF 3 years + 0.50%	3 years from execution of note

Accrued interest on the promissory notes capitalized as part of real estate inventories amounted to ₱29.8 million and ₱10.2 million in 2013 and 2012, respectively (see Note 9).

Deposits and Other Deferred Credits

Other liabilities of the property development segment include tenants' rental deposits, advance rentals and other deferred credits. Security deposits pertain to the amounts paid by the tenants at the inception of the lease which is refundable at the end of the lease term. Advance rentals pertain to deposits from tenants which will be applied against receivables either at the beginning or at the end of lease term depending on the lease contract. Deferred credits represent the excess of the principal amount of the security deposits over its fair value. Amortization of deferred credits is included in "Rental income" in the consolidated statements of income.

Banking Segment Liabilities

Other liabilities of the banking segment include insurance contract liabilities, accounts payable, bills purchased - contra, managers' checks and demand drafts outstanding, margin deposits and cash letters of credit and due to BSP.

21. **Derivative Financial Instruments**

The tables below show the fair values of derivative financial instruments entered into by the Group, recorded as derivative assets or derivative liabilities, together with the notional amounts. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding as of December 31, 2013 and 2012, and January 1, 2012 and are not indicative of either market risk or credit risk (amounts in thousands, except average forward rate).

	December 31											
	2013				2012				January 1, 2012			
	Assets	Liabilities	Average Forward Rate	Notional Amount*	Assets	Liabilities	Average Forward Rate	Notional Amount*	Assets	Liabilities	Average Forward Rate	Notional Amount*
							(In Thousands)					
Freestanding derivatives:												
Currency forwards												
BUY:												
USD	**₱61,867**	**₱1,198**	**₱43.36**	**₱126,462**	₱5,074	₱220,856	₱42.01	₱327,494	₱60,170	₱18,779	₱43.33	₱217,804
JPY	**98**	**113**	**0.01**	**15,000**	–	3,706	0.49	300,000	70	–	0.56	300,000
EUR	**76**	**673**	**1.36**	**989**	31	2	54.48	74	–	77	57.41	150
SGD	**23**	**–**	**35.02**	**1,200**	74	–	33.65	1,958	–	–	–	–
GBP	**–**	**26**	**1.64**	**102**	–	–	–	–	25	33	67.97	371
CAD	**–**	**4**	**1.07**	**1,065**	–	–	–	–	–	–	–	–
CHF	**–**	**–**	**–**	**–**	–	–	–	–	–	58	46.94	200
SELL:												
USD	**1,293**	**136,372**	**43.74**	**264,471**	88,836	77,426	41.11	632,903	118,945	107,853	43.79	821,653
JPY	**329**	**321**	**0.43**	**477,776**	983	573	0.48	540,000	6,060	6,049	0.56	528,000
GBP	**97**	**1,257**	**1.64**	**5,100**	133	23	66.11	1,790	148	47	68.30	871
EUR	**79**	**1,240**	**1.36**	**5,447**	1,544	1,276	54.18	7,877	22,112	79	56.88	24,176
CAD	**67**	**–**	**1.00**	**2,365**	208	–	41.39	510	–	224	42	500
SGD	**–**	**885**	**0.79**	**6,200**	–	73	33.65	10,608	82	70	33.76	207
AUD	**54**	**–**	**0.89**	**250**	441	552	43.15	700	45	177	43.75	400
CHF	**23**	**–**	**1.12**	**400**	10	24	45.05	1,050	320	–	46.83	1,100
HKD	**25**	**–**	**7.75**	**158,946**	41	2	5.3	90,872	–	–	–	–
SEK	**–**	**–**	**–**	**–**	–	4	6.32	300	–	–	–	–
NZD	**–**	**–**	**–**	**–**	–	–	–	–	11	–	33.74	50
Cross currency swaps (CCS)	**–**	**–**	**–**	**–**	255,132	–	–	1,086,000	–	51,886	–	1,086,000
Interest rate swaps (Php)	**28,803**	**21,012**	**–**	**62,680**	174,067	83,510	–	62,069,000	280,174	64,309	–	7,319,000
Warrants	**165,863**	**–**	**–**	**13,603**	68,747	–	–	45,152	102,081	–	–	45,152
Embedded derivatives:												
Credit default swaps (USD)	**–**	**–**	**–**	**–**	7,941	–		70,000	59,082	9,484	–	110,000
Call Options:												
USD	**–**	**–**	**–**	**–**	–	652	–	2,000	2,940	2,244	–	48,000
EUR	**–**	**–**	**–**	**–**	–	1,138	–	1,000	59	55	–	500
	₱258,697	**₱163,101**			₱603,262	₱389,817			₱652,324	₱261,424		

* *The notional amounts pertain to the original currency except for the embedded derivatives, which represent the equivalent USD amounts*

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a. In May and June of 2008, the Group entered into CCS agreements with various counterparty banks in which the proceeds from the 2008 Notes were swapped for USD. The aggregate notional amount of the CCS is US$185.0 million or ₱8.1 billion while its net positive fair value amounted to ₱37.4 million as of December 31, 2010. The Group renewed some of these agreements with various counterparty banks in May and June of 2011 with terms to maturities of two years. The aggregate notional amount of these CCS is US$79.0 million or ₱3.4 billion while the positive fair value amounted to ₱190.3 million and ₱32.3 million as of December 31, 2012 and January 1, 2012, respectively.

   On June 21, 2011, the Group entered into a cross currency swap agreement with a notional amount of US$7.0 million or ₱299.0 million and will mature on June 17, 2013. Proceeds of the 2011 Notes were swapped for USD. As of December 31, 2013 and 2012, its positive fair value amounted to ₱11.7 million and ₱7.5 million, respectively. In order to fulfill collateral requirements, the Group has pledged its cash amounting to US$2.0 million or ₱85.4 million and US$2.0 million or ₱85.4 million as of December 31, 2012 and January 1, 2012.

b. As of December 31, 2013 and 2012, and January 1, 2012, PNB holds 306,405 shares, 261,515 shares and 261.515 shares of ROP Warrants Series B1 at their fair value of US$2.19 million, US$1.44 million and US$2.09 million, respectively.

c. Embedded derivatives that have been bifurcated are credit derivatives in structured notes with a notional reference of USD47.5 million with a positive fair value of ₱0.92 million and a notional reference of USD70.0 million with a positive fair value of ₱7.94 million as of December 31, 2013 and 2012, and January 1, 2012, respectively, and call options embedded in debt instruments with notional reference of USD2.0 million and EUR1.0 million with a positive fair value of ₱1.8 million as of December 31, 2012. The structured notes and the related credit default swap matured on May 1, 2013.

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

	December 31		January 1,
	2013	2012	2012
		(In thousands)	
Balance at beginning of year	**₱213,445**	₱390,900	₱656,529
Changes in fair value	**(194,550)**	159,106	144,779
Settlements	**76,701**	(336,561)	(410,408)
	₱95,596	₱213,445	₱390,900

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 25).

22. **Finance Costs and Finance Income**

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

	2013	2012	2011
		(In Thousands)	
Finance costs (Note 19):			
Short-term debts	**₱–**	₱1,759	₱3,729
Bonds payable	**402,750**	402,750	402,750
Unsecured term loan and notes payable	**63,893**	130,530	125,257
Amortization of bond issue costs	**14,249**	13,148	12,068
Finance costs	**₱480,892**	₱548,187	₱543,804
Finance income:			
Cash and other cash items (Note 5)	**₱84,908**	₱96,813	₱59,886
Interest-bearing contracts receivable (Note 8)	**39,385**	50,331	37,438
AFS investments (Note 7)	**14,800**	11,100	7,200
	₱139,093	₱158,244	₱104,524

23. **Related Party Transactions**

The Company has transacted with its subsidiaries, associates and other related parties as follows:

Parent Company, Subsidiaries, Associate and Joint Venture	**Entities Under Common Control**
Parent Company	Ascot Holdings, Inc.
Tangent	Pol Holdings, Inc.
	Sierra Holdings & Equities, Inc.
Subsidiaries	Grand Cargo and Warehousing Services., Inc.
TDI and Subsidiaries	Northern Corporation Tobacco Redrying Co., Inc.
ADI	Basic Holdings Corporation
AAC	Dominium Realty & Construction Corp
TBI	Foremost Farms Inc.
ABI and Subsidiaries	Grandspan Development Corp.
Agua Vida	Himmel Industries Inc.
Interbev	Lapu Lapu Packaging
Waterich	Lucky Travel Corporation
Packageworld	Philippine Airlines, Inc.
FTC	Rapid Movers & Forwarders Co. Inc.
Shareholdings	Upright Profits Ltd.
Saturn	Dyzum Distillery Inc.
Paramount and Subsidiaries	Parity Packaging Corp.
Eton	Heritage Holdings Corp.
Belton	Maxell Holdings, Corp.
Eton City	Networks Holdings & Equities, Inc.
FirstHomes	Cube Factor Holdings, Inc.
Bank Holding Companies:[1]	Trustmark Holdings Corporation
Allmark Holdings Corp.	Polima International Limited
Dunmore Development Corp.	Cosmic Holdings Corp.
Kenrock Holdings Corp.	Negros Biochem Corporation
Leadway Holdings, Inc.	Grandway Konstruct, Inc.
Multiple Star Holdings Corp.	Harmonic Holdings Corp.
Pioneer Holdings & Equities, Inc.	Proton Realty & Development Corporation
Donfar Management Ltd.	Billinge Investments Limited
Fast Return Enterprises Ltd.	Step Dragon Co. Limited
Mavelstone International Ltd.	High Above Properties Ltd.
Uttermost Success, Ltd.	Penick Group Limited
Ivory Holdings, Inc.	In Shape Group Ltd.
Merit Holdings & Equities Corp.	Hibersham Assets Ltd.
True Success Profits Ltd.	Orient Legend Developments Ltd.
Key Landmark Investments Ltd.	Complete Best Development Ltd.

Parent Company, Subsidiaries, Associate and Joint Venture	Entities Under Common Control
Fragile Touch Investments Ltd.	Cormack Investments Ltd
Caravan Holdings, Corp.	Link Great International Ltd.
Solar Holdings Corp.	Bright Able Holdings Ltd.
All Seasons Realty Corp.	
Dynaworld Holdings Inc.	
Fil-Care Holdings Inc.	
Kentwood Development Corp.	
La Vida Development Corp.	
Profound Holdings Inc.	
Purple Crystal Holdings, Inc.	
Safeway Holdings & Equities Inc.	
Society Holdings Corp.	
Total Holdings Corp.	
PNB and Subsidiaries	
Associate	
PMFTC	
Joint Venture	
ABI Pascual Holdings	
ABI Pascual Foods	

(1) *In various dates in 2013, LTG acquired these holding companies through subscription of the increase in authorized capital stock of the holding companies.*

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

	Nature	2013	2012	2011
			(In Thousands)	
Parent Company	Interest income	**₱–**	₱–	₱6,193
Associate	Sales	**4,372**	642	29,013
	Professional and management fee	**–**	–	1,452,457
	Dividend Income	**3,953,406**	4,236,260	3,683,290
	Outside services	**–**	(188,713)	–
Entities Under Common Control	Banking revenue - interest on loans and receivables	**184,370**	525,607	282,283
	Sales of consumer products	**21,117**	121,000	15,932
	Interest income on loans and advances	**39,556**	23,888	1,400
	Rent Income	**16,830**	28,334	7,074
	Other Income	**7,672**	**–**	**–**
	Freight and handling	**(5,364)**	(14,144)	(71,614)
	Purchases of inventories	**(53,145)**	(132,582)	(77,253)
	Cost of banking services - interest expense on deposit liabilities	**(18,831)**	(10,609)	(11,023)
	Cost of sales and services	**(35,168)**	(39,663)	(33,225)
	Management and professional fee	**(422,866)**	(181,285)	(153,678)
	Outside services	**(41,672)**	(77,200)	(75,000)
	Rent expense	**(5,298)**	(3,021)	**–**
Key Management	Key Management compensation	**(115,549)**	(108,029)	(95,268)

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

	Financial Statement Account	Terms and Conditions	Amount/Volume December 31 2013	Amount/Volume December 31 2012	Amount/Volume January 1, 2012	Outstanding Balance December 31 2013	Outstanding Balance December 31 2012	Outstanding Balance January 1, 2012
					(In Thousands)			
Parent Company	Due from related parties	On demand; non-interest bearing except for ₱9.9 million in 2011 which is subject to 10% annual interest	**₱–**	₱145,000	₱–	**₱–**	₱5,801,474	₱595,194
	Due to related parties	On demand; non-interest bearing	**(7,001,728)**	–	–	**(6,956,332)**	(28,407,097)	(4,515,177)
Associate	Dividends receivable	30 to 90 days terms; non-interest bearing	**3,953,406**	4,236,260	3,683,344	**357,855**	368,965	–
	Trade receivables	30 to 90 days terms; non-interest bearing	**4,372**	642	29,013	**387**	–	2,971
	Due from related parties	On demand; non-interest bearing	**(2,772)**	–	–	**–**	2,772	–
Entities Under Common Control	Finance Receivables	Loans with interest rates ranging from 0.5% to 16.5% and maturity terms ranging from one (1) month to 25 years; Collateral includes bank deposit hold-out, real estate and chattel mortgages	**184,370**	525,607	282,283	**3,390,516**	5,343,645	8,556,236
	Trade receivables	30 to 60 days terms; non-interest bearing	**21,117**	121,000	15,932	**9,879**	588,277	499,892
	Other receivables	30 to 60 days terms; non-interest bearing	**39,556**	23,888	1,400	**3,361**	3,174	3,592
	Due from related parties	On demand; non-interest bearing	**1,755,327**	3,176,552	2,708,093	**2,709,994**	3,698,706	3,516,016
	Advances to suppliers	30 to 60 days terms; non-interest bearing	**40,225**	(11,605)	32,827	**61,447**	21,222	32,827
	Advances to contractors	30 to 60 days terms; non-interest bearing	**(104,490)**	105,654		**1,164**	105,654	
	Deposit liabilities	With annual rates ranging from 0.38% to 1.73% and maturity ranging from 30 days to one (1) year	**18,831**	10,609	11,023	**(1,593,988)**	(1,196,360)	(2,724,335)
	Bills payable	Foreign currency-denominated bills payable; with fixed annual interest rate of 1.77% and maturity term of 181 days; no collateral	**40,000**	–	–	**(40,000)**	–	–
	Account payable and other liabilitites	30 to 90 days terms; non-interest bearing	**563,513**	447,895	410,770	**(290,215)**	(387,732)	(354,259)
	Due to related parties	On demand; non-interest bearing	**(1,150,000)**	1,566,201	71,039	**(388,577)**	(11,111,059)	(32,287,135)
	Other payables	30 to 90 days terms; non-interest ebaring	**14,280**	21,922	–	**(36,202)**	(21,922)	–
Stockholders	Due from related parties	On demand; non-interest bearing	**–**	–	–	**191**	1,766,675	191
	Due to related parties	On demand; non-interest bearing	**(109,459)**	–	–	**(691,610)**	(801,070)	–

As of December 31, 2013 and 2012 and January 1, 2012, the outstanding related party balances are unsecured and settlement occurs in cash, unless otherwise indicated. The Group has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related parties and the market in which these related parties operate.

Other terms and conditions related to the above related party balances and transactions are as follows:

Transactions with Tangent, parent company

- In May 2013, LTG assumed various advances made by FTC to Tangent amounting to ₱10.8 billion.

- LTG assigned to Tangent its existing liabilities to Billinge, Penick Group and Step Dragon amounting to ₱1.9 billion and assumed the liabilities of ABI and Saturn to Tangent amounting to ₱7.4 billion. In various dates in 2013, LTG paid ₱7.0 billion to Tangent. In July 2013, all the existing advances to Tangent amounting to ₱11.0 billion were offset with the existing advances from Tangent.

- On June 19, 2013, LTG declared dividends to stockholders of which ₱1.2 billion was paid to Tangent.

- In March 2011, LTG applied the advances to Tangent amounting to ₱389.7 million and interest receivable amounting to ₱58.8 million against the dividends due to Tangent. The receivable from Tangent in 2011 represents expenses paid in behalf of Tangent.

- On March 20, 2013, the respective BOD's of Tangent and the Bank Holding Companies approved a resolution to convert the debt of the Bank Holding Companies to equity by way of subscription to the latter's preferred shares. On the same date, Tangent entered into Deeds of Assignment with the Bank Holding Companies for the assignment of the debt as payment for the subscription. In various dates in October, November and December 2013, the Philippines SEC approved the increase in authorized capital stock of certain Bank Holding Companies and the subscription of Tangent to all the outstanding preferred shares of these companies (see Note 30).

Transactions with Entities under Common Control

- Due to related parties include cash advances provided to the Group to support its working capital requirements.

- Several subsidiaries of the Group entered into management service agreement with Basic Holdings Corporation for certain consideration. Management fees are recorded under "Outside services" in "Cost of goods sold" and "Professional fees" in the "General and administrative expenses".

- The Group's sells by-products to Foremost and various packaging materials to Lapu Lapu which ceased to operate in 2012.

- The property development segment purchases parcels of land from other related parties for use in its various projects.

- The Group has outstanding balances to Grandway and Grandspan pertaining to the development of the Group's projects which comprise of advances to contractors and retention payable. In 2013, all advances to Grandway were collected and all retentions payable were settled due to the dissolution of Grandway.

- Several entities under common control maintain peso and foreign currency denominated deposits and short term and long term loans with PNB. Interest income and financing charges related to these transactions are reported under "Banking revenue" and "Cost of banking services", respectively (see Note 25).

Transactions with an Associate

- FTC has management services agreement with PMFTC. Under the Transitional Service Agreement (TSA), FTC shall render management services in relation to PMFTC's operations such as procurement, marketing, sales and merchandising, human resource, financial and administrative, legal and information systems services. Management fee is computed based on the cost plus 5% mark-up.

- On December 31, 2010, the parties signed an addendum to the TSA for the termination of the TSA effective July 31, 2011. PMFTC paid a cancellation fee amounting to ₱772.6 million for the salaries and allowances of all employees who rendered services to PMFTC under the TSA.

- Dividend income from PMFTC amounted to ₱3,953.2 million in 2013, ₱4,236.3 million in 2012 and ₱3,683.3 million in 2011 (see Note 11). Dividends receivable from PMFTC as of December 31, 2013 and 2012 are presented as part of nontrade receivables.

Transaction with Joint Venture

- On February 15, 2012, ABI entered into an agreement with a food company for a joint venture. The parties agreed that their initial ownership will be fifty percent (50%) each (see Note 11).

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The following are the transactions among related parties which are eliminated in the consolidated statements of income:

Nature	Costs and expenses recognized by:	Revenue and other income recognized by:	Years Ended December 31		
			2013	2012	2011
				(In Thousands)	
Purchase/Sale of commercial bottles and packaging materials	FTC/TDI	ABI/PWI	**₱683,493**	₱1,263,472	₱1,295,740
Purchase/Sale of raw materials	ABI/Interbev	TDI/ADI	**114,241**	181,913	150,447
Royalty fees	ABI	TDI	**20,949**	35,417	46,365
Management fees	TDI	LTG	**48,000**	48,000	48,000
Interest on loans	ETON	LTG	**4,563**	–	–
Interest on promissory note from sale of property	ETON	ABI	**4,387**	–	–
Interest on cash and cash equivalents	PNB	All entities other than PNB	**166,931**	64,052	46,715
Interest on short term and long term loans	ABI/Interbev/Eton	PNB	**–**	57,012	45,263
Gain on sale of property	Eton	ABI	**228,407**	–	–

The following are the balances among related parties which are eliminated in the consolidated balance sheets:

Nature	Assets recognized by:	Liabilities recognized by:	December 31 2013	December 31 2012	January 1, 2011
				(In Thousands)	
Due from/to related parties	LTG/FTC	Bank Holding Companies	**₱71,465**	₱9,925,786	₱5,530,372
	ABI	Eton	**444,000**	–	–
	LTG	Eton	**400,000**	150,000	–
	FTC	ABI/Eton/LTG	**589**	1,119,430	565,175
	LTG	TBI/Paramount/Saturn	**638**	253,329	543
	TDI	TBI	**10,065**	–	–
	Saturn	ABI	**–**	3,230,714	4,891,030
Trade receivables/ payables	TDI/ADI	ABI/Interbev	**122,683**	328,416	213,195
	ABI/PWI	FTC/TDI	**302,650**	684,456	460,840
Sales contract receivable	PNB	Eton	**–**	105,750	–
Dividends receivable	LTG	TDI	**–**	–	15,293
Cash and cash equivalents/ deposit liabilities	All entities other than PNB	PNB	**34,944,874**	8,905,509	5,940,638
Short term and long term loans	PNB	Eton/ABI/Interbev	**–**	2,703,500	3,277,000
Obligations under finance lease	PNB	ABI/Interbev	**10,919**	17,996	26,079

24. Retirement Benefits

The Group has funded, noncontributory defined benefit retirement plans, administered by a trustee, covering all of its permanent employees. As of December 31, 2013 and 2012 and January 1, 2012, the Group is in compliance with Article 287 of the Labor Code, as amended by Republic Act No. 7641.

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

	December 31, 2013	December 31, 2012	January 1, 2012
		(In Thousands)	
Net retirement plan assets:			
FTC	**₱224,530**	₱1,153,147	₱1,023,818
AAC	**19,263**	19,926	20,736
	₱243,793	₱1,173,073	₱1,044,554
Accrued retirement benefits:			
PNB	**₱3,388,863**	₱4,502,200	₱5,513,276
ABI and subsidiaries	**878,951**	712,855	592,551
TDI and ADI	**39,090**	99,885	12,116
Eton	**29,653**	32,866	19,440
LTG	**9,705**	10,210	4,640
	₱4,346,262	₱5,358,016	₱6,142,023

The following tables summarize the components of net retirement plan assets and accrued retirement benefits recognized in the consolidated balance sheets and the net benefit expenses recognized in the consolidated statements of income.

Net retirement plan assets:

	2013			2012			2011		
	Defined Benefit Obligation	**Fair Value of Plan Assets**	**Net Retirement Plan Assets**	Defined Benefit Obligation	Fair Value of Plan Assets	Net Retirement Plan Assets	Defined Benefit Obligation	Fair Value of Plan Assets	Net Retirement Plan Assets
					(In Thousands)				
Beginning balance	**₱63,651**	**(₱1,236,724)**	**(₱1,173,073)**	₱48,422	(₱1,092,976)	(₱1,044,554)	₱1,568,879	(₱846,687)	₱722,192
Net retirement benefits cost in profit or loss:									
Current service cost	**5,992**	**–**	**5,992**	4,583	–	4,583	141,663	–	141,663
Net interest cost	**3,276**	**(64,395)**	**(61,119)**	2,885	(63,621)	(60,736)	114,912	(47,053)	67,859
Curtailment gain	**–**	**–**	**–**	–	–	–	(444,227)	–	(444,227)
	9,268	**(64,395)**	**(55,127)**	7,468	(63,621)	(56,153)	(187,652)	(47,053)	(234,705)
Contributions	**–**	**–**	**–**	–	(92,680)	(92,680)	–	(227,530)	(227,530)
Benefits paid	**(3,936)**	**3,936**	**–**	(2,296)	2,296	–	(6,380)	6,380	–
Plan assets returned to the Company	**–**	**940,820**	**940,820**	(7,433)	–	(7,433)	–	–	–
Past service cost	**–**	**–**	**–**	–	–	–	(1,331,852)	–	(1,331,852)
Re-measurement losses in other comprehensive income - actuarial changes arising from experience adjustments	**6,050**	**37,537**	**43,587**	17,490	10,257	27,747	5,427	21,914	27,341
Ending balance	**₱75,033**	**(₱318,826)**	**(₱243,793)**	₱63,651	(₱1,236,724)	(₱1,173,073)	₱48,422	(₱1,092,976)	(₱1,044,554)

Accrued retirement benefits:

	2013			2012			2011		
	Defined Benefit Obligation	**Fair Value of Plan Assets**	**Accrued Retirement Benefits**	Defined Benefit Obligation	Fair Value of Plan Assets	Accrued Retirement Benefits	Defined Benefit Obligation	Fair Value of Plan Assets	Accrued Retirement Benefits
					(In Thousands)				
Beginning balance	**₱7,578,184**	**(₱2,220,168)**	**₱5,358,016**	₱7,763,905	(₱1,621,882)	₱6,142,023	₱6,600,016	(₱2,114,992)	₱4,485,024
Net retirement benefits cost in profit or loss:									
Current service cost	**533,140**	**–**	**533,140**	498,235	–	498,235	337,884	–	337,884
Net interest cost	**306,585**	**(119,111)**	**187,474**	335,378	(98,853)	236,525	323,072	(153,666)	169,406
Past service cost	**(70,880)**	**–**	**(70,880)**	(282,256)	–	(282,256)	33,825	–	33,825
	768,845	**(119,111)**	**649,734**	551,357	(98,853)	452,504	694,781	(153,666)	541,115
Contributions	**–**	**(1,987,230)**	**(1,987,230)**	–	(695,428)	(695,428)	–	(366,678)	(366,678)
Benefits paid	**(541,545)**	**541,545**	**–**	(450,564)	450,564	–	(905,008)	905,008	–
Re-measurement losses (gains) in other comprehensive income - actuarial changes arising from changes in:									
Financial assumptions	**(603,258)**	**–**	**(603,258)**	74,527	–	74,527	1,410,225	–	1,410,225
Experience adjustments	**789,925**	**139,075**	**929,000**	(361,041)	(254,569)	(615,610)	(36,109)	108,446	72,337
	186,667	**139,075**	**325,742**	(286,514)	(254,569)	(541,083)	1,374,116	108,446	1,482,562
Ending balance	**₱7,992,151**	**(₱3,645,889)**	**₱4,346,262**	₱7,578,184	(₱2,220,168)	₱5,358,016	₱7,763,905	(₱1,621,882)	₱6,142,023

The fair value of plan assets as of December 31 is as follows:

	2013	2012	2011
		(In Thousands)	
Cash and cash equivalents	**₱857,707**	₱1,884,229	₱1,309,875
Investments in government securities	**956,849**	546,533	658,680
Equity investments:			
Financial institutions	**1,271,109**	712,877	444,770
Manufacturing	**32,342**	5,106	–
Others	**36,553**	–	–
Receivables	**550,849**	161,334	182,613
Others	**259,306**	146,813	118,920
Fair value of plan assets	**₱3,964,715**	₱3,456,892	₱2,714,858

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

	2013	2012	2011
Equity investments	**31%**	21%	16%
Investments in government securities	**25%**	16%	24%
Cash and cash equivalents	**23%**	55%	48%
Receivables	**14%**	4%	7%
Others	**7%**	4%	5%
Fair value of plan assets	**100%**	100%	100%

The overall investment policy and strategy of the Group's defined benefit plans is guided by the objective of achieving an investment return which, together with contributions, ensures that there will be sufficient assets to pay pension benefits as they fall due while also mitigating the various risk of the plans. The plan assets have diverse investments and do not have concentration risk.

The Group's defined pension plan are funded through the contributions made by the Group to the trust.

The principal assumptions used in determining pension benefit obligations for the Group's plans are shown below:

	December 31		January 1,
	2013	2012	2012
Discount rate	**5%-6%**	5%-7%	5%-7%
Future salary increases	**5%-10%**	5%-10%	5%-10%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of the end of the reporting period, assuming if all other assumptions were held constant:

	Increase (Decrease)	Increase (Decrease) in Present Value of Defined Benefit Obligation
		(In Thousands)
Discount rates	+0.5%	(₱45,361)
	-0.5%	149,942
Future salary increases	+1.0%	245,918
	-1.0%	(117,477)

Full actuarial valuations were performed to test the sensitivity of the defined benefit obligation to a 1% increment in salary increase rate, 1% decrement in the discount rate and a 10% improvement in the employee turnover rate. The results also provide a good estimate of the sensitivity of the defined benefit obligation to a 1% decrement in salary increase rate, 1% increment in the discount rate and a 10% increase in the employee turnover rate but with reverse impact.

The Group employs asset-liability matching strategies to maximize investment returns at the least risk to reduce contribution requirements while maintaining a stable retirement plan. Retirement plans are invested to ensure that liquid funds are available when benefits become due, to minimize losses due to investment pre-terminations and maximize opportunities for higher potential returns at the least risk.

The current plan asset of the Group is allocated to cover benefit payments in the order of their proximity to the present time. Expected benefit payments are projected and classified into short-term or long-term liabilities. Investment instruments that would match the liabilities are identified. This strategy minimizes the possibility of the asset-liability match being distorted due to the Group's failure to contribute in accordance with its general funding strategy.

The Group expects to contribute ₱1.6 billion to the defined benefit pension plan in 2014.

The average duration of the defined benefit obligation at the end of the reporting period is 21 to 25 years in 2013.

Transactions with Retirement Plans

Management of the retirement funds of the banking segment is handled by the PNB Trust Banking Group (TBG). As of December 31, 2013 and 2012 and January 1, 2012, the retirement fund of the Group includes 7,833,795 shares of PNB classified under HFT. No limitations and restrictions are provided and voting rights over these shares are exercised by a trust officer or any of its designated alternate officer of TBG.

As of December 31, 2013 and 2012 and January 1, 2012, AFS and HTM investments include government and private debt securities and various funds. Deposits with other banks pertain to Special Deposit Accounts (SDA) placement with BSP.

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

FTC's Redundancy Program

On June 10, 2011, the BOD approved FTC's redundancy as a result of the Asset Purchase Agreement executed between FTC and PMFTC (see Note 11). In view of said agreement, a number of departments, positions job functions and services have become redundant and no longer necessary for the operations of FTC. FTC made payments amounting to ₱1.5 billion in 2011 and ₱65.5 million in 2010. As a result of this redundancy, FTC recognized curtailment gain of ₱446.2 million in 2011.

In 2013, as a result of management's assessment of the status of FTC's retirement fund, management has decided to withdraw funds in excess of the amount actuarially determined to cover the benefits of all its employees.

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

Revenue consists of:

	2013	2012	2011
		(In Thousands)	
Banking revenue	**₱28,855,871**	₱32,040,683	₱29,498,704
Sale of consumer goods	**23,279,109**	27,930,583	26,091,727
Real estate sales	**3,208,225**	2,288,952	4,884,774
Rental income	**448,725**	396,843	306,877
Other service income	**–**	–	1,452,461
	₱55,791,930	₱62,657,061	₱62,234,543

Sale of consumer goods consists of:

	2013	2012	2011
		(In Thousands)	
Gross sales	**₱24,390,891**	₱29,205,504	₱27,173,612
Less sales returns, discounts and allowances	**1,111,782**	1,274,921	1,081,885
	₱23,279,109	₱27,930,583	₱26,091,727

Banking revenue consists of:

	2013	2012	2011
		(In Thousands)	
Interest income on:			
Loans and receivables	**₱13,769,736**	₱14,079,289	₱13,849,964
Trading and investment securities	**3,918,460**	5,508,929	7,021,221
Deposits with banks and others	**1,632,174**	1,026,640	1,050,965
Interbank loans receivable	**40,696**	147,359	256,796
	19,361,066	20,762,217	22,178,946
Trading and securities gains	**5,988,853**	8,217,085	4,128,619
Service fees and commission income	**3,468,845**	3,061,381	3,191,139
	₱28,818,764	₱32,040,683	₱29,498,704

Cost of sales and services consists of:

	2013	2012	2011
		(In Thousands)	
Cost of consumer goods sold:			
Materials used and changes in inventories (Note 9)	**₱10,764,864**	₱12,652,374	₱12,086,292
Taxes and licenses	**1,610,239**	2,726,153	2,319,220
Depreciation and amortization (Note 12)	**1,298,012**	1,278,879	1,153,709
Personnel costs	**1,155,026**	1,170,439	1,099,576
Fuel and power	**922,159**	1,186,018	1,057,498
Communication, light and water	**682,938**	698,975	609,463
Repairs and maintenance	**390,720**	383,994	507,024
Management, consulting, and professional fees	**143,370**	104,363	93,832
Freight and handling	**124,090**	240,850	250,817
Others	**296,313**	559,850	524,286
Subtotal (Carried Forward)	**17,387,731**	21,001,895	19,701,717

	2013	2012	2011
		(In Thousands)	
Subtotal (Brought Forward)	**17,387,731**	21,001,895	19,701,717
Cost of banking services	**5,954,081**	7,602,720	8,779,295
Cost of real estate sales	**2,489,830**	1,692,202	3,500,505
Cost of rental income	**190,293**	142,905	111,676
Cost of other service income	**–**	–	522,179
Cost of sales and services	**₱26,021,935**	₱30,439,722	₱32,615,372

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

Cost of banking services consist of:

	2013	2012	2011
		(In Thousands)	
Interest expense on:			
Deposit liabilities	**₱3,862,813**	₱5,004,656	₱6,438,051
Bills payable and other borrowings	**1,126,920**	1,801,314	1,684,085
Services fees and commission expense	**964,348**	796,750	657,159
	₱5,954,081	₱7,602,720	₱8,779,295

26. **Selling Expenses**

	2013	2012	2011
		(In Thousands)	
Advertising and promotions	**₱1,258,520**	₱1,202,945	₱1,186,964
Depreciation and amortization (Note 10)	**717,807**	683,885	710,262
Commissions	**305,201**	199,952	351,469
Personnel costs	**122,140**	150,636	210,405
Management, consulting and professional fees	**91,410**	86,513	66,679
Repairs and maintenance	**63,888**	60,295	73,996
Materials and consumables	**60,711**	27,821	104,816
Freight and handling	**54,706**	201,511	240,218
Travel and transportation	**41,122**	39,237	36,735
Others	**61,441**	63,323	59,400
	₱2,776,946	₱2,716,118	₱3,040,944

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

27. **General and Administrative Expenses**

	2013	2012	2011
		(In Thousands)	
Personnel costs	**₱6,962,114**	₱6,700,681	₱7,224,317
Taxes and licenses	**2,402,583**	2,305,809	2,351,713
Depreciation and amortization (Notes 12, 13 and 14)	**1,924,168**	1,644,473	1,648,468
Occupancy	**1,629,345**	1,949,528	1,487,273
Outside services	**1,082,625**	1,115,928	651,982

(Forward)

	2013	2012	2011
		(In Thousands)	
Marketing and promotional	**₱976,040**	₱970,977	₱937,837
Insurance	**944,261**	921,546	849,371
Provision for doubtful accounts and credit losses (Note 8)	**911,690**	2,288,793	1,365,286
Increase in aggregate reserve for life policies	**732,920**	805,884	717,007
Management, consulting and professional fees	**719,452**	724,856	680,945
Policy benefits and claim benefits	**403,417**	285,050	203,884
Information technology	**394,361**	395,755	348,967
Materials and consumables	**308,763**	313,758	334,408
Communication, light and water	**292,247**	270,977	239,662
Travel and transportation	**285,989**	299,576	249,344
Litigation	**281,825**	339,114	247,597
Repairs and maintenance	**193,687**	329,128	421,620
Fuel and oil	**141,846**	112,758	121,667
Freight and handling	**98,242**	69,380	64,877
Provision for contingencies and other losses - net (Notes 12,13,14 and 25)	**88,240**	449,396	204,784
Real properties disposition	**28,436**	30,005	67,013
Entertainment, amusement and recreations	**19,592**	25,177	19,108
Others	**859,168**	839,348	796,251
	₱21,681,011	₱23,187,897	₱21,233,381

Others include expense items mainly relating to banking operations, which are individually not significant as to amounts.

28. Other Income (Charges) - net

	2013	2012	2011
		(In Thousands)	
Premiums - net of reinsurance	**₱1,584,295**	₱1,433,580	₱4,727
Net gains on sale or exchange of assets	**528,632**	620,547	1,499,121
Rental income (Note 13)	**469,538**	422,814	348,267
Collections from asset pool 1 accounts (Note 35)	**306,094**	82,743	160,000
Gain (loss) on disposal of AFS investments	**290,505**	(78)	–
Recovery from charged off assets	**91,125**	54,037	94,200
Gain on retirement	**70,880**	–	–
Dividend income	**19,123**	31,072	30,860
Reversal of deposit for future Certified Emission (Note 35)	–	70,858	–
Commission income	–	–	27,369
Recovery from insurance claim	–	–	186,033
Reversal of losses	–	–	(182,201)
Others	**288,449**	2,275,513	2,525,491
	₱3,648,640	₱4,991,086	₱4,693,867

Others include income items mainly relating to banking operations, which are individually not significant as to amounts.

a. Net gains on sale or exchange of assets includes sale of investment properties of the banking segment in 2013, 2012 and 2011 amounting to ₱299.4 million, ₱544.1 million and ₱998.5 million, respectively.

b. In 2013, TDI shut down its Quiapo plant and retrenched its employees assigned to the plant. Past service cost amounting to ₱70.9 million representing the change in the present value of the defined benefit obligation as a result of the implementation of the retrenchment program was immediately recognized in profit or loss in 2013 (see Note 24).

c. On October 14, 2010, a fire broke out at TDI's Cabuyao Plant, which destroyed certain inventories and properties. TDI recorded fire loss amounting to ₱228.6 million for which recovery claim was filed with the insurance company in December 2010. The carrying value of damaged inventories and properties and equipment amounted to ₱189.0 million and ₱39.6 million, respectively. In 2011, TDI recognized ₱176.9 million from recovery from insurance claims for the properties that were destroyed by fire in 2010. As of December 31, 2011, TDI collected the full amount from the insurance company. TDI also recognized ₱9.1 million pertaining to recovery from insurance claim on certain assets in 2011 (see Note 11).

d. In 2011, others include forfeiture income on real estate sales cancellation and marketing fee amounting to ₱62.6 million and ₱30.7 million, respectively.

29. **Income Taxes**

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

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

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

a Details of the Group's deferred income tax assets and liabilities as of December follow:

	2013		2012		2011	
	Net Deferred Income Tax Assets[1]	**Net Deferred Income Tax Liabilities[2]**	Net Deferred Income Tax Assets[3]	Net Deferred Income Tax Liabilities[4]	Net Deferred Income Tax Assets[5]	Net Deferred Income Tax Liabilities[6]
			(In Thousands)			
Recognized directly in the consolidated statements of income						
Deferred income tax assets on:						
Allowance for impairment loss on:						
Receivables	**₱5,117,961**	**₱20,206**	₱5,075,082	₱19,788	₱4,656,608	₱754,705
Inventories	**–**	**3,882**	–	3,882	–	4,130
Property, plant and equipment	**6,659**	**66,660**	9,119	66,660	9,119	66,660
Net retirement benefits liabilities	**11,745**	**195,108**	12,250	174,995	8,032	148,337
Unamortized past service cost	**34,333**	**2,721**	532,263	3,936	572,681	1,393
Accrued expenses	**16,937**	**7,014**	5,672	1,190	–	6,721
Reserve for unearned premiums	**99,067**	**–**	–	–	–	–
Deferred rent expense	**27,808**	**–**	–	–	8,141	–
Provision for losses	**47,425**	**16,329**	47,369	16,329	27,346	6,784
Unrealized losses on:						
Foreign exchange	**2,803**	**–**	23,076	824	2,803	2
Inventories on hand purchased from subsidiaries	**–**	**–**	–	48,092	–	21,437
Sale of property to a subsidiary	**–**	**6,454**	–	7,416	–	8,379
Difference between tax and book basis of accounting for real estate and banking transactions	**740,069**	**–**	887,376	–	917,908	61,091
NOLCO	**37,104**	**–**	120,339	30,559	25,299	–
Reserves, MCIT and others	**580,826**	**314**	249,724	–	92,836	15,672
	6,722,737	**318,688**	6,962,270	373,671	6,320,773	1,095,311
Deferred income tax liabilities on:						
Excess of fair values over carrying values of property, plant and equipment acquired through business combination	**–**	**39,640**	–	48,988	–	43,930
Borrowing cost capitalized to property, plant, and equipment	**–**	**19,666**	–	21,119	–	22,516
Fair value gain on investment properties	**1,731,832**	**–**	2,434,715	–	2,184,845	477,240
Unrealized trading gains on Derivatives	**77,584**	**–**	152,441	–	106,777	29,665
Deferred reinsurance premiums	**86,013**	**–**	–	–	–	–
Net retirement plan assets	**96,471**	**20,671**	404,179	6,532	314,241	60,964
Unrealized foreign exchange gains	**10,161**	**3,101**	–	–	15,172	2,240
Deferred rental income	**11,233**	**–**	–	–	8,424	–
Difference between tax and book basis of accounting for real estate transactions	**52,322**	**–**	–	15,947	–	–
Others	**241,272**	**4,953**	360,425	9,548	299,412	42,139
	2,306,888	**88,031**	3,351,760	102,134	2,928,871	678,694
	₱4,415,849	**₱230,657**	₱3,610,510	₱271,537	₱3,391,902	₱416,617

(Forward)

	2013		2012		2011	
	Net Deferred Income Tax Assets[1]	**Net Deferred Income Tax Liabilities[2]**	Net Deferred Income Tax Assets[3]	Net Deferred Income Tax Liabilities[4]	Net Deferred Income Tax Assets[5]	Net Deferred Income Tax Liabilities[6]
			(In Thousands)			
Recognized directly in equity						
Deferred income tax assets on:						
Re-measurement losses on retirement benefits	**₱29,175**	**₱81,511**	₱16,645	₱62,831	₱8,065	₱25,944
Deferred income tax liabilities on:						
Revaluation increment on property, plant and equipment	**1,742,373**	**1,830,312**	1,967,050	1,639,901	923,184	2,831,290
Unrealized gains on AFS financial	**21,325**	**297,633**	14,291	298,439	41,504	10,442
Re-measurement gains on retirement Benefits	–	–	–	–	820	–
	(1,734,522)	**(2,046,434)**	(1,964,696)	(1,875,509)	(957,443)	(2,815,788)
	₱2,681,327	**(₱1,815,777)**	₱1,645,814	(₱1,603,972)	₱2,434,459	(₱2,399,171)

[1] *Pertain to LTG, Eton, PNB and FTC*
[2] *Pertain to Saturn, PLI, AAC, ADI, PWI, TDI, ABI and IPI*
[3] *Pertain to LTG, Eton, FTC, and PNB*
[4] *Pertain to TDI, ABI, and IPI*
[5] *Pertain to LTG, Eton, FTC and PNB*
[6] *Pertain to ADI, TDI, ABI and IPI*

b. Provision for current income tax consists of:

	2013	2012	2011
		(In Thousands)	
RCIT	**₱1,624,543**	₱1,512,240	₱1,057,921
MCIT	**44,623**	20,299	579
Final tax	**840,340**	1,112,495	1,064,676
Provision for current income tax	**₱2,509,506**	₱2,645,034	₱2,123,176

c. As of December 31, the Group has not recognized deferred income tax assets on certain deductible temporary differences such as NOLCO, excess MCIT and other items based on the assessment that sufficient taxable profit will not be available to allow the deferred income tax assets to be utilized as follows:

	2013	2012	2011
		(In Thousands)	
NOLCO	**₱1,761,281**	₱535,577	₱206,290
Allowance for doubtful accounts	**2,081,671**	4,061,544	847,463
Allowance for inventory obsolescence	**5,931**	5,931	5,931
Accrued retirement benefits	**31,054**	23,560	997,186
Unamortized past service cost	**952,034**	1,189,886	743
Unrealized foreign exchange loss	**14,537**	2,918	
Accrued expenses		169,966	319,119
Derivative liabilities	**51,304**	85,125	48,925
Others	**699,909**	70,737	173,114

Details of the Group's NOLCO follow:

Year Incurred	Amount	Used/Expired	Balance	Expiry Year
2011	₱1,949,358	₱1,480,447	₱468,911	2014
2012	266,575	2	266,573	2015
2013	1,149,477	–	1,149,477	2016
	₱3,365,410	₱1,480,449	₱1,884,961	

Details of the Group's MCIT follow:

Year Incurred	Amount	Used/Expired	Balance	Expiry Year
2011	₱165,835	₱164,385	₱1,450	2014
2012	211,753	190,729	21,024	2015
2013	32,173		32,173	2016
	₱409,761	₱355,114	₱54,647	

d. A reconciliation of the Group's provision for income tax computed based on income before income tax at the statutory income tax rates to the provision for income tax shown in the consolidated statements of income is as follows:

	2013	2012	2011
		(In Thousands)	
Provision for income tax at statutory income tax rate	**₱4,075,168**	₱5,471,243	₱4,532,458
Adjustments resulting from:			
NOLCO, excess MCIT and other deductible temporary differences for which no deferred income tax assets were recognized	**187,626**	81,099	569,002
Application of NOLCO, MCIT and other deductible temporary differences for which no deferred income tax assets were recognized in prior years	**(10,157)**	(23,339)	(1,999)
Nontaxable income	**(2,030,276)**	(913,610)	(2,169,546)
Income tax holiday	**–**	40,858	(195,505)
Difference of itemized deduction against 40% of taxable income	**19,832**	(6,173)	–
Income subjected to final tax	**(23,474)**	(9,973)	(8,778)
Equity in net earnings of an associate	**(1,111,235)**	(1,949,692)	(1,235,371)
Derecognition of deferred income tax deemed to be worthless	**–**	–	5,469
Non-deductible expenses	**1,001,346**	835	740,646
Provision for income tax	**₱2,108,830**	₱2,691,248	₱2,236,376

30. **Equity**

Capital Stock

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

	December 31		January 1,
	2013	2012	2012
Number of shares			
Authorized capital stock at ₱1 par value:			
At beginning of the period	**25,000,000,000**	5,000,000,000	5,000,000,000
Increase in authorized capital stock	**–**	20,000,000,000	–
At end of the period	**25,000,000,000**	25,000,000,000	5,000,000,000
Issued capital stock at ₱1 par value:			
At beginning of the year	**₱8,981,388,889**	₱3,583,250,000	₱3,853,250,000
Issuance	**1,840,000,000**	5,398,138,889	–
At end of the year	**₱10,821,388,889**	₱8,981,388,889	₱3,853,250,000

a. Capital stock is held by a total of 572, 408 and 517 stockholders as of December 31, 2013 and 2012 and January 1, 2012, respectively.

b. Track record of registration:

Date	Number of Shares Licensed	Issue/Offer Price
August 1948	100,000	₱1.00
November 1958	500,000	1.00
December 1961	1,000,000	1.00
March 1966	2,000,000	1.00
–	6,000,000	1.00
October 1995	247,500,000	1.00
April 2013	1,840,000,000	20.50

c. As discussed in Note 1 on October 26, 2011, pursuant to the 2-tranche Placing and Subscription Transaction, LTG's BOD accepted the offer of Tangent to subscribe to 398,138,889 new common shares from the Company's unissued capital stock at the offer price of ₱4.22 each, subject to the approval at the Company's annual shareholders' meeting.

The respective BODs of LTG and Tangent approved the execution of a Memorandum of Agreement setting forth each of their rights and obligations under the Placing and Subscription Transaction, including the undertaking of Tangent to use the offer proceeds to subscribe to additional new shares in LTG's unissued capital stock.

In December 2011, LTG received from Tangent the net offer proceeds amounting to ₱1.6 billion, net of stock issue cost amounting to ₱40.7 million, as deposit for future subscription. Subsequently, LTG invested ₱1.6 billion of the total proceeds in TDI for the latter's capital and operational requirements.

On June 13, 2012, LTG's BOD and stockholders approved the conversion of the deposit for future stock subscription amounting to ₱1.6 billion into 398,138,889 common shares of LTG which resulted to the recognition of capital stock and corresponding additional paid-in capital amounting to ₱398.1 million and ₱1.2 billion, respectively.

d. As discussed in Note 1, in July 2012, the Company received from Tangent ₱5.0 billion cash in exchange for LTG's 5,000,000,000 common shares. Costs related to the share issuance amounted to ₱67.5 million and is presented as a deduction to additional paid in capital.

e. In April 2013, LTG issued 1,840.0 million shares for ₱37.7 billion, where excess over par value amounting to ₱35.9 billion was recorded as capital in excess of par. Stock issue costs amounting to ₱1.1 billion were charged against capital in excess of par in 2013. Other offering related expenses amounting to ₱59.0 million were charged directly to "General and administrative expenses".

Retained Earnings and Dividends

a. On June 19, 2013, LTG's BOD and stockholders approved the declaration and distribution of cash dividends of ₱0.15 per share or a total of ₱1.6 billion.

b. On March 22, 2011 and December 20, 2011, LTG's BOD and stockholders, respectively, approved the declaration and distribution of cash dividends of ₱0.12 per share and ₱0.20 per share or a total of ₱403.8 million and ₱702.7 million, respectively.

c. Retained earnings include undistributed earnings amounting to ₱36.9 billion in 2013, ₱42.0 billion in 2012 and ₱28.6 billion in 2011 representing accumulated earnings of subsidiaries and equity in net earnings of associates, which are not available for dividend declaration until received in the form of dividends from the combining entities and associates. Retained earnings are further restricted for the payment of dividends to the extent of the cost of the shares held in treasury, unrealized foreign exchange gains except those attributable to cash and cash equivalents, unrealized actuarial gains, fair value adjustment or gains arising from mark-to-market valuation, deferred income tax assets recognized that reduced the income tax expense and increased net income and retained earnings, and other unrealized gains or adjustments as of December 31, 2013 and 2012, and January 1, 2012.

Preferred shares of subsidiaries issued to Parent Company

On March 20, 2013, the respective BOD's and stockholders of various Bank Holding Companies approved the increase in their authorized capital stocks comprising of common shares and preferred shares with par value of ₱1.00 per share. The preferred shares were subscribed by Tangent through conversion of its advances into invesments in certain Bank Holding Companies (see Note 23). Upon approval of the SEC of the increase in authorized capital stock of Bank Holding Companies in various dates in October, November and December 2013, preferred shares amounting to ₱7.4 billion presented under "Preferred shares of subsidiary issued to Parent Company" were issued to Tangent. Unissued preferred shares amounting to ₱6.0 billion which are pending approval of the SEC are presented under "Deposit for future stock subscription".

Upon issuance, the preferred shares shall have the following features: non-voting, non-cumulative and non-participating as to dividends, non-redeemable for a period of seven years from the issuance and redeemable at the option of the Bank Holding Companies after seven years from the issuance thereof.

Other Equity Reserves

Other equity reserves consist of:

	2013	2012	2011
		(In Thousands)	
Equity adjustments arising from business combination under common control (Note 1)	**₱445,113**	₱642,034	₱1,010,412
Equity adjustments from sale of Company's shares held by a subsidiary	**193,212**	193,212	–
Effect of transaction with non-controlling interest	**52,156**	52,156	52,156
Effect of sale of a subsidiary to parent company	**99,655**	99,655	99,655
	₱790,136	₱987,057	₱1,162,223

Shares Held by Subsidiaries

Shares held by subsidiaries include 4.9 million shares owned by All Seasons amounting to ₱12.5 million as of December 31, 2013 and 2012 and January 1, 2012 and 76.5 million shares owned by Saturn amounting to ₱150.9 million as of January 1, 2012. On July 25, 2012, the shares of stocks owned by Saturn were sold to Tangent at ₱4.50 per share. As a result, the excess of the selling price over the cost of the treasury shares amounting to ₱193.2 million is presented as an addition to other equity reserves.

Non-controlling Interests

Below are the changes in non-controlling interests:

	2013	2012	2011
		(In Thousands)	
Balance as of January 1	**₱31,051,046**	28,722,790	23,793,531
Net income attributable to non-controlling interests	**2,805,844**	2,789,038	2,841,100
Share in other comprehensive income, net of deferred income tax effect:			
Accumulated translation adjustment	**911,051**	(674,519)	63,987
Net changes in AFS financial assets (Note 7)	**(2,514,123)**	(261,223)	2,063,838
Revaluation increment on property, plant and equipment (Note 12)	**420,332**	61,270	651,212
Remeasurement gains (loses) on defined benefit plans (Notes 2 and 25)	**(127,737)**	300,345	(613,352)
Dividends received	**(64,216)**	(15,509)	–
Changes in ownership interest	**(247,112)**	128,854	(77,526)
Balance as of December 31	**₱32,235,085**	₱31,051,046	₱28,722,790

31. **Basic/Diluted Earnings Per Share**

Basic/diluted earnings per share were calculated as follows:

	2013	2012	2011
		(In Thousands)	
Net income attributable to equity holders of the Company	**₱8,669,220**	₱12,757,189	₱10,030,717
Divided by weighted-average number of shares	**10,208,056**	8,848,676	8,583,250
Basic/diluted EPS for net income attributable to equity holders of the Company	**₱0.85**	₱1.44	₱1.17

EPS is calculated using the consolidated net income attributable to equity holders of the Company divided by the weighted average number of shares, wherein the 5,000,000,000 additional shares issued in 2012 to effect and fund the group restructuring were recognized as if these shares were issued at the beginning of the earliest period presented (see Note 1).

32. **Financial Risk Management Objectives and Policies**

Risk Management Strategies

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

Risk Management Strategies for the Group other than the Banking Segment

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

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

Risk Management Strategies Specific for the Banking Segment

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 banking segment's continuing profitability.

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

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

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

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

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

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

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

Credit Risk

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

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

Concentration risk
Concentrations arise when a number of counterparties are engaged in similar business activities having similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular

industry or geographical location. Such credit risk concentrations, if not properly managed, may cause significant losses that could threaten the Group's financial strength and undermine public confidence. Concentration risk per business segment could arise on the following:

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

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

The tables below show the credit quality of financial assets and an aging analysis of past due but not impaired accounts of the Group except for the banking segment:

December 31, 2013:

	Neither past due nor impaired		**Past due but not impaired**					
	Standard Grade	**Sub-standard Grade**	**31 to 60 days**	**61 to 90 days**	**91 to 120 days**	**Over 120 Days**	**Impaired Financial Assets**	**Total**
				(In Millions)				
Loans and receivables:								
Cash and other cash items	**₱1,089**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱1,089**
Trade receivables	**5,552**	**–**	**1,617**	**642**	**646**	**59**	**32**	**8,548**
Other receivables	**2,514**	**1**	**5**	**50**	**5**	**338**	**6**	**2,919**
Due from related parties	**2,710**	**–**	**–**	**–**	**–**	**–**	**–**	**2,710**
Refundable deposits	**168**	**–**	**–**	**–**	**–**	**–**	**–**	**168**
AFS financial assets	**675**	**–**	**–**	**–**	**–**	**–**	**2**	**723**
	₱12,708	**₱1**	**₱1,622**	**₱692**	**₱651**	**₱397**	**₱40**	**₱16,157**

December 31, 2012:

	Neither past due nor impaired		Past due but not impaired					
	Standard Grade	Sub-standard Grade	31 to 60 days	61 to 90 days	91 to 120 days	Over 120 Days	Impaired Financial Assets	Total
				(In Millions)				
Loans and receivables:								
Cash and other cash items	₱593	₱–	₱–	₱–	₱–	₱–	₱–	₱593
Trade receivables	7,400	–	823	422	225	1,153	10	10,033
Other receivables	2,062	–	–	–	–	99	6	2,167
Due from related parties	11,270	–	–	–	–	–	–	11,270
Refundable deposits	125	–	–	–	–	–	–	125
AFS financial assets	427	–	–	–	–	–	2	427
	₱21,877	–	₱823	₱422	₱225	₱1,252	₱18	₱24,615

January 1, 2012:

	Neither past due nor impaired		Past due but not impaired					
	Standard Grade	Sub-standard Grade	31 to 60 days	61 to 90 days	91 to 120 days	Over 120 Days	Impaired Financial Assets	Total
				(In Millions)				
Loans and receivables:								
Cash and other cash items	₱355	₱–	₱–	₱–	₱–	₱–	₱–	₱355
Trade receivables	4,784	1,995	396	380	620	129	12	8,316
Other receivables	137	123	3	2	45	453	6	769
Due from related parties	4,111	–	–		–	–	–	4,111
Refundable deposits	103	–	–		–	–	–	103
AFS financial assets	129	–	–		–	–	–	129
	₱9,619	₱2,118	₱399	₱382	₱665	₱582	₱18	₱13,783

Credit Risk of the Banking Segment

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

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

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

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

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

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

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

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

The main types of collateral obtained are as follows:

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

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

The banking segment's maximum exposure to on-balance sheet credit risk is equal to the carrying value of its financial assets except for the following loans and receivables:

	December 31, 2013		December 31, 2012		January 1, 2012	
	Before Collateral	**After Financial Effect of Collateral or Credit Enhancement**	Before Collateral	After Financial Effect of Collateral or Credit Enhancement	Before Collateral	After Financial Effect of Collateral or Credit Enhancement
			(In Millions)			
Securities Held Under Agreements to Resell	**₱–**	**₱–**	₱18,442	₱–	₱18,300	₱–
Loans and receivables:						
Receivable from customers*:						
Business loans	**187,023**	**83,798**	162,956	90,006	149,706	93,106

(Forward)

	December 31, 2013		December 31, 2012		January 1, 2012	
	Before Collateral	After Financial Effect of Collateral or Credit Enhancement	Before Collateral	After Financial Effect of Collateral or Credit Enhancement	Before Collateral	After Financial Effect of Collateral or Credit Enhancement
			(In Millions)			
GOCCs and National Government Agencies (NGAs)	**₱25,751**	**₱12,397**	₱25,778	₱28,856	₱28,769	₱28,748
LGUs	**8,479**	**1,098**	11,229	2,337	5,938	4,832
Consumers	**26,060**	**10,235**	17,720	9,683	17,401	5,904
Fringe benefits	**603**	**430**	669	194	727	178
Unquoted debt securities	**7,546**	**4,746**	10,193	1,662	10,949	1,662
Other receivables	**18,413**	**7,241**	15,424	8,746	14,942	9,288
	₱273,875	**₱119,945**	₱262,411	₱141,484	₱246,732	₱143,718

**The Group follows the BOD approved policy on the generic classification of loans based on the type of borrowers and the purpose of the loan.*
** Receivables from customers exclude residual value of the leased asset.*

For the banking segment, fair values of collateral held for securities held under agreements to resell and loans and receivables amounted to nil and ₱267.8 billion as of December 31, 2013, respectively and ₱18.9 billion and ₱234.7 billion as of December 31, 2012, respectively.

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

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

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

b. Geographic Concentration
The table below shows the banking segment's credit risk exposures, before taking into account any collateral held or other credit enhancements, categorized by geographic location:

	December 31		January 1,
	2013	2012	2012
		(In Millions)	
Philippines	**₱516,743**	₱444,386	₱426,927
USA and Canada	**5,937**	8,257	20,400
Asia (excluding the Philippines)	**24,551**	23,368	12,835
United Kingdom	**1,696**	6,124	7,302
Other European Union Countries	**6,122**	6,459	1,292
Middle East	**248**	2	6
	₱555,297	₱488,596	₱469,762

c. Concentration by Industry

The table below show the industry sector analysis of the banking segment's financial assets at amounts before taking into account the fair value of the loan collateral held or other credit enhancements:

	December 31		January 1,
	2013	2012	2012
		(In Millions)	
Loans and Receivables			
Receivable from customers:			
Primary target industry:			
Public administration and defense	**₱24,103**	₱23,643	₱22,563
Wholesale and retail	**42,565**	40,732	37,926
Transport, storage and communication	**17,586**	25,994	28,416
Electricity, gas and water	**38,471**	22,453	19,623
Manufacturing	**30,352**	28,245	26,828
Financial intermediaries	**21,357**	16,134	11,161
Agriculture, hunting and forestry	**1,869**	3,539	3,403
Secondary target industry:			
Real estate, renting and business activities	**34,126**	25,569	23,334
Construction	**6,950**	4,384	2,443
Others*	**30,127**	24,937	23,539
Unquoted debt securities:			
Government	**7,401**	9,650	9,742
Financial intermediaries	**33**	383	816
Manufacturing	**112**	160	390
	255,452	225,823	210,184
Other receivables	**18,413**	15,319	14,942
	273,865	241,142	225,126
Trading and Financial Investment Securities			
Government	**62,060**	86,344	75,527
Financial intermediaries	**6,616**	14,972	18,587
Electricity, gas and water	**1,542**	2,461	1,688
Real estate, renting and business activities	**5,182**	1,527	1,155
Manufacturing	**646**	1,733	820
Others**	**15,710**	4,780	4,043
	91,756	111,817	101,820
Other Financial Assets* **			
Financial intermediaries	**22,499**	34,840	47,842
Government	**153,169**	81,700	74,739
Others	**14,008**	19,097	20,235
	189,676	135,637	142,816
	₱555,297	₱488,596	₱469,762

* *Receivables from customers exclude residual value of the leased asset amounting to ₱404 million, ₱381 million and ₱201 million as of December 31, 2013 and 2012 and January 1, 2012, respectively.*

** *Others include the following sectors - Other community, social and personal services, private household, hotel and restaurant, education, mining and quarrying, and health and social work.*

*** *Other financial assets include the following financial assets: "Due from BSP", "Due from other banks", "Interbank loans receivable", "Securities held under agreements to resell", "Receivable from SPV", "Miscellaneous COCI' and 'Commitments".*

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

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

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

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

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

- CRR 1 - Excellent
  Loans receivables rated as excellent include borrowers which are significant in size, with long and successful history of operations, an industry leader, with ready access to all equity and debt markets and have proven its strong debt service capacity.

- CRR 2 - Super Prime
  Loans receivables rated as super prime include borrowers whose ability to service all debt and meet financial obligations remains unquestioned.

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

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

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

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

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

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

Sub-standard Grade

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

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

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

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

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

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

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

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

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

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

The table below shows the banking segment's receivable from customers, gross of allowance for credit losses and unearned and other deferred income, for each CRR as of December 31, 2013 and 2012 and January 1, 2012 but net of residual values of leased assets. As of December 31, 2013 and 2012 and January 1, 2012, residual value of leased assets of the banking segment amounted to ₱404.8 million, ₱381.7 million and ₱201.3 million, respectively.

	December 31, 2013			December 31, 2012			January 1, 2012		
	Neither Past Due nor Individually Impaired	**Past Due or Individually Impaired**	**Total**	Neither Past Due nor Individually Impaired	Past Due or Individually Impaired	Total	Neither Past Due nor Individually Impaired	Past Due or Individually Impaired	Total
				(In Millions)					
Rated Receivable from Customers									
1 – Excellent	**₱2,634**	**₱–**	**₱2,634**	₱11,547	₱–	₱11,547	₱6,745	₱–	₱6,745
2 – Super Prime	**57,316**	**–**	**57,316**	33,705	–	33,705	23,255	–	23,255
3 – Prime	**33,365**	**14**	**33,379**	14,135	–	14,135	7,727	–	7,727
4 – Very Good	**4,395**	**38**	**4,433**	9,591	–	9,591	11,876	–	11,876
5 – Good	**19,480**	**7**	**19,487**	26,463	2	26,465	21,733	73	21,806
6 – Satisfactory	**24,546**	**212**	**24,758**	25,605	–	25,605	33,106	8	33,114
7 – Average	**30,005**	**220**	**30,225**	28,755	19	28,774	19,820	15	19,835
8 – Fair	**8,920**	**25**	**8,945**	13,948	1	13,949	11,864	28	11,892
9 – Marginal	**3,860**	**9**	**3,869**	4,090	5	4,095	3,390	31	3,421
10 – Watchlist	**12,990**	**35**	**13,025**	8,147	989	9,136	5,319	168	5,487
11 – Special Mention	**2,664**	**331**	**2,995**	3,935	75	4,010	2,768	95	2,863
12 – Substandard	**1,472**	**3,103**	**4,575**	476	3,638	4,114	1,426	2,254	3,680
13 – Doubtful	**5**	**2,497**	**2,502**	–	2,595	2,595	–	2,560	2,560
14 – Loss	**–**	**2,724**	**2,724**	154	3,319	3,473	4	4,150	4,154
	201,652	**9,215**	**201,867**	180,551	10,643	191,194	149,033	9,382	158,415
Unrated Receivable from Customers									
Business Loans	**13,105**	**870**	**13,975**	8,239	512	9,51	14,995	1,323	16,318
GOCCs and NGAs	**2,196**	**46**	**2,242**	1,391	1,651	3,042	12,168	1,763	13,931
LGUs	**7,925**	**661**	**8,586**	6,868	419	7,287	5,576	398	5,974
Consumers	**20,536**	**908**	**21,444**	13,830	894	14,724	12,397	877	13,274
Fringe Benefits	**529**	**1**	**530**	622	37	659	682	60	742
	44,291	**2,486**	**46,777**	30,950	3,513	34,463	45,818	4,421	50,239
	₱245,943	**₱811,701**	**₱257,644**	₱211,501	₱14,156	₱225,657	₱194,851	₱13,803	₱208,654

Under PFRS 7, a financial asset is past due when a counterparty has failed to make a payment when contractually due. The table below shows the aging analysis of the banking segment of past due but not impaired loans and receivables per class.

	December 31, 2013				December 31, 2012				January 1, 2012			
	Less than 30 days	**31 to 90 days**	**More than 90 days**	**Total**	Less than 30 days	31 to 90 days	More than 90 days	Total	Less than 30 days	31 to 90 days	More than 90 days	Total
							(In Millions)					
Consumers	**₱163**	**₱142**	**₱358**	**₱663**	₱61	₱90	₱313	₱464	₱4	₱32	₱419	₱455
Business loans	**387**	**436**	**1,436**	**2,259**	198	168	743	1,109	77	128	1,175	1,380
LGUs	**341**	**69**	**34**	**444**	133	–	–	133	85	–	10	95
GOCCs and NGAs	–	–	–	–	–	–	–	–	–	–	2	2
Fringe benefits	**1**	**–**	**1**	**2**	1	1	12	14	–	–	15	15
Total	**₱892**	**₱647**	**₱1,829**	**₱3,368**	₱393	₱259	₱1,068	₱1,720	₱166	₱160	₱1,621	₱1,947

Below are the financial assets of the banking segment, excluding receivables from customers, which are monitored using external ratings.

	December 31, 2013					
	Rated					
	Aaa to Aa3	**A1 to A3**	**Baa1 and below**	**Subtotal**	**Unrated[6/]**	**Total**
			(In Millions)			
Due from BSP [1/]	**₱–**	**₱–**	**₱–**	**₱–**	**₱153,169**	**₱153,169**
Due from other banks	**1,580**	**4,131**	**4,775**	**10,486**	**3,608**	**14,094**
Interbank loans receivables	**399**	**4,490**	**3,285**	**8,174**	**231**	**8,405**
Financial assets at FVPL:						
Held-for-trading:						
Government securities	**–**	**–**	**2,835**	**2,835**	**521**	**3,356**
Private debt securities	**–**	**–**	**8**	**8**	**823**	**831**
Derivative assets[2/]	**7**	**30**	**20**	**57**	**202**	**259**
Equity securities	**–**	**–**	**–**	**–**	**250**	**250**
Designated at FVPL:						
Segregated fund assets	**–**	**7,862**	**–**	**7,862**	**–**	**7,862**
Loans and receivables:						
Unquoted debt securities[4/]	**–**	**–**	**50**	**50**	**7,496**	**7,546**
Others[5/]	**1**	**–**	**196**	**197**	**18,215**	**18,413**
AFS investments[6/]:						
Government securities	**1,510**	**227**	**56,727**	**58,464**	**241**	**58,705**
Other debt securities	**898**	**1,044**	**5,098**	**7,040**	**11,615**	**18,655**
Quoted equity securities			**172**	**172**	**1,505**	**1,677**
Unquoted equity securities	**–**	**–**	**–**	**–**	**162**	**162**

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

2/ Derivative assets represent the value of credit derivatives embedded in host contracts issued by financial intermediaries and the mark-to-market valuation of freestanding derivatives (see Note 21).

3/ Unquoted debt securities represent investments in bonds and notes issued by financial intermediaries, government and private entities that are not quoted in the market, net of allowances.

4/ Loans and receivables - Others is composed of accrued interest receivable, accounts receivable, sales contracts receivable and other miscellaneous receivables, net of allowances (see Note 8)

5/ AFS investments are presented net of allowances (Note 7).

6/ As of December 31, 2013, financial assets that are unrated are neither past due nor impaired.

	December 31, 2012					
	Rated					
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal	Unrated[7/]	Total
Due from BSP [1/]	₱–	₱–	₱–	₱–	₱63,258	₱63,258
Due from other banks	3,969	5,302	2,471	11,742	3,786	15,528
Interbank loans receivables	3,864	9,825	4,844	18,533	779	19,312
Securities held under agreements to resell[2/]	–	–	142	142	18,300	18,442
Financial assets at FVPL:						
Held-for-trading:						
Government securities	–	–	1,928	1,928	6,402	8,330
Private debt securities	–	311	261	572	349	921
Derivative assets[3/]	2	274	187	463	140	603
Equity securities	–	–	46	46	251	297
Designated at FVPL:						
Private debt securities	–	–	–	–	1,248	1,248
Loans and receivables:						
Unquoted debt securities[4/]	–	–	31	31	10,162	10,193
Others[5/]	–	–	–	–	15,425	15,425
AFS investments[6/]:						
Government securities	748	4	52,447	53,199	24,815	78,014
Other debt securities	3,304	1,352	4,776	9,432	7,829	17,261
Quoted equity securities	484	–	134	618	727	1,345
Unquoted equity securities	–	–	–	–	56	56

1/ 'Due from BSP' is composed of interest-earning short-term placements with the BSP and a demand deposit account to support the regular operations of PNB.
2/ Securities held under agreements to resell represent overnight lending to the BSP collateralized by securities. The interest rate applicable is fixed by the BSP through a memorandum.
3/ Derivative assets represent the value of credit derivatives embedded in host contracts issued by financial intermediaries and the mark-to-market valuation of freestanding derivatives (see Note 21).
4/ Unquoted debt securities represent investments in bonds and notes issued by financial intermediaries, government and private entities that are not quoted in the market.
5/ Loans and receivables - Others is composed of accrued interest receivable, accounts receivable, sales contracts receivable and other miscellaneous receivables, net of allowances (see Note 8)
6/ AFS investments are presented net of allowances (Note 7).
7/ As of December 31, 2012, financial assets that are unrated are neither past due nor impaired.

	January 1, 2012					
	Rated					
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal	Unrated[7/]	Total
Due from BSP [1/]	₱–	₱–	₱–	₱–	₱56,439	₱56,439
Due from other banks	8,371	5,708	2,025	16,104	1,616	17,720
Interbank loans receivables	1,882	6,017	1,913	9,812	20,309	30,121
Securities held under agreements to resell[2/]	–	–	–	–	18,300	18,300
Financial assets at FVPL:						
Held-for-trading:						
Government securities	–	–	2,174	2,174	436	2,610
Private debt securities	1	–	–	1	34	35
Derivative assets[3/]	84	309	123	516	136	652
Equity securities	–	–	–	–	225	225
Designated at FVPL:						
Private debt securities	–	4,051	–	4,051	–	4,051
Segregated fund assets	–	–	–	–	1,365	1,365
Loans and receivables:						
Unquoted debt securities[4/]	–	–	–	–	10,948	10,948
Others[5/]	–	–	–	–	14,942	14,942
AFS investments[6/]:						
Government securities	1,169	405	43,005	44,579	28,338	72,917
Other debt securities	1,262	1,854	6,278	9,394	9,587	18,981
Quoted equity securities	–	–	–	–	837	837
Unquoted equity securities	–	–	131	131	12	143

1/ 'Due from BSP' is composed of interest-earning short-term placements with the BSP and a demand deposit account to support the regular operations of PNB.
2/ Securities held under agreements to resell represent overnight lending to the BSP collateralized by securities. The interest rate applicable is fixed by the BSP through a memorandum.
3/ Derivative assets represent the value of credit derivatives embedded in host contracts issued by financial intermediaries and the mark-to-market valuation of freestanding derivatives (see Note 21).
4/ Unquoted debt securities represent investments in bonds and notes issued by financial intermediaries, government and private entities that are not quoted in the market net of allowance.
5/ Loans and receivables - Others is composed of accrued interest receivable, accounts receivable, sales contracts receivable and other miscellaneous receivables, net of allowances (see Note 8).
6/ AFS investments are presented net of allowances (Note 7).
7/ As of January 1, 2012, financial assets that are unrated are neither past due nor impaired.

Impairment Assessment of the Group

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

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

a. Specific (individual) assessment

The Group assesses each individually significant credit exposure or advances for any objective evidence of impairment.

Among the items and factors considered by the Group when assessing and measuring specific impairment/credit allowances are:

- the going concern of the borrower's business;
- the ability of the borrower to repay its obligations during financial crises;
- the projected receipts or expected cash flows;
- the availability of other sources of financial support;
- the existing realizable value of collateral; and
- the timing of the expected cash flows.

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

b. Collective assessment

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

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

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

See Notes 7 and 8 for more detailed information on the allowance for credit losses on loans and receivables and other financial assets.

Liquidity Risk and Funding Management

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.

Liquidity Risk and Funding Management of the Group except for the Banking Segment

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

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

The following tables show the maturity profile of the Group's other financial liabilities (undiscounted amounts of principal and related interest) as well as the financial assets used for liquidity management (in millions):

	December 31, 2013			December 31, 2012			January 1, 2012		
	Less than one year	**1 to less than 3 years**	**Total**	Less than one year	1 to less than 3 years	Total	Less than one year	1 to less than 3 years	Total
Cash and other cash items	**₱1,092**	**₱–**	**₱1,092**	₱596	₱–	₱596	₱362	₱–	₱362
Trade receivables	**8,515**	**2,237**	**10,752**	10,023	874	10,897	8,303	2,053	10,356
Other receivables	**2,913**	**–**	**2,913**	2,161	–	2,161	763	–	763
Due from related parties	**2,710**	**–**	**2,710**	11,270	–	11,270	4,111	–	4,111
Refundable deposits	**168**	**–**	**168**	125	–	125	103	–	103
AFS financial assets	**675**	–	**675**	427	–	427	129	–	129
	₱16,073	**₱2,237**	**₱18,310**	₱24,602	₱874	₱25,476	₱13,771	₱2,053	₱15,824
Short term debts	**₱300**	**₱–**	**₱300**	₱1,620	₱–	₱1,620	₱1,220	₱–	₱1,220
Accounts payable and other liabilities*	**7,567**	**–**	**7,567**	7,356	–	7,356	8,103	–	8,103
Long-term debts	**1,010**	**6,926**	**7,936**	5,249	894	6,143	5,402	544	5,946
Due to related parties	**8,037**	**–**	**8,037**	40,319	–	40,319	35,452	1,350	36,802
Other liabilities	**45**	**1,507**	**1,552**	81	1,363	1,444	51	137	188
	₱16,959	**₱8,433**	**₱25,392**	₱54,625	₱2,257	₱56,882	₱50,228	₱2,031	₱52,259

**Excluding non-financial liabilities amounting to ₱132.6 million, ₱420.3 million and ₱1.2 billion as of December 31, 2013 and 2012 and January 1, 2012.*

Liquidity Risk and Funding Management of the Banking Segment

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

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

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

The table below shows the banking segment's financial assets and financial liabilities' liquidity information which includes coupon cash flows categorized based on the expected date on which the asset will be realized and the liability will be settled. For other assets, the analysis into maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date or if earlier, the expected date the assets will be realized.

	December 31, 2013					
	Up to 1 month	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**Beyond 1 year**	**Total**
			(In Millions)			
Financial Assets						
COCI	**₱11,559**	**₱–**	**₱–**	**₱–**	**₱–**	**₱11,559**
Due from BSP and other banks	**162,722**	**1,774**	**4,300**	**205**	**199**	**169,200**
Interbank loans receivable	**8,328**	**150**	**–**	**–**	**–**	**8,478**
Financial assets at FVPL:						
Held-for-trading:						
Government securities	**36**	**16**	**36**	**78**	**4,703**	**4,869**
Equity securities	**–**	**–**	**–**	**–**	**15**	**15**
Private debt securities	**–**	**2**	**4**	**7**	**878**	**891**
Derivative assets:						
Pay	**(2,911)**	**(850)**	**(1,141)**	**(216)**	**(31)**	**(5,149)**
Receive	**2,934**	**859**	**1,168**	**222**	**31**	**5,214**
	23	**9**	**27**	**6**	**–**	**65**
Designated at FVPL:						
Designated at FVPL segregated fund liabilities	**–**	**–**	**–**	**–**	**7,862**	**7,862**
Loans receivables - gross	**81,505**	**43,282**	**16,537**	**15,135**	**235,958**	**392,417**
Unquoted debt securities - gross	**69**	**2,855**	**11**	**144**	**9,176**	**12,255**
Other receivables - gross	**2,662**	**3,309**	**1,868**	**273**	**9,030**	**17,142**
AFS investments	**1,003**	**648**	**937**	**3,726**	**101,011**	**107,325**
Total financial assets	**₱267,907**	**₱52,045**	**₱23,720**	**₱19,574**	**₱368,832**	**₱732,078**
Financial Liabilities						
Deposit liabilities:						
Demand	**₱127,461**	**₱–**	**₱–**	**₱–**	**₱–**	**₱127,461**
Savings	**232,842**	**24,423**	**8,593**	**4,839**	**13,142**	**283,839**
Time	**13,155**	**13,427**	**4,406**	**6,817**	**20,105**	**57,910**
Financial liability at FVPL						
Derivative liabilities:						
Pay	**9,771**	**1,995**	**694**	**–**	**1,391**	**13,851**
Receive	**(9,655)**	**(1,979)**	**(676)**	**–**	**(1,391)**	**(13,701)**
	116	**16**	**18**	**–**	**–**	**150**
Designated at FVPL segregated fund liabilities	**–**	**–**	**–**	**–**	**7,912**	**7,912**
Bills and acceptances payable	**8,825**	**2,129**	**835**	**–**	**1,751**	**13,540**
Subordinated debt	**–**	**147**	**147**	**294**	**13,039**	**13,627**
Accrued interest payable and other liabilities	**13,594**	**362**	**212**	**257**	**6,965**	**21,390**
Total financial liabilities	**₱395,993**	**₱40,504**	**₱14,211**	**₱12,207**	**₱62,914**	**₱525,829**

	December 31, 2012					
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Beyond 1 year	Total
			(In Millions)			
Financial Assets						
COCI	₱9,485	₱–	₱–	₱–	₱–	₱9,485
Due from BSP and other banks	73,325	1,820	3,184	2,186	–	80,515
Interbank loans receivable	16,483	2,286	543	–	–	19,312
Securities held under agreements to resell	18,304	142	–	–	–	18,446

(Forward)

	December 31, 2012					
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Beyond 1 year	Total
			(In Millions)			
Financial assets at FVPL:						
Held-for-trading:						
Government securities	₱1,978	₱17	₱19	₱6,392	₱677	₱9,083
Equity securities	251	–	–	46	–	297
Private debt securities	103	1	1	821	29	955
Derivative assets						
Pay	(8,234)	(716)	(22)	(67)	(52)	(9,091)
Receive	8,406	788	24	153	222	9,593
	172	72	2	86	170	502
Designated at FVPL:						
Segregated fund assets	–	–	–	–	3,742	3,742
Private debt securities	4	8	1,255	–	–	1,267
Loans receivables - gross	51,908	28,713	10,686	6,448	179,759	277,514
Unquoted debt securities - gross	4,031	91	27	86	10,268	14,503
Other receivables - gross	20,195	661	132	1	1,228	22,217
AFS investments	998	3,867	3,426	2,354	142,355	153,000
Total financial assets	₱197,237	₱37,678	₱19,275	₱18,420	₱338,228	₱610,838
Financial Liabilities						
Deposit liabilities:						
Demand	₱79,911	₱–	₱–	₱–	₱–	₱79,911
Savings	211,334	24,222	8,577	5,274	12,636	262,043
Time	18,473	8,037	4,835	3,111	14,507	48,963
Financial liabilities at FVPL:						
Financial liability designated at FVPL	43	85	6,311	–	–	6,439
Derivative liabilities:						
Pay	18,530	1,162	476	608	213	20,989
Receive	(18,515)	(1,123)	(452)	(518)	(52)	(20,660)
	15	39	24	90	161	329
Designated at FVPL - segregated fund liabilities	–	–	–	–	3,740	3,740
Bills and acceptances payable	11,568	5,163	1,366	41	333	18,471
Subordinated debt	81	4,638	161	322	11,742	16,944
Accrued interest payable and other liabilities	18,867	392	292	374	3,486	23,391
Total financial liabilities	₱340,292	₱42,576	₱21,546	₱9,212	₱46,605	₱460,231

	January 1, 2012					
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Beyond 1 year	Total
			(In Millions)			
Financial Assets						
COCI	₱9,397	₱66	₱–	₱–	₱–	₱9,463
Due from BSP and other banks	60,160	15,348	–	1,114	2	76,624
Interbank loans receivable	17,543	5,725	85	–	–	23,353
Securities held under agreements to resell	25,105	–	–	–	–	25,105
Financial assets at FVPL:						
Held-for-trading:						
Government securities	2,187	16	455	49	730	3,437
Equity securities	175	–	50	–	–	225
Private debt securities	17	–	18	–	8	43
Derivative assets						
Pay	(11,186)	(778)	(1,082)	(304)	–	(13,350)
Receive	11,266	904	1,096	307	85	13,658
	80	126	14	3	85	308
Designated at FVPL:						
Private debt securities	11	22	34	70	4,118	4,255

(Forward)

	January 1, 2012					
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Beyond 1 year	Total
			(In Millions)			
Loans receivables - gross	₱37,753	₱40,934	₱14,352	₱6,183	₱157,038	₱256,260
Unquoted debt securities - gross	4,418	103	418	288	11,020	16,247
Other receivables - gross	18,030	491	1,141	–	590	20,252
AFS investments	487	6,836	700	4,963	133,481	146,467
Total financial assets	₱175,363	₱69,667	₱17,267	₱12,670	₱307,072	₱582,039
Financial Liabilities						
Deposit liabilities:						
Demand	₱47,738	₱1,744	₱2,616	₱5,232	₱18,920	₱76,250
Savings	77,883	10,061	15,045	30,099	126,161	259,249
Time	5,639	21,860	9,072	3,416	22,010	61,997
Financial liability at FVPL	37	73	110	219	8,025	8,464
Derivative liabilities:						
Pay	13,076	2,221	–	1,415	3,792	20,504
Receive	(13,024)	(2,139)	–	(1,401)	(3,727)	(20,291)
	52	82	–	14	65	213
Bills and acceptances payable	3,868	4,750	3,317	746	1,341	14,022
Subordinated debt	43	138	401	255	11,581	12,418
Accrued interest payable and other liabilities	16,039	585	265	258	2,132	19,279
Total financial liabilities	₱151,299	₱39,293	₱30,826	₱40,239	₱190,235	₱451,892

Market Risk

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.

Market Risks of the Group other than the Banking Segment

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

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

Equity price risk

Equity price risk is the risk that the fair value of equities will decrease as a result of changes in the levels of equity indices and value of individual stocks. In 2013, 2012 and 2011, changes in fair value of equity instruments held as AFS equity instruments due to a reasonable possible change in equity interest, with all other variables held constant, will increase profit by ₱43.8 million, ₱42.6 million and ₱48.4 million, respectively, if equity prices will increase by 5.2%. An equal change in the opposite direction would have decrease equity by the same amount.

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

The Group's significant US$-denominated financial assets (other than the banking segment) pertain to due from related parties as of December 31, 2013 and 2012 and January 1, 2012. Shown below is the impact on the Group's income before income tax of reasonably possible changes in exchange rate of the US$ against the peso:

	Dollar Value	Peso Equivalent	Change in Foreign Exchange Rate	Effect on Income Before Income Tax
	(In Millions)	*(In Millions)*		*(In Millions)*
December 31, 2013	$20	₱888	+1	₱27
			-1	(27)
December 31, 2012	20	821	+1	30
			-1	(30)
January 1, 2012	30	1,315	+1	37
			-1	(37)

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

Interest rate risk
Interest rate risk arises from the possibility that changes in interest rates would unfavorably affect future cash flows from financial instruments. As of December 31, 2013 and 2012 and January 1, 2012, 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. As of January 1, 2012, the Group's exposure pertains only to short-term bank loan. 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.

A sensitivity analysis to a reasonable possible change in the market interest rates would show the potential increase or decrease on profit or loss. If the market interest rates for 2011 had been 0.25% higher or lower, income before income tax would increase or decrease by ₱0.6 million.

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

Trading market risk
Trading market risk exists in the banking segment as the values of its trading positions are sensitive to changes in market rates such as interest rates, foreign exchange rates and equity prices. PNB is exposed to trading market risk in the course of market making as well as from taking advantage of market opportunities. The banking segment adopts the Parametric Value-at-Risk (VaR) methodology (with 99% confidence level, and one day holding period for FX and equity price risks VaR and ten day holding period for interest rate risk VaR) to measure PNB's trading market risk. Volatilities are updated monthly and are based on historical data for a rolling 260-day period. The RMG reports the VaR utilization and breaches to limits to the risk taking personnel

on a daily basis and to the ALCO and Risk Oversight Committee (ROC) on a monthly basis. All risk reports discussed in the ROC meeting are noted by the BOD. The VaR figures are backtested to validate the robustness of the VaR model. Below are the objectives and limitations of the VaR methodology, VaR assumptions and VaR limits.

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

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

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

Trading Portfolio	**Foreign Exchange***	**Interest Rate**	**Equities Price**	**Total VaR****
December 31, 2013	**₱4.28**	**₱159.37**	**₱12.22**	**175.88**
Average Daily	**8.81**	**148.81**	**9.89**	**167.51**
Highest	**24.71**	**497.11**	**12.97**	**413.55**
Lowest	**0.65**	**30.24**	**6.69**	**70.60**
December 31, 2012	4.84	80.22	7.80	92.86
Average Daily	6.61	131.09	8.95	146.64
Highest	16.85	340.31	11.17	354.65
Lowest	0.40	60.87	6.00	77.86
December 31, 2011	3.33	113.24	9.54	126.11
Average Daily	8.90	177.18	9.80	195.88
Highest	24.15	312.35	13.14	139.81
Lowest	0.92	73.30	6.11	95.63

** FX VaR is the bankwide foreign exchange risk*

*** The high and low for the total portfolio may not equal the sum of the individual components as the highs and lows of the individual trading portfolios may have occurred on different trading days*

The table below shows the interest rate VaR for AFS investments:

	2013	2012	2011
		(In Millions)	
End of year	**₱2,283.45**	₱2,317.22	₱1,922.71
Average Daily	**1,963.52**	2,176.61	1,597.70
Highest	**2,909.73**	2,743.57	2,047.64
Lowest	**1,008.20**	1,522.48	927.67

Structural Market Risk of the Banking Segment

Non-trading Market Risk

Interest rate risk

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

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

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

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

The following table sets forth the repricing gap position of the banking segment:

	December 31, 2013					
	Up to 1 Month	**1 to 3 Months**	**3 to 6 Months**	**6 to 12 months**	**Beyond 1 year**	**Total**
			(In Millions)			
Financial Assets*						
Due from BSP and other banks	**₱110,636**	**₱–**	**₱–**	**₱–**	**₱–**	**₱110,636**
Interbank loans receivable	**6,188**	**149**	**–**	**–**	**–**	**6,337**
Receivable from customers and other receivables - gross**	**83,078**	**41,796**	**8,611**	**9,077**	**42,987**	**185,549**
Total financial assets	**₱199,902**	**41,945**	**8,611**	**9,077**	**42,987**	**302,522**
Financial Liabilities*						
Deposit liabilities:						
Savings	**₱91,078**	**₱17,726**	**₱10,075**	**₱5,979**	**₱4,182**	**₱129,040**
Time	**14,999**	**8,913**	**4,237**	**2,154**	**5,747**	**36,050**
Bills and acceptances payable	**9,220**	**902**	**242**	**438**	**1,279**	**12,081**
Total financial liabilities	**₱115,297**	**₱27,541**	**₱14,554**	**₱8,571**	**₱11,208**	**₱177,171**
Repricing gap	**₱84,605**	**₱14,404**	**(₱5,943)**	**₱506**	**₱31,779**	**₱125,351**
Cumulative gap	**84,605**	**99,009**	**93,066**	**93,572**	**125,351**	

**Financial instruments that are not subject to repricing/rollforward were excluded.*
***Receivable from customers excludes residual value of leased assets*.

	December 31, 2012					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 months	Beyond 1 year	Total
			(In Millions)			
Financial Assets*						
Due from BSP and other banks	₱50,592	₱–	₱–	₱–	₱–	₱50,592
Interbank loans receivable	18,078	–	–	–	–	18,078
Securities held under agreements to resell	18,442	–	–	–	–	18,442
Designated at FVPL:						
Private Debt Securities	–	–	1,248	–	–	1,248
Loans receivable - gross	86,858	35,561	7,058	12,296	59,026	200,799
Total financial assets	₱173,970	₱35,561	₱8,306	₱12,296	₱59,026	₱289,159
Financial Liabilities*						
Deposit liabilities:						
Savings	₱131,333	₱14,908	₱4,607	₱3,156	₱7,083	₱161,087
Time	32,468	3,807	851	4,366	26	41,518
Bills and acceptances payable	12,144	2,456	340	903	2,599	18,442
Total financial liabilities	₱175,945	₱21,171	₱5,798	₱8,425	₱9,708	₱221,047
Repricing gap	(₱1,975)	₱14,390	₱2,508	₱3,871	₱49,031	₱67,825
Cumulative gap	(1,975)	12,415	14,923	18,794	67,825	

**Financial instruments that are not subject to repricing/rollforward were excluded.*
***Receivable from customers excludes residual value of leased assets.*

	January 1, 2012					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 months	Beyond 1 year	Total
			(In Millions)			
Financial Assets*						
Due from BSP and other banks	₱63,252	₱10,907	₱–	₱–	₱–	₱74,159
Interbank loans receivable	30,033	88	–	–	–	30,121
Securities held under agreements to resell	18,300	–	–	–	–	18,300
Designated at FVPL						
Private Debt	646	2,095	1,309	–	2	4,053
Loan receivables - gross	92,365	22,603	5,897	13,073	98,454	232,392
Time Loan - Unquoted Debt Securities - gross	247	550	401	1	13,568	14,768
	₱204,843	₱36,243	₱7,607	₱13,074	₱112,024	₱373,791

(Forward)

	January 1, 2012					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 months	Beyond 1 year	Total
	(In Millions)					
Financial Liabilities*						
Deposit liabilities:						
Savings	₱131,179	₱17,315	₱3,718	₱1,801	₱100,641	₱254,654
Time	45,335	4,744	839	858	6,380	58,155
Bills and acceptances payable	4,080	3,071	228	4,288	2,042	13,711
Total financial liabilities	₱180,594	₱25,130	₱4,785	₱6,947	₱109,063	₱326,519
Repricing gap	(₱24,249)	₱11,113	₱2,822	₱6,127	₱2,961	₱47,272
Cumulative gap	(24,249)	(35,362)	38,184	44,311	47,272	

**Financial instruments that are not subject to repricing/rollforward were excluded.*
***Receivable from customers excludes residual value of leased assets.*

The following table sets forth, for the year indicated, the impact of changes in interest rates on the banking segment's repricing gap for the years ended December 31:

	2013		2012		2011	
	Statement of Income	**Equity**	Statement of Income	Equity	Statement of Income	Equity
			(In Millions)			
+50bps	**₱442**	**₱442**	₱60	60	₱5	₱5
-50bps	**(442)**	**(442)**	(60)	(60)	(5)	(5)
+100bps	**885**	**885**	120	120	9	9
-100bps	**(885)**	**(885)**	(120)	(120)	(9)	(9)

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

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

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

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

The table below summarizes the banking segment's exposure to foreign exchange rate risk. Included in the table are the financial assets and liabilities at carrying amounts, categorized by currency (amounts in Philippine peso equivalent).

	December 31, 2013			December 31, 2012			January 1, 2012		
	USD	**Others**	**Total**	USD	Others	Total	USD	Others	Total
				(In Millions)					
Assets									
COCI and due from BSP	**₱1,017**	**₱485**	**₱1,502**	₱728	₱186	₱915	₱903	₱142	₱1,045
Due from other banks	**9,719**	**3,589**	**13,308**	2,528	644	3,172	4,692	364	5,057
Interbank loans receivable and securities held under agreements to resell	**1,005**	**1,000**	**2,005**	1,450	1	1,451	455	1	456
Derivative assets	–	–	–	–	1	1	–	–	–
Financial assets at FVPL	–	–	–	27	–	27	4,089	–	4,089
Loans and receivables	**10,268**	**5,269**	**15,537**	5,422	251	5,674	6,160	102	6,262
AFS investments	**4,255**	**2,078**	**6,333**	3,638	1,210	4,849	8,375	40	8,415
Other assets	**-**	**-**	**-**	5	13	17	5,168	283	5,451
Total assets	**26,264**	**12,421**	**38,685**	13,798	2,306	16,106	29,842	932	30,775
Liabilities									
Deposit liabilities	**7,621**	**5,159**	**12,780**	3,442	1,650	5,092	1,309	63	1,372
Bills and acceptances payable	**6,437**	**141**	**6,578**	5,513	89	5,602	7,151	96	7,247
Accrued taxes, interest and other expenses	**1,599**	**201**	**1,800**	1,563	2	1,565	1,642	1	1,643
Other liabilities	**4,677**	**493**	**5,170**	1,688	74	1,761	884	3,493	4,376
Total liabilities	**20,334**	**5,994**	**26,328**	12,206	1,815	14,020	10,986	3,653	14,638
Net Exposure	**₱5,930**	**₱6,427**	**₱12,357**	₱1,592	₱491	₱2,086	₱18,856	(₱2,721)	₱16,137

Information relating to the banking segment's currency derivatives is contained in Note 21.

33. Fair Value Measurement

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

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

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

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

As of December 31, 2013 and 2012 and January 1, 2012, the carrying values of the Group's financial assets and liabilities approximate their respective fair values, except for the following financial instruments:

	December 31, 2013		December 31, 2012		January 1, 2012	
	Carrying Value	**Fair Market Value**	Carrying Value	Fair Market Value	Carrying Value	Fair Market Value
			(In Thousands)			
Financial Assets:						
Loans and receivables:						
Receivables from customers	**₱248,321,931**	**₱274,331,315**	₱218,732,880	₱235,898,813	₱202,740,824	₱219,341,728
Unquoted debt securities	**7,545,531**	**12,692,201**	10,193,226	11,928,824	10,948,007	12,301,697
	₱255,867,462	**₱287,023,516**	₱228,926,106	₱247,827,637	₱213,688,831	₱231,643,425
Financial Liabilities:						
Financial liabilities at amortized cost:						
Deposit liabilities - Time deposits	**₱51,114,363**	**₱52,259,893**	₱47,587,615	₱48,262,288	₱58,155,187	₱55,028,138
Long term debts:						
Subordinated debt	**9,953,651**	**10,995,537**	14,436,122	15,454,051	10,935,265	12,233,035
Unsecured term loan	**1,990,120**	**2,014,001**	–	–	–	–
Bonds payable	**4,982,544**	**5,250,000**	4,968,295	5,212,972	4,955,148	5,196,799
Notes payable	**963,355**	**974,916**	1,174,784	1,188,881	990,430	1,002,537
Other liabilities:						
Payable to landowners	**1,296,785**	**1,312,839**	1,296,785	1,321,178	–	–
Tenants' rental deposits	**161,601**	**150,852**	80,004	74,484	75,496	71,753
Advance rentals	**98,658**	**94,594**	29,431	27,589	35,438	32,940
	₱70,561,077	**₱73,052,632**	₱69,573,037	₱71,541,443	₱75,146,964	₱73,565,202

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

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

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

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

Loans and receivables - For loans with fixed interest rates, fair values are estimated by discounted cash flow methodology, using the Group's current market lending rates for similar types of loans. For loans with floating interest rates, with repricing frequencies on a quarterly basis, the Group assumes that the carrying amount approximates fair value. Where the repricing frequency is beyond three months, the fair value of floating rate loans is determined using the discounted cash flow methodologies. The discount rate used in estimating the fair value of loans and receivables is 3.0% in 2013, from 0.3% to 9.3% in 2012 and from 5.0% to 9.3% in 2011 for peso-denominated

receivables. For foreign currency-denominated receivables, discount rate used is 1.0% in 2013 and 3.3% in 2012 and 2011.

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

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

Time deposit liabilities and subordinated debt including designated at FVPL - Fair value is determined using the discounted cash flow methodology. The discount rate used in estimating the fair values of the subordinated debt and time deposits ranges from 1.1% to 4.2%, from 1.4% to 3.6% and from 1.2% to 5.0% as of December 31, 2013 and 2012 and January 1, 2012, 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 2.13% to 6.57%, from 3.28% to 6.57% and from 4.51% to 6.57% as of December 31, 2013 and 2012 and January 1, 2012, respectively.

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

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

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

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

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

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

	December 31, 2013			
	Level 1	**Level 2**	**Level 3**	**Total**
		(In Thousands)		
Assets measured at fair value:				
Financial Assets				
Financial assets at FVPL:				
Held-for-trading:				
Government securities	**₱2,262,113**	**₱1,093,608**	**₱–**	**₱3,355,721**
Derivative assets	**779,565**	**50,963**	**–**	**830,528**
Private debt securities	**–**	**92,834**	**165,863**	**258,697**
Equity securities	**249,518**	**–**	**–**	**249,518**
Designated at FVPL:				
Segregated fund assets*	**2,481,635**	**–**	**5,380,053**	**7,861,688**
	₱5,772,831	**₱1,237,405**	**₱5,545,916**	**₱12,556,152**

(Forward)

	December 31, 2013			
	Level 1	**Level 2**	**Level 3**	**Total**
		(In Thousands)		
AFS investments:				
Government securities	**₱33,703,998**	**₱25,676,335**	**₱–**	**₱59,380,333**
Other debt securities	**18,654,987**	**–**	**–**	**18,654,987**
Equity securities**	**2,663,182**	**–**	**–**	**2,663,182**
	₱55,022,167	**₱25,676,335**	**₱–**	**₱80,698,502**
Non-financial assets				
Property, plant and equipment***				
Land and land improvements	**₱–**	**₱–**	**₱16,613,640**	**₱16,613,640**
Plant buildings and building improvements	**–**	**–**	**10,966,015**	**10,966,015**
Machineries and equipment	**–**	**–**	**10,254,872**	**10,254,872**
	₱–	**₱–**	**₱37,834,527**	**₱37,834,527**
Liabilities measured at fair value:				
Financial liabilities				
Financial liabilities at FVPL:				
Designated at FVPL:				
Segregated fund liabilities*	**₱2,481,635**	**₱–**	**₱5,380,053**	**₱7,861,688**
Derivative liabilities	**–**	**163,101**	**–**	**163,101**
	₱2,481,635	**₱163,101**	**₱5,380,053**	**₱8,024,789**
Assets for which fair values are disclosed:				
Financial Assets				
Loans and receivables:				
Receivables from customers	**₱–**	**₱–**	**₱274,331,315**	**₱274,331,315**
Unquoted debt securities	**–**	**–**	**12,692,201**	**12,692,201**
	₱–	**₱–**	**₱287,023,516**	**₱287,023,516**
Non-financial Assets				
Investment properties***				
Land	**₱–**	**₱–**	**₱35,072,992**	**₱35,072,992**
Buildings and improvements	**–**	**–**	**4,857,285**	**4,857,285**
	₱–	**₱–**	**₱39,930,277**	**₱39,930,277**
Liabilities for which fair values are disclosed:				
Financial liabilities				
Financial liabilities at amortized cost:				
Deposit liabilities:				
Time deposits	**₱–**	**₱–**	**₱52,259,893**	**₱52,259,893**
Long term debts:				
Subordinated debt	**–**	**–**	**10,995,537**	**10,995,537**
Unsecured term loan	**–**	**–**	**2,014,001**	**2,014,001**
Bonds payable	**5,250,000**	**–**	**–**	**5,250,000**
Notes payable	**–**	**–**	**974,916**	**974,916**
Other liabilities:				
Payable to landowners	**–**	**–**	**1,312,839**	**1,312,839**
Tenants' rental deposits	**–**	**–**	**150,852**	**150,852**
Advance rentals	**–**	**–**	**94,594**	**94,594**
	₱5,250,000	**₱–**	**₱67,802,632**	**₱73,052,632**

* *Excludes cash component*

** *Excludes unquoted available-for-sale securities*

*** *Based on the fair values from appraisal reports which are different from their carrying amounts which are carried at cost.*

	December 31, 2012			
	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	₱8,329,815	₱–	₱–	₱8,329,815
Private debt securities	–	544,218	59,044	603,262
Derivative assets	920,822	–	–	920,822
Equity securities	296,936	–	–	296,936

(Forward)

	December 31, 2012			
	Level 1	Level 2	Level 3	Total
	(In Thousands)			
Designated at FVPL:				
Segregated fund assets*	₱1,123,625	₱–	₱2,615,951	₱3,739,576
Private debt securities	–	1,247,756	–	1,247,756
	₱10,671,198	₱1,791,974	₱2,674,995	₱15,138,167
AFS investments:				
Government securities	₱76,277,068	₱2,163,955	₱–	₱78,441,023
Other debt securities	14,243,980	3,017,061	–	17,261,041
Equity securities**	2,331,541	–	–	2,331,541
	₱92,852,589	₱5,181,016	₱–	₱98,033,605
Non-financial assets				
Property, plant and equipment***				
Land and land improvements	₱–	₱–	₱16,128,847	₱16,128,847
Plant buildings and building improvements	–	–	11,765,117	11,765,117
Machineries and equipment	–	–	10,186,704	10,186,704
	₱–	₱–	₱38,080,668	₱38,080,668
Liabilities measured at fair value:				
Financial liabilities				
Financial liabilities at FVPL:				
Designated at FVPL:				
Segregated fund liabilities*	₱1,123,625	₱–	₱2,615,951	₱3,739,576
Subordinated notes	–	–	6,196,070	6,196,070
Derivative liabilities	–	389,817	–	389,817
	₱1,123,625	₱389,817	₱8,812,021	₱10,325,463
Assets for which fair values are disclosed:				
Financial Assets				
Loans and receivables:				
Receivables from customers	₱–	₱–	₱235,898,813	₱235,898,813
Unquoted debt securities	–	–	11,928,824	11,928,824
	₱–	₱–	₱247,827,637	₱247,827,637
Non-financial Assets				
Investment property***				
Land	₱–	₱–	₱36,100,591	₱36,100,591
Buildings and improvements	–	–	5,044,536	5,044,536
	₱–	₱–	₱41,145,127	₱41,145,127
Liabilities for which fair values are disclosed:				
Financial liabilities				
Financial liabilities at amortized cost:				
Deposit liabilities:				
Time deposits	₱–	₱–	₱48,262,288	₱48,262,288
Long term debts:				
Subordinated debt	–	–	15,454,051	15,454,051
Bonds payable	5,212,972	–	–	5,212,972
Notes payable	–	–	1,188,881	1,188,881
Other liabilities:				
Payable to landowners	–	–	1,321,178	1,321,178
Tenants' rental deposits	–	–	74,484	74,484
Advance rentals	–	–	27,589	27,589
	₱5,212,972	₱–	₱66,328,471	₱71,541,443

* *Excludes cash component*

** *Excludes unquoted available-for-sale securities*

*** *Based on the fair values from appraisal reports which are different from their carrying amounts which are carried at cost.*

	January 1, 2012			
	Level 1	Level 2	Level 3	Total
	(In Thousands)			
Assets measured at fair value:				
Financial Assets				
Financial assets at FVPL:				
Held-for-trading:				
Government securities	₱2,609,581	₱–	₱–	₱2,609,581
Derivative assets	–	652,324	–	652,324
Priate debt securities	35,262	–	–	35,262
Equity securities	225,596	–	–	225,596
Designated at FVPL:				
Private debt securities	–	4,050,671	–	4,050,671
Segregated fund assets*	801,251	–	563,762	1,365,013
	₱3,671,691	₱4,702,995	₱563,762	₱8,938,448
AFS investments:				
Government securities	₱71,857,035	₱1,189,131	₱–	₱73,046,166
Other debt securities	15,303,594	3,677,689	–	18,981,283
Equity securities**	1,899,357	–	–	1,899,357
	₱89,059,986	₱4,866,820	₱–	₱93,926,806
Non-financial assets				
Property, plant and equipment***				
Land and land improvements	₱–	₱–	₱15,760,062	₱15,760,062
Plant buildings and building improvements	–	–	12,244,148	12,244,148
Machineries and equipment	–	–	9,419,060	9,419,060
	₱–	₱–	₱37,423,270	₱37,423,270
Liabilities measured at fair value:				
Financial liabilities				
Financial liabilities at FVPL:				
Designated at FVPL				
Segregated fund liabilities*	₱801,251	₱–	₱563,762	₱1,365,013
Subordinated notes	–	–	6,479,170	6,479,170
Derivative liabilities	–	261,424	–	261,424
	₱801,251	₱261,424	₱7,042,932	₱8,105,607
Assets for which fair values are disclosed:				
Financial Assets				
Loans and receivables:				
Receivables from customers	₱–	₱–	₱219,341,728	₱219,341,728
Unquoted debt securities	–	–	12,301,697	12,301,697
	₱–	₱–	₱231,643,425	₱231,643,425
Non-financial Assets				
Investment property***				
Land	₱–	₱–	₱28,305,035	₱28,305,035
Buildings and improvements	–	–	7,823,942	7,823,942
	₱–	₱–	₱36,128,977	₱36,128,977
Liabilities for which fair values are disclosed:				
Financial liabilities				
Financial liabilities at amortized cost:				
Deposit liabilities:				
Time deposits	₱–	₱–	₱55,028,138	₱55,028,138
Long term debts:				
Subordinated debt	–	–	12,233,035	12,233,035
Bonds payable	5,196,799	–	–	5,196,799
Notes payable	–	–	1,002,537	1,002,537
Other liabilities:				
Tenants' rental deposits	–	–	71,753	71,753
Advance rentals	–	–	32,940	32,940
	₱5,196,799	₱–	₱68,368,403	₱73,565,202

* *Excludes cash component*

** *Excludes unquoted available-for-sale securities*

*** *Based on the fair values from appraisal reports which is 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 1.38% to 3.63% and from 1.20% to 4.99% as of December 31, 2013 and 2012, respectively.

As of December 31, 2013 and 2012 and January 1, 2012, 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:

	December 31, 2013	December 31, 2012
	(In Thousands)	
Financial assets		
Balance at beginning of year	**₱2,674,995**	₱563,762
Add acquisition arising from purchase of investments	**2,692,915**	2,143,908
Add total gain recorded in profit or loss	**178,006**	(32,675)
Balance at end of year	**₱5,545,916**	₱2,674,995
Nonfinancial assets		
Balance at beginning of year	**₱38,080,668**	₱37,423,270
Additions during the year	**1,032,360**	2,296,065
Revaluation increment during the year	**1,300,593**	184,572
Depreciation and amortization	**(1,805,394)**	(1,605,522)
Net carrying value of disposed assets	**(796,993)**	(184,241)
Reversal of (provision for) impairment loss during the year	**23,293**	(33,476)
Balance at end of the year	**₱37,834,527**	₱38,080,668
Financial liabilities		
Balance at beginning of year	**₱8,812,021**	₱8,408,929
Add acquisition arising from purchase of investments	**2,672,177**	686,192
Less total gain recorded in profit and loss	**(104,145)**	(283,100)
Redemption of unsecured subordinated notes	**(6,000,000)**	–
Balance at end of year	**₱5,380,053**	₱8,812,021

The table below sets forth the potential effect of reasonably possible change in interest rates (alternative valuation assumption) on the Group's valuation of Level 3 financial instruments as of December 31, 2013.

Type of Financial Instrument	Fair Values as of December 31, 2013	Valuation Technique	Significant Unobservable Input	Range of Estimates	Fair Value Measurement Sensitivity to Unobservable Input
	(In thousands)				
Equity and/or Credit-Linked Notes	₱5,380,053	Statistically-Based Simulation Technique	Credit Spread of the Counterparties	2% - 3%	Significant increase in credit spread would result in lower fair values. Significant reduction would result in higher fair values.
Subordinated Debt Instruments and Time Deposit	61,935,662	Discounted Cash Flow	Risk-adjusted Discount Rate	Spread of 1% above risk-free interest rate of 0.08% - 3.22%	A significant increase in the spread above the riskfree rate would result in lower fair values.

Equity and/or Credit-Linked Notes are shown as Segregated Fund Assets carried at FVPL.

The table below sets forth, the potential effect of reasonably possible change in interest rates (alternative valuation assumption) on the Group's valuation of Level 3 financial instruments:

	December 31, 2012	
	Statement of Income	Equity
	(In millions)	
Financial Liability		
Subordinated debt designated at FVPL		
+50bps	₱14	₱14
- 50bps	(14)	(14)
+100bps	90	90
-100bps	(90)	(90)

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.

The fair values of the Group's property, plant and equipment and investment properties have been determined by the appraisal method by independent external and in-house appraisers based on highest and best use of property being appraised.

The table below summarizes the valuation techniques used and the significant unobservable inputs valuation for each type of property, plant and equipment and investment properties held by the Group:

	Valuation Techniques	Significant Unobservable Inputs	Range of Estimates
Property, plant and equipment:			
Land and land improvements	Market Data Approach	Price per square meter	₱6,000-6,200
Plant buildings and building improvements			
Building	Replaceable Fixed Asset Valuation Approach	Replacement cost Estimated total floor area	₱4,287- 10,000 24-1548 sq.m
Building improvements	Replaceable Fixed Asset Valuation Approach	Replacement cost Estimated number of components	₱2.8 million-₱26.5 million 315-723 components
Machineries and equipment	Replaceable Fixed Asset Valuation Approach	Replacement cost Estimated number of components	₱3,200-₱8.6 million 465-1,162 components
Investment properties:			
Land	Market Data Approach	Price per square meter, size, location, shape, time element and corner influence	₱800- 100,000
Land and building	Market Data Approach and Replacement Cost Approach	New Reproduction Cost	

Significant favorable (unfavorable) adjustments to the aforementioned factors based on the professional judgment of the independent appraisers would increase (decrease) the fair value of land. Significant increases (decreases) in the current replacement cost would result in significantly higher (lower) appraised values whereas significant increase (decrease) in the remaining useful life of the property, plant and equipment over their total useful life would result in significantly higher (lower) appraised values.

Description of the valuation techniques and significant unobservable inputs used in the valuation of the Group's property, plant and equipment and investment properties are as follows:

	Description
Valuation Techniques	
Market Data Approach	A process of comparing the subject property being appraised to similar comparable properties recently sold or being offered for sale.
Replaceable Fixed Asset Valuation Approach	This method requires an analysis of the buildings and other land improvements by breaking them down into major components. Bills of quantities for each component using the appropriate basic unit are prepared and related to the unit cost for each component developed on the basis of current costs of materials, labor, plant and equipment prevailing in the locality to arrive at the direct costs of the components. Accrued depreciation was based on the observed condition.
Replacement Cost Approach	It is an estimate of the investment required to duplicate the property in its present condition. It is reached by estimating the value of the building "as if new" and then deducting the depreciated cost. Fundamental to the Cost Approach is the estimate of Reproduction Cost New of the improvements.

	Description
Significant Unobservable Inputs	
Reproduction Cost New	The cost to create a virtual replica of the existing structure, employing the same design and similar building materials.
Size	Size of lot in terms of area. Evaluate if the lot size of property or comparable conforms to the average cut of the lots in the area and estimate the impact of lot size differences on land value.
Shape	Particular form or configuration of the lot. A highly irregular shape limits the usable area whereas an ideal lot configuration maximizes the usable area of the lot which is associated in designing an improvement which conforms with the highest and best use of the property.
Location	Location of comparative properties whether on a main road, or secondary road. Road width could also be a consideration if data is available. As a rule, properties located along a main road are superior to properties located along a secondary road.
Time Element	"An adjustment for market conditions is made if general property values have appreciated or depreciated since the transaction dates due to inflation or deflation or a change in investors' perceptions of the market over time". In which case, the current data is superior to historic data.
Discount	Generally, asking prices in ads posted for sale are negotiable. Discount is the amount the seller or developer is willing to deduct from the posted selling price if the transaction will be in cash or equivalent.
Corner influence	Bounded by two (2) roads.

34. **Capital Management**

The main thrust of the Group's capital management policy is to ensure that the Group complies with externally imposed capital requirements, maintains a good credit standing and has a sound capital ratio to be able to support its business and maximize the value of its shareholders equity. The Group is also required to maintain debt-to-equity ratios to comply with certain loan agreements and covenants in 2013, 2012 and 2011.

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 2013, 2012 and 2011.

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:

	December 31, 2013	December 31, 2012	January 1, 2012
		(In Thousands, except ratios)	
Total liabilities	**₱528,679,622**	₱516,425,531	₱503,836,492
Total equity	**149,770,600**	93,706,110	74,266,659
Total liabilities and equity	**₱678,450,222**	₱610,131,641	₱578,103,151
Debt ratio	**0.78:1**	0.85:1	0.87:1
Debt-to-equity ratio	**3.53:1**	5.51:1	6.78:1

Regulatory Qualifying Capital for the Banking Segment

Under existing BSP regulations, the determination of PNB's compliance with regulatory requirements and ratios is based on the amount of PNB's "unimpaired capital" (regulatory net worth) reported to the BSP, which is determined on the basis of regulatory policies, which differ from PFRS in some respects.

In addition, the risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10.00% for both solo basis (head office and branches) and consolidated basis (parent bank and subsidiaries engaged in financial allied undertakings but excluding insurance companies). Qualifying capital and risk-weighted assets are computed based on BSP regulations. Risk-weighted assets consist of total assets less cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits and other non-risk items determined by the MB of the BSP.

PNB and its individually regulated subsidiaries/operations have complied with all externally imposed capital requirement throughout the year.

On January 15, 2013, the BSP issued Circular No. 781, Basel III Implementing Guidelines on Minimum Capital Requirements, which provides the implementing guidelines on the revised risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards. The circular is effective on January 1, 2014.

The Circular sets out a minimum Common Equity Tier 1 (CET1) ratio of 6.0% and Tier 1 capital ratio of 7.5%. It also introduces a capital conservation buffer of 2.5% comprised of CET1 capital. The BSP's existing requirement for Total CAR remains unchanged at 10% and these ratios shall be maintained at all times.

Further, existing capital instruments as of December 31, 2010 which do not meet the eligibility criteria for capital instruments under the revised capital framework shall no longer be recognized as capital upon the effectivity of Basel III. Capital instruments issued under BSP Circular Nos. 709 and 716 (the circulars amending the definition of qualifying capital particularly on Hybrid Tier 1 and Lower Tier 2 capitals), starting January 1, 2011 and before the effectivity of BSP Circular No. 781, shall be recognized as qualifying capital until December 31, 2015. In addition to changes in minimum capital requirements, this Circular also requires various regulatory adjustments in the calculation of qualifying capital.

The Group has taken into consideration the impact of the foregoing requirements on the banking segment to ensure that the appropriate level and quality of capital are maintained on an ongoing basis.

Internal Capital Adequacy Assessment Process (ICAAP) Implementation

In compliance with BSP Circular 639, PNB (the Bank) has adopted its live ICAAP Document for 2011 to 2013. However, the BOD and the Management recognized that ICAAP is beyond compliance, i.e., it is about how to effectively run the Bank's operations by ensuring that the Bank maintains at all times an appropriate level and quality of capital to meet its business objective and commensurate to its risk profile. In line with its ICAAP principles, the Bank shall maintain a capital level that will not only meet the BSP CAR requirement but will also cover all material risks that it may encounter in the course of its business. The ICAAP process highlights close integration of capital planning/strategic management with risk management. The Bank has in place a risk management framework that involves a collaborative process for assessing and managing identified Pillar 1 and Pillar 2 risks. The Bank complies with the required annual submission of updated ICAAP.

35. Commitments, Provision and Contingencies and Other Matters

Commitments

Operating lease commitments - the Group as lessor

The Group entered into lease agreements with third parties covering its investment property portfolio. These leases generally provide for either (a) fixed monthly rent, or (b) minimum rent or a certain percentage of gross revenues, whichever is higher. The Group records rental income on a straight-line basis over less noncancellable lease term. Any difference between the calculated rental income and amount actually received is recognized as "Deferred rent" (see Note 8).

The Group has security deposits and advance rentals which are presented under "Other noncurrent liabilities." Security deposits pertain to the amounts paid by the tenants at the inception of the lease which is refundable at the end of the lease term. Advance rentals pertain to deposits from tenants which will be applied against receivables either at the beginning or at the end of lease term depending on the lease contract. As of December 31, 2013, 2012 and 2011, security deposits and advance rentals amounted to ₱65.1 million and ₱36.2 million, ₱36.6 million and ₱25.0 million, and ₱87.8 million and ₱49.3 million, respectively.

Future minimum rental receivables under noncancellable operating leases as of December 31 are as follows:

	2013	2012	2011
		(In Thousands)	
Within one year	**₱618,586**	₱568,212	₱391,509
After one year but not more than five years	**807,865**	1,206,502	931,103
More than five years	**433,423**	459,944	254,155
	₱1,859,874	₱2,234,658	₱1,576,767

Operating lease commitments - the Group as lessee
The future aggregate minimum lease payments under several operating leases of the Group are as follows:

	2013	2012	2011
		(In Thousands)	
Within one year	**₱582,711**	₱481,277	₱336,525
Within two to five years	**992,924**	898,704	572,660
More than five years	**1,484,119**	1,497,361	1,512,453
	₱3,059,754	₱2,877,342	₱2,421,638

Trust Operations
Securities and other properties held by PNB in fiduciary or agency capacities for its customers are not included in the accompanying statements of financial position since these are not assets of PNB. Such assets held in trust were carried at a value of ₱56.3 billion, ₱97.8 billion and ₱90.6 billion as of December 31, 2013 and 2012, and January 1, 2012 respectively (see Note 33). In connection with the trust functions of PNB, government securities amounting to ₱1.3 billion, ₱1.6 billion and ₱913.9 million (included under 'AFS investments') as of December 31, 2013 and 2012, respectively, are deposited with the BSP in compliance with trust regulations.

In compliance with existing banking regulations, PNB transferred from surplus to surplus reserves the amounts of ₱9.5 million, ₱153.9 million and ₱144.5 million in 2013, 2012 and 2011, respectively, which correspond to 10.00% of the net income realized in the preceding years from its trust, investment management and other fiduciary business until such related surplus reserve constitutes 20.00% of its regulatory capital.

Provisions and Contingencies
In the normal course of business, the Group makes various commitments and incurs certain contingent liabilities that are not presented in the financial statements including several suits and claims which remain unsettled. No specific disclosures on such unsettled assets and claims are made because any such specific disclosures would prejudice the Group's position with the other parties with whom it is in dispute. Such exemption from disclosures is allowed under PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. The Group and its legal counsel believe that any losses arising from these contingencies which are not specifically provided for will not have a material adverse effect on the financial statements.

Asset Pool 1
In November 1994, the BSP, Maybank and PNB executed a Memorandum of Agreement (MA) providing for the settlement of Maybank's ₱3.0 billion liabilities to the BSP. Under this MA, PNB is jointly and severally liable with Maybank for the full compliance and satisfaction of the terms and conditions therein. The MA provides for the creation of an escrow fund to be administered by the BSP where all collections from conveyed assets and certain annual guaranteed payments required under the MA are to be deposited.

Relative to the sale of PNB's 60% interest in Maybank, PNB has requested the BSP to consider the revision of the terms of the MA to, among others, (a) delete the provision on the annual guaranteed payments in consideration of an immediate payment by the Parent Company of an agreed amount, and (b) exclude Maybank as a party to the MA.

On May 7, 1997, the BSP approved PNB's request to amend the terms of the MA, subject to the following conditions among others:

a) PNB shall remit ₱150.0 million to the escrow account out of the proceeds from sale;
b) PNB shall remit to the escrow account an amount equivalent to 50% of any profit that may be realized by PNB on account of the sale; and
c) If the amount in the escrow account has not reached the total of ₱3.0 billion by June 30, 2013, the difference shall be paid by the Parent Company by way of a debit to its regular account with the BSP.

On November 28, 1997, PNB remitted ₱150.0 million in compliance with item (a).

PNB's remaining investment in Maybank was sold on June 29, 2000. The sale was approved by the BSP on August 16, 2000.

On August 17, 2007, PNB and the BSP amended certain provisions of the MA as follows:

1. PNB will no longer act as the collecting agent for the BSP on the conveyed assets (Asset Pool 1);
2. PNB will no longer remit the amount collected from the Asset Pool 1 to the escrow account;
3. BSP will revert to PNB all the Asset Pool 1 accounts categorized as sugar and sugar-related accounts; and
4. PNB will submit to BSP acceptable collaterals with an appraised value of at least ₱300.0 million as substitute for the sugar-related loans under Asset Pool 1.

On the same date, PNB executed a real estate mortgage over certain investment properties with an aggregate fair value of ₱300.0 million in favor of the BSP (see Note 13).

As of December 31, 2013 and 2012, the total trust assets of the escrow account maintained with the BSP amounted to nil and ₱2.7 billion, respectively. Average yield during the year was 5.49%.

On February 7, 2013, the BSP accepted PNB's proposal to make an early payment to settle Maybank's ₱3.0 billion obligation to the BSP in exchange of the assets under the escrow fund. The real estate collaterals pledged to BSP were also released as a result of settlement of the obligation to BSP.

National Steel Corporation (NSC) Loan
As discussed in Note 8, in 2004, PNB sold the outstanding loans receivable of ₱5.3 billion from NSC to SPV companies under the provisions of RA No. 9182. On October 10, 2008, simultaneous to the denial of their application in the Philippine courts for injunctive relief, the SPV companies filed a Notice of Arbitration with the Singapore International

Arbitration Centre ("SIAC"). Mainly, the SPV companies claimed damages and a suspension of payments on the ground that the consortium of banks (the banks) and the Liquidator breached a duty to settle pre-closing real estate taxes (taxes due as of October 14, 2004) due on the NSC Plant Assets and to deliver to them titles to NSC's Plant Assets free from all liens and encumbrances. However, the banks and the Liquidator dispute the assertions that pre-closing taxes were in arrears, invoking under an installment agreement executed between the Liquidator and the City of Iligan. As part of the agreement to sell the plant assets to the SPV companies, the Liquidator assumed responsibility of settling and paying the Plant Assets' pre-closing real estate taxs, while the SPV companies assumed the responsibility of updating the post-closing taxes (taxes due after October 14, 2004). Consequently, all pre-closing real estate taxes due on the plant assets have been paid in accelerated basis on December 18, 2008.

On October 13, 2008, after the commencement of the arbitration but before the arbitral panel was constituted, the SPV companies filed, as a preservatory measure, a petition for injunctive relief against the NSC Liquidator, NSC Secured Creditors, and NSC Stockholders so that the arbitration proceedings under SIAC will not be rendered moot. On October 14, 2008, the Singapore High Court granted the petition and restrained the NSC Liquidator, the NSC Secured Creditors and the NSC Shareholders, jointly and severally, substantially from declaring the SPV companies in default and declaring all installments due until the arbitration proceeding at the SIAC is settled.

Thereafter, upon application by PNB for a variation of the injunction and an order of the Singapore High court, the SPV companies remitted ₱750.0 million cash in place of the Standby Letter of Credit which they undertook to provide under the Asset Purchase Agreement, subject to the condition that the amount shall not be subject to any set-off pending an award from the arbitration proceedings.

On January 26, 2009, PNB applied for an Order to compel the SPV companies to issue another Standby Letter of Credit of ₱1.0 billion which they likewise undertook to provide under the Asset Purchase Agreement, but this application was denied on March 5, 2009 by the Singapore High Court. The denial of the second variation (the ₱1.0 billion Standby Letter of Credit) was elevated to the Court of Appeals of Singapore but the same was also denied on September 11, 2009, without prejudice, however, to resort to the same reliefs before the Arbitration Panel.

In April 2010, the Arbitral Panel was constituted. PNB filed therein an application to discharge or vary the injunction. On July 7, 2010, the Arbitration Panel issued a ruling denying PNB's application for a discharge of the injunction issued by the Singapore High Court. On the application to vary the injunction order, no ruling was made by the Arbitration Panel.

Consequently, the main issues for alleged breach of the Asset Purchase Agreement, damages and suspension of payments were heard before the Arbitration Panel. On May 9, 2012, the Arbitration Panel issued a Partial Award in favor of the SPV companies, including such reliefs as payment of a certain sum of money and transfer of clean titles on the plant assets under the name of NSC by the bank consortium and the NSC Liquidator in favor of the SPV companies. The Parent Company, one of the members of the consortium, holds a forty-one percent (41%) interest in the claim, and has already set aside the appropriate reserve provision for the same.

Meanwhile, on July 9, 2012, the bank consortium filed with the Singapore High Court a Petition to Set Aside the Partial Award rendered by the Arbitration Panel, which Petition is pending to date.

Movements of provision for legal claims included in "Other liability" in the consolidated balance sheets for the Group are as follows (see Note 20):

	December 31		January 1,
	2013	2012	2012
		(In Thousands)	
Balance at beginning of the year	**₱1,575,433**	₱874,950	₱710,172
Provisions	**–**	834,259	164,778
Reclassification and settlements	**6,648**	(133,776)	–
	₱1,582,081	₱1,575,433	₱874,950

Other Matters

Property development tax incentives

a. The Group's projects namely, Eton Cyberpod Corinthian and Eton Centris, were registered with PEZA on August 27, 2008 and September 19, 2008, respectively, as non-pioneer "ecozone developer/operator". The locations are created and designated as Information Technology Park.

b. The property development segment has three Board of Investment (BOI)-registered projects namely, Belton Place (BP), Eton Emerald Lofts (EEL) and One Archers Place (OAP). BP is registered with BOI as a new developer of low-cost housing project on a Non-Pioneer status under the Omnibus Investments Code of 1987 (Executive Order No. 226) on September 15, 2008. This registration entitles the Group to four years ITH from November 2008 or actual commercial operations or selling, whichever is earlier but in no case earlier than the date of registration. The ITH shall be limited only to the revenue generated from this project. Revenue with selling price exceeding ₱3.0 million shall not be covered by ITH. Likewise, on September 23, 2008, two other projects of the Group namely, OAP and EEL, were registered with the BOI as a new developer of low-cost housing project on a Non-Pioneer status. These two projects shall enjoy the same benefits as BP.

Distilled Spirits' Clean Development Mechanism Project (CDM)

On June 30, 2006, the DENR approved the implementation of a greenhouse gas (GHG) reducing project at the ADI's plant in Lian, Batangas. The project is a joint undertaking between TDI (through ADI) and Mitsubishi Corporation (MC) and involves the construction of a waste water treatment digestor and methane gas collector in accordance with the CDM of the 1997 Kyoto Protocol.

In accordance with Certified Emission Reductions Purchase Agreement (CERPA), ADI agreed to sell and MC to purchase any and all the CERs generated by the Project up to 480,000 CERs. As of December 31, 2009, MC made US$1.6 million advance payment or equivalent to ₱70.9 million. ADI completed the construction and installation of the anaerobic digester and mixing tanks which were put into operation in 2009.

In August 2010, initial validation of CERs was made; however, as of March 4, 2013, no certification on the generated CERs has been issued yet. Since the first CERs generation period has ended on December 31, 2012, ADI's obligation to operate the project regardless of whether there were CERs certified was deemed fulfilled, thus, ADI recognized the deposit for CERs amounting to ₱70.9 million as income in 2012.

Republic Act 10351 (RA 10351)

The new excise tax law or RA 10351 became effective on January 1, 2013, and increased the excise tax rates of, among others, distilled spirits. Another change that was brought in by the new law is the shift in the tax burden of distilled spirits from raw materials to the finished product.

To implement the said law, the Secretary of Finance issued Revenue Regulations No. 17-2012 (RR 17-2012), which, in one of its transitory provisions, disallowed the tax crediting of the excise taxes that were already paid under the old law on the raw materials inventory by end of the year 2012 or by the effectivity of RA 10351 in favor of the excise taxes due on the finished goods inventory.

The Commissioner of Internal Revenue issued on January 9, 2013 Revenue Memorandum Circular (RMC) No. 3-2013. This RMC sought to clarify further certain provisions of RR No. 17-2012 but in effect extended the imposition of the excise tax on both the (1) ethyl alcohol as raw materials in the production of compounded liquors and (2) the manufactured finished product. Per the RMC, both ethyl alcohol and compounded liquor are considered as

distinct distilled spirits products and are thus separate taxable items under the new law. This interpretation of the law was however modified with the issuance of RMC No. 18-2013. The new RMC allowed the non-payment of excise tax on ethyl alcohol that were purchased after the issuance of RMC No. 3-2013 to be used as raw materials in the manufacture of compounded liquors provided certain requirements such as posting of surety bonds are complied with. RMC No. 18-2013 however still maintained that taxes previously paid on the raw materials, i.e., ethyl alcohol/ethanol inventory, at the time of the effectivity of the new excise tax law are still not subject to refund/tax credit to the manufacturers.

Under RR No. 17-2012, the amount of excise tax that was disallowed for tax credit was ₱725.8 million (included under "Other current assets"). Said amount represented taxes paid previously on raw materials and were not allowed to be deducted from the excise taxes that became due on the finished goods as taxed under the new law. The Company is contesting the disallowance of the tax credit and plans to undertake appropriate legal measures to obtain a favorable outcome.

The Company has paid a total of ₱45.9 million (included under "Other current assets") in excise taxes for the raw materials that were purchased/imported for purposes of compounding during the subsistence of RMC No. 3-2013. The Company also would claim this amount on the basis that the RMC was issued without basis and beyond the authority granted by law to the administrative agency.

36. **Restatements**

Below are the restatements on the Group's consolidated balance sheets as of December 31, 2012 and January 1, 2012 due to the adoption of the new accounting standards (see Note 2) and business combinations involving LTG and entities under common control applying the pooling of interest method (se Note 1).

	December 31, 2012			
	As Previously Reported	Effect of adoption of PAS 19R	Effect of Business Combination*	As Restated
	(In Millions)			
ASSETS				
Current Assets				
Cash and cash equivalents	₱8,906	₱–	₱117,715	₱126,621
Financial assets at fair value through profit or loss	–	–	15,140	15,140
Available-for-sale (AFS) financial assets	–	–	5,315	5,315
Loans and receivables	11,090	–	64,674	75,764
Due from related parties	20,541	–	(9,271)	11,270
Inventories	10,964	–	(726)	10,238
Other current assets	2,719	–	1,177	3,896
Total Current Asset	54,220	–	194,024	248,244
Noncurrent Assets				
Loans and receivables	874	–	177,944	178,818
AFS financial assets	766	–	92,392	93,158
Investment in an associate and a joint venture	13,906	–	–	13,906
Property, plant and equipment				
At appraised values	17,023	–	21,058	38,081
At cost	3,122	–	2,038	5,160
Investment properties	4,568	–	20,551	25,119
Net retirement plan assets	1,216	(43)	–	1,173
Deferred income tax assets	661	19	966	1,646
Other noncurrent assets	1,243	–	3,583	4,826
Total Noncurrent Assets	43,379	(24)	318,532	361,887
TOTAL ASSETS	₱97,599	(₱24)	₱512,556	₱610,131

**Includes the PAS 19R impact on the banking segment.*

	December 31, 2012			
	As Previously Reported	Effect of adoption of PAS 19R	Effect of Business Combination*	As Restated
	(In Millions)			
LIABILITIES AND EQUITY				
Current Liabilities				
Deposit liabilities	₱–	₱–	₱353,943	₱353,943
Financial liabilities at fair value through profit or loss	–	–	4,129	4,129
Bills and acceptances payable	–	–	18,114	18,114
Short-term debt	1,870	–	(250)	1,620
Accounts payable and accrued expenses	7,806	–	3,999	11,805
Income tax payable	237	–	188	425
Customers' deposits	2,626	–	–	2,626
Current portion of long-term debt	2,741	–	2,037	4,778
Current portion of due to related parties	20,504	–	19,815	40,319
Other current liabilities	–	–	22,558	22,558
Total Current Liabilities	35,784	–	424,533	460,317
Noncurrent Liabilities				
Deposit liabilities	–	–	24,805	24,805
Financial liabilities at fair value through profit or loss	–	–	6,196	6,196
Bills and acceptances payable	–	–	329	329
Long-term debt - net of current portion	5,873	–	9,928	15,801
Accrued retirement benefits	534	321	2,649	3,504
Deferred tax liabilities	1,330	(86)	360	1,604
Other noncurrent liabilities	1,468	–	2,402	3,870
Total Noncurrent Liabilities	9,205	235	46,669	56,109
TOTAL LIABILITIES	44,989	235	471,202	516,426
Equity				
Equity attributable to equity holders of LTG:				
Capital stock	8,981	–	–	8,981
Capital in excess of par	1,174	–	–	1,174
Other comprehensive income	4,993	(202)	4,466	9,257
Other equity reserves	797	–	190	987
Retained earnings	30,811	(58)	11,515	42,268
Shares held by subsidiaries	–	–	(13)	(13)
	46,756	(260)	16,158	62,654
Non-controlling interests	5,854	1	25,196	31,051
Total Equity	52,610	(259)	41,354	93,705
TOTAL LIABILITIES AND EQUITY	₱97,599	(₱24)	₱512,556	₱610,131

**Includes PAS 19R impact on the banking segment.*

	January 1, 2012			
	As Previously Reported	Effect of adoption of PAS 19R	Effect of Business Combination*	As Restated
	(In Millions)			
ASSETS				
Current Assets				
Cash and cash equivalents	₱5,167	₱–	₱127,238	₱132,405
Financial assets at fair value through profit or loss	–	–	8,938	8,938
Available-for-sale (AFS) financial assets	–	–	13,471	13,471
Loans and receivables	8,952	–	60,208	69,160
Due from related parties	8,883	–	(4,772)	4,111
Inventories	8,931	–	–	8,931
Other current assets	2,462	–	963	3,425
Total Current Assets	34,395	–	206,046	240,441
Noncurrent Assets				
Loans and receivables	2,053	–	165,234	167,287
AFS financial assets	280	–	80,759	81,039
Investment in an associate and a joint ventures	11,623	–	–	11,623
Property, plant and equipment				
At appraised values	16,272	–	21,151	37,423
At cost	3,136	–	2,002	5,138
Investment properties	4,183	–	23,935	28,118
Net retirement plan assets	1,067	(23)	1	1,045
Deferred income tax assets	594	10	1,830	2,434
Other noncurrent assets	1,193	–	2,362	3,555
Total Noncurrent Assets	40,401	(13)	297,274	337,662
TOTAL ASSETS	₱74,796	(₱13)	₱503,320	₱578,103

**Includes PAS 19R impact on the banking segment.*

January 1, 2012

	As Previously Reported	Effect of adoption of PAS 19R	Effect of Business Combination*	As Restated
		(In Millions)		
LIABILITIES AND EQUITY				
Current Liabilities				
Deposit liabilities	₱–	₱–	₱361,044	₱361,044
Financial liabilities at fair value through profit or loss	–	–	1,627	1,627
Bills and acceptances payable	–	–	12,319	12,319
Short-term debt	2,414	–	(1,194)	1,220
Accounts payable and accrued expenses	9,350	–	2,234	11,584
Income tax payable	140	–	273	413
Customers' deposits	1,745	–	–	1,745
Current portion of long-term debt	1,525	–	(981)	544
Current portion of due to related parties	9,739	–	25,713	35,452
Other current liabilities	–	–	22,206	22,206
Total Current Liabilities	24,913	–	423,241	448,154
Noncurrent Liabilities				
Deposit liabilities	–	–	21,923	21,923
Financial liabilities at fair value through profit or loss	–	–	6,479	6,479
Bills and acceptances payable	–	–	1,392	1,392
Long-term debt - net of current portion	6,529	–	9,808	16,337
Due to related parties	1,350	–	–	1,350
Accrued retirement benefits	444	185	3,418	4,047
Deferred tax liabilities	1,483	(51)	967	2,399
Other noncurrent liabilities	137	–	1,619	1,756
Total Noncurrent Liabilities	9,943	134	45,606	55,683
TOTAL LIABILITIES	34,856	134	468,847	503,837
Equity				
Equity attributable to equity holders of LTG:				
Capital stock	3,583	–	–	3,583
Deposits for future stock subscription	1,639	–	–	1,639
Other comprehensive income	5,334	(86)	5,173	10,421
Other equity reserves	1,593	–	(431)	1,162
Retained earnings	23,297	(62)	5,666	28,901
Shares held by subsidiaries	(151)	–	(12)	(163)
	35,295	(148)	10,396	45,543
Non-controlling interests	4,645	1	24,077	28,723
Total Equity	39,940	(147)	34,473	74,266
TOTAL LIABILITIES AND EQUITY	₱74,796	(₱13)	₱503,320	₱578,103

**Includes PAS 19R impact on the banking segment.*

Restatements on the consolidated statements of income of the Group for the years ended December 31 are as follows:

	December 31, 2012			
	As Previously Reported	Effect of adoption of PAS 19 (Revised)	Effect of Business Combination*	As Restated
		(In Millions)		
SALES				
Banking	₱–	₱–	₱32,041	₱32,041
Beverage	12,188	–	–	12,188
Distilled spirits	12,768	–	–	12,768
Tobacco	2,975	–	–	2,975
Property development	2,686	–	–	2,686
	30,617	–	32,041	62,658
COST OF SALES	22,729	(4)	7,715	30,440
GROSS INCOME	7,888	4	24,326	32,218
EQUITY IN NET EARNINGS OF AN ASSOCIATE	6,499	–	–	6,499
	14,387	4	24,326	38,717

(Forward)

	December 31, 2012			
	As Previously Reported	Effect of adoption of PAS 19 (Revised)	Effect of Business Combination*	As Restated
	(In Millions)			
OPERATING EXPENSES				
Selling expenses	₱2,732	(₱1)	(₱15)	₱2,716
General and administrative expenses	2,141	(1)	21,049	23,189
	4,873	(2)	21,034	25,905
OPERATING INCOME	9,514	6	3,292	12,812
OTHER INCOME (CHARGES)				
Finance costs	(605)	–	57	(548)
Finance income	203	–	(45)	158
Foreign exchange gains (losses)	(108)	–	932	824
Others - net	676	–	4,315	4,991
	166	–	5,259	5,425
INCOME BEFORE INCOME TAX	9,680	–	8,551	18,237
PROVISION FOR INCOME TAX				
Current	1,161	–	1,484	2,645
Deferred	(221)	2	265	46
	940	2	1,749	2,691
NET INCOME	₱8,740	₱4	₱6,802	₱15,546
Net income attributable to:				
Equity holders of the Company	₱7,513	₱4	₱5,240	₱12,757
Non-controlling interests	1,227	–	1,562	2,789
	₱8,740	₱4	₱6,802	₱15,546

**Includes PAS 19R impact on the banking segment.*

	December 31, 2011			
	As Previously Reported	Effect of adoption of PAS 19 (Revised)	Effect of Business Combination*	As Restated
	(In Millions)			
SALES				
Banking	₱–	₱–	₱29,499	₱29,499
Beverage	11,938	–	–	11,938
Distilled spirits	12,256	–	–	12,256
Tobacco	3,350	–	–	3,350
Property development	5,192	–	–	5,192
	32,736	–	29,499	62,235
COST OF SALES	23,837	(1)	8,779	32,615
GROSS INCOME	8,899	1	20,720	29,620
EQUITY IN NET EARNINGS OF ASSOCIATE	4,118		–	4,118
	13,017	1	20,720	33,738
OPERATING EXPENSES				
Selling expenses	3,074	(1)	(32)	3,041
General and administrative expenses	2,144	(1)	19,092	21,235
	5,218	(2)	19,060	24,276
OPERATING INCOME	7,799	3	1,660	9,462
OTHER INCOME (CHARGES)				
Finance costs	(578)	–	34	(544)
Finance income	122	–	(17)	105
Foreign exchange gains (losses)	(1)	–	1,392	1,391
Others - net	223	–	4,471	4,694
	(234)	–	5,880	5,646
INCOME BEFORE INCOME TAX	7,565	3	7,540	15,108

(Forward)

	December 31, 2011			
	As Previously Reported	Effect of adoption of PAS 19 (Revised)	Effect of Business Combination*	As Restated
	(In Millions)			
PROVISION FOR INCOME TAX				
Current	₱754	₱–	₱1,369	₱2,123
Deferred	143	1	(31)	113
	897	1	1,338	2,236
NET INCOME	₱6,668	₱2	₱6,202	₱12,872
Net income attributable to:				
Equity holders of the company	₱5,818	₱2	₱4,211	₱10,031
Non-controlling interests	850	–	1,991	2,841
	₱6,668	₱2	₱6,202	₱12,872

**Includes PAS 19R impact on the banking segment.*

Restatements on the consolidated statements of comprehensive income of the Group for the years ended December 31 are as follows:

	December 31, 2012			
	As Previously Reported	Effect of adoption of PAS 19 (Revised)	Effect of Business Combination*	As Restated
	(In Millions)			
NET INCOME	₱8,740	₱4	₱6,802	₱15,546
OTHER COMPREHENSIVE INCOME (LOSS)				
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:				
Accumulated translation adjustment	–	–	(1,131)	(1,131)
Net changes in fair value of AFS financial assets	196		(986)	(790)
Income tax effect	(5)	–	115	110
	191	–	(871)	(680)
Net other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods	191	–	(2,002)	(1,811)
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:				
Re-measurement gains (losses) on defined benefit plans	–	(163)	676	513
Income tax effect	–	46	–	46
	–	(117)	676	559
Revaluation increment on property, plant and equipment	–	–	185	185
Income tax effect	–	–	(55)	(55)
	–	–	130	130
Net other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods	–	(117)	806	689
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	191	(117)	(1,196)	(1,122)
TOTAL COMPREHENSIVE INCOME	₱8,931	(₱113)	₱5,606	₱14,424
Total comprehensive income attributable to:				
Equity holders of the Company	₱7,700	(₱113)	₱4,622	₱12,209
Non-controlling interests	1,231	–	984	2,215
	₱8,931	(₱113)	₱5,606	₱14,424

**Includes PAS 19R impact on the banking segment.*

	December 31, 2011			
	As Previously Reported	Effect of adoption of PAS 19 (Revised)	Effect of Business Combination*	As Restated
	(In Millions)			
NET INCOME	₱6,668	₱2	₱6,202	₱12,872
OTHER COMPREHENSIVE INCOME (LOSS)				
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:				
Accumulated translation adjustment	–	–	136	136
Net changes in fair value of AFS financial assets	4	–	4,728	4,732
Income tax effect	(1)	–	13	12
Net other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods	3	–	4,877	4,880
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:				
Re-measurement gains (losses) on defined benefit plans	–	(116)	(1,394)	(1,510)
Income tax effect	–	35	–	35
	–	(81)	(1,394)	(1,475)
Revaluation increment on property, plant and equipment	2,857	–	1,997	4,854
Income tax effect	(857)	–	(599)	(1,456)
	2,000	–	1,398	3,398
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	2,000	(81)	4	1,923
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	2,003	(81)	4,881	6,803
TOTAL COMPREHENSIVE INCOME	₱8,671	(₱79)	₱11,083	₱19,675
Total comprehensive income attributable to:				
Equity holders of the company	₱7,812	(₱79)	₱6,935	₱14,668
Non-controlling interests	859	–	4,148	5,007
	₱8,671	(₱79)	₱11,083	₱19,675

**Includes PAS 19R, impact on the banking segment.*

The effects of adoption of PAS 19R on the financial statements of the banking segment (PNB and subsidiaries), which were incuded in the "Effect of Business Combination" column in the restatements table above, follow:

	2013	2012
		(In Millions)
Impact on the consolidated balance sheets as at December 31:		
Increase (decrease) in:		
Net retirement plan assets	**(₱127)**	(₱183)
Accrued retirement benefits	**1,259**	2,009
Deferred income tax liabiltiies	**(4)**	(4)
Other comprehensive income, net of deferred income tax effect	**(405)**	(780)
Retained earnings	**(670)**	(806)
Non-controling interests	**(307)**	(601)
Impact on profit or loss for the year	**137**	46
Impact on other comprehensive income (loss) for the year	**665**	(1,382)

37. Offsetting of Financial Assets and Liabilities

The amendments to PFRS 7, which is effective January 1, 2013, require the Group to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreements or similar arrangements. The effects of these arrangements are disclosed in the succeeding tables.

Financial assets

Financial assets recognized at end of reporting period by type	Gross carrying Amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in balance sheet	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure
				Financial instruments	Fair value of Financial collateral	
	[a]	[b]	[c]	[d]		[e]
			(In Thousands)			
Derivative assets (Notes 6 and 21)	**₱7,853,279**	**₱7,760,445**	**₱92,834**	**₱678**	**₱–**	**₱92,156**

December 31, 2012

Financial assets recognized at end of reporting period by type	Gross carrying Amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in balance sheet	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure
				Financial instruments	Fair value of Financial collateral	
	[a]	[b]	[c]	[d]		[e]
			(In Thousands)			
Derivative assets (Notes 6 and 21)	₱16,104,206	₱15,639,178	₱465,028	₱295,465	₱–	₱169,563
Securities held under agreements to resell (Note 5)	18,442,000	–	18,442,000	–	18,873,894	–
Total	₱34,546,206	₱15,639,178	₱18,907,028	₱295,465	₱18,873,894	₱169,563

January 1, 2012

Financial assets recognized at end of reporting period by type	Gross carrying Amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in balance sheet	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure
				Financial instruments	Fair value of Financial collateral	
	[a]	[b]	[c]	[d]		[e]
			(In Thousands)			
Derivative assets (Notes 6 and 21)	₱19,108,452	₱18,702,967	₱405,485	₱4,712	₱–	₱400,773
Securities held under agreements to resell (Note 5)	18,306,800	–	18,306,800	–	32,425,666	–
Total	₱37,415,252	₱18,702,967	₱18,712,285	₱4,712	₱32,425,666	₱400,773

Financial liabilities

	December 31, 2013					
Financial assets recognized at end of reporting period by type	**Gross carrying Amounts (before offsetting)**	**Gross amounts offset in accordance with the offsetting criteria**	**Net amount presented in balance sheet [a-b]**	**Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria**		**Net exposure [c-d]**
				Financial instruments	**Fair value of Financial collateral**	
	[a]	**[b]**	**[c]**	**[d]**		**[e]**
			(In Thousands)			
Derivative liabilities (Notes 16 and 21)	**₱14,070,601**	**₱13,907,534**	**₱163,067**	**₱678**	**₱–**	**₱162,389**
Securities sold under agreements to repurchase (Note 17)*	**2,246,319**	**–**	**2,246,319**	**–**	**2,739,206**	**–**
Bills payable (Note 17)	**112,646**	**–**	**112,646**	**–**	**2,585,761**	**–**
Total	**₱16,429,566**	**₱13,907,534**	**₱2,522,032**	**₱678**	**₱5,324,967**	**₱162,389**

	December 31, 2012					
Financial assets recognized at end of reporting period by type	Gross carrying Amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in balance sheet [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure [c-d]
				Financial instruments	Fair value of Financial collateral	
	[a]	[b]	[c]	[d]		[e]
			(In Thousands)			
Derivative liabilities (Notes 16 and 21)	₱13,108,902	₱12,821,400	₱287,503	₱205	₱–	₱287,708
Securities sold under agreements to repurchase (Note 17)*	4,757,392	–	4,757,392	21,141	5,691,342	–
Bills payable (Note 17)	2,948,934	–	4,288,051	–	4,756,800	–
Total	₱20,815,228	₱12,821,400	₱9,332,946	₱21,346	₱10,448,142	₱287,708

* *Included in bills and acceptances payable in the balance sheet*

	January, 2012					
Financial assets recognized at end of reporting period by type	Gross carrying Amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in balance sheet [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure [c-d]
				Financial instruments	Fair value of Financial collateral	
	[a]	[b]	[c]	[d]		[e]
			(In Thousands)			
Derivative liabilities (Notes 16 and 21)	₱23,944,280	₱23,811,849	₱182,431	₱29,911	₱	₱152,250

(Forward)

	January, 2012					
				Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		
Financial assets recognized at end of reporting period by type	Gross carrying Amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in balance sheet [a-b]	Financial instruments	Fair value of Financial collateral	Net exposure [c-d]
	[a]	[b]	[c]	[d]		[e]
			(In Thousands)			
Securities sold under agreements to repurchase (Note 17)*	₱3,297,541	₱–	₱3,297,541	₱–	₱4,464,807	₱–
Bills payable (Note 17)	3,467,427	–	3,467,427	–	5,065,594	–
Total	₱30,759,248	₱23,811,849	₱6,947,399	₱29,911	₱9,530,401	₱152,250

** Included in bills and acceptances payable in the balance sheet*

The amounts disclosed in column (d) include those rights to set-off amounts that are only enforceable and exercisable in the event of default, insolvency or bankruptcy. This includes amounts related to financial collateral both received and pledged, whether cash or non-cash collateral, excluding the extent of over-collateralization.

38. Notes to Consolidated Statements of Cash Flows

Non-cash Investing Activities

a. In 2013, the Group assumed in various advances from related parties amounting to ₱12.8 billion and converted existing advances amounting to ₱13.5 billion to investment in subsidiaries.

b. As of December 31, 2013, due from related parties include accrued interest receivable amounting to
₱24.5 million.

c. As of December 31, 2013 and 2012 and January 1, 2012, unpaid additions to property, plant and equipment amounted to ₱106.0 million, ₱56.3 milion and ₱121.4 mllion, respectively, which is included as part of "Accounts payable and accrued expenses".

d. In 2011, the Group recorded investment properties amounting to ₱7.5 million on account (see Note 12).

e. As of December 31, 2013 and 2012 and January 1, 2012, accrued interest receivable amounted to ₱8.3 million, ₱54.7 million and ₱46.8 million, respectively. Interest income includes amortization of the discount arising from non-interest bearing contracts receivables amounting to ₱17.0 million in 2011.

f. As discussed in Note 10, FTC transferred in 2010 certain assets and liabilities to PMFTC in exchange for the 49.6% ownership interest in PMFTC.

g. On December 4, 2012, LTG assumed certain receivables of Tangent from various holding companies amounting to ₱9.9 billion, thereby increasing its payable to Tangent by the same amount.

Non-cash Financing Activities

a. In July 2013, all the existing advances to Tangent amounting to ₱11.0 billion were offset with the existing advances from the Tangent.

b. In 2011, LTG applied ₱448.5 million of its dividends payable to Tangent against LTG's advances to and interest receivable from Tangent amounting to ₱389.7 million and ₱58.8 million, respectively. As of January 1, 2012, outstanding dividends payable amounted to ₱668.2 million.

c. As of December 31, 2013 and 2012 and January 1, 2012, accrued interest payable amounted to ₱2.2 billion, ₱2.3 billion and ₱2.3 billion, respectively. Finance costs include amortization of bond issue costs amounting to ₱14.2 million, ₱13.1 million and ₱12.1 million, respectively.

   As discussed in Note 7, LTG issued additional common shares to Tangent amounting to 5.4 billion upon conversion of its deposit for future stock subscription of ₱1.6 billion resulting in an increase in additional paid in capital of ₱1.2 billion. Transactions costs incurred for the share issuance in 2012 amounted to ₱67.5 million which is deducted from additional paid in capital.

39. Events After Reporting Date

PNB's Stock Rights Offering

PNB has successfully completed its stock rights offering of common shares following the closure of the offer period on February 3, 2014. LTG fully subscribed to its entitlement of the Rights Offer. A total of 162,931,262 Rights Shares were issued to Eligible Shareholders at a proportion of fifteen Rights Share for every one hundred existing Common Shares held as of the Record Date at the Offer price of ₱17.00 per Right Share. Out of 162,931,262 Rights Shares, 33,218,348 common shares were listed on February 11, 2014 while the remaining shares would be reported for listing upon receipt of the BSP and SEC approval on the application for increase in authorized capital stock of the PNB.

The Offer raised gross proceeds of ₱11.6 billion, out of this, LTG provided ₱6.9 billion. Part of the proceeds will be used as capital injection into Allied Savings Bank (ASB) to build and refocus ASB's consumer lending business. The Offer also strengthens ASB's capital position under BASEL III standards, effective January 1, 2014.

SGV
Building a better working world

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ey.com/ph

BOA/PRC Reg. No. 0001,
December 28, 2012, valid until December 31, 2015
SEC Accreditation No. 0012-FR-3 (Group A),
November 15, 2012, valid until November 16, 2015

INDEPENDENT AUDITORS' REPORT

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

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of LT Group, Inc. (a subsidiary of Tangent Holdings Corporation) and its subsidiaries, as at December 31, 2013 and 2012, included in this Form 17-A, and have issued our report thereon dated March 18, 2014. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the LT Group, Inc.'s management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011) and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Josephine H. Estomo
Partner
CPA Certificate No. 46349
SEC Accreditation No. 0078-AR-3 (Group A),
February 14, 2013, valid until February 13, 2016
Tax Identification No. 102-086-208
BIR Accreditation No. 08-001998-18-2012,
April 11, 2012, valid until April 10, 2015
PTR No. 4225170, January 2, 2014, Makati City

March 18, 2014

A member firm of Ernst & Young Global Limited

LT GROUP, INC. AND SUBSIDIARIES
SCHEDULE A. – Financial Assets
DECEMBER 31, 2013
(in thousands)

Name of Issuing Entity and Association of each Issue		Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on Bid Prices as of Balance Sheet Date	Income Received and Accrued
Government securities					
Republic of the Philippines (ROP) Bonds		–	₱18,700,530	₱25,274,566	₱10,628,697
Fixed Rate Treasury Notes		–	13,990,356	16,938,482	2,241,204
Retail Treasury Bonds		–	8,082,117	8,474,739	323,910
Power Sector Assets and Liabilities Management	Corporation	–	2,375,815	2,969,215	78,643
Development Bank of the Philippines		–	1,676,635	1,818,601	54,258
Special Purpose Treasury Bills		–	1,250,000	1,340,677	60,603
Singapore Government Treasury Notes		–	642,084	641,528	–
National Development Corporation		–	122,551	218,559	7,242
Republic of Indonesia		–	388,800	340,776	10,068
US Treasury Bills		–	274,605	273,565	–
US Treasury Warrants		–	116,537	116,508	–
Peso Treasury Bills		–	111,160	111,075	–
Republic of Korea		–	43,200	54,128	1000
Bangko Sentral Ng Pilipinas Tier 2017		–	39,957	42,089	2,402
Federal National Mortgage Association		–	31,077	31,400	–
Federal Home Loan Mortgage Corp.		–	22,198	22,874	–
US Treasury Notes		–	19,978	20,000	–
Federal Home Loan Banks FHLB		–	15,538	16,171	–
Government bonds		–	626,291	625,380	–
LTNCD		–	50,000	50,000	–
Total Government securities			**₱48,579,429**	**₱59,380,333**	**₱13,408,027**

Name of Issuing Entity and Association of each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on Bid Prices as of Balance Sheet Date	Income Received and Accrued
Private Debt Securities				
International Container Terminal Services Inc.	–	₱2,985,487	₱3,412,003	₱139,692
Banco De Oro (BDO)	–	2,469,904	2,605,149	90,369
SM Investments Corp.	–	2,197,624	2,263,505	92,276
Filinvest Development Cayman Islands	–	2,143,144	2,018,278	63,403
Rizal Commercial Banking Corp	–	1,228,915	1,315,691	46,617
Energy Development Corporation Bonds	–	1,018,644	1,074,564	22,988
First Pacific Company Ltd.	–	945,448	1,044,810	63,150
Philippine Long Distance Telephone Company (PLDT)	–	739,174	851,259	34,569
HSBC Finance Corporation	–	394,420	491,180	3,106
Standard Chartered Bank London	–	394,420	447,867	1,846
BNP Paribas Paris	–	338,075	381,694	1,844
First Pacific Company Treasury Ltd.	–	430,877	375,261	2,087
Korea Development Bank – SEOUL	–	302,401	292,583	8,369
JG Summit Holdings Inc.	–	259,200	242,996	9,992
Export-Import Bank of Korea	–	86,400	95,230	2,039
First Pacific Finance Ltd.	–	168,480	178,574	3,820
ABS-CBN	–	145,500	153,437	8,219
SM Development Corporation	–	150,000	150,919	7,716
Beacon Securities	–	127,400	145,430	9,260
Petron Corporation	–	98,000	109,573	6,844
HSBC Holdings PLC	–	112,692	129,345	659
San Miguel Brewery	–	57,749	54,129	7,632
Tanduay Distillers Inc.	–	110,247	112,491	4,073
Smart Communications Philippines	–	99,000	109,862	5,147
SM Prime Holdings	–	99,000	108,820	6,143
GT Capital Holdings	–	100,000	102,435	4,448
Citigroup Inc.	–	88,780	88,667	617

Name of Issuing Entity and Association of each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on Bid Prices as of Balance Sheet Date	Income Received and Accrued
Asian Summit PH	–	59,095	59,095	–
Manila Electric Company	–	50,000	49,304	2,048
First Gen Corporation	–	18,204	43,516	3,449
Ayala Land Inc.	–	31,000	28,472	1,819
Filinvest Development Corporation	–	24,519	24,493	1,319
European Investment Bank	–	21,980	22,070	46
Metropolitan Bank and Trust Company	–	13,022	14,234	1,621
Summit Select	–	11,208	11,208	–
Union Bank Tier II	–	10,000	10,626	126
VIP Summit PHP	–	9,543	9,543	–
Development Bank of the Philippines	–	8,437	9,439	593
San Miguel Corporation	–	8,252	7,339	479
PNB Life Equity – PHP	–	2,525	2,525	–
PNB Life Balanced Growth Fund – PHP	–	2,379	2,379	–
PNB Life Fixed Income Fund – PHP	–	2,246	2,246	–
PNB Life Fixed Income Fund – USD	–	1,634	1,634	–
VIP Summit USD	–	1,112	1,112	–
Credit Linked Notes	–	–	–	32,382
Total Private Debt Securities	**–**	**₱17,566,137**	**₱18,654,987**	**₱690,807**
Equity Securities				
Philippine Racing Club	30,331,103	~~₱~~ –	₱287,842	~~₱~~ –
Fairways & Bluewater Resort	294	–	228,213	–
San Miguel Corporation – Preferred – 2C	2,400,000	–	186,240	14,760
San Miguel Corporation – Preferred – 2A	2,000,000	–	152,000	11,531
First General Corporation	1,573,000	–	151,253	17,167
Philippine Long Distance Telephone Company (PLDT)	161,425	–	135,752	6,506
Manila Golf & Country Club, Inc.	1	–	60,000	–
Globe Telecoms - GLO (Common)	35,830	–	58,224	2,010

Name of Issuing Entity and Association of each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on Bid Prices as of Balance Sheet Date	Income Received and Accrued
Small Business Guarantee	400,000	–	40,000	–
Wack Wack Golf & Country Club	5	–	63,000	–
Victorias Milling Corporation	332,112,155	–	360,988	–
Manila Electric Company	140,068	–	35,157	–
Mount Malarayat Golf &Company "A"	15	–	34,465	–
Evergotesco Resources & Holdings	146,000,000	–	30,660	–
Manila Golf Country Club-Corporate	102	–	90,000	–
Metropolitan Bank and Trust Company	394,730	–	29,822	75
Bank of the Philippine Islands	348,700	–	29,640	204
Banco De Oro	363,910	–	24,950	316
Manila Polo Club	2	–	22,900	–
Allied Banker Insurance	200,000	–	20,000	–
Ayala Corporation	32,280	–	16,712	58
SM Investments Corporation	21,170	–	15,052	209
Universal Robina Corporation	132,300	–	14,963	174
Philippine Dealing House	115,000	–	11,500	–
Ayala Land Inc.	442,700	–	10,957	125
Philippine National Bank - PNB (Common)	120,000	–	10,308	–
LGU Guarantee Corp.	100,000	–	10,000	–
Santa Elena Golf & Country Club	3	–	9,000	–
Aboitiz Equity Venture	150,200	–	8,193	307
SM Prime Holdings	520,600	–	7,642	119
Puregold Price Club, Inc. - PGOLD (Common)	200,000	–	7,570	–
International Container Terminal Services Inc.	65,500	–	6,681	44
Alliance Global Group	256,800	–	6,625	103
Philippine Depository & Trust Corporation	78,087	–	5,894	–
Bancet, Inc.	49,999	–	5,000	–
Jollibee Food Corporation	25,400	–	4,397	55
Asean Finance	–	–	3,604	–

Name of Issuing Entity and Association of each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on Bid Prices as of Balance Sheet Date	Income Received and Accrued
Subic Bay Yacht Club	58	–	3,480	–
GT Capital Holdings	4,350	–	3,358	–
Energy Development Corporation	563,000	–	3,001	45
Aboitiz Power	88,000	–	2,992	–
DMCI Holdings	51,000	–	2,856	–
Eagle Ridge Golf & Country Club	30	–	2,700	–
Lucio Tan Group of Companies	168,000	–	2,594	–
Metro Pacific Investments	702,000	–	2,343	24
Megaworld Corporation	644,000	–	2,087	26
PNB Management and Development Corporation	313,380	–	1,933	–
Bloomberry Resorts Corporation	177,000	–	1,524	–
Asia Pacific Rural and Agricultural Credit Association	1	–	1,500	–
Petron Corporation	1	–	1,464	–
BAP Credit Guaranty	29,800	–	1,138	–
Baguio City Country Club	1	–	1,000	–
Evercrest Golf Club-A	2	–	1,000	–
Manila Southwoods Golf Club "B"	3	–	1,289	–
Pueblo de Oro Gold & Country Club	2	–	833	–
Bulawan Mining Corp	2,500,000	–	800	–
PICOP Resources, Inc	19,008,000	–	798	–
Valley Golf & Country Club	5	–	780	–
Tagaytay Midlands	1	–	500	–
Heavenly Garden	5,000	–	500	–
Riviera Golf & Country Club “C”	2	–	470	–
Quezon City Sports Club	1	–	320	–
Camp John Hay	2	–	300	–
Club Filipino	2	–	294	–
Makati Sports Club-A	1	–	280	–
Orchard Golf & Country Club	1	–	210	

Name of Issuing Entity and Association of each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on Bid Prices as of Balance Sheet Date	Income Received and Accrued
East Ridge Golf and Country Club	2	–	200	–
Tower Club	1	–	200	–
Ternate Development Corporation	1	–	170	–
Mimosa Golf & Country Club	1	–	125	–
Philippine Electric Corporation Shares	202,440	–	95	–
Sierra Grande Country	100	–	32	–
Philodril	695,625	–	24	–
Philippine Central Depository Inc.	175	–	23	–
Northern Telephone Company	40	–	18	–
Marikudo Country Club Iloilo City	1	–	18	–
PLDT Communication and Energy Venture	75	–	196	–
Philippine Columbian Association	2	–	8	–
Retelco	20	–	5	–
Chibakakusai Club	1	–	4	–
Cruz Tel Co.	30	–	3	–
Southern Iloilo Telephone Co.	20	–	2	–
APO Golf Shares	1	–	2	–
Inco Mining	1	–	2	–
National Reinsurance Corporation of the Philippines	1,000	–	2	–
Iligan Golf & Country Club	1	–	1	–
Lepanto Consolidated Mining Co."A"	4,973	–	1	–
Philex Mining	151	–	1	–
SWIFT Shareholders	9	–	*–	–
Bacnotan Steel Industries	3,345,800	–	*–	–
Philippine Telephone Corporation	650	–	*–	–
Lepanto Consolidated Mining Co."B"	1,776	–	*–	–
JG Summit Holdings	–	–	*–	29
Proton Chemical Industries	44,419	–	*–	–
Macroasia	216,610,000	–	519,425	–

Name of Issuing Entity and Association of each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on Bid Prices as of Balance Sheet Date	Income Received and Accrued
Tagaytay Highlands	267	–	66,750	–
United Doctors	–	–	3,730	–
Grandspan Development	–	–	30,000	–
Foremost Farm	–	–	93	–
HII	–	–	7	–
Cosmic Holdings	–	–	25,000	–
Buona Sorte	–	–	5,000	–
UE	–	–	26,250	–
Negros Gulf and Country Club	–	–	420	–
Others	–	–	5,000	–
Total Equity Securities	**763,932,604**	**₱–**	**₱2,920,355**	**₱53,887**
Total Available-for-Sale Securities	**763,932,604**	**₱66,145,566**	**₱80,955,675**	**₱14,152,721**

For loans and receivables, refer to the Note 32 of the Consolidated Financial Statements.

LT GROUP, INC. AND SUBSIDIARIES
SCHEDULE B. – Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)
DECEMBER 31, 2013
(in thousands)

Name and Designation of debtor		Balance at beginning of period	Additions	Amounts collected	Amounts written off	Current	Non-Current		Balance at end of period
Related Party:									
Tangent Holdings Corporation	P	5,801,474	-	(5,801,474)	-	-	-	P	-

Other than the above related party, all amounts receivable from Directors, Officers, Employees, other Related Parties and Principal Stockholders pertained to purchases subject to usual terms, for ordinary travel and expense advances and for other such items arose in the ordinary course of business were excluded.

LT GROUP, INC. AND SUBSIDIARIES
SCHEDULE C. – Amounts Receivable from Related Parties which are eliminated during the consolidation of financial statements
DECEMBER 31, 2013
(in thousands)

Name and Designation of debtor		Balance at beginning of period	Additions	Amounts collected	Amounts written off	Current	Non-Current		Balance at end of period
Allmark Holdings	P	600,000	-	(594,150)	-	5,850	-	P	5,850
All Seasons Realty Corp.		245,000	-	(245,000)	-	-	-		-
Asia Brewery, inc.		4,350,515	-	(4,350,515)	-	-	-		-
Caravan Holdings Corp		546,171	-	(533,921)	-	12,250	-		12,250
Dunmore Development Corporation		559,896	-	(557,056)	-	2,840	-		2,840
Dynaworld Holdings, Inc.		380,000	-	(380,000)	-	-	-		-
Eton Properties		150,322	693,678	-	-	844,000	-		844,000
Fil-Care Holdings, Inc.		796,284	-	(794,134)	-	2,150	-		2,150
Fortune Tobacco Corporation (FTC)		376	-	(376)	-	-	-		-
Ivory Holdings, Inc.		123,750	-	(117,650)	-	6,100	-		6,100
Kenrock Holdings Corp./Asias Emerging		807,575	-	(797,575)	-	10,000	-		10,000
Kentwood Development Corp.		457,379	-	(455,879)	-	1,500	-		1,500
La Vida Development Corporation		380,000	-	(377,650)	-	2,350	-		2,350
Leadway Holdings, Inc.		811,325	-	(809,825)	-	1,500	-		1,500
LT Group, Inc.		-	525	-	-	525	-		525
Merit Holdings & Equities Corp.		347,965	-	(347,790)	-	175	-		175
Multiple Star		748,000	-	(738,450)	-	9,550	-		9,550
Packageworld, Inc.		27	-	(27)	-	-	-		-
Paramount		221,395	-	(221,395)	-	-	-		-
Pioneer Holdings Equities, Inc.		640,000	-	(636,500)	-	3,500	-		3,500
Profound Holdings, Inc.		305,935	-	(305,935)	-	-	-		-
Purple Crystal Holdings, Inc.		799,989	-	(799,989)	-	-	-		-
Safeway Holdings & Equities, Inc.		99,000	-	(99,000)	-	-	-		-
Saturn Holdings		31,309	-	(31,309)	-	-	-		-
Shareholdings, Inc.		(87)	87	-	-	-	-		-
Society Holdings Corporation		500,070	-	(497,920)	-	2,150	-		2,150
Solar Holdings Corp.		574,481	-	(564,481)	-	10,000	-		10,000
Tanduay Brands International		625	10,077	-	-	10,703	-		10,703
Tanduay Distillers		-	13,206	-	-	13,206	-		13,206
Total Holdings		203,054	-	(201,504)	-	1,550	-		1,550

LT GROUP, INC. AND SUBSIDIARIES
SCHEDULE D. – Intangible Assets – Other Assets
DECEMBER 31, 2013
(in thousands)

Description		Beginning balance		Additions at cost	Charged to cost and expenses	Disposals	Other changes additions (deductions)		Ending balance
Goodwill	P	252,671	P	-	-	-	-	P	252,671
Software	P	471,112	P	238,687	(283,871)	-	-	P	425,928

Intangibles are presented in "Other non-current assets" in the consolidated balance sheets.

LT GROUP, INC. AND SUBSIDIARIES
SCHEDULE E. – Long term debts
DECEMBER 31, 2013
(in thousands)

Title of Issue and type of obligation	Amount authorized by indenture	Amount shown under caption "Current portion of long-term debt" in related balance sheet	Amount shown under caption "Long term debt" in related balance sheet
1. Five year - Fixed rate bonds	P 5,000,000	-	P 4,982,544
2. Subordinated Debt		-	P 9,953,651
3. Unsecured term loan and Notes payable		P 1,009,915	P 1,943,560

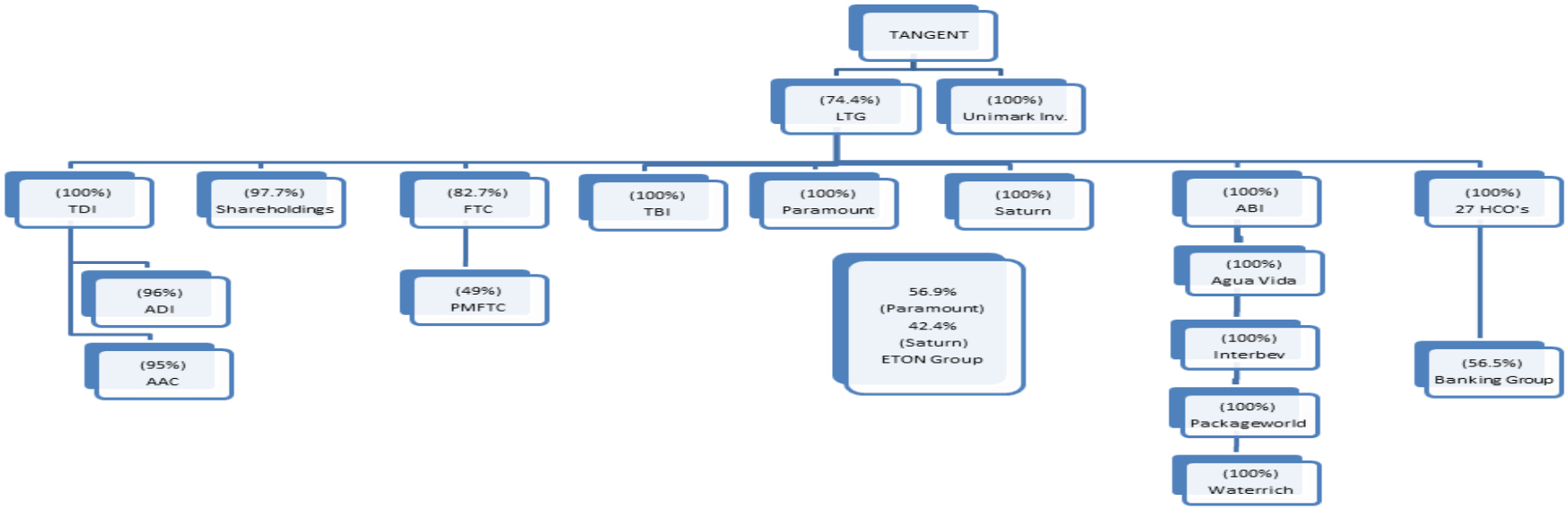
LT GROUP, INC. AND SUBSIDIARIES
SCHEDULE H - Capital Stock
DECEMBER 31, 2013

Title of Issue	Number of Shares Authorized	Number of Shares Issued And Outstanding as Shown under Related Balance Sheet caption	Number of shares Reserved for Options, Warrants, Conversions, and Other Rights	Number of shares Held by related Parties	Directors, Officers and Employees	Others
Common Stock	**25,000,000,000**	**10,821,388,889**	**-**	**8,046,318,193**	**19,500**	**2,775,051,196**

LT GROUP, INC.
SCHEDULE I - Reconciliation of Retained Earnings Available for Dividend Declaration
DECEMBER 31, 2013

Unappropriated retained earnings, beginning	₱290,689,181
Less deferred income tax assets, beginning	7,942,108
Unappropriated retained earnings, as adjusted to amount available for dividend declaration, beginning	282,747,073
Add net income actually earned/realized during the year:	
Net income during the year closed to retained earnings	14,977,497,769
Less movement of deferred income tax assets	2,217,550
Net loss actually earned during the year	14,975,280,219
Less cash dividends declared and paid	1,623,208,333
Unappropriated retained earnings available for dividend declaration, ending	₱13,634,818,959

LT GROUP, INC. AND SUBSIDIARIES
SCHEDULE J – Relationships between & among the Group and its Parent
DECEMBER 31, 2013



LT GROUP, INC. AND SUBSIDIARIES
SCHEDULE K – List of all effective Standards and Interpretations under the Philippine Financial Reporting Standards (PFRS) effective as of DECEMBER 31, 2013

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2013		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
PFRSs Practice Statement Management Commentary		✓		
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	✓		
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
PFRS 2	Share-based Payment	✓		
	Amendments to PFRS 2: Vesting Conditions and Cancellations	✓		
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions	✓		
PFRS 3 (Revised)	Business Combinations	✓		
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	✓		
PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2013		**Adopted**	**Not Adopted**	**Not Applicable**
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		

	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments*		✓	
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities*		✓	
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures*		✓	
PFRS 8	Operating Segments	✓		
PFRS 9	Financial Instruments*		✓	
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures*		✓	
PFRS 10	Consolidated Financial Statements*		✓	
PFRS 11	Joint Arrangements*		✓	
PFRS 12	Disclosure of Interests in Other Entities*		✓	
PFRS 13	Fair Value Measurement*		✓	
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income*	✓		
PAS 2	Inventories	✓		

** These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2013. The Company did not early adopt these standards, interpretations and amendments.*

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2013		Adopted	Not Adopted	Not Applicable
PAS 7	Statement of Cash Flows	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Balance Sheet Date	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✓		
PAS 16	Property, Plant and Equipment	✓		
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19	Employee Benefits	✓		
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures*		✓	
PAS 19 (Amended)	Employee Benefits*		✓	
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation			✓
PAS 23 (Revised)	Borrowing Costs	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27 (Amended)	Separate Financial Statements*		✓	
PAS 28	Investments in Associates	✓		
PAS 28 (Amended)	Investments in Associates and Joint Ventures*		✓	

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PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2013		Adopted	Not Adopted	Not Applicable
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 31	Interests in Joint Ventures	✓		
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendment to PAS 32: Classification of Rights Issues	✓		
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities*		✓	
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting	✓		
PAS 36	Impairment of Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		

* *These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2013. The Company did not early adopt these standards, interpretations and amendments.*

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2013		Adopted	Not Adopted	Not Applicable
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives	✓		
	Amendment to PAS 39: Eligible Hedged Items	✓		
PAS 40	Investment Property	✓		
PAS 41	Agriculture			✓
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities	✓		
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	*Determining Whether an Arrangement Contains a Lease*	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	✓		
IFRIC 6	*Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment*			✓
IFRIC 7	*Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies*			✓
IFRIC 8	*Scope of PFRS 2*			✓
IFRIC 9	Reassessment of Embedded Derivatives	✓		
	Amendments to Philippine Interpretation IFRIC - 9 and PAS 39: Embedded Derivatives	✓		
IFRIC 10	*Interim Financial Reporting and Impairment*	✓		
IFRIC 11	PFRS 2- Group and Treasury Share Transactions			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement			✓

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PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2013		Adopted	Not Adopted	Not Applicable
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners	✓		
IFRIC 18	Transfers of Assets from Customers	✓		
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	✓		
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine*		✓	

** These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2013. The Company did not early adopt these standards, interpretations and amendments.*

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2013		Adopted	Not Adopted	Not Applicable
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-12	Consolidation - Special Purpose Entities	✓		
	Amendment to SIC - 12: Scope of SIC 12	✓		
SIC-13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers	✓		
SIC-15	Operating Leases - Incentives	✓		
SIC-21	Income Taxes - Recovery of Revalued Non-Depreciable Assets	✓		
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders	✓		
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures.			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs	✓		

LT GROUP, INC. AND SUBSIDIARIES
SCHEDULE L – Index to Exhibits
SEC FORM 17-A

		Page
(1)	Publication of Notice re: Filing	*
(2)	Underwriting Agreement	*
(3)	Plan of Acquisition, Reorganization, Arrangement, Liquidation or Succession	*
(4)	Articles of Incorporation and By-laws	*
(5)	Instruments Defining The Rights of Security Holders, Including Indentures	*
(6)	Opinion Re: Legality	*
(7)	Opinion Re: Tax Matters	*
(8)	Voting Trust Agreement	*
(9)	Material Contracts	*
(10)	Annual Report to Security Holders, FORM 17-Q or Quarterly Reports To Security Holders	*
(11)	Material Foreign Patents	*
(12)	Letter Re: Unaudited Interim Financial Information	*
(13)	Letter Re: Change in Certifying Accountant	*
(14)	Letter Re: Director Resignation	*
(15)	Letter Re: Change In Accounting Principles	*
(16)	Report Furnished To Security Holders	*
(17)	Other Documents Or Statements To Security Holders	*
(18)	Subsidiaries Of The Registrant	302
(19)	Published Report Regarding Matters Submitted To Vote Of Security Holders	*
(20)	Consents Of Experts and Independent Counsel	*
(21)	Power of Attorney	*
(22)	Statement Of Eligibility Of Trustee	*
(23)	Exhibits to be Filed With Bond Issues	*
(24)	Exhibits to be Filed With Stock Options Issues	*
(25)	Exhibits to be Filed by Investment Companies	*
(26)	Copy of Board of Investment Certificate in the case of Board of Investment Registered Companies	*
(27)	Authorization to Commission to Access Registrant's Bank Accounts	*
(28)	Additional Exhibits	303
(29)	Copy of the Board Resolution approving the securities offering and authorizing the filing of the registration statement	*
(30)	Duly verified resolution of the issuer's Board of Directors	*

These exhibits are either not applicable to the Group or require no answer.

EXHIBIT 18 Subsidiaries of the Registrant

LT GROUP, Inc. has the following subsidiaries as of December 31, 2013:

Distilled Spirits	Jurisdiction
1. TDI and subsidiaries	Philippines
a. Absolut Distillers, Inc.	
b. Asian Alcohol Corp	
2. Tanduay Brands Int'l, Inc.	Philippines
Beverages	
ABI and subsidiaries	Philippines
a. Agua Vida Systems, Inc.	
b. Interbev Philippines, Inc.	
c. Waterich	
d. Packageworld, Inc.	
Tobacco	
Fortune Tobacco Corp.	Philippines
Banking	
a. PNB and subsidiaries (see page 7)	Philippines
b. Bank Holding Companies (see page 8)	Philippines
Property Development	
a. Saturn	Philippines
b. Paramount	Philippines
1. Eton	Philippines
i. Belton Communities, Inc. (BCI)	
ii. Eton City, Inc. (ECI)	
iii. FirstHomes, Inc. (FHI)	

EXHIBIT 28. Additional Exhibits - Other Documents to be filed with the Consolidated Financial Statements

I. FINANCIAL SOUNDNESS INDICATORS

	2013	2012
CURRENT RATIO	**0.63**	0.53
DEBT-TO-EQUITY RATIO	**3.53**	5.51
ASSET-TO-EQUITY RATIO	**4.53**	6.51
INTEREST RATE COVERAGE RATIO	**29.25**	34.27
SOLVENCY RATIO	**0.85**	0.86
PROFITABILITY RATIO:		
PROFIT MARGIN	**0.21**	0.25
RETURN ON ASSETS	**0.017**	0.026