COVER SHEET

SEC Registration Number

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Company Name

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

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

COMPANY INFORMATION

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

No. of Stockholders	Annual Meeting Month/Day	Fiscal Year Month/Day
375	June 9	December 31

CONTACT PERSON INFORMATION

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

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

Contact Person's Address

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

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

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-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, 2014**

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

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

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

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

6. (SEC Use Only)
Industry Classification Code:

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

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

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

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

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

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

Yes [✓] No [ ]

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

12. Check whether the registrant:

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

Yes [✓] No [ ]

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

Yes [✓] No [ ]

13. Aggregate market value of the voting stock held by non-affiliates of the registrant ₱42,988,432,749 as of December 31, 2014

14. Not applicable

DOCUMENTS INCORPORATED BY REFERENCE

PART I – BUSINESS AND GENERAL INFORMATION

Item 1. Business

Corporate History

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

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

As of December 31, 2014 and 2013, LTG was 74.36%-owned by its ultimate parent company, Tangent, which was also incorporated in the Philippines.

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

The Company has interests in the following businesses:

- **Distilled Spirits**—the Company conducts its distilled spirits business through its 100%-owned subsidiary TDI. TDI is the second-largest distilled spirits producer in the Philippines according to Nielsen Philippines, with an approximate 22% share of the Philippine spirits market in 2014.

- **Beverages**—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. PMFTC is the leading tobacco manufacturer and distributor in the Philippines with slightly above 70% market share in the year 2014, based on PMFTC's estimates of customer offtake.
- **Banking**—the Company conducts its banking business through Philippine National Bank (PNB). PNB is a universal bank currently listed in the Philippine Stock Exchange (PSE). The Company's indirect ownership is approximately 56.47%. PNB is the Philippines' fourth largest private commercial bank in terms of total assets in 2014.

- **Property Development**—the Company conducts its property development business through Paramount Landequities, Inc. and Saturn Holdings, Inc., with 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. Eton also develops and leases out commercial properties to retail and BPO tenants.

Description of Subsidiaries

Distilled Spirits

Tanduay Distillers, Inc. (TDI)

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

The following companies are majority owned by TDI:

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

Tanduay Brands International, Inc. (TBI)

On May 6, 2003, TBI was incorporated in the Philippines to handle the marketing of TDI's products for the export market. TBI has not yet started commercial operations as of December 31, 2014.

Beverage

Asia Brewery, Inc. (ABI)

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

The following companies are 100%-owned by ABI:

- **Interbev Philippines, Inc. (IPI)**
  IPI was incorporated in the Philippines on April 28, 2003. Its primary business is the production and distribution of *Cobra* and *Sunkist* carbonated soft drinks.
- **Waterich Resources Corporation (WRC)**
  WRC was incorporated in the Philippines on September 27, 1997. Its primary business is the toll manufacturing for ABI of *Absolute Pure Distilled Drinking Water* and *Summit Water*.
- **Packageworld, Inc. (PWI)**
  PWI was incorporated in the Philippines on January 15, 1998. Its primary business is the production and distribution of packaging materials for alcoholic and non-alcoholic beverages and bottled water.
- **Agua Vida Systems, Inc. (AVSI)**
  AVSI was incorporated in the Philippines on August 15, 1994. Its primary business is the distribution and refilling of purified water and water dispensers for use primarily in homes and offices.
- **AB Nutribev, Inc. (ABNI)**
  AVNI was incorporated in the Philippines on April 22, 2014 and is scheduled to commence commercial operations within 2016. Its primary business is the manufacturing and trading of goods such as beverages and consumer products.
- **Asia Pacific Beverages Pte. Ltd. (APB)**
  APB is a wholly-owned subsidiary registered in Singapore on August 21, 2014. It was formed as a holding company for potential international ventures.

Tobacco

Fortune Tobacco Corporation (FTC)

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

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

Banking

Philippine National Bank (PNB)

PNB was incorporated in the Philippines on July 22, 1916. PNB provides a full range of banking and other financial services to diversified customer bases including government entities, large corporate, middle market, SME and retail customers, with PNB having the distinction of being one of the only five authorized Government depository banks in the Philippines. The current PNB is a result of the merger between PNB and Allied Banking Corp., completed in February 9, 2013. 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.

The following companies are owned by PNB:

Subsidiaries	Nature of Business	Country of Incorporation	Percentage of Ownership		Functional Currency
			Direct	Indirect	
PNB Savings Bank (PSB)	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 in the merged PNB through the investment in the 27 holding companies which have collective ownership interest in PNB of 59.83% (collectively referred to as "Bank Holding Companies"). LTG's acquisition was effected by way of subscription to the increase in authorized capital shares of 22 Bank Holding Companies 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, 2014, LTG obtained majority ownership over the Bank Holding Companies which collectively own 56.47% of PNB.

The following are the 27 bank holding companies:

1. Allmark Holdings Corp.
2. Dunmore Development Corp.
3. Kenrock Holdings Corp.
4. Leadway Holdings, Inc.
5. Multiple Star Holdings Corp.
6. Pioneer Holdings & Equities, Inc.
7. Donfar Management Ltd.
8. Fast Return Enterprises Ltd.
9. Mavelstone International Ltd.
10. Uttermost Success Ltd.
11. Ivory Holdings, Inc.

12. Merit Holdings & Equities Corp.
13. True Success Profits Ltd.
14. Key Landmark Investments Ltd.
15. Fragile Touch Investments Ltd.
16. Caravan Holdings Corp.
17. Solar Holdings Corp.
18. All Seasons Realty Corp.
19. Dynaworld Holdings Inc.
20. Fil-Care Holdings Inc.
21. Kentwood Development Corp.
22. La Vida Development Corp.
23. Profound Holdings Inc.
24. Purple Crystal Holdings, Inc.
25. Safeway Holdings & Equities Inc.
26. Society Holdings Corp.
27. Total Holdings Corp.

Property Development

Saturn Holdings, Inc. (Saturn)

Saturn Holdings, Inc. was incorporated in the Philippines on February 18, 1997. 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 is engaged in real estate development.
- **Eton City, Inc. (ECI)**
  ECI was incorporated and registered with the SEC on October 8, 2008 and is engaged in real estate development.
- **FirstHomes, Inc. (FHI)**
  On October 15, 2010, FHI was incorporated and registered with Philippine SEC as a wholly-owned subsidiary of Eton and is engaged in real estate development.
- **Eton Properties Management Corporation (EPMC)**
  EPMC was incorporated and registered with the SEC on September 29, 2011 to manage, operate, lease, in whole or in part, real estate of all kinds, including buildings, houses, apartments and other structures of the Corporation or of other persons provided that they shall not engage as property manager of a real estate investment trust. EPMC has not yet started its operations as of December 31, 2014.

Products

Distilled Spirits

Rum Products

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

Gin Products

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

Brandy Products

1. Compañero Light Brandy

Vodka Products

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

Whiskey Products

1. Embassy Whiskey

Cocktails

1. Tanduay Cocktails

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
6. Brew Kettle

Alcopops

1. Tanduay Ice
2. Tanduay Black
3. Tanduay Ice Zero
4. Ultimo
5. Red Oak

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
6. Manny O Wines

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, Chesterfield, Winter, L&M, Next,
   Peak, Ice, Evergreen, Forum, Maverick, Liberty and Baron

Banking

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

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

Property Development

Completed Developments:

High-rise

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

Mid-rise

1. The Manors at North Belton Communities

Residential Subdivisions

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

Commercial

1. Centris Walk
2. Centris Station

BPO Office

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

Events Venue

1. Elements at Centris

Ongoing Developments:

Hi-rise

1. Eton Tower Makati

Residential Subdivisions

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

Commercial

1. Village Walk

Hotel

1. Mini Suites at Eton Tower Makati

Distribution method of the products

Distilled Spirits

As of December 31, 2014, TDI served more than 117,000 points of sale throughout the Philippines through eleven (11) 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, 2014, TDI's distributors operated 46 sales offices and 61 warehouses located throughout the Philippines. TDI employs in-house sales staffs who provide general administrative support to TDI's distributors. TDI's products are transported from the production facilities to distributors' warehouses by third party transportation companies for the account of the distributors.

Beverage

ABI markets, sells and distributes its products throughout the Philippines through 13 exclusive major distributors. As of December 31, 2014, ABI's exclusive distributors had a network of 45 sales offices, 19 warehouses and 58 depots**.** This extensive network assures product availability to ABI consumers and also provides ABI expeditious nationwide placement of new products. ABI's products are transported to distributors' warehouses by third party transportation companies, with the costs for the account of such distributors.

Tobacco

FTC had no selling activities in 2014. PMFTC, however, distributes directly to approximately 210,000 points of sale throughout the Philippines. PMFTC segments its distribution into two separate channels:

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

Banking

PNB, through its Head Office and 657 domestic branches/offices and 77 overseas branches, representative offices, remittance centers and subsidiaries, provides a full range of banking and financial services to large corporate, middle-market, small medium enterprises (SMEs) and retail customers, including OFWs, as well as to the Philippine National Government, national government agencies (NGAs), local government units (LGUs) and GOCCs in the Philippines. PNB's principal commercial banking activities include deposit-taking, lending, trade financing, foreign exchange dealings, bills discounting, fund transfers/remittance servicing, asset management, treasury operations, comprehensive trust services, retail banking and other related financial services.

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

Institutional Banking Group

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

Retail Banking Group

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

Consumer Finance Group

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

Effective August 1, 2014, PNB's thrift bank subsidiary took over the management of PNB's consumer loans.

Global Filipino Banking Group
The Global Filipino Banking Group covers the Bank's overseas offices which essentially provide convenient and safe remittance services to numerous OFWs abroad and full banking services in selected jurisdictions. It also provides consumer financing through the Pangarap Loan and Own a Philippine Home Loan which are available to OFWs. PNB has the largest overseas network among Philippine banks with 77 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 1,012 foreign 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 and foreign exchange spot and swap dealing. It also oversees the Bank's long-term funding requirements and enters into derivative transactions for the hedging requirements of some of the banks sophisticated corporate accounts.

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

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

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

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

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

Status of any publicly-announced new product or services

Distilled Spirits
There were no publicly-announced new products or services for the year 2014.

Beverage
In 2014, the following alcoholic products were introduced to the market:

1. Brew Kettle (beer)
2. Tanduay Ice Zero (alcopop)
3. Ultimo Premium Craft Brandy (alcopop)
4. Red Oak Sangria (alcopop)
5. Manny O Wines (wine)

Banking
The Bank has launched the following products and services in 2014:

- Electronic Remittance of Sickness, Maternity & Employees Compensation Benefit
- BIR Interactive Form System (PNB i-Tax)
- Enhanced Internet Banking System
- Third Currency Savings and Time Deposit Accounts

Tobacco
In 2014, the following cigarette brands were introduced to the market:

1. Fortune Lights
2. Marlboro Black Menthol 100's
3. Marlboro Premium Black
4. Chesterfield

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

Competitive business condition/position in the industry

Distilled Spirits
The year 2014 saw the rise of imported liquor in the Philippines. This trend started in 2013 when higher excise tax was imposed on all local liquor products which made the price difference between local and imported liquors smaller. Volume and value of imported liquor products increased by 27% and 13% respectively while volume of the local liquor products decreased by 3%.

Despite the decline in the local liquor industry, the volume of brandy remained constant from 2013 and accounted for 51% of the market while rhum and gin contributed 22% and 21% respectively.

TDI sees opportunities in the broad C market where Emperador Distillers (EDI) is dominant. Several products are being prepared for launch in the year 2015 to try to gain back lost market share more specifically in the rum and brandy categories.

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

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

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

In March 2015, ADI inaugurated its 2MW Solar Energy Project which it intends to sell to the NGCP grid to avail of government incentives such as the feed-in tariff rate of P9.68 per kwh.

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 *Mevius* 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 is partly a result of the liberalization of the banking industry in 1994 which allowed the entry of more foreign banks and prompted the recent mergers and consolidations in the banking industry. As of December 31, 2014, 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. Some competitor banks have greater financial resources, wider networks and greater market share than PNB. Said banks also offer a wider range of commercial banking services and products, have larger lending limits and stronger balance sheets than PNB. To maintain its market position in the industry, the Bank offers diverse products and services, invests in technology, leverages on the synergies within the Tan Group of Companies and with its National and local 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, 2014, the Bank had a distribution network of 657 branches and offices and 878 ATMs nationwide. The Bank is the fourth largest local private commercial bank in the Philippines in terms of local branches and the fourth largest in terms of consolidated total assets, net loans and receivables, capital and deposits. In addition, it has the widest international footprint among Philippine

banks spanning Asia, Europe, the Middle East and North America with its overseas branches, representative offices, remittance centers and subsidiaries

Property Development

Eton is among the country's top 10 property developers. Since the Company started in 2007, it has launched a total of 12 residential condominiums, 14 mid-rise buildings, 8 horizontal projects, 7 commercial centers and 6 BPO offices. Ayala Land Inc., Megaworld Corporation, Robinsons Land Corporation and Filinvest Land are considered as the Company's main competitors in the development of high rise residential condominiums and office buildings.

Product innovation and location are the main differentiators for the Company's projects. As showcased in Centris Walk, an upscale commercial center within Eton Centris, innovation plays a major role in land development. The state-of-the-art dining complex is now one of Quezon City's newest lifestyle destinations offering a unique mix of restaurants and bars and lifestyle establishments.

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, Cyberpod Centris Two and Cyberpod Centris Three are fully leased out to top multinational outsourcing companies.

Raw Materials and Principal Suppliers

Distilled Spirits

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

  Alcohol is delivered directly to the plant by tanker. The quality of alcohol is checked prior to acceptance. In 2014, alcohol accounted for 29% of product cost while specific tax accounted for 34% of the total costs. The tax is paid upon withdrawal of the full goods from the production sites. With the temporary shutdown of AAC's operations, TDI increased its importation of alcohol from Pakistan, India, South Africa & Indonesia.

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

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

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

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

- **Bottles**
  TDI's liquor products are packaged in glass bottles. Glass bottles account for approximately 19% of cost of goods sold for TDI's products. The cost is managed in part by recycling the bottles. TDI maintains a network of secondhand bottle dealers across the nation that retrieve the bottles from the market and sell them back to TDI. The cost of the secondhand bottles including the cost of cleaning is 61% lower than the cost of purchasing new bottles.

- **Caps**
  All products are sealed with tamper-proof resealable aluminum caps, which average at 3% of total product cost.

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

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

Beverage

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

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

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

Tobacco

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

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

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

Banking
This is not applicable for banks.

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

Dependence on one or two major customers

Distilled Spirits
TDI markets, sells, and distributes its products throughout the Philippines. In the year ended December 31, 2014, sales volume in the Visayas and Mindanao regions accounted for approximately 52% and 39% of TDI's gross sales volume, respectively. In the same period, sales volume in Metro Manila and Luzon accounted for 6% and 4% of TDI's gross sales volume, respectively. TDI attributes its leading position in the distilled spirits products to strong brand equity, diverse utilization of marketing channels and an established sales and distribution network.

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

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

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

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

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

Transactions with and/or dependence on related parties

The Company has various transactions with its subsidiaries and associates and other related parties. These are enumerated in detail in Note 22 of the Notes to Consolidated Financial Statements on pages 194-199.

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

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

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

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

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

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

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

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

Property Development
As of December 31, 2014, the Intellectual Property Office (IPO) approved the Company's application for the trademark of the following names and devices: a.) 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; b.) in 2009, IPO approved the trademark of The Makati of the South; c.) in 2011 the IPO approved the trademarks of the following names and devices: Centris Walk, Eton Tower Makati, Riverbend, Eton Parkview Greenbelt, South Lake Village, Eton Cyberpod, 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. These trademarks shall be valid for a period of ten (10) years from notice of approval.

Need for any government approval of principal products

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

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

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

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

Effect of existing or probable governmental regulations on the business

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

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

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

Beverage
Regulatory decisions or changes in the legal and regulatory requirements in a number of areas related to the beverage industry may have an 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, President Benigno Aquino III signed R.A. 10351 into law which modified the applicable excise tax rates on alcohol and tobacco products, including cigarettes effective January 1, 2013.
During the first year of R.A. 10351's implementation, high-priced cigarettes will be taxed at a rate of

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

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

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

Research and development activities

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

Costs and effects of compliance with environmental laws

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

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

Bottle Recycling
A major component of TDI's operations is the retrieval of secondhand bottles and the reuse of these bottles in TDI's production process. The cost of a used bottle, including washing costs, is approximately 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 in marketing its products, as customers can sell their bottles after consuming the contents. TDI has also invested in automated bottle washing facilities in all its bottling plants.

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

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

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

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

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

Banking
This is not applicable to banks.

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

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

Human Resources and Labor Matters

LTG had 12 administrative and 4 regular monthly employees as of December 31, 2014. The total workforce of the Group inclusive of contractual employees was as follows:

Distilled Spirits	1,305
Beverage	2,418
Tobacco	58
Banking	8,585
Property development	305
Total	12,671

Distilled Spirits

With the exception of the Cagayan De Oro Plant, all regular daily employees of the TDI plants have separately formed a labor union. On April 1, 2013, TDI closed its Quiapo plant and paid retrenchment benefits to the 153 affected employees. TDI-Cabuyao has a Collective Bargaining Agreement (CBA) with the NAGKAKAISANG LAKAS MANGGAGAWA NG TDI-FSM, which is effective from August 1, 2014 to July 31, 2017. TDI's Negros plant concluded its own CBA with its union in June 2012, with the agreement effective until 2015.

There were 2 employees separated under AAC during 2014 due to retirement. The company had no existing Union and CBA after the end of its retrenchment program in 2010 due to the shutdown of operations.

As of December 31, 2014, ADI had 213 employees. ADI's registered labor union is Absolut Distillers, Inc. Employees Union-Olalia-KMU. It was effective on May 1, 2013 and shall be automatically renewed for another term of five (5) years upon expiration on April 30, 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, 2014, ABI and its subsidiaries employed approximately 1,708 people, of which about 80% were employed in manufacturing and logistics, 15% had general and administrative functions, 3% were in marketing, and 2% were in sales and distribution operations. In addition, ABI and its subsidiaries generally employ a number of outsourced laborers in its businesses, mostly as manual laborers. Typically, ABI contracts with third party manpower and services firms for the supply of these additional laborers.

ABI is party to a CBA with its employees at its Cabuyao plant. The CBA was signed on June 21, 2013, which is effective from January 2013 to December 2015.

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

Tobacco

FTC had 58 regular monthly employees as of December 31, 2014. Effective Jan. 1, 2012, FTC ceased to have daily (regular or casual) employees because of the business combination of FTC and PMPMI effective on February 25, 2010. The operations of FTC and the manufacturing of cigarettes were all transferred to PMFTC, the new company.

Banking

The total employees of the Bank as of December 31, 2014 was 8,585 of which 3,692 were classified as Bank officers and 4,893 as rank and file employees.

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

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

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

Property Development

The Company had 305 and 293 employees at the close of the calendar year December 31, 2014 and 2013, respectively. The breakdown of the Company employees as of December 31, 2014, according to type are as follows:

Executive	18
Managers	58
Supervisors	84
Rank and File	145
Total	305

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

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

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

Distilled Spirits

Market / Competitor Risk

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

In addition, the market of TDI is highly sensitive to price changes given the purchasing power and disposable income of their customers. Any adverse change in the economic environment of the

Philippines may affect the purchasing power of the consumers and adversely affect TDI's financial position and performance.

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

Raw Material Supply Risk
The main raw materials that TDI uses for the production of its 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 if prices are not favorable. Furthermore, TDI's parent company owns a 20.2% stake in Victorias Milling Company, Inc. (VMC) as of December 31, 2014. VMC is the largest sugar producer in the Philippines and currently TDI's major supplier of molasses.

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

Credit Risk
TDI relies on 11 exclusive distributors for the sale of its liquor products. Any disruption or deterioration in the credit worthiness of these distributors may adversely affect their ability to satisfy their obligations to TDI.

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

Trademark Infringement Risk
TDI's image and sales may be affected by counterfeit products with inferior quality. Its new product development efforts may also be hampered by the unavailability of certain desired brand names. TDI safeguards its brand names, trademarks and other intellectual property rights by registering them with the 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 the LT Group, TDI also does not license any third party to use its brand names and trademarks.

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

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

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

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

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

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

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

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

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

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

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

Beverage

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

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

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

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

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

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

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

Safety, health and environmental laws risk

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

Tobacco

The tobacco or cigarette industry generally has the following risks:

Market / Competitor Risk

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

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

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

Regulatory Risk

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

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

Safety, health and environmental laws risk

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

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

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

Banking
The year 2014 marks the 1st full year of the merged PNB. The activities involved the areas of bank policies, processes and systems together with the merged organizational structure. The risk management function was first among many that was fully integrated for the merged bank and accordingly elements of the risk management process applied on a uniform basis. Data sourcing remains to be a challenge but the increased knowledge of the data structure for the two core banking systems have provided for ease of complete data collection, albeit still on a manual basis for some areas. The bank also submitted (on time) its ICAAP (Internal Capital Adequacy Assessment Process) document in January 2014, just 6 months after it submitted the previous one in August 2013.

Under the Bank's Enterprise Risk Management (ERM) framework, all the risk-taking business units of the Bank, including its subsidiaries and affiliates, shall perform comprehensive assessments 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 No. 538 using the Standard Approach for Credit and Market Risks and Basic Indicator Approach for Operational Risks. Discussions that follow below are for Pillar 1 Risks:

Credit Risk

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

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

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

1. Credit Policies and Procedures

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

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

2. Credit Risk Functional Organization

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

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

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

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

3. Credit Limit Structure

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

4. Stringent Credit Evaluation

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

5. Reporting System

An effective management information system (MIS) is in place and, at a minimum, has the capacity to capture the 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 credit exposures on account of evolving events, both domestic and global. Results of the stress testing show

minimum impact and have no material effect on the Bank's NPL ratio and capital adequacy ratio (CAR).

Market Risk

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

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 both using Parametric approach and Historical Simulation approach with 99% confidence level. The Bank assumes a one (1) day holding period (equities and FX VAR) to a ten (10) day holding period for fixed income VAR, nonetheless a one-day VaR is computed for each portfolio.

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

Operational Risk

1. People Risk

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

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

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

2. Process 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 management has been created and meets regularly to ensure that business environment is closely monitored as to competition and delivery channels and that overall service standards are kept at acceptable levels.

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

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

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

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

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

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

6. Information Technology / Information Security Risk

The Bank recognizes the risk on IT/IS, including the core banking implementation risk with the merger of PNB and Allied Bank. It is in this regard that constant monitoring is observed through the creation of the Project Management Office (PMO). Progress reports are submitted to/discussed with Senior Management and the Board monthly to provide updates and reasonable assurance that risks identified are mitigated if not fully controlled. Tools being used to conduct the assessment are as follows:

- IT Project Risk Assessment
- Project Health Check

With the implementation of policies under the Information Security Management System, the Bank provides assurance to its Stakeholders that the preservation of its information assets are observed to ensure the delivery of information to the appropriate entity / person with confidentiality, integrity and required availability.

7. New Regulations Risk

New Regulations Risk is the current and prospective risk to earnings or capital arising from highly regulated jurisdiction and when rules and regulations are constantly changing. It is an important qualitative risk which must be monitored and managed, as regulatory sanctions from non-compliance, especially in extreme cases, may involve not just mere loss of reputation or financial penalties, but in extreme cases, a revocation of the banking charter or franchise (BAP Risk Manual, P103). At PNB, compliance to new circulars and memorandums by BSP is approached through an enterprise-wide engagement framework. Task Forces are constituted to discuss the gaps between current practices / process against the required deliverables. Further, overseas business units are also subject to host country regulations for which compliance must also be priority

8. Litigation Risk

Litigation risk is the likelihood or possibility that the Bank will suffer a financial loss due to payment of damages or other form of financial sanction as a result of losing a case, whether in a litigious or non-litigious setting. Litigation risk centers on the completeness and timeliness of filing of various

pleadings before appropriate courts and other administrative or adjudicatory bodies in connection with cases or actions filed for and against the Bank.

The Bank has a framework to identify, assess, control and monitor litigation risk and legal risk in general that it may encounter in the course of its operations. The legal review process framework encompasses the validation of the existence, propriety and enforceability of documents, and review of the Bank's forms. It also embodies obtaining legal opinions on tax and regulatory compliance for new products and transactions, and ensuring that contracting entities have legal capacity or are duly empowered to enter into a contract.

Regulatory Capital Requirements under BASEL II – Pillar 1

The Bank's total regulatory requirements as of December 31, 2014 are as follows:

Consolidated(Amounts in ₱ million)	Weighted Exposures
Total Credit risk-weighted assets	367,568.872
Total Market risk-weighted assets	4,532.456
Total Operational risk-weighted assets	38,234.751
Total Risk-Weighted Asset	410,336.079
Common Equity Tier 1 Ratio	17.427%
Capital Conservation Buffer	11.427%
Tier 1 Capital Ratio	17.427%
Total Capital Adequacy Ratio	20.605%

Credit Risk-Weighted Assets as of December 31, 2014

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

	Exposure, Net of Specific Provision	Exposures covered by Credit Risk Mitigants*	Net Exposure	0%	20%	50%	75%	100%	150%
Cash & Cash Items	15,019		15,019	14,590	429				
Due from BSP	105,799		105,799	105,799					
Due from Other Banks	17,662		17,662		3,960	2,719		10,983	
Financial Asset at FVPL									
Available for Sale	57,105	3,993	53,112	17,876	3,253	12,623		19,360	
Held to Maturity (HTM)	22,185	12,641	9,544	6,899		2,355		290	
Unquoted Debt Securities	4,179		4,179					4,129	50
Loans & Receivables	302,870	24,240	278,630		12,100	13,419	19,043	231,323	2,745
Sales Contracts Receivable	3,052		3,052					2,080	972
Real & Other Properties Acquired	15,143		15,143						15,143
Other Assets	29,562		29,562					29,562	
Total On-Balance Sheet Asset	572,576	40,874	531,702	145,164	19,742	31,116	19,043	297,727	18,910
Risk Weighted Asset - On-Balance Sheet			359,882	-	3,948	15,558	14,282	297,727	28,367
Total Risk Weighted Off-Balance Sheet Asset			5,914	-	64	1,672	442	3,736	-
Counterparty Risk Weighted Asset in Banking Book			1,497	-	71	1,111	-	315	-
Counterparty Risk Weighted Asset in Trading Book			276		2	27		247	

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

Market Risk-Weighted Assets as of December 31, 2014

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

Capital Requirements by Market Risk Type under Standardized Approach

(Amounts in ₱million)	Capital Charge	Adjusted Capital Charge	Market Risk Weighted Exposures
Interest Rate Exposures	279.978	349.972	3,499.724
Foreign Exchange Exposures	47.786	59.710	597.100
Equity Exposures	34.851	43.563	435.632
Total	362.615	453.245	4,352.456

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

Interest Rate Exposures

Specific Risk

Specific Risk from the held for trading (HFT) portfolio is ₱38.8 million. Peso government securities represent 72% of the portfolio with zero risk weight while dollar denominated securities issued by the Republic of the Philippines (ROP) compose 24% of the portfolio with risk weight ranging from 1.0% and 1.6%. On the other hand, the Bank's holdings of all other debt securities/derivatives that are below BBB- is around 3% and have 8.00% risk weight.

Part IV.1a INTEREST RATE EXPOSURES – SPECIFIC RISK (Amounts in ₱0.000 million)	Positions	Risk Weight					
		0.00%	0.25%	1.0%	1.60%	8.00%	Total
PHP-denominated debt securities issued by the Philippine National Government (NG) and BSP	Long	4,657.997					
	Short	63.378					
FCY-denominated debt securities issued by the Philippine NG/BSP	Long		203.251	34.763	1,366.169		
	Short						
Debt securities/derivatives with credit rating of AAA to BBB-issued by other entities	Long				30.988		
	Short				1.080		
All other debt securities/derivatives that are below BBB- and unrated	Long					194.267	
	Short					-	
Subtotal	Long	4,657.997	203.251	34.763	1,397.157	194.267	
	Short	63.378	-	-	1.080	-	
Risk Weighted Exposures [Sum of long and short positions times the risk weight]		-	0.508	0.348	22.372	15.541	38.769
Specific Risk Capital Charge for Credit-Linked Notes and Similar Products							
Specific Risk Capital Charge for Credit Default Swaps and Total Return Swaps							
SPECIFIC RISK CAPITAL CHARGE FOR DEBT SECURITIES AND DEBT DERIVATIVES		-	0.508	0.348	22.372	15.541	38.769

General Market Risk – Peso

The Bank's General Market Risk of its Peso debt securities and interest rate derivative exposure is ₱159.3 million. In terms of weighted position, the Bank's capital charge is highest under the Over 5 years to 7 years bucket at ₱44.7 million (net) or 29% with risk weight at 3.25%. The Bank's portfolio under the Over 20 years' time band attracts 6% risk weight or ₱ 23.4 million (net) representing 15% of the total Peso General Market Risk.

Currency: PESO								
PART IV.1d GENERAL MARKET RISK (Amounts in ₱0.000 million)								
Zone	Times Bands		Debt Securities & Debt Derivatives/Interest Rate Derivatives		Risk Weight	Weighted Positions		
	Coupon 3% or more	Coupon less than 3%	Total Individual Positions					
			Long	Short		Long	Short	
1	1 month or less	1 month or less	2,456.600	2,456.600	0.00%	-	-	
	Over 1 month to 3 months	Over 1 month to 3 months	13.683	13.683	0.20%	0.312	0.027	
	Over 3 months to 6 months	Over 3 months to 6 months	675.075	675.075	0.40%	0.003	2.700	
	Over 6 months to 12 months	Over 6 months to 12 months	-	-	0.70%	0.763	-	
2	Over 1 year to 2 years	Over 1.0 year to 1.9 years	-	-	1.25%	0.462	-	
	Over 2 years to 3 years	Over 1.9 years to 2.8 years	-	-	1.75%	2.663	-	
	Over 3 years to 4 years	Over 2.8 years to 3.6 years	-	-	2.25%	3.098	-	
3	Over 4 years to 5 years	Over 3.6 years to 4.3 years	-	-	2.75%	42.638	-	
	Over 5 years to 7 years	Over 4.3 years to 5.7 years	1.080	1.080	3.25%	44.781	0.035	
	Over 7 years to 10 years	Over 5.7 years to 7.3 years	51.055	51.055	3.75%	17.683	1.915	
	Over 10 years to 15 years	Over 7.3 years to 9.3 years	-	-	4.50%	6.557	-	
	Over 15 years to 20 years	Over 9.3 years to 10.6 years	-	-	5.25%	15.513	-	
	Over 20 years	Over 10.6 years to 12 years	12.335	12.335	6.00%	24.138	0.740	
		Over 12 years to 20 years	-	-	8.00%	-	-	
		Over 20 years	-	-	12.50%	0.066	-	
Total			1,477.455	3,209.828		158.675	5.417	
Overall Net Open Position								153.258
Vertical Disallowance							-	0.272
Horizontal Disallowance							-	2.729
TOTAL GENERAL MARKET RISK CAPITAL CHARGE							-	156.259

General Market Risk – US Dollar

The Bank's exposure on General Market Risk of the dollar-denominated HFT portfolio is ₱82.9 million. In terms of weighted position, the Bank's capital charge is concentrated under the Over 5 to 7 years at ₱20.5 million (net) and Over 10 to 15 years buckets at ₱24.5 million, respectively, with risk weight ranging from 3.25% to 4.50%. The Bank's portfolio under the Over 20 years' time band attracts 6% risk weight or ₱16.0 million representing 23% of the total risk weighted position.

Currency: USD								
PART IV.1d GENERAL MARKET RISK (Amounts in ₱0.000 million)								
Zone	Times Bands		Debt Securities & Debt Derivatives/Interest Rate Derivatives		Risk Weight	Weighted Positions		
	Coupon 3% or more	Coupon less than 3%	TotalIndividual Positions					
			Long	Short		Long	Short	
1	1 month or less	1 month or less	5,868.670	7,156.000	0.00%	-	-	
	Over 1 month to 3 months	Over 1 month to 3 months	2,837.067	2,795.212	0.20%	5.674	5.590	
	Over 3 months to 6 months	Over 3 months to 6 months	1,326.877	28.309	0.40%	5.308	0.113	
	Over 6 months to 12 months	Over 6 months to 12 months	-	-	0.70%	-	-	
2	Over 1 year to 2 years	Over 1.0 year to 1.9 years	34.763	-	1.25%	0.435	-	
	Over 2 years to 3 years	Over 1.9 years to 2.8 years	49.315	-	1.75%	0.863	-	
	Over 3 years to 4 years	Over 2.8 years to 3.6 years	-	-	2.25%	-	-	
3	Over 4 years to 5 years	Over 3.6 years to 4.3 years	1,379.009	1,340.069	2.75%	37.923	36.852	
	Over 5 years to 7 years	Over 4.3 years to 5.7 years	3,297.225	2,665.247	3.25%	107.160	86.621	
	Over 7 years to 10 years	Over 5.7 years to 7.3 years	11.038	-	3.75%	0.414	-	
	Over 10 years to 15 years	Over 7.3 years to 9.3 years	543.523	-	4.50%	24.459	-	
	Over 15 years to 20 years	Over 9.3 years to 10.6 years	17.104	-	5.25%	0.898	-	
	Over 20 years	Over 10.6 years to 12 years	267.224	-	6.00%	16.033	-	
		Over 12 years to 20 years	-	-	8.00%	-	-	
		Over 20 years	-	-	12.50%	-	-	
Total				15,631.815	13,984.837	199.166	129.176	
Overall Net Open Position								69.990
Vertical Disallowance							-	12.918
Horizontal Disallowance							-	-
TOTAL GENERAL MARKET RISK CAPITAL CHARGE							-	82.908

General Market Risk – Third currencies

The Bank is likewise exposed to interest rate risks of third currencies arising from its forward contracts.

Shown below are the general market risks on third currencies (interest component):

PART IV.1d GENERAL MARKET RISK (Amounts in ₱0.000 million)										
Currency	Time Bands	Total Debt Securities & Debt Derivatives/Interest Rate Derivatives			Weighted Positions		Overall Net Open Position	Vertical dis allowance	Horizontal dis allowance within	Total General Market risk capital charge
		Long	Short	Risk Weight	Long	Short				
JPY	1 month or less	-	158.817	0.00%	-	-				
	Over 1 months to 3 months	26.082	26.082	0.20%	0.052	0.052	-	.005	-	.005
GBP	1 month or less	54.434	257.166	0.00%	-	-	-	-	-	-
EUR	1 month or less	10.641	158.027	0.00%	-	-				
	Over 1 months to 3 months	5.545	5.545	0.20%	0.011	0.011	-	0.012	-	0.012
	Over 3 months to 6 months	27.208	27.208	0.40%	0.109	0.109				
CAD	1 month or less	44.743	67.095	0.00%	-	-	-	-	-	-
AUD	1 month or less	7.251	29.006	0.00%	-	-	-	-	-	-
HKD	1 month or less	1,465.369	0.00%	-	-	1,465.369				
	Over 1 months to 3 months	160.846	0.20%	-	0.322	160.846	2.05	-	-	2.025
	Over 3 months to 6 months	425.852	0.40%	-	1.703	425.852				

Equity Exposures

The Bank's holdings are in the form of common stocks traded in the Philippine Stock Exchange, with 8% risk weight both for specific and general market risk. The Bank's capital charge exposure to Equity Risk attracts adjusted capital charge of ₱43.6 million or Risk weighted equity exposures of ₱435.6 million (as of December 31, 2014).

Item	Nature of Item	Positions	Stock Markets
			Philippines
A.1	Common Stocks	Long	217.816
		Short	5.656
A.10	TOTAL	Long	217.816
		Short	5.656
B.	Gross (long plus short) positions (A.10)		223.472
C.	Risk Weights		8%
D.	Specific risk capital (B. times C.)		17.878
E.	Net long or short positions		212.160
F.	Risk Weights		8%
G.	General market risk capital charges (E. times F.)		16.973
H.	Total Capital Charge For Equity Exposures (sum of D. and G.)		34.851
I.	Adjusted Capital Charge For Equity Exposures (H. times 125%)		43.563
J.	TOTAL RISK-WEIGHTED EQUITY EXPOSURES (I. X 10)		435.632

Foreign Exchange Exposures

The Bank's exposure to Foreign Exchange (FX) Risk carries a capital charge of ₱47.8 million or Risk-Weighted FX exposure of ₱597.1 million based on an 8% risk weight. Majority of the exposure comes from FX assets and FX liabilities in USD/PHP. The Bank also holds third currencies in JPY, CHF, GBP, EUR, CAD, AUD, SGD and other minor currencies.

Part IV. 3 FOREIGN EXCHANGE EXPOSURES (as of Dec 31, 2014)						
					Closing Rate USD/PHP:	44.740
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
Sum of net long positions	Various					597.100
Sum of net short positions	Various					(6.085)
Overall net open positions						597.100
Risk Weight						8%
Total Capital Charge For Foreign Exchange Exposures (B. times C.)						47.768
Adjusted Capital Charge For Foreign Exchange Exposures (D. times 125%)						59.710
Total Risk-Weighted Foreign Exchange Exposures, Excluding Incremental Risk-Weighted Foreign Exchange Exposures Arising From NDF Transactions (E. times 10)						597.100
Incremental Risk-Weighted Foreign Exchange Exposures Arising From NDF Transactions (Part IV.3a, Item F)						--
Total Risk-Weighted Foreign Exchange Exposures (Sum of F. and G.)						597.100
Note: Overall net open position shall be the greater of the absolute value of the sum of the net long position or the sum of net short position.						

Operational Risk – Weighted Assets

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

(amounts in ₱ million) Consolidated as of Dec 31, 2014	Gross Income	Capital Requirement (15% x Gross Income)
2011 (Year 3)	19,969.805	2,995.471
2012 (Year 2)	23,033.734	3,455.060
2013 (last year)	18,172.063	2,725.809
Average for 3 years		3,058.780
Adjusted Capital Charge	Average x 125%	3,823.475
Total Operational Risk weighted Asset		38,234.751

Property Development

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

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

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

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

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

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

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

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

Financial Risk
Fluctuations in interest rates, changes in Government borrowing patterns and Government regulations could have a material adverse effect in the Company's and its customers' ability to obtain financing.

Higher interest rates make it more expensive for the Company to borrow funds to finance its ongoing projects or to obtain financing for new projects. In addition, the Company's access to capital and its cost of financing are also affected by restrictions, such as single borrower limits, imposed by Banko Sentral of the Philippines (BSP) on bank lending. These could materially and adversely affect the Company's business, financial condition and results of operations.

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

Item 2. Properties

Distilled Spirits

TDI and its subsidiaries own the following real estate properties:

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

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

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

Location	Present Use	Area (sqm)	Monthly Rental	Lease Expiry Date
Leased by TDI				
Cabuyao, Laguna	Production Plant	188,202	1,875,812	2015
Pinamucan, Batangas	Land rental	18,522	350,000	2015
Calaca, Batangas	Tank rental		555,915	2015
Murcia, Neg. Occ.	Production Plant	29,583	650,000	2015
El Salvador, Mis. Or.	Production Plant	108,843	106,293	2015
Leased by ADI				
Lian, Batangas	Distillation Plant	50,000	50,000	2021
	Totals	**395,150**	**3,588,020**	

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

The plant and equipment are located at the following areas:

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

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

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

Beverage

ABI and its subsidiaries own the following real estate properties:

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

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

Location	Present Use	Area (sqm)	Monthly Rental	Lease Term
Leased by ABI				
Ayala Ave., Makati City	Head Office	1,677	747,495	Mar 3, 2014 to Mar 2, 2017
Cabuyao, Laguna	Production Plant	3,000,891	1,650,000	Apr 1, 2013 to Mar 31, 2015
El Salvador, Mis. Or.*	Production Plant	1,088,133	117,451	Jan 1, 2013 to Dec 31, 2017
Leased by IPI				
San Fernando, Pampanga	Production Plant	85,000	600,000	Jan 1 2012 to Dec 31, 2014
	Totals	**4,175,701**	**3,114,946**	

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

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

The plant and equipment are located at the following areas:

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

Tobacco

The following comprises properties of FTC:

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

The following are the leased properties of FTC:

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

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

Banking

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

Disclosed in Exhibit I of PNB's 17A is the list of Bank-owned properties as of December 31, 2014.

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

Disclosed in Exhibit II of PNB's 17A is the list of Bank's branches that are under lease as of December 31, 2014.

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

Eton's investment properties consist of:

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

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

*Land under lease arrangement.

Eton also entered into a lease agreement with third parties for the lease of parcels of land where one of the Eton's projects is located. The annual rental expense, recognized as part of cost of rental income, amounted to ₱39.31 million in 2014 and 2013.

The lease agreement shall be for the period of 20 years commencing on January 1, 2011 renewable for another 20 years at the option of the lessee, Eton, with lease payments subject to a 5% escalation annually. Total rental payments amounted to ₱16.9 million and ₱14.3 million in 2014 and 2013.

Eton's real estate properties consist of :

ETON PROPERTIES PHILIPPINES, INC.

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

BELTON COMMUNITIES, INC.

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

FIRST HOMES INC.

Aurora Heights Residences	*Loyola Heights, Quezon City*

ETON CITY INC.

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

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

Eton'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, Metro Manila, Philippines.

Currently, Eton entered into a renewable cancellable lease agreements with PNB, which generally provides for a fixed monthly rent for the Group's office spaces. Eton has determined that all significant risks and rewards of ownership of these properties are retained by the lessor. Thus, Eton considers these lease agreements as operating leases. Rental expense recognized by Eton included under "Outside services" amounted to ₱11.10 million in 2014, ₱11.40 million in 2013 and ₱10.98 million in 2012.

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

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

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

1. Padre Faura, Ermita Manila - ₱93 million
2. Novaliches, Quezon City - ₱515 million
3. 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 however subsequently affirmed the Mandaluyong RTC TRO on January 9, 2004. On January 28, 2004, the Company filed a motion for reconsideration with the Court of Appeals. The Court of Appeals denied the TDI motion for reconsideration on July 2, 2004. On Dec. 28, 2004, TDI then filed a petition for review on certiorari before the Supreme Court. On Aug. 17, 2009, the Supreme Court reversed the decision of the Court of Appeals and nullified the writ of preliminary injunction issued by the Mandaluyong RTC. GSMI filed a motion for reconsideration but the Supreme Court denied the GSMIs motion with finality on Nov. 25, 2009.

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

On December 18, 2013, the Company filed a petition before the Supreme Court questioning the decision of the CA. As of March 17, 2015, the Company was awaiting decision of the Supreme Court.

Opposition to Registration of Brand Name

On August 9, 2006, GSMI also filed an opposition to TDIs application for registration of the brand name Ginebra Kapitan with the Intellectual Property Office (IPO). The Bureau of Legal Affairs (BLA) of the IPO ruled on April 23, 2008 that the word "GINEBRA" is a generic term that is not capable of exclusive appropriation. The decision paved the way for the registration with the IPO of TDI's brand name "GINEBRA KAPITAN".

GSMI sought for the reconsideration of this April 23, 2008 Decision of the BLA, which motion was however denied in a Resolution dated March 4, 2009. From this denial, GSMI filed an appeal memorandum with the Office of the Director General of the IPO raising as an issue, among others, the damage it would sustain with the registration of the mark GINEBRA KAPITAN.

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

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

TDI filed a Motion for Reconsideration to the Court of Appeals' Decision on August 20, 2014. GSMI filed its comments to TDI's Motion for Reconsideration on October 9, 2014. The Court of Appeals has not yet submitted its decision to date.

DENR-Administrative Proceedings

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

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

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

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

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

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

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

Realty Tax Assessment Case

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

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

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

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

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

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

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

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

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

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

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

On January 13, 2014, the Municipality of Pulupandan filed a Motion for Reconsideration for the decision of LBAA which declares the Notice of Assessment and Statement of Real Property Tax due null and void. On March 11, 2014, AAC filed an Opposition to the Motion for Reconsideration filed by the Municipality of Pulupandan for lack of merit and that the LBAA decision dated November 26, 2013 be sustained.

On March 19, 2014 the Provincial Legal Officer as counsel of the Provincial Assessor's Office wrote a letter to the counsel of the company saying that its Office and Office of the Provincial Assessor have complied with the decision of the LBAA and considered the Notices void for having been issued ultra vires and thereby taking no further action on the said Notices of Assessment. To date, AAC has not received any reply from the LBAA on the intervenors' Motion for Reconsideration.

Beverage

ABI maintains a legal department whose main function is to pursue collection cases and handle litigation arising from labor disputes. As of December 31, 2014, ABI did not have any significant legal proceedings either against it or in pursuit of another party besides those arising from the ordinary course of business.

Tobacco

Sandiganbayan case against Tan Companies

On June 6, 2011, a motion was submitted by the Government seeking to include PMFTC and its directors/officers as additional defendants in the forfeiture case pending before the Sandiganbayan against Mr. Lucio C. Tan, FTC, et al. since 1987. The Government claims that by transferring the assets owned by FTC to PMFTC as a result of the business combination, the FTC assets have been removed beyond the reach of the Government and the court. The Sandiganbayan denied this motion with finality on August 2011, ruling that they are not necessary or indispensable parties under the law. In a decision in June 2012, the Sandiganbayan also dismissed the forfeiture case against all the defendants for failure of the Government to prove that the assets that formed the subject of the case were ill-gotten wealth. The Government's motion for reconsideration was likewise denied in September 2012. 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 a respondent in Civil Case No. Q-10-66785 entitled "Kingston Tuscani Enterprise & Development Corporation, Cristeta Babaison, et al. vs. Paramount Holding Equities and Eton Properties Philippines, Inc." pending before the Regional Trial Court of Quezon City, Branch 100.

The case involves the Eton's property in Quezon City covered by Transfer Certificate of Title (TCT) No. 62821 located at the corner of EDSA and Quezon Avenue, Quezon City. The plaintiffs filed a complaint seeking to annul Eton's title alleging that it overlaps with TCT No. 300828. Plaintiffs also alleged that the signature of the then Register of Deeds on Eton's title was forged.

In its Answer, the defendants, including Eton raised the defense that the property was acquired through public bidding from the Land Bank of the Philippines where Paramount was the highest bidder at Php1.030 Billion and which sale was approved by the President of the Philippines then. Further, there was no adverse claim or notice of lis pendens, encumbrance, or annotation of any overlapping claim on Eton's title. Based on an investigation conducted into the plaintiffs' title, it appeared that the technical descriptions of TCT No. 300828 overlapped several titled properties when plotted. It was also found by the NBI that plaintiff's title was not regularly issued and, upon further examination, the technical description overlapped other titled properties located in Aurora Boulevard, and Manga Street, among others, showing that the plaintiffs' property was located elsewhere when plotted.

Additionally, defendants challenged the standing of the plaintiffs as not being the real parties in interest and subsequently requested the Court for a hearing on its affirmative defenses raised in its Motion to Dismiss.

After due hearing, the Court, on December 14, 2014 issued a Resolution dismissing the complaint against the Company.

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
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			
1st Quarter	17.44	19.90	14.82
2nd Quarter	14.76	18.90	13.98
3rd Quarter	15.64	17.30	14.58
4th Quarter	12.14	15.86	12.00
2015			
April 8, 2015*	16.78	16.98	16.64

*Latest practicable trading date

2. Holders

The number of shareholders of record as of December 31, 2014 was 375. Common shares outstanding as of December 31, 2014 were 10,821,388,889. The top 20 stockholders as of December 31, 2014 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.	1,039,072,431	9.6020
Deutsche Bank Manila	608,639,708	5.6244
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.	133,618,195	1.2348
Absolute Classic Ltd.	95,811,000	0.8854
Conqueror Vision Ltd.	81,913,000	0.7570

Pan Asia Securities Corp.	30,432,700	0.2812
Pru Life Insurance Corp. of UK	26,650,100	0.2463
Standered Chartered Bank	24,804,403	0.2292
Government Service Insurance System	24,207,500	0.2237
SB Equities, Inc.	23,068,300	0.2132
Col Financial Group, Inc.	12,597,939	0.1164
Banco De Oro – Trust Banking Group	10,942,400	0.1011
BPI Securities Corp.	9,579,526	0.0885
MBTC Trust Banking Group	9,007,000	0.0832
Citibank FAO Philippine AXA Wealth Equity	8,821,200	0.0815
Citibank FAO Philippine AXA Chinese Tycoon	8,651,600	0.0799

***** LTG has no preferred shares.

3. Dividends

   a.) Dividend declarations

   On April 10, 2014 the Board of Directors of LTG approved the declaration and distribution of cash dividends of ₱0.16 per share to all stockholders of record as of April 25, 2014. The dividends were paid in May 16, 2014.

   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, 2014, 2013 and 2012 included in this report.

2014 vs 2013

CONSOLIDATED RESULTS OF OPERATIONS

(In millions)	2014	2013
Revenue	₱52,125	₱55,792
Cost of Sales	25,074	26,022
Equity in Net Earnings of Associates	895	3,704
Operating Expenses	25,306	24,458
Operating Income	2,640	9,016
Other income-net	6,521	4,568
Income Before Income Tax	9,161	13,584
Total Net Income	6,472	11,475
Net Income Attributable to Equity Holders of the Parent Company	4,410	8,669

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

Consolidated revenues amounted to ₱52.1 billion for the year ended December 31, 2014, 6.6% lower than the previous period of ₱55.8 billion. The banking segment's revenues were lower by 12.1% largely due to lower lower trading gains. Property segment's revenues was lower by 37.7% as halted sales activities in order to revisit its projects' master plans and optimize values. The increase in distilled spirits and beverage segments' revenues by 14.3% and 4.6%, respectively, partially offset the drop in consolidated revenues from the other segments.

Cost of sales and services decreased slightly by 3.6% from ₱26.0 billion for the year ended December 31, 2013 to ₱25.1 billion in the current period. This primarily due to lower interest expense on bank deposit liabilities of the banking segment.

Consolidated operating expenses were higher by 3.5% mainly on account of increases in the general and administrative expenses by 4.1%.

SEGMENT OPERATIONS

Distilled Spirits

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

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

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

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

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

Beverage

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

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

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

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

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

Tobacco

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

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

Banking

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

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

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

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

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

Property development

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

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

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

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

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 the 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 largely due to the ₱295.0 million increase in general and administrative expenses, which included ₱105 million in separation pay related to the closure of the Quiapo plant, effective April 1, 2013. The Quiapo plant was closed 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 volume was attributed to price increases due to higher excise taxes starting 2013 from R.A. 10351 and stiffer competition. 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 alcopops. 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 a ₱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 helped the beverage segment 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 of the tobacco segment for the year ended December 31, 2013 was ₱3.9 billion, lower by 43.0% from 2012's ₱6.9 billion. This was 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, 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%, and operating expenses by 55.8% due to the termination of FTC's manufacturing operations.

Banking

The banking segment's net income was ₱6.2 billion, a 4.4% decline y-o-y, mainly due to the ₱875 million in casualty losses from Typhoons Yolanda (international name Haiyan) and Santi, and the Bohol earthquake that was booked by the general insurance business.

Interest income declined 6.8% to ₱19.4 billion in 2013 as the sale of government securities in 2012 led to lower income on investment securities in 2013. 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 122.9% growth in net income from ₱47 million for the year ended December 31, 2012 to ₱105.1 million in 2013.

This was on account of higher revenues by 36.2% to ₱3.7 billion in 2013, largely due to the increases in percentages of completion of its projects. Real estate sales grew by 40.1%, 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.

FINANCIAL CONDITION

2014

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

The increase in consolidated current assets by 11.3% from ₱305.6 billion as of December 31, 2013 to ₱340.1 billion was due to the 72.7% growth in the current portion of loans and receivables, mainly on account of major loan releases by the banking segment, and the maturity and reclassification from noncurrent to current of loans and receivables. The current portion of loans and receivables of the banking segment increased by 80.4% from ₱71.8 billion in December 31, 2013 to ₱129.5 billion as of December 31, 2014. Financial assets at fair value through profit or loss of the banking segment increased by 81.7%, mainly due to purchases of various investment securities. The other movement in current assets was the 25.9% rise in inventories, on account of the increased inventories by the beverage and property segments. Other current assets also increased by 40.1% mainly on account of the banking segment's increased miscellaneous assets and creditable withholding taxes. There was a 29.0% increase in current available for sale investments due to the higher fair market values of investments. The increase in consolidated current assets was offset by the decrease in cash and cash equivalents by 21.8% on account of the banking segment's decrease in Due from Bangko Sentral ng Pilipinas and interbank loans and receivables.

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

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

Financial liabilities at fair value through profit or loss increased to ₱10.8 billion mainly on account of the banking segment's reclassification of these accounts to current. Current portion of bills and acceptances payable and accounts payable and accrued expenses declined by 41.9% and 29.6%, respectively mainly due to the settlement of the banking segment's currently maturing bills and acceptances payable and other liabilities. Short-term debts and long-term debts current increased from ₱1.3 billion to ₱5.8 billion on account of the distilled spirits segment's reclassification of the ₱5.0 billion bonds payable to current, as these will mature in February 2015. Due to related parties decreased from ₱8.0 billion in 2013 to ₱49.8 million on December 31, 2014 mainly on account of conversion of liabilities to Tangent Holdings Corporation (THC) into preferred shares. Other current liabilities declined from ₱24 billion in 2013 to
₱18.3 billion in December 31, 2014 due to the banking segment's settlement of its various other current liabilities.

The increase in the noncurrent liabilities was on account of the increase in the noncurrent deposit liabilities of the banking segment from ₱10.5 billion as of December 31, 2013 to ₱23.5 billion as of

December 31, 2014 and increase in noncurrent bills and acceptances payable from ₱1.7 billion as of December 31, 2013 to ₱12.4 billion as of December 31, 2014. This was partially offset by the reclassification in the noncurrent financial liabilities through profit or loss to current. Noncurrent portion of long-term debt decreased from ₱16.9 billion as of December 31, 2013 to ₱11.3 billion as of December 31, 2014 due to the reclassification of the distilled spirits' ₱5.0 billion bonds payable to current. Accrued retirement benefits decreased by 13.1% to ₱3.8 billion due to the contribution of the banking segment to the retirement fund. Deferred income tax liabilities decreased by 25.4% mainly due to the adjustments and realization of the tax liabilities of all segments in the current period. Lastly, the increase in other noncurrent liabilities by 449.5% was mainly due to the banking segment's increase in the noncurrent portion of unearned premiums and inter-office float items drafts outstanding.

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

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 as of 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 was due to increased deposits in BSP and the proceeds from LT Group's equity offering. Other movements in the current assets were 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 assets through FVPL had decreased, mainly on account of lower level of bank's segregated fund assets and lower fair values of the remaining financial assets through FVPL. Current portion of available for sale financial assets declined by 45% due to net disposals. The decrease in the due from related parties' accounts was on account of 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 79% decrease in FTC's retirement plan assets as the excess fund contribution was reverted to FTC as well as the 16.2% decrease 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 was 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. Customers' deposits increased by 8.5% from the property development's account. The decrease in the financial liabilities at fair value through profit or loss was due mainly to the banking segment's redemption of the ₱6.0 subordinated notes issued on June 19, 2009. This was also part of a group of financial instruments that were managed on a fair value basis, in accordance with the Group's documented risk management and investment strategy. Bills and acceptances payable 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 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 grew 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 a 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% growth in retained earnings from its subsidiaries' income.

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 2014 was 51.9% versus 53.4% in 2013.

2.) **Return on Equity**

Consolidated Net Income Attributable to Equity Holders of the Parent Company for 2014 amounted to ₱4.4 billion; lower by 49.1% from last year's ₱8.7 billion. Ratio of net income to equity is 3.6% in 2014 and 7.4% in 2013.

3.) **Current Ratio**

Current Ratio for 2014 is 0.73:1 while last year's was 0.63:1.

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

Debt-to-equity ratio for 2014 is 3.28:1 as compared to last year's 3.53:1.

5.) **Earnings per share**
Earnings per share attributable to holders of the parent company for 2014 is ₱0.41 and ₱0.80 in 2013.

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

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

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

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

Distilled spirits

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

Beverage

In response to the growing market demand for healthier beverage options, ABI has started the construction of a soy milk production facility in Cabuyao scheduled to be operational in the first quarter of 2016.

In 2014, ABI completed the construction of its new Head Office building at the Cabuyao complex. The LEED-certified office building currently houses the majority of administrative and support staff previously located in Allied Banking Center, Makati. LEED, or Leadership in Energy & Environmental Design, is a certification that provides independent verification of a building's green features, allowing for the design, construction, operation and maintenance of resource-efficient, high-performing, healthy, cost-effective buildings.

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

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

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

Results of our Horizontal (H) and Vertical (V) analyses showed the following material changes as of and for the years ended December 31, 2014 and 2013:

1. Cash and cash equivalents – H- (22%); V- (7%)
2. Financial assets at fair value through profit or loss – H- (82%)
3. Available-for-sale investments - current – H- 29%
4. Loans and receivables-current – H-73%; V-8%
5. Due from related parties – H- (34%)
6. Inventories – H- 26%
7. Other current assets – H- 40%
8. Loans and receivables-noncurrent – H- (8%)
9. Available-for-sale investments - noncurrent – H- (23%)
10. Investments in associates and joint venture – H- (10%)
11. Property, plant and equipment – at cost – H- (18%)
12. Deferred income tax assets- H- (73%)
13. Other noncurrent assets- H- (24%)
14. Financial liabilities at fair value through profit or loss – current – H- 5,539%
15. Bills and acceptances payable - current – H- (42%)
16. Accounts payable and accrued expenses – H- (30%)
17. Income tax payable- H- 99%
18. Short-term and long-term debts-current – H- 343%
19. Current portion of due to related parties – H- (99%)
20. Other current liabilities – H- (24%)
21. Deposit liabilities – noncurrent – H- 125%
22. Financial liabilities at fair value through profit or loss - noncurrent – H- (100%)
23. Bills and acceptances payable - noncurrent – H- 610%
24. Long-term debt – net of current portion – H- (33%)
25. Accrued retirement benefits – H- (13%)
26. Deferred income tax liabilities- H- (25%)
27. Other noncurrent liabilities- H- 450%
28. Deposit for future stock subscription – H- (100%)
29. Preferred shares of subsidiary issued to Parent Company – H- 144%
30. Other comprehensive income – H- (25%)
31. Retained earnings- H- 7%
32. Non-controlling interests – H – 19%
33. Banking revenue – H- (15%)
34. Distilled spirit revenue– H- 14%
35. Property development Revenue – H- (38%)
36. Tobacco revenue – H- (100%)
37. Equity in net earnings of associate – H-(76%)
38. Finance cost – H- (5%)
39. Finance income – H- (14%)
40. Foreign exchange gains – H- 7%
41. Others-net – H- 51%
42. Provision for income tax – H- 28%

43. Net income- H- (44%)

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 2014 and 2013.

LT Group, Inc.
Yr. 2014- ₱ 1,500,000
Yr. 2013- ₱ 1,500,000

Tanduay Brands International, Inc.
Yr. 2014- ₱ 60,000
Yr. 2013- ₱ 60,000

Distilled Spirits
Yr. 2014- ₱ 2,850,000
Yr. 2013- ₱ 2,650,000

Beverage
Yr. 2014- ₱ 4,180,000
Yr. 2013- ₱ 3,800,000

Tobacco
Yr. 2014- ₱ 600,000
Yr. 2013- ₱ 600,000

Banking
Yr. 2014- ₱12,802,000
Yr. 2013- ₱5,992,000

Property Development
Yr. 2014- ₱ 2,095,000
Yr. 2013- ₱ 1,995,000

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. 2014

LT Group, Inc. and its subsidiaries incurred ₱5,900,000 during the year 2014 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 85) are filed as part of this Form 17-A (pages 88 to 252)

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, 2014 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., Tangent Holdings Corporation, Air Philippines Corporation, 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., Allied Bankers 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., 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**; majority stockholder of Century Park Hotel	Chairman/ 1Year/ 2 July 1999 to present

Carmen K. Tan	74	Filipino	Director of Tangent Holdings Corporations, 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., Air Philippines Corporation, Philippine Airlines, Inc. **PAL Holdings, Inc. 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	69	Filipino	Vice Chairman of Eton Properties Philippines, Inc., Eton City, Inc., Belton Communities, Inc., Pan Asia Securities, Inc., and Lucky Travel Corp. He is also the 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. He serves as Director of Asia Brewery Inc., Allied Bankers 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 National Bank**, 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., Treasurer of Tangent Holdings Corporation	Director/ 1 Year/ 28 May 2008 to present

Michael G. Tan	49	Filipino	Director/Chief Operating Officer of Asia Brewery, Inc., Director of Tangent Holdings Corporation, Allied Bankers Insurance Corp., Air Philippines Corporation, 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.**	President/ 1 Year/ 05 May 2010 to present (Director since 21 February 2003)
Lucio K. Tan, Jr.	48	Filipino	Director/President of Tanduay Distillers, Inc. and Eton Properties Philippines, Inc.; Director/EVP of Fortune Tobacco Corp.; Director of Tangent Holdings Corporation, Allied Bankers 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 / 1 Year/ 21 February 2003 to present

Joseph T. Chua	58	Filipino	Director/President and Chief Executive Officer of **MacroAsia Corporation**, the Chairman of J.F. Rubber Philippines, Watergy Business Solutions, Inc., and Cavite Business Resources, Inc.; Managing Director of Goodwind Development Corporation (Guam); Director/President of MacroAsia Airport Services Corporation, MacroAsia Air Taxi Services, MacroAsia Catering Services, Inc., MacroAsia Properties Development Corp., and MacroAsia Mining Corporation; Director/OIC of Eton Properties Philippines, Inc.; Director of Lufthansa Technik Philippines, Inc. Bulawan Mining, Eton China, Philippine Airlines Inc., Air Philippines Corporation, **Philippine National Bank** and **PAL Holdings, Inc.**	Director / 1 Year/ 09 June 2014 to present
Juanita Tan Lee	72	Filipino	Director of Eton Properties Philippines, Inc.; Director/Corporate Secretary of Asia Brewery, Inc., Fortune Tobacco Corp., Dominium Realty and Construction Corp., and Shareholdings, Inc.; Corporate Secretary of Asian Alcohol Corp., Absolut Distillers, Inc., The Charter House, Inc., Far East Molasses Corp., Foremost Farms, Inc., Fortune Tobacco International 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.; and Assistant Corporate Secretary of Basic Holdings Corp.	Director/ 1 Year/ 02 May 2012 to present Assistant Corporate Secretary/ 1 Year/ 13 September 2000 to 17 September 2012 Treasurer/ 1 year/ 08 April 2014 to present

Peter Y. Ong	67	Filipino	Director and the Treasurer of Merit Holdings & Equities Corporation, Director of Fortune Tobacco Corporation, AlliedBankers Insurance Corporation, Allied Leasing and Finance Corporation and Solar Holdings Corporation. He is also a consultant of Philippine Airlines, Inc., Former President of Air Philippines Corporation, Former Senior Vice President for Production of Fortune Tobacco Corporation and Former Director of Allied Savings Bank.	Director / 1 Year/ 18 August 2014 to present
Washington Z. Sycip	93	American	Founder of SyCip Gorres Velayo & Co.; Chairman Emeritus of the Board of T rustees and Governors of the Asian In stitute 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/ 09 July 2013 to present

Antonino L. Alindogan, Jr.	76	Filipino	Chairman of An-Cor Holdings, Inc.; Chairman/President of Landrum Holdings, Inc.; Independent Director of Philippine Airlines, Inc., Eton Properties Philippines, Inc.,**Rizal Commercial Banking Corp.**, **PAL Holdings, Inc.**, **House of Investments, Inc.**, Great Life Financial Assurance Corp., and Bankard Inc.; Former President of C55, Inc.; Former Chairman of the Board of Directors of Development Bank of the Philippines (DBP)**;** Former Consultant for Microfinance of DBP; Former Member of the Monetary Board of Bangko Sentral ng Pilipinas	Independent Director; Audit Committee Chairman/ 1 year/ 31 July 2012 to present
Wilfrido E. Sanchez	78	Filipino	Tax Counsel of Quiason Makalintal Barot Torres Ibarra &Sison Law Offices; Vice Chairman of Center for Leadership & Change, Inc.; Independent Director of Adventure International Tours, Inc., Amon Trading Corp., **EEI Corporation**, Grepalife Asset Management Corp., Grepalife Fixed Income Fund Corp., **House of Investments, Inc**., JVR Foundation, Inc., Kawasaki Motor Corp., Magellan Capital Holdings, Corp., Omico Corporation; PETNET, Inc., PETPLANS, Inc., Transnational Diversified Corp., Transnational Diversified Group, Inc., Transnational Financial Services, Inc., and Universal Rubina Corp.; Independent Director of Eton Properties Philippines, Inc. and **Rizal Commercial Banking Corporation**	Independent Director/ 1 year/ 31 July 2012 to present
Florencia G. Tarriela	68	Filipino	Chairman of **Philippine National Bank**, PNB Global Remittance & Financial Co., HK Ltd.; Trustee/Advisor/Director of Foundation for Filipino Entrepreneurship, Inc., Summer Institute of Linguistics, and Tulay sa Pagunlad, Inc.; Columnist of Manila Bulletin	Independent Director/ 1 year/ 09 August 2012 to present

Robin C. Sy	79	Filipino	President of Asian Shipping Corporation, Independent Non-executive Director of Dynamic Holdings Limited, Honorary President of Federation of Filipino-Chinese Chamber of Commerce and Industry, Inc., Former Director of Air Philippines Corporation and Zuma Holdings and Management Corporation.	Independent Director / 1 Year/ 18 August 2014 to present

2. Executive Officers

Name/Position	**Age**	Citizenship	**Current Affiliations and Business Experiences in the last 5 years**	**Term of Office/ Period Served**
Lucio C. Tan/ Chairman	80	Filipino	See above	1 Year/ 2 July 1999 to present
Juanita Tan Lee/ Treasurer	72	Filipino	See above	1 Year/ 08 April 2014 to present
Michael G. Tan/ President	49	Filipino	See above	1 Year/ 05 May 2010 to present
Ma. Cecilia L. Pesayco/ Corporate Secretary	62	Filipino	Corporate Secretary of PNB Savings Bank and East Silverlane Realty and Development Corp., Trustmark Holdings Corporation, Zuma Holdings and Management Corporation, **PAL Holdings, Inc.** and Air Philippines Corp.; Assistant Corporate Secretary of Tanduay Distillers, Inc.; Former Corporate Secretary of Allied Banking Corp. and Eton Properties Philippines, Inc.	1 Year/ 31 March 1998 to present
Jose Gabriel D. Olives/ Chief Financial Officer	68	Filipino	Former Senior Vice President – Finance & Chief Financial Officer of Philippine Airlines, Inc., and Former Chief Finance Officer of Asia Brewery, Inc.	1 Year/ 09 August 2012 to present
Nestor C. Mendones/ Deputy Chief Financial Officer	60	Filipino	Senior Vice President and Chief Finance Officer of Tanduay Distillers, Inc.	1 Year/ 09 August 2012 to present

Marivic T. Moya/ Assistant Corporate Secretary	54	Filipino	Corporate Secretary of MacroAsia Catering Services Inc., MacroAsia Airport Services Corp., and Watergy Business Solutions Inc., Director and Coporate Secretary of MacroAsia Properties Development Corp., MacroAsia Air Taxi Services, Inc., and MacroAsia Mining Corp.(2000-Present), and Cavite Business Resources, Inc.	1 Year/ 09 June 2014 to present

Independent Directors and their qualifications:

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

   Term of office – 1 year
   Period served – 2 years

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

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

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

   Term of office – 1 year
   Period served – 2 years

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

   Positions held in the last 5 years:
   - Quiason Makalintal Barot Torres & Ibarra Law Offices – Tax Counsel
   - Adventure International Tours, Inc. – Director
   - Amon Trading Corp. – Director
   - Center for Leadership and Change, Inc. – Vice Chairman/Director
   - EEI Corporation – Director
   - Eton Properties Philippines, Inc. – Independent Director
   - House of Investments, Inc. –Director
   - JVR Foundation, Inc. – Director

- Kawasaki Motor Corp. – Director
- Magellan Capital Holdings Corp. – Director
- PETNET, Inc. – Director
- PETPLANS, Inc. – Director
- Rizal Commercial Banking Corp. – Independent Director
- Transnational Diversified Corp. – Director
- Transnational Financial Services, Inc. - Director
- Universal Robina Corp. – Independent Director

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

Term of office – 1 year
Period served – 2 years

Educational Attainment:

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

Positions held in the last 5 years:

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

4. Robin C. Sy, 79, elected as Independent Director since June 9, 2013.

Term of office – 1 year
Period served – 1 year

Positions held in the last 5 years:

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

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

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

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

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)	2015 (Estimate)	14,681,865	840,565	2,519,000
	2014	13,347,150	764,150	2,290,000
	2013	8,609,800	734,150	2,045,000
All other officers and directors as a group unnamed	2015 (Estimate)	3,036,000	253,000	7,711,000
	2014	2,760,000	230,000	7,010,000
	2013	6,650,000	550,000	6,535,000

* 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, 2014.

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

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

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

2. Security Ownership of Management

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

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

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

3. Voting Trust Holders of 5% or more

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

4. Changes in Control

None

Item 12. Certain Relationships and Related Transactions

In addition to Note 22 of the Notes to the Consolidated Financial Statements on pages 194 to 199 the following are additional relevant related party disclosures:

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

a.) Business purpose of the arrangements:

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

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

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

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

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

e.) There are no other 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 22 of the Notes to Consolidated Financial Statements.

PART IV – CORPORATE GOVERNANCE

Item 13. Corporate Governance

Please refer to attached 2014 ACGR.

PART V - EXHIBITS AND SCHEDULES

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

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

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

b. Reports on SEC Form 17-C

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

LIST OF ITEMS REPORTED UNDER SEC FORM 17-C
(FOR THE PERIOD OF JULY 2014 TO DECEMBER 2014)

Date of Report	Subject Matter Disclosed
August 8, 2014	In addition to the previous acquisitions by the Company of shares in Victorias Milling Company, Inc. (VMC), an additional 63,156,612 common shares in VMC were acquired from Development Bank of the Philippines at PhP5.32 per share. The Company's aggregate interest in VMC, including the convertible notes, amounts to 716,503,347 shares equivalent to 23.5% of the total issued and outstanding shares.
August 11, 2014	During the meeting of the Board of Directors held on August 11, 2014, Mr. Johnip G. Cua was appointed to the Board of Advisors, after his nomination was duly approved by the Nomination and Compensation Committee during its meeting held immediately before the Board meeting.
August 14, 2014	Official Media Release of LTG for August 14, 2014 – LTG's Net Income at Php2.16 Billion for the First Half of 2014
November 14, 2014	Official Media Release of LTG for November 14, 2014 – LTG's Net Income at Php2.5 Billion for the First Nine Months of 2014

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 APR 14 2015.

By:

Lucio C. Tan
Principal Executive Officer

Nestor C. Mendones
Deputy Chief Financial Officer

Michael G. Tan
Principal Operating Officer

Susan T. Lee
Principal Accounting Officer

Jose Gabriel D. Olives
Principal Financial Officer

Ma. Cecilia L. Pesayco
Corporate Secretary

SUBSCRIBED AND SWORN to before me this ___ day of APR 14 2015 2015 affiants exhibiting to me their Passport and Driver's license numbers, as follows:

NAMES	PASSPORT NO.	DATE OF ISSUE	PLACE OF ISSUE
Lucio C. Tan	EC0015255	1/17/2014	Manila, Philippines
Michael G. Tan	EC0229876	2/6/2014	Manila, Philippines
Jose Gabriel D. Olives	EC0224969	2/6/2014	Manila, Philippines
Ma. Cecilia L. Pesayco	EB4720800	2/16/2012	Manila, Philippines
Susan T. Lee	EB1787129	1/24/2011	Manila, Philippines

NAME	DRIVER'S LICENSE	EXPIRATION DATE	PLACE OF ISSUE
Nestor C. Mendones	N01-74-031660	1/27/2016	Manila, Philippines

Doc. No. 273
Page No. 54
Book No. IV
Series of 2015

ARMAND V. MORALES
Notary Public until 31 December 2016
19th F. BDO Plaza, 8737 Paseo de Roxas, Makati City
PTR No. 4234204, Makati City, 8 January 2014
Lifetime IBP No. 937244, PPLM. 10 May 2013
Roll No. 61934, Commission No. M-17

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

		Page
CONSOLIDATED FINANCIAL STATEMENTS		
Statement of Management's Responsibility for Financial Statements		86-87
Report of Independent Auditors		90-91
Consolidated Balance Sheets as of December 31, 2014 and 2013		92-93
Consolidated Statements of Income for the Years Ended December 31, 2014, 2013 and 2012		94
Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2014, 2013, and 2012		95
Consolidated Statement of Changes in Equity for the Years Ended December 31, 2014, 2013 and 2012		96-97
Consolidated Statements of Cash Flows for Years Ended December 31, 2014, 2013, and 2012		98-99
Notes to Consolidated Financial Statements		100-252
SUPPLEMENTARY SCHEDULES		
Report of Independent Public Auditors on Supplementary Schedules		253
A.	Financial Assets	254-264
B.	Amounts Receivable from Directors, Officers, Employees, Related Parties, and Principal Stockholders (Other than Related Parties)	265
C.	Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements	266
D.	Intangible Assets and Other Assets	267
E.	Long-term debts	268
F.	Indebtedness to Related Parties	*
G.	Guarantees of Securities of Other Issuers	*
H.	Capital Stock	269
I.	Reconciliation of Retained Earnings (Sec 11)	270
J.	Relationships between & among the Group and its parent	271
K.	List of all effective Standards and Interpretations under the Philippine Financial Reporting Standards (PFRS) effective as of December 31, 2014	272-278
L.	Index to Exhibits	279

* 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, 2014, 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 8th day of April 2015

REPUBLIC OF THE PHILIPPINES)
CITY OF MAKATI)

BEFORE ME, personally appeared the following persons on Apr. 8, 2015

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

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

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

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal, this day of APR 08 2015 2015 at Makati City Philippines

ADRIANNE MARIE C. ALAZAS
Notary Public until 31 December 2015
19th fl. BDO Plaza, 8737 Paseo de Roxas, Makati City
PTR No. 4239395, Makati, 15 January 2014
IBP No. 947345, Makati, 3 January 2014
Roll No. 58449, Commission No. 378

Doc. No. 241
Page No. 95
Book No. II
Series of 2015

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

Consolidated Financial Statements
As of December 31, 2014 and 2013
and for the years ended December 31, 2014, 2013 and 2012

and

Independent Auditors' Report

COVER SHEET

for

AUDITED FINANCIAL STATEMENTS

SEC Registration Number

P	W	-	0	0	0	0	0	3	4	3

Company Name

L	T		G	R	O	U	P,		I	N	C.	(	A		S	u	b	s	i	d	i	a	r	y		o	f	
T	a	n	g	e	n	t		H	o	l	d	i	n	g	s		C	o	r	p	o	r	a	t	i	o	n	)	

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

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																		

Form Type	Department requiring the report	Secondary License Type, If Applicable
A C F S	S E C	N / A

COMPANY INFORMATION

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

No. of Stockholders	Annual Meeting Month/Day	Fiscal Year Month/Day
375	June 9	December 31

CONTACT PERSON INFORMATION

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

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

Contact Person's Address

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

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

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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, 2014 and 2013, and the consolidated statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2014, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

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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, 2014 and 2013 and their financial performance and their cash flows for each of the three years in the period ended December 31, 2014, 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. 08-001998-18-2015,
February 27, 2015, valid until February 26, 2018
PTR No. 4751279, January 5, 2015, Makati City

April 8, 2015

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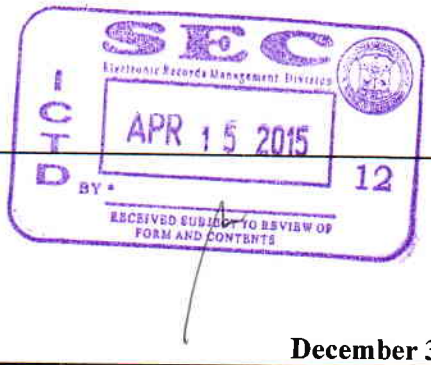
LT GROUP, INC.
(A Subsidiary of Tangent Holdings Corporation)
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(Amounts in Thousands)



	December 31	
	2014	2013
ASSETS		
Current Assets		
Cash and cash equivalents (Note 5)	**₱147,275,490**	₱188,319,662
Financial assets at fair value through profit or loss (Notes 6 and 21)	**22,811,921**	12,556,152
Available for sale (AFS) investments (Notes 7 and 17)	**3,774,286**	2,926,104
Loans and receivables (Notes 8 and 17)	**143,653,521**	83,185,666
Due from related parties (Note 22)	**1,797,390**	2,710,185
Inventories (Note 9)	**12,936,865**	10,279,959
Other current assets (Notes 7 and 10)	**7,886,609**	5,627,293
Total Current Assets	**340,136,082**	305,605,021
Noncurrent Assets		
Loans and receivables - net of current portion (Notes 8 and 17)	**187,438,860**	204,749,366
AFS investments (Notes 7 and 17)	**60,039,059**	78,029,572
Held to maturity investments (Note 7)	**22,895,493**	–
Investments in associates and a joint venture (Note 11)	**12,297,509**	13,664,449
Property, plant and equipment (Note 12):		
At appraised values	**38,470,525**	37,834,527
At cost	**3,975,397**	4,846,852
Investment properties (Note 13)	**27,197,933**	26,187,597
Deferred income tax assets (Note 29)	**717,218**	2,681,327
Other noncurrent assets (Note 14)	**3,665,132**	4,851,511
Total Noncurrent Assets	**356,697,126**	372,845,201
TOTAL ASSETS	**₱696,833,208**	₱678,450,222
LIABILITIES AND EQUITY		
Current Liabilities		
Deposit liabilities (Note 15)	**₱411,391,378**	₱415,690,524
Financial liabilities at fair value through profit or loss (Notes 16 and 21)	**10,837,220**	192,195
Bills and acceptances payable (Note 17)	**6,640,221**	11,423,153
Accounts payable and accrued expenses (Note 18)	**16,120,561**	22,422,265
Income tax payable	**326,282**	164,045
Short-term and long-term debts - current (Note 19)	**5,806,123**	1,309,915
Current portion of due to related parties (Note 22)	**49,859**	8,036,519
Other current liabilities (Note 20)	**17,974,819**	24,016,166
Total Current Liabilities (Carried Forward)	**469,146,463**	483,254,782

	December 31	
	2014	2013
Total Current Liabilities (Brought Forward)	**₱469,146,463**	₱483,254,782
Noncurrent Liabilities		
Deposit liabilities - net of current portion (Note 15)	**23,468,731**	10,451,554
Financial liabilities at fair value through profit or loss (Notes 16 and 21)	**24,805**	7,882,700
Bills and acceptances payable (Note 17)	**12,409,837**	1,748,844
Long-term debts - net of current portion (Note 19)	**11,291,321**	16,879,755
Accrued retirement benefits (Note 23)	**3,776,261**	4,346,262
Deferred income tax liabilities (Note 29)	**1,355,247**	1,815,777
Other noncurrent liabilities (Note 20)	**12,638,349**	2,299,948
Total Noncurrent Liabilities	**64,964,551**	45,424,840
Total Liabilities	**534,111,014**	528,679,622
Equity		
Attributable to equity holders of the Company (Notes 1, 3, 12, 23 and 30):		
Capital stock	**10,821,389**	10,821,389
Capital in excess of par	**35,906,231**	35,906,231
Deposits for future stock subscription	**–**	6,048,534
Preferred shares of subsidiaries issued to Parent Company	**18,060,000**	7,405,000
Other equity reserves	**790,136**	790,136
Other comprehensive income, net of deferred income tax effect	**4,582,667**	6,070,799
Retained earnings	**54,079,986**	50,505,944
Shares of the Company held by subsidiaries	**(12,518)**	(12,518)
	124,227,891	117,535,515
Non-controlling interests (Notes 1, 7, 12 and 30)	**38,494,303**	32,235,085
Total Equity	**162,722,194**	149,770,600
TOTAL LIABILITIES AND EQUITY	**₱696,833,208**	₱678,450,222

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		
	2014	2013	2012
REVENUE (Note 24)			
Banking	**₱24,639,374**	₱28,855,871	₱32,040,683
Beverage	**13,288,369**	12,701,784	12,188,007
Distilled spirits	**11,919,131**	10,425,603	12,767,679
Tobacco (Note 11)	**–**	151,722	2,974,897
Property development	**2,278,600**	3,656,950	2,685,795
	52,125,474	55,791,930	62,657,061
COST OF SALES AND SERVICES (Note 24)	**25,073,927**	26,021,935	30,439,722
GROSS INCOME	**27,051,547**	29,769,995	32,217,339
EQUITY IN NET EARNINGS OF ASSOCIATES (Note 11)	**894,555**	3,704,117	6,498,972
	27,946,102	33,474,112	38,716,311
OPERATING EXPENSES			
Selling expenses (Note 25)	**2,746,640**	2,776,946	2,716,118
General and administrative expenses (Note 26)	**22,558,997**	21,681,011	23,187,897
	25,305,637	24,457,957	25,904,015
OPERATING INCOME	**2,640,465**	9,016,155	12,812,296
OTHER INCOME (CHARGES)			
Finance costs (Note 27)	**(454,855)**	(480,892)	(548,187)
Finance income (Note 27)	**119,041**	139,093	158,244
Foreign exchange gains - net	**1,345,705**	1,260,899	824,036
Others - net (Note 28)	**5,510,668**	3,648,639	4,991,086
	6,520,559	4,567,739	5,425,179
INCOME BEFORE INCOME TAX	**9,161,024**	13,583,894	18,237,475
PROVISION FOR INCOME TAX (Note 29)			
Current	**2,399,603**	2,509,506	2,645,034
Deferred	**289,215**	(400,676)	46,214
	2,688,818	2,108,830	2,691,248
NET INCOME	**₱6,472,206**	₱11,475,064	₱15,546,227
NET INCOME ATTRIBUTABLE TO:			
Equity holders of the Company	**₱4,410,230**	₱8,669,220	₱12,757,189
Non-controlling interests	**2,061,976**	2,805,844	2,789,038
	₱6,472,206	₱11,475,064	₱15,546,227
Basic/Diluted Earnings Per Share (Note 31)	**₱0.41**	₱0.85	₱1.44

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		
	2014	2013	2012
NET INCOME	**₱6,472,206**	₱11,475,064	₱15,546,227
OTHER COMPREHENSIVE INCOME (LOSS)			
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:			
Accumulated translation adjustment	**(275,448)**	1,607,973	(1,130,819)
Net changes in fair value of AFS investments (Note 7)	**551,055**	(5,561,739)	(790,115)
Income tax effect	**1,383**	84,034	110,067
	552,438	(5,477,705)	(680,048)
Net other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods	**276,990**	(3,869,732)	(1,810,867)
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:			
Re-measurement gains (losses) on defined benefit plans (Note 23)	**(1,047,515)**	(369,329)	513,336
Income tax effect	**(53,628)**	24,318	46,455
	(1,101,143)	(345,011)	559,791
Revaluation increment on property, plant and equipment (Note 12)	**–**	1,300,593	184,572
Income tax effect	**–**	(390,178)	(55,372)
	–	910,415	129,200
Share in re-measurement gain on defined benefit plans of an associate (Note 11)	**–**	27,453	–
Net other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods	**(1,101,143)**	592,857	688,991
OTHER COMPREHENSIVE LOSS - Net of income tax effect	**(824,153)**	(3,276,875)	(1,121,876)
TOTAL COMPREHENSIVE INCOME	**₱5,648,053**	₱8,198,189	₱14,424,351
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Equity holders of the Company	**₱3,816,532**	₱6,702,822	₱12,209,440
Non-controlling interests	**1,831,521**	1,495,367	2,214,911
	₱5,648,053	₱8,198,189	₱14,424,351

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, 2014, 2013 and 2012
(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 Investments (Note 7)	Re-Measurement Gains (Losses) on Defined Benefit Plans (Note 23)	Revaluation Increment on Property Plant and Equipment (Note 12)	Revaluation Increment on Property Plant and Equipment Transferred to Associate (Notes 2, 11 and 12)	Re-measurement Gains on Defined Benefit Plans of an Associate (Note 11)	Total Other Comprehensive Income (Loss), Net of Deferred Income Tax Effect	Retained Earnings	Shares of the Company Held by Subsidiaries	Total	Non-controlling Interests (Notes 1 and 30)	Total
BALANCES AT DECEMBER 31, 2011	**₱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	–	–	–	–	–	–	–	–	–	–	–	–	12,757,189	–	12,757,189	2,789,038	15,546,227
Other comprehensive income (loss)	–	–	–	–	–	(456,300)	(418,825)	259,446	67,930	–	–	(547,749)	–	–	(547,749)	(574,127)	(1,121,876)
Total comprehensive income (loss) for the year	–	–	–	–	–	(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
Cash dividends declared	–	–	–	–	–	–	–	–	–	–	–	–	(16,936)	–	(16,936)	(15,509)	(32,445)
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	–	–	–	–	–	–	–	–	(318,321)	(297,785)	–	(616,106)	616,106	–	–	–	–
BALANCES AT DECEMBER 31, 2012	**8,981,389**	**1,173,772**	**–**	**–**	**987,057**	**(397,679)**	**2,087,609**	**(606,696)**	**6,810,285**	**1,363,643**	**–**	**9,257,162**	**42,268,202**	**(12,518)**	**62,655,064**	**31,051,046**	**93,706,110**
Net income for the year	–	–	–	–	–	–	–	–	–	–	–	–	8,669,220	–	8,669,220	2,805,844	11,475,064
Other comprehensive income (loss)	–	–	–	–	–	696,922	(2,963,582)	(217,159)	490,083	–	27,338	(1,966,398)	–	–	(1,966,398)	(1,310,477)	(3,276,875)
Total comprehensive income (loss) for the year	–	–	–	–	–	696,922	(2,963,582)	(217,159)	490,083	–	27,338	(1,966,398)	8,669,220	–	6,702,822	1,495,367	8,198,189
Issuance of capital stock	1,840,000	35,880,000	–	–	–	–	–	–	–	–	–	–	–	–	37,720,000	–	37,720,000
Issuance of preferred shares of subsidiaries	–	–	6,048,534	7,405,000	–	–	–	–	–	–	–	–	–	–	13,453,534	–	13,453,534
Stock issue cost	–	(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	**₱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**

	Attributable to Equity Holders of the Company (Notes 1, 7, 12, 24, 30 and 36)																
						Other Comprehensive Income (Loss)											
	Capital Stock	Capital in Excess of Par	Deposits for Future Stock Subscription	Preferred Shares of Subsidiaries Issued to Parent Company	Other Equity Reserves	Accumulated Translation Adjustment	Net Changes in AFS Investments (Note 7)	Re-Measurement Gains (Losses) on Defined Benefit Plans (Note 23)	Revaluation Increment on Property Plant and Equipment (Note 12)	Revaluation Increment on Property Plant and Equipment Transferred to Associate (Notes 2, 11 and 12)	Re-measurement Gains on Defined Benefit Plans of an Associate (Note 11)	Total Other Comprehensive Income (Loss), Net of Deferred Income Tax Effect	Retained Earnings	Shares of the Company Held by Subsidiaries	Total	Non-controlling Interests (Notes 1 and 30)	Total
BALANCES AT DECEMBER 31, 2013	**₱10,821,389**	**₱35,906,231**	**₱6,048,534**	**₱7,405,000**	**₱790,136**	**₱299,243**	**(₱875,973)**	**(₱823,855)**	**₱6,378,188**	**₱1,065,858**	**₱27,338**	**₱6,070,799**	**₱50,505,944**	**(₱12,518)**	**₱117,535,515**	**₱32,235,085**	**₱149,770,600**
Net income for the year	–	–	–	–	–	–	–	–	–	–	–	–	4,410,230	–	4,410,230	2,061,976	6,472,206
Other comprehensive income (loss)	–	–	–	–	–	(155,545)	125,559	(563,712)	–	–	–	(593,698)	–	–	(593,698)	(230,455)	(824,153)
Total comprehensive income (loss) for the year	–	–	–	–	–	(155,545)	125,559	(563,712)	–	–	–	(593,698)	4,410,230	–	3,816,532	1,831,521	5,648,053
Issuance of preferred shares of subsidiaries	–	–	(6,048,534)	10,655,000	–	–	–	–	–	–	–	–	–	–	4,606,466	–	4,606,466
Cash dividends declared	–	–	–	–	–	–	–	–	–	–	–	–	(1,730,622)	–	(1,730,622)	–	(1,730,622)
Capital contribution of non-controlling interest	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	4,427,697	4,427,697
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	–	–	–	–	–	–	–	–	(596,649)	(297,785)	–	(894,434)	894,434	–	–	–	–
BALANCES AT DECEMBER 31, 2014	**₱10,821,389**	**₱35,906,231**	**₱–**	**₱18,060,000**	**₱790,136**	**₱143,698**	**(₱750,414)**	**(₱1,387,567)**	**₱5,781,539**	**₱768,073**	**₱27,338**	**₱4,582,667**	**₱54,079,986**	**(₱12,518)**	**₱124,227,891**	**₱38,494,303**	**₱162,722,194**

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		
	2014	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱9,161,024**	₱13,583,894	₱18,237,475
Adjustments for:			
Depreciation and amortization (Notes 12, 13 and 14)	**3,554,992**	4,034,210	3,677,908
Provision for losses (Notes 8 and 9)	**2,207,864**	979,839	2,738,189
Gain on disposal of:			
AFS (Notes 7 and 28)	**(245,216)**	(290,505)	78
Other assets (Notes 12, 13 and 28)	**(1,889,744)**	(528,632)	(620,547)
Equity in net earnings of associates (Note 11)	**(894,555)**	(3,704,117)	(6,498,972)
Share in losses of joint venture (Note 10)	**46,043**	20,091	–
Finance costs (Note 27)	**454,855**	480,892	548,187
Finance income (Notes 27)	**(119,041)**	(139,093)	(158,244)
Dividend income (Note 28)	**(10,912)**	(19,123)	(31,072)
Mark-to-market gain on financial assets at fair value through profit or loss (Note 28)	**32,351**	–	–
Movement in accrued retirement benefits (Note 23)	**2,081,913**	(451,688)	(399,190)
Operating income before changes in working capital	**14,379,574**	13,965,768	17,493,812
Decrease (increase) in:			
Financial assets at fair value through profit or loss	**(10,255,769)**	2,584,199	(6,201,903)
Receivables	**(44,955,219)**	(33,367,165)	(18,075,815)
Inventories	**(2,656,906)**	(41,504)	(1,307,296)
Other assets	**(2,247,938)**	(1,323,412)	(6,122,137)
Increase (decrease) in:			
Deposit liabilities	**8,718,031**	47,394,292	(4,219,593)
Financial liabilities at fair value through profit or loss	**2,787,130**	(2,250,568)	2,218,872
Accounts payable and accrued expenses	**(4,285,023)**	1,748,626	1,134,893
Other liabilities	**3,752,493**	7,953,877	2,781,700
Cash generated from (used in) operations	**(34,763,627)**	36,664,113	(12,297,467)
Dividends received (Notes 11, 22 and 28)	**3,371,564**	3,980,680	4,208,048
Interest received	**143,541**	114,551	158,244
Income taxes paid, including creditable withholding and final taxes	**(3,615,343)**	(3,013,291)	(2,560,494)
Net cash from (used in) operating activities	**(34,863,865)**	37,746,053	(10,491,669)

(Forward)

	Years Ended December 31		
	2014	2013	2012
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of:			
AFS investments (Note 7)	**(₱65,693,182)**	(₱122,879,759)	(₱274,740,921)
Held to maturity investments	**(571,602)**	–	–
Property, plant and equipment (Note 12)	**(2,534,580)**	(3,081,169)	(4,182,600)
Shares and convertible notes of an associate (Note 11)	**(772,864)**	–	–
Investment in a joint venture (Note 11)	**–**	–	(20,091)
Investment properties (Note 13)	**(2,608,825)**	(3,706,501)	(1,906,922)
Software (Note 14)	**(419,809)**	(238,687)	(131,392)
Proceeds from sale of:			
AFS (Note 7)	**63,499,326**	135,126,488	269,986,164
Other assets (Notes 12 and 13)	**2,434,543**	3,956,509	5,956,061
Advances granted to affiliates (Note 22)	**–**	(1,755,327)	(3,176,552)
Net cash from (used in) investing activities	**(6,666,993)**	7,421,554	(8,216,253)
CASH FLOWS FROM FINANCING ACTIVITIES			
Availment (payment) of short-term debts (Note 19)	**–**	(1,320,000)	400,000
Proceeds from (payments of) bill and acceptance payable (Note 17)	**2,000,841**	(5,270,255)	4,731,528
Availments of long term debts (Note 19)	**500,000**	2,490,120	3,783,188
Payments of long term debts (Note 19)	**(1,623,537)**	(5,193,900)	(124,722)
Payment of finance cost	**(402,750)**	(572,048)	(621,909)
Proceeds from issuance of shares (Note 30)	**–**	37,720,000	5,000,000
Sale of shares of the Company held by subsidiary	**–**	–	344,101
Capital contribution of noncontrolling interest (Note 30)	**4,427,697**	–	–
Acquisition of non-controlling interest	**–**	–	(22,528)
Payment of stock issue costs (Note 30)	**–**	(1,147,541)	(68,740)
Dividends paid (Note 30)	**(1,730,622)**	(1,685,349)	(32,445)
Advances from affiliates (Note 22)	**–**	733,138	1,566,201
Payment of due to related parties (Note 22)	**(2,684,943)**	(9,223,000)	(2,030,961)
Net cash from financing activities	**486,686**	16,531,165	12,923,713
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(41,044,172)**	61,698,772	(5,784,209)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**188,319,662**	126,620,890	132,405,098
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	**₱147,275,490**	₱188,319,662	₱126,620,890

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, 2014 and 2013, LTG is 74.36%-owned by its ultimate parent company, Tangent, which is also incorporated in the Philippines.

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

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

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, the 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.

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, 2014 and 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.

Authorization for Issue of the Consolidated Financial Statements

The consolidated financial statements as at December 31, 2014 and 2013 and for each of the three years in the period ended December 31, 2014 were authorized for issue by the BOD on April 8, 2015.

2. Summary of Significant Accounting and Financial Reporting Policies

Basis of Preparation and Statement of Compliance

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

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

Basis of Consolidation

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

	Percentage of Ownership						
	2014		2013		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
AB Nutribev Corp.[3]	**–**	**99.9**	–	–	–	–	Philippines
Asia Pacific Bev PTE[4]	**–**	**99.9**	–	–	–	–	Singapore
Tobacco							
Shareholdings	**97.7**	**–**	97.7	–	97.7	–	Philippines
FTC	**82.7**	**16.9**	82.7	16.9	82.7	16.9	Philippines
Property Development							
Saturn	**100.0**	**–**	100.0	–	100.0	–	Philippines
Paramount and subsidiaries	**100.0**	**–**	100.0	–	100.0	–	Philippines
Eton		**99.3**	–	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) [5]	**–**	**–**	80-100	–	80-100	–	Various
PNB and Subsidiaries[6]	**–**	**56.5**	–	56.5	**–**	56.5	Philippines
PNB Capital and Investment Corporation (PNB Capital)	**–**	**56.5**	–	56.5	**–**	56.5	Philippines
PNB Securities, Inc. (PNB Securities)	**–**	**56.5**	–	56.5	**–**	56.5	Philippines
PNB Forex, Inc.	**–**	**56.5**	**–**	56.5	**–**	56.5	Philippines
PNB Holdings Corporation (PNB Holdings)	**–**	**56.5**	**–**	56.5	**–**	56.5	Philippines
PNB General Insurers, Inc. (PNB Gen)	**–**	**56.5**	**–**	56.5	**–**	56.5	Philippines
PNB Corporation – Guam	**–**	**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 (PISpA) [7]	**–**	**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
PNB Savings Bank	**–**	**56.5**	**–**	56.5	**–**	56.5	Philippines
Allied Bank Philippines (UK) Plc (ABUK)	**–**	**56.5**	**–**	56.5	**–**	56.5	United Kingdom
Allied Commercial Bank	**–**	**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

(Forward)

	Percentage of Ownership						
	2014		2013		2012[1]		Country of
	Direct	**Indirect**	Direct	Indirect	Direct	Indirect	Incorporation
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 ownership as of December 31, 2012 represents the ownership interest of LTG in the subsidiaries using pooling of interest method as if the newly acquired subsidiaries have always been consolidated.*

(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) *On February 3, 2014, the Beverage segment's BOD approved the subscription of the 124,999,995 shares of AB Nutribev Corp. at P1.00 per value per share.*

(4) *On August 4, 2014, the Beverage segment's BOD approved the subscription of one (1) ordinary share of Asia Pacific Bev PTE at USD 1 per value per share.*

(5) *As of December 31, 2014 and 2013, the Bank Holding Companies consist of 27 entities with aggregate direct ownership interest of 59.83% in PNB, of which 20 companies are incorporated in the Philippines and seven (7) companies are incorporated in the British Virgin Islands (see Note 23).*

(6) *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.*

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

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, the fair value of any investment retained, and any surplus or deficit in profit or loss; and reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

Business Combination and Goodwill

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

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

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

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

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

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

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

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

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

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

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

Changes in Accounting Policies and Disclosures

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after January 1, 2014. The nature and impact of each new standard and amendment is described below:

- Amendments to PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities*, and PAS 27, *Separate Financial Statements: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. The amendments must be applied retrospectively, subject to certain transition relief. These amendments have no impact to the Group, since none of the entities within the Group qualifies 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 the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and are applied retrospectively. These amendments have no impact on the Group, since none of the entities in the Group has any offsetting arrangements.

- 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 and retrospective application is required. These amendments have no impact on the Group as the Group has not novated its derivatives during the current or prior periods.

- Amendments to PAS 36, *Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets*, remove the unintended consequences of PFRS 13, *Fair Value Measurement*, on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period. The additional disclosures required by the amendments are presented in Notes 12 and 13 to the Group's consolidated financial statements.

- 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. Retrospective application is required for IFRIC 21. This interpretation has no impact in the consolidated financial stratements as the Group applied the recognition principles under PAS 37, *Provisions, Contingent Liability and Contingent Assets*, consistent with the requirement of IFRIC 21 in prior years.

Annual Improvements to PFRSs (2010-2012 cycle)

In the 2010 - 2012 annual improvements cycle, seven amendments to six standards were issued, which included an amendment to PFRS 13, *Fair Value Measurement*. The amendment to PFRS 13 is effective immediately and it clarifies that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment has no impact on the Group.

Annual Improvements to PFRSs (2011-2013 cycle)

In the 2011 - 2013 annual improvements cycle, four amendments to four standards were issued, which included an amendment to PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards–First-time Adoption of PFRS*. The amendment to PFRS 1 is effective immediately. It clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements. This amendment has no impact on the Group as it is not a first time PFRS adopter.

New Accounting Standards, Interpretations and Amendments to
Existing Standards Effective Subsequent to December 31, 2014

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.

Standards issued but not yet effective

- PFRS 9, *Financial Instruments - Classification and Measurement* (2010 version), reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, *Financial Instruments: Recognition and Measurement*. 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 FVO liabilities, 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 in respect of the liability's 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 into PFRS 9, including the embedded derivative separation 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.

  PFRS 9 (2010 version) is effective for annual periods beginning on or after January 1, 2015. This mandatory adoption date was moved to January 1, 2018 when the final version of PFRS 9 was adopted by the Philippine Financial Reporting Standards Council (FRSC). Such adoption, however, is still for approval by the Board of Accountancy (BOA). The Group will not early adopt the standard.

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 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. Adoption of the interpretation when it becomes effective is expected to have a significant impact on the financial position and performance of the property development segment of the Group.

The following standards and amendments issued by the IASB were already adopted by the FRSC but are still for approval by the BOA.

Effective 2015

- Amendments to PAS 19, *Employee Benefits - Defined Benefit Plans: Employee Contributions*, requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after January 1, 2015. It is not expected that this amendment would be relevant to the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

- *Annual Improvements to PFRSs (2010-2012 cycle)*
  The Annual Improvements to PFRSs (2010-2012 cycle) are effective for annual periods beginning on or after January 1, 2015 and are not expected to have a material impact on the Group. They include:

  - PFRS 2, *Share-based Payment - Definition of Vesting Condition* is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:
    - A performance condition must contain a service condition
    - A performance target must be met while the counterparty is rendering service
    - A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
    - A performance condition may be a market or non-market condition
    - If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

  - PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business Combination* is applied prospectively for business combinations for which the acquisition date is on or after July 1, 2014. It clarifies that a contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PAS 39, *Financial Instruments: Recognition and Measurement* (or PFRS 9, *Financial Instruments*, if early 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*, is applied retrospectively and clarify that:
  - An entity must disclose the judgments made by management in applying the aggregation criteria in the standard, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.
  - The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

- PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Depreciation and Amortization*, is applied retrospectively and clarifies in PAS 16 and PAS 38 that the asset may be revalued by reference to the observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset.

- PAS 24, *Related Party Disclosures - Key Management Personnel*, is applied retrospectively and clarifies that a management entity, which is an entity that provides key management personnel services, is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

- *Annual Improvements to PFRSs (2011-2013 cycle)*
  The Annual Improvements to PFRSs (2011-2013 cycle) are effective for annual periods beginning on or after January 1, 2015 and are not expected to have a material impact on the Group. They include:

  - PFRS 3, *Business Combinations - Scope Exceptions for Joint Arrangements*, is applied prospectively and clarifies the following regarding the scope exceptions within PFRS 3:
    - Joint arrangements, not just joint ventures, are outside the scope of PFRS 3.
    - This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

  - PFRS 13, *Fair Value Measurement - Portfolio Exception*, is applied prospectively and clarifies that the portfolio exception in PFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of PAS 39 (or PFRS 9, as applicable).

  - PAS 40, *Investment Property*, is applied prospectively and clarifies that PFRS 3, and not the description of ancillary services in PAS 40, is used to determine if the transaction is the purchase of an asset or business combination. The description of ancillary services in PAS 40 only differentiates between investment property and owner-occupied property (i.e., property, plant and equipment).

Effective 2016

- Amendments to PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortization*, clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated

from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

- Amendments to PAS 16, *Property, Plant and Equipment*, and PAS 41, *Agriculture - Bearer Plants*, change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, will apply. The amendments are retrospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group as the Group does not have any bearer plants.

- Amendments to PAS 27, *Separate Financial Statements - Equity Method in Separate Financial Statements*, will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of PFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to PFRS. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments will not have any impact on the Group's consolidated financial statements.

- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*, address an acknowledged inconsistency between the requirements in PFRS 10 and those in PAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. These amendments are effective from annual periods beginning on or after January 1, 2016. The Group shall consider these amendments for future sale or contribution of assets of the Group to its associates and joint venture.

- Amendments to PFRS 11, *Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations*, require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not re-measured on the acquisition of an additional interest in the same joint operation while joint control is retained.

In addition, a scope exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group.

- PFRS 14, *Regulatory Deferral Accounts*, is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. PFRS 14 is effective for annual periods beginning on or after January 1, 2016. Since the Group is an existing PFRS preparer, this standard would not apply.

- *Annual Improvements to PFRSs (2012-2014 cycle)*
  The Annual Improvements to PFRSs (2012-2014 cycle) are effective for annual periods beginning on or after January 1, 2016 and are not expected to have a material impact on the Group. They include:

  - PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations - Changes in Methods of Disposal*, is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.

  - PFRS 7, *Financial Instruments: Disclosures - Servicing Contracts*, requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments.

  - PFRS 7 - *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*, is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.

  - PAS 19, *Employee Benefits - regional market issue regarding discount rate*, is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed

based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

- PAS 34, *Interim Financial Reporting - disclosure of information 'elsewhere in the interim financial report'*, is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).

Effective 2018

- PFRS 9, *Financial Instruments - Hedge Accounting and amendments to PFRS 9, PFRS 7 and PAS 39 (2013 version)*, already includes the third phase of the project to replace PAS 39 which pertains to hedge accounting. This version of 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 derivative instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

  PFRS 9 (2013 version) has no mandatory effective date. The mandatory effective date of January 1, 2018 was eventually set when the final version of PFRS 9 was adopted by the FRSC. The adoption of the final version of PFRS 9, however, is still for approval by BOA.

  The Group is currently assessing the impact of adopting this standard.

- PFRS 9, *Financial Instruments (2014 or final version)*, was issued in July 2014. PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of PFRS 9 is permitted if the date of initial application is before February 1, 2015.

  The adoption of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Group's financial liabilities. The Group is currently assessing the impact of adopting this standard.

The following new standards and amendments to existing standards issued by the IASB have not yet been adopted by the FRSC as of December 31, 2014:

- International Financial Reporting Standard (IFRS) 15, *Revenue from Contracts with Customers*, was issued in May 2014 and establishes a new five-step model that will apply to

revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2017 with early adoption permitted.

- Amendments to International Accounting Standards (IAS) 1, *Presentation of Financial Statement*, were issued in December 2014. The amendments include narrow-focus improvements in five areas; namely, materiality, disaggregation and subtotals, notes structure, disclosure of accounting policies and presentation of items of other comprehensive income arising from equity accounted investments. The amendments are effective on or after January 1, 2016.

- Amendments to IFRS 10, *Consolidated Financial Statements*, IFRS 12, *Disclosure of Interests in Other Entities*, and IAS 28, *Investments in Associates and Joint Ventures.* In December 2014, the IASB issued *Investment Entities: Applying the Consolidation Exception* (amendments to IFRS 10, IFRS 12 and IAS 28). The amendments address certain issues that have arisen in applying the investment entities exception under IFRS 10.

The Group is currently assessing the impact of IFRS 15 and the amendments to IAS 1, IFRS 10, IFRS 12 and IAS 28 and plans to adopt the new and amended standards on their required effective dates once adopted locally.

Significant Accounting Policies Applicable to the Group

Investments in Associates and a Joint Venture

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

Under the equity method, the investments in associates and a joint venture are carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of the net assets of the associate and joint venture. The Group's share in the associates' and joint venture's post-acquisition profits or losses is recognized in the consolidated statement of income, and its share of post-acquisition movements in the 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 legal or constructive obligations or made payments on behalf of the associate and joint venture. Profits and losses resulting from transactions between the Group and the 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 associates and a joint venture to bring the accounting policies used in line with those used by the Group.

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

Upon loss of significant influence over the associate or upon loss of joint control on the jointly controlled entity, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the 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 34.

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

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

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

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

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

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

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

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

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

Cash and Cash Equivalents

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

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

Financial Instruments

Date of recognition

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

Initial recognition of financial instruments

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

Reclassification of financial assets

The Group may choose to reclassify a non-derivative trading financial asset out of the held-for-trading (HFT) category if the financial asset is no longer held for purposes of selling it in the near term and only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the Group may choose to reclassify financial assets that

would meet the definition of loans and receivables out of the HFT or AFS investments categories if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Derecognition of Financial Assets and Liabilities

Financial asset

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

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

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

Financial liability

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

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

Offsetting 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.

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 "Net gain on sale or exchange of assets" and presented in the "Others - net" account in the consolidated statement of income. Foreclosed properties are classified under "Investment properties" upon:

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

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

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

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

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

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

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

Other Properties Acquired

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

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

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

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets,

excluding capitalized development costs, are not capitalized and expenditure is reflected in the consolidated statement of income in the year in which the expenditure is incurred.

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

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

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

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

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

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of accumulated depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation or amortization expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Goodwill
Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount of the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated (or to the aggregate carrying amount of a group of cash-generating units to which the goodwill relates but cannot be allocated), an impairment loss is recognized immediately in the consolidated statement of income. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods. The Group performs its annual impairment test of goodwill at the end of the reporting period.

Revenue
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The Group assesses its revenue arrangement against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as principal in all its revenue arrangements except for their brokerage transactions. Refer to the significant accounting policies generally applicable to the consumer products, banking and property development for the specific recognition criteria that must also be met before revenue is recognized:

Costs and Expenses
Costs and expenses are recognized in the consolidated statement of income when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably.

Selling and general and administrative expenses
Selling expenses are costs incurred to sell or distribute merchandise, it includes advertising and promotions and freight and handling, among others. General and administrative expenses constitute costs of administering the business. Selling and general and administrative expenses are expensed as incurred.

Taxes and licenses
Taxes and licenses include all other taxes, local and national, including gross receipts taxes (GRT), documentary stamp taxes, real estate taxes, licenses and permit fees and are recognized as costs and expenses when incurred.

Retirement Benefits
The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Re-measurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

Re-measurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Re-measurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations).

The Group's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Employee leave entitlement
Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled wholly before twelve months after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period.

Borrowing Costs
Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalization of borrowing costs commences when the activities necessary to prepare the asset for intended use are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the asset is available for their intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognized. Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, as well as exchange differences arising from foreign currency borrowings used to finance these projects, to the extent that they are regarded as an adjustment to interest costs. All other borrowing costs are expensed as incurred.

Debt Issue Costs
Issuance, underwriting and other related expenses incurred in connection with the issuance of debt instruments (other than debt instruments designated at FVPL) are deferred and amortized over the terms of the instruments using the effective interest method. Unamortized debt issuance costs are included in the measurement of the related carrying value of the debt instruments in the consolidated balance sheet.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

a. there is a change in contractual terms, other than a renewal or extension of the arrangement;
b. a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
c. there is a change in the determination of whether fulfillment is dependent on a specified asset; or
d. there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

The Group as lessor

Finance leases, where the Group transfers substantially all the risks and benefits incidental to ownership of the leased item to the lessee, are included in the consolidated 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.

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 taxes relating to items recognized directly in OCI are also recognized in OCI and not in the consolidated statement of income.

Deferred income tax assets and deferred income tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of reporting period.

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.

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.

Significant Accounting Policies Generally Applicable to Banking

Banking Revenue
Interest income
For all financial instruments measured at amortized cost and interest-bearing financial instruments classified as HFT and AFS investments, interest income is recorded at the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses. The adjusted carrying amount is calculated based on the original EIR. The change in carrying amount is recorded as interest income. Once the recorded value of a financial asset or group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original EIR applied to the new carrying amount.

Service fees and commission income
The Group earns fee and commission income from diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

- *Fee income earned from services that are provided over a certain period of time*
  Fees earned for the provision of services over a period of time are accrued over that period. These fees include investment fund fees, custodian fees, fiduciary fees, commission income,

credit-related fees, trust fees, portfolio and other management fees, and advisory fees. However, loan commitment fees for loans that are likely to be drawn down are deferred (together with any incremental costs) and recognized as an adjustment to the EIR of the loan.

- *Fee income from providing transaction services*
  Fees arising from negotiating or participating in the negotiation of a transaction for a third party - such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses - are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria. These fees include underwriting fees, corporate finance fees, remittance fees, brokerage fees, deposit-related and other credit-related fees. Loan syndication fees are recognized in the consolidated statement of income when the syndication has been completed and the Group retains no part of the loans for itself or retains part at the same EIR as for the other participants.

Interchange fee and awards revenue on credit cards
Discounts lodged under 'Interchange fees' are taken up as income upon receipt from member establishments of charges arising from credit availments by the Group's cardholders. These discounts are computed based on certain agreed rates and are deducted from amounts remitted to the member establishments.

The Group operates a loyalty points program which allows customers to accumulate points when they purchase from member establishments using the issued card of the Group. The points can then be redeemed for free products subject to a minimum number of points being obtained. Consideration received is allocated between the discounts earned, interchange fee and the points earned, with the consideration allocated to the points equal to its fair value. The fair value is determined by applying statistical analysis. The fair value of the points issued is deferred and recognized as revenue when the points are redeemed.

Commissions earned on credit cards
Commissions earned are taken up as income upon receipt from member establishments of charges arising from credit availments by credit cardholders. These commissions are computed based on certain agreed rates and are deducted from amounts remittable to member establishments.

Purchases by the credit cardholders, collectible on installment basis, are recorded at the cost of the items purchased plus certain percentage of cost. The excess over cost is credited to "Unearned and other deferred income" account and is shown as a deduction from "Loans and receivables" in the consolidated balance sheet. The unearned and other deferred income is taken up to income over the installment terms and is computed using the effective interest method.

Commission earned on reinsurance
Reinsurance commissions are recognized as revenue over the period of the contracts. The portion of the commissions that relates to the unexpired periods of the policies at the end of the reporting period is accounted for as 'Other liabilities' in the consolidated balance sheet.

Dividend income
Dividend income is recognized when the Group's right to receive payment is established.

Trading and investment securities gains - net
Trading and investment securities gains - net includes results arising from trading activities and all gains and losses from changes in fair value of financial assets and financial liabilities at FVPL and gains and losses from disposal of AFS investments.

Income on direct financing leases and receivables financed
Income of the Group on loans and receivables financed is recognized using the effective interest method.

Unearned discounts included under "Unearned and other deferred income" which are amortized over the term of the note or lease using the effective interest method consist of:

- Transaction and finance fees on finance leases and loans and receivables financed with long-term maturities; and
- Excess of the aggregate lease rentals plus the estimated residual value of the leased equipment over its cost.

Premiums revenue

Gross insurance written premiums comprise the total premiums receivable for the whole period cover provided by contracts entered into during the accounting period. Premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior periods. Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method except for the marine cargo where the provision for unearned premiums pertains to the premiums for the last two months of the year. The portion of the premiums written that relate to the unexpired periods of the policies at end of reporting period are accounted for as provision for unearned premiums and presented as part of "Other liabilities" in the consolidated balance sheet. The related reinsurance premiums ceded that pertain to the unexpired periods at the end of the reporting periods are accounted for as deferred reinsurance premiums shown as part of "Other noncurrent assets" in the consolidated balance sheet. The net changes in these accounts between end of the reporting periods are credited to or charged against the consolidated statement of income for the year.

Other income
Income from sale of services is recognized upon rendition of the service. Income from sale of properties is recognized upon completion of the earning process and the collectibility of the sales price is reasonably assured.

Product Classification
Insurance contracts are those contracts where the Group (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Group determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant.

Insurance and investment contracts are further classified as being with or without discretionary participation features (DPF).

DPF is a contractual right to receive, as a supplement to guaranteed contracts, additional benefits that are likely to be a significant portion of the total contractual benefits, whose amount or timing is contractually at the discretion of the issuer, and that are contractually based on the performance

of a specified pool of contracts or a specified type of contract, realized and or unrealized investment returns on a specified pool of assets held by the issuer, or the profit or loss of the company, fund or other entity that issues the contract.

Investment contracts are those contracts that transfer significant financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign currency exchange rate, index of price or rates, a credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

Repurchase and Reverse Repurchase Agreements

Securities sold under agreements to repurchase at a specified future date ('repos') are not derecognized from the consolidated balance sheet. The corresponding cash received, including accrued interest, is recognized in the consolidated balance sheet as a loan to the Group, reflecting the economic substance of such transaction.

Conversely, securities purchased under agreements to resell at a specified future date ('reverse repos') are not recognized in the consolidated balance sheet. The Group is not permitted to sell or repledge the securities in the absence of default by the owner of the collateral. The corresponding cash paid, including accrued interest, is recognized on the consolidated balance sheet as "Securities held under agreements to resell", and is considered a loan to the counterparty. The difference between the purchase price and resale price is treated as interest income and is accrued over the life of the agreement using the effective interest method.

Financial Guarantees

In the ordinary course of business, the Group gives financial guarantees consisting of letters of credit, letters of guarantees, and acceptances. Financial guarantees are initially recognized in the financial statements at fair value under 'Other liabilities'. Subsequent to initial recognition, the Group's liabilities under such guarantees are each measured at the higher of the initial fair value less, when appropriate, cumulative amortization calculated to recognize the fee in the consolidated statement of income in "Service fees and commission income", over the term of the guarantee, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the consolidated statement of income in "Provision for impairment and credit losses"'. Any financial guarantee liability remaining is recognized in the consolidated statement of income in 'Service fees and commission income', when the guarantee is discharged, cancelled or has expired.

Management, in conjunction with the Group's external valuers, also compares each change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

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

Policy Loans

Policy loans included under loans and receivables are carried at their unpaid balances plus accrued interest and are fully secured by the policy values on which the loans are made.

Reinsurance

The Group cedes insurance risk in the normal course of business. Reinsurance assets represent balances due from reinsurance companies. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contract.

An impairment review is performed at each end of the reporting period or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that the Group may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Group will receive from the reinsurer can be measured reliably. The impairment loss is charged against the consolidated statement of income.

Ceded reinsurance arrangements do not relieve the Group from its obligations to policyholders.

The Group also assumes reinsurance risk in the normal course of business for insurance contracts. Premiums and claims on assumed reinsurance are recognized as income and expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to ceding companies. Amounts payable are estimated in a manner consistent with the associated reinsurance contract.

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

Reinsurance assets or liabilities are derecognized when the contractual rights are extinguished or expired or when the contract is transferred to another party.

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.

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 Group's banking segment that are recognized due to the obligations arising from policy contracts issued by PNB LII. The reserves for life insurance contracts are calculated based on prudent statutory assumptions in accordance with generally accepted actuarial methods that are compliant with existing regulations.

Insurance contracts with fixed and guaranteed terms

The liability is determined as the expected discounted value of the benefit payments less the expected discounted value of the theoretical premiums that would be required to meet the benefits based on the valuation assumptions used. The liability is based on mortality, morbidity and investment income assumptions that are established at the time the contract is issued.

For unpaid claims and benefits, a provision is made for the estimated cost of all claims and dividends notified but not settled at the reporting date less reinsurance recoveries, using the information available at the time.

Provision is also made for the cost of claims incurred but not reported until after the reporting date based on the PNB LII's experience and historical data. Differences between the provision for outstanding claims at the reporting date and subsequent revisions and settlements are included in the consolidated statement of income in later years. Policy and contract claims payable forms part of the liability section of the consolidated balance sheet under "Other liabilities - Insurance contract liabilities".

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".

Fiduciary Activities

Assets and income arising from fiduciary activities together with related undertakings to return such assets to customers are excluded from the financial statements where the Group acts in a fiduciary capacity such as nominee, trustee or agent.

Significant Accounting Policies Generally Applicable to Consumer Products

Sale of Consumer Goods

Revenue from the sale of goods is recognized when goods are delivered to and accepted by customers. Revenue is measured at fair value of the consideration received or receivable, excluding discounts, returns and value-added tax (VAT).

Cost of Consumer Goods Sold

Cost of sales is recognized as expense where the related goods are sold.

Consumer Goods Inventories

Inventories are valued at the lower of cost and net realizable value (NRV). Costs incurred in bringing the inventory to its present location and condition are accounted for as follows:

Finished goods and work in process include direct materials, direct labor, and manufacturing overhead costs. Raw materials include purchase cost. The cost of these inventories is determined using the following:

	Distilled Spirits	Beverage	Tobacco
Consumer goods:			
Finished goods	Moving-average	Weighted-average	Moving-average
Work in process	Moving-average	Weighted-average	First-in first-out
Raw materials	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 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.

Significant Accounting Policies Generally Applicable to Property Development

Property Development Revenue

Real estate sales

The percentage-of-completion method is used to recognize income from sales of projects where the Group has material obligations under the sales contract to complete the project after the property is sold, the equitable interest has been transferred to the buyer, construction is beyond

preliminary stage (i.e., engineering, design work, construction contracts execution, site clearance and preparation, excavation and the building foundation are finished), and the costs incurred or to be incurred can be measured reliably. Under this method, revenue is recognized as the related obligations are fulfilled, measured principally on the basis of the estimated completion of a physical proportion of the contract work.

When a sale of real estate does not meet the requirements for income recognition, the sale is accounted for under the deposit method. Under this method, revenue is not recognized and the receivable from the buyer is not recorded. The real estate inventory continues to be reported in the Group's consolidated balance sheet as part of real estate inventories and the deposit as part of liabilities as "Customers' deposits".

Rental income
Rental income under noncancellable and cancellable leases on investment properties is recognized in the consolidated statement of income on a straight-line basis over the lease term, or based on a certain percentage of the gross revenue of the tenants, as provided under the terms of the lease contract.

Charges and expenses recoverable from tenants
Income arising from expenses recharged to tenants in "Other income" account is recognized in the period in which the compensation becomes receivable.

Cost of Real Estate Sales
Cost of real estate sales is recognized consistent with the revenue recognition method applied. Cost of subdivision land and condominium units sold before the completion of the development is determined on the basis of the acquisition cost of the land plus its full development costs, which include estimated costs for future development works, as determined by the Group's in-house technical staff.

The cost of inventory recognized in profit or loss on disposal is determined with reference to the specific costs incurred on the property, allocated to saleable area based on relative size and takes into account the percentage of completion used for revenue recognition purposes.

Cost of Rental Income
Cost of rental income is recognized in relation to the leasing activities of the Group. This includes general, administrative and selling expenses allocated to the leasing activities, rental expense on the property leased to tenants and depreciation of the investment properties.

Real Estate Inventories
Property acquired or being constructed for sale in the ordinary course of business, rather than to be held for rental or capital appreciation, is held as inventory and is measured at the lower of cost and net realizable value (NRV). Cost includes: (a) land cost; (b) amounts paid to contractors for construction; (c) borrowing costs, planning and design costs, costs of site preparation, professional fees, property transfer taxes, construction overheads and other related costs.

NRV is the estimated selling price in the ordinary course of the business, based on market prices at the reporting date, less estimated costs of completion and the estimated costs of sale.

Customers' Deposits including Excess of Collections over Recognized Receivables
Customers' deposits represent payments from buyers of property development segment which will be applied against the related contracts receivables. This account also includes the excess of collections over the recognized contracts receivables, which is based on the revenue recognition policy of the Group.

Security Deposits
Security deposits, included in the "Other current liabilities" and "Other noncurrent liabilities" accounts in the liabilities section of the consolidated balance sheet, are measured initially at fair value and are subsequently measured at amortized cost using the effective interest method.

The difference between the cash received and its fair value is deferred, included in the "Other noncurrent liabilities" account in the consolidated balance sheet, and amortized using the straight-line method under the "Rental income" account in the consolidated statement of income.

Commissions
Commissions paid to sales or marketing agents on the sale of pre-completed real estate units are initially deferred and recorded as prepaid commissions when recovery is reasonably expected and charged to expense in the period in which the related revenue is recognized as earned. Accordingly, when the percentage of completion method is used, commissions are recognized in the consolidated statement of income in the period the related revenue is recognized.

3. Management's Use of Significant Judgments, Accounting Estimates and Assumptions

The preparation of the consolidated financial statements requires the Group to exercise judgments, make accounting estimates and use assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the accounting estimates to change. The effects of any change in accounting estimates are reflected in the consolidated financial statements as they become reasonably determinable.

Accounting estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments
In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effects on amounts recognized in the consolidated financial statements:

Determination of functional currency
Judgment is exercised in assessing various factors in determining the functional currency of each entity within the Group, including prices of goods and services, competition, cost and expenses and other factors including the currency in which financing is primarily undertaken by each entity.

Additional factors are considered in determining the functional currency of a foreign operation, including whether its activities are carried as an extension of that of a parent company rather than being carried out with significant autonomy.

Each entity within the Group, based on the relevant economic substance of the underlying circumstances, have determined their functional currency to be Philippine peso. It is the currency of the primary economic environment in which the entities in the Group operate.

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%.

Significant influence on investee even if the Group holds less than 20% of voting rights on acquisition date
The Group considers that it has a significant influence in Victorias Milling Company (VMC) when the Group increased its ownership interest to 17.5% in April 2014. Management assessed that even if the ownership interest as of the acquisition date is below 20%, the Group has board representation which allows the Group to participate in the financial and operating policy decisions of VMC. As of December 31, 2014, the ownership of the Group in VMC is 20.2% after the conversion of a portion of the mandatorily convertible notes (see Note 11).

Classification of financial instruments
The Group exercises judgment in classifying financial instruments in accordance with PAS 39. The Group classifies a financial instrument, or its components, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the Group's consolidated balance sheets.

The Group's Bank Holding Companies have redeemable preferred shares which can be redeemed at the option of the Bank Holding companies after seven years from the date of issuance. The Group classified these redeemable preferred shares amounting to ₱18.1 billion and ₱7.4 billion as equity as of December 31, 2014 and 2013, respectively (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 2014, 2013 and 2012.

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 37).

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 37).

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 37).

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, 2014 and 2013, 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, 2014 and 2013, investment in unquoted shares of stock amounted to ₱0.3 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.

Estimates and Assumptions
The key assumptions concerning the future and other key sources of estimation uncertainties at the end of reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

Revenue and cost recognition on real estate sales
The Group's revenue and cost recognition policies on real estate sales require management to make use of estimates and assumptions that may affect the reported amounts of revenue and costs. The Group's revenue and cost of real estate sales are recognized based on the percentage of completion which is measured principally on the basis of the estimated completion of a physical proportion of the contract work.

The Group recognized revenue from real estate sales amounting to ₱1.5 billion, ₱3.2 billion and ₱2.3 billion and cost of real estate sales amounting to ₱1.3 billion, ₱2.5 billion and ₱1.7 billion in 2014, 2013 and 2012, respectively (see Note 24).

Estimation of allowance for credit losses on loans and receivables
The Group reviews its impaired loans and receivables at each reporting date to assess whether additional provision for credit losses should be recorded in the consolidated statement of income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of required allowance. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowance against individually significant loans and receivables, the Group also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance takes into consideration any deterioration in the loan or investment rating from the time the account was granted or amended, and such other factors as any deterioration in country risk, industry, and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows and underlying property prices, among others. Refer to Notes 8 and 14 for the carrying values of loans and receivables and receivables from SPV, respectively.

Impairment of AFS financial assets
The computation for the impairment of AFS financial assets requires an estimation of the present value of the expected future cash flows and the selection of an appropriate discount rate. An impairment issue arises when there is an objective evidence of impairment, which involves significant judgment. In making this judgment, the Group evaluates the financial health of the issuer, among others. In the case of AFS equity instruments, the Group expands its analysis to consider changes in the issuer's industry performance, legal and regulatory framework, and other factors that affect the recoverability of the Group's investments. Further, the impairment assessment would include an analysis of the significant or prolonged decline in fair value of the investments below its cost. The Group treats "significant" generally as 20% or more and "prolonged" as greater than 12 months for quoted equity securities.

As of December 31, 2014 and 2013, the carrying value of the Group's AFS financial assets amounted to ₱ 63.8 billion and ₱81.0 billion, respectively, net of allowance for impairment losses

on AFS equity investments amounting to ₱929.9 million and ₱928.4 million, respectively (see Note 7).

Valuation of equity-linked free standing derivatives
The fair value of investments in equity instruments that do not have a quoted market price in an active market and derivatives that are linked to and must be settled by delivery of such an unquoted equity instrument is reliably measurable if: (a) the variability in the range of reasonable fair value estimates is not significant for the instrument; or (b) the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value. If the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed, the Group is precluded from measuring the instrument at fair value.

In 2010, the Group has concluded that the put option cannot be measured at fair value as the put option is linked to and settled by the delivery of unquoted equity instruments whose fair value cannot be reasonably assessed. In 2013, the put option was cancelled following the termination of the Exit Rights Agreement (see Note 11).

Fair values of structured debt instruments and derivatives
The fair values of structured debt instruments and derivatives that are not quoted in active markets are determined using valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are reviewed before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices.

To the extent practicable, models use only observable data, however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments. Refer to Note 34 for information on the fair values of these instruments.

Aggregate reserves for life insurance
In determining the aggregate reserves for life policies estimates are made as to the expected number of deaths, illness or injury for each of the years in which PNB LII is exposed to risk. These estimates are based on standard mortality and morbidity tables as required by the Insurance Code (IC or the Code). The estimated number of deaths, illness or injury determines the value of possible future benefits to be paid out, which will be factored into ensuring sufficient cover by reserves, which in return is monitored against current and future premiums. Estimates are also made as to future investment income arising from the assets backing life insurance contracts. These estimates are based on current market returns, as well as expectations about future economic and financial developments. The carrying values of aggregate reserves for life insurance policies of the Group presented under "Insurance contract liabilities" in "Other Liabilities" amounted to ₱11.5 billion as of December 31, 2014 and 2013 (see Note 20).

Valuation of insurance contracts
Estimates have to be made both for the expected ultimate cost of claims reported at reporting date and for the expected ultimate cost of IBNR at the reporting date. It can take a significant period of time before the ultimate claim costs can be established with certainty. Nonlife insurance contract liabilities are not discounted for the time value of money.

The main assumption underlying the estimation of the claims provision is that a company's past claims development experience can be used to project future claims development and hence ultimate claims costs. Historical claims development is mainly analyzed by accident years as well as by significant business lines and claim types. Large claims are usually separately addressed,

either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development.

Measurement of NRV of inventories
The Group's estimates of the NRV of its consumer goods inventories and materials and supplies are based on the most reliable evidence available at the time the estimates are made, of the amount that the inventories are expected to be realized. These estimates consider the fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period. A new assessment is made of NRV in each subsequent period. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is a clear evidence of an increase in NRV because of change in economic circumstances, the amount of the write-down is reversed so that the new carrying amount is the lower of the cost and the revised NRV.

With respect to the Group's real estate inventories, the Group adjusts the cost of its real estate inventories to NRV based on its assessment of the recoverability of cost of the inventories. NRV for completed real estate inventories is assessed with reference to market conditions and prices existing at the reporting date and is determined by the Group in the light of recent market transactions. NRV in respect of real estate inventories under construction is assessed with reference to market prices at the reporting date for similar completed property, less estimated costs to complete construction and less estimated costs to sell. The amount and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized.

The Group's inventories carried at cost as of December 31, 2014 and 2013 amounted to ₱12.3 billion and ₱9.3 billion, respectively. Certain materials and supplies amounting to ₱0.7 billion and ₱1.0 billion as of December 31, 2014 and 2013 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 ₱38.5 billion and ₱37.8 billion as of December 31, 2014 and 2013, 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 2014

and 2013, there were no significant changes made in the useful lives and residual values of the property, plant and equipment and investment properties (see Notes 12 and 13).

The total carrying amount of depreciable property, plant and equipment as of December 31, 2014 and 2013 amounted to ₱23.7 billion and ₱24.3 billion, respectively (see Note 12). The carrying amount of depreciable investment properties, net of accumulated depreciation, as of December 31, 2014 and 2013 amounted to ₱6.8 billion and ₱6.1 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:

	2014	2013
	(In Thousands)	
Other current assets (except held to maturity investments) (Note 10)	**₱7,875,234**	₱5,627,293
Investments in associates and a joint venture (Note 11)	**12,297,509**	13,664,449
Property, plant and equipment (Note 12)	**42,445,922**	42,681,379
Investment properties (Note 13)	**27,197,933**	26,187,597
Other noncurrent assets (except refundable deposits) (Note 14)	**3,665,132**	4,851,511

In 2012, the Group recognized full impairment loss for certain property, plant and equipment amounting to ₱33.5 million. 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 ₱163.7 million as of December 31, 2014 and 2013 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, 2014 and 2013 amounted to ₱264.1 million and ₱243.8 million, respectively. Accrued retirement benefits amounted to ₱3.8 billion and ₱4.3 billion as of December 31, 2014 and 2013, respectively (see Note 23).

Provisions and contingencies
The Group is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with the legal counsels handling the defense in these matters and is based upon the analysis of potential results. The Group currently does not believe these proceedings will have a material adverse effect on the consolidated financial statements. It is possible, however, that future financial performance could be materially affected by changes in the estimates or effectiveness of the strategies relating to these proceedings and assessments.

Provision for legal claims amounted to ₱1.6 billion as of December 31, 2014 and 2013, respectively (see Note 37).

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 ₱1.4 billion and ₱1.7 billion in 2014 and 2013, 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 and metal closures production facility, to support the requirements of its brewing, bottled water and non-beer products operations. The Group conducts its beverage business through ABI and its consolidated subsidiaries.

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

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

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

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

The Group's assets are located mainly in the Philippines. The Group operates and derives principally all of its revenue from domestic operations. The Group's banking segment operates in key cities in the USA, Canada, Western Europe, Middle East and Asia. The distribution of assets and revenues of the banking segment outside the Philippines constitute 4.7% and 4.2% as of December 31, 2014, and 4.0% and 3.5% as of December 31, 2013 of the Group's consolidated assets and revenues, respectively.

Further, the measurement of the segments is the same as those described in the summary of significant accounting and financial reporting policies. TDI's investment property is adjusted at the consolidated level to carry it at cost in accordance with the Group's policy. Certain assets and liabilities of PNB are also adjusted at the consolidated level of LTG to reflect the original carrying values prior to the merger of PNB and ABC.

Segment assets are resources owned and segment liabilities are obligations incurred by each of the operating segments excluding intersegment balances which are eliminated.

Segment revenue and expenses are those directly attributable to the segment except that intersegment revenue and expense are eliminated only at the consolidated level. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

The components of capital expenditures reported to the CODM are the acquisitions of property, plant and equipment during the period.

The Group's distilled spirits segment derives revenue from two major distributors which averaged 89%, 94% and 93% of the total segment revenue in 2014, 2013 and 2012, respectively. The other segments of the Group have no significant customer which contributes 10% or more of their segment revenues.

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

For the year ended December 31, 2014:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
				(In Thousands)			
Segment revenue:							
External customers	**₱24,639,374**	**₱11,919,131**	**₱13,288,369**	**₱–**	**₱2,278,600**	**₱–**	**₱52,125,474**
Inter-segment	**735,384**	**101,386**	**1,033,901**	**–**	**–**	**(1,870,671)**	**–**
	25,374,758	**12,020,517**	**14,322,270**	**–**	**2,278,600**	**(1,870,671)**	**52,125,474**
Cost of sales	**4,712,917**	**9,819,049**	**10,238,090**	**–**	**1,582,589**	**(1,278,718)**	**25,073,927**
Gross profit	**20,661,841**	**2,201,468**	**4,084,180**	**–**	**696,011**	**(591,953)**	**27,051,547**
Equity in net earnings of associates	**–**	**–**	**–**	**515,112**	**–**	**379,443**	**894,555**
	20,661,841	**2,201,468**	**4,084,180**	**515,112**	**696,011**	**(212,510)**	**27,946,102**
Selling expenses	**–**	**957,664**	**1,649,833**	**–**	**155,052**	**(15,909)**	**2,746,640**
General and administrative expenses	**20,184,880**	**665,807**	**824,347**	**356,238**	**427,417**	**100,308**	**22,558,997**
Operating income	**476,961**	**577,997**	**1,610,000**	**158,874**	**113,542**	**(296,909)**	**2,640,465**
Finance costs	**–**	**(418,214)**	**(11,892)**	**–**	**(49,317)**	**24,568**	**(454,855)**
Finance income	**–**	**99**	**18,516**	**108,825**	**42,037**	**(50,436)**	**119,041**
Foreign exchange gains - net	**1,340,197**	**(1,883)**	**–**	**6,599**	**(1,154)**	**1,946**	**1,345,705**
Others - net	**5,744,362**	**15,506**	**(9,219)**	**205,733**	**96,882**	**(542,596)**	**5,510,668**
Income before income tax	**7,561,520**	**173,505**	**1,607,405**	**480,031**	**201,990**	**(863,427)**	**9,161,024**
Provision for income tax	**1,663,614**	**72,790**	**485,525**	**331,676**	**82,125**	**53,088**	**2,688,818**
Segment profit	**₱5,897,906**	**₱100,715**	**₱1,121,880**	**₱148,355**	**₱119,865**	**(₱916,515)**	**₱6,472,206**
Depreciation and amortization expense	**₱1,137,939**	**₱539,345**	**₱1,675,598**	**₱10,983**	**₱174,001**	**₱17,126**	**₱3,554,992**
Segment income attributable to:							
Equity holders of the Company	**3,117,160**	**99,668**	**1,121,880**	**147,731**	**118,966**	**(195,175)**	**4,410,230**
Non-controlling interests	**2,780,746**	**1,047**	**–**	**624**	**899**	**(721,340)**	**2,061,976**

Other financial information of the operating segments as of December 31, 2014 is as follows:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
				(In Thousands)			
Assets:							
Current assets	**₱298,568,066**	**₱10,219,418**	**₱10,004,167**	**₱10,012,580**	**₱14,777,806**	**(₱3,445,955)**	**₱340,136,082**
Noncurrent assets	**313,673,332**	**6,600,617**	**13,588,070**	**13,304,339**	**8,915,819**	**614,949**	**356,697,126**
	₱612,241,398	**₱16,820,035**	**₱23,592,237**	**₱23,316,919**	**₱23,693,625**	**(₱2,831,006)**	**₱696,833,208**
Liabilities:							
Current liabilities	**₱466,045,382**	**₱6,443,588**	**₱2,959,227**	**₱385,588**	**₱12,925,809**	**(₱19,613,131)**	**₱469,146,463**
Noncurrent liabilities	**60,022,066**	**540,528**	**1,492,193**	**75,038**	**2,686,229**	**148,497**	**64,964,551**
	₱526,067,448	**₱6,984,116**	**₱4,451,420**	**₱460,626**	**₱15,612,038**	**(₱19,464,634)**	**₱534,111,014**
Investments in associates and a joint venture	**₱–**	**₱–**	**₱49,125**	**₱11,011,011**	**₱–**	**₱1,237,373**	**₱12,297,509**
Equity attributable to:							
Equity holders of the Company	**47,360,474**	**9,710,664**	**19,140,817**	**22,745,969**	**8,051,375**	**17,218,592**	**124,227,891**
Non-controlling interests	**38,813,476**	**125,255**	**–**	**110,324**	**30,212**	**(584,964)**	**38,494,303**
Additions to noncurrent assets:							
Property, plant and equipment	**1,051,647**	**365,947**	**1,041,141**	**8,893**	**16,777**	**9,639**	**2,494,044**
Investment properties	**1,283,966**	**–**	**–**	**929,071**	**395,788**	**–**	**2,608,825**
Short-term debts	**–**	**–**	**300,000**	**–**	**–**	**–**	**300,000**
Long-term debts	**9,969,498**	**4,998,008**	**2,902**	**–**	**1,829,938**	**(2,902)**	**16,797,444**

For the year ended December 31, 2013:

	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	₱132,433	₱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 and services	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

5. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	2014	2013
		(In Thousands)
Cash and other cash items	**₱18,238,962**	₱12,651,411
Cash equivalents:		
Due from *Bangko Sentral ng Pilipinas* (BSP)	**105,773,685**	153,169,330
Due from other banks	**15,591,406**	14,093,671
Interbank loans receivable	**7,671,437**	8,405,250
	₱147,275,490	₱188,319,662

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

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

c. Interest earned on cash and other cash items and cash equivalents are presented under "Finance income" and "Banking revenue", respectively (see Notes 24 and 27).

6. Financial Assets at Fair Value through Profit or Loss

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

	2014	2013
		(In Thousands)
Financial assets at fair value through profit or loss (FVPL):		
Held for trading:		
Government securities	**₱6,598,386**	₱3,355,721
Private debt securities	**289,313**	830,528
Derivative assets (Notes 21 and 33)	**136,551**	258,697
Equity securities	**210,550**	249,518
	7,234,800	4,694,464
Designated at FVPL:		
Segregated fund assets (Note 16)	**10,654,770**	7,861,688
Unit investment trust fund	**4,922,351**	–
	₱22,811,921	₱12,556,152

a. As of December 31, 2014 and 2013, unrealized loss on government and private debt securities amounted to ₱216.2 million and ₱237.1 million, respectively. As of December 31, 2014 and 2013, the effective interest rates range from 2.75% to 8.88% and from 3.25% to 8.38% for the government securities, and from 4.25% to 7.38% and from 3.88% to 7.38% for the private debt securities, respectively.

b. The carrying amount of equity securities includes unrealized loss of ₱17.2 million and ₱30.7 million as of December 31, 2014 and 2013, 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, 2014 and 2013, the segregated fund assets consist of ₱8.7 billion peso funds and ₱ 2.0 billion dollar funds and ₱6.0 billion peso funds and ₱1.9 billion dollar funds, respectively. 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.

a. 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 or ₱1.3 billion matured.

b. In various dates in 2014, the Group invested in PNB Institutional Money Market Fund which is a money market unit investment trust fund (UITF). The investment is subject to a minimum holding period of 30 days.

7. Available for Sale Investments

Available for sale investments consist of:

	2014	2013
		(In Thousands)
Government securities (Notes 19 and 37)	**₱37,683,386**	₱59,380,333
Other debt securities	**23,986,694**	18,654,987
Equity securities:		
Quoted	**2,735,120**	2,663,182
Unquoted	**338,026**	1,185,582
	64,743,226	81,884,084
Allowance for impairment losses	**(929,881)**	(928,408)
	63,813,345	80,955,676
Noncurrent portion	**(60,039,059)**	(78,029,572)
	₱3,774,286	₱2,926,104

a. As of December 31, 2014 and 2013, 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 amounting to ₱2.4 billion (see Notes 17 and 33). 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, 2014 and 2013, 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 the BSP amounted to ₱8.5 billion and ₱2.7 billion, respectively (see Note 33). BSP has 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 amounting to ₱974.4 million issued by PNB Gen. As of December 31, 2014 and 2013, the carrying value of these pledged securities amounted to ₱903.9 million and ₱928.3 million, respectively.

d. Other debt securities consist of notes issued by private entities.

e. No impairment loss has been recognized on unquoted debt securities for the years ended December 31, 2014, 2013 and 2012.

f. Quoted equity securities include the investment in shares of stock of VMC as of December 31, 2013, which was reclassified to investment in an associate upon acquisition of additional equity in VMC in 2014 (see Note 11).

g. As of December 31, effective interest rates for the AFS investments follow:

	2014	2013	2012
Peso-denominated	**2.58% to 5.62%**	1.62% to 5.79%	2.35% to 5.95%
Foreign-currency denominated	**2.06% to 5.83%**	1.28% to 5.90%	1.66% to 5.90%

h. Presented below are the movements in the net changes in fair values of AFS financial assets:

	2014	2013
		(In Thousands)
At beginning of year	**(₱1,714,054)**	₱3,763,651
Net changes in fair value of AFS investments during the year*:		
Fair value changes during the year on AFS investments	**1,344,819**	397,865
Reversal of fair value gain on AFS investments reclassified to Investment in associate (Note 11)	**238,186**	–
Realized gains**(Note 24)	**(1,030,567)**	(5,875,570)
	552,438	(5,477,705)
At end of year	**(₱1,161,616)**	(₱1,714,054)
Attributable to:		
Equity holders of the Company	**(₱750,414)**	(₱875,973)
Non-controlling interests	**(411,202)**	(838,081)
	(₱1,161,616)	(₱1,714,054)

* *Net of deferred income tax effect amounting to ₱1.4 million and ₱84.0 million in 2014 and 2013, respectively.*
** *Included in "Trading and securities gains" under "Banking revenue".*

i. The movements in allowance for impairment losses of AFS investments follow:

	2014	2013
		(In Thousands)
Balance at beginning of year	**₱928,408**	₱997,045
Provisions during the year	**1,234**	–
Disposals, transfers and others	**239**	(68,637)
Balance at end of year	**₱929,881**	₱928,408

Reclassification of Financial Assets

On October 12, 2011, PNB had identified a clear change of intent to exit or trade in the short term its HTM investments rather than to hold them until maturity, when it disposed of more than an insignificant amount of its HTM investments. This disposal necessitated the reclassification of the remaining HTM investments to AFS securities in accordance with PAS 39. As of the date of reclassification, the amortized cost of HTM investments reclassified to AFS investments amounted to ₱32.5 billion. Reclassified AFS investments are initially measured at their fair value amounting to ₱35.7 billion. Any difference between the amortized cost of HTM investments and their fair value at reclassification date is recognized in OCI.

Beginning 2014, the Group is already allowed to classify investments as HTM as the tainting period, required by PAS 39, has lapsed. On March 3 and March 5, 2014, the Group reclassified certain AFS investments with fair values of ₱15.9 billion and ₱6.8 billion, respectively, back to its original classification, as HTM investments, as management has established that it continues to have the positive intention and ability to hold these securities to maturity. The reclassification was approved by the BOD of PNB on February 28, 2014. The previous fair valuation gains amounting to ₱2.7 billion that have been recognized in OCI shall be amortized to profit or loss over the remaining life of the HTM investments using effective interest rates ranging from 3.60% to 5.64%.

As of December 31, 2014, HTM investments of the Group comprise of government securities and private debt securities amounting to ₱22.9 billion and ₱50.0 million, respectively.

As of December 31, 2014, the fair value of the HTM investments in the form of Republic of the Philippines bonds pledged to fulfill its collateral requirements with securities sold under repurchase agreements transactions with BSP amounted to ₱8.9 billion (Note 33).

8. Loans and Receivables

Loans and receivables consist of:

	2014	2013
		(In Thousands)
Finance receivables	**₱328,416,192**	₱291,434,545
Trade receivables	**11,885,157**	10,784,851
Other receivables (Note 22)	**2,980,818**	2,918,862
	343,282,167	305,138,258
Allowance for credit losses	**(12,189,786)**	(17,203,226)
	331,092,381	287,935,032
Noncurrent portion	**(187,438,860)**	(204,749,366)
	₱143,653,521	₱83,185,666

Finance Receivables

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

	2014	2013
		(In Thousands)
Receivables from customers:		
Loans and discounts	**₱278,897,612**	₱237,061,751
Customers' liabilities on acceptances, letters of credit and trust receipts	**11,594,378**	10,387,199
Bills purchased (Note 20)	**4,878,682**	3,827,510

(Forward)

Credit card receivables	**₱4,390,966**	₱4,105,025
Finance lease receivables	**3,311,150**	2,666,316
	303,072,788	258,047,801
Unquoted debt securities	**8,044,272**	11,571,023
Other receivables:		
Accounts receivable	**8,993,706**	10,308,901
Accrued interest receivable	**4,756,699**	7,514,686
Sales contract receivables	**4,267,338**	4,647,352
Miscellaneous	**442,089**	499,314
	18,459,832	22,970,253
	329,576,892	292,589,077
Unearned and other deferred income	**(1,160,700)**	(1,154,532)
	328,416,192	291,434,545
Allowance for credit losses	**(12,129,459)**	(17,165,122)
	316,286,733	274,269,423
Noncurrent portion	**(186,830,742)**	(202,512,151)
	₱129,455,991	₱71,757,272

a. Loans amounting to ₱219.1 million as of December 31, 2013 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 33). 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, 2014 and 2013, 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.

As of December 31, 2013, 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, the sinking fund amounted ₱5.3 billion, earning an average rate of return of 8.82% per annum. 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 is presented as follows:

	2014	2013
		(In Thousands)
Gross investment in finance lease receivables		
Due within one year	**₱1,319,896**	₱1,002,864
Due beyond one year but not over five years	**1,369,711**	1,182,830
Due beyond five years	**58,511**	75,850
	2,748,118	2,261,544
Residual value of leased equipment		
Due within one year	**138,118**	135,310
Due beyond one year but not over five years	**425,014**	229,254
Due beyond five years	**–**	40,208
	563,032	404,772
Total finance lease receivable	**₱3,311,150**	₱2,666,316

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, 2014 and 2013, the balance of these receivables amounted to nil and ₱3.6 billion, respectively, and the transferred liabilities (included under "Bills payable to BSP and local banks" and "Accrued interest payable") amounted to ₱3.6 billion and ₱3.3 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, 2014 and 2013. The remaining 40% equity ownership of PNB in Maybank was sold in June 2000 (see Note 37).

e. Interest income on loans and receivables consists of (see Note 24):

	2014	2013	2012
Receivable from customers and sales contract receivables	**₱14,697,091**	₱13,553,287	₱13,497,201
Unquoted debt securities	**548,555**	253,556	582,088
	₱15,245,646	₱13,806,843	₱14,079,289

As of December 31, 2014 and 2013, 85.6% and 83.3%, respectively, of the total receivable from customers of the Group were subject to interest repricing. Remaining receivables carry annual fixed interest rates ranging from nil to 9.0% as of December 31, 2014 and from 4.8% to 9.0% as of December 31, 2013 for foreign currency-denominated receivables, and from nil to 35.0% as of December 31, 2014 and from 0.3% to 24.4% as of December 31, 2013 for peso-denominated receivables.

Sales contract receivables bear fixed interest rate per annum ranging from 5.1% to 21.0% and from 4.5% to 21.0% as of December 31, 2014 and 2013, respectively.

Interest income accrued on impaired loans and receivable of the Group amounted to ₱274.8 million in 2014, ₱289.1 million in 2013 and ₱302.8 million in 2012.

Trade receivables

Trade receivables consist of:

	2014	2013
	(In Thousands)	
Consumer goods	**₱9,026,828**	₱7,787,960
Contract receivables	**2,667,862**	2,947,033
Lease receivables	**190,467**	49,858
	11,885,157	10,784,851
Allowance for credit losses	**(54,813)**	(32,590)
	11,830,344	10,752,261
Noncurrent portion of contract receivables	**(608,118)**	(2,237,215)
	₱11,222,226	₱8,515,046

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 ₱37.5 million, ₱39.4 million and ₱50.3 million in 2014, 2013 and 2012 respectively.

c. The Group assigned certain contracts receivables to Banco de Oro Unibank, Inc. (BDO) on a with recourse basis. The total assigned contracts receivables amounted to ₱257.6 million and ₱367.3 million as of December 31, 2014 and 2013, 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, 2014			
	Trade Receivables	**Finance Receivables**	**Other Receivables**	**Total**
		(In Thousands)		
Balance at beginning of year	**₱32,590**	**₱17,165,122**	**₱5,514**	**₱17,203,226**
Provisions during the year (Note 26)	**22,223**	**1,712,279**	**–**	**1,734,502**
Accounts charged off, transfers and others	**–**	**(6,747,942)**	**–**	**(6,747,942)**
Balance at end of year	**₱54,813**	**₱12,129,459**	**₱5,514**	**₱12,189,786**

	December 31, 2013			
	Trade Receivables	Finance 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 26)	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

Below is the breakdown of provision for (reversal of) credit losses by type of loans and receivables.

	2014	2013
		(In Thousands)
Individual assessment		
Finance receivables:		
Receivable from customers	**₱2,153,083**	₱598,557
Unquoted debt securities	**(336,475)**	–
Other receivables	**(164,331)**	1,833
Trade receivables from customers of consumer goods	**22,223**	22,606
	1,674,500	622,996
Collective assessment		
Finance receivables:		
Receivable from customers	**59,930**	246,156
Other receivables	**72**	42,538
	60,002	288,694
	₱1,734,502	₱911,690

9. Inventories

Inventories consist of:

	2014	2013
		(In Thousands)
At Cost:		
Consumer goods:		
Alcohol	**₱2,383,195**	₱2,559,043
Beverage	**2,028,689**	1,461,630
	4,411,884	4,020,673

(Forward)

	2014	2013
		(In Thousands)
Real estate inventories:		
Condominium and residential units for sale	**₱3,524,882**	₱2,933,431
Subdivision land under development	**2,315,704**	1,524,775
Land held for future development	**1,408,237**	474,665
	7,248,823	4,932,871
Fuel, materials and supplies	**624,150**	329,838
	12,284,857	9,283,382
At NRV - Materials and supplies	**652,008**	996,577
	₱12,936,865	₱10,279,959

Allowance for inventory obsolescence on materials and supplies amounted to ₱25.2 million, and ₱18.2 million as of December 31, 2014 and 2013, respectively.

a. Components of the consumer goods inventories are as follows:

	2014	2013
		(In Thousands)
Finished goods	**₱561,011**	₱472,906
Work in process	**1,022,742**	1,018,642
Raw materials	**2,828,131**	2,529,125
	₱4,411,884	₱4,020,673

Cost of consumer goods inventories recognized as expenses under cost of sales amounted to ₱12.5 billion, ₱10.8 billion and ₱12.7 billion in 2014, 2013 and 2012 respectively (see Note 24).

b. Movements in real estate inventories are set out below:

	2014	2013
		(In Thousands)
Opening balance at January 1	**₱4,932,871**	₱5,495,441
Land acquired during the year	**328,580**	238,997
Construction/development costs incurred	**3,127,713**	1,459,198
Borrowing costs capitalized (Note 19)	**163,393**	229,065
Disposals (recognized as cost of real estate sales, Note 24)	**(1,303,734)**	(2,489,830)
	₱7,248,823	₱4,932,871

Parcels of land acquired in 2014 and 2013 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**

	2014	2013
		(In Thousands)
Miscellaneous cash and other cash items	**₱714,726**	₱182,295
Creditable withholding taxes (CWT)	**2,738,802**	1,818,972
Excise tax	**1,008,484**	925,030
Input VAT	**827,684**	499,167
Advances to suppliers	**964,567**	685,740
Advances to contractors	**367,221**	404,347
Stationeries, office supplies and stamps on hand	**129,721**	248,768
Deferred rent	**90,701**	54,544
Prepaid expenses	**371,466**	577,580
Held to maturity investments	**11,375**	–
Others	**661,862**	230,850
	₱7,886,609	₱5,627,293

a. CWTs pertain mainly to the amounts withheld from income derived from sale of consumer goods and real estate inventories. The CWTs can be applied against any income tax liability of a company in the Group to which the CWTs relate.

b. Excise tax pertains to advance tax payments to the Bureau of Internal Revenue (BIR) pertaining to sale of alcoholic beverages (see Note 37).

c. Advances to suppliers pertain to deposits made for raw material purchases and are applied upon delivery of the related inventories.

d. Advances to contractors are recouped every progress billing payment based on the percentage of accomplishment of each contract package. The activities to which these advances pertain will be completed within the normal operating cycle.

e. Prepaid expenses include prepaid commission amounting to nil and ₱205.4 million and prepaid importation charges amounting to ₱80.8 million and ₱87.6 million as of December 31, 2014 and 2013 respectively. Prepaid commission consists of payments to real estate 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.

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 and VMC, a 49.6%-owned and a 20.2%-owned associate, respectively, which do not constitute control or joint control. The Group also has 50.0% interest in ABI Pascual Holdings Private Limited (ABI Pascual Holdings), which is a joint controlled entity. The Group's investments in its associates and joint venture are accounted for using equity method of accounting.

	Ownership		Amount	
	2014	2013	**2014**	2013
			(In Thousands)	
PMFTC	**49.6%**	49.6%	**₱11,011,011**	₱13,664,449
VMC*	**20.2%**	14.5%	**1,237,373**	–
ABI Pascual Holdings	**50.0%**	50.0%	**49,125**	–
			₱12,297,509	₱13,664,449

**Ownership interest in 2013 pertains to the combined interest of LTG and PNB of 7.4% and 7.1%, respectively.*

Investment in PMFTC
Details of investment in PMFTC are as follows:

	2014	2013	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	**180,908**	402,557	(1,860,154)
Equity in net earnings	**515,112**	3,704,117	6,498,972
Share in other comprehensive income	**–**	27,454	–
Less cash dividends (Note 22)	**(3,168,550)**	(3,953,220)	(4,236,261)
Balance at end of year	**(2,472,530)**	180,908	402,557
	₱11,011,011	₱13,664,449	₱13,886,098

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 2014, 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, are set out below:

	2014	2013
		(In thousands)
Current assets	**₱41,868,305**	₱37,813,624
Noncurrent assets	**32,390,102**	32,972,587
Current liabilities	**(34,231,463)**	(29,896,491)
Noncurrent liabilities	**(8,646,788)**	(4,335,108)
Equity	**31,380,156**	36,554,612

Summarized statements of income of PMFTC are as follows:

	2014	2013	2012
		(In thousands)	
Revenue	**₱98,384,104**	₱89,623,792	₱78,941,157
Cost of sales	**(86,931,758)**	(67,456,713)	(50,678,802)
General and administrative	**(12,396,641)**	(12,652,233)	(11,506,250)
Others - net	**1,508,900**	585,702	783,777
Income before income tax	**564,605**	10,100,548	17,539,882
Provision for income tax	**(116,876)**	(2,970,655)	(5,280,640)
Net income	**447,729**	7,129,893	12,259,242
Group's share of income for the year	**₱222,043**	₱3,535,947	₱6,080,631

Investment in VMC
Details of investment in VMC are as follows:

	2014
	(In Thousands)
Acquisition cost	₱616,441
Accumulated equity in net earnings:	
Balance at beginning of year	–
Equity in net earnings	44,635
Excess of fair value of net assets of associate over cost of investment	334,808
Balance at end of year	379,443
Balance of convertible note	241,489
	₱1,237,373

On December 21, 2007, the Company acquired 170.1 million shares representing 10.67% ownership in the shares of stock of VMC for ₱85.1 million presented as AFS investments as of December 31, 2013. Net changes in the fair value of AFS investments recognized as other comprehensive income in 2013 amounted to ₱86.8 million. As of December 31, 2013, the cost of investment plus the accumulated net changes in fair value of AFS investments amounted to ₱323.3 million.

On various dates in April and May 2014, LTG acquired shares of stock of VMC amounting to ₱413.6 million, which increased its ownership interest to 17.5%, and convertible notes amounting to ₱359.3 million, which would increase LTG's interest to 23.5% upon conversion. As of December 31, 2014, portion of the convertible notes amounting to ₱117.8 million was converted to shares of stock of VMC resulting in an increase in LTG's ownership interest to 20.4%. The cost-based approach was applied in accounting for the step acquisition of VMC as an associate. Accordingly, LTG reclassified the original cost of its AFS investments to investment in an associate and derecognized the net changes in fair value of AFS investments amounting to ₱238.2 million (presented in other comprehensive income) (see Note 7). The difference of ₱334.8 million between the sum of the consideration for the 17.5% ownership interest amounting to ₱498.7 million and the share in fair value of net assets of VMC at the date the investment becomes an associate amounting to ₱833.5 million is recognized as part of the equity in net earnings of VMC.

The summarized financial information of VMC as of November 30, 2014 and for the six months period from June 1, 2014 to November 30, 2014 follows (in thousands):

Current assets	₱2,399,263
Noncurrent assets	5,571,438
Current liabilities	1,322,438
Noncurrent liabilities	1,564,532
Revenue	1,352,346
Income before income tax	386,628
Provision for income tax	120,357
Net income	266,271
Other comprehensive income	–
Total comprehensive income	266,271

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

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

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

Total assets, liabilities and capital deficiency of ABI Pascual Holdings amounted to ₱54.2 million, ₱146.3 million and ₱92.1 million as of December 31, 2014 and ₱66.4 million, ₱135.5 milion and ₱69.1 million as of December 31, 2013. In 2014 and 2013, ABI Pascual Holdings incurred net losses of ₱23.1 million and ₱ 108.9 million, respectively. The Group recognized share in net loss of ABI Pascual Holdings to the extent of the carrying value of the investment amounting to ₱20.1 million (see Note 28). As of December 31, 2013, the Group's interest in the jointly controlled entity has been reduced to zero and the Group has not incurred any obligations or guaranteed any obligations in respect of the jointly controlled entity. As at December 31, 2013, the Group's share in losses which has not been equity accounted for amounted to ₱14.4 million. In 2014, the Group determined that its advances to ABI Pascual Foods amounting to ₱95.2 million to support its operations represent the Group's long-term interest in ABI Pascual Holdings and its subsidiary that, in substance, form part of the Group's net investment in the joint venture. The Group's share in loss of the joint venture in 2014 amounted to ₱46.1 million (see Note 28).

Disclosures on Subsidiary with Material Non-controlling Interest
Following is the financial information of PNB, which has material non-controlling interests of 43.53% as of and for the years ended December 31:

	2014	2013	2012
		(In Thousands)	
Accumulated balances of material non-controlling interest	**₱35,600,617**	₱28,844,411	₱27,902,694
Net income allocated to material non-controlling interest	**2,507,994**	2,647,901	2,906,532
Comprehensive income allocated to material non-controlling interest	**2,328,509**	959,404	2,550,920
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:

	2014	2013	2012
		(In Thousands)	
Revenue	**₱25,374,758**	₱28,855,871	₱32,097,694
Cost of services	**(4,712,917)**	(6,121,012)	(7,666,772)
General and administrative expenses	**(20,184,880)**	(19,133,631)	(21,069,344)
Foreign exchange gains - net	**1,340,197**	1,167,545	926,731
Other income - net	**5,744,362**	2,693,949	3,692,539
Income before income tax	**7,561,520**	7,462,722	7,980,848
Provision for income tax	**(1,663,614)**	(1,228,074)	(1,455,436)
Net income	**5,897,906**	6,234,648	6,525,412
Other comprehensive loss	**(463,460)**	(3,500,920)	(1,035,144)
Total comprehensive income	**₱5,434,446**	₱2,733,728	₱5,490,268
Net income attributable to:			
Equity holders of PNB	**₱5,761,530**	₱6,082,933	₱6,677,077
Non-controlling interests	**136,376**	151,714	(151,665)
Total comprehensive income attributable to:			
Equty holders of PNB	**5,349,206**	2,204,005	5,860,141
Non-controlling interests	**85,240**	529,723	(369,873)

Balance Sheets:

	2014	2013
		(In Thousands)
Current assets	**₱298,568,066**	₱276,146,856
Noncurrent assets	**313,673,332**	325,967,220
Current liabilities	**466,045,382**	498,100,979
Noncurrent liabilities	**60,022,066**	34,622,189
Equity attributable to:		
Equity holders of the Company	**82,961,091**	66,263,291
Non-controlling interest	**3,212,859**	3,127,619

Statements of Cash Flows:

	2014	2013	2012
		(In Thousands)	
Operating	**(₱61,400,140)**	₱48,744,659	(₱9,626,822)
Investing	**(542,830)**	(7,555,741)	8,092,588
Financing	**17,168,222**	70,455,937	12,971,712
	(₱44,774,748)	₱111,644,855	₱11,437,478

12. **Property, Plant and Equipment**

December 31, 2014

	At Appraised Values				At Cost						
	Land and Land Improvements	Plant Buildings and Building Improvements	Machineries and Equipment	Subtotal	Office and Administration Buildings and Improvements	Transportation Equipment	Returnable Containers	Furniture, Fixtures and Other Equipment	Construction in progress	Subtotal	Total
	(In Thousands)										
Cost											
Balance at beginning of 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**
Additions	**8,553**	**506,914**	**674,795**	**1,190,262**	**120,685**	**112,851**	**383,223**	**580,392**	**106,631**	**1,303,782**	**2,494,044**
Disposals, transfers and other adjustments (Note 28)	**239,631**	**309,721**	**(155,997)**	**393,355**	**2,431,168**	**(204,879)**	**–**	**(408,261)**	**(218,893)**	**1,599,135**	**1,992,490**
Balance at end of the year	**17,733,967**	**19,982,538**	**27,125,256**	**64,841,761**	**3,944,254**	**1,718,288**	**6,628,513**	**9,241,275**	**386,422**	**21,918,752**	**86,760,513**
Accumulated Depreciation, Amortization and Impairment Losses											
Balance at beginning of 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**
Depreciation and amortization	**37,837**	**635,666**	**958,132**	**1,631,635**	**126,517**	**131,264**	**567,516**	**621,635**	**–**	**1,446,932**	**3,078,567**
Disposals, transfers and other adjustments (Note 28)	**–**	**(455,291)**	**(228,725)**	**(684,016)**	**2,228,564**	**(201,378)**	**–**	**300,254**	**–**	**2,327,440**	**1,643,424**
Balance at end of the year	**909,980**	**8,380,263**	**17,080,993**	**26,371,236**	**3,330,800**	**1,398,039**	**5,480,748**	**7,733,768**	**–**	**17,943,355**	**44,314,591**
Net Book Value	**₱16,823,987**	**₱11,602,275**	**₱10,044,263**	**₱38,470,525**	**₱613,454**	**₱320,249**	**₱1,147,765**	**₱1,507,507**	**₱386,422**	**₱3,975,397**	**₱42,445,922**

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 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 increase	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 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 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 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

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 34). Movements in revaluation increment, net of deferred income tax effect, are as follows:

	2014	2013
	(In Thousands)	
Revaluation increment on the property, plant and equipment, net of deferred income tax effect:		
Beginning of year	**₱8,963,164**	₱9,475,117
Revaluation increase	**–**	910,415
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	**(841,802)**	(1,422,368)
	₱8,121,362	₱8,963,164
Attributable to:		
Equity holders of the parent company	**₱5,781,539**	₱6,378,188
Non-controlling interests	**2,339,823**	2,584,976
	₱8,121,362	₱8,963,164

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:

	2014	2013
		(In Thousands)
Cost		
Land and land improvements	**₱7,244,333**	₱7,235,779
Plant buildings and improvements	**14,346,131**	13,839,217
Machineries and equipment	**42,189,454**	16,429,028
	63,779,918	37,504,024
Accumulated depreciation		
Plant buildings and improvements	**(12,908,279)**	(3,836,248)
Machineries and equipment	**(24,003,059)**	(8,637,769)
	(36,911,338)	(12,474,017)
	₱26,868,580	₱25,030,007

Impairment, Write-off and Disposal of Property, Plant and Equipment

The Group recognized impairment losses for certain property, plant and equipment amounting to ₱33.5 million in 2012 (see Note 26). 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:

	2014	2013	2012
		(In Thousands)	
Cost of sales and services (Note 24)	**₱1,420,117**	₱1,298,012	₱1,278,879
Selling expenses (Note 25)	**593,785**	717,807	683,885
General and administrative expenses (Note 26)	**1,064,665**	1,269,830	1,112,413
	₱3,078,567	₱3,285,649	₱3,075,177

Fully depreciated property, plant and equipment that are still used in operations amounted to ₱2.9 billion and ₱2.2 billion as of December 31, 2014 and 2013, 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 ₱8.2 million, and ₱15.1 million as of December 31, 2014 and 2013, respectively. The average capitalization rates used to determine the amount of borrowing costs eligible for capitalization is 5.7% in 2011.

13. Investment Properties

Movements of the Group's investment properties are as follows (in thousands):

	December 31, 2014				
	Land	**Buildings and Improvements**	**Residential Unit**	**Construction in Progress**	**Total**
Cost					
Beginning balance	**₱22,127,318**	**₱9,421,946**	**₱7,620**	**₱1,331,690**	**₱32,888,574**
Additions	**1,891,277**	**535,809**	**–**	**181,739**	**2,608,825**
Transfers/disposals/others	**(476,708)**	**107,024**	**–**	**(1,374,450)**	**(1,744,134)**
Ending balance	**23,541,887**	**10,064,779**	**7,620**	**138,979**	**33,753,265**
Accumulated Depreciation					
Beginning balance	**3,336,107**	**3,357,250**	**7,620**	**–**	**6,700,977**
Depreciation	**–**	**315,189**	**–**	**–**	**315,189**
Provision for impairment losses	**453,462**	**16,324**	**–**	**–**	**469,786**
Transfer/disposals/others	**(540,647)**	**(389,973)**	**–**	**–**	**(930,620)**
Ending balance	**3,248,922**	**3,298,790**	**7,620**	**–**	**(6,555,332)**
Net Book Value	**₱20,292,965**	**₱6,765,989**	**₱–**	**₱138,979**	**₱27,197,933**

	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 and Impairment Losses					
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

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 ₱169.6 million and ₱449.5 million as of December 31, 2014 and 2013, respectively. The Group is exerting continuing efforts to dispose these properties. As discussed in Note 37, 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:

	2014	2013
		(In Thousands)
Land	**₱36,107,990**	₱35,072,992
Buildings and improvements	**6,025,335**	4,857,285
	₱42,133,325	₱39,930,277

The fair value of investment properties of the Group was arrived at using various acceptable valuation approaches and both observable and unobservable inputs (see Note 34).

Rent Income and Direct Operating Expenses of Investment Properties

Rental income and direct operating expenses arising from the investment properties of property development segment amounted to ₱740.3 million and ₱278.9 million in 2014 and ₱448.7 million and ₱ 190.3 million in 2013, ₱396.8 million and 142.9 million in 2012, respectively (see Note 24).

Rental income of the banking segment on its investment properties is presented under "Other income (charges) - net" (see Note 28).

Depreciation of investment properties charged to operations follows:

	2014	2013	2012
		(In Thousands)	
Cost of rental income (Note 24)	**₱145,680**	₱94,223	₱70,671
General and administrative expenses (Note 26)	**169,509**	370,467	269,174
	₱315,189	₱464,690	₱339,845

14. Other Noncurrent Assets

Other noncurrent assets consist of:

	2014	2013
		(In Thousands)
Deferred input VAT	**₱352,657**	₱539,296
Deferred reinsurance premiums	**738,685**	245,157
Deferred charges	**236,773**	121,156
Deposit for future investments	**357,489**	355,716
Investment in Heritage Park	**–**	999,035

(Forward)

	2014	2013
		(In Thousands)
Other investments	**₱19,357**	₱37,233
Refundable deposits	**173,305**	167,547
Other security deposits	**125,656**	105,285
Software costs	**667,364**	425,928
Goodwill	**163,735**	163,735
Chattel properties - net	**49,549**	120,615
Receivable from SPV - net	**–**	500
Net retirement plan assets (Note 23)	**264,118**	243,793
Others - net	**516,444**	1,326,515
	₱3,665,132	₱4,851,511

a. Deferred input VAT arises mainly from the acquisition of capital goods.

b. Refundable deposits consist principally of amounts paid by the property development segment to its utility providers for service applications and guarantee deposit to Makati Commercial Estate Association for plans processing, monitoring fee and development charge of the Group's projects. These refundable deposits amounting to ₱173.3 million and ₱167.5 million as of December 31, 2014 and 2013, respectively, will be refunded upon termination of the service contract and completion of the projects' construction.

c. Movements in software costs are as follows:

	2014	2013
		(In Thousands)
Beginning of year	**₱425,928**	₱471,112
Additions	**419,809**	238,687
Disposals	**(17,137)**	–
Amortization (Note 26)	**(161,236)**	(283,871)
End of year	**₱667,364**	₱425,928

Software cost amortization amounted to ₱161.2 million in 2014, ₱236.7 million in 2013 and ₱280.9 million in 2012 (see Note 26).

d. The Group recognized goodwill pertains to ADI and Eton amounting to ₱144.7 million and ₱19.0 million, respectively. As at December 31, 2014, the Group performed its annual impairment testing of goodwill related to ADI, a CGU.

The recoverable amount of ADI is determined based on value in use calculations using cash flow projections from financial budgets approved by management covering a five-year period. The projected cash flows have been updated to reflect the increase in demand for products based on TDI's projected sales volume increase, selling price increase and cost and expenses increase. The pre-tax discount rate applied to the cash flow projection is 9.7%. 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, 2014, the recoverable amount of ADI is higher than its carrying value.

e. As of December 31, 2014 and 2013, accumulated depreciation on chattel mortgage properties acquired by PNB in settlement of loans amounted to ₱74.1 million and ₱77.8 million, respectively.

f. The Group has receivable from SPV, OPII, which was deconsolidated upon adoption of PFRS 10.

As of December 31, 2014 and 2013, 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:

(1) 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.

(2) 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:

(1) An initial amount of ₱751.1 million, which was received in full and acknowledged by PNB on April 26, 2007; and

(2) 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.

(3) Allowance for impairment losses on receivable from SPV amounted to ₱0.5 million as of December 31, 2014 and 2013.

g. 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, 2014. 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

	2014	2013
		(In Thousands)
Demand	**₱88,898,863**	₱90,428,033
Savings	**293,201,308**	284,599,682
Time	**52,759,938**	51,114,363
	434,860,109	426,142,078
Presented as noncurrent	**(23,468,731)**	(10,451,554)
Presented as current	**₱411,391,378**	₱415,690,524

Of the total deposit liabilities of PNB, ₱24.7 billion and ₱26.1 billion are non-interest bearing as of December 31, 2014 and 2013, respectively. Annual interest rates of the remaining deposit liabilities follow:

	2014	2013	2012
Foreign-currency denominated deposit liabilities	**0.02% to 2.26%**	0.02% to 2.53%	0.09% to 2.55%
Peso-denominated deposit liabilities	**0.03% to 6.11%**	0.11% to 5.59%	0.25% to 4.32%

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 PNB Savings Bank are subject to reserves equivalent to 20.00% and 8.00%, respectively. Available reserves follow:

	2014	2013
		(In Thousands)
Due from BSP	**₱68,176,685**	₱63,556,710
Unquoted debt securities	–	2,741,000
	₱68,176,685	₱66,297,710

As of December 31, 2014 and 2013, PNB and PNB Savings Bank 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
December 12, 2014	June 12, 2020	₱7,000,000	₱6,957,175	4.13%	Quarterly
October 21, 2013	April 22, 2019	₱4,000,000	₱3,976,133	3.25%	Quarterly
August 5, 2013	February 5, 2019	₱5,000,000	₱4,973,448	3.00%	Quarterly
November 18, 2011	February 17, 2017	₱3,100,000	₱3,090,564	5.18%	Quarterly

Other significant terms and conditions of the above LTNCDs follow:

a. Issue price at 100.00% of the face value of each LTNCD.

b. The LTNCDs bear interest rate per annum on its principal amount from and including the Issue Date thereof, up to but excluding the Early Redemption Date or Maturity Date (as the case may be).

   Interest in respect of the LTNCD will be calculated on an annual basis and will be paid in arrears quarterly on the last day of each successive Interest Period.

c. Unless earlier redeemed, the LTNCDs shall be redeemed by PNB on maturity date at an amount equal to one hundred percent (100%) of the aggregate issue price thereof, plus any accrued and unpaid interest thereon. The LTNCDs may not be redeemed at the option of the holders.

d. The LTNCDs constitute direct, unconditional, unsecured, and unsubordinated obligations of PNB, enforceable according to these Terms and Conditions, and shall at all times rank paripassu and without any preference or priority among themselves and at least paripassu with all other present and future direct, unconditional, unsecured, and unsubordinated obligations of the Issuer, except for any obligation enjoying a statutory preference or priority established under Philippine laws.

e. Subject to the "Events of Default" in the Terms and Conditions, the LTNCDs cannot be pre-terminated at the instance of any CD Holder before Maturity Date. In the case of an event of default, none of the CD Holders may accelerate the CDs on behalf of other CD Holders, and a CD Holder may only collect from PNB to the extent of his holdings in the CDs. However, PNB may, subject to the General Banking Law of 2000, Section X233.9 of the Manual of Regulations for Banks, Circular No. 304 Series of 2001 of the BSP and other related circulars and issuances, as may be amended from time to time, redeem all and not only part of the outstanding CDs on any Interest Payment Date prior to Maturity Date, at an Early Redemption Amount equal to the Issue Price plus interest accrued and unpaid up to but excluding the Early Redemption Date.

f. The LTNCDs are insured by the PDIC up to a maximum amount of ₱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 ₱2.9 billion, ₱3.9 billion and ₱5.0 billion in 2014, 2013 and 2012, respectively (see Note 24).

In 2014, 2013 and 2012, interest expense on LTNCDs for the Group includes amortization of transaction costs amounting to ₱22.8 million, ₱19.4 million and ₱9.5 million, respectively. Unamortized transaction costs of the LTNCDs amounted to ₱102.7 million and ₱81.8 million as of December 31, 2014 and 2013, respectively.

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

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

	2014	2013
	(In Thousands)	
Designated at FVPL - segregated fund liabilities	**₱10,817,122**	₱7,911,794
Derivative liabilities (Notes 21 and 33)	**44,903**	163,101
	10,862,025	8,074,895
Presented as noncurrent	**24,805**	7,882,700
Presented as current	**₱10,837,220**	₱192,195

The balance of segregated fund liabilities consists of:

	2014	2013
	(In Thousands)	
Segregated funds (Note 6)	**₱10,654,770**	₱7,861,688
Additional subscriptions	**162,352**	50,106
Segregated fund liabilities	**₱10,817,122**	₱7,911,794

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:

	2014	2013
		(In Thousands)
Bills payable to:		
BSP and local banks (Note 22)	**₱16,393,373**	₱8,522,539
Foreign banks	**1,027,442**	2,821,186
Others	**1,262,389**	1,463,979
	18,683,204	12,807,704
Acceptances outstanding	**366,854**	364,293
	19,050,058	13,171,997
Presented as noncurrent	**12,409,837**	1,748,844
Presented as current	**₱6,640,221**	₱11,423,153

Annual interest rates are shown below:

	2014	2013	2012
Foreign currency-denominated borrowings	**0.03% - 2.50%**	0.12%-0.99%	0.06%-1.77%
Peso-denominated borrowings	**0.63% - 2.00%**	1.09%-3.50%	0.03%-4.50%

PNB's bills payable to BSP includes the transferred liabilities from Maybank Philipines, Inc. (Maybank) amounting to ₱1.7 billion as of December 31, 2014 and 2013 (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, 2014 and 2013, bills payable with a carrying value of ₱14.1 billion and ₱2.2 billion, respectively, is secured by a pledge of certain AFS investments and HTM investments with fair value of ₱8.5 billion and ₱8.9 million, and ₱2.5 billion and nil, 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 amounting to ₱219.3 million (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 ₱0.7 billion, ₱0.9 billion and ₱1.1 billion in 2014, 2013 and 2012, respectively (see Note 24).

18. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of:

	2014	2013
Trade payables	**₱2,347,734**	₱2,553,547
Banking trade payables	**7,162,995**	9,061,565
Nontrade payables	**323,957**	601,965
Accrued expenses:		
Interest (Note 8)	**2,070,730**	2,151,329
PDIC insurance premiums	**479,910**	446,717
Reinstatement premium	**133,580**	152,734
Compensation and benefits	**455,978**	1,295,334
Purchase of materials and supplies	**445,081**	366,810
Projects development costs	**332,559**	1,686,872
Taxes and licenses	**225,623**	798,672
Information technology-related expenses	**103,690**	239,308
Rent and utilities payable	**98,249**	162,889
Others	**380,768**	1,497,129
Retention payable	**710,107**	731,493
Provision for contingencies (Note 37)	**335,410**	335,410
Due to government agencies	**267,486**	178,545
Output value added tax	**136,138**	99,622
Other payables	**110,566**	62,324
	₱16,120,561	₱22,422,265

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 Eton.

Other Payables
Other payables include cash bond payable to haulers as security for inventories and payable other than to suppliers of raw materials which include, but not limited to advertising and freight companies.

19. Short-term and Long-term Debts

Short-term Debts
As of December 31, 2014 and 2013, outstanding unsecured short term debts amounted to ₱300.0 million. The loans are subject to annual interest rates ranging from 3.5% to 5.0%, are payable lump sum on various dates within one year and subject to renewal upon agreement by the Group and counterparty banks.

Long-term Debts

	2014	2013
		(In Thousands)
Subordinated debts	**₱9,969,498**	₱9,953,651
Bonds payable	**4,998,008**	4,982,544
Unsecured term loan	**1,321,823**	1,990,120
Notes payable	**508,115**	963,355
	16,797,444	17,889,670
Less current portion	**5,506,123**	1,009,915
	₱11,291,321	₱16,879,755

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, 2014 and 2013, the unamortized transaction cost of subordinated debt amounted to ₱30.5 million and ₱46.3 million, respectively. In 2014, 2013 and 2012, amortization of transaction costs amounting to ₱15.8 million, ₱14.8 million, and ₱12.2 million, respectively, were charged to "Cost of banking services" in the consolidated statements of income (see Note 24).

TDI's ₱5.0 billion bonds payable

On November 24, 2009, TDI's and LTG's BOD approved and confirmed the issuance of the retail bonds amounting to ₱5.0 billion due in 2015 at 8.055% 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, 2014 and 2013, unamortized bond issue cost amounted to ₱2.0 million and ₱17.6 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:

a. 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.
b. 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.
c. TDI shall not have the benefit of such other security as shall not be materially less beneficial to the bondholders.
d. 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, TDI has complied with the bond covenants. On February 13, 2015, TDI redeemed the ₱5.0 billion bonds.

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 ₱2,000.0 million, was availed by Eton at a discount for total proceeds amounting to ₱1,987.3 million. The term loan bears a nominal interest rate of 5.53% and will mature on January 26, 2018. Principal repayments will start one year from the date of availment and are due annually while interest payments are due quarterly starting April 28, 2014.

Notes payable of Eton
Notes payable include various notes from BDO which arose from assigning the Groups' contracts receivables on a with recourse basis in 2014, 2013 and 2012 (see Note 8). These notes bear interest based on Philippine Dealing System Treasury Fixing (PDSTF) rate for one year plus 1.5% net of gross receipts tax, which ranges from 5.14% to 5.58% in 2014, from 5.22% to 6.00% in 2013 and from 6.00% to 6.66% in 2012 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 ₱30.0 million and ₱163.4 million in 2014, and ₱34.7 million and ₱68.4 million in 2013, and ₱15.8 million and ₱103.9 million in 2012, respectively. Capitalization rates were 5.00% in 2014, 4.51% in 2013 and 5.30% in 2012, respectively.

Interbev's term loan facility agreement with BDO
On June 24, 2011, Interbev entered into a Facility Agreement with BDO for a term loan facility amounting to ₱1,200.0 million to refinance its short-term loans and to finance its capital expenditure requirements for capacity expansion of its Davao and Cagayan de Oro plants and establishment of new bottling lines in San Fernando, Pampanga.

In accordance with the Facility Agreement, Interbev shall be subject to the following terms and conditions:

a. 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;
b. Existence of negative pledge on all existing and future assets of Interbev, except for permitted liens;

c. 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
d. Continuing suretyship of Interbev.

In 2014 and 2013, Interbev has not utilized the term loan facility. As of December 31, 2014 and 2013, Interbev was not compliant with minimum required paid capitalization under the term facility agreement.

Finance costs
Interest recognized in profit or loss on short-term and long-term debts, except for subordinated debts, are presented under "Finance costs" in the statements of income (see Note 27). Interest costs from subordinated debts are included in the "Cost of banking services" (see Note 24).

20. Other Liabilities

	2014	2013
		(In Thousands)
Insurance contract liabilities	**₱11,507,852**	₱11,546,043
Bills purchased - contra (Note 8)	**4,230,348**	3,417,082
Payable to landowners	**2,289,708**	1,296,785
Customers deposits	**2,017,398**	2,849,147
Provisions (Note 37)	**1,680,648**	1,771,242
Reserve for unearned premiums	**1,056,794**	576,889
Managers' checks and demand drafts outstanding	**1,030,298**	1,028,301
Deposit on lease contracts	**651,371**	502,293
Other dormant credits	**549,149**	437,715
Due to Treasurer of the Philippines	**366,841**	311,387
Payment order payable	**312,144**	194,628
Tenants' rental deposits	**268,805**	161,600
Due to BSP	**101,172**	117,821
Margin deposits and cash letters of credit	**86,143**	393,006
Transmission liability	**76,893**	90,005
Advanced rentals	**45,800**	98,658
Others	**4,341,804**	1,523,512
	30,613,168	26,316,114
Presented as noncurrent	**12,638,349**	2,299,948
Presented as current	**₱17,974,819**	₱24,016,166

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 ₱2.0 billion and ₱2.8 billion as of December 31, 2014 and 2013, respectively.

Payables to Landowners
In 2014, Eton extended ₱992.9 million promissory note to various landowners in relation to its purchased land located at Sta. Rosa, Laguna with total purchase price of ₱1.3 billion.

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 (In Thousands)	Interest rate	Due date
₱992,923	PDSTF 3 years + 0.50%	3 years from execution of note
556,785	PDSTF 3 years + 1.00%	3 years from execution of note
740,000	PDSTF 3 years + 0.50%	3 years from execution of note

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, 2014 and 2013 and are not indicative of either market risk or credit risk (amounts in thousands, except average forward rate).

	December 31, 2014				December 31, 2013			
	Assets	**Liabilities**	**Average Forward Rate**	**Notional Amount***	Assets	Liabilities	Average Forward Rate	Notional Amount*
				(In Thousands)				
Freestanding derivatives:								
Currency forwards								
BUY:								
USD	**₱5,620**	**₱2,246**	**₱44.81**	**₱77,300**	₱61,867	₱1,198	₱43.36	₱126,462
JPY	**13**	**567**	**0.37**	**312,776**	98	113	0.01	15,000
EUR	**1,686**	**535**	**7.75**	**82,156**	76	673	1.36	989
SGD	**–**	**–**	**–**	**–**	23	–	35.02	1,200

(Forward)

	December 31, 2014				December 31, 2013			
	Assets	Liabilities	Average Forward Rate	Notional Amount*	Assets	Liabilities	Average Forward Rate	Notional Amount*
					(In Thousands)			
GBP	**₱6**	**₱–**	**₱1.56**	**₱150**	₱–	₱26	₱1.64	₱102
CAD	**–**	**47**	**1.16**	**1,614**	–	4	1.07	1,065
HKD	**539**	**532**	**7.75**	**82,156**	–	–	–	–
AUD	**81**	**–**	**0.82**	**200**	–	–	–	–
SELL:								
USD	**6,809**	**15,717**	**44.78**	**208,510**	1,293	136,372	43.74	264,471
JPY	**634**	**17**	**0.37**	**713,228**	329	321	0.43	477,776
GBP	**2,152**	**–**	**1.56**	**4,250**	97	1,257	1.64	5,100
EUR	**4,378**	**–**	**1.3**	**1,797**	79	1,240	1.36	5,447
CAD	**3**	**66**	**1.16**	**2,195**	67	–	1.00	2,365
SGD	**449**	**275**	**1.32**	**6,611**	–	885	0.79	6,200
AUD	**531**	**–**	**0.82**	**800**	54	–	0.89	250
CHF	**–**	**–**	**–**	**–**	23	–	1.12	400
HKD	**83**	**96**	**7.76**	**14,100**	25	–	7.75	158,946
SEK	**–**	**–**	**–**	**–**	–	–	–	–
NZD	**–**	**–**	**–**	**–**	–	–	–	–
Interest rate swaps (Php)	**42,407**	**24,805**	**–**	**–**	28,803	21,012	–	62,680
Warrants	**71,160**	**–**	**–**	**–**	165,863	–	–	13,603
	₱136,551	**₱44,903**			₱258,697	₱163,101		

* The notional amounts pertain to the original currency except for the embedded derivatives, which represent the equivalent to USD amount.

a. 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 which matured on June 17, 2013. Proceeds of the 2011 Notes were swapped for USD. As of December 31, 2012, its positive fair value amounted to and ₱11.7 million. 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.

b. As of December 31, 2014 and 2013, PNB holds 306,405 shares of ROP Warrants Series B1 at their fair value of US$1.6 million and US$3.0 million, respectively.

c. Embedded derivatives that have been bifurcated are credit derivatives in structured notes presented under other debt securities under AFS investments with a notional reference of USD47.5 million with a positive fair value of ₱3.9 million. 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):

	2014	2013
		(In Thousands)
Balance at beginning of year	**₱95,596**	₱213,445
Changes in fair value	**105,244**	(194,550)
Availments (Settlements)	**(109,192)**	76,701
	₱91,648	₱95,596

The changes in fair value of the derivatives are included in "Trading and investments securities gains - net" presented as part of "Banking revenues" in the consolidated statements of income (see Note 24).

22. Related Party Transactions

The Company has transacted with its subsidiaries, associates and other related parties as follows:

Parent Company, Subsidiaries, Associate and Joint Venture	Entities Under Common Control
Parent Company	Ascot Holdings, Inc.
Tangent	Pol Holdings, Inc.
	Sierra Holdings & Equities, Inc.
Subsidiaries	Grand Cargo and Warehousing Services., Inc.
TDI and Subsidiaries	Northern Corporation Tobacco Redrying Co., Inc.
ADI	Basic Holdings Corporation
AAC	Dominium Realty & Construction Corp
TBI	Foremost Farms Inc.
ABI and Subsidiaries	Grandspan Development Corp.
Agua Vida	Himmel Industries Inc.
Interbev	Lapu Lapu Packaging
Waterich	Lucky Travel Corporation
Packageworld	Philippine Airlines, Inc.
AB Nutribev	
Asia Pacific Bev PTE	
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.
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	
Associates	
PMFTC	
VMC	
Joint Venture	
ABI Pascual Holdings	
ABI Pascual Foods	

[1] *In various dates in 2013, LTG acquired these holding companies through subscription of the increase in authorized capital stock of the holding companies.*

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

	Nature	2014	2013	2012
			(In Thousands)	
Associate	Sales	**₱–**	₱4,372	₱642
	Purchases of inventories	**812,405**	1,060,622	–
	Dividend income	**3,168,550**	3,953,406	4,236,260
	Outside services	–	–	(188,713)
Entities Under Common Control	Banking revenue - interest on loans and receivables	**153,707**	184,370	525,607
	Sales of consumer products	**21,011**	21,117	121,000
	Interest income on loans and advances	**16,806**	39,556	23,888
	Rent income	**30,942**	16,830	28,334
	Other income	**52,938**	7,672	–
	Freight and handling	**(7,772)**	(5,364)	(14,144)
	Purchases of inventories	**(160,914)**	(53,145)	(132,582)
	Cost of banking services - interest expense on deposit liabilities	**(14,898)**	(18,831)	(10,609)
	Cost of sales and services	**(25,864)**	(35,168)	(39,663)
	Management and professional fee	**(335,016)**	(422,866)	(181,285)
	Outside services	**(57,150)**	(41,672)	(77,200)
	Rent expense	**(31,054)**	(5,298)	(3,021)
Key Management	Short-term employee benefits	**(588,709)**	(450,881)	(219,542)
	Post–employment benefits	**(62,097)**	(60,368)	(25,793)

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

	Financial Statement Account	Terms and Conditions	Amount/Volume		Outstanding Balance	
			2014	2013	**2014**	2013
				(In Thousands)		
Parent Company	Due to related parties	On demand; non-interest bearing	**(₱2,301,805)**	(₱7,001,728)	**(₱41,975)**	(₱6,956,332)
Associate	Other receivables - dividends	30 to 90 days terms; non-interest bearing	**3,168,550**	3,953,406	**165,753**	357,855
	Trade receivables	30 to 90 days terms; non-interest bearing	**–**	4,372	**181**	387
	Account payable and other liabilities	30 to 60 days terms; non-interest bearing	**812,405**	1,060,622	**(38,354)**	(16,398)
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	**153,707**	184,370	**14,455,539**	3,390,516
	Trade receivables	30 to 60 days terms; non-interest bearing	**21,011**	21,117	**7,957**	9,879
	Other receivables	30 to 60 days terms; non-interest bearing	**16,806**	39,556	**3,175**	3,361
	Due from related parties	On demand; non-interest bearing	**(914,164)**	1,755,327	**1,795,829**	2,709,994
	Advances to suppliers	30 to 60 days terms; non-interest bearing	**(13,777)**	40,225	**47,670**	61,447
	Advances to contractors	30 to 60 days terms; non-interest bearing	**(1,164)**	(104,490)	**–**	1,164
	Deposit liabilities	With annual rates ranging from 0.38% to 1.73% and maturity ranging from 30 days to one (1) year	**14,898**	18,831	**(11,136,419)**	(1,593,988)
	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	**617,770**	563,513	**(331,866)**	(290,215)
	Due to related parties	On demand; non-interest bearing	**(383,138)**	(1,150,000)	**(3,841)**	(388,577)
	Other payables	30 to 90 days terms; non-interest bearing	**31,706**	14,280	**(4,496)**	(36,202)
Stockholders	Due from related parties	On demand; non-interest bearing	**–**	–	**–**	191
	Due to related parties	On demand; non-interest bearing	**(691,610)**	–	**–**	(691,610)

As of December 31, 2014 and 2013, 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 April 8, 2014 and June 19, 2013, LTG declared dividends to stockholders, of which ₱1.3 billion and ₱1.2 billion were paid to Tangent.

- On March 20, 2013, the respective BOD's of Tangent and the Bank Holding Companies approved a resolution to convert the debt of the Bank Holding Companies to equity by way of subscription to the latter's preferred shares. On the same date, Tangent entered into Deeds of Assignment with the Bank Holding Companies for the assignment of the debt as payment for the subscription. In various dates in October, November and December 2013, the Philippine SEC approved the increase in authorized capital stock of certain Bank Holding Companies and the subscription of Tangent to all the outstanding preferred shares of these companies (see Note 30).

Transactions with Entities under Common Control

- Due to related parties include cash advances provided to the Group to support its working capital requirements.

- Several subsidiaries of the Group entered into management services 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 24).

Transactions with an Associate

- Dividend income from PMFTC amounted to ₱3,168.6 million in 2014, ₱3,953.2 million in 2013 and ₱ 4,236.3 million in 2012 (see Note 11). Dividends receivable from PMFTC as of December 31, 2014 and 2013 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:	**2014**	2013	2012
				(In Thousands)	
Purchase/Sale of commercial bottles and packaging materials	FTC/TDI	ABI/PWI	**₱1,033,901**	₱683,493	₱1,263,472
Purchase/Sale of raw materials	ABI/Interbev	TDI/ADI	**101,386**	114,241	181,913
Royalty fees	ABI	TDI	**15,909**	20,949	35,417
Management fees	TDI	LTG	**48,000**	48,000	48,000
Interest on loans	Eton	LTG	**4,563**	4,563	–
Interest on promissory note from sale of property	Eton	ABI/ Bank Holding Companies/ Paramount	**20,005**	4,387	–
Interest on cash and cash equivalents	PNB	All entities other than PNB	**143,431**	166,931	64,052
Interest on short term and long term loans	ABI/Interbev/ Eton	PNB	–	–	57,012
Gain on sale of property	Eton	ABI/ Bank Holding Companies/ Paramount	**175,673**	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 2014	2013
				(In Thousands)
Due from/to related parties	LTG/FTC	Bank Holding Companies	**₱145,315**	₱71,465
	ABI	Eton	**444,000**	444,000
	LTG	Eton	**400,000**	400,000
	FTC	ABI/Eton/LTG	**525**	589
	LTG	TBI/Paramount/Saturn	**638**	638
	TDI	TBI	**18,507**	10,065
	LTG	TDI	**3,880**	–
	HOLCOS	Eton	**185,597**	–
	PLI	Eton	**30,367**	–
Trade receivables/ payables	TDI/ADI	ABI/Interbev	**85,759**	122,683
	ABI/PWI	FTC/TDI	**416,604**	302,650
Cash and cash equivalents/ deposit liabilities	All entities other than PNB	PNB	**12,662,177**	34,944,874
Obligations under finance lease	PNB	ABI/Interbev	**2,902**	10,919

23. Retirement Benefits

The Group has funded, noncontributory defined benefit retirement plans, administered by a trustee, covering all of its permanent employees. As of December 31, 2014 and 2013, 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:

	2014	2013
		(In Thousands)
Net retirement plan assets:		
FTC	**₱223,083**	₱224,530
AAC	**41,035**	19,263
	₱264,118	₱243,793
Accrued retirement benefits:		
PNB	**₱2,841,883**	₱3,388,863
ABI and subsidiaries	**877,195**	878,951
TDI and ADI	**11,730**	39,090
Eton	**38,392**	29,653
LTG	**7,061**	9,705
	₱3,776,261	₱4,346,262

The following tables summarize the components of net retirement plan assets and accrued retirement benefits recognized in the consolidated balance sheets, the net benefit expenses recognized in the consolidated statements of income and the remeasurement losses (gains) recognized in consolidated statements of comprehensive income.

Net retirement plan assets:

	2014			2013			2012		
	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	**₱75,033**	**(₱318,825)**	**(₱243,792)**	₱63,651	(₱1,236,724)	(₱1,173,073)	₱48,422	(₱1,092,976)	(₱1,044,554)
Change in status of retirement plan	**102,970**	**(81,708)**	**21,260**	–	–	–	–	–	–
Net retirement benefits cost in profit or loss:									
Current service cost	**18,037**	**–**	**18,037**	5,992	–	5,992	4,583	–	4,583
Net interest cost	**7,673**	**(10,726)**	**(3,053)**	3,276	(64,395)	(61,119)	2,885	(63,621)	(60,736)
	25,710	**(10,726)**	**14,984**	9,268	(64,395)	(55,127)	7,468	(63,621)	(56,153)
Contributions		**(1,200)**	**(1,200)**	–	–	–	–	(92,680)	(92,680)
Benefits paid	**(16,757)**	**16,757**	**–**	(3,936)	3,936	–	(2,296)	2,296	–
Plan assets returned to the Company	**–**	**–**	**–**	–	940,820	940,820	(7,433)	–	(7,433)
Past service cost	**–**	**–**	**–**	**–**	**–**	**–**	**–**		**–**
Re-measurement losses (gains) in other comprehensive income - actuarial changes arising from experience adjustments	**(55,899)**	**529**	**(55,370)**	6,050	37,537	43,587	17,490	10,257	27,747
Ending balance	**₱131,057**	**(₱395,175)**	**(₱264,118)**	₱75,033	(₱318,826)	(₱243,793)	₱63,651	(₱1,236,724)	(₱1,173,073)

Accrued retirement benefits:

	2014			2013			2012		
	Defined Benefit Obligation	**Fair Value of Plan Assets**	**Accrued Retirement Bene fits**	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	**₱7,992,151**	**(₱3,645,889)**	**₱4,346,262**	₱7,578,184	(₱2,220,168)	₱5,358,016	₱7,763,905	(₱1,621,882)	₱6,142,023
Change in status of retirement plan	**(102,968)**	**81,708**	**(21,260)**	–	–	–	–	–	–
Net retirement benefits cost in profit or loss:									
Current service cost	**561,720**	**–**	**561,720**	533,140	–	533,140	498,235	–	498,235
Net interest cost	**281,403**	**(86,831)**	**194,572**	306,585	(119,111)	187,474	335,378	(98,853)	236,525
Past service cost	**45,767**	**–**	**45,767**	(70,880)	–	(70,880)	(282,256)	–	(282,256)
	888,890	**(86,831)**	**802,059**	768,845	(119,111)	649,734	551,357	(98,853)	452,504
Contributions	**–**	**(2,447,710)**	**(2,447,710)**	–	(1,987,230)	(1,987,230)	–	(695,428)	(695,428)
Benefits paid	**(593,393)**	**593,393**	**–**	(541,545)	541,545	–	(450,564)	450,564	–
Re-measurement losses (gains) in other comprehensive income - actuarial changes arising from changes in:									
Financial assumptions	**124,093**	**–**	**124,093**	(603,258)	–	(603,258)	74,527	–	74,527
Experience adjustments	**981,537**	**(8,720)**	**972,817**	789,925	139,075	929,000	(361,041)	(254,569)	(615,610)
	1,105,630	**(8,720)**	**1,096,910**	186,667	139,075	325,742	(286,514)	(254,569)	(541,083)
Ending balance	**₱9,290,310**	**(₱5,514,049)**	**₱3,776,261**	₱7,992,151	(₱3,645,889)	₱4,346,262	₱7,578,184	(₱2,220,168)	₱5,358,016

The fair value of plan assets as of December 31 is as follows:

	2014	2013
		(In Thousands)
Cash and cash equivalents	**₱2,221,155**	₱857,707
Investments in government securities	**613,605**	956,849
Equity investments:		
Financial institutions	**1,106,063**	1,271,109
Manufacturing	**–**	32,342
Others	**26,719**	36,553
Receivables	**1,675,151**	550,849
Others	**266,531**	259,306
Fair value of plan assets	**₱5,909,224**	₱3,964,715

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

	2014	2013
Equity investments	**18%**	31%
Investments in government securities	**11%**	25%
Cash and cash equivalents	**38%**	23%
Receivables	**27%**	14%
Others	**6%**	7%
Fair value of plan assets	**100%**	100%

The overall investment policy and strategy of the Group's defined benefit plans is guided by the objective of achieving an investment return which, together with contributions, ensures that there will be sufficient assets to pay pension benefits as they fall due while also mitigating the various risk of the plans. The plan assets have diverse investments and do not have concentration risk.

The Group's defined pension plan are funded through the contributions made by the Group to the trust.

The principal assumptions used in determining pension benefit obligations for the Group's plans as of January 1 are shown below:

	2014	2013	2012
Discount rate	**5%-6%**	5%-7%	5%-7%
Future salary increases	**5%-10%**	5%-10%	5%-10%

As of December 31, 2014, the discount and future salary increase rates are 4-5% and 5-10%, respectively.

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:

	2014		2013	
	Increase (Decrease)	**Increase (Decrease) in Present Value of Defined Benefit Obligation**	Increase (Decrease)	Increase (Decrease) in Present Value of Defined Benefit Obligation
		(In Thousands)		*(In Thousands)*
Discount rates	**+0.5%**	**(₱37,971)**	+0.5%	(₱45,361)
	-0.5%	**42,358**	-0.5%	149,942
Future salary increases	**+1.0%**	**81,802**	+1.0%	245,918
	-1.0%	**(66,950)**	-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 2015.

The average duration of the defined benefit obligation at the end of the reporting period is 21 to 25 years in 2014.

Transactions with Retirement Plans

Management of the retirement funds of the banking segment is handled by the PNB Trust Banking Group (TBG). As of December 31, 2014 and 2013, the retirement fund of the Group includes 9,008,864 and 7,833,795 shares of PNB classified under HFT, respectively. 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, 2014 and 2013, AFS and HTM investments include government and private debt securities and various funds. Deposits with other banks pertain to Special Deposit Accounts (SDA) placement with BSP.

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

FTC's Retirement Plan

In 2013, as a result of management's assessment of the status of FTC's retirement fund, management has decided to withdraw funds in excess of the amount actuarially determined to cover the benefits of all its employees.

24. Revenue and Cost of Sales and Services

Revenue consists of:

	2014	2013	2012
		(In Thousands)	
Banking revenue	**₱24,639,374**	₱28,855,871	₱32,040,683
Sale of consumer goods	**25,207,500**	23,279,109	27,930,583
Real estate sales	**1,538,260**	3,208,225	2,288,952
Rental income	**740,340**	448,725	396,843
	₱52,125,474	₱55,791,930	₱62,657,061

Sale of consumer goods consists of:

	2014	2013	2012
		(In Thousands)	
Gross sales	**₱26,660,735**	₱24,390,891	₱29,205,504
Less sales returns, discounts and allowances	**1,453,235**	1,111,782	1,274,921
	₱25,207,500	₱23,279,109	₱27,930,583

Banking revenue consists of:

	2014	2013	2012
		(In Thousands)	
Interest income on:			
Loans and receivables	**₱15,245,646**	₱13,806,843	₱14,079,289
Trading and investment securities	**3,389,450**	3,918,460	5,508,929
Deposits with banks and others	**1,919,766**	1,632,174	1,026,640
Interbank loans receivable	**19,218**	40,696	147,359
	20,574,080	19,398,173	20,762,217
Trading and securities gains	**647,734**	5,988,853	8,217,085
Service fees and commission income	**3,417,560**	3,468,845	3,061,381
	₱24,639,374	₱28,855,871	₱32,040,683

Cost of sales and services consists of:

	2014	2013	2012
		(In Thousands)	
Cost of consumer goods sold:			
Materials used and changes in inventories (Note 9)	**₱12,473,921**	₱10,764,864	₱12,652,374
Taxes and licenses	**1,448,239**	1,610,239	2,726,153
Depreciation and amortization (Note 12)	**1,420,117**	1,298,012	1,278,879
Fuel and power	**779,778**	922,159	1,186,018

(Forward)

	2014	2013	2012
		(In Thousands)	
Personnel costs	**₱718,407**	₱522,526	₱397,074
Communication, light and water	**610,569**	682,938	698,975
Repairs and maintenance	**460,735**	390,720	383,994
Outside services	**624,678**	775,870	877,728
Freight and handling	**91,617**	124,090	240,850
Others	**293,791**	296,313	559,850
	18,921,852	17,387,731	21,001,895
Cost of banking services	**4,569,486**	5,954,081	7,602,720
Cost of real estate sales	**1,303,734**	2,489,830	1,692,202
Cost of rental income	**278,855**	190,293	142,905
Cost of sales and services	**₱25,073,927**	₱26,021,935	₱30,439,722

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

Cost of banking services consist of:

	2014	2013	2012
		(In Thousands)	
Interest expense on:			
Deposit liabilities	**₱2,894,689**	₱3,862,813	₱5,004,656
Bills payable and other borrowings	**856,926**	1,126,920	1,801,314
Services fees and commission expense	**817,871**	964,348	796,750
	₱4,569,486	₱5,954,081	₱7,602,720

25. Selling Expenses

	2014	2013	2012
		(In Thousands)	
Advertising and promotions	**₱1,242,980**	₱1,258,520	₱1,202,945
Depreciation and amortization (Note 12)	**593,785**	717,807	683,885
Freight and handling	**369,263**	54,706	201,511
Commissions	**138,877**	305,201	199,952
Personnel costs	**125,915**	122,140	150,636
Outside services	**119,341**	91,410	86,513
Repairs and maintenance	**62,713**	63,888	60,295
Materials and consumables	**31,205**	60,711	27,821
Travel and transportation	**25,806**	41,122	39,237
Others	**36,755**	61,441	63,323
	₱2,746,640	₱2,776,946	₱2,716,118

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

26. General and Administrative Expenses

	2014	2013	2012
		(In Thousands)	
Personnel costs	**₱8,110,980**	₱6,962,114	₱6,700,681
Taxes and licenses	**2,253,198**	2,402,583	2,305,809
Provision for doubtful accounts and credit losses (Note 8)	**1,734,502**	911,690	2,288,793
Occupancy	**1,492,326**	1,629,345	1,949,528
Depreciation and amortization (Notes 12, 13 and 14)	**1,395,410**	1,924,168	1,644,473
Outside services	**1,181,840**	1,082,625	1,115,928
Insurance	**964,466**	944,261	921,546
Management, consulting and professional fees	**800,322**	719,452	724,856
Increase in aggregate reserve for life policies	**761,528**	732,920	805,884
Marketing and promotional	**708,999**	976,040	970,977
Provision for contingencies and other losses - net (Notes 12,14 and 37)	**473,362**	88,240	449,396
Information technology	**407,074**	394,361	395,755
Policy benefits and claim benefits	**404,620**	403,417	285,050
Travel and transportation	**278,840**	285,989	299,576
Materials and consumables	**244,477**	308,763	313,758
Communication, light and water	**243,063**	292,247	270,977
Litigation	**229,886**	281,825	339,114
Repairs and maintenance	**185,178**	193,687	329,128
Freight and handling	**76,366**	98,242	69,380
Fuel and oil	**66,519**	141,846	112,758
Real properties disposition	**31,404**	28,436	30,005
Others	**514,637**	878,760	864,525
	₱22,558,997	₱21,681,011	₱23,187,897

Others include expense items mainly relating to banking operations, which are individually not significant as to amounts.

27. Finance Costs and Finance Income

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

	2014	2013	2012
		(In Thousands)	
Finance costs (Note 19):			
Short-term debts	**₱10,523**	₱18,353	₱1,759
Bonds payable	**402,750**	402,750	402,750
Unsecured term loan and notes payable	**26,118**	45,540	130,530
Amortization of bond issue costs	**15,464**	14,249	13,148
	₱454,855	₱480,892	₱548,187
Finance income:			
Cash and other cash items (Note 5)	**₱91,371**	₱84,908	₱96,813
Interest-bearing contracts receivable (Note 8)	**24,670**	39,385	50,331
AFS investments (Note 7)	**3,000**	14,800	11,100
	₱119,041	₱139,093	₱158,244

28. Other Income (Charges) - net

	2014	2013	2012
		(In Thousands)	
Net gains on sale or exchange of assets	**₱1,889,744**	₱528,632	₱620,547
Premiums - net of reinsurance	**1,571,098**	1,584,295	1,433,580
Rental income and dues (Note 13)	**805,235**	469,538	422,814
Collections from asset pool 1 accounts (Note 37)	**–**	306,094	82,743
Gain on retirement	**–**	70,880	–
Gain (loss) on disposal of AFS investments	**245,216**	290,505	(78)
Recoveries from charged off assets	**117,520**	91,125	54,037
Dividend income	**10,912**	19,123	31,072
Reversal of deposit for future Certified Emission (Note 37)	**–**	–	70,858
Share in net losses of joint venture (Note 11)	**(46,043)**	(20,091)	–
Referral, processing and trust fees	**97,715**	68,444	39,166
Mark-to-market gain on financial assets designated at FVPL	**32,351**	–	–
Others	**786,920**	240,094	2,236,347
	₱5,510,668	₱3,648,639	₱4,991,086

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 include sale of investment properties of the banking segment in 2014, 2013 and 2012 amounting to ₱1,023.9 million, ₱299.4 million and ₱322.6 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 23).

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:

	2014		2013	
	Net Deferred Income Tax Assets[1]	**Net Deferred Income Tax Liabilities[2]**	Net Deferred Income Tax Assets[3]	Net Deferred Income Tax Liabilities[4]
		(In Thousands)		
Recognized directly in the consolidated statements of income:				
Deferred income tax assets on:				
Allowance for impairment loss on:				
Receivables	**₱4,851,051**	**₱12,524**	₱5,117,961	₱20,206
Inventories	**–**	**5,392**	–	3,882
Property, plant and equipment	**–**	**66,660**	6,659	66,660
Net retirement benefits liabilities	**29,139**	**231,132**	11,745	195,108
Unamortized past service cost	**5**	**1,110**	34,333	2,721
Accrued expenses	**43,235**	**12,276**	16,937	7,014
Reserve for unearned premiums	**8,248**	**–**	99,067	–
Deferred rent expense	**–**	**–**	27,808	–
Provision for losses	**18,000**	**16,329**	47,425	16,329
Unrealized losses on:				
Foreign exchange	**44**	**466**	2,803	–
Inventories on hand	**–**	**20,041**	**–**	**–**
Sale of property to a subsidiary	**–**	**5,491**	–	6,454
Difference between tax and book basis of accounting for real estate and banking transactions	**27,273**	**–**	740,069	–
NOLCO	**278,279**	**–**	37,104	–
Reserves, MCIT and others	**597,608**	**–**	580,826	314
	5,852,882	**371,421**	6,722,737	318,688
Deferred income tax liabilities on:				
Revaluation increment on property, plant and equipment	**1,102,033**	**1,314,352**	1,742,373	1,830,312
Excess of fair values over carrying values of property, plant and equipment acquired through business combination	**–**	**29,846**	–	39,640
Borrowing cost capitalized to property, plant, and equipment	**–**	**18,213**	–	19,666
Fair value gain on investment properties	**3,559,833**	**–**	1,731,832	–
Unrealized trading gains on derivatives	**–**	**–**	77,584	–
Deferred reinsurance premiums	**–**	**–**	86,013	–
Net retirement plan assets	**–**	**79,285**	96,471	20,671
Unrealized foreign exchange gains	**597**	**3**	10,161	3,101
Deferred rental income	**18,661**	**–**	11,233	–
Difference between tax and book basis of accounting for real estate transactions	**35,258**	**–**	52,322	–
Others	**379,538**	**297,111**	241,272	4,953
	5,095,920	**1,738,810**	4,049,261	1,918,343
	756,962	**(1,367,389)**	2,673,476	(1,599,655)
Recognized directly in equity:				
Deferred income tax assets on:				
Re-measurement losses on retirement benefits	**839**	**22,800**	29,175	81,511
Deferred income tax liabilities on:				
Unrealized gains on AFS investments	**40,574**	**10,658**	21,326	297,633
	40,574	**10,658**	21,326	297,633
	(39,744)	**12,142**	7,849	(216,122)
	₱717,218	**(₱1,355,247)**	₱2,681,325	(₱1,815,777)

[1] *Pertains to LTG, Eton and PNB*
[2] *Pertain to Saturn, PLI, AAC, ADI, PWI, TDI, ABI, FTC and IPI*
[3] *Pertain to LTG, Eton, PNB and FTC*
[4] *Pertain to Saturn, PLI, AAC, ADI, PWI, TDI, ABI and IPI*

b. Provision for current income tax consists of:

	2014	2013	2012
		(In Thousands)	
RCIT	**₱1,640,654**	₱1,624,543	₱1,512,240
MCIT	**23,962**	44,623	20,299
Final tax	**734,987**	840,340	1,112,495
Provision for current income tax	**₱2,399,603**	₱2,509,506	₱2,645,034

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:

	2014	2013	2012
		(In Thousands)	
NOLCO	**₱667,353**	₱1,761,281	₱535,577
Allowance for credit losses	**2,250,081**	2,081,671	4,061,544
Allowance for inventory obsolescence	**7,489**	5,931	5,931
Accrued retirement benefits	**874,760**	31,054	23,560
Unamortized past service cost	**100,865**	952,034	1,189,886
Unrealized foreign exchange loss	**–**	14,537	2,918
Accrued expenses	**436,037**	277,271	169,966
Derivative liabilities	**13,279**	51,304	85,125
Others	**346,270**	422,638	70,737

Details of the Group's NOLCO follow (In thousands):

Year Incurred	Amount	Used/Expired	Balance	Expiry Year
2012	₱266,575	₱–	₱266,573	2015
2013	1,149,477	–	1,149,477	2016
2014	142,596	–	142,596	2017
	₱1,558,648	₱–	1,558,648	

Details of the Group's MCIT follow (In thousands):

Year Incurred	Amount	Used/Expired	Balance	Expiry Year
2012	₱211,753	(₱190,729)	₱21,024	2015
2013	32,173	–	32,173	2016
2014	8,053	–	8,053	2017
	₱251,979	(₱190,729)	₱61,250	

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:

	2014	2013	2012
		(In Thousands)	
Provision for income tax at statutory income tax rate	**₱2,748,307**	₱4,075,168	₱5,471,243
Adjustments resulting from:			
NOLCO, excess MCIT and other deductible temporary differences for which no deferred income tax assets were recognized	**349,209**	187,626	81,099
Application of NOLCO, MCIT and other deductible temporary differences for which no deferred income tax assets were recognized in prior years	**(665,685)**	(10,157)	(23,339)
Nontaxable income	**(861,891)**	(2,030,276)	(913,610)
Income tax holiday	**–**	–	40,858
Difference of itemized deduction against 40% of taxable income	**(4,685)**	19,832	(6,173)
Income subjected to final tax	**–**	(23,474)	(9,973)
Equity in net earnings of an associate	**(154,534)**	(1,111,235)	(1,949,692)
Non-deductible expenses	**1,278,097**	1,001,346	835
Provision for income tax	**₱2,688,818**	₱2,108,830	₱2,691,248

30. **Equity**

Capital Stock

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

	2014	2013
Number of shares		
Authorized capital stock at ₱1 par value:		
At beginning of the year	**25,000,000,000**	25,000,000,000
Increase in authorized capital stock	**–**	–
At end of the year	**25,000,000,000**	25,000,000,000
		(In Thousands)
Issued capital stock at ₱1 par value:		
At beginning of the year	**₱10,821,389**	₱8,981,389
Issuance	**–**	1,840,000
At end of the year	**₱10,821,389**	₱10,821,389

a. Capital stock is held by a total of 375 and 572 stockholders as of December 31, 2014 and 2013, 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
October 2011	398,138,889	4.22
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 from 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 April 8, 2014, LTG's BOD and stockholders approved the declaration and distribution of cash dividends of ₱0.16 per share or a total of ₱1,731.4 million to all shareholders of record as of April 25, 2014 and to be paid not later than May 22, 2014.

b. 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.

c. 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.

d. Retained earnings include undistributed earnings amounting to ₱41.2 billion in 2014, ₱36.9 billion in 2013 and ₱42.0 billion in 2012, representing accumulated earnings of subsidiaries and equity in net earnings of associates, which are not available for dividend declaration until received in the form of dividends from the combining entities and associates.

Retained earnings are further restricted for the payment of dividends to the extent of the cost of the shares held in treasury (shares of the company held by subsidiaries), unrealized foreign exchange gains except those attributable to cash and cash equivalents, fair value adjustment or gains arising from mark-to-market valuation, deferred income tax assets recognized that reduced the income tax expense and increased net income and retained earnings, and other unrealized gains or adjustments as of December 31, 2014 and 2013.

Preferred shares of subsidiaries issued to Parent Company

On March 20, 2013, the respective BOD's and stockholders of various Bank Holding Companies approved the increase in their authorized capital stocks comprising of common shares and preferred shares with par value of ₱1.00 per share. The preferred shares were subscribed by Tangent through conversion of its advances into invesments in certain Bank Holding Companies (see Note 22). Upon approval of the SEC of the increase in authorized capital stock of Bank Holding Companies in various dates in October, November and December 2013, preferred shares amounting to ₱7.4 billion presented under "Preferred shares of subsidiary issued to Parent Company" were issued to Tangent. Unissued preferred shares amounting to ₱6.0 billion which are pending approval of the SEC are presented under "Deposit for future stock subscription" as of December 31, 2013. Upon approval of the SEC on various dates in 2014, the remaining preferred shares of ₱6.0 billion and additional conversion of advances to preferred shares during the year of ₱4.7 billion were issued to Tangent. As of December 31, 2014, preferred shares of the subsidiary issued to parent company amounted to ₱18.1 billion.

The preferred shares have the following features: non-voting, non-cumulative and non-participating as to dividends, non-redeemable for a period of seven years from the issuance and redeemable at the option of the Bank Holding Companies after seven years from the issuance thereof.

Other Equity Reserves

Other equity reserves consist of:

	2014	2013
	(In Thousands)	
Equity adjustments arising from business combination under common control (Note 1)	**₱445,113**	₱445,113
Equity adjustments from sale of Company's shares held by a subsidiary	**193,212**	193,212
Effect of transaction with non-controlling interest	**52,156**	52,156
Effect of sale of a subsidiary to parent company	**99,655**	99,655
	₱790,136	₱790,136

Shares Held by Subsidiaries

Shares held by subsidiaries include 4.9 million shares owned by All Seasons amounting to ₱12.5 million as of December 31, 2014 and 2013 and 76.5 million shares owned by Saturn amounting to ₱ 150.9 million as of December 31, 2011. On July 25, 2012, the shares of stocks owned by Saturn were sold to Tangent at ₱4.50 per share. As a result, the excess of the selling price over the cost of the treasury shares amounting to ₱193.2 million is presented as an addition to other equity reserves.

Non-controlling Interests

Below are the changes in non-controlling interests:

	2014	2013	2012
		(In Thousands)	
Balance as of January 1	**₱32,235,085**	₱31,051,046	28,722,790
Net income attributable to non-controlling interests	**2,061,976**	2,805,844	2,789,038
Share in other comprehensive income, net of deferred income tax effect:			
Accumulated translation adjustment	**(119,903)**	911,051	(674,519)
Net changes in AFS financial assets (Note 7)	**426,879**	(2,514,123)	(261,223)
Revaluation increment on property, plant and equipment (Note 12)	**–**	420,332	61,270
Remeasurement gains (losses) on defined benefit plans (Notes 2 and 23)	**(537,431)**	(127,737)	300,345
Dividends received	**–**	(64,216)	(15,509)
Capital contribution of non-controlling interest during the year	**4,427,697**	**–**	**–**
Changes in ownership interest	**–**	(247,112)	128,854
Balance as of December 31	**₱38,494,303**	₱32,235,085	₱31,051,046

Capital contribution of non-controlling interest in 2014 pertains to the gross proceeds from PNB's stock right offering of common shares following the closure of the offer period on February 3, 2014. A total of 162,931,262 PNB Right shares were issued to its stockholders at a proportion of 15 Rights shares for every 100 existing common shares held as of the record date at the offer price of ₱ 17.00 per Right share.

The offer raised gross proceeds of ₱11.6 billion for PNB, out of which LTG and the non-controlling shareholders of PNB subscribed ₱6.9 billion and ₱4.4 billion, respectively, net of stock issue cost. Part of the proceeds will be used as capital injection to PNB Savings Bank (PNB SB) to build and refocus PNB SB's lending business. The offer also sthrengthen PNB SB's capital position under BASEL III standards effective January 1, 2014.

31. Basic/Diluted Earnings Per Share

Basic/diluted earnings per share were calculated as follows:

	2014	2013	2012
		(In Thousands)	
Net income attributable to equity holders of the Company	**₱4,410,230**	₱8,669,220	₱12,757,189
Divided by weighted-average number of shares	**10,821,389**	10,208,056	8,848,676
Basic/diluted EPS for net income attributable to equity holders of the Company	**₱0.41**	₱0.85	₱1.44

32. Financial Risk Management Objectives and Policies

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

Financial Risk Management Objectives and Policies of the Banking Segment

Risk Management Strategies

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

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

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

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

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

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

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

The mandate of the RMG involves:

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

Credit Risk

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

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

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

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

f. concentration risk (per classified account, per industry, clean exposure, large exposure, contingent exposure, currency, security, facility, demographic, etc.)

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

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

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

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

The main types of collateral obtained are as follows:

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

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

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

The banking segment's maximum exposure to on-balance sheet credit risk is equal to the carrying value of its financial assets except for the following loans and receivables:

	2014		2013	
	Before Collateral	**After Financial Effect of Collateral or Credit Enhancement**	Before Collateral	After Financial Effect of Collateral or Credit Enhancement
	(In Millions)			
Loans and receivables:				
Receivable from customers*:				
Business loans	**₱237,995**	**₱180,555**	₱187,023	₱83,798
GOCCs and National Government Agencies (NGAs)	**20,252**	**20,037**	25,751	12,397
LGUs	**8,334**	**7,687**	8,479	1,098
Consumers	**29,241**	**12,792**	26,060	10,235
Fringe benefits	**550**	**198**	603	430
Unquoted debt securities	**4,425**	**856**	7,546	4,746
Other receivables	**15,456**	**12,202**	18,413	7,241
	₱316,253	**₱234,327**	₱273,875	₱119,945

**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 loans and receivables amounted to ₱212.5 billion and ₱146.3 billion as of December 31, 2014 and 2013, 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:

	2014	2013
	(In Millions)	
Philippines	**₱511,880**	₱516,743
USA and Canada	**8,834**	5,937
Asia (excluding the Philippines)	**20,516**	24,551
United Kingdom	**2,481**	1,696
Other European Union Countries	**4,456**	6,122
Middle East	**74**	248
	₱548,241	₱555,297

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:

	2014	2013
		(In Millions)
Loans and Receivables		
Receivable from customers:		
Primary target industry:		
Public administration and defense	**₱37,811**	₱24,103
Wholesale and retail	**43,019**	42,565
Transport, storage and communication	**14,584**	17,586
Electricity, gas and water	**42,662**	38,471
Manufacturing	**39,396**	30,352
Financial intermediaries	**23,263**	21,357
Agriculture, hunting and forestry	**4,238**	1,869
Secondary target industry:		
Real estate, renting and business activities	**38,067**	34,126
Construction	**8,458**	6,950
Others*	**60,065**	30,527
Unquoted debt securities:		
Government	**4,127**	7,401
Financial intermediaries	**–**	33
Manufacturing	**–**	112
	315,690	255,452
Other receivables	**9,352**	18,413
	325,042	273,865
Trading and Financial Investment Securities		
Government	**66,196**	62,060
Financial intermediaries	**–**	6,616
Electricity, gas and water	**8,160**	1,542
Real estate, renting and business activities	**2,762**	5,182
Manufacturing	**197**	646
Public administration and defense	**6,173**	–
Others**	**19,925**	15,710
	103,413	91,756

(Forward)

	2014	2013
		(In Millions)
Other Financial Assets* **		
Financial intermediaries	**₱23,263**	₱22,499
Government	**105,774**	153,169
Others	**101**	14,008
	129,138	189,676
	₱557,593	₱555,297

* *Receivables from customers exclude residual value of the leased asset amounting to ₱243.4 million and ₱404 million and ₱201 million as of December 31, 2014 and 2013, 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.

Standard

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

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

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

Sub-standard Grade

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

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

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

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

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

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

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

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

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

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

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, 2014 and 2013 but net of residual values of leased assets. As of December 31, 2014 and 2013, residual value of leased assets of the banking segment amounted to ₱563.0 million and ₱404.8 million, respectively.

	2014			2013		
	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	**₱3,658**	**₱–**	**₱3,658**	₱2,634	₱–	₱2,634
2 – Super Prime	**54,762**	**–**	**54,762**	57,316	–	57,316
3 – Prime	**44,607**	**3**	**44,610**	33,365	14	33,379
4 – Very Good	**12,837**	**–**	**12,837**	4,395	38	4,433
5 – Good	**28,228**	**283**	**28,511**	19,480	7	19,487
6 – Satisfactory	**42,311**	**281**	**42,592**	24,546	212	24,758
7 – Average	**25,307**	**310**	**25,617**	30,005	220	30,225
8 – Fair	**22,581**	**454**	**23,035**	8,920	25	8,945
9 – Marginal	**5,355**	**336**	**5,691**	3,860	9	3,869
10 – Watchlist	**10,362**	**108**	**10,470**	12,990	35	13,025
11 – Special Mention	**1,870**	**207**	**2,077**	2,664	331	2,995
12 – Substandard	**1,180**	**2,123**	**3,303**	1,472	3,103	4,575
13 – Doubtful	**–**	**1,506**	**1,506**	5	2,497	2,502
14 – Loss	**–**	**2,671**	**2,671**	–	2,724	2,724
	253,058	**8,282**	**261,340**	201,652	9,215	210,867
Unrated Receivable from Customers						
Business Loans	**10,194**	**1,692**	**11,886**	13,105	870	13,975
GOCCs and NGAs	**352**	**1,798**	**2,150**	2,196	46	2,242
LGUs	**8,142**	**248**	**8,390**	7,925	661	8,586
Consumers	**18,324**	**787**	**19,111**	20,536	908	21,444
Fringe Benefits	**532**	**35**	**567**	529	1	530
	37,544	**4,560**	**42,104**	44,291	2,486	46,777
	₱290,602	**₱12,842**	**₱303,444**	₱245,943	₱11,701	₱257,644

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.

	2014				2013			
	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	**₱130**	**₱73**	**₱480**	**₱683**	₱163	₱142	₱358	₱663
Business loans	**1,564**	**159**	**1,125**	**2,848**	387	436	1,436	2,259
LGUs	**62**	**–**	**110**	**172**	341	69	34	444
GOCCs and NGAs	**–**	**–**	**2**	**2**	–	–	–	–
Fringe benefits	**–**	**1**	**10**	**11**	1	–	1	2
Total	**₱1,756**	**₱233**	**₱1,727**	**₱3,716**	₱892	₱647	₱1,829	₱3,368

Below are the financial assets of the banking segment, excluding receivables from customers, which are monitored using external ratings.

	December 31, 2014					
	Rated					
	Aaa to Aa3	**A1 to A3**	**Baa1 and below**	**Subtotal**	**Unrated[6/]**	**Total**
			(In Millions)			
Due from BSP [1/]	**₱–**	**₱–**	**₱10,358**	**₱10,358**	**₱95,416**	**₱105,774**
Due from other banks	**2,488**	**3,971**	**4,687**	**11,146**	**4,445**	**15,591**
Interbank loans receivables	**2,295**	**3,569**	**1,557**	**7,421**	**250**	**7,671**
Financial assets at FVPL:						
Held-for-trading:						
Government securities	**–**	**–**	**5,712**	**5,712**	**419**	**6,131**
Private debt securities	**–**	**–**	**–**	**–**	**210**	**210**
Derivative assets[2/]	**1**	**43**	**11**	**55**	**234**	**289**
Equity securities	**–**	**–**	**–**	**–**	**210**	**210**
Designated at FVPL:						
Segregated fund assets	**–**	**10,655**	**–**	**10,655**	**–**	**10,655**
Loans and receivables:						
Unquoted debt securities[3/]	**–**	**–**	**349**	**349**	**4,076**	**4,425**
Others[4/]	**4**	**2**	**201**	**207**	**15,249**	**15,456**
AFS investments[5/]:						
Government securities	**1,450**	**83**	**34,886**	**36,419**	**1,264**	**37,683**
Other debt securities	**691**	**1,058**	**3,267**	**5,016**	**18,971**	**23,987**
Quoted equity securities	**40**	**–**	**163**	**203**	**2,532**	**2,735**
Unquoted equity securities	**–**	**–**	**–**	**–**	**338**	**338**
HTM investments						
Government securities	**–**	**4**	**22,827**	**22,831**	**–**	**22,831**
Other debt securities	**–**	**50**	**–**	**50**	**90**	**140**
Miscellaneous COCI	**–**	**–**	**–**	**–**	**–**	**–**

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

2/ Derivative assets represent the value of credit derivatives embedded in host contracts issued by financial intermediaries and the mark-to-market valuation of freestanding derivatives (see Note 21).

3/ Unquoted debt securities represent investments in bonds and notes issued by financial intermediaries, government and private entities that are not quoted in the market, net of allowances.

4/ Loans and receivables - Others is composed of accrued interest receivable, accounts receivable, sales contracts receivable and other miscellaneous receivables, net of allowances (see Note 8)

5/ AFS investments are presented net of allowances (Note 7).

6/ As of December 31, 2014, financial assets that are unrated are neither past due nor impaired.

	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	18,412
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, 2014, financial assets that are unsecured are neither past due nor impaired.

Impairment assessment

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

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

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

Among the items and factors considered by the Group when assessing and measuring specific impairment/credit allowances are:

- the going concern of the borrower's business;
- the ability of the borrower to repay its obligations during financial crises;
- the projected receipts or expected cash flows;
- the availability of other sources of financial support;
- the existing realizable value of collateral; and
- the timing of the expected cash flows.

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

b. Collective assessment

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

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

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

See Notes 7 and 8 for more detailed information on the allowance for credit losses on loans and receivables and other financial assets.

Liquidity Risk and Funding Management

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

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

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

The table below shows the banking segment's financial assets and financial liabilities' liquidity information which includes coupon cash flows categorized based on the expected date on which the asset will be realized and the liability will be settled. For other assets, the analysis into maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date or if earlier, the expected date the assets will be realized.

	December 31, 2014					
	Up to 1 month	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**Beyond 1 year**	**Total**
			(In Millions)			
Financial Assets						
COCI	**₱14,628**	**₱–**	**₱–**	**₱–**	**₱–**	**₱14,628**
Due from BSP and other banks	**113,656**	**4,909**	**1,226**	**153**	**1,421**	**121,365**
Interbank loans receivable	**7,407**	**86**	**179**	**–**	**–**	**7,672**
Financial assets at FVPL:						
Held-for-trading:						
Government securities	**39**	**53**	**260**	**243**	**7,890**	**8,485**
Equity securities	**–**	**–**	**–**	**–**	**210**	**210**
Private debt securities	**–**	**2**	**4**	**6**	**271**	**283**

(Forward)

	December 31, 2014					
	Up to 1 month	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**Beyond 1 year**	**Total**
			(In Millions)			
Derivative assets:						
Pay	**(4,042)**	**(136)**	**(56)**	**–**	**(461)**	**(4,695)**
Receive	**4,061**	**143**	**60**	**–**	**567**	**4,831**
	19	**7**	**4**	**–**	**106**	**136**
Designated at FVPL:						
Designated at FVPL segregated fund liabilities	**–**	**–**	**–**	**–**	**10,817**	**10,817**
Loans receivables - gross	**62,949**	**33,428**	**12,772**	**11,689**	**182,238**	**303,076**
Unquoted debt securities - gross	**8**	**3,557**	**11**	**20**	**4,449**	**8,045**
Other receivables - gross	**2,364**	**568**	**1,492**	**369**	**13,671**	**18,464**
AFS investments	**512**	**978**	**1,551**	**3,415**	**66,234**	**72,690**
HTM investments	**1,732**	**804**	**250**	**8,962**	**29,461**	**41,209**
Other assets	**102**	**–**	**–**	**–**	**–**	**102**
Total financial assets	**₱203,416**	**₱44,392**	**17,749**	**₱24,857**	**₱316,768**	**₱607,182**
Financial Liabilities						
Deposit liabilities:						
Demand	**₱101,561**	**₱–**	**₱–**	**₱–**	**₱–**	**₱101,561**
Savings	**209,870**	**33,101**	**16,374**	**13,436**	**20,421**	**293,202**
Time	**7,650**	**10,625**	**4,899**	**5,118**	**24,588**	**52,880**
Financial liability at FVPL						
Derivative liabilities:						
Pay	**6,781**	**54**	**15**	**291**	**490**	**7,631**
Receive	**(6,764)**	**(53)**	**(13)**	**(290)**	**(465)**	**(7,585)**
	17	**1**	**2**	**1**	**25**	**46**
Bills and acceptances payable	**7,713**	**997**	**1,335**	**31**	**8,974**	**19,050**
Subordinated debt	**–**	**–**	**–**	**–**	**9,969**	**9,969**
Accrued interest payable and other liabilities	**18,569**	**526**	**728**	**367**	**7,698**	**27,888**
Total financial liabilities	**₱345,380**	**₱45,250**	**₱23,338**	**₱18,953**	**₱71,675**	**₱504,596**

	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:						
Segregated fund assets	–	–	–	–	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

(Forward)

	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 liabilities 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

Market Risks

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

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

Trading market risk

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

a. Objectives and limitations of the VaR methodology

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

b. VaR assumptions/parameters

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

c. VaR Limits

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

Trading Portfolio	Foreign Exchange*	Interest Rate	Equities Price	Total VaR**
December 31, 2014	**₱54.51**	**₱180.25**	**₱7.76**	**₱242.52**
Average Daily	**49.60**	**188.39**	**8.73**	**246.50**
Highest	**103.36**	**307.42**	**12.60**	**349.12**
Lowest	**8.56**	**76.55**	**6.43**	**160.66**
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

** 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:

	2014	2013
		(In Millions)
End of year	**₱812.47**	₱2,283.45
Average Daily	**1,416.60**	2,176.61
Highest	**2,631.36**	2743.57
Lowest	**812.47**	1,522.48

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, 2014					
	Up to 1 Month	**1 to 3 Months**	**3 to 6 Months**	**6 to 12 months**	**Beyond 1 year**	**Total**
	(In Millions)					
Financial Assets*						
Due from BSP and other banks	**₱114,062**	**₱5,180**	**₱1,436**	**₱235**	**₱452**	**₱121,365**
Interbank loans receivable	**7,585**	**86**	**–**	**–**	**–**	**7,671**
Receivable from customers and other receivables - gross**	**109,682**	**52,668**	**10,239**	**10,042**	**30,296**	**212,927**
Total financial assets	**₱231,329**	**₱57,934**	**₱11,675**	**₱10,277**	**₱30,748**	**₱341,963**
Financial Liabilities*						
Deposit liabilities:						
Savings	**₱80,240**	**₱28,456**	**₱16,173**	**₱20,476**	**₱9,503**	**₱154,848**
Time	**13,973**	**6,782**	**5,620**	**4,134**	**3,375**	**33,884**
Bills and acceptances payable	**7,574**	**682**	**422**	**669**	**13,618**	**22,965**
Total financial liabilities	**₱101,787**	**₱35,920**	**₱22,215**	**₱25,279**	**₱26,496**	**₱211,696**
Repricing gap	**₱129,542**	**₱22,014**	**(₱10,540)**	**(₱15,002)**	**₱4,252**	**₱130,266**
Cumulative gap	**129,542**	**151,556**	**141,016**	**126,014**	**130,266**	**–**

**Financial instruments that are not subject to repricing/rollforward were excluded.*
***Receivable from customers excludes residual value of leased assets*.

	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.*

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:

	2014		2013	
	Statement of Income	**Equity**	Statement of Income	Equity
		(In Millions)		
+50bps	**₱248**	**₱248**	₱442	₱442
-50bps	**(248)**	**(248)**	(442)	(442)
+100bps	**496**	**496**	885	885
-100bps	**(496)**	**(496)**	(885)	(885)

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, 2014			December 31, 2013		
	USD	**Others**	**Total**	USD	Others	Total
			(In Millions)			
Assets						
COCI and due from BSP	**₱236**	**₱300**	**₱536**	₱1,017	₱485	₱1,502
Due from other banks	**1,491**	**3,301**	**4,792**	9,719	3,589	13,308
Interbank loans receivable and securities held under agreements to resell	**2,044**	**432**	**2,476**	1,005	1,000	2,005
Financial assets at FVPL	**118**	**35**	**153**	–	–	–
Loans and receivables	**7,173**	**688**	**7,861**	10,268	5,269	15,537
AFS investments	**1,484**	**1,934**	**3,418**	4,255	2,078	6,333
Other assets	**91**	**54**	**145**	-	-	-
Total assets	**₱12,637**	**₱6,744**	**₱19,381**	26,264	12,421	38,685

(Forward)

	December 31, 2014			December 31, 2013		
	USD	**Others**	**Total**	USD	Others	Total
			(In Millions)			
Liabilities						
Deposit liabilities	**₱1,961**	**₱2,937**	**₱4,898**	₱7,621	₱5,159	₱12,780
Bills and acceptances payable	**2,977**	**113**	**3,090**	6,437	141	6,578
Accrued taxes, interest and other expenses	**1,570**	**24**	**1,594**	1,599	201	1,800
Other liabilities	**2,357**	**144**	**2,501**	4,677	493	5,170
Total liabilities	**8,865**	**3,218**	**12,083**	20,334	5,994	26,328
Net Exposure	**₱3,772**	**₱3,526**	**₱7,298**	₱5,930	₱6,427	₱12,357

Information relating to the banking segment's currency derivatives is contained in Note 21.

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

Risk Management Strategies

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

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

Credit Risk

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

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

Concentration risk

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

- Distilled spirits segment's sale of alcoholic beverage pertains mainly to 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, 2014:

	Neither past due nor impaired		**Past due but not impaired**					
	Standard Grade	**Sub-standard Grade**	**31 to 60 days**	**61 to 90 days**	**91 to 120 days**	**Over 120 Days**	**Impaired Financial Assets**	**Total**
				(In Millions)				
Loans and receivables:								
Cash and other cash items	**₱3,607**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱3,607**
Trade receivables	**5,962**	**–**	**3,213**	**1,983**	**1,382**	**–**	**29**	**12,569**
Other receivables	**2,702**	**167**	**2**	**7**	**5**	**91**	**6**	**2,980**
Due from related parties	**1,353**	**–**	**–**	**–**	**–**	**444**	**–**	**1,797**
Refundable deposits	**173**	**–**	**–**	**–**	**–**	**–**	**–**	**173**
Financial assets at FVPL	**4,922**	**–**	**–**	**–**	**–**	**–**	**–**	**4,922**
AFS investments	**570**	**52**	**–**	**–**	**–**	**–**	**2**	**624**
	₱19,289	**₱219**	**₱3,215**	**₱1,990**	**₱1,387**	**₱535**	**₱37**	**₱26,672**

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	7,789	–	1,617	642	646	59	32	10,785
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 investments	675	–	–	–	–	–	–	675
	₱14,945	₱1	₱1,622	₱692	₱651	₱397	₱38	₱18,346

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

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

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

The following tables show the maturity profile of the Group's other financial liabilities (undiscounted amounts of principal and related interest) as well as the financial assets used for liquidity management (in millions):

	2014			2013		
	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	**₱3,607**	**₱–**	**₱3,607**	₱1,092	₱–	₱1,092
Trade receivables	**12,569**	**–**	**12,569**	8,515	2,237	10,752
Other receivables	**2,980**	**–**	**2,980**	2,913	–	2,913
Due from related parties	**1,797**	**–**	**1,797**	2,710	–	2,710
Refundable deposits	**173**	**–**	**173**	168	–	168
Financial assets at FVPL	**4,922**	**–**	**4,922**	–	–	–
AFS investments	**1,672**	**–**	**1,672**	675	–	675
	₱27,720	**₱–**	**₱27,720**	₱16,073	₱2,237	₱18,310
Short term debts	**₱300**	**₱–**	**₱300**	₱300	₱–	₱300
Accounts payable and other liabilities*	**7,263**	**–**	**7,263**	7,567	–	7,567
Long-term debts	**15,475**	**1,322**	**16,797**	1,010	6,926	7,936
Due to related parties	**50**	**–**	**50**	8,037	–	8,037
Other liabilities	**2,640**	**–**	**2,640**	45	1,507	1,552
	₱25,728	**₱1,322**	**₱27,050**	₱16,959	₱8,433	₱25,392

**Excluding non-financial liabilities amounting to ₱132.6 million and ₱420.3 million as of December 31, 2014 and 2013.*

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 2014, 2013 and 2012, 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 ₱39.7 million, ₱43.8 million and ₱42.6 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$-denominated financial assets (other than the banking segment) pertain to due from related parties as of December 31, 2013 which was fully collected as of December 31, 2014. Shown below is the impact on the Group's income before income tax of reasonably possible changes in exchange rate of the US$ 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)

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, 2014 and 2013, the Group's long-term debts are not exposed to the risk in changes in market interest rates since the debts are issued at fixed rates. Fixed rate financial instruments are subject to fair value interest rate risk while floating rate financial instruments are subject to cash flow interest rate risk. Repricing of floating rate financial instruments is mostly at interval of three months or six months.

33. **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

	December 31, 2014					
Financial assets recognized at end of reporting period by type	**Gross carrying Amounts (before offsetting)**	**Gross amounts offset in accordance with the offsetting criteria**	**Net amount presented in balance sheet [a-b]**	**Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria**		**Net exposure [c-d]**
				Financial instruments	**Fair value of Financial collateral**	
	[a]	**[b]**	**[c]**	**[d]**		**[e]**
			(In Thousands)			
Derivative assets (Notes 6 and 21)	**₱10,038,319**	**₱9,981,741**	**₱56,578**	**₱597**	**₱–**	**₱55,981**

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 assets (Notes 6 and 21)	₱7,853,279	₱7,760,445	₱92,834	₱678	₱–	₱92,156

Financial liabilities

December 31, 2014

Financial assets recognized at end of reporting period by type	**Gross carrying Amounts (before offsetting)**	**Gross amounts offset in accordance with the offsetting criteria**	**Net amount presented in balance sheet [a-b]**	**Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria**		**Net exposure [c-d]**
				Financial instruments	**Fair value of Financial collateral**	
	[a]	**[b]**	**[c]**	**[d]**		**[e]**
			(In Thousands)			
Derivative liabilities (Notes 16 and 21)	**₱10,962,654**	**(₱10,919,189)**	**₱43,465**	**₱–**	**₱–**	**₱43,465**
Securities sold under agreements to repurchase (Note 17)*	**14,085,961**	**–**	**14,085,961**	**–**	**(17,448,561)**	**–**
Total	**₱25,048,615**	**(₱10,919,189)**	**₱14,129,426**	**–**	**(₱17,448,561)**	**₱43,465**

* *Included in bills and acceptances payable in the consolidated balance sheet*

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

* *Included in bills and acceptances payable in the consolidated balance sheet*

The amounts disclosed in column (d) include those rights to set-off amounts that are only enforceable and exercisable in the event of default, insolvency or bankruptcy. This includes amounts related to financial collateral both received and pledged, whether cash or non-cash collateral, excluding the extent of over-collateralization.

34. Fair Value Measurement

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

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

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

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

As of December 31, 2014 and 2013, the carrying values of the Group's financial assets and liabilities approximate their respective fair values, except for the following financial instruments:

	December 31, 2014		December, 31, 2013	
	Carrying Value	**Fair Market Value**	Carrying Value	Fair Market Value
		(In Thousands)		
Financial Assets:				
Loans and receivables:				
Receivables from customers	**₱296,372,069**	**₱316,486,735**	₱248,321,931	₱274,331,315
Unquoted debt securities	**4,425,005**	**6,013,057**	7,545,531	12,692,201
	₱300,797,074	**₱322,499,792**	₱255,867,462	₱287,023,516
Financial Liabilities:				
Financial liabilities at amortized cost:				
Deposit liabilities - Time deposits	**₱52,759,938**	**₱55,296,115**	₱51,114,363	₱52,259,893
Bills payables	**18,683,204**	**18,340,370**	–	–

(Forward)

	December 31, 2014		December, 31, 2013	
	Carrying Value	**Fair Market Value**	Carrying Value	Fair Market Value
		(In Thousands)		
Long term debts:				
Subordinated debt	**₱9,969,498**	**₱10,593,485**	₱9,953,651	₱10,995,537
Unsecured term loan	**1,321,823**	**1,337,684**	1,990,120	2,014,001
Bonds payable	**4,998,008**	**5,048,551**	4,982,544	5,250,000
Notes payable	**508,115**	**502,089**	963,355	974,916
Other liabilities:				
Payable to landowners	**2,289,708**	**2,226,042**	1,296,785	1,312,839
Tenants' rental deposits	**268,805**	**323,236**	161,601	150,852
Advance rentals	**45,800**	**41,212**	98,658	94,594
	₱90,844,899	**₱93,708,784**	₱70,561,077	₱73,052,632

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 3.2% in 2014 and 3.0% in 2013 for peso-denominated receivables. For foreign currency-denominated receivables, discount rate used is 1.2% in 2014 and 1.0% in 2013.

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 1.0% to 3.9% and 1.1% to 4.2% as of December 31, 2014 and 2013, 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 1.97% to 6.38% as of December 31, 2014 and from 2.13% to 6.57% as of December 31, 2013, 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, 2014			
	Level 1	**Level 2**	**Level 3**	**Total**
		(In Thousands)		
Assets measured at fair value:				
Financial Assets				
Financial assets at FVPL:				
Held-for-trading:				
Government securities	**₱3,802,179**	**₱2,329,099**	**₱–**	**₱6,131,278**
Derivative assets	**–**	**65,391**	**71,160**	**136,551**
Private debt securities	**218,193**	**–**	**–**	**218,193**
Equity securities	**210,674**	**160**	**–**	**210,834**
Designated at FVPL:				
Segregated fund assets*	**5,386,302**	**–**	**5,268,468**	**10,654,770**
	₱9,617,348	**₱2,394,650**	**₱5,339,628**	**₱17,351,626**
AFS investments:				
Government securities	**₱25,983,779**	**₱11,161,671**	**₱–**	**₱37,145,450**
Other debt securities	**21,377,038**	**2,331,118**	**–**	**23,708,156**
Equity securities**	**2,074,200**	**–**	**–**	**2,074,200**
	₱59,052,365	**₱15,887,439**	**₱5,339,628**	**₱80,279,432**
Non-financial assets				
Property, plant and equipment***				
Land and land improvements	**₱–**	**₱–**	**₱16,832,987**	**₱16,832,987**
Plant buildings and building improvements	**–**	**–**	**11,602,275**	**11,602,275**
Machineries and equipment	**–**	**–**	**10,044,263**	**10,044,263**
	₱–	**₱–**	**₱38,479,525**	**₱38,479,525**
Liabilities measured at fair value:				
Financial liabilities				
Financial liabilities at FVPL:				
Designated at FVPL:				
Segregated fund liabilities*	**₱5,308,303**	**₱–**	**₱5,346,467**	**₱10,654,770**
Derivative liabilities	**–**	**44,903**	**–**	**44,903**
	₱5,308,303	**₱44,903**	**₱5,346,467**	**₱10,699,673**

(Forward)

	December 31, 2014			
	Level 1	**Level 2**	**Level 3**	**Total**
		(In Thousands)		
Assets for which fair values are disclosed:				
Financial Assets				
HTM investment	**₱20,584,890**	**₱3,983,878**	**₱–**	**₱24,568,768**
Loans and receivables:				
Receivables from customers	**–**	**–**	**316,486,735**	**316,486,735**
Unquoted debt securities	**–**	**–**	**6,013,057**	**6,013,057**
	₱20,584,890	**₱3,983,878**	**₱322,499,792**	**₱347,068,560**
Non-financial Assets				
Investment properties***				
Land	**₱–**	**₱–**	**₱36,107,990**	**₱36,107,990**
Buildings and improvements	**–**	**–**	**6,025,335**	**6,025,335**
	₱–	**₱–**	**₱42,133,325**	**₱42,133,325**
Liabilities for which fair values are disclosed:				
Financial liabilities				
Financial liabilities at amortized cost:				
Deposit liabilities:				
Time deposits	**₱–**	**₱–**	**₱52,296,115**	**₱52,296,115**
Bills payables	**–**	**–**	**18,683,205**	**18,683,205**
Long term debts:				
Subordinated debt	**–**	**–**	**10,593,485**	**10,593,485**
Unsecured term loan	**–**	**–**	**1,337,684**	**1,337,684**
Bonds payable	**5,048,551**	**–**	**–**	**5,048,551**
Notes payable	**–**	**–**	**502,089**	**502,089**
Other liabilities:				
Payable to landowners	**–**	**–**	**2,226,042**	**2,226,042**
Tenants' rental deposits	**–**	**–**	**323,236**	**323,236**
Advance rentals	**–**	**–**	**42,500**	**42,500**
	₱5,048,551	**₱–**	**₱86,004,356**	**₱91,052,907**

* *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, 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
Private debt securities	–	92,834	165,863	258,697
Derivative assets	779,565	50,963	–	830,528
Equity securities	249,518	–	–	249,518
Designated at FVPL:				
Segregated fund assets*	2,481,635	–	5,380,053	7,861,688
Private debt securities				
	₱5,772,831	₱1,237,405	₱5,545,916	₱12,556,152
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

	December 31, 2013			
	Level 1	Level 2	Level 3	Total
		(In Thousands)		
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 property***				
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.*

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

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

Instruments included in Level 3 include those for which there is currently no active market. In applying the discounted cash flow analysis to determine the fair value of financial liabilities designated at FVPL, the Group used discount rates ranging and from 1.33% to 3.72% and from 1.38% to 3.63% as of December 31, 2014 and 2013, respectively.

As of December 31, 2014 and 2013, 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:

	2014	2013
		(In Thousands)
Financial assets		
Balance at beginning of year	**₱5,545,916**	₱2,674,995
Add acquisition arising from purchase of investments	**–**	2,692,915
Add total gain recorded in profit or loss	**(206,288)**	178,006
Balance at end of year	**₱5,339,628**	₱5,545,916
Nonfinancial assets		
Balance at beginning of year	**₱37,834,527**	₱38,080,668
Additions during the year	**1,190,262**	1,032,360
Revaluation increment during the year	**–**	1,300,593
Depreciation and amortization	**(1,631,635)**	(1,805,394)
Net carrying value of disposed/transferred assets and other adjustments	**1,077,374**	(796,993)
Reversal of (provision for) impairment loss during the year	**–**	23,293
Balance at end of the year	**₱38,470,528**	₱37,834,527
Financial liabilities		
Balance at beginning of year	**₱5,380,053**	₱8,812,021
Add acquisition arising from purchase of investments	**–**	2,672,177
Less total gain recorded in profit and loss	**(111,585)**	(104,145)
Redemption of unsecured subordinated notes	**–**	(6,000,000)
Balance at end of year	**₱5,268,468**	₱5,380,053

Equity and/or Credit-Linked Notes are shown as 'Segregated Fund Assets' under "Financial Assets at FVPL".

The structured Variable Unit-Linked Notes can be decomposed into bond components and options components. The fair value of structured notes has been computed by counterparties using present value calculations and option pricing models, as applicable. The valuation requires management to make certain assumptions about the model inputs particularly the credit spread of the Issuer. The model also used certain market observable inputs including the counterparty's credit default swap (CDS), PHP interest rate swap (IRS) rates (for the Peso-denominated issuances) and ROP CDS rates (for the USD-denominated issuances).

Description of valuation techniques are as follows:

Structured Notes	**Valuation Methods**	**Significant Unobservable Inputs**	**Significant Observable Inputs**
Peso-denominated	DCF Method / Monte Carlo Simulation	Issuer's Funding rate / Issuer's CDS as proxy	PHP IRS
Dollar-denominated	DCF Method / Monte Carlo Simulation	Issuer's Funding rate / Issuer's CDS as proxy	ROP CDS / USD IRS

The sensitivity analysis of the fair market value of the structured notes as of December 31, 2014 and 2013 is performed for the reasonable possible movement in the significant inputs with all other variables held constant, showing the impact to profit and loss follows:

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

		2014		2013	
Structured Investments	**Significant Unobservable Input**	**Range of Input***	**Sensitivity of the Input to Fair Value****	Range of Input	Sensitivity of the Input to Fair Value*
Peso-denominated	**Bank CDS Levels**	**44.00 - 95.67 bps**	**50 bps increase/(decrease) in change inputs would result in a (decrease) / increase in the market value of the note by ₱90,838,042**	43.80 - 138.89 bps	50 bps increase/(decrease) in change inputs would result in a (decrease) / increase in the market value of the note by ₱93,593,693
Dollar-denominated	**Bank CDS Levels**	**35.21 - 78.08 bps**	**50 bps increase/(decrease) in change inputs would result in a (decrease) / increase in the market value of the note by ₱41,710,217**	43.80 - 138.89 bps	50 bps increase/(decrease) in change inputs would result in a (decrease) / increase in the market value of the note by ₱41,511,299

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

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

		2014		2013	
Structured Investments	**Significant Observable Input**	**Range of Input***	**Sensitivity of the Input to Fair Value****	Range of Input	Sensitivity of the Input to Fair Value*
Peso-denominated	**PHP IRS (3Y)**	**142.00 - 375.00 bps**	**50 bps increase/(decrease) in change inputs would result in a (decrease) / increase in the market value of the note by ₱ 90,838,042**	103.00 - 410.00 bps	50 bps increase/(decrease) in change inputs would result in a (decrease) / increase in the market value of the note by ₱ 93,593,693.
Dollar-denominated	**ROP CDS (5Y)**	**79.31 - 150.94 bps**	**50 bps increase/(decrease) in change inputs would result in a (decrease) / increase in the market value of the note by ₱ 41,710,217**	80.50 - 157.00 bps	50 bps increase/(decrease) in change inputs would result in a (decrease) / increase in the market value of the note by ₱ 41,511,299.

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

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The fair values of warrants have been determined using price quotes received from a third-party broker without any pricing adjustments imputed by the Group. The valuation model and inputs used in the valuation which were developed and determined by the third-party broker were not

made available to the Group. Under such instance, PFRS 13 no longer requires an entity to create quantitative information to comply with the related disclosure requirements.

The table below summarizes the valuation techniques used and the significant unobservable inputs valuation for each type of property, plant and equipment and investment properties held by the Group:

	Valuation Techniques	**Significant Unobservable Inputs**	**Range of Estimates**
Property, plant and equipment:			
Land and land improvements	Market Data Approach	Price per square meter	₱6,000-6,200
Plant buildings and building improvements			
Building	Replaceable Fixed Asset Valuation Approach	Replacement cost Estimated total floor area	₱4,287- 10,000 24-1548 sq.m
Building improvements	Replaceable Fixed Asset Valuation Approach	Replacement cost Estimated number of components	₱2.8 million-₱26.5 million 315-723 components
Machineries and equipment	Replaceable Fixed Asset Valuation Approach	Replacement cost Estimated number of components	₱3,200-₱8.6 million 465-1,162 components
Investment properties:			
Land	Market Data Approach	Price per square meter, size, location, shape, time element and corner influence	₱800- 100,000
Land and building	Market Data Approach and Replacement Cost Approach	New Reproduction Cost	

Significant favorable (unfavorable) adjustments to the aforementioned factors based on the professional judgment of the independent appraisers would increase (decrease) the fair value of land. Significant increases (decreases) in the current replacement cost would result in significantly higher (lower) appraised values whereas significant increase (decrease) in the remaining useful life of the property, plant and equipment over their total useful life would result in significantly higher (lower) appraised values.

Description of the valuation techniques and significant unobservable inputs used in the valuation of the Group's property, plant and equipment and investment properties are as follows:

Valuation Techniques	Description
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

Valuation Techniques	Description
	improvements.
Reproduction Cost New	The cost to create a virtual replica of the existing structure, employing the same design and similar building materials.
Size	Size of lot in terms of area. Evaluate if the lot size of property or comparable conforms to the average cut of the lots in the area and estimate the impact of lot size differences on land value.
Shape	Particular form or configuration of the lot. A highly irregular shape limits the usable area whereas an ideal lot configuration maximizes the usable area of the lot which is associated in designing an improvement which conforms with the highest and best use of the property.
Location	Location of comparative properties whether on a main road, or secondary road. Road width could also be a consideration if data is available. As a rule, properties located along a main road are superior to properties located along a secondary road.
Time Element	"An adjustment for market conditions is made if general property values have appreciated or depreciated since the transaction dates due to inflation or deflation or a change in investors' perceptions of the market over time". In which case, the current data is superior to historic data.
Discount	Generally, asking prices in ads posted for sale are negotiable. Discount is the amount the seller or developer is willing to deduct from the posted selling price if the transaction will be in cash or equivalent.
Corner influence	Bounded by two (2) roads.

35. Notes to Consolidated Statements of Cash Flows

Non-cash Investing Activities

a. 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, 2014 and 2013, unpaid additions to property, plant and equipment amounted to ₱65.4 million and ₱106.0 million, respectively, which is included as part of "Accounts payable and accrued expenses".

d. 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. As of December 31, 2014 and 2013, accrued interest payable amounted to ₱22.9 million and ₱2.2 million, respectively. Finance costs and cost of hauling services include amortization of bond issue costs and unamortized transaction cost of subordinates debt amounting to ₱15.6 million and ₱15.8 million in 2014 and ₱14.2 million and ₱14.8 million in 2013, respectively.

c. As discussed in Note 30, LTG issued additional common shares to Tangent amounting to ₱5.4 billion upon conversion of its deposit for future stock subscription of ₱1.6 billion resulting in an increase in additional paid in capital of ₱1.2 billion. Transactions costs incurred for the share issuance in 2012 amounted to ₱67.5 million which are deducted from additional paid in capital.

36. Capital Management

The main thrust of the Group's capital management policy is to ensure that the Group complies with externally imposed capital requirements, maintains a good credit standing and has a sound capital ratio to be able to support its business and maximize the value of its shareholders equity. The Group is also required to maintain debt-to-equity ratios to comply with certain loan agreements and covenants in 2014 and 2013.

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 2014 and 2013.

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:

	2014	2013
	(In Thousands, except ratios)	
Total liabilities	**₱534,111,014**	₱528,679,622
Total equity	**162,722,194**	149,770,600
Total liabilities and equity	**₱696,833,208**	₱678,450,222
Debt ratio	**0.76:1**	0.78:1
Debt-to-equity ratio	**3.28:1**	3.53:1

Regulatory Qualifying Capital for the Banking Segment

Under existing BSP regulations, the determination of PNB's compliance with regulatory requirements and ratios is based on the amount of PNB's "unimpaired capital" (regulatory net worth) reported to the BSP, which is determined on the basis of regulatory policies, which differ from PFRS in some respects.

In addition, the risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10.00% for both solo basis (head office and branches) and consolidated basis (parent bank and subsidiaries engaged in financial allied

undertakings but excluding insurance companies). Qualifying capital and risk-weighted assets are computed based on BSP regulations. Risk-weighted assets consist of total assets less cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits and other non-risk items determined by the MB of the BSP.

PNB and its individually regulated subsidiaries/operations have complied with all externally imposed capital requirement throughout the year.

On January 15, 2013, the BSP issued Circular No. 781, Basel III Implementing Guidelines on Minimum Capital Requirements, which provides the implementing guidelines on the revised risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards. The circular is effective on January 1, 2014.

The Circular sets out a minimum Common Equity Tier 1 (CET1) ratio of 6.0% and Tier 1 capital ratio of 7.5%. It also introduces a capital conservation buffer of 2.5% comprised of CET1 capital. The BSP's existing requirement for Total CAR remains unchanged at 10% and these ratios shall be maintained at all times.

Further, existing capital instruments as of December 31, 2010 which do not meet the eligibility criteria for capital instruments under the revised capital framework shall no longer be recognized as capital upon the effectivity of Basel III. Capital instruments issued under BSP Circular Nos. 709 and 716 (the circulars amending the definition of qualifying capital particularly on Hybrid Tier 1 and Lower Tier 2 capitals), starting January 1, 2011 and before the effectivity of BSP Circular No. 781, shall be recognized as qualifying capital until December 31, 2015. In addition to changes in minimum capital requirements, this Circular also requires various regulatory adjustments in the calculation of qualifying capital.

The Group has taken into consideration the impact of the foregoing requirements on the banking segment to ensure that the appropriate level and quality of capital are maintained on an ongoing basis.

Internal Capital Adequacy Assessment Process (ICAAP) Implementation

In compliance with BSP Circular 639, PNB (the Bank) has adopted its live ICAAP Document for 2011 to 2013. However, the BOD and the Management recognized that ICAAP is beyond compliance, i.e., it is about how to effectively run the Bank's operations by ensuring that the Bank maintains at all times an appropriate level and quality of capital to meet its business objective and commensurate to its risk profile. In line with its ICAAP principles, the Bank shall maintain a capital level that will not only meet the BSP CAR requirement but will also cover all material risks that it may encounter in the course of its business. The ICAAP process highlights close integration of capital planning/strategic management with risk management. The Bank has in place a risk management framework that involves a collaborative process for assessing and managing identified Pillar 1 and Pillar 2 risks. The Bank complies with the required annual submission of updated ICAAP.

37. **Commitments, Provision and Contingencies and Other Matters**

Commitments

Operating lease commitments - the Group as lessor

The Group entered into lease agreements with third parties covering its investment property portfolio. These leases generally provide for either (a) fixed monthly rent, or (b) minimum rent or

a certain percentage of gross revenues, whichever is higher. The Group records rental income on a straight-line basis over less noncancellable lease term. Any difference between the calculated rental income and amount actually received is recognized as "Deferred rent" (see Note 8).

The Group has security deposits and advance rentals which are presented under "Other noncurrent liabilities." Security deposits pertain to the amounts paid by the tenants at the inception of the lease which is refundable at the end of the lease term. Advance rentals pertain to deposits from tenants which will be applied against receivables either at the beginning or at the end of lease term depending on the lease contract. Security deposits and advance rentals amounted to ₱349.9 million and ₱33.5 million as of December 31, 2014 and ₱65.1 million and ₱36.2 million, as of December 31, 2013, respectively.

Future minimum rental receivables under noncancellable operating leases as of December 31 are as follows:

	2014	2013
		(In Thousands)
Within one year	**₱981,662**	₱618,586
After one year but not more than five years	**2,393,116**	807,865
More than five years	**315,105**	433,423
	₱3,689,883	₱1,859,874

Operating lease commitments - the Group as lessee
The future aggregate minimum lease payments under several operating leases of the Group are as follows:

	2014	2013
		(In Thousands)
Within one year	**₱772,888**	₱582,711
Within two to five years	**1,651,825**	992,924
More than five years	**1,555,153**	1,484,119
	₱3,979,866	₱3,059,754

Future minimum lease receivables under finance leases are as follows:

	2014	2013
Within one year	**₱1,358,383**	₱1,146,191
Beyond one year but not more than five years	**1,378,555**	1,414,986
More than five years	**58,500**	116,058
Total	**2,795,438**	2,677,235
Less amounts representing finance charges	**390,018**	311,421
Present value of minimum lease payments	**₱2,405,420**	₱2,365,814

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 ₱65.8 billion and ₱56.3 billion as of December 31, 2014 and 2013, respectively. In connection with the trust functions of PNB, government securities amounting to ₱0.7 billion and ₱1.3 billion, (included under 'AFS investments') as of December 31, 2014 and 2013, 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 ₱13.6 million, ₱9.5 million and ₱9.7 million in 2014, 2013 and 2012, 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 PNB 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, 2014 and 2013, 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.

On July 9, 2012, the bank consortium filed with the Singapore High Court a Petition to Set Aside the Partial Award rendered by the Arbitration Panel, which Petition is pending to date.

On July 31, 2014, the Singapore High Court issued a Judgment in favor of the bank consortium setting aside the Arbitral Award in its entirety. On September 1, 2014, the SPV companies filed before the Singapore Court of Appeal a Notice of Appeal. On January 26, 2015, the case was heard. As of April 8, 2015, the parties are awaiting decision of the Singapore Court of Appeals.

Movements of provision for legal claims included in "Other liability" in the consolidated balance sheets for the Group are as follows (see Note 20):

	2014	2013
	(In Thousands)	
Balance at beginning of the year	**₱1,582,081**	₱1,575,433
Provisions	**58,567**	–
Reclassification and settlements	–	6,648
	₱1,640,648	₱1,582,081

Excise Tax Refund Claim
The new excise tax law or RA 10351 became effective on January 1, 2013, and increased the excise tax rates of, among others, distilled spirits. Another change that was brought in by the new law is the shift in the tax burden of distilled spirits from raw materials to the finished product.

To implement the said law, the Secretary of Finance issued Revenue Regulations No. 17-2012 (RR 17-2012), which, in one of its transitory provisions, disallowed the tax crediting of the excise taxes that were already paid under the old law on the raw materials inventory by end of the year 2012 or by the effectivity of RA 10351 in favor of the excise taxes due on the finished goods inventory.

The Commissioner of Internal Revenue issued on January 9, 2013 Revenue Memorandum Circular (RMC) No. 3-2013. This RMC sought to clarify further certain provisions of RR No. 17-2012 but in effect extended the imposition of the excise tax on both the (1) ethyl alcohol as raw materials in the production of compounded liquors and (2) the manufactured finished product. Per the RMC, both ethyl alcohol and compounded liquor are considered as

distinct distilled spirits products and are thus separate taxable items under the new law. This interpretation of the law was however modified with the issuance of RMC No. 18-2013. The new RMC allowed the non-payment of excise tax on ethyl alcohol that were purchased after the issuance of RMC No. 3-2013 to be used as raw materials in the manufacture of compounded liquors provided certain requirements such as posting of surety bonds are complied with. RMC No. 18-2013, however, still maintained that taxes previously paid on the raw materials, i.e., ethyl alcohol/ethanol inventory, at the time of the effectivity of the new excise tax law are still not subject to refund/tax credit to the manufacturers.

Under RR No. 17-2012, the amount of excise tax that was disallowed for tax credit was ₱725.8 million (included under "Other current assets"). Said amount represented taxes paid

previously on raw materials and were not allowed to be deducted from the excise taxes that became due on the finished goods as taxed under the new law. 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.

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 (see Note 14).

On October 27, 2014, ADI and Mistubishi agreed to terminate the CDM project due to unfavorable market for CERs.

Effluent Supply Agreement

On September 26, 2013, ADI and Aseagas Corporation (Aseagas) entered into an effluent (wastewater) supply agreement wherein ADI will supply effluent to Aseagas to be used in the generation of liquid bio-methane for a period of 20 years (delivery period) from the date Aseagas notifies ADI that the liquid bio-methane plant to be constructed by Aseagas becomes ready for commercial operations. The delivery period is renewable for another ten (10) years upon mutual agreement of both parties. As of April 8, 2015, the liquid bio-methane plant is still under construction.

Distilled Spirits' Solar Energy Project

On January 19, 2015, ADI started the construction of the first two-megawatt solar power plant in Batangas. As of April 8, 2015, the construction of the solar power plant is still on-going.

38. Events After Reporting Date

a. On February 13, 2015, TDI redeemed the ₱5.0 billion bonds.

b. PNB is looking to raise term funding as part of its liability management initiatives and in preparation for future Basel 3 requirements. The proceeds of the loan will also finance long-term asset growth in line with its three-year strategic plan. PNB has appointed Standard Chartered Bank to arrange a US$150 million three-year syndicated term loan in this regard. It may increase the deal size in case of an oversubscription.

c. On January 30, 2015, the Buy Back of the 15% equity of Japan-PNB Leasing by IBJL from PNB was consummated resulting to equity ownership as follows: PNB - 75% and IBJL - 25%. Gain of PNB on the sale of shares of Japan-PNB Leasing by IBJL was P66.2 million.

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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 ON SUPPLEMENTARY SCHEDULE

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

We have audited in accordance with Philippine Standards on Auditing the consolidated financial statements of LT Group, Inc. (a subsidiary of Tangent Holdings Corporation) and its subsidiaries as at and for the years ended December 31, 2014 and 2013 and have issued our report thereon dated April 8, 2015. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Company's management. The schedules are presented for the purpose of complying with Securities Regulation Code Rule 68, as Amended (2011), and are not part of the basic financial statements. The 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
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February 14, 2013, valid until February 13, 2016
Tax Identification No. 102-086-208
BIR Accreditation No. 08-001998-18-2015,
February 27, 2015, valid until February 26, 2018
PTR No. 4751279, January 5, 2015, Makati City

April 8, 2015

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LT GROUP, INC. AND SUBSIDIARIES
SCHEDULE A. – Financial Assets
DECEMBER 31, 2014
(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		10,825,649.89	14,138,092.44	567,158.82
Fixed Rate Treasury Notes		10,190,707.22	10,946,545.80	434,006.85
Retail Treasury Bonds		10,905,649.89	4,902,245.56	204,808.57
Bangko Sentral ng Pilipinas		30,718.83	32,101.18	2,853.08
NDC		-	-	21,096.29
Power Sector Assets and Liabilities Management Corporation		1,897,187.90	2,288,844.86	73,797.44
Development Bank of the Philippines		2,186,226.64	2,377,499.61	78,499.87
REPUBLIC OF KOREA		44,720.00	53,909.07	1,132.33
REPUBLIC OF INDONESIA		1,292,408.00	1,467,293.79	36,917.55
Treasury Bills		664,038.16	663,276.00	585.32
Treasury Gilts		6,950.42	7,303.31	245.54
Philippine Sovereign Bonds (USD)-ROP 21		67,080.00	72,371.41	1,229.80
Small Business Loan asset backed securities		71,718.61	71,575.30	73.95
USTW		121,862.00	121,648.92	11.66
Total Government Securities		38,044,256.97	37,142,707.24	1,421,101.65

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.		4,703,604.88	5,107,156.89	226,888.44
Banco De Oro		1,520,345.84	1,553,072.91	53,084.62
SM Investments Corp. (SMIC)		1,779,274.64	1,829,421.22	84,476.96
Rizal commercial Banking Corp		825,531.20	856,999.56	34,593.48
Philippine Long Distance Telephone Company (PLDT)		159,560.96	181,092.55	12,625.10
JG Summit Holdings Inc		357,760.00	349,746.18	15,591.46
San Miguel Brewery		648,440.00	645,139.44	2,718.18
Phoenix Petrolem Phils		790,000.00	763,640.33	6,300.56
Aboitiz Power		500,000.00	500,111.48	8,024.38
Ayala Land Inc		300,000.00	291,774.05	11,531.25
Filinvest Land Inc		108,390.00	108,647.34	438.98
Metrobank		567,100.00	581,253.28	23,199.90
PS Bank		75,000.00	75,480.91	2,497.92
First Pacific Limited		1,405,415.44	1,541,948.15	44,941.06
FILINVEST DEVELOPMENT CAYMAN ISLANDS		2,115,032.40	2,034,259.31	92,312.54
FPT FINANCE LIMITED		196,768.00	214,603.05	16,625.89
FPC TREASURY LIMITED (FPC)		446,037.28	430,488.42	20,192.82
EXPORT-IMPORT BANK OF KOREA		357,760.00	400,286.48	13,424.15
Energy Development Corporation Bonds		1,310,698.48	1,419,853.45	54,203.84
Korea Devt Bank		-	-	6,159.64

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				
MNTC 10-Yr Bonds			99,087.00	3,300.00
Petron Corporation 10-Yr Notes			105,293.00	7,027.00
Philippine Long Distance Telephone Co. 10-Yr Notes			154,457.00	8,761.00
Philippine Savings Bank Tier 2 Bonds			15,420.00	356.00
Rizal Commercial Banking Corporation Tier 2 Bonds			101,166.00	1,863.00
Smart 10-Yr Notes			105,358.00	6,149.00
San Miguel Brewery 10-Year Bonds			52,584.00	2,640.00
SM Development Corporation 10-Year Notes			146,847.00	8,814.00
SM Investment Corporation 10-Year Notes			96,502.00	4,632.00
SM Investment Corporation 7-Year Notes			15,800.00	1,092.00
SM Prime Holdings 10-Yr Bonds			50,417.00	759.00
SM Prime Holdings 10-Yr Bonds			104,499.00	5,983.00
Tanduay Distillers Inc. 5-Yr Bonds			50,376.00	1,652.00
BPI AMTG - PHP Fixed Income_UL Seed Capital			2,318.00	-
BPI AMTG - PHP Equity_ Ul Seed Capital			3,056.00	-
BPI AMTG - PHP Balanced_UL Seed Capital			2,647.00	-
PNB_Money Market_UL Seed Capital			1,052.00	-
PNB_PODEF_UL Seed Capital			51,720.00	-
ING Bank, NV. - Asian Summit_UL Seed Capital			53,913.00	-
ING Bank, N.V. - Summit Select_UL Seed Capital			16,851.00	-

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				
PNB_UITF			546,521.00	-
Philippine Long Distance Telephone Co.			10.00	-
Banco De Oro 2016			18,226.00	731.00
Development Bank of the Phiilippines 2021			9,759.00	353.00
Filinvest Development Corporation 2020			25,926.00	1,050.00
First Pacific Co. Ltd . 2019			24,001.00	1,159.00
First Pacific Co. Ltd . 2020			58,775.00	3,198.00
First Pacific Co. Ltd . 2023			43,516.00	1,908.00
International Container Terminal Sevices 2020			25,432.00	1,214.00
International Container Terminal Sevices 2023			8,892.00	382.00
International Container Terminal Sevices 2049/2016			61,315.00	4,607.00
Metrobank 49/16			14,322.00	924.00
Petron Corporation 2023			23,258.00	1,524.00
Power Sector Asset and Liabilities Management Corp 2019			32,118.00	1,988.00
Power Sector Asset and Liabilities Management Corp 2024			70,198.00	3,976.00
Rizal Commercial Balnking Corporation 2017			23,444.00	1,033.00
SM Investments Corporation 2014			85,264.00	3,313.00
SM Investments Corporation 2019			44,440.00	1,180.00
BPI AMTG - USD Fixed Income_UL Seed Capital			1,756.00	-
UBS - DIO_UL Seed Capital			12,780.00	-
ING Bank, N.V. - VIP Summit USD_UL Seed Capital			3,547.00	-
FXTN 10-55		150,000.00	166,634.00	8,941.00
RTB 15-2		100,000.00	111,915.00	7,150.00

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				
RTB 20-1		25,000.00	28,508.00	1,961.00
FXTN 10 - 57		130,000.00	136,840.00	8,656.00
RTB 10-4 TA		50,000.00	47,713.00	-
LTCND		50,000.00	50,000.00	-
Total Private Debt Securities		20,262,671.58	24,249,335.43	890,753.29
Equity Securities				
EAGLE RIDGE GOLF & COUNTRY CLUB	3,450,000	-	2,700.00	-
PICOP RESOURCES	55,356,020	-	-	-
PCDI PREFERRED SHARES	22,800	-	33.12	-
EVER GOTESCO RESOURCES & HOLDINGS	1,997,894	-	29,638.00	-
MOUNT MALARAYAT GOLF & COUNTRY CLUB	35,380,000	-	-	-
WACK WACK GOLF & COUNTRY CLUB	4,522,664	-	15,000.00	-
CAMP JOHN HAY GOLF CLUB	2	-	160.00	-
TAGAYTAY MIDLANDS -		-	410.00	-
BACNOTAN STEEL INDUSTRIES	334,499,800	-	0.00	-
PT&T	50,000,000	-	0.00	-
PHIL. ELECTRIC CORP SHARES	202,440	-	94.94	-
PROTON CHEMICAL INDUSTRIES COMM SHARES	444,190	-	0.00	-
SMALL BUSINESS GUARANTEE	-	-	40,000.00	-

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
Equity Securities				
LGU GUARANTEE CORP	-	-	5,000.00	-
PHIL. CLEARING HOUSE CORP (PCHC)	-	-	2,100.00	-
BAGUIO CITY COUNTRY CLUB	-	-	1,650.00	-
CAMP JOHN HAY	-	-	80.00	-
MANILA POLO CLUB	-	-	11,500.00	-
MIMOSA GOLF & COUNTRY CLUB	-	-	400.00	-
MANILA GOLF & COUNTRY CLUB	2	-	72,000.00	-
SANTA ELENA GOLF & COUNTRY CLUB	-	-	2,700.00	-
VALLEY GOLF & COUNTRY CLUB	2	-	750.00	-
WACK WACKGOLF & COUNTRY CLUB	-	-	29,500.00	-
MLA SOUTHWOODS GOLF & COUNTRY CLUB	2	-	700.00	-
PNB ABC	-	-	0.01	-
ORCHARD GOLF & COUNTRY CLUB	-	-	200.00	-
CLUB FILIPINO	-	-	180.00	-
APTRUDEV	-	-	1,500.00	-
CHIBAKAKUSAI CLUB	-	-	3.80	-
CRUZ TEL CO.	-	-	3.00	-
ILIGAN GOLF & COUNTRY CLUB	-	-	1.00	-
MERALCO	-	-	35,857.40	-
PILTEL (PHIL TEL CORP.)	-	-	0.39	-
PLDT PREFERRED SHARES	-	-	1,083.75	-
PUEBLO DE ORO GOLF ^ COUNTRY CLUB	-	-	800.00	-

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
Equity Securities				
QUEZON CITY SPORTS CLUB	-	-	400.00	-
SOUTHERN ILOILO TELEPHONE CO.	-	-	2.00	-
SWIFT SHAREHOLDERS	-	-	0.01	-
PNB MADECOR	-	-	1,932.74	-
PNB VENTURES CAPITAL	3,600,000	-	5,061.54	-
Riviera Golf Shares "C"	3	1,960.00	220.00	-
Sta. Elena Properties, Inc. "A"	2	6,220.00	3,000.00	-
Manila Golf & Country Club, Inc. (Corp)	1	19,050.00	37,000.00	-
PNB Gen	3,126,000	178,142.98	178,142.98	-
PSE shares	820	257.48	244.20	-
Manila Southwoods Golf Club	1	4,600.00	481.00	-
NRCP Common stock	1,000	0.50	0.90	-
Mimosa Golf & Country Club	1	250.00	125.00	-
BPI	139,199	12,899.95	13,084.71	193.68
MBT	102,570	8,722.04	8,513.31	82.73
BDO	116,900	10,511.25	12,835.62	198.00
PLDT -TEL	8,145	23,839.38	23,669.37	1,223.01
PLDT SIP CERT.#055351	1,600	16.00	18.00	-
AC	17,380	10,765.93	12,061.72	66.77
AEV	178,400	8,945.37	9,401.68	264.60
AGI	-	-	-	99.67
ALI	541,900	16,670.69	18,262.03	179.87
AP	111,200	3,951.29	4,770.48	146.08

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
Equity Securities				
DMC	279,500	3,206.87	4,388.15	171.36
EDC	-	-	-	56.30
GLO	-	-	-	97.88
GTCAP	-	-	-	13.05
ICT	-	-	-	53.38
JFC	33,860	5,594.19	7,279.90	37.77
LTG	-	-	-	26.88
MEG	807,000	2,918.19	3,776.76	25.31
MPI	-	-	-	33.70
PCOR	-	-	-	4.72
SM	26,220	21,830.51	21,369.30	220.86
SMPH	579,000	10,144.54	9,866.16	83.11
URC	72,750	9,979.36	14,259.00	156.90
Philodril	695,625		13.00	-
Phil. Clearing House	21,000		2,100.00	-
Phil. Depository & Trust Corp.-BAP as trustee	31,690		2,392.00	-
Bancnet, Inc.	49,999		5,000.00	-
LGU Guarantee Corp.	50,000		5,000.00	-
Phil. Dealing House	-		7,300.00	-
BAP Credit Guaranty	29,800		1,138.00	-
Allied Banker Insu.	200,000		20,000.00	-
Heavenly Garden	5,000		500.00	-

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
Equity Securities				
Apo Golf	1		2.00	-
Manila Golf Country Club-Corporate	100		35,000.00	-
Sierra Grande Country	100		32.00	-
Ternate Dev't Corporation	-		170.00	-
Wack Wack Golf Club	2		30,000.00	-
Evercrest Golf Club-A	2		1,000.00	-
Sta Elena Golf Club-A	2		5,400.00	-
Asean Finance	-		3,604.00	-
Lepanto Consolidated Mining Co."B"	1,776		-	-
Club Filipino	1		194.00	-
Makati Sports Club-A	1		300.00	-
Northern Telephone Company	40		18.00	-
Philippine Columbian Association	2		8.00	-
Philippine Long Distance Company	860		2,505.00	-
Philippine Racing Club	30,331,103		286,326.00	-
PLDT Communication and Energy Venture	20		9.00	-
Retelco	20		5.00	-
Meralco	2,873		761.00	-
Wack Wack Golf Club	15,700,000		15,700.00	-
Philippine Tel Long Distance Co. - TEL (Common)	42,900		124,666.00	-
Globe Telecooms - GLO (Common)	35,830		61,985.00	-
Bank of the Phil. Islands - BPI (Common)	245,000		23,030.00	-

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
Equity Securities				
Metrobank - MBT (Common)	312,000		25,896.00	-
Banco de Oro - BDO (Common)	267,810		29,406.00	-
Philippine National Bank - PNB (Common)	120,000		9,600.00	-
Ayala Corp. - AC (Common)	23,200		16,101.00	-
Universal Robina Corp. - URC (Common)	105,000		20,580.00	-
Puregold Price Club, Inc. - PGOLD (Common)	320,000		12,336.00	-
Aboitiz Power Corp - AP (Common)	270,000		11,583.00	-
DMCI Holdings - DMC (Common)	1,034,350		16,239.00	-
Meralco - MER (Common)	72,320		18,514.00	-
Manila Water Co - MWC (Common)	462,100		13,274.00	-
Aboitiz Equity Ventures - AEV (Common)	194,060		10,227.00	-
Trans Asia Oil - TA (Common)	959,000		2,139.00	-
First Gen Corp. - Gen (Preferred)	1,500,000		172,500.00	12,000.00
San Miguel Corp - SMC2C (Preferred)	2,400,000		187,200.00	12,000.00
San Miguel Corp - SMC2A (Preferred)	2,000,000		151,400.00	2,400.00
First Philippine Holdings (Preferred)	300,000		150,000.00	5,625.00
Globe Telecoms (Preferred)	300,000		150,900.00	5,625.00
Petron Corp (Preferred)	33,750		34,931.00	4,767.00
Megawide (Preferred)	1,425,000		146,775.00	2,774.00
Macroasia	216,610		337,375.00	
United Doctors			3,730.00	

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
Equity Securities				
Tagaytay Highlands			133,500.00	
Grandspan Development			30,000.00	
Foremost Farms			93.00	
HII			7.00	
Cosmic Holdings			25,000.00	
Buona Sorte			5,000.00	
UE			26,250.00	
Tower Club	1		11,600.00	-
Total Equity Securities	555,378,215	360,477	3,030,526	48,627

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, 2014
(in thousands)

Name and Designation of debtor		Balance at beginning of period	Additions	Amounts collected	Amounts written off	Current	Non-Current		Balance at end of period
Related Party:									
Tangent Holdings Corporation	P	-	-	-	-	-	-	P	-

Other than the above related party, all amounts receivable from Directors, Officers, Employees, other Related Parties and Principal Stockholders pertained to purchases subject to usual terms, for ordinary travel and expense advances and for other such items arose in the ordinary course of business were excluded.

LT GROUP, INC. AND SUBSIDIARIES
SCHEDULE C. – Amounts Receivable from Related Parties which are eliminated during the consolidation of financial statements
DECEMBER 31, 2014
(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	5,850	525	-	-	6,375	-	6,375
Caravan Holdings Corp	12,250	130	-	-	12,380	-	12,380
Dunmore Development Corporation	2,840	-	-	-	2,840	-	2,840
Eton Properties	844,000	5,715,965	-	-	6,559,965	-	6,559,965
Fil-Care Holdings, Inc.	2,150	7,470	-	-	9,620	-	9,620
Ivory Holdings, Inc.	6,100	575	-	-	6,675	-	6,675
Kenrock Holdings Corp./Asias Emerging	10,000	800	-	-	10,800	-	10,800
Kentwood Development Corp.	1,500	2,150	-	-	3,650	-	3,650
La Vida Development Corporation	2,350	12,740	-	-	15,090	-	15,090
Leadway Holdings, Inc.	1,500	35,000	-	-	36,500	-	36,500
LT Group, Inc.	525	-	-	-	525	-	525
Merit Holdings & Equities Corp.	175	-	-	-	175	-	175
Multiple Star	9,550	-	-	-	9,550	-	9,550
Pioneer Holdings Equities, Inc.	3,500	-	-	-	3,500	-	3,500
Society Holdings Corporation	2,150	3,740	-	-	5,890	-	5,890
Solar Holdings Corp.	10,000	10,300	-	-	20,300	-	20,300
Tanduay Brands International	10,703	8,443	-	-	19,145	-	19,145
Tanduay Distillers	13,206	-	(9,326)	-	3,880	-	3,880
Total Holdings	1,550	420	-	-	1,970	-	1,970
	939,899	5,798,258	(9,326)	-	6,728,830	-	6,728,830

LT GROUP, INC. AND SUBSIDIARIES
SCHEDULE D. – Intangible Assets – Other Assets
DECEMBER 31, 2014
(in thousands)

Description		Beginning balance		Additions at cost	Charged to cost and expenses	Disposals	Other changes additions (deductions)		Ending balance
Goodwill	P	163,735	P	-	-	-	-	P	163,735
Software	P	425,928	P	419,809	(161,236)	(17,137)	-	P	667,364

Intangibles are presented in “Other noncurrent assets” in the consolidated balance sheets.

LT GROUP, INC. AND SUBSIDIARIES
SCHEDULE E. – Long term debts
DECEMBER 31, 2014
(in thousands)

Title of Issue and type of obligation	Amount authorized by indenture	Amount shown under caption "Short-term and long-term debt-current" in related balance sheet	Amount shown under caption "Long term debt - net of current portion" in related balance sheet
1. Five year - Fixed rate bonds	P 5,000,000	P 4,998,008	-
2. Subordinated Debt		-	P 9,969,498
3. Unsecured term loan and Notes payable		P 508,115	P 1,321,823

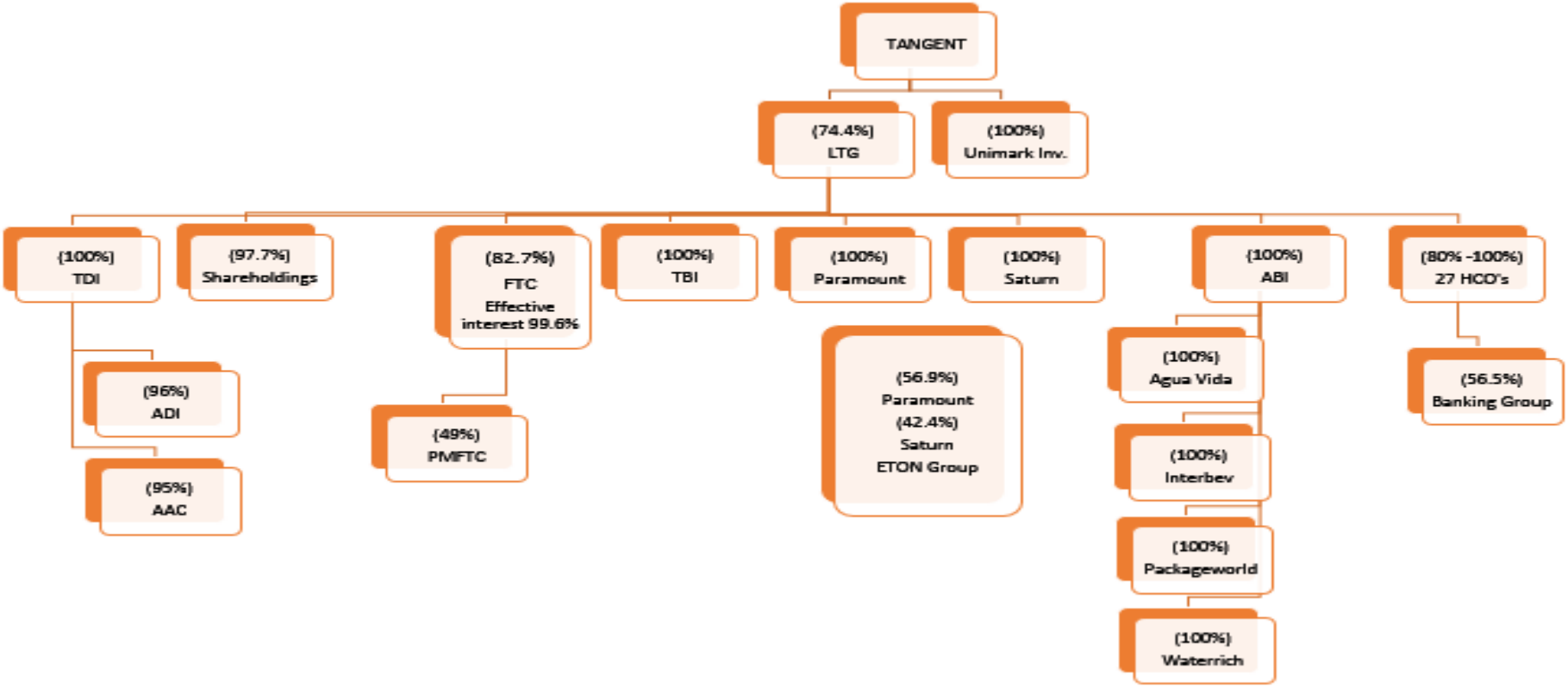
LT GROUP, INC. AND SUBSIDIARIES
SCHEDULE H - Capital Stock
DECEMBER 31, 2014

Title of Issue	Number of Shares Authorized	Number of Shares Issued And Outstanding as Shown under Related Balance Sheet caption	Number of shares Reserved for Options, Warrants, Conversions, and Other Rights	Number of shares Held by related Parties	Directors, Officers and Employees	Others
Common Stock	**25,000,000,000**	**10,821,388,889**	**-**	**8,046,318,193**	**21,500**	**2,775,049,196**

LT GROUP, INC.
SCHEDULE I - Reconciliation of Retained Earnings Available for Dividend Declaration
DECEMBER 31, 2014

Unappropriated retained earnings, beginning		₱13,644,978,617
Less deferred income tax assets, beginning		(5,661,888)
Unappropriated retained earnings, as adjusted to amount available for dividend declaration, beginning		13,639,316,729
Add net income actually earned/realized during the year:		
Net income during the year closed to retained earnings	₱102,908,428	
Mark to market gains on financial assets at FVPL	(23,460,270)	
Movement in deferred income tax assets that decreased net income	3,393,485	
Net income actually earned during the year		82,841,643
Less cash dividends declared and paid		(1,731,422,222)
Unappropriated retained earnings available for dividend declaration, ending		₱11,990,736,150

LT GROUP, INC. AND SUBSIDIARIES
SCHEDULE J – Relationships between & among the Group and its Parent
DECEMBER 31, 2014



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, 2014

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2014		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, 2014		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*		✓	
	Amendments to PFRS 7: Hedge Accounting		✓*	
PFRS 8	Operating Segments	✓		
PFRS 9	Financial Instruments*		✓	
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures*		✓	
	Amendments to PFRS 9: Hedge Accounting		✓*	
PFRS 9 (final version)	Financial Instruments		✓	
PFRS 10	Consolidated Financial Statements	✓		
	Amendments to PFRS 10: Transition Guidance			✓
	Amendments to PFRS 10: Investment Entities			✓
	Amendments to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture		✓*	
PFRS 11	Joint Arrangements	✓		
	Amendments to PFRS 11: Transition Guidance			✓
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations		✓*	

* *These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2014. The Company did not early adopt these standards, interpretations and amendments.*

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2014		Adopted	Not Adopted	Not Applicable
PFRS 12	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 12: Transition Guidance			✓
	Amendments to PFRS 12: Investment Entities			✓
PFRS 13	Fair Value Measurement	✓		
PFRS 14	Regulatory Deferral Accounts			✓
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	✓		
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	✓		
	Amendments to PAS 16: Clarification of Acceptable Methods of Depreciation and Amortization		✓*	
	Amendments to PAS 16: Agriculture –Bearer Plants		✓*	
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (Revised)	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions	✓		

* *These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2014. The Company did not early adopt these standards, interpretations and amendments.*

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2014		Adopted	Not Adopted	Not Applicable
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	✓		
	Amendments to PAS 27: Investment Entities	✓		
	Amendments to PAS 27: Equity Method in Separate Financial Statements		✓	
PAS 28 (Amended)	Investments in Associates and Joint Ventures	✓		
	Amendments to PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture		✓*	
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendment to PAS 32: Classification of Rights Issues	✓		
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting	✓		

* *These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2014. The Company did not early adopt these standards, interpretations and amendments.*

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2014		Adopted	Not Adopted	Not Applicable
PAS 36	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial 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	✓		
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives	✓		
	Amendment to PAS 39: Eligible Hedged Items	✓		
	Amendments to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting			✓
	Amendments to PAS 39: Hedge Accounting		✓*	
PAS 40	Investment Property	✓		
PAS 41	Agriculture			✓
Annual Improvements to PFRSs				
Improvements to PFRSs (2008)		✓		
Improvements to PFRSs (2009)		✓		
Improvements to PFRSs (2010)		✓		

** These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2014. The Company did not early adopt these standards, interpretations and amendments.*

***Only the amendment to PFRS 13, Short-term Receivables and Payables (Part of Annual Improvements to PFRSs 2010-2012 Cycle) was adopted beginning January 1, 2014*

****Only the amendment to PFRS 1, Meaning of Effective PFRSs (Part of Annual Improvements to PFRSs 2011-2013 Cycle) was adopted beginning January 1, 2014*

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2014		Adopted	Not Adopted	Not Applicable
Annual Improvements to PFRSs (2009-2011 Cycle)		✓		
Annual Improvements to PFRSs (2010-2012 Cycle)			✓**	
Annual Improvements to PFRSs (2011-2013 Cycle)			✓***	
Annual Improvements to PFRSs (2012-2014 Cycle)			✓*	
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			✓

** These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2014. The Company did not early adopt these standards, interpretations and amendments.*

***Only the amendment to PFRS 13, Short-term Receivables and Payables (Part of Annual Improvements to PFRSs 2010-2012 Cycle) was adopted beginning January 1, 2014*

****Only the amendment to PFRS 1, Meaning of Effective PFRSs (Part of Annual Improvements to PFRSs 2011-2013 Cycle) was adopted beginning January 1, 2014*

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2014		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*		✓	
IFRIC 21	Levies	✓		
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-15	Operating Leases - Incentives	✓		
SIC-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	✓		

** These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2014. The Company did not early adopt these standards, interpretations and amendments.*

LT GROUP, INC. AND SUBSIDIARIES
SCHEDULE L – Index to Exhibits
SEC FORM 17-A

		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	280
(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	281
(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

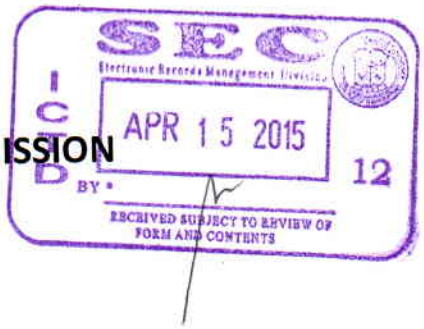
LT GROUP, Inc. has the following subsidiaries as of December 31, 2014:

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.	
e. AB Nutribev, Inc.	
f. Asia Pacific Beverage Pte. Ltd.	
Tobacco	
Fortune Tobacco Corp.	Philippines
Banking	
a. PNB and subsidiaries (see page 7)	Philippines
b. Bank Holding Companies (see page 8)	Philippines
Property Development	
a. Saturn	Philippines
b. Paramount	Philippines
1. Eton	Philippines
i. Belton Communities, Inc. (BCI)	
ii. Eton City, Inc. (ECI)	
iii. FirstHomes, Inc. (FHI)	

EXHIBIT 28. Additional Exhibits - Other Documents to be filed with the Consolidated Financial Statements

I. FINANCIAL SOUNDNESS INDICATORS

	2014	2013
CURRENT RATIO	**0.73**	**0.63**
DEBT-TO-EQUITY RATIO	**3.28**	**3.53**
ASSET-TO-EQUITY RATIO	**4.28**	**4.53**
INTEREST RATE COVERAGE RATIO	**28.64**	**29.25**
SOLVENCY RATIO	**0.58**	**0.85**
PROFITABILITY RATIO:		
PROFIT MARGIN	**0.12**	**0.21**
RETURN ON ASSETS	**0.009**	**0.017**



SECURITIES AND EXCHANGE COMMISSION

SEC FORM – ACGR

ANNUAL CORPORATE GOVERNANCE REPORT

1. Report is Filed for the Year 2014

2. Exact Name of Registrant as Specified in its Charter **LT GROUP, INC.**

3. 11TH FLOOR, UNIT 3 BENCH TOWER, 30TH CORNER RIZAL DR., BGC TAGUIG CITY 1634
   Address of Principal Office — Postal Code

4. SEC Identification Number PW-343

5. [redacted] (SEC Use Only)
   Industry Classification Code

6. BIR Tax Identification Number 121-145-650-000

7. (632) 816 3311 local 4046
   Issuer's Telephone number, including area code

8. **N/A**
   Former name or former address, if changed from the last report

TABLE OF CONTENTS

A. BOARD MATTERS **1**

1) BOARD OF DIRECTORS

(a) Composition of the Board 1

(b) Corporate Governance Policy/ies 2

(c) Review and Approval of Vision and Vision 3

(d) Directorship in Other Companies 3

(e) Shareholding in the Company 6

2) CHAIRMAN AND CEO 6

3) PLAN FOR SUCCESSION OF CEO/MANAGING DIRECTOR/PRESIDENT AND TOP KEY POSITIONS 7

4) OTHER EXECUTIVE, NON-EXECUTIVE AND INDEPENDENT DIRECTORS 7

5) CHANGES IN THE BOARD OF DIRECTORS 9

6) ORIENTATION AND EDUCATION PROGRAM 15

B. CODE OF BUSINESS CONDUCT & ETHICS **16**

1) POLICIES 16

2) DISSEMINATION OF CODE 17

3) COMPLIANCE WITH CODE 17

4) RELATED PARTY TRANSACTIONS 17

(a) Policies and Procedures 17

(b) Conflict of Interest 18

5) FAMILY, COMMERCIAL AND CONTRACTUAL RELATIONS 19

6) ALTERNATIVE DISPUTE RESOLUTION 19

C. BOARD MEETINGS & ATTENDANCE **19**

1) SCHEDULE OF MEETINGS 19

2) DETAILS OF ATTENDANCE OF DIRECTORS 19

3) SEPARATE MEETING OF NON-EXECUTIVE DIRECTORS 20

4) QUORUM REQUIREMENT 20

5) ACCESS TO INFORMATION 20

6) EXTERNAL ADVICE 21

7) CHANGES IN EXISTING POLICIES 21

D. REMUNERATION MATTERS **21**

1) REMUNERATION PROCESS 21

2) REMUNERATION POLICY AND STRUCTURE FOR DIRECTORS 21

3) AGGREGATE REMUNERATION 22

4) STOCK RIGHTS, OPTIONS AND WARRANTS 22

5) REMUNERATION OF MANAGEMENT 23

E. BOARD COMMITTEES **23**

1) NUMBER OF MEMBERS, FUNCTIONS AND RESPONSIBILITIES 23

2) COMMITTEE MEMBERS 27

3) CHANGES IN COMMITTEE MEMBERS 30

4) WORK DONE AND ISSUES ADDRESSED 30

5) COMMITTEE PROGRAM 30

F. RISK MANAGEMENT SYSTEM **30**

1) STATEMENT ON EFFECTIVENESS OF RISK MANAGEMENT SYSTEM 31

2) RISK POLICY 31

3) CONTROL SYSTEM 32

G. INTERNAL AUDIT AND CONTROL **32**
1) STATEMENT ON EFFECTIVENESS OF INTERNAL CONTROL SYSTEM 33
2) INTERNAL AUDIT
(a) Role, Scope and Internal Audit Function 33
(b) Appointment/Removal of Internal Auditor 33
(c) Reporting Relationship with the Audit Committee 33
(d) Resignation, Re-assignment and Reasons 33
(e) Progress against Plans, Issues, Findings and Examination Trends 33
(f) Audit Control Policies and Procedures 34
(g) Mechanisms and Safeguards 34

H. ROLE OF STAKEHOLDERS **35**
I. DISCLOSURE AND TRANSPARENCY **36**
J. RIGHTS OF STOCKHOLDERS **38**
1) RIGHT TO PARTICIPATE EFFECTIVELY IN STOCKHOLDERS' MEETINGS 38
2) TREATMENT OF MINORITY STOCKHOLDERS 42
K. INVESTORS RELATIONS PROGRAM **42**
L. CORPORATE SOCIAL RESPONSIBILITY INITIATIVES **43**
M. BOARD, DIRECTOR, COMMITTEE AND CEO APPRAISAL **44**
N. INTERNAL BREACHES AND SANCTIONS **44**

A. BOARD MATTERS

1) Board of Directors

Number of Directors per Articles of Incorporation	**Thirteen (13)**

Actual number of Directors for the year	**Thirteen (13)**

(a) Composition of the Board

Complete the table with information on the Board of Directors:

Director's Name	Type [Executive (ED), Non-Executive (NED) or Independent Director (ID)]	If nominee, identify the principal	Nominator in the last election (if ID, state the relationship with the nominator)	Date first elected	Date last elected (if ID, state the number of years served as ID)	Elected when (Annual /Special Meeting)	No. of years served as director
Lucio C. Tan	ED	N/A	Nomination Committee	07/02/99	06/09/14	Annual Meeting	15
Carmen K. Tan	NED	N/A	Nomination Committee	05/05/10	06/09/14	Annual Meeting	4
Harry C. Tan	NED	N/A	Nomination Committee	05/28/08	06/09/14	Annual Meeting	6
Michael G. Tan	ED	N/A	Nomination Committee	02/21/03	06/09/14	Annual Meeting	11
Lucio K. Tan, Jr.	NED	N/A	Nomination Committee	02/21/03	06/09/14	Annual Meeting	11
Juanita Tan Lee	ED	N/A	Nomination Committee	05/02/12	06/09/14	Annual Meeting	2
Joseph T. Chua	NED	N/A	Nomination Committee	06/09/14	06/09/14	Annual Meeting	-
Peter Y. Ong	NED	N/A	Nomination Committee	06/09/14	06/09/14	Annual Meeting	-
Washington Z. SyCip	NED	N/A	Nomination Committee	07/09/13	06/09/14	Annual Meeting	1
Antonino L. Alindogan, Jr.	ID	N/A	Dr. Lucio C. Tan and Ms. Juanita Tan Lee; Mr. Tan and Ms. Tan Lee have no relationship with Mr. Alindogan	07/31/12	06/09/14	Annual Meeting	2
Wilfrido E. Sanchez	ID	N/A	Dr. Lucio C. Tan and Ms. Juanita Tan Lee; Mr. Tan and Ms. Tan Lee have no relationship with Mr. Sanchez	07/31/12	06/09/14	Annual Meeting	2

Florencia G. Tarriela	ID	N/A	Dr. Lucio C. Tan and Ms. Juanita Tan Lee; Mr. Tan and Ms. Tan Lee have no relationship with Ms. Tarriela	08/09/12	06/09/14	Annual Meeting	2
Robin C. Sy	ID	N/A	Dr. Lucio C. Tan and Ms. Juanita Tan Lee; Mr. Tan and Ms. Tan Lee have no relationship with Mr. Sy	06/09/14	06/09/14	Annual Meeting	-

(b) Provide a brief summary of the corporate governance policy that the board of directors has adopted. Please emphasize the policy/ies relative to the treatment of all shareholders, respect for the rights of minority shareholders and of other stakeholders, disclosure duties, and board responsibilities.

Compliance with the principles of good corporate governance is primary in the consciousness of each member of the Board of Directors and Management.

In the center of the Company's policies on corporate governance is its Board commitment to observe a high standard of ethical conduct in all its activities, with emphasis on integrity, excellence, transparency, loyalty and a sense of good corporate citizenry. The key principles of its corporate governance include:

- ***The oversight responsibility of the Board of Directors, i.e., ensuring that the Company is appropriately and effectively managed and controlled by providing strategic guidance thereto and effectively monitoring the performance of Management. The Board is fully aware of its accountability to the Company and the stakeholders.***

- ***The timely and accurate disclosure of all material matters regarding the Company, including the financial situation, performance, ownership and governance of the Company.***

- ***The existence of independent audit mechanisms for monitoring the adequacy and effectiveness of the Company's governance, operations, information systems. The reliability and integrity of financial and operational information, effectiveness and efficiency of operations, security of assets, and compliance with laws, rules, regulations and contracts are reviewed and regularly passed upon by the Audit Committee.***

- ***The recognition and respect for the rights of stakeholders as established by law. There is an active cooperation between the Company and its stakeholders in creating wealth, jobs and sustainability of the Company's financial soundness.***

Further the Company's Corporate Governance Code commits to the following rights of the stockholders:

1. ***Voting Right***
   Shareholders shall have the right to elect, remove and replace directors and vote on certain corporate acts in accordance with the Corporation Code. A director shall not be removed without reasonable cause if it will deny minority shareholders representation in the Board.

2. ***Power of Inspection***
   All shareholders shall be allowed to inspect corporate books and records including minutes of Board meetings and stock registries in accordance with the Corporation Code and will be furnished with annual reports, including financial statements, without cost or restrictions.

3. ***Right to Information***
   The minority shareholders shall be granted the right to propose the holding of a meeting, and the rights to propose items in the agenda of the meeting, provided the items are for legitimate business purposes. The minority shareholders shall be furnished with relevant information as required by law about the Company on a timely and regular basis.

4. ***Right to Dividends***
   Shareholders shall have the right to receive dividends subject to the discretion of the Board. The Company shall be compelled to declare dividends when its retained earnings shall be in excess of 100% of its paid-in capital stock, except in cases provided under the Company's Corporate Governance Manual.

5. ***Appraisal Right***
   The shareholders shall have an appraisal right or the right to dissent and demand payment of the fair value of their shares under any of the circumstances set forth in Section 81 of the Corporation Code of the Philippines, and in the manner provided for under Section 82 of the said Code.

Likewise it is the duty of Directors to the Company's Shareholders that—

- ***The Board is transparent and fair in the conduct of the annual and special stockholders' meetings of the Company. The stockholders are encouraged to personally attend such meetings and are apprised ahead of time of their right to appoint a proxy.***

- ***The Board promotes shareholder rights, remove impediments to the exercise of shareholders' rights and provide adequate avenue for them to seek redress for breach of their rights.***

- ***The Board is instrumental in removing excessive costs and other administrative or practical impediments to shareholders participating in meetings and/or voting in person. Accurate and timely information should be made available to the stockholders to enable them to make a sound judgment on all matters brought to their attention for consideration or approval.***

(c) How often does the Board review and approve the vision and mission?

The Board reviews and approves the vision and mission of the Company annually. During its meeting held on March 17, 2015, the Board has reviewed and approved the current Vision and Mission of the Company.

(d) Directorship in Other Companies

(i) Directorship in the Company's Group[1]

Identify, as and if applicable, the members of the company's Board of Directors who hold the office of director in other companies within its Group:

Director's Name	Corporate Name of the Group Company*	Type of Directorship (Executive, Non-Executive, Independent). Indicate if director is also the Chairman.
Lucio C. Tan	Asia Brewery, Inc., Eton Properties Philippines, Inc., Eton City, Inc., Belton Communities,	Chairman

[1] The Group is composed of the parent, subsidiaries, associates and joint ventures of the Company.

	Inc., FirstHomes, Inc., Fortune Tobacco Corporation, PMFTC, Inc., Tanduay Distillers, Inc., Asian Alcohol Corp., Absolut Distillers, Inc., Tangent Holdings Corporation and Shareholdings, Inc.	
	Philippine National Bank	Non-Executive Director
Carmen K. Tan	Asia Brewery, Inc., Eton City, Inc., Fortune Tobacco Corporation, PMFTC, Inc. Tangent Holdings Corporation and Shareholdings, Inc.	Non-Executive Director
Harry C. Tan	Eton Properties Philippines, Inc., Eton City, Inc., and Belton Communities, Inc.	Vice Chairman
	Fortune Tobacco Corporation	Chairman for Tobacco Board
	Asia Brewery Inc., AlliedBankers Insurance Corp., Asian Alcohol Corp., Absolut Distillers, Inc., PMFTC Inc., Philippine National Bank, Fortune Tobacco International Corp., Shareholdings, Inc., Tanduay Brands International, Inc., and Tanduay Distillers, Inc.	Non-Executive Director
Michael G. Tan	Asia Brewery, Inc.	President/Chief Operating Officer
	AlliedBankers Insurance Corp., Eton Properties Philippines, Inc., PMFTC Inc., Philippine National Bank, Tanduay Brands International, Inc., Absolut Distillers, Inc., Eton City, Inc., Shareholdings, Inc., and Victorias Milling Company, Inc.	Non-Executive Director
Lucio K. Tan, Jr.	Tanduay Distillers, Inc. and Eton Properties Philippines, Inc.	President
	Fortune Tobacco Corporation	Director/EVP
	AlliedBankers Insurance Corp., Philippine National Bank, PMFTC Inc., Tanduay Brands International, Inc., Asian Alcohol Corp., Absolut Distillers, Inc., Asia Brewery, Inc., Eton City, Inc., Belton Communities, Inc., FirstHomes, Inc., Fortune Tobacco International Corp., and Shareholdings, Inc.	Non-Executive Director
Joseph T. Chua	Eton Properties Philippines, Inc.;	Director/OIC
Juanita Tan Lee	Asia Brewery, Inc., Fortune Tobacco Corp., and Shareholdings, Inc.	Director and Corporate Secretary
	Eton Properties Philippines, Inc.	Non-Executive Director
Washington Z. SyCip	Philippine National Bank	Non-Executive Director

Peter Y. Ong	Fortune Tobacco Corporation, AlliedBankers Insurance Corporation, Allied Leasing and Finance Corporation	Non-Executive Director
Antonino L. Alindogan, Jr.	Eton Properties Philippines, Inc.	Independent Director
Wilfrido E. Sanchez	Eton Properties Philippines, Inc.	Independent Director
Florencia G. Tarriela	Philippine National Bank	Chairman/Independent Director

* As of February 24, 2015

(ii) Directorship in Other Listed Companies

Identify, as and if applicable, the members of the company's Board of Directors who are also directors of publicly-listed companies outside of its Group:

Director's Name	Name of Listed Company*	Type of Directorship (Executive, Non-Executive, Independent). Indicate if director is also the Chairman
Lucio C. Tan	PAL Holdings, Inc.	Chairman
Harry C. Tan	MacroAsia Corporation	Non-Executive Director
Michael G. Tan	PAL Holdings, Inc. (PHI) and Victorias Milling Company, Inc. (VMCI)	Director/Treasurer of PHI; Non-Executive Director of VMCI
Lucio K. Tan, Jr.	PAL Holdings, Inc. and Victorias Milling Company, Inc.	Non-Executive Director
Joseph T. Chua	PAL Holdings, Inc. (PHI) and MacroAsia Corporation (MAC)	Non-Executive Director of PHI; President/CEO of MAC
Washington Z. SyCip	PAL Holdings, Inc. (PHI); MacroAsia Corporation (MAC); Belle Corporation (BEL), Lopez Holdings Corp. (LHC); Metro Pacific Investments Corp. (MPIC), Century Properties Group Inc. (CPG)	Non-Executive Director – PHI Chairman of the Board – MAC Independent Director – BEL Independent Director – LHC Independent Director – MPIC Non-Executive Director – CPG

* As of February 24, 2015

(iii) Relationship within the Company and its Group

Provide details, as and if applicable, of any relation among the members of the Board of Directors, which links them to significant shareholders in the company and/or in its group:

Dr. Lucio C. Tan is the majority shareholder of Tangent Holdings Corporation, which is the controlling corporate shareholder of the Company. Dr. Lucio C. Tan, the Chairman of the Company's Board of Directors, is the brother of Mr. Harry C. Tan. He is also the father of Mr. Lucio K. Tan, Jr. and Mr. Michael G. Tan. Ms. Carmen K. Tan is the wife of Dr. Lucio C. Tan and mother of Mr. Lucio K. Tan, Jr.

(iv) Has the company set a limit on the number of board seats in other companies (publicly listed, ordinary and companies with secondary license) that an individual director or CEO may hold simultaneously? In particular, is the limit of five board seats in other publicly listed companies imposed and observed? If yes, briefly describe other guidelines:

The Company observes the limit of five board seats in other publicly listed companies outside its Group for its Independent Directors and Executive Directors.

The By-Laws of the Company likewise disallows the nomination and election to the Board of Directors of any person who is engaged in any commercial venture or undertaking which is in competition with the business of the Company or any of its subsidiaries.

(e) Shareholding in the Company

Complete the following table on the members of the company's Board of Directors who directly and indirectly own shares in the company:

Name of Director	Number of Direct shares	Number of Indirect shares / Through (name of record owner)	% of Capital Stock
Lucio C. Tan	2,200	NIL	-
Carmen K. Tan	2,200	NIL	-
Harry C. Tan	3,300	NIL	-
Michael G. Tan	1,100	NIL	-
Lucio K. Tan, Jr.	1,100	NIL	-
Joseph T. Chua	2,200	NIL	-
Juanita Tan Lee	1,100	NIL	-
Peter Y. Ong	1,100	NIL	-
Washington Z. SyCip	1,000	NIL	-
Antonino L. Alindogan, Jr.	1,000	NIL	-
Wilfrido E. Sanchez	1,000	NIL	-
Robin C. Sy	1,000	NIL	-
Florencia G. Tarriela	1,000	NIL	-
TOTAL	**19,300**	NIL	-

2) Chairman and CEO

(a) Do different persons assume the role of Chairman of the Board of Directors and CEO? If no, describe the checks and balances laid down to ensure that the Board gets the benefit of independent views.

Yes ☐ No ☒ **X**

Identify the Chair and CEO:

Chairman of the Board	Dr. Lucio C. Tan
CEO	Dr. Lucio C. Tan

The Company's By-Laws provide that the Chairman of the Board of Directors shall also be the Company's Chief Executive Officer and shall exercise such other powers and perform such other duties as the Board may assign to him.

The officer responsible though for the general charge and supervision of the business of the Company is the President, who is also the Chief Operating Officer. The President/COO may sign all authorized bonds, contracts or obligations in the name of the Company, and, together with the Corporate Secretary or any other director, may sign the certificates of shares in the capital stock of the Company. When so required by the Board, the President/COO is responsible for reporting thereto the affairs of the Company.

(b) Roles, Accountabilities and Deliverables

Define and clarify the roles, accountabilities and deliverables of the Chairman and CEO.

The Company's Chairman of the Board is likewise its Chief Executive Officer. The President/Chief Operating Officer of the Company takes on the role of the Company's officer-in-charge with respect to day-to-day operations.

	Chairman	Chief Operating Officer
Role	Presides over the meetings of the Board of directors and the meetings of the shareholders.	Head of the Management team and is primary accountable for achieving the Company's business objectives.
Accountabilities	The proper conduct of meetings of the Board of Directors and exercise of the powers of the Company.	The Company's day-to-day operations and business direction.
Deliverables	To exercise such powers and to perform duties as the Board of Directors may assign to him	Manages the Company's day-to-day operations, sets overall business directions and strategic plans; Represents the Company in interaction with shareholders and other major stakeholders; Implements major corporate initiatives as approved by the Shareholders and the Board of Directors and reports back to these bodies; Hires and dismisses employees at the management level, except officers elected by the shareholders or by the Board of Directors; From time to time, make such reports of the affairs of the Company as the Board of Directors may require and shall annually present a report of the preceding year's business at a Board meeting immediately preceding the annual meeting of the stockholders; Delegates duties to deputies and determines the scope of their authority; and Issue orders and implements transactions within his authority

3) Explain how the board of directors plans for the succession of the CEO/Managing Director/President and the top key management positions?

The By-Laws of the Company state that all officers shall be elected by and hold office at the pleasure only of the Board of Directors. Thus, succession of officers shall entirely depend on the discretion of the present members of the Board, taking into consideration the principles of good corporate governance.

4) Other Executive, Non-Executive and Independent Directors

Does the company have a policy of ensuring diversity of experience and background of directors in the board? Please explain.

Yes. As an example, the Company's Audit and Risk Management Committee necessitates members with accounting and finance expertise or experience. This ensures the presence of directors, particularly Independent Directors, sitting in the Board with said background, among others.

Does it ensure that at least one non-executive director has an experience in the sector or industry the company belongs to? Please explain.

Yes. The Nomination Committee evaluates the qualifications of the Directors and observes the policy of nominating individuals who are experienced and knowledgeable about the different sectors of the Group, like banking, tobacco, liquor, real estate and beverage companies. One of the qualifications of a Director is he/she must be a holder of a "Bachelor's degree or equivalent experience in managing the business as gained from the profession and/or industry".

Define and clarify the roles, accountabilities and deliverables of the Executive, Non-Executive and Independent Directors:

	Executive	**Non-Executive**	**Independent Director**
Role	Exercise powers of the Company through daily business prerogative decisions and, as member/s of the Board, approve, ratify and confirm business acts of Management	Exercise powers of the Company by approving, ratifying and confirming business acts of Management	Exercise powers of the Company by approving, ratifying and confirming business acts of Management. Further it is an independent director's role to weigh corporate acts against interests of shareholders minimally represented in the Board
Accountabilities	Accountable to the shareholders and the public investors	Accountable to the shareholders and the public investors	Accountable to the shareholders and the public investors
Deliverables	Manages the day-to-day operations of the Company; during Board meetings, reviews and approves acts and/or proposals of Management	Reviews and approves acts and/or proposals of Management during Board meetings	Checks and balances the interests of the Board and major shareholders vis-à-vis that of the public and other stakeholders of the Company

Provide the company's definition of "independence" and describe the company's compliance to the definition.

Independence is having no ties with the Company's management and freedom from any business or other relationships which could, or could reasonably be perceived to, materially interfere with the exercise of independent judgment in carrying out one's responsibilities as a director of the Company. The Company has members in its Board who exercise such independence.

Does the company have a term limit of five consecutive years for independent directors? If after two years, the company wishes to bring back an independent director who had served for five years, does it limit the term for no more than four additional years? Please explain.

The Company observes the term limit for Independent Directors, in accordance with SEC Memorandum Circular No. 9, Series of 2011.

5) Changes in the Board of Directors (Executive, Non-Executive and Independent Directors)

(a) Resignation/Death/Removal

Indicate any changes in the composition of the Board of Directors that happened during the period:

Name	Position	Date of Cessation	Reason
Wilson T. Young	Director	06/09/14	Cessation of Term

(b) Selection/Appointment, Re-election, Disqualification, Removal, Reinstatement and Suspension

Describe the procedures for the selection/appointment, re-election, disqualification, removal, reinstatement and suspension of the members of the Board of Directors. Provide details of the processes adopted (including the frequency of election) and the criteria employed in each procedure:

Procedure	Process Adopted	Criteria
a. Selection/Appointment		
(i) Executive Directors	The Nomination Committee shall meet prior to the Annual Shareholders' Meeting (ASM) to discuss the qualifications of nominees for election to the Board of Directors. According to the By-Laws, no director shall be nominated/elected at a regular/special shareholders' meeting unless his/her name has been submitted to the Corporate Secretary by a stockholder proposing the same at least fifty (50) business days prior to the meeting, which notice shall be duly signed by both the proponent stockholder and the nominee signifying his/her consent thereto. The Committee shall prepare a list of all qualified nominees and report the same to the Board for its approval. At least forty five (45) days before the ASM, the Committee shall prepare a Final List of candidates which shall contain all the information about the nominees, and which list shall be made available to the Commission and to all stockholders through the filing and distribution of the Information Sheet, in accordance with Rule 20 of the Securities Regulation Code.	Qualifications: Bona fide holder of at least one thousand (1,000) shares of the capital stock of the Company; He/She shall at least be a College graduate or have sufficient experience and/or understanding in managing a business such as that of the Company to substitute for such formal education; He/She shall at least be twenty-one (21) years old; He/She shall have proven to possess integrity and probity; He/She is a member in good standing of relevant industry, business or professional organizations; He/She shall have attended a seminar on corporate governance with a duly-accredited or recognized private or government institution and submitted a copy of his/her certificate of attendance to the Compliance Officer.

	During the ASM, the shareholders of the Company shall elect members of the Board of Directors, choosing from the final list of the candidates. The term of office of Directors shall begin immediately after election. Executive Directors will be elected by the new Board immediately after the ASM wherein which the new Board was elected.	
(ii) Non-Executive Directors	Same process as described above	Same Criteria as above
(iii) Independent Directors	Same process as described above. Only nominees whose names appear on the Final List of Candidates shall be eligible for election as independent director/s. No other nomination shall be entertained after the Final List of Candidates shall have been prepared. No further nomination shall be entertained or allowed on the floor during the ASM.	In addition to the qualifications for Executive and Non-executive Directors, an Independent Director must also be one who: 1. is not a director or officer or substantial stockholder of the Company or of its related companies or any of its substantial shareholders, except when he/she is an independent director in any of the foregoing; 2. does not own more than two percent (2%) of the shares of the Company and/or its related companies or any of its substantial shareholders; 3. is not related to any director, officer, or substantial shareholder of the Company or any of the related companies or substantial shareholders of the Company. For this purpose, relatives include spouse, parent, child, brother, sister, and the spouse of such child, brother or sister; 4. is not acting as a nominee or representative of any

		director or substantial shareholder of the Company, and/or any of its related companies, and/or any of its related shareholders pursuant to a Deed of Trust or under any contract or arrangement; 5. has not been employed in any executive capacity by the Company, any of its related companies and/or by any of its substantial shareholders within the last five (5) years; 6. is not retained, either personally or through his/her firm or any similar entity, as a professional adviser of the Company, or any of its related companies and/or any of its substantial shareholders in the last five (5) years; 7. has not engaged and does not engage in any transaction with the Company and/or with any of its related companies and/or with any of its substantial shareholders, whether by himself/herself and/or with other persons and/or through a firm of which he/she is a partner and/or a company of which he/she is a director or substantial shareholder, other than transactions which are conducted at arms length and are immaterial or insignificant; and 8. may hereafter be considered as an Independent Director under applicable laws, statutes, or rules and regulations of the SEC.

b. Re-appointment		
(i) Executive Directors	The process of Selection/Appointment is repeated for the next term of the Executive Director.	Same criteria as Selection/Appointment
(ii) Non-Executive Directors	The process of Selection/Appointment is repeated for the next term of the Non-Executive Director.	Same criteria as Selection/Appointment
(iii) Independent Directors	The process of Selection/Appointment is repeated for the next term of the Independent Director.	Same criteria as Selection/Appointment
c. Permanent Disqualification		
(i) Executive Directors	A Director who, during his/her term in office, becomes permanently disqualified based on the criteria laid down by the Company's Corporate Governance Manual, shall be removed from office after credible proof has been presented to the Board that the said Director does possess such disqualification.	See immediate succeeding row on Criteria for Disqualification
(ii) Non-Executive Directors		
(iii) Independent Directors		

Criteria for Disqualification:

- Any person convicted by final judgment or order by a competent juridical or administrative body of any crime that: a.) involves the purchase or sale of securities, as defined in the SRC; b.) arises out of the person's conduct as an underwriter, broker, dealer, investment adviser, principal distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or flood broker; c.) arises out of his fiduciary relationship with a bank, quasi-bank, trust company, investment house or an affiliated person or any of them;

- Any person who, by reason of misconduct, after hearing, is permanently enjoined by a final judgment or order of the Commission or any court or administrative body of competent jurisdiction from: a. acting as underwriter, broker, dealer, investment adviser, principal distributor, mutual fund dealer, futures commission merchant, commodity trading advisor or flood broker; b. acting as director or officer of a bank, quasi-bank, trust company, investment house or investment company; c. engaging in or continuing an conduct or practice in any of the capacities mentioned in the sub-paragraphs a. and b. or willfully violating the laws that govern securities and banking activities;

- Any person who has been restrained to engage in activity involving securities and banking;

- Any person who is currently the subject of an effective order of the Commission or any court or any administrative body denying, revoking or suspending any registration, license or permit issued to him under the Corporation Code, Securities Regulation Code or any other law administered by the Commission or Bangko Sentral ng Pilipinas (BSP), or under any rule or regulation issued by the Commission or BSP;

- Any person convicted by final judgment or order by a competent juridical or administrative body of an offense involving moral turpitude or fraudulent act or transgressions;

• Any person finally found guilty by the Commission or court or regulating bodies to have willfully violated, or willfully aided, abetted, counseled, induced or procured the violation of, any provision of the Securities Regulation Code, the Corporation • Code, or any other law administered by the Commission or BSP or any rule, regulation or order issued by the Commission or BSP; • Any person currently the subject of an effective order of a self-regulatory organization, suspending or expelling him from membership, participation or association with a member or participant of the organization; • Any person earlier elected as independent director who becomes an officer, employee or consultant of the Company; • Any person finally found guilty by foreign court or financial regulatory counterparts of the Philippines of acts, violations, or misconduct listed in the foregoing paragraphs; • Any person judicially declared to be insolvent; and • Any person finally convicted of an offence punishable by imprisonment of more than six (6) years, or violation of the Corporation Code, committed within five (5) years prior to the date of his/her election or appointment.		
d. Temporary Disqualification		
(i) Executive Directors	A temporarily disqualified Director shall within sixty (60) days from such disqualification, take the appropriate action to remedy or correct the disqualification. If he/she fails or refuses to do so for unjustified reasons, the disqualification shall become permanent. A permanent disqualification will result in the removal of the Director in accordance with the process under Permanent Disqualification.	Any of the following shall be a ground for the temporary disqualification of a Director: 1. Refusal to fully disclose the extent of his/her business interest as required under the SRC and its Implementing Rules and Regulations. Disqualification shall be in effect as long as the refusal persists; 2. Dismissal/termination from Directorship in another listed corporation for cause. This disqualification shall be in effect until the said involvement in the alleged irregularity is cleared or settled; 3. If the beneficial equity ownership of an Independent Director in the Company or its subsidiaries exceeds two percent (2%) of its subscribed capital stock. The disqualification shall
(ii) Non-Executive Directors	Same process as above	

		be lifted if the limit is later on complied with; 4. Being under preventive suspension by the Company; and 5. Conviction that has not yet become final referred to in the grounds for the disqualification of Directors.
(iii) Independent Directors	Same process as above	In addition to the criteria set forth for Executive and Non-executive Directors, any of the following persons shall likewise be disqualified from being nominated and elected as an Independent Director: 1. Owners of more than two percent (2%) of the total outstanding proprietary membership of the Company and/or any of its substantial shareholders; and 2. A director who has failed, without any justifiable cause, to attend at least fifty percent (50%) of the total number of Board meetings during his/her incumbency.
e. Removal		
(i) Executive Directors (ii) Non-Executive Directors (iii) Independent Directors	A Director will be removed from office only after proper notice and hearing. Due process should be observed.	Any of the grounds under permanent disqualification and for cases resolved by the Board to be reason enough for a Director's removal
f. Re-instatement		
(i) Executive Directors (ii) Non-Executive Directors (iii) Independent Directors	A Director may be reinstated by the Board of Directors during a Board meeting, wherein a quorum is present and a vacancy in the Board exists; or through the inclusion of the name of the Director in the Final List of Candidates to be elected during the Company's ASM	A Director may be reinstated if cause for his/her removal has ceased to exist. This however does not include cases of Permanent Disqualification
g. Suspension		
(i) Executive Directors (ii) Non-Executive Directors (iii) Independent Directors	A Director will be suspended only after proper notice and hearing.	A Director may be suspended for any of the causes under Temporary Disqualification

Voting Result of the last Annual General Meeting (June 9, 2014)

During the Annual General Meeting, the stockholders of the Company approved the amendment of the Articles of Incorporation to reflect the change in the principal place of business of the Company and the increase in the number of Directors from eleven (11) to thirteen (13). In anticipation of the increase in the number of directors, thirteen (13) nominees were elected as directors of the Company for the year 2014-2015, of which eleven (11) immediately assumed office while the remaining two (2) nominees assumed office only upon the approval by the Securities and Exchange Commission of the amendment of the Company's Articles of Incorporation reflecting the change in Board composition.

Taking into consideration the voting instructions received through proxies submitted to the Office of the Corporate Secretary and the votes cast in person during the meeting, the 13 nominees with the highest number of votes were as follows:

Dr. Lucio C. Tan
Mr. Harry C. Tan
Ms. Carmen K. Tan
Mr. Lucio K. Tan, Jr.
Mr. Michael G. Tan
Ms. Juanita Tan Lee
Mr. Washington Z. Sycip
Mr. Antonino L. Alindogan, Jr. – Independent Director
Atty. Wilfrido E. Sanchez – Independent Director
Ms. Florencia G. Tarriela – Independent Director
Mr. Joseph T. Chua
Mr. Peter Y. Ong
Mr. Robin C. Sy – Independent Director

Messrs. Peter Y. Ong and Robin C. Sy assumed office after the approval by the SEC of the amendment of the Company's Articles of Incorporation on August 18, 2014.

6) Orientation and Education Program

(a) Disclose details of the company's orientation program for new directors, if any.

There is no formal orientation program for new Directors. In practice, a new Director is provided with materials regarding the operations of the Company and its subsidiaries. The new Director is likewise encouraged to visit and inspect offices and facilities of subsidiaries.

(b) State any in-house training and external courses attended by Directors and Senior Management[2] for the past three (3) years:

The Company engaged the services of the Institute of Corporate Directors (ICD) to conduct a corporate governance seminar on October 22, 2013, where directors of the Company, and directors of the subsidiaries were present. Likewise invited were the Chief Finance Officers, deputies, and staff, who were all briefed and updated on the current developments in corporate governance. ICD introduced to the group the ASEAN Scorecard in anticipation of the ASEAN integration. They conducted a workshop where the group was given the preview on how companies will be rated by their ASEAN counterparts. It was a very engaging workshop which gave a glimpse on how the Company will be measured by other ASEAN countries.

[2] Senior Management refers to the CEO and other persons having authority and responsibility for planning, directing and controlling the activities of the company.

(c) Continuing education programs for directors: programs and seminars and roundtables attended during the year.

In compliance with SEC Memorandum Circular No. 20, Series of 2013, all of the Company's current Directors attended a program on corporate governance conducted by training providers duly accredited by the SEC.

Name of Director	Date of Training	Program	Name of Training Institution
Lucio C. Tan	August 19, 2014	Distinguished Corporate Governance Speaker Series	The Institute of Corporate Directors
Carmen K. Tan	August 19, 2014	Distinguished Corporate Governance Speaker Series	The Institute of Corporate Directors
Harry C. Tan	August 19, 2014	Distinguished Corporate Governance Speaker Series	The Institute of Corporate Directors
Lucio K. Tan, Jr.	October 21, 2014	Seminar on Corporate Governance	Risks, Opportunities, Assessment and Management, Inc.
Michael G. Tan	August 19, 2014	Distinguished Corporate Governance Speaker Series	The Institute of Corporate Directors
Juanita Tan Lee	August 19, 2014	Distinguished Corporate Governance Speaker Series	The Institute of Corporate Directors
Joseph T. Chua	August 19, 2014	Distinguished Corporate Governance Speaker Series	The Institute of Corporate Directors
Washington Z. Sycip	April 1, 2014	Corporate Governance Requirements Under US Laws and Regulations	PLDT
Peter Y. Ong	August 19, 2014	Distinguished Corporate Governance Speaker Series	The Institute of Corporate Directors
Antonino L. Alindogan, Jr.	August 19, 2014	Distinguished Corporate Governance Speaker Series	The Institute of Corporate Directors
Wilfrido E. Sanchez	March 22, 2014	Seminar on Corporate Governance	Sycip Gorres Velayo & Co.
Florencia G. Tarriela	August 19, 2014	Distinguished Corporate Governance Speaker Series	The Institute of Corporate Directors
Robin C. Sy	August 19, 2014	Distinguished Corporate Governance Speaker Series	The Institute of Corporate Directors

B. CODE OF BUSINESS CONDUCT & ETHICS

1) Discuss briefly the company's policies on the following business conduct or ethics affecting directors, senior management and employees:

Business Conduct & Ethics	Directors	Senior Management	Employees
(a) Conflict of Interest	A policy of full and prompt disclosure for all cases of conflict of interest.	A policy of full and prompt disclosure for all cases of conflict of interest.	A policy of full and prompt disclosure for all cases of conflict of interest.
(b) Conduct of Business and Fair Dealings	The Company strictly requires this.	The Company strictly requires this.	The Company strictly requires this.
(c) Receipt of gifts from third parties	Receipt of gifts from third parties that will tend to undermine duties to the Company is highly discouraged.	Receipt of gifts from third parties that will tend to undermine duties to the Company is highly discouraged.	Receipt of gifts from third parties that will tend to undermine duties to the Company is highly discouraged.
(d) Compliance with Laws & Regulations	All Directors are strictly enjoined to comply with the Laws and Regulations.	All Senior Management are strictly enjoined to comply with the Laws and Regulations.	All employees are strictly enjoined to comply with the Laws and Regulations.

(e) Respect for Trade Secrets/Use of Non-public Information	The Company strictly requires the observance of proper usage of trade secrets and confidential information.	The Company strictly requires the observance of proper usage of trade secrets and confidential information.	The Company strictly requires the observance of proper usage of trade secrets and confidential information.
(f) Use of Company Funds, Assets and Information	The Company strictly monitors the use of Company funds, assets and information.	The Company strictly monitors the use of Company funds, assets and information.	The Company strictly monitors the use of Company funds, assets and information.
(g) Employment & Labor Laws & Policies	Together with laws and regulations, compliance with Employment & Labor Laws & Policies is strictly enjoined as well.	Together with laws and regulations, compliance with Employment & Labor Laws & Policies is strictly enjoined as well.	Together with laws and regulations, compliance with Employment & Labor Laws & Policies is strictly enjoined as well.
(h) Disciplinary action	The Company shall mete out appropriate disciplinary actions to persons found guilty of corporate transgressions.	The Company shall mete out appropriate disciplinary actions to persons found guilty of corporate transgressions.	The Company shall mete out appropriate disciplinary actions to persons found guilty of corporate transgressions.
(i) Whistle Blower	This is encouraged within the Company although a concrete policy thereon have yet to be formulated.	This is encouraged within the Company although a concrete policy thereon have yet to be formulated.	This is encouraged within the Company although a concrete policy thereon have yet to be formulated.
(j) Conflict Resolution	The Company highly encourages prompt conflict resolution.	The Company highly encourages prompt conflict resolution.	The Company highly encourages prompt conflict resolution.

2) Has the code of ethics or conduct been disseminated to all directors, senior management and employees?

Due to the consolidation, the Company's Code of Ethics has been undergoing some revisions and shall be disseminated to all Directors, senior management and employees as soon as the same has been approved by the Board.

3) Discuss how the company implements and monitors compliance with the code of ethics or conduct.

The Company monitors compliance through periodic checks by the Board during Board meetings.

4) Related Party Transactions

(a) Policies and Procedures

Describe the company's policies and procedures for the review, approval or ratification, monitoring and recording of related party transactions between and among the company and its parent, joint ventures, subsidiaries, associates, affiliates, substantial stockholders, officers and directors, including their spouses, children and dependent siblings and parents and of interlocking director relationships of members of the Board.

The Company prefers to transact with related parties to avoid the risk of materials shortages and unfair pricing. In addition, there is better coordination with suppliers on quality, production scheduling and pricing consideration. In addition, transactions with related parties have a stronger basis for trust and confidence in meeting material deadlines.

In the normal course of business, the Company transacts with the following related parties for the purposes set forth below:

Asia Brewery Inc.	***Supplier of Bottles/Royalty Fees***
Eton Properties Philippines, Inc.	***Investment Properties***
Philippine National Bank	***Investments/Loans/Services/Deposits***
Tangent Holdings Corporation	***Advances***
Victorias Milling Co., Inc.	***Supplier of Sugar and Molasses***

Transactions with these related parties are necessary in the normal course of the Company's business. Though substantial in amount, they are still under normal trade practice. There are no special risks or contingencies arising from said transactions. In transacting with related parties, the prices are based on terms that are no less favorable than those arranged with third parties. In addition, since the Company adheres to industry standards and practices, the transactions have been fairly evaluated and no long term contracts have been entered into. There are no long term suppliers contracts. The Company can source any material from third-party suppliers should this be more favorable to the Company.

There are no parties that fall outside the definition "related parties" with whom the Company or any of its related parties has a relationship that enables the parties to negotiate terms of material transactions that may not be available from other more clearly independent parties on an arm's length basis.

(b) Conflict of Interest

(i) Directors/Officers and 5% or more Shareholders

Identify any actual or probable conflict of interest to which directors/officers/5% or more shareholders may be involved.

	Details of Conflict of Interest (Actual or Probable)
Name of Director/s	The Company does not foresee any actual or probable conflict of interest to which a Director may be involved
Name of Officer/s	The Company does not foresee any actual or probable conflict of interest to which a Company's Officer may be involved
Name of Significant Shareholders	The Company does not foresee any actual or probable conflict of interest to which a significant shareholder may be involved

(ii) Mechanism

Describe the mechanism laid down to detect, determine and resolve any possible conflict of interest between the company and/or its group and their directors, officers and significant shareholders.

	Directors/Officers/Significant Shareholders
Company	Regular disclosures in good faith shall aid in detecting conflicts of interest. Resolution of the same may range from informal talks with Management to the extent of elevating the matter to Board level.
Group	Above mechanism, when applicable, may also be used to detect, determine and resolve conflicts of interest between appropriate persons within the Group.

5) Family, Commercial and Contractual Relations

(a) Indicate, if applicable, any relation of a family,[3] commercial, contractual or business nature that exists between the holders of significant equity (5% or more), to the extent that they are known to the company:

The Company is not aware of any such relations that exist between its holders of significant equity.

(b) Indicate, if applicable, any relation of a commercial, contractual or business nature that exists between the holders of significant equity (5% or more) and the company:

The Company is not aware of any such relations that exist between its holders of significant equity.

(c) Indicate any shareholder agreements that may impact on the control, ownership and strategic direction of the company:

There is none.

6) Alternative Dispute Resolution

Describe the alternative dispute resolution system adopted by the company for the last three (3) years in amicably settling conflicts or differences between the corporation and its stockholders, and the corporation and third parties, including regulatory authorities.

No conflict that necessitated an alternative dispute resolution occurred within the Company in the last three (3) years.

C. BOARD MEETINGS & ATTENDANCE

1) Are Board of Directors' meetings scheduled before or at the beginning of the year?

Board meetings are scheduled on the second Tuesday of every month. The members present during every Board meeting set the date of the next month's meeting, taking into consideration quorum requirement and public holidays.

2) Attendance of Directors

Board	Name	Date of Election	No. of Meetings Held during the year (2014)	No. of Meetings Attended	%
Chairman	Lucio C. Tan	06/09/2014	13	11	85
Member	Carmen K. Tan	06/09/2014	13	2	15
Member	Harry C. Tan	06/09/2014	13	13	100
Member	Michael G. Tan	06/09/2014	13	13	100
Member	Lucio K. Tan, Jr.	06/09/2014	13	12	92
Member	Joseph T. Chua*	06/09/2014	8	8	100
Member	Juanita Tan Lee	06/09/2014	13	12	92
Member	Washington Z. Sycip	06/09/2014	13	10	77
Member	Peter Y. Ong*	06/09/2014	8	8	100
Independent	Robin C. Sy*	06/09/2014	8	7	88
Independent	Florencia G. Tarriela	06/09/2014	13	13	100
Independent	Antonino Alindogan, Jr.	06/09/2014	13	10	77
Independent	Wilfrido E. Sanchez	06/09/2014	13	11	85

*First elected on June 9, 2014

[3] Family relationship up to the fourth civil degree either by consanguinity or affinity.

3) Do non-executive directors have a separate meeting during the year without the presence of any executive? If yes, how many times?

No. Non-executive directors do not have separate meetings during the year without the presence of any executive director.

4) Is the minimum quorum requirement for Board decisions set at two-thirds of board members? Please explain.

No. Minimum quorum requirement is majority of the members of the Board.

5) Access to Information

(a) How many days in advance are board papers[4] for board of directors meetings provided to the board?

Board materials are usually sent to the members of the Board three (3) days before the scheduled meeting.

(b) Do board members have independent access to Management and the Corporate Secretary?

Yes. Board members have independent access to Management and the Corporate Secretary.

(c) State the policy of the role of the company secretary. Does such role include assisting the Chairman in preparing the board agenda, facilitating training of directors, keeping directors updated regarding any relevant statutory and regulatory changes, etc?

The Corporate Secretary is a Filipino Citizen and resident of the Philippines. She possesses administrative and interpersonal skills and working knowledge of the Company's operations. Although she is not the chief legal counsel of the Company, she is aware of the laws, rules and regulations necessary in the performance of her duties and responsibilities. Her duties include:

1) Inform the members of the Board, in accordance with the By-Laws, of the Agenda of their meetings and assist them in obtaining relevant, timely and accurate corporate information in making sound business judgment and in performance of their responsibilities and obligations;

2) Assist the President in preparing and holding meetings of Management;

3) Supervise the maintenance, preparation and submission of reports and other documents to state agencies in accordance with applicable legislation;

4) Attend all Board meetings, except when justifiable causes, such as, but not limited to, illness, death in the immediate family and serious accidents, prevent her from doing so;

5) Maintain record of the minutes of the meetings of the Board and its committees, as well as other official records of the Company;

6) Ensure that all Board procedures, rules and regulations are strictly followed by the members;

7) Submit to SEC an advisement letter on the directors' attendance in Board meetings on or before January 5th of the following year; and

8) As the Compliance Officer, she performs as well all the duties and responsibilities of the said office provided for in the Company's Corporate Governance Manual.

[4] Board papers consist of complete and adequate information about the matters to be taken in the board meeting. Information includes the background or explanation on matters brought before the Board, disclosures, budgets, forecasts and internal financial documents.

(d) Is the company secretary trained in legal, accountancy or company secretarial practices? Please explain should the answer be in the negative.

The Corporate Secretary is a lawyer and is thus trained in the legal field. With the number of years she has been with the Company and its subsidiaries, she has already gained ample experience in accountancy and company secretarial practice.

(e) Committee Procedures

Disclose whether there is a procedure that Directors can avail of to enable them to get information necessary to be able to prepare in advance for the meetings of different committees:

Yes [X] No [ ]

Committee	Details of the procedures
Executive	Any of the Directors can request the necessary information or document/s from the Office of the Corporate Secretary.
Audit	
Nomination and Compensation	
Risk Management	
Good Governance	

6) External Advice

Indicate whether or not a procedure exists whereby directors can receive external advice and, if so, provide details:

Directors may receive and/or solicit external advice however the Company currently has no specific procedure for this purpose.

7) Change/s in existing policies

Indicate, if applicable, any change/s introduced by the Board of Directors (during its most recent term) on existing policies that may have an effect on the business of the company and the reason/s for the change:

There were no changes introduced.

D. REMUNERATION MATTERS

1) Remuneration Process

Disclose the process used for determining the remuneration of the CEO and the four (4) most highly compensated management officers:

There is no particular process for determining the remuneration of the CEO and the most highly compensated management officers. Consideration is basically anchored on the skills they possess and their value to the Company.

2) Remuneration Policy and Structure for Executive and Non-Executive Directors

Disclose the company's policy on remuneration and the structure of its compensation package. Explain how the compensation of Executive and Non-Executive Directors is calculated.

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

Do stockholders have the opportunity to approve the decision on total remuneration (fees, allowances, benefits-in-kind and other emoluments) of board of directors? Provide details for the last three (3) years.

The allowance and per diems of Directors are disclosed in the Information Statement furnished to the stockholders before each Annual Shareholders' Meeting. Although the stockholders do not approve the total remuneration of the Board, any questions thereon may be raised during the Annual Shareholders' Meeting.

3) Aggregate Remuneration

Complete the following table on the aggregate remuneration accrued during the most recent year:

The following compensation was given to Officers and Directors for the following reporting years:

Summary Compensation Table
Annual Compensation

	Year	Salary	Bonus	Others*
Four (4) most highly compensated executive officers (see below)	2015 (Estimate)	14,681,865	840,565	2,519,000
	2014	13,347,150	764,150	2,290,000
	2013	8,609,800	734,150	2,045,000
All other officers and directors as a group unnamed	2015 (Estimate)	3,036,000	253,000	7,711,000
	2014	2,760,000	230,000	7,010,000
	2013	6,650,000	550,000	6,535,000

****Others – includes per diem as director***

The following constitute the Company's four (4) most highly compensated Executive Officers (on a consolidated basis):

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

4) Stock Rights, Options and Warrants

(a) Board of Directors

Complete the following table, on the members of the company's Board of Directors who own or are entitled to stock rights, options or warrants over the company's shares:

There are no Directors of the Company with stock rights, options or warrants over the Company's shares.

(b) Amendments of Incentive Programs

Indicate any amendments and discontinuation of any incentive programs introduced, including the criteria used in the creation of the program. Disclose whether these are subject to approval during the Annual Stockholders' Meeting:

There are none.

5) Remuneration of Management

Identify the five (5) members of management who are not at the same time executive directors and indicate the total remuneration received during the financial year:

Please see table above under item 3: Aggregate Remuneration

E. BOARD COMMITTEES

1) Number of Members, Functions and Responsibilities

Provide details on the number of members of each committee, its functions, key responsibilities and the power/authority delegated to it by the Board:

Committee	No. of Members			Committee Charter	Functions	Key Responsibilities	Power
	Executive Director (ED)	Non-executive Director (NED)	Independent Director (ID)				
Executive	3	3	2	Yes. Approved on January 20, 2015	The Executive Committee acts, by majority vote of all its members, on such specific matters within the competence of the Board of Directors as may be delegated to it by a majority vote of the Board, except with respect to (1) approval of any action for which shareholders' approval is also required; (2) the filling of vacancies in the Board; (3) the amendment or repeal of By-Laws or the adoption of new By-Laws; (4) the amendment or repeal of any resolution of the Board, which by its express terms is not so amendable or repealable; and (5) a distribution of cash dividend to shareholders; All actions of the Committee are reported to the Board at the Board meeting following any action taken by the Committee and are subject to revisions and alterations by the Board; provided, that no rights of third persons will be affected by any such revision or alteration; and The Committee determines its rules and procedures subject to the approval of the Board of Directors.		
Audit and Risk Management	1	2	3	Yes. Approved on January 20, 2015	Ensures the integrity of the Company's accounting and financial reporting systems, including the independent audit, and that appropriate systems of control are in place, in particular, systems for monitoring risk, financial control, and compliance with the law, rules and regulations; Assists the Board in its oversight function over the Company's financial reporting process, internal control system, information		

					technology security, audit process, and compliance monitoring, and ensuring compliance with policies, laws, and regulations and ensuring that management is taking appropriate corrective actions in a timely manner to address control weaknesses and other problems identified by auditors. Reviews all financial reports to ensure their compliance with pertinent accounting standards, and recommends to the Board the approval thereof before submission to the regulatory agencies. Reviews the annual internal audit plan, at least one month before the conduct of the external audit, ensuring its conformity with the Company's objectives. Considers the independence and objectivity of the External Auditor, including reviewing the range of services provided in the context of all consulting services bought by the Company. Meets with the External Auditor, without the presence of the Company's Management, at least annually. Reviews the effectiveness of the financial management systems and information technology security including internal control of the entire accounting process from documentation of financial transactions to the preparation, interpretation and analysis of financial reports of Management and the External Auditor. Evaluates and determines the non-audit work, if any, of the External Auditor, and reviews periodically the non-audit fees paid to the External Auditor in relation to its significance to the total annual income of the External Auditor and to the Company's overall consultancy expenses. The Committee disallows any non-audit work that will conflict with the duties of the External Auditor or may pose a threat to his/her independence. Performs oversight functions over the Audit Committee of the various subsidiaries and affiliates of the Company; Prior to the external audit, discuss the nature, scope, and expenses of the audit,

					and ensure proper coordination among several external auditors, when applicable, to avoid duplication of efforts. Exercises explicit authority to investigate any matter within the terms of reference, has full access to and cooperation by management and full discretion to invite any Director or executive officer to attend its meetings, and adequate resources to enable it to effectively discharge its functions. Reviews the quarterly semi-annual, and annual financial statements before their submission to the Board. Has direct responsibility in monitoring and disclosing to the proper agencies the related party transactions of the Company. Elevates to international standards the accounting and auditing processes, practices and methodologies. **On Risk Management** Provide oversight over Management's activities in managing credit, market, liquidity, operational, legal and other risks of the Company. Review of the Company's risk register to understand the current risk environment, including review of emerging risks, the interrelationships between risks, and in the context of the Company's risk appetite; Review the Company's annual risk assessment exercise. Review risk mitigating strategies for effectiveness and consistency with the Company's risk tolerance; Provide direction for the allocation of resources and assignment of responsibilities for activities addressing business risks.
Nomination and Compensation	3	2	1	Yes. Approved on January 20, 2015	Pre-qualifies and shortlists candidates for election to the Board of Directors. Nominate at least two (2) independent directors or such as to constitute at least twenty percent (20%) of the members of the Board; Re-nominates directors, considering the director's contribution and performance (e.g. attendance, preparedness, participation

					and candor) including, if applicable, independent directors; Considers the following guidelines in determining the number of directors to be nominated to the Board: 1. The scope and nature of the operations of the Company; 2. Age of the director; and 3. Possible conflict of interest among the directors. Establishes a formal and transparent procedure for fixing the remuneration packages of individual directors. No director shall be involved in deciding his/her own remuneration; Designates amount of remuneration, which shall be in a sufficient level to attract and retain directors and officers who are needed to run the Company successfully; Provides a clear disclosure of its remuneration policy, level and mix of remuneration, and the procedure for setting remuneration, in the Company's annual report; Develops a form on Full Business Interest Disclosure as part of the pre-employment requirements for all incoming officers, which among others compel all officers to declare under the penalty of perjury all their existing business interests or shareholdings that may directly or indirectly conflict in their performance of duties once hired; Provides in the Company's annual reports, information and proxy statements a clear, concise and understandable disclosure of compensation of its executive officers for the previous fiscal year and the ensuing year; and In consultation with the executive or management committee/s, redefines the role, duties and responsibilities of the CEO by integrating the dynamic requirements of the business as a going concern and future expansionary prospects within the realm of good corporate governance at all times.
Corporate Governance	1	2	2	Yes. Approved on January 20, 2015	Ensure the Board's and the Board committees' effectiveness and due observance of corporate governance

					principles and guidelines; Oversee periodic performance evaluation of the Board and its committees and executive management, and conduct an annual self-evaluation of its performance. Periodic performance reviews include the subsidiaries, including their respective Boards and management; Evaluate and recommend whether or not a Director is able to and has been adequately carrying out his/her duties as Director, bearing in mind the Director's contribution and performance; and Review and recommend the manner by which the Board's performance may be evaluated and propose an objective performance criteria approved by the Board.

2) Committee Members

(a) Executive Committee

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee
Chairman	Lucio C. Tan	06/09/14	-	-	-	7 years
Member (ED)	Harry C. Tan	06/09/14	-	-	-	5 years
Member (NED)	Lucio K. Tan, Jr.	06/09/14	-	-	-	7 years
Member (ED)	Michael G. Tan	06/09/14	-	-	-	7 years
Member (NED)	Juanita Tan Lee	06/09/14	-	-	-	1 year
Member (ID)	Florencia G. Tarriela	06/09/14	-	-	-	1 year
Member (ID)	Antonino L. Alindogan, Jr.	06/09/14	-	-	-	1 year
Member (NED)	*Joseph T. Chua*	*01/20/15**	-	-	-	-

*elected during the Board Meeting held on January 20, 2015

(b) Audit Committee and Risk Management Committee

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee
Chairman (ID)	Antonino L. Alindogan, Jr.	06/09/14	5	4	80	1 year
Member (NED)	Washington Z. SyCip	06/09/14	3	3	100	-
Member (NED)	Lucio K. Tan, Jr.	06/09/14	5	3	60	9 years
Member (ID)	Wilfrido E. Sanchez	06/09/14	5	5	100	1 year
Member (ID)	Florencia G. Tarriela	06/09/14	3	3	100	-
Member (ED)	Juanita Tan Lee	06/09/14	5	5	100	9 years

Disclose the profile or qualifications of the Audit Committee members.

The Audit Committee shall be composed of at least five (5) members who shall preferably have accounting and finance background. At least two (2) of the Committee members shall be independent directors, one of which shall have an audit experience.

Antonino L Alindogan Jr. is an Independent Director of the Company. He is also the Chairman of the Board of An-Cor Holdings, Inc. He serves as Chairman/President of Landrum Holdings, Inc.; Independent Director of Philippine Airlines, Inc., Eton Properties Philippines, Inc., Rizal Commercial Banking Corp., PAL Holdings, Inc., House of Investments, Inc., Great Life Financial Assurance Corp., and Bankard Inc. He is the Former President of C55, Inc.; Former Chairman of the Board of Directors of Development Bank of the Philippines (DBP); Former Consultant for Microfinance of DBP; Former Member of the Monetary Board of Bangko Sentral ng Pilipinaswhere he contributed his efforts and insights on a wide range of concerns, such as the pursuit of good governance, strengthening inflation targeting as an effective tool in price stability, and crafting innovative solutions to problem banks. He also took part in the BSP reorganization, upgrading and modernization of facilities and bank-wide planning and budgeting process. He is a Certified Public Accountant and holds a Bachelor of Science in Commerce degree in Accounting (Magna Cum Laude) from De La Salle College.

Washington Z. Sycip is a Director of the Company. He is the founder of SyCip Gorres Velayo & Co.; Chairman Emeritus of the Board of Trustees and Governors of the Asian Institute of Management; Chairman of MacroAsia Corp., Cityland Development Corp., Chairman of MacroAsia Corp., Cityland Development Corp., Lufthansa Technik Philippines, Inc., STEAG State Power, Inc. and State Properties Corporation; Independent Director of Asian Eye Institute, Belle Corporation, Lopez Holdings Corp., Commonwealth Foods, Inc., First Philippine Holdings, Corp., Highlands Prime Inc., Metro Pacific Investments Corp., Philippine Equity Management Inc., Philippine Hotelier, Inc., Philamlife, Inc., Realty Investment Inc., The PHINMA Group, State Land, Inc., and Century Properties Group Inc.; and Director of Philippine Airlines, Inc., PAL Holdings, Inc. and Philippine National Bank.

Lucio K. Tan, Jr. is a Director of the Company. He is also Director and President of Tanduay Distillers, Inc. and Eton Properties Philippines, Inc.; a Director/EVP of Fortune Tobacco Corp.; and a Director of AlliedBankers Insurance Corp., Philippine Airlines, Inc., Philippine National Bank, PAL Holdings, Inc., MacroAsia Corp., PMFTC Inc., Lucky Travel Corp., Air Philippines Corporation, 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., and Fortune Tobacco International Corp., and Shareholdings, Inc. He graduated from the University of California, Davis in 1991 with a Bachelor of Science degree in Civil Engineering and has a Master's Degree in Business Administration from the Kellogg School of Management Northwestern University.

Wilfrido E. Sanchez is an Independent Director of the Company. He is the Tax Counsel of Quiason Makalintal Barot Torres Ibarra &Sison Law Offices; Vice Chairman of Center for Leadership & Change, Inc.; Independent Director of Adventure International Tours, Inc., Amon Trading Corp., EEI Corporation, Grepalife Asset Management Corp., Grepalife Fixed Income Fund Corp., House of Investments, Inc., JVR Foundation, Inc., Kawasaki Motor Corp., Magellan Capital Holdings, Corp., Omico Corporation; PETNET, Inc., PETPLANS, Inc., Transnational Diversified Corp., Transnational Diversified Group, Inc., Transnational Financial Services, Inc., and Universal Robina Corp.; Independent Director of Eton Properties Philippines, Inc. and Rizal Commercial Banking Corporation. He holds a Bachelor of Arts degree from the Ateneo de Manila University and has a Post-Graduate degree in Bachelor of Laws from Ateneo De Manila University and Masters of Law from Yale Law School.

Juanita Tan Lee is a Director and the Treasurer of the Company. She is also Director of Eton Properties Philippines, Inc.; Director/Corporate Secretary of Asia Brewery, Inc., Fortune Tobacco Corp., Dominium Realty and Construction Corp., and Shareholdings, Inc.; Corporate Secretary of Asian Alcohol Corp., Absolut Distillers, Inc., The Charter House, Inc., Far East Molasses Corp., Foremost Farms, Inc., Fortune Tobacco International 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.; and Assistant Corporate Secretary of Basic Holdings Corp. She holds a Bachelor of Science degree in Business Administration major in Accounting from the University of the East.

Florencia G. Tarriela is an Independent Director of the Company. She is the Chairman of the Board of Directors and an Independent Director of Philippine National Bank. She also serves as Chair of PNB Global Remittance and Financial Co., HK Ltd. She is a Trustee/Advisor/Director of Foundation for Filipino Entrepreneurship, Inc., Summer Institute of Linguistics, and Tulay sa Pagunlad, Inc.; and a Columnist of Manila Bulletin. She obtained her Bachelor of Science in Business Administration, Major in Economics, at the University of the Philippines and her Masters in Economics from the University of California, Los Angeles, where she topped the Masters Comprehensive Examination. She is a Life Sustaining Member of the Bankers Institute of the Philippines (BAIPHIL) and the Financial Executive Institute (Finex), a Trustee of Finex Foundation, TSPI Development Corporation, Kilosbayan and the Summer Institute of Linguistics (SIL). She was formerly an Independent Director of the Philippine Depository and Trust Corporation, the Philippine Dealing and Exchange Corporation and the Philippine Dealing System Holding Corporation. Ms. Tarriela was a former Undersecretary of Finance, and an alternate Member of the Monetary Board of the BSP, Land Bank of the Philippines and the Philippine Deposit Insurance Corporation. She was formerly Deputy Country Head, Managing Partner and the first Filipino lady Vice President of Citibank N. A., Philippine Branch.

Describe the Audit Committee's responsibility relative to the external auditor.

The Committee reviews the annual internal audit plan, at least one month before the conduct of the external audit, ensuring its conformity with the Company's objectives. The plan shall include the audit scope, resources and budget for implementation. Likewise, the Committee shall consider the independence and objectivity of the External Auditor, including reviewing the range of services provided in the context of all consulting services bought by the Company.

(c) Nomination and Compensation Committee

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee
Chairman	Lucio C. Tan	06/09/14	2	1	50	1 year
Member (ED)	Harry C. Tan	06/09/14	2	2	100	1 year
Member (NED)	Lucio K. Tan, Jr.	06/09/14	2	2	100	1 year
Member (ED)	Michael G. Tan	06/09/14	2	2	100	1 year
Member (ID)	Wilfrido E. Sanchez	06/09/14	2	2	100	1 year
Member (ED)	Juanita Tan Lee	06/09/14	2	1	50	9 years

(d) Corporate Governance Committee as of April 15, 2015

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee*
Chairman	Florencia G. Tarriela	06/09/14	1	1	100	1 year
Member (NED)	Lucio K. Tan, Jr.	06/09/14	1	-	-	1 year
Member (ED)	Michael G. Tan	06/09/14	1	1	100	1 year
Member (ID)	Antonino L. Alindogan, Jr.	06/09/14	1	1	100	1 year
Member (NED)	Joseph T. Chua	06/09/14	1	1	100	-

3) Changes in Committee Members

Indicate any changes in committee membership that occurred during the year and the reason for the changes:

Name of Committee	Name	Reason
Audit and Risk Management Committee	Michael G. Tan	Cessation of term on 06/09/14
Corporate Governance	Juanita Tan Lee	Cessation of term on 06/09/14

4) Work Done and Issues Addressed

Describe the work done by each committee and the significant issues addressed during the year.

Name of Committee	Work Done	Issues Addressed
Executive	Due to regular meetings of the Board of Directors that addressed the concerns of the Company, the Committee had no occasion to meet during the year.	N/A
Audit and Risk Management	Functions as prescribed in the Company's Corporate Governance Manual/Committee Charter	Audit concerns
Nomination	Functions as prescribed in the Company's By-Laws/Manual/Committee Charter	Nomination-related concerns prior to the ASM
Corporate Governance	The revisions of the Manual/Charters of the Committees	Charters/Manual revisions

5) Committee Program

Provide a list of programs that each committee plans to undertake to address relevant issues in the improvement or enforcement of effective governance for the coming year.

Name of Committee	Planned Programs	Issues to be Addressed
Executive	Review of the Charter in light of the ASEAN Corporate Governance Scorecard	Strengthening key/core corporate governance principles
Audit and Risk Management	Review of the Charter in light of the ASEAN Corporate Governance Scorecard	Strengthening key/core corporate governance principles
Nomination	Review of the Charter in light of the ASEAN Corporate Governance Scorecard	Strengthening key/core corporate governance principles
Corporate Governance	Review of the Charter in light of the ASEAN Corporate Governance Scorecard	Strengthening key/core corporate governance principles

F. RISK MANAGEMENT SYSTEM

1) Disclose the following:

(a) Overall risk management philosophy of the company;

Close monitoring of the risk environment of the Company, inclusive of its subsidiaries, in order to provide direction for the activities that will mitigate, to an acceptable level, the risks that may adversely affect the Company's ability to achieve its goals.

(b) A statement that the directors have reviewed the effectiveness of the risk management system and commenting on the adequacy thereof;

In the Company's Audited Financial Statements for the year ended December 31, 2014, the following statement is included therein:

"Risk Management Strategies
The Company's financial risk management strategies are handled on a group-wide basis, side by side with those of the other related companies within the Company. The Company's management and BOD review and approve policies for managing these risks. Management closely monitors the funds and financial transactions of the Company. Funds are normally deposited with affiliated local banks and financial transactions are normally dealt with related parties."

(c) Period covered by the review;

Year 2014.

(d) How often the risk management system is reviewed and the directors' criteria for assessing its effectiveness; and

Reviewed annually.

(e) Where no review was conducted during the year, an explanation why not.

Not applicable.

2) Risk Policy

(a) Company

Give a general description of the company's risk management policy, setting out and assessing the risk/s covered by the system (ranked according to priority), along with the objective behind the policy for each kind of risk:

Risk Exposure	Risk Management Policy	Objective
The Company is a holding company that depends on dividends and distributions from subsidiaries	The employment of competent and efficient people to operate the subsidiaries as well as the Company itself	Objective is to avoid business losses and reverses in the subsidiaries
	The investment in a diverse portfolio	The Company will avoid collapse with the crippling of one industry or sector

(b) Group

Give a general description of the Group's risk management policy, setting out and assessing the risk/s covered by the system (ranked according to priority), along with the objective behind the policy for each kind of risk:

The risk exposure, risk management policy and objective are the same as the ones disclosed above.

(c) Minority Shareholders

Indicate the principal risk of the exercise of controlling shareholders' voting power.

Risk to Minority Shareholders
No risks foreseen.

3) Control System Set Up

(a) Company

Briefly describe the control systems set up to assess, manage and control the main issue/s faced by the company:

The Company's Risk Management Committee has been merged with the existing Audit Committee. Currently control systems to assess, manage and control the main issue/s faced by the Company are still being developed and studied.

(b) Group

Briefly describe the control systems set up to assess, manage and control the main issue/s faced by the company:

The control systems to assess, manage and control the main issue/s faced by the Group is likewise still being developed and studied.

(c) Committee

Identify the committee or any other body of corporate governance in charge of laying down and supervising these control mechanisms, and give details of its functions:

Committee/Unit	Control Mechanism	Details of its Functions
Audit and Risk Management Committee	Checks and reviews financial reports of the Company. Likewise causes the development of risk management strategies and monitor the proper implementation thereof	The Committee assists the Board in fulfilling its oversight responsibilities. It reviews the financial reporting process, system of internal control and management of financial risk, audit process, Company's process for monitoring compliance with laws and regulations and its own code of corporate governance. It also assists the Board in identifying potential risk exposures of the Company.

G. INTERNAL AUDIT AND CONTROL

1) Internal Control System

Disclose the following information pertaining to the internal control system of the company:

(a) Explain how the internal control system is defined for the company;

Each of the companies belonging to the conglomerate has its own internal audit department. Said audit departments monitors, assesses and evaluates efficiencies of operations and the financial condition of their respective companies. The Company as a conglomerate has its Audit Committee, which reviews, assesses and evaluates the work and performance of the respective internal audit departments of the companies belonging to the conglomerate.

(b) A statement that the directors have reviewed the effectiveness of the internal control system and whether they consider them effective and adequate;

The Board regularly expresses its satisfaction to the efficiency and sound operation of the internal control system during Board meetings with presentations of the Company's financials.

(c) Period covered by the review;

Year 2014.

(d) How often internal controls are reviewed and the directors' criteria for assessing the effectiveness of the internal control system; and

Quarterly.

(e) Where no review was conducted during the year, an explanation why not.

Not applicable.

2) Internal Audit

(a) Role, Scope and Internal Audit Function

Give a general description of the role, scope of internal audit work and other details of the internal audit function.

The Company's Audit Committee serves as its internal audit. The role and scope thereof have already been discussed in the portions herein on Board Committees.

(b) Do the appointment and/or removal of the Internal Auditor or the accounting /auditing firm or corporation to which the internal audit function is outsourced require the approval of the audit committee?

Not applicable.

(c) Discuss the internal auditor's reporting relationship with the audit committee. Does the internal auditor have direct and unfettered access to the board of directors and the audit committee and to all records, properties and personnel?

Not applicable.

(d) Resignation, Re-assignment and Reasons

Disclose any resignation/s or re-assignment of the internal audit staff (including those employed by the third-party auditing firm) and the reason/s for them.

No resignation/s or reassignment save for the expiration of term of Committee members that was reported earlier herein.

(e) Progress against Plans, Issues, Findings and Examination Trends

State the internal audit's progress against plans, significant issues, significant findings and examination trends.

Since the Audit Committee serves as the Company's Internal Audit, there is no internal audit plan inclusive of a timeline and milestones. The Committee meets quarterly to discuss, review and approve the financials of the Company as prepared by the Chief Financial Officer, or the external auditor, when so appropriate.

Progress Against Plans	**N/A**
Issues[5]	
Findings[6]	
Examination Trends	

[The relationship among progress, plans, issues and findings should be viewed as an internal control review cycle which involves the following step-by-step activities:

1) Preparation of an audit plan inclusive of a timeline and milestones;
2) Conduct of examination based on the plan;
3) Evaluation of the progress in the implementation of the plan;
4) Documentation of issues and findings as a result of the examination;
5) Determination of the pervasive issues and findings ("examination trends") based on single year result and/or year-to-year results;
6) Conduct of the foregoing procedures on a regular basis.]

(f) Audit Control Policies and Procedures

Disclose all internal audit controls, policies and procedures that have been established by the company and the result of an assessment as to whether the established controls, policies and procedures have been implemented under the column "Implementation."

Policies & Procedures	Implementation
Audit Charter must be finalized and approved to define the scope of the work and policies that will regulate the Company's financial activities	In process
Establishment of risk management strategies to identify priorities of the internal audit	In process

(g) Mechanisms and Safeguards

State the mechanism established by the company to safeguard the independence of the auditors, financial analysts, investment banks and rating agencies (example, restrictions on trading in the company's shares and imposition of internal approval procedures for these transactions, limitation on the non-audit services that an external auditor may provide to the company):

Auditors (Internal and External)	Financial Analysts	Investment Banks	Rating Agencies
External Auditor The Audit Committee evaluates and determines the non-audit work, if there are any, of the External Auditor, and reviews periodically the non-audit fees paid to the External Auditor in relation to its significance to the total annual income of the External Auditor and to the Company's overall consultancy expenses.	Aside from the statutory regulations of the appropriate agencies, the Company has yet to establish a formal mechanism to safeguard the independence of financial analysts.	Aside from the statutory regulations of the appropriate agencies, the Company has yet to establish a formal mechanism to safeguard the independence of investment banks.	Aside from the statutory regulations of the appropriate agencies, the Company has yet to establish a formal mechanism to safeguard the independence of rating agencies.

[5] "Issues" are compliance matters that arise from adopting different interpretations.
[6] "Findings" are those with concrete basis under the company's policies and rules.

The Committee disallows any non-audit work that will conflict with the duties of the External Auditor or may pose a threat to his/her independence. The non-audit work, if allowed, is disclosed in the Company's annual report.			

(h) State the officers (preferably the Chairman and the CEO) who will have to attest to the company's full compliance with the SEC Code of Corporate Governance. Such confirmation must state that all directors, officers and employees of the company have been given proper instruction on their respective duties as mandated by the Code and that internal mechanisms are in place to ensure that compliance.

The Chairman and the CEO will to attest to the Company's full compliance with the SEC Code of Corporate Governance. Such confirmation will state that all Directors, officers and employees of the Company have been given proper instruction on their respective duties as mandated by the Code of Corporate Governance and that internal mechanisms are in place to ensure that compliance.

H. ROLE OF STAKEHOLDERS

1) Disclose the company's policy and activities relative to the following:

	Policy	Activities
Customers' welfare	The Company has no customers	-
Supplier/contractor selection practice	The Company has no supplier/contractor	-
Environmentally friendly value-chain	The Company seeks to help, in any way possible, in the protection and sustainability of the environment	There are no current activities of the Company.
Community interaction	This is highly encouraged.	There are no current activities of the Company.
Anti-corruption programmes and procedures?	The business of the Company shall be governed by this standard: It shall act with *integrity* in all dealings and in the discharge of duties and responsibilities; the goal is to work hard and establish a *good reputation* as the cornerstone of its success.	There are no current activities of the Company.
Safeguarding creditors' rights	The Company highly regards the rights of its creditors	There are no current activities of the Company.

2) Does the company have a separate corporate responsibility (CR) report/section or sustainability report/section?

One of the Company's subsidiaries, Tanduay Distillers, Inc., has already put up a Corporate Social Responsibility Section on the Company website.

3) Performance-enhancing mechanisms for employee participation.

(a) What are the company's policy for its employees' safety, health, and welfare?

The Company offers health care benefits covered by the health insurance provider of the Company.

(b) Show data relating to health, safety and welfare of its employees.

There have been no reported work-related accidents or health concerns in the Company.

(c) State the company's training and development programmes for its employees. Show the data.

New employees are given orientation on the Company's policies and procedures by their direct supervisors.

(d) State the company's reward/compensation policy that accounts for the performance of the company beyond short-term financial measures

It is the policy of the Company to promote advancement among its employees for consistently exceeding expectations over two years. The Board grants performance bonus, when so warranted.

4) What are the company's procedures for handling complaints by employees concerning illegal (including corruption) and unethical behaviour? Explain how employees are protected from retaliation.

Employees may complain through key Officers in the Company. Management shall maintain the confidentiality of all concerns and complaints.

I. DISCLOSURE AND TRANSPARENCY

1) Ownership Structure

(a) Holding 5% shareholding or more

Shareholder	Number of Shares	Percent	Beneficial Owner
Tangent Holdings Corporation *SMI Compound* *C. Raymundo Ave.,* *Maybunga, Pasig City*	8,046,318,193 RECORD OWNER	74.7%	Lucio C. Tan

Name of Senior Management	Number of Direct shares	Number of Indirect shares (name of record owner)	% of Capital Stock
Lucio C. Tan	2,200	Nil	-
Michael G. Tan	1,100	Nil	-
Ma. Cecilia L. Pesayco	2,200	Nil	-
Jose Gabriel D. Olives	0	Nil	-
Nestor C. Mendones	0	Nil	-
TOTAL	**5,500**	Nil	**-**

2) Does the Annual Report disclose the following:

Key risks	YES
Corporate objectives	YES
Financial performance indicators	YES

Non-financial performance indicators	YES
Dividend policy	YES
Details of whistle-blowing policy	NO*
Biographical details (at least age, qualifications, date of first appointment, relevant experience, and any other directorships of listed companies) of directors/commissioners	YES
Training and/or continuing education programme attended by each director/commissioner	YES
Number of board of directors/commissioners meetings held during the year	NO**
Attendance details of each director/commissioner in respect of meetings held	NO**
Details of remuneration of the CEO and each member of the board of directors/commissioners	YES

Should the Annual Report not disclose any of the above, please indicate the reason for the non-disclosure.

**** The Company has yet to establish a formal Whistle-blowing Policy.***

***** The number of board of directors' meetings held during the year, as well as the attendance details of each director, are disclosed in an advisement letter submitted to the Commission on or before January 5th of every year.***

3) External Auditor's fee

Name of auditor	Audit Fee	Non-audit Fee
SGV & Co.	**2014 – PhP1,500,000**	**-**

4) Medium of Communication

List down the mode/s of communication that the company is using for disseminating information.

Since the Company is a publicly-listed company, all information shall be disseminated through the disclosure channels of the Philippine Stock Exchange. Shareholders may also get in touch with the Office of the Corporate Secretary for necessary relevant documents.

Likewise, the Company has a website where investors may find helpful information.

5) Date of release of audited financial report:

Latest audited financial statements of the Company was filed on April 15, 2014.

6) Company Website

Does the company have a website disclosing up-to-date information about the following?

Business operations	**YES**
Financial statements/reports (current and prior years)	**YES**
Materials provided in briefings to analysts and media	**YES**
Shareholding structure	**NO**
Group corporate structure	**YES**

Downloadable annual report	**YES**
Notice of AGM and/or EGM	**YES**
Company's constitution (company's by-laws, memorandum and articles of association)	**YES**

Should any of the foregoing information be not disclosed, please indicate the reason thereto.

Shareholding structure is available upon request from the Office of the Corporate Secretary.

7) **Disclosure of RPT**

The Company prefers to transact with related parties to avoid the risk of materials shortages and unfair pricing. In addition, there is better coordination with suppliers on quality, production scheduling and pricing consideration. In addition, transactions with related parties have a stronger basis for trust and confidence in meeting material deadlines.

In the normal course of business, the Company transacts with the following related parties for the purposes set forth below:

Asia Brewery Inc.	***Supplier of Bottles/Royalty Fees***
Eton Properties Philippines, Inc.	***Investment Properties***
Philippine National Bank	***Deposits/ Investments/Loans/Services***
Tangent Holdings Corporation	***Advances***
Victorias Milling Co., Inc.	***Supplier of Sugar and Molasses***

Transactions with these related parties are necessary in the normal course of the Company's business. Though substantial in amount, they are still under normal trade practice. There are no special risks or contingencies arising from said transactions. In transacting with related parties, the prices are based on terms that are no less favorable than those arranged with third parties. In addition, since the Company adheres to industry standards and practices, the transactions have been fairly evaluated and no long term contracts have been entered into.

There are no long term suppliers contracts. The Company can source any material from third-party suppliers should this be more favorable to the Company. There are no parties that fall outside the definition "related parties" with whom the Company or any of its related parties has a relationship that enables the parties to negotiate terms of material transactions that may not be available from other more clearly independent parties on an arm's length basis.

J. RIGHTS OF STOCKHOLDERS

1) Right to participate effectively in and vote in Annual/Special Stockholders' Meetings

(a) Quorum

Give details on the quorum required to convene the Annual/Special Stockholders' Meeting as set forth in its By-laws.

Quorum Required	According to the By-Laws, at the meeting of the Company, the stockholders holding or representing a majority of the subscribed capital stock of the Company, shall constitute a quorum for the transaction of business at such stockholders' meeting and every decision of a majority of said stockholder holding a majority of the subscribed capital stock, duly assembled at said meeting, unless otherwise provided by law, shall be valid as an act at such meeting.

(b) System Used to Approve Corporate Acts

Explain the system used to approve corporate acts.

System Used	At a Shareholders' Meeting, shareholders present vote to approve corporate acts of the Board of Directors and Management during the previous year.
Description	At all corporate meetings, each shareholder, either in person or proxy, shall be entitled to as many votes as he/she owns shares of stocks.

(c) Stockholders' Rights

List any Stockholders' Rights concerning Annual/Special Stockholders' Meeting that differ from those laid down in the Corporation Code.

There are no stockholders' rights concerning the Annual/Special Stockholder' Meeting which differ from those rights laid down in the Corporation Code.

Stockholders' Rights under The Corporation Code	Stockholders' Rights not in The Corporation Code
N/A	

Dividends

Declaration Date	Record Date	Payment Date
April 8, 2014	April 25, 2014	May 22, 2014

(d) Stockholders' Participation

1. State, if any, the measures adopted to promote stockholder participation in the Annual/Special Stockholders' Meeting, including the procedure on how stockholders and other parties interested may communicate directly with the Chairman of the Board, individual directors or board committees. Include in the discussion the steps the Board has taken to solicit and understand the views of the stockholders as well as procedures for putting forward proposals at stockholders' meetings.

Measures Adopted	Communication Procedure
Shareholders present during a Stockholders' Meeting may ask questions directed to the Board and Key Officers.	There is no formal procedure for this.

2. State the company policy of asking shareholders to actively participate in corporate decisions regarding:
   a. Amendments to the company's constitution
   b. Authorization of additional shares
   c. Transfer of all or substantially all assets, which in effect results in the sale of the company

   The corporate acts enumerated above all need stockholders' approval or ratification. These acts only need a majority vote of stockholders during a meeting with quorum present, except for item a, which needs the affirmative vote of stockholders representing at least two-thirds (2/3) of the subscribed capital stock of the Company.

3. Does the company observe a minimum of 21 business days for giving out of notices to the AGM where items to be resolved by shareholders are taken up?

   No. However, written notice of any annual or special stockholders' meeting are sent to all stockholders of record at least (15) fifteen business days prior to the date of the meeting in accordance with the

Company's By-Laws and the requirements of the Securities and Regulation Code and the New Disclosure Rules of the Philippine Stock Exchange.

a. Date of sending out notices: ***May 19, 2014***

b. Date of the Annual/Special Stockholders' Meeting: ***June 9, 2014***

4. State, if any, questions and answers during the Annual/Special Stockholders' Meeting.

There were no questions raised during the last Shareholders' Meeting.

5. Result of Annual/Special Stockholders' Meeting's Resolutions ***(June 9, 2014 ASM)***

Resolution	Approving	Dissenting	Abstaining
Notation and Approval of the Management Report as reflected in the Company's Annual Report	10,250,143,919 shares	None	None
Ratification of all acts, resolutions and investments of the Company for the year 2012	10,250,143,919 shares	None	None

6. Date of publishing of the result of the votes taken during the most recent AGM for all resolutions:

June 9, 2014 via the Philippine Stock Exchange's Online Disclosure System.

(e) Modifications

State, if any, the modifications made in the Annual/Special Stockholders' Meeting regulations during the most recent year and the reason for such modification:

There were no modifications made in the Annual/Special Stockholders' Meeting regulations during the most recent year.

(f) Stockholders' Attendance

(i) Details of Attendance in the Annual/Special Stockholders' Meeting Held:

Type of Meeting	Names of Board members / Officers present	Date of Meeting	Voting Procedure (by poll, show of hands, etc.)	% of SH Attending in Person	% of SH in Proxy	Total % of SH attendance
Annual	Lucio C. Tan Harry C. Tan Michael G. Tan Lucio K. Tan, Jr. Juanita Tan Lee Washington Z. Sycip Antonino L. Alindogan, Jr. Florencia G. Tarriela	06/09/14	Instructions received through proxies received by the Corporate Secretary	0.001%	94.721%	94.721%

(ii) Does the company appoint an independent party (inspectors) to count and/or validate the votes at the ASM/SSMs?

The counting of votes shall be conducted by the Corporate Secretary (or his/her duly authorized representative) to be assisted by the Corporation's independent accountant or by the representatives of SGV & Co.

(iii) Do the company's common shares carry one vote for one share? If not, disclose and give reasons for any divergence to this standard. Where the company has more than one class of shares, describe the voting rights attached to each class of shares.

Yes. For the election of directors, The stockholder may vote such number of shares for as many persons as there are directors to be elected, or he may cumulate said shares and give one candidate as many votes as the number of directors to be elected, or he may distribute them on the same principle among as many candidates as he shall see fit; provided the total number of votes cast by him shall not exceed the number of shares owned by him multiplied by the number of directors to be elected.

(g) Proxy Voting Policies

State the policies followed by the company regarding proxy voting in the Annual/Special Stockholders' Meeting.

	Company's Policies
Execution and acceptance of proxies	Shall be in writing and filed with the Corporate Secretary at least three (3) business days prior to the meeting
Notary	Not required
Submission of Proxy	Submitted to the Corporate Secretary at least three (3) business days prior to the meeting
Several Proxies	Principal stockholder shall be consulted in case of conflicting proxies
Validity of Proxy	Five years, unless specified otherwise.
Proxies executed abroad	Consular validation is required.
Invalidated Proxy	This will not be accepted
Validation of Proxy	To be done after the close of business hours of the last day for the submission of proxies
Violation of Proxy	The proxy will not be honored.

(h) Sending of Notices

State the company's policies and procedure on the sending of notices of Annual/Special Stockholders' Meeting.

Policies	**Procedure**
Notices of Meeting shall be sent in accordance with the rules and regulations issued by the Commission	Notices will be sent to the list of stockholders as of record date, as prepared by the Company's stock transfer agent.

(i) Definitive Information Statements and Management Report (June 09, 2014 ASM)

Number of Stockholders entitled to receive Definitive Information Statements and Management Report and Other Materials	All stockholders as of May 2, 2014 totaling 10,821,388,889

Date of Actual Distribution of Definitive Information Statement and Management Report and Other Materials held by market participants/certain beneficial owners	May 19, 2014
Date of Actual Distribution of Definitive Information Statement and Management Report and Other Materials held by stockholders	May 19, 2014
State whether CD format or hard copies were distributed	Hard copies were distributed, a CD format of the Annual Report was available during the day of the meeting
If yes, indicate whether requesting stockholders were provided hard copies	N/A

(j) Does the Notice of Annual/Special Stockholders' Meeting include the following:

Each resolution to be taken up deals with only one item.	YES
Profiles of directors (at least age, qualification, date of first appointment, experience, and directorships in other listed companies) nominated for election/re-election.	YES
The auditors to be appointed or re-appointed.	YES
An explanation of the dividend policy, if any dividend is to be declared.	YES
The amount payable for final dividends.	YES
Documents required for proxy vote.	YES

Should any of the foregoing information be not disclosed, please indicate the reason thereto.

2) Treatment of Minority Stockholders

(a) State the company's policies with respect to the treatment of minority stockholders.

Policies	Implementation
The Board is committed to respect the rights of the minority stockholders	Strict implementation is enjoined

(b) Do minority stockholders have a right to nominate candidates for board of directors?

Yes, in accordance with the provisions of the By-Laws and the Revised Corporate Governance Manual.

K. INVESTORS RELATIONS PROGRAM

1) Discuss the company's external and internal communications policies and how frequently they are reviewed. Disclose who reviews and approves major company announcements. Identify the committee with this responsibility, if it has been assigned to a committee.

The Company has a Compliance Officer who monitors the Company's external and internal communications policies. She is also in charge of reviewing and approving major company announcements.

2) Describe the company's investor relations program including its communications strategy to promote effective communication with its stockholders, other stakeholders and the public in general. Disclose the contact details (e.g. telephone, fax and email) of the officer responsible for investor relations.

	Details
(1) Objectives	**To disseminate necessary corporate information to promote greater understanding of the Company as well as to build strong relationships with Company investors**
(2) Principles	**To provide the stockholders, other stakeholders, investors and the public with accurate corporate information about the Company**
(3) Modes of Communications	**The Company conducts regular meetings with investors and analysts to keep them updated on developments with the Company and its subsidiaries. The Company also arranges teleconferences and site visits and participates in non-deal road shows and conferences in various locations, and also communicates through emails and telephone calls.** **In 2014, the Company's investor relations group attended eight (8) conferences with different brokers in Singapore (3), Manila (2), Hong Kong (1), London (1), New York (1); conducted three (3) Analyst Briefings for 1Q, 2Q, and 3Q Results; and met 255 investors and analysts in one-on-one meetings or group meetings.**
(4) Investors Relations Officer	**The Company welcomes inquiries from institutional investors, analysts and the financial community:** **Ms. Annabelle Arceo** **Telephone No. +632 894 0875** **Email: ir@ltg.com.ph or annabelle.arceo@ltg.com.ph**

3) What are the company's rules and procedures governing the acquisition of corporate control in the capital markets, and extraordinary transactions such as mergers, and sales of substantial portions of corporate assets?

With respect to acquisition of corporate control in the capital markets, as well as extraordinary transactions such as mergers, and sales of substantial portions of corporate assets, the Company acts in accordance with the relevant provisions in the Corporation Code.

Name of the independent party the board of directors of the company appointed to evaluate the fairness of the transaction price.

Currently, there is none.

L. CORPORATE SOCIAL RESPONSIBILITY INITIATIVES

Discuss any initiative undertaken or proposed to be undertaken by the company.

Initiative	Beneficiary
A subsidiary, Tanduay Distillers, Inc. has partnered with the Tan Yan Kee Foundation for a mangrove rehabilitation project dubbed as "Roots for Boracay."	Boracay Mangroves
The Company is constantly searching for opportunities that will spark initiatives that may be undertaken with subsidiaries or able partners, which will greatly benefit particular sectors of society.	Currently none in particular.

M. BOARD, DIRECTOR, COMMITTEE AND CEO APPRAISAL

Disclose the process followed and criteria used in assessing the annual performance of the board and its committees, individual director, and the CEO/President.

	Process	Criteria
Board of Directors	Board Assessment	General responsibility of the Board to its stakeholders and the investing public
Board Committees	Performance Assessment	The appropriate governance of the Company through its Committees.
Individual Directors	Self-Assessment	Vis-à-vis the duties and responsibilities set forth in the Company By-Laws and Corporate Governance Manual.
CEO/President	Performance Assessment	The sound business operations of the Company

N. INTERNAL BREACHES AND SANCTIONS

Discuss the internal policies on sanctions imposed for any violation or breach of the corporate governance manual involving directors, officers, management and employees

The Compliance Officer shall monitor and evaluate cases on noncompliance with the Manual. Upon proper notice and hearing, the Compliance Officer shall recommend to the Chairman of the Board the imposable penalty for such violation if any, and for further review and approval of the Board members.

The penalties prescribed hereunder shall be imposed:

- ***First offense, reprimand.***
- ***Second offense, suspended. The duration of suspension shall depend on the gravity of the violation.***
- ***Third offense, recommended for termination from office.***

Pursuant to the requirement of the Securities and Exchange Commission, this Annual Corporate Governance Report is signed on behalf of the registrant by the undersigned, thereunto duly authorized, in the City of Manila on 08 April 2015.

SIGNATURES

MICHAEL G. TAN
President/Chief Operating Officer

MA. CECILIA L. PESAYCO
Compliance Officer

ANTONINO L. ALINDOGAN, JR.
Independent Director

WILFRIDO E. SANCHEZ
Independent Director

APR 09 2015

SUBSCRIBED AND SWORN to before me this ____ day of April 2015, affiants exhibiting to me their competent evidence of identification, as follows:

NAME	PASSPORT NO.	DATE OF ISSUE/PLACE OF ISSUE
Michael G. Tan	EC0229876	February 6, 2014/DFA Manila, Philippines
Antonino L. Alindogan, Jr.	EB7378497	February 13, 2013/DFA Manila, Philippines
Wilfrido E. Sanchez	EB2495410	May 19, 2011/DFA Manila, Philippines
Ma. Cecilia L. Pesayco	EB4720800	February 16, 2012/DFA Manila, Philippines

Doc No. 259;
Page No. 54;
Book No. II;
Series of 2015.

ADRIANNE MARIE C. ALAZAS
Notary Public until 31 December 2015
19th/F BDO Plaza, 8737 Paseo de Roxas, Makati City
PTR No. 4239395, Makati, 16 January 2014
IBP No. 947345, Makati, 3 January 2014
Roll No. 58449, Commission No. 375