COVER SHEET

PW-343

LT GROUP, INC.
(Formerly TANDUAY HOLDINGS, INC.)
and Subsidiaries

(Company's Full Name)

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

(Business Address: No. StreetCity/Town/Province)

Mr. Nestor C. Mendones
(Contact Person)

817-8710
(Company Telephone Number)

1 2	3 1
Month	*Day*

(Calendar Year)

17-Q
(Form Type)

0 5	0 2
Month	*Day*

(Annual Meeting)

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended March 31, 2013

2. SEC Identification Number PW-343

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

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

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

6. Industry Classification Code: (SEC Use Only)

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

8. Registrant's telephone number, including area code (632) 817-8710

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

   TANDUAY HOLDINGS, INC.

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

Title of Each Class	Number of Shares of common stock Outstanding and Amount of Debt Outstanding
Common shares, ₱1.00 par value	8,981,388,889

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

    Yes [✓] No [ ]

12. Indicate by check mark whether the registrant:

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

    Yes [✓] No [ ]

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

    Yes [✓] No [ ]

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

The unaudited interim condensed financial statements of LT Group, Inc. (the Company) and its subsidiaries as of and for the period ended March 31, 2013 (with comparative figures as of December 31, 2012 and for the period March 31, 2012) are filed as part of this form 17-Q as Annex "A".

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

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

PART II – OTHER INFORMATION

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

SIGNATURES

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

NESTOR C. MENDONES
Deputy CFO
May 17, 2013

JOSE GABRIEL D. OLIVES
Chief Finance Officer
May 17, 2013

Annex "A"

LT GROUP, INC.
(Formerly Tanduay Holdings, Inc.)
AND SUBSIDIARIES

Quarterly Consolidated Financial Statements
For the Three Months Ended March 31, 2013

LT Group, Inc.
[Formerly Tanduay Holdings, Inc. (a Subsidiary of Tangent Holdings Corporation)]
and Subsidiaries

Interim Consolidated Financial Statements
As at March 31, 2013 and December 31, 2012
And for the Three Months Ended March 31, 2013 and 2012

LT GROUP, INC.
[Formerly Tanduay Holdings, Inc.
(a Subsidiary of Tangent Holdings Corporation)]
AND SUBSIDIARIES

INTERIM CONSOLIDATED BALANCE SHEETS
(WITH COMPARATIVE FIGURES AS OF DECEMBER 31, 2012)
(Amounts in Thousands)

	March 31, 2013	December 31, 2012 (As Restated- Note 30)
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 5 and 18)	**₱139,670,602**	₱124,215,166
Financial assets at fair value through profit or loss	**5,656,102**	11,398,591
Available for sale (AFS) financial assets(Note 9)	**101,032,673**	6,335,811
Loans and receivables (Notes 6 and 18)	**118,718,467**	138,335,097
Due from related parties (Note 18)	**13,900,514**	16,243,510
Inventories (Note 7)	**8,887,840**	10,964,286
Other current assets (Note 8)	**5,127,820**	5,624,996
Total Current Assets	**392,994,018**	313,117,457
Noncurrent Assets		
Loans and receivables - net of current portion (Note 6)	**145,701,670**	122,410,493
Available-for-sale (AFS) financial assets (Note 9)	**1,255,710**	91,598,467
Investments in associate and joint venture (Note 10)	**14,450,586**	13,911,250
Property, plant and equipment (Note 11):		
At appraised values	**37,940,350**	38,553,539
At cost	**5,200,981**	4,686,170
Investment properties (Note 12)	**24,873,874**	23,618,305
Net retirement plan assets (Note 19)	**1,171,130**	1,173,073
Deferred income tax assets (Note 24)	**2,417,846**	2,659,973
Other noncurrent assets (Note 13)	**4,798,843**	3,423,426
Total Noncurrent Assets	**237,810,990**	302,034,696
TOTAL ASSETS	**₱630,805,008**	₱615,152,153

LIABILITIES AND EQUITY		
Current Liabilities		
Deposit liabilities (Note 15)	**₱369,249,168**	₱358,462,436
Financial liabilities at fair value through profit or loss (Note 15)	**6,177,010**	389,817
Bills and acceptances payable	**15,672,197**	17,256,919
Short-term debts (Notes 16 and 18)	**1,620,000**	6,117,306
Accounts payable and accrued expenses (Notes 14 and 18)	**10,250,139**	11,990,628
Income tax payable	**378,527**	236,672
Customers' deposits (Note 15)	**2,838,710**	2,626,388
Current portion of long-term debts (Notes 16 and 18)	**2,002,841**	2,741,143
Current portion of due to related parties (Note 18)	**45,916,938**	37,018,847
Other current liabilities (Note 15)	**24,772,928**	21,683,679
Total Current Liabilities (Carried Forward)	**478,878,458**	458,523,835

	March 31, 2013	December 31, 2012 (As Restated- Note 30)
Total Current Liabilities (Brought Forward)	**₱478,878,458**	₱458,523,835
Noncurrent Liabilities		
Deposit liabilities - net of current portion (Note 15)	**20,232,084**	24,805,196
Financial liabilities at fair value through profit or loss (Note 15)	**–**	6,196,070
Bills and acceptances payable (Note 15)	**–**	328,654
Long-term debts - net of current portion (Notes 16 and 18)	**16,148,713**	13,358,748
Accrued retirement benefits (Note 19)	**869,433**	855,818
Deferred income tax liabilities (Note 24)	**1,230,084**	2,313,568
Other noncurrent liabilities (Notes 7, 12 and 29)	**6,418,948**	7,160,244
Total Noncurrent Liabilities	**44,899,262**	55,018,298
Total Liabilities	**523,777,720**	513,542,133
Equity		
Attributable to equity holders of the parent company (Notes 1, 11, 25, and 30):		
Capital stock	**8,981,389**	8,981,389
Capital in excess of par	**1,173,772**	1,173,772
Other comprehensive income	**6,361,596**	6,866,772
Other equity reserves	**879,752**	1,096,888
Retained earnings	**48,664,115**	44,920,762
	66,060,624	63,039,583
Non-controlling interests (Notes 1, 11 and 25)	**40,966,664**	38,570,437
Total Equity	**107,027,288**	101,610,020
TOTAL LIABILITIES AND EQUITY	**₱630,805,008**	₱615,152,153

See accompanying Notes to Interim Consolidated Financial Statements.

LT GROUP, INC.
[Formerly Tanduay Holdings, Inc.
(a Subsidiary of Tangent Holdings Corporation)]
AND SUBSIDIARIES

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

	Three Months Ended March 31	
	2013	2012
REVENUE (Notes 4 and 20)		
Banking	**₱10,310,909**	₱8,432,602
Beverage	**3,088,841**	3,217,165
Distilled spirits	**2,968,102**	2,689,761
Tobacco (Notes 1 and 10)	**157,209**	643,952
Property development	**1,159,834**	560,231
	17,684,895	15,543,711
COST OF SALES (Notes 4 and 20)	**7,156,359**	6,986,364
GROSS INCOME	**10,528,536**	8,557,347
EQUITY IN NET EARNINGS OF AN ASSOCIATE (Note 10)	**1,566,716**	1,513,644
	12,095,252	10,070,991
OPERATING EXPENSES		
Selling expenses (Note 21)	**731,724**	774,682
General and administrative expenses (Note 22)	**5,786,563**	6,082,172
	6,518,287	6,856,854
OPERATING INCOME	**5,576,965**	3,214,137
OTHER INCOME (CHARGES)		
Finance costs (Notes 17 and 18)	**(117,549)**	(135,267)
Finance income (Notes 5, 6, 9 and 18)	**13,292**	44,966
Foreign exchange gains	**(36,807)**	363,870
Others - net (Note 23)	**1,356,504**	950,358
	1,215,440	1,223,927
INCOME BEFORE INCOME TAX	**6,792,405**	4,438,064
PROVISION FOR INCOME TAX (Note 24)		
Current	**995,382**	736,488
Deferred	**(2,987)**	(76,284)
	992,395	660,204
NET INCOME	**₱5,800,010**	₱3,777,860
Net Income Attributable To:		
Equity holders of the parent company	**₱3,767,309**	₱2,782,803
Non-controlling interests	**2,032,701**	995,057
	₱5,800,010	₱3,777,860
Basic/Diluted Earnings Per Share (Note 26)	**₱0.42**	₱0.32

See accompanying Notes to Interim Consolidated Financial Statements.

LT GROUP, INC.
[Formerly Tanduay Holdings, Inc.
(a Subsidiary of Tangent Holdings Corporation)]
AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in Thousands)

	Three Months Ended March 31	
	2013	2012
NET INCOME	**₱5,800,010**	₱3,777,860
OTHER COMPREHENSIVE INCOME		
Cumulative translation adjustment	**(319,864)**	186,914
Net changes in fair value of AFS financial assets, net of deferred income tax effect (Note 9)	**(332,326)**	(333,939)
Cumulative amount of unrecognized actuarial gains and losses	**779,184**	(2,383)
	126,994	(149,408)
TOTAL COMPREHENSIVE INCOME	**₱5,927,004**	₱3,628,452
Total Comprehensive Income Attributable To:		
Equity holders of the parent company	**₱3,530,777**	₱2,530,685
Non-controlling interests	**2,396,227**	1,097,767
	₱5,927,004	₱3,628,452

See accompanying Notes to Interim Consolidated Financial Statements.

LT GROUP, INC.
[Formerly Tanduay Holdings, Inc.
(a Subsidiary of Tangent Holdings Corporation)]
AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE THREE MONTHS ENDED MARCH 31,2013 AND 2012
(Amounts in Thousands)

	Attributable to Equity Holders of the Parent Company (Notes 1, 11, 25 and 30)									
	Capital Stock	**Capital in Excess of Par**	**Deposit for Future Stock Subscription**	**Total Other Comprehensive Income (Loss)**	**Other Equity Components**	**Retained Earnings**	**Treasury Shares**	**Total**	**Non-Controlling Interests (Notes 1 and 25)**	**Total**
BALANCES AT DECEMBER 31, 2011, AS PREVIOUSLY STATED	**₱3,583,250**	**₱–**	**₱1,639,401**	**₱5,334,105**	**₱1,592,521**	**₱23,297,289**	**₱ (150,889)**	**₱35,295,677**	**₱4,644,869**	**₱39,940,546**
Effect of restatements (Note 30)	**–**	**–**	**–**	**9,671,294**	**(163,960)**	**20,783,373**	**–**	**30,290,707**	**28,756,221**	**59,046,928**
BALANCES AT DECEMBER 31, 2011, AS RESTATED	**3,583,250**	**–**	**1,639,401**	**15,005,399**	**1,428,561**	**44,080,662**	**(150,889)**	**65,586,384**	**33,401,090**	**98,987,474**
Net income for the year, as restated	**–**	**–**	**–**	**–**	**–**	**2,782,803**	**–**	**2,782,803**	**995,057**	**3,777,860**
Other comprehensive income (loss), as restated	**–**	**–**	**–**	**(252,118)**	**–**	**–**	**–**	**(252,118)**	**102,710**	**(149,408)**
Total comprehensive income (loss) for the year, as restated	**–**	**–**	**–**	**(252,118)**	**–**	**2,782,803**	**–**	**2,530,685**	**1,097,767**	**3,628,452**
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal, as restated	**–**	**–**	**–**	**(187,692)**	**–**	**187,692**	**–**	**–**	**–**	**–**
Acquisition of shares of subs from controlling shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
BALANCES AT MARCH 31, 2012, AS RESTATED	**₱3,583,250**	**₱–**	**₱1,639,401**	**₱14,565,589**	**₱1,428,561**	**₱47,051,157**	**₱ (150,889)**	**₱68,117,069**	**₱34,498,857**	**₱102,615,926**
BALANCES AT DECEMBER 31, 2012, AS PREVIOUSLY STATED	**₱8,981,389**	**₱1,173,772**	**₱–**	**₱4,993,008**	**₱270,416**	**₱31,337,931**	**₱–**	**₱46,756,516**	**₱5,853,550**	**₱52,610,066**
Effect of restatements (Note 30)	**–**	**–**	**–**	**1,873,764**	**826,472**	**13,582,831**	**–**	**16,283,067**	**32,716,887**	**48,999,954**
BALANCES AT DECEMBER 31, 2012, AS RESTATED	**8,981,389**	**1,173,772**	**–**	**6,866,772**	**1,096,888**	**44,920,762**		**63,039,583**	**38,570,437**	**101,610,020**
Net income for the year, as restated	**–**	**–**	**–**	**–**	**–**	**3,767,309**	**–**	**3,767,309**	**2,032,701**	**5,800,010**
Other comprehensive income (loss), as restated	**–**	**–**	**–**	**(236,532)**	**–**	**–**	**–**	**(236,532)**	**363,526**	**126,994**
Total comprehensive income (loss) for the year, as restated	**–**	**–**	**–**	**(236,532)**	**–**	**3,767,309**	**–**	**3,530,777**	**2,396,227**	**5,927,004**
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal, as restated	**–**	**–**	**–**	**(268,644)**	**–**	**(23,956)**	**–**	**(292,600)**	**–**	**(292,600)**
Acquisition of shares of subs from controlling shareholders	**–**	**–**	**–**	**–**	**(217,136)**	**–**	**–**	**(217,136)**	**–**	**(217,136)**
BALANCES AT MARCH 31, 2013, AS RESTATED	**₱8,981,389**	**₱1,173,772**	**₱–**	**₱6,361,596**	**₱879,752**	**₱48,664,115,**	**₱–**	**₱66,060,624**	**₱40,966,664**	**₱107,027,288**

See accompanying Notes to Interim Consolidated Financial Statements.

LT GROUP, INC.
[Formerly Tanduay Holdings, Inc.
(a Subsidiary of Tangent Holdings Corporation)]
AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)

	Three Months Ended March 31	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱6,792,405**	₱4,438,064
Adjustments for:		
Depreciation and amortization (Notes 11, 12 and 13)	**975,975**	893,999
Impairment loss on property, plant and equipment (Notes 11 and 23)	**363,861**	596,224
Gain on disposal of:		
Property and equipment	**–**	(699)
Investment properties	**(412,837)**	(224,232)
Equity in net loss (earnings) of an associate (Note 10)	**(1,566,716)**	(1,513,644)
Finance costs (Notes 17 and 18)	**105,101**	133,412
Finance income (Notes 5 and 6)	**(23,501)**	(48,025)
Net retirement benefits payable	**348,816**	206,448
Other adjustments	**192,305**	2,180,083
Operating income before changes in working capital	**6,775,409**	6,661,630
Decrease (increase) in:		
Financial assets at fair value through profit or loss	**5,742,489**	(1,663,853)
Receivables-net	**4,849,997**	(9,652,782)
Inventories	**2,076,446**	(519,341)
Derivative assets		198,273
Other current assets and noncurrent assets	**(1,973,305)**	2,723,993
Increase (decrease) in:		
Accounts payable and other liabilities	**1,969,838**	8,611,976
Customers' deposits	**212,322**	635,750
Financial liabilities at fair value through profit or loss	**(408,877)**	(194,581)
Other liabilities	**2,474,255**	(6,186,806)
Interest received	**23,501**	175,852
Income taxes paid, including creditable withholding and final taxes	**(1,398,400)**	(1,288,326)
Net cash from operating activities	**20,343,675**	(498,215)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of:		
AFS financial assets (Note 9)	**(4,250,143)**	(20,562,428)
Investment in joint venture (Note 10)	**1,027,380**	810,027
Property, plant and equipment (Note 11)	**(3,035,326)**	732,970
Investment properties (Note 12)	**(110,663)**	3,901,187
Software (Note 13)	**439,300**	34,239
Advances granted to affiliates (Note 18)	**(6,316,559)**	(579,185)
Net retirement plan assets	**129,382**	–
Net cash used in investing activities	**(12,116,629)**	(15,663,190)

(Forward)

	Three Months Ended March 31	
	2013	2012
CASH FLOWS FROM FINANCING ACTIVITIES		
Net availments (payments) of short-term debts (Notes 16 and 18)	**(₱5,335,613)**	(₱1,078,865)
Proceeds from (payments of) bill and acceptance payable	**(2,504,430)**	4,953,113
Acquisition of shares	–	(150,889)
Advances from affiliates	**13,016,844**	4,379,376
Long term debts	**2,789,965**	149,483
Finance cost	**(105,101)**	(133,412)
Deposit for future stock subscription (Note 25)	–	(3,022,059)
Others	**(633,275)**	2,759,138
Net cash from financing activities	**7,228,390**	7,855,885
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**15,455,436**	(8,305,520)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**124,215,166**	132,520,686
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	**₱139,670,602**	₱124,215,166

See accompanying Notes to Interim Consolidated Financial Statements.

LT GROUP, INC.
[Formerly Tanduay Holdings, Inc.
(a Subsidiary of Tangent Holdings Corporation)]
AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

Corporate Information

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

After a series of restructuring activities in 2012, LTG has expanded and diversified its investments to include the beverages, tobacco and property development 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 interim consolidated financial statements.

As of March 31, 2013 and December 31, 2012, LTG is 89.59%-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 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 (presented as "Deposit for future stock subscription" as of December 31, 2011 in the equity section of the consolidated balance sheets). 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.

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 contributed cash amounting to ₱5.0 billion in exchange for LTG's 5,000,000,000 common shares (see Note 25).

The significant transactions that occurred as of December 31, 2012 are as follows:

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 10).

   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.

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%.

The following transactions happened during the three months ended March 31, 2013:

a. Merger of PNB and Allied Bank

On March 6, 2012, PNB held a Special Stockholders' Meeting approving the amended terms of the Plan of Merger of PNB with Allied Bank. Under the approved amended terms, merger will be effected via a share-for-share exchange with PNB as the surviving entity. PNB will issue to Allied Bank shareholders 130 Parent Company common shares for every Allied Bank common share and 22.763 PNB common shares for every Allied Bank 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 Allied Bank (the merger of PNB and Allied Bank will be referred to herein as "Merged PNB") as approved and confirmed by the Board of Directors of PNB and Allied Bank on January 22 and January 23, 2013, respectively.

The merger of PNB and Allied Bank was accounted for using the pooling of interests method since the transaction is a business combination involving entities under common control.

b. Acquisition of Bank Holding Companies

On February 11, 2013, LTG's BOD approved the acquisition of indirect ownership interest in the Merged PNB through the investment in the 27 holding companies which have collective ownership interest in the Merged PNB of 59.8% (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.

In various dates in February and March 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 March 31, 2013, LTG obtained majority ownership over certain Bank Holding Companies which collectively own direct ownership interest of 45.5% of the Merged PNB. As of May 6, 2013, LTG is currently obtaining the requisite regulatory approval to increase its stake in PNB to 59.8%.

c. Acquisition of FTC's Non-controlling Interest

In September and October 2012, as a result of LTG's subscription to new shares issued by FTC, LTG acquired direct ownership interest in FTC of 82.32% while diluting the ownership interest of Shareholdings in FTC from 98.0% to 17.33%. In February 2013, LTG increased its effective ownership interest in FTC to 99.58% through the following:

- Acquired subscription right to 453,500,000 shares of Shareholdings, which represents 90.7% ownership interest in Shareholdings or equivalent to 15.7% 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 97.7% (equivalent to 1.2% 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.

The business combination of LTG and the merged PNB and Allied Bank (merged PNB) and the acquisition of noncontrolling interest in FTC were also accounted for similar to the pooling of interest method. Thus, the December 31, 2012 comparative financial information were restated to include the accounts of the merged PNB at their carrying values and to present the net assets attributed to the noncontrolling interest in FTC as part of the equity attributable to the Parent Company as if the noncontrolling interest had been acquired at the beginning of the earliest period presented.

Authorization for Issue of the Interim Financial Statements

The interim consolidated financial statements as at March 31, 2013 and December 31, 2012 and for the three months ended March 31, 2013 and 2012 were authorized for issue by the BOD on May 6, 2013.

2. Summary of Significant Accounting and Financial Reporting Policies

Basis of Preparation and Statement of Compliance

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

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

Basis of Consolidation

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

	Percentage of Ownership				
	March 31				Country of Incorporation
	2013		2012*		
Subsidiaries	**Direct**	**Indirect**	**Direct**	**Indirect**	
Distilled Spirits					
TDI and subsidiaries	**100.0**	**–**	100.0	–	Philippines
Absolut Distillers, Inc. (ADI)	**–**	**95.0**	–	95.0	Philippines
Asian Alcohol Corporation (AAC)	**–**	**96.0**	–	96.0	Philippines
Tanduay Brands International, Inc. (TBI) **	**100.0**	**–**	100.0	–	Philippines
Beverages				–	Philippines
ABI and subsidiaries	**99.9**	**–**	99.9	–	Philippines
Agua Vida Systems, Inc.	**–**	**100.0**	–	99.9	Philippines
Interbev	**–**	**100.0**	–	99.9	Philippines
Waterich	**–**	**100.0**	–	99.9	Philippines
Packageworld	**–**	**100.0**	–	99.9	Philippines
Tobacco					
FTC	**82.3**	**–**	82.3	–	Philippines
Property Development					
Saturn***	**100.0**	**–**	100.0	–	Philippines
Paramount and subsidiaries***	**100.0**	**–**	100.0	–	Philippines
Eton	**–**	**99.3**	–	99.3	Philippines
Belton Communities, Inc. (BCI)	**–**	**99.3**	–	99.3	Philippines
Eton City, Inc. (ECI)	**–**	**99.3**	–	99.3	Philippines
FirstHomes, Inc. (FHI)	**–**	**99.3**	–	99.3	Philippines
Banking					
Bank Holding Companies (Note 18)	Various	–	Various	–	Various
PNB and Subsidiaries****	**–**	**45.5**	**–**	45.5	Philippines
PNB Capital and Investment Corporation (PNB Capital)	**–**	**100.0**	**–**	100.0	Philippines
PNB Forex, Inc.	**–**	**100.0**	**–**	100.0	Philippines
PNB Holdings Corporation (PNB Holdings)	**–**	**100.0**	**–**	100.0	Philippines
General Insurers, Inc. (Gen)	**–**	**100.0**	**–**	100.0	Philippines
PNB Securities, Inc. (PNB Securities)	**–**	**100.0**	**–**	100.0	Philippines
PNB Corporation - Guam	**–**	**100.0**	**–**	100.0	USA
PNB International Investments Corporation (PNB IIC)	**–**	**100.0**	**–**	100.0	USA

(Forward)

Subsidiaries	Percentage of Ownership March 31 2013 Direct	 Indirect	 2012* Direct	 Indirect	Country of Incorporation
PNB Remittance Centers, Inc.	–	**100.0**	–	100.0	USA
PNB RCI Holding Co. Ltd.	–	**100.0**	–	100.0	USA
PNB Remittance Co. (Canada)	–	**100.0**	–	100.0	Canada
PNB Europe PLC	–	**100.0**	–	100.0	United Kingdom
PNB Global Remittance & Financial Co. (HK) Ltd. (PNB GRF)	–	**100.0**	–	100.0	Hong Kong
PNB Italy SpA	–	**100.0**	–	100.0	Italy
Tanzanite Investments (SPV-AMC), Inc.	–	**100.0**	–	100.0	Philippines
Tau Portfolio Investments (SPV-AMC), Inc.	–	**100.0**	–	100.0	Philippines
Omicron Asset Portfolio (SPV-AMC), Inc.	–	**100.0**	–	100.0	Philippines
Japan - PNB Leasing and Finance Corporation (Japan-PNB Leasing)*	–	**90.0**	–	90.0	Philippines
PNB Equipment Rentals	–	**90.0**	–	90.0	Philippines
Opal (SPE)	–		–		
Allied Savings Bank (ASB)	–	**70.0**	–	70.0	Philippines
Allied Bank Philippines (UK) Plc (ABUK)	–	**70.0**	–	70.0	United Kingdom
Allied Commercial Bank (ACB)	–	**36.0**	–	36.0	People's Republic of China
Allied Banking Corporation (Hongkong) Limited (ABCHKL)	–	**36.0**	–	36.0	Hong Kong
Allied Forex Corporation	–	**70.0**	–	70.0	Philippines
PNB Life Insurance, Inc. (PLII)	–	**53.0**	–	53.0	Philippines
Allied Leasing and Finance Corporation (ALFC)	–	**40.0**	–	40.0	Philippines
Oceanic Holdings (BVI) Ltd. (OHBVI)	–	**19.0**	–	19.0	United States of America

* *Effective percentage of ownership in 2012 was restated to reflect pooling of interest as if the newly acquired subsidiaries have always been combined.*

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

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

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

Subsidiaries are entities over which an entity within the Group has the power to govern the financial and operating policies of the entities, or generally have an interest of more than one-half of the voting rights of the entities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether an entity within the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Control is achieved where an entity within the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. They are deconsolidated from the date on which control ceases. A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction.

The interim 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 transaction.

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

If the Group loses control over a subsidiary, it derecognizes assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interest and the cumulative translation differences recorded in equity; recognizes the fair value of the consideration received, any investment retained, and any surplus or deficit in profit or loss; and reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

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

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with PAS 39 either in profit or loss or as a charge to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the fair values of net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

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

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

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

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

Common control business combinations
Where there are business combinations in which all the combining entities within the Group are ultimately controlled by the same ultimate parent (i.e., Controlling Shareholders) before and after the business combination and that the control is not transitory ("business combinations under common control"), the Group accounts such business combinations similar to a pooling of interests. The assets and liabilities of the acquired entities and that of the Group are reflected at their carrying values. The difference in the amount recognized and the fair value of the consideration given, is accounted for as an equity transaction, i.e., as either a contribution or distribution of equity. Further, when a subsidiary is disposed in a common control transaction, the difference in the amount recognized and the fair value consideration received, is also accounted for as an equity transaction. The Group recorded the difference as other equity reserves and presented as separate component of equity in the consolidated balance sheets. Comparatives shall be restated to include balances and transactions as if the entities had been acquired at the beginning of the earliest period presented as if the companies had always been combined.

Changes in Accounting Policies and Disclosures
The accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended December 31, 2012, except for the adoption of new standards and interpretations effective as of January 1, 2013.

The Group applies, for the first time, certain standards and amendments that require restatement of previous financial statements. These include PFRS 10, *Consolidated Financial Statements*, PFRS 11, *Joint Arrangements*, PAS 19 (Revised 2011), *Employee Benefits*, PFRS 13, *Fair Value*

Measurement and amendments to PAS 1, *Presentation of Financial Statements*. As required by PAS 34, the nature and the effect of these changes are disclosed below. In addition, the application of PFRS 12, *Disclosure of Interest in Other Entities* would result in additional disclosures in the annual consolidated financial statements.

Several other new standards and amendments apply for the first time in 2013. However, they do not impact the annual consolidated financial statements of the Group or the interim consolidated financial statements of the Group.

The nature and the impact of each new standard/amendment is described below:

- PAS 1, *Presentation of Items of Other Comprehensive Income - Amendments to PAS 1*, introduces a grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or recycled) to profit or loss at a future point in time (e.g., net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) now have to be presented separately from items that will never be reclassified (e.g., actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment affected presentation only and had no impact on the Group's financial position or performance.

- PAS 1, *Clarification of the Requirement for Comparative Information (Amendment)*, clarifies the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional voluntarily comparative information does not need to be presented in a complete set of financial statements.

  An opening balance sheet (known as the 'third balance sheet') must be presented when an entity applies an accounting policy retrospectively, makes retrospective restatements, or reclassifies items in its financial statements, provided any of those changes has a material effect on the balance sheet at the beginning of the preceding period. The amendment clarifies that a third balance sheet does not have to be accompanied by comparative information in the related notes. Under PAS 34, the minimum items required for interim consolidated financial statements do not include a third balance sheet.

- PAS 32, *Tax Effects of Distributions to Holders of Equity Instruments (Amendment) - Amendment to PAS 32, Financial Instruments: Presentation* clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with PAS 12 *Income Taxes*. The amendment removes existing income tax requirements from PAS 32 and requires entities to apply the requirements in PAS 12 to any income tax arising from distributions to equity holders. The amendment did not have an impact on the interim consolidated financial statements for the Group, as there is no tax consequences attached to cash or non-cash distribution.

- PAS 34, *Interim Financial Reporting and Segment Information for Total assets and Liabilities (Amendment),* clarifies the requirements in PAS 34 relating to segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirements in PFRS 8, *Operating Segments*. Total assets and liabilities for a reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total amount disclosed in the entity's previous annual consolidated financial statements for that reportable segment. The Group provides this disclosure as total segment assets were reported to the chief operating decision maker (CODM). As a result of this amendment, the Group now also includes disclosure of total segment liabilities as these are reported to the CODM (See Note 4).

- PAS 19, *Employee Benefits (Revised 2011) (PAS 19R),* includes a number of amendments to the accounting for defined benefit plans, including actuarial gains and losses that are now recognized in other comprehensive income (OCI) and permanently excluded from profit and loss; expected returns on plan assets that are no longer recognized in profit or loss, instead, there is a requirement to recognize interest on the net defined benefit liability (asset) in profit or loss, calculated using the discount rate used to measure the defined benefit obligation, and; unvested past service costs are now recognized in profit or loss at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognized. Other amendments include new disclosures, such as, quantitative sensitivity disclosures.

  In case of the Group, the transition to PAS 19R had an impact on the net defined benefit plan obligations due to the difference in accounting for interest on plan assets and unvested past service costs. The Group obtained services of actuaries to compute the impact of this standard upon its adoption. The December 31, 2012 were restated to include the impact of the adoption of PAS 19R.

- PFRS 7, *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7,* requires an entity to disclose information about rights to set-off financial instruments and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32. The disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether the financial instruments are set off in accordance with PAS 32. As the Group is not setting off financial instruments in accordance with PAS 32 and does not have relevant offsetting arrangements, the amendment does not have an impact on the Group.

- PFRS 10, *Consolidated Financial Statements* and PAS 27, *Separate Financial Statements*, establish a single control model that applies to all entities including special purpose entities. PFRS 10 replaces the parts of previously existing PAS 27, *Consolidated and Separate Financial Statements* that dealt with consolidated financial statements and SIC-12, *Consolidation - Special Purpose Entities*. PFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in PFRS 10, all three criteria must be met, including: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns. The Company assessed that all subsidiaries as of December 31, 2012, upon adoption of PFRS 10, will remain to be consolidated and will that there are no new consolidated entity as of December 31, 2012 which need to be consolidated in 2013. Further, the new acquisitions in the period ended March 31, 2013, the Company concluded that PNB, a 45.5% subsidiary, shall be consolidated.

- PFRS 11, *Joint Arrangements and PAS 28, Investment in Associates and Joint Ventures*, replaces PAS 31, *Interests in Joint Ventures* and SIC-13, *Jointly-controlled Entities - Non-monetary contributions by Venturers*. PFRS 11 removes the option t*o account for jointly* *controlled entities (JCEs*) using proportionate consolidation. Instead, JCEs that meet t*he definition of a joint venture under P*FRS 11 must be accounted for using the equity method. The application of this new standard does not have an impact on the financial position of the Group since its investments in associates and joint venture is currently accounted for under the equity method.

- PFRS 12, *Disclosure of Interests in Other Entities*, sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. None of these disclosure requirements are applicable for interim consolidated financial statements, unless significant events and transactions in the interim period requires that they are provided. Accordingly, the Group has not made such disclosures.

- PFRS 13, *Fair Value Measurement*, establishes a single source of guidance under PFRS for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. The application of PFRS 13 has not materially impacted the fair value measurements carried out by the Group. PFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including PFRS 7, *Financial Instruments: Disclosures*. Some of these disclosures are specifically required for financial instruments by PAS 34.16A(j), thereby affecting the interim consolidated financial statements period.

In addition to the above-mentioned amendments and new standards, PFRS 1, *First-time Adoption of International Financial Reporting Standards* was amended with effect for reporting periods starting on or after January 1, 2013. The Group is not a first-time adopter of PFRS, therefore, this amendment is not relevant to the Group. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Significant Accounting Policies

Investments in Associate and Joint Venture

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

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

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

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

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 interim consolidated statement of comprehensive income.

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 - Initial Recognition and Subsequent Measurement

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.

Determination of fair value
The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and ask prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation methodologies. Valuation methodologies include net present value techniques, comparison to similar instruments for which market observable prices exist, option pricing models, and other relevant valuation models.

'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 interim 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 interim 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 Parent Company and some of its subsidiaries 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 interim 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 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 interim 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.

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

Loans and receivables
Significant accounts falling under this category are loans and receivables, amounts due from BSP and other banks, interbank loans receivable, securities held under agreements to resell and receivable from SPV.

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

Loans and receivables also include receivables arising from transactions on credit cards issued directly by the Parent Company. Furthermore, 'Loans and receivables' include the aggregate rental on finance lease transactions and notes receivables financed by Japan - PNB Leasing. Unearned income on finance lease transactions is shown as a deduction from 'Loans and receivables' (included in 'Unearned 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 interim consolidated statement of income. The losses arising from impairment are recognized in 'Provision for impairment and credit losses' in the interim 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 interim consolidated statement of income. The unrealized gains and losses arising from the fair valuation of AFS investments are excluded, net of tax, from reported income and are reported as 'Net unrealized gain (loss) on AFS investments' in the statement of other comprehensive income.

When the security is disposed of, the cumulative gain or loss previously recognized in OCI is recognized as 'Trading and investment securities gains - net' in the interim 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 interim consolidated statement of income as 'Miscellaneous income' when the right of the payment has been established. The losses arising from impairment of such investments are recognized as 'Provision for impairment and credit losses' in the interim consolidated statement of income.

Other financial liabilities
Issued financial instruments or their components, which are not designated at FVPL, are classified as deposit liabilities, bills and acceptances payable, subordinated debt 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 interim consolidated statement of income.

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.

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 interim 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 interim 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 interim consolidated statement of income. The DAC is also considered in the liability adequacy test for each reporting period.

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 interim 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, credit and other losses' in the interim 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 interim consolidated statement of income - is removed from equity and recognized in the interim consolidated statement of income. Impairment losses on equity investments are not reversed through the interim consolidated statement of income. Increases in fair value after impairment are recognized directly in OCI.

In the case of debt instruments classified as AFS investments, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of 'Interest income' in the interim 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 interim consolidated statement of income, the impairment loss is reversed through the interim 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.

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.

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 interim 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 interim consolidated statement of income in ‘Provision for impairment, credit and other losses’. Any financial guarantee liability remaining is recognized in the interim consolidated statement of income in ‘Service fees and commission income’, when the guarantee is discharged, cancelled or has expired.

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

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

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

NRV of finished goods is the estimated selling price less the estimated costs of marketing and distribution. NRV of work in process is the estimated selling price less estimated costs of completion and the estimated costs necessary to make the sale. For raw materials, NRV is current replacement cost.

Materials and supplies
Materials and supplies include purchase cost. The cost of these inventories is determined using moving-average method. NRV of materials and supplies is the estimated realizable value of the materials and supplies when disposed of at their condition at the end of the reporting period.

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

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

<u>Prepayments</u>
Prepayments are expenses paid in advance and recorded as asset before they are utilized. This account comprises 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 interim 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 interim 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 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 in respect of an item of 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.

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
Land improvements	5 - 15
Plant buildings and building improvements	8 - 50
Machineries and equipment	5 - 30
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 interim consolidated statement of income.

Investment Properties

Investment properties are initially measured at cost, including certain transaction costs. Investment properties acquired through a nonmonetary asset exchange is measured initially at fair value unless the exchange lacks commercial substance or the fair value of neither the asset received nor the asset given up is reliably measurable. Any gain or loss on the exchange is recognized in 'Gain on acquisition of investment properties' and presented in the interim consolidated statement of income.

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 interim 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.

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 interim 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 Group amortizes the software costs over five years. 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 interim consolidated statement of income in the expense category consistent with the function of the intangible asset.

Impairment of Noncurrent Nonfinancial Assets

Property, plant and equipment, investment properties, investments in associate and joint venture, and software

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 unit's) 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 interim 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 interim consolidated statement of income. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods. The Group performs its annual impairment test of goodwill at the end of the reporting period.

Customers' Deposits including Excess of Collections over Recognized Receivables
Customers' deposits represent payments from buyers 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 rate 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 interim consolidated statement of income.

<u>Revenue</u>
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 following specific recognition criteria must also be met before revenue is recognized:

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

Real estate sales
The percentage-of-completion method is used to recognize income from sales of projects where the Group has material obligations under the sales contract to complete the project after the property is sold, the equitable interest has been transferred to the buyer, construction is beyond preliminary stage (i.e., engineering, design work, construction contracts execution, site clearance and preparation, excavation and the building foundation are finished), and the costs incurred or to be incurred can be measured reliably. Under this method, revenue is recognized as the related obligations are fulfilled, measured principally on the basis of the estimated completion of a physical proportion of the contract work.

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

Rental income
Rental income under noncancellable and cancellable leases on investment properties is recognized in the interim 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.

Royalty income
Royalty income is recognized on an accrued basis in accordance with the substance of the relevant agreement.

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:

a) *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.

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

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.

Rental income
Rental income arising on leased properties is accounted for on a straight-line basis over the lease terms on ongoing leases and is recorded in the interim consolidated statement of income under ‘Miscellaneous income’.

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 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 interim 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.

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

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

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

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

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

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

Retirement Benefits Costs
The Group has a funded, defined benefit retirement. The Group has adopted PAS 19R, which has been applied retrospectively from January 1, 2012.

The Group determines the deficit or surplus by: (a) using an actuarial technique, the projected unit credit method, to make a reliable estimate of the ultimate cost to the entity of the benefit that employees have earned in return for their service in the current and prior periods. This requires an entity to determine how much benefit is attributable to the current and prior periods and to make estimates (actuarial assumptions) about demographic variables (such as employee turnover and mortality) and financial variables (such as future increases in salaries and medical costs) that will affect the cost of the benefit; (b) discounting that benefit in order to determine the present value of the defined benefit obligation and the current service cost; and (c) deducting the fair value of any plan assets from the present value of the defined benefit obligation.

The net defined benefit liability (asset) represents the computed deficit or surplus, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The amounts to be recognized in profit or loss comprised of current service cost, any past service cost and gain or loss on settlement, and net interest on the net defined benefit liability (asset).

The Group recognized the remeasurements of the net defined benefit liability (asset) in other comprehensive income, which comprised of the actuarial gains and losses; return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset); and any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).

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.

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

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

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.

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 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 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 statement of income in the order that revenue is recognized over the period of risk. Further provisions are made to cover claims under unexpired insurance contracts which may exceed the unearned premiums and the premiums due in respect of these contracts.

Claims Provision and Incurred But Not Reported (IBNR) Losses
Outstanding claims provisions are based on the estimated ultimate cost to all claims incurred but not settled at the end of the reporting period, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of which cannot be known with certainty at the end of the reporting period. The liability is not discounted for the time value of money and includes provision for IBNR. No provision for equalization or catastrophic reserves is recognized. The liability is derecognized when the contract has expired, is discharged or cancelled.

Liability Adequacy Test
At each end of the reporting period, liability adequacy tests are performed, to ensure the adequacy of insurance contract liabilities, net of related (DAC) assets. In performing the test, current best estimates of future cash flows, claims handling and policy administration expenses, as well as investment income from assets backing such liabilities, are used. Changes in expected claims that have occurred, but which have not been settled, are reflected by adjusting the liability for claims and future benefits. Any inadequacy is immediately charged to the consolidated statement of income by establishing an unexpired risk provision for losses arising from the liability adequacy tests. 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.

Foreign Currency-denominated Transaction and Translation
The Group's interim 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 combining entities 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 in the consolidated statement of income.

Taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the end of reporting period.

Deferred income tax

Deferred income tax is recognized on all temporary differences at the end of reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits from excess of minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences, carryforward benefits of unused tax credits from excess of MCIT over RCIT and unused NOLCO can be utilized. Deferred income tax liabilities are recognized for all taxable temporary differences.

Deferred income tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or loss nor taxable profit or loss.

Deferred income tax liabilities are not provided on non-taxable temporary differences associated with investments in domestic subsidiaries, associates and interest in joint ventures. With respect to investments in other subsidiaries, associates and interests in joint ventures, deferred income tax liabilities are recognized except when the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting period and are recognized to the extent that it has become probable that sufficient future taxable profits will allow the deferred income tax assets to be recovered. It is probable that sufficient future taxable profits will be available against which a deductible temporary difference can be utilized when there are sufficient taxable temporary difference relating to the same taxation authority and the same taxable entity which are expected to reverse in the same period as the expected reversal of the deductible temporary difference. In such circumstances, the deferred income tax asset is recognized in the period in which the deductible temporary difference arises.

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

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 interim 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 interim 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 interim 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 interim consolidated financial statements.

Fiduciary Activities

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

Equity

Capital stock is measured at par value for all shares issued by the Company. When the Company issue more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax.

Capital in excess of par is the portion of the paid-in capital representing excess over the par or stated value.

Treasury shares are owned equity instruments that are reacquired. Where any member of the Group purchases the Company's capital stock (presented as "Shares held by a subsidiary"), the consideration paid, including any directly attributable incremental costs (net of related taxes), is deducted from equity until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transactions costs and the related income tax effect, is included in equity attributable to the equity holders of the Company.

Deposits for future stock subscription are cash received from a stockholder for subscription of shares out of the Company's increase in authorized capital stock with pending approval from the Philippine SEC as of the end of the reporting period. These deposits are to be settled only by issuance of a fixed number of equity shares.

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 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 of the Group includes revaluation increment in property, plant and equipment and net changes in fair values of AFS investments and share in other comprehensive income of associates.

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.

Dividend Distributions

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 interim consolidated financial statements. Events after the end of reporting period that are not adjusting events, if any, are disclosed when material to the interim 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 interim consolidated financial statements.

New Accounting Standards, Amendments and Interpretations Effective Subsequent to 2013

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

Effective 2014

- PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*, clarifies the meaning of "currently has a legally enforceable right to set-off" and also the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.

Effective in 2015

PFRS 9, *Financial Instruments - Classification and Measurement*, as issued, 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*. Work on impairment of financial instruments and hedge accounting is still ongoing, with a view to replacing PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For 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 Group has made an initial high-level evaluation of the impact of the adoption of this standard. The Group decided not to early adopt PFRS 9 for its 2012 reporting ahead of its effectivity date on January 1, 2015 and therefore the consolidated financial statements as of December 31, 2012 do not reflect the impact of the said standard. Based on this evaluation, loans and receivables and other financial liabilities, both carried at amortized cost, will not be significantly affected. Upon adoption, these financial instruments shall continue to be carried at amortized cost, thus, the standard would have no impact to the Group's financial position and performance. Further, the Group's investments in equity securities classified as available-for-sale investments would be affected by the adoption of this standard. These investments shall be carried at fair value either through other comprehensive income or through profit or loss upon adoption of this standard.

The Group shall conduct another impact assessment at the end of the 2013 reporting period using the consolidated financial statements as of and for the year ended December 31, 2012. Given the proposed amendments on PFRS 9 and the status of its other phases, the Group at present, does not plan to early adopt in 2013 financial reporting. It plans to reassess its current position once the phases of PFRS 9 on impairment and hedge accounting become effective.

The Group's decision whether to early adopt PFRS 9 for its 2013 financial reporting will be disclosed in the consolidated financial statements as of and for the year ending December 31, 2013.

Effectivity 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. This 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, *Construction Contracts*, 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 adoption of this Philippine Interpretation may significantly affect the determination of the revenue from real estate sales and the corresponding costs, and the related contracts receivables, deferred income tax assets and retained earnings accounts. The adoption of this Philippine Interpretation will be accounted for retrospectively, and will result to restatement of prior period financial statements. The Group is currently assessing the impact of this amendment on its financial position or performance.

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

The preparation of the interim 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 interim 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 interim consolidated financial statements:

Determination of functional currency

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

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

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

Classification of financial instruments

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

Revenue recognition on real estate sales
Selecting an appropriate revenue recognition method for a particular real estate sale transaction requires certain judgments based on, among others, the buyer's commitment on the sale which may be ascertained through the significance of the buyer's initial investment and stage of completion of the project. Based on the judgment of the Group, the percentage-of-completion method is appropriate in recognizing revenue on real estate sale transactions in 2013, and 2012.

Operating lease commitments - the Group as lessor
The Group has various lease agreements in respect of certain properties, which include commercial property leases of its investment properties. The Group evaluates whether significant risks and rewards of ownership of the leased properties are transferred (finance lease) or retained by the lessor (operating lease). The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that all significant risk and rewards of ownership over the leased properties are retained by the Group (see Note 29).

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 29).

The Group has also entered into a finance lease agreement covering certain transportation 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 29).

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.

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.

Measurement of NRV of consumer goods and materials and supplies 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.

Measurement of net realizable value of real estate inventories

The Group adjusts the cost of its real estate inventories to net realizable value 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.

Estimation of allowance for doubtful accounts on loans and receivables

The Group assesses on a regular basis if there is objective evidence of impairment of loans and receivables. The amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. The determination of impairment requires the Group to estimate the future cash flows based on certain assumptions as well as to use judgment in selecting an appropriate rate in discounting. The Group uses specific impairment on its loans and receivables.

The Group did not assess its loans and receivables for collective impairment due to the few counterparties which can be specifically identified and the balance involved is immaterial.

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.

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.

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.

Estimation of useful lives of property, plant and equipment and investment properties
The Group estimates the useful lives of property, plant and equipment and investment properties based on internal technical evaluation and experience with similar assets. Estimated useful lives of property, plant and equipment 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.

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 interim 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.

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 is not impaired (see Note 13).

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.

Provisions and contingencies
The Group is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with the legal counsel handling the defense in these matters and is based upon the analysis of potential results. The Group currently does not believe these proceedings will have a material adverse effect on the interim 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.

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.

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:

- Distilled Spirits, which is involved in manufacturing, compounding, bottling, importing, buying and selling of rum, spirit beverages, and liquor products. The Group conducts its distilled spirits business through TDI and its consolidated subsidiaries.
- Beverage, which is engaged in brewing and soft drinks and bottled water manufacturing in the Philippines. It also operates other plants, which includes commercial glass division and corrugated cartons production facility, to support the requirements of its brewing, bottled water and non-beer products operations. The Group conducts its beverage business through ABI, Interbev, Waterich and Packageworld.

- Tobacco, which is a supplier and manufacturer of cigarettes, casings, tobacco, packaging, labels and filters. The Group conducts its tobacco business through FTC’s interest in PMFTC.
- Property Development, which is engaged in ownership, development, leasing and management of residential properties, including but not limited to, all kinds of housing projects, commercial, industrial, urban or other kinds of real property; acquisition, purchasing, development and selling of subdivision lots. The Group conducts its property development business through Eton and its consolidated subsidiaries.
- Banking, as a result of the acquisition of the Merged PNB, the Group would be reporting “Banking Segment” as an additional segment. The Banking Segment 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.
- Others, consist of various holding companies (LTG, Paramount and Saturn) 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 has only one geographical segment as all of its assets are located in the Philippines. The Group operates and derives principally all of its revenue from domestic operations. Thus, geographical business segment information is not presented.

Further, the measurement of the segments is the same as those described in the summary of significant accounting and financial reporting policies, except for TDI investment properties which are carried at fair value in TDI consolidated financial statements, TDI’s investment property is adjusted at the consolidated level to carry it at cost in accordance with the Group’s policy.

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 segments of the Group have no significant customer which contributes 10% or more of their segment revenues.

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

For the three months ended March 31, 2013:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Others	Eliminations and Adjustments	Total
					(In Thousands)			
Segment revenue:								
External customers	**₱10,310,909**	**₱2,968,102**	**₱3,088,841**	**₱157,209**	**₱1,159,834**	**₱–**	**₱–**	**₱17,684,895**
Inter-segment	**14,688**	**50,583**	**286,224**	**–**	**–**	**–**	**(351,495)**	**–**
	10,325,597	**3,018,685**	**3,375,065**	**157,209**	**1,159,834**	**–**	**(351,495)**	**17,684,895**
Cost of sales	**(1,914,769)**	**(2,369,319)**	**(2,284,451)**	**(153,366)**	**(780,796)**	**–**	**346,342**	**(7,156,359)**
Gross profit	**8,410,828**	**649,366**	**1,090,614**	**3,843**	**379,038**	**–**	**(5,153)**	**10,528,536**
Equity in net earnings of an associate	**–**	**–**	**–**	**1,566,716**	**–**	**–**	**–**	**1,566,716**
	8,410,828	**649,366**	**1,090,614**	**1,570,559**	**379,038**	**–**	**(5,153)**	**12,095,252**
Selling expenses	**–**	**(95,841)**	**(555,504)**	**(150)**	**(88,761)**	**–**	**8,532**	**(731,724)**
General and administrative expenses	**(5,020,533)**	**(276,455)**	**(181,616)**	**(29,461)**	**(153,096)**	**(137,402)**	**12,000**	**(5,786,563)**
Operating income	**3,390,295**	**277,070**	**353,494**	**1,540,948**	**137,181**	**(137,402)**	**15,379**	**5,576,965**
Finance costs	**–**	**(101,880)**	**(26,524)**	**(5)**	**(1,262)**	**(2,737)**	**14,859**	**(117,549)**
Finance income	**–**	**30**	**350**	**–**	**11,918**	**10,699**	**(9,705)**	**13,292**
Foreign exchange gains (losses)	**(36,299)**	**(56)**	**–**	**–**	**168**	**(620)**	**–**	**(36,807)**
Other income (charges)	**1,121,790**	**(117,793)**	**3,524**	**20,579**	**45,510**	**303,429**	**(20,535)**	**1,356,504**
Income before income tax	**4,475,786**	**57,371**	**330,844**	**1,561,522**	**193,515**	**173,369**	**(2)**	**6,792,405**
Provision for income tax	**(753,598)**	**(50,448)**	**(101,809)**	**(372)**	**(84,575)**	**(1,593)**	**–**	**(992,395)**
Segment profit	**₱3,722,188**	**₱6,923**	**₱229,035**	**₱1,561,150**	**₱108,940**	**₱171,776**	**(₱2)**	**₱5,800,010**

Other financial information of the operating segments as of March 31, 2013 is as follows:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Others	Eliminations and Adjustments	Total
					(In Thousands)			
Assets:								
Current assets	**₱342,164,836**	**₱8,503,025**	**₱6,361,558**	**₱18,642,624**	**₱9,740,113**	**₱22,006,008**	**(₱14,424,146)**	**₱392,994,018**
Noncurrent assets	**190,884,855**	**7,368,024**	**14,723,999**	**17,097,118**	**8,577,160**	**55,871,641**	**(56,711,807)**	**237,810,990**
	₱533,049,691	**₱15,871,049**	**₱21,085,557**	**₱35,739,742**	**₱18,317,273**	**₱77,877,649**	**(₱71,135,953)**	**₱630,805,008**
Liabilities:								
Current liabilities	**₱425,914,164**	**₱1,931,257**	**₱12,789,379**	**₱479,439**	**₱8,283,423**	**₱43,121,077**	**(₱13,640,281)**	**₱478,878,458**
Noncurrent liabilities	**35,289,623**	**5,628,395**	**1,587,727**	**5,886**	**3,187,766**	**10,564**	**(810,699)**	**44,899,262**
	₱461,203,787	**₱7,559,652**	**₱14,377,106**	**₱485,325**	**₱11,471,189**	**₱43,131,641**	**(₱14,450,980)**	**₱523,777,720**

For the three months ended March 31, 2012:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Others	Eliminations and Adjustments	Total
					(In Thousands)			
Segment revenue:								
External customers	₱8,432,602	₱2,689,761	₱3,217,165	₱643,952	₱560,231	₱–	₱–	₱15,543,711
Inter-segment	35,902	93,908	305,218	–	–	–	(435,028)	–
	8,468,504	2,783,669	3,522,383	643,952	560,231	–	(435,028)	15,543,711
Cost of sales	(1,982,142)	(2,136,105)	(2,386,859)	(559,417)	(336,596)	–	414,755	(6,986,364)
Gross profit	6,486,362	647,564	1,135,524	84,535	223,635	–	(20,273)	8,557,347
Equity in net earnings of an associate	–	–	–	1,513,644	–	–	–	1,513,644
	6,486,362	647,564	1,135,524	1,598,179	223,635	–	(20,273)	10,070,991
Selling expenses	–	(119,829)	(550,910)	(150)	(112,647)	–	8,854	(774,682)
General and administrative expenses	(5,484,360)	(153,834)	(205,820)	(101,882)	(130,253)	(18,023)	12,000	(6,082,172)
Operating income	1,002,002	373,901	378,794	1,496,147	(19,265)	(18,023)	581	3,214,137
Finance costs	–	(104,520)	(29,483)	–	(19,750)	(1,825)	20,311	(135,267)
Finance income	–	5,050	(1)	–	19,152	20,802	(37)	44,966
Foreign exchange gains (losses)	350,093	(1,597)	–	–	17,631	(2,257)	–	363,870
Other income (charges)	906,355	8,963	926	15,915	27,051	12,003	(20,855)	950,358
Income before income tax	2,258,450	281,797	350,236	1,512,062	24,819	10,700	–	4,438,064
Provision for income tax	(445,402)	(97,169)	(109,361)	(372)	(6,266)	(1,634)	–	(660,204)
Segment profit	₱1,813,048	₱184,628	₱240,875	₱1,511,690	₱18,553	₱9,066	₱–	₱3,777,860

Other financial information of the operating segments as at December 31, 2012 is as follows:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Others	Eliminations and Adjustments	Total
					(In Thousands)			
Assets:								
Current assets	₱268,802,881	₱9,542,269	₱6,570,152	₱18,119,568	₱10,523,262	₱18,665,322	(₱19,105,997)	₱313,117,457
Noncurrent assets	257,557,350	6,594,709	14,925,326	16,521,113	7,234,916	45,757,754	(46,556,472)	302,034,696
	₱526,360,231	₱16,136,978	₱21,495,478	₱34,640,681	₱17,758,178	₱64,423,076	(₱65,662,469)	₱615,152,153
Liabilities:								
Current liabilities	₱410,218,562	₱2,183,662	₱13,387,910	₱862,603	₱8,456,795	₱39,089,661	(₱15,675,358)	₱458,523,835
Noncurrent liabilities	47,929,426	5,647,048	1,635,686	–	2,559,362	10,975	(2,764,199)	55,018,298
	₱458,147,988	₱7,830,710	₱15,023,596	₱862,603	₱11,016,157	₱39,100,636	(₱18,439,557)	₱513,542,133

5. Cash and Cash Equivalents

	March 31, 2013	December 31, 2012
	(In Thousands)	
Cash and other cash items	**₱10,708,394**	₱14,158,687
Cash equivalents		
Due from *Bangko Sentral ng Pilipinas* (BSP)	**83,189,245**	63,258,002
Due from other banks	**16,409,172**	10,425,722
Interbank loans receivable and securities purchased resale agreement and Securities held under agreement to resell	**29,363,791**	36,372,755
	₱139,670,602	₱124,215,166

6. Loans and Receivables

	March 31, 2013	December 31, 2012
	(In Thousands)	
Finance receivables	**₱259,363,783**	₱267,199,566
Trade receivables	**23,298,764**	10,907,164
Other receivables	**1,049,143**	1,781,632
	283,711,690	279,888,362
Noncurrent portion	**(145,701,670)**	(122,410,493)
	138,010,020	157,477,869
Allowance for doubtful accounts	**(19,291,553)**	(19,142,772)
	₱118,718,467	₱138,335,097

Finance receivables consist of:

	March 31, 2013	December 31, 2012
	(In Thousands)	
Receivables from customers:	**₱227,048,225**	₱231,987,178
Other receivables:		
Unquoted debt securities	**11,674,092**	14,220,913
Accounts receivable	**8,623,091**	8,532,838
Accrued interest receivable	**7,646,231**	7,887,081
Sales contract receivables	**4,924,264**	5,062,209
Miscellaneous	**543,010**	593,434
	260,458,913	268,283,653
Unearned interest and discount and other deferred income	**(1,095,129)**	(1,084,087)
	259,363,784	267,199,566
Noncurrent portion	**(144,489,828)**	(121,536,203)
	114,873,956	145,663,363
Allowance for credit losses	**(19,250,364)**	(19,127,274)
	₱95,623,592	₱126,536,089

Trade receivables consist of:

	March 31, 2013	December 31, 2012
	(In Thousands)	
Consumer goods	**₱19,920,457**	₱8,384,951
Contract receivables	**3,378,307**	2,475,770
Lease receivables	**–**	46,443
	23,298,764	10,907,164
Noncurrent portion of contracts receivables	**(1,211,842)**	(874,290)
	22,086,922	10,032,874
Allowance for doubtful accounts	**(41,190)**	(15,498)
	₱22,045,732	₱10,017,376

7. **Inventories**

	March 31, 2013	December 31, 2012
	(In Thousands)	
At Cost:		
Consumer goods:		
Alcohol	**₱1,685,983**	₱2,790,260
Beverage	**1,689,479**	1,516,184
Tobacco (Note 10)	**–**	153,366
	3,375,462	4,459,810
Real estate inventories:		
Condominium and residential units for sale	**2,876,969**	3,551,902
Land held for future development	**234,202**	952,041
Subdivision land under development	**1,442,353**	991,498
	4,553,524	5,495,441
Fuel, Materials and supplies	**810,976**	858,364
	8,739,962	10,813,615
At NRV – Fuel Materials and supplies	**147,878**	150,671
	₱8,887,840	₱10,964,286

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

	March 31, 2013	December 31, 2012
	(In Thousands)	
Finished goods	**₱441,622**	₱703,415
Work in process	**1,044,584**	1,268,307
Raw materials	**1,889,256**	2,488,088
	₱3,375,462	₱4,459,810

b. Allowance for inventory obsolescence on materials and supplies amounted to ₱12.3 million, and ₱10.4 million as of March 31, 2013 and December 31, 2012, respectively.

8. Other Current Assets

	March 31, 2013	December 31, 2012
	(In Thousands)	
Advances to contractors	**₱565,014**	₱639,815
Creditable withholding tax (CWT)	**673,958**	465,954
Input VAT	**523,110**	425,220
Advances to suppliers	**694,245**	404,594
Prepaid commission	**358,087**	385,402
Excise tax	**156,474**	157,208
Deferred rent (Note 29)	**52,713**	68,267
Prepaid importation charges	**168,092**	49,413
Others	**1,936,127**	3,029,123
	₱5,127,820	₱5,624,996

Others include other prepayments which are individually not significant as to the amounts.

9. Trading and Investment Securities

	March 31, 2013	December 31, 2012
	(In Thousands)	
AFS financial assets:		
Government securities	**₱85,238,658**	₱78,456,034
Other debt securities	**15,012,763**	17,261,041
Equity securities		
Quoted	**2,036,962**	1,923,979
Unquoted	–	293,224
	102,288,383	97,934,278
Noncurrent portion	**(1,255,710)**	(91,598,467)
	₱101,032,673	₱6,335,811
Financial assets at fair value through profit or loss (FVPL):		
Derivative assets	**₱413,392**	₱148,761
Held for trading	**4,013,692**	10,002,074
Designated at FVPL	**1,229,018**	1,247,756
	₱5,656,102	₱11,398,591

10. Investments in Associate and Joint Venture

The Group has the power to participate in the financial and operating policy decisions in PMFTC, a 49.6%-owned associate, which does not constitute control or joint control. The Group also has 50.0% interest in ABI Pascual Holdings Private Limited (ABI Pascual Holdings), which is a joint controlled entity.

The Group's investments in its associate and joint venture are accounted for using equity method of accounting as follows:

	March 31, 2013	December 31, 2012
	(In Thousands)	
PMFTC	**₱14,425,434**	₱13,886,098
ABI Pascual Holdings and Others	**25,152**	25,152
	₱14,450,586	₱13,911,250

* *For the period February 25 to December 31, 2010.*

Investment in PMFTC

Details of investment in PMFTC are as follows:

	March 31, 2013	December 31, 2012
	(In Thousands)	
Acquisition cost	**₱13,483,541**	₱13,483,541
Accumulated equity in net earnings:		
Balance at beginning of period	**402,557**	(1,860,154)
Equity in net earnings	**1,566,716**	6,498,972
Less cash dividends	**(1,027,380)**	(4,236,261)
Balance at end of period	**941,893**	402,557
	₱14,425,434	₱13,886,098

* *For the period February 25 to December 31, 2010.*

Investment in 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") each 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 March 31, 2013 and 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. As of May 6, 2013, the joint venture has not started operations.

11. **Property, Plant and Equipment**

March 31, 2013

	At Appraised Values				At Cost						
	Land and Land Improvements	**Plant Buildings and Building Improvements**	**Machineries and Equipment**	**Subtotal**	**Office and Administration Buildings and Improvements**	**Transportation Equipment**	**Returnable Containers**	**Furniture, Fixtures and Other Equipment**	**Construction in progress**	**Subtotal**	**Total**
					(In Thousands)						
Cost											
Balance at beginning of the peiod	**₱15,922,568**	**₱21,414,472**	**₱26,365,527**	**₱63,702,567**	**₱1,531,856**	**₱1,715,265**	**₱5,766,085**	**₱7,544,841**	**₱807,725**	**₱17,365,772**	**₱81,068,339**
Additions	**7,349**	**384,792**	**141,355**	**533,496**	**15,942**	**7,948**	**192,507**	**98,968**	**179,863**	**495,228**	**1,028,724**
Disposals, transfers and other adjustments (Notes 10 and 31)	**(106,886)**	**(538,059)**	**(30,280)**	**(675,225)**	**(164,038)**	**(3,237)**	**–**	**452,203**	**–**	**284,928**	**(390,297)**
Balance at end of the period	**15,823,031**	**21,261,205**	**26,476,602**	**63,560,838**	**1,383,760**	**1,719,976**	**5,958,592**	**8,096,012**	**987,588**	**18,145,928**	**81,706,766**
Accumulated Depreciation, Amortization and Impairment Losses											
Balance at beginning of the period	**(234,636)**	**(9,266,073)**	**(15,648,319)**	**(25,149,028)**	**(989,605)**	**(1,329,997)**	**(4,281,695)**	**(6,078,308)**	**–**	**(12,679,605)**	**(37,828,633)**
Depreciation and amortization	**(1,770)**	**(227,499)**	**(276,251)**	**(505,520)**	**(52,743)**	**(36,914)**	**(141,186)**	**(122,373)**	**–**	**(353,216)**	**(858,736)**
Disposals, transfers and other adjustments (Notes 10 and 31)	**–**	**3,780**	**29,185**	**32,965**	**4,800**	**3,178**	**–**	**79,896**	**–**	**87,874**	**120,839**
Impairment loss (Note 23)	**–**	**–**	**1,095**	**1,095**	**–**	**–**	**–**	**–**	**–**	**–**	**1,095**
Balance at end of the period	**(236,406)**	**(9,489,792)**	**(15,894,290)**	**(25,620,488)**	**(1,037,548)**	**(1,363,733)**	**(4,422,881)**	**(6,120,785)**	**–**	**(12,944,947)**	**(38,565,435)**
Net Book Value	**₱15,586,625**	**₱11,771,413**	**₱10,582,312**	**₱37,940,350**	**₱346,212**	**₱356,243**	**₱1,535,711**	**₱1,975,227**	**₱987,588**	**₱5,200,981**	**₱43,141,331**

December 31, 2012

	At Appraised Values				At Cost						
	Land and Land Improvements	Plant Buildings and Building Improvements	Machineries and Equipment	Subtotal	Office and Administration Buildings and Improvements	Transportation Equipment	Returnable Containers	Furniture, Fixtures and Other Equipment	Construction in progress	Subtotal	Total
					(In Thousands)						
Cost											
Balance at beginning of year	₱15,508,000	₱17,229,617	₱24,650,183	₱57,387,800	₱3,017,251	₱1,634,630	₱5,294,810	₱7,438,071	₱626,706	₱18,011,468	₱75,399,268
Additions	17,809	4,348,587	1,773,082	6,139,478	383,051	114,660	562,814	620,466	436,447	2,117,438	8,256,916
Revaluation increase	–	–	–	–	–	–	–	–	–	–	–
Disposals, transfers and other adjustments (Notes 10 and 31)	396,759	(163,731)	(57,738)	175,290	(1,868,446)	(34,024)	(91,539)	(513,695)	(255,428)	(2,763,132)	(2,587,842)
Balance at end of year	15,922,568	21,414,473	26,365,527	63,702,568	1,531,856	1,715,266	5,766,085	7,544,842	807,725	17,365,774	81,068,342

(Forward)

	At Appraised Values				At Cost						
	Land and Land Improvements	Plant Buildings and Building Improvements	Machineries and Equipment	Subtotal	Office and Administration Buildings and Improvements	Transportation Equipment	Returnable Containers	Furniture, Fixtures and Other Equipment	Construction in progress	Subtotal	Total
					(In Thousands)						
Accumulated Depreciation and Impairment Losses											
Balance at beginning of year	(₱226,428)	(₱7,466,438)	(₱14,752,451)	(₱22,445,317)	(₱1,685,907)	(₱1,190,251)	(₱3,711,044)	(₱5,824,363)	₱–	(₱12,411,565)	(₱34,856,882)
Depreciation and amortization	(8,209)	(1,826,384)	(896,577)	(2,731,170)	(282,719)	(173,101)	(662,190)	(539,203)	–	(1,657,213)	(4,388,383)
Revaluation increase	–	–	–	–	(1,586)	–	–	–	–	(1,586)	(1,586)
Disposals, transfers and other adjustments (Notes 10 and 31)	–	22,003	709	22,712	987,270	33,356	91,539	285,258	–	1,397,423	1,420,135
Impairment loss (Note 23)	–	4,746	–	4,746	(6,664)	–	–	–	–	(6,664)	(1,918)
Balance at end of year	(234,637)	(9,266,073)	(15,648,319)	(25,149,029)	(989,606)	(1,329,996)	(4,281,695)	(6,078,308)	–	(12,679,605)	(37,828,634)
Net Book Value	₱15,687,931	₱12,148,400	₱10,717,208	₱38,553,539	₱542,250	₱385,270	₱1,484,390	₱1,466,534	₱807,725	₱4,686,169	₱43,239,708

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.

12. **Investment Properties**

Movements of the Group's investment properties are as follows:

	March 31, 2013 (Unaudited)						
	Land	**Land Improvements**	**Machineries**	**Buildings and Improvements**	**Residential Unit**	**Construction in Progress**	**Total**
				(In Thousands)			
Cost							
Beginning balance	**₱21,393,429**	**₱–**	**₱–**	**₱8,234,729**	**₱7,620**	**₱306,894**	**₱29,942,672**
Additions	**725,488**	**–**	**–**	**1,097,858**	**–**	**–**	**1,823,346**
Transfers	**(370,848)**	**–**	**–**	**(214,521)**	**–**	**–**	**(585,369)**
Foreign currency difference	–	–	–	–	–	–	–
Ending balance	**21,748,069**	**–**	**–**	**9,118,066**	**7,620**	**306,894**	**31,180,649**
Accumulated Depreciation							
Beginning balance	**3,071,137**	**–**	**–**	**3,245,610**	**7,620**	**–**	**6,324,367**
Depreciation	**–**	**–**	**–**	**101,731**	**–**	**–**	**101,731**
Provision (reversal) of impairment losses	**33,495**	**–**	**–**	**30**	**–**	**–**	**33,525**
Transfer/disposal	**(478,346)**	**–**	**–**	**325,498**	**–**	**–**	**(152,848)**
Foreign currency differences	–	–	–	–	–	–	–
Ending balance	**2,626,286**	**–**	**–**	**3,672,869**	**7,620**	**–**	**6,306,775**
Net Book Value	**₱19,121,783**	**₱–**	**₱–**	**₱5,445,197**	**₱–**	**₱306,894**	**₱24,873,874**

	December 31, 2012 (Unaudited)						
	Land	Land Improvements	Machineries	Buildings and Improvements	Residential Unit	Construction in Progress	Total
				(In Thousands)			
Cost							
Beginning balance	₱22,540,763	₱–	₱–	₱9,645,978	₱7,620	₱361,072	₱32,555,433
Additions	1,113,955	–	–	482,725	–	306,894	1,903,574
Transfers	(2,260,639)	–	–	(1,893,925)	–	(361,072)	(4,515,636)
Foreign currency difference	(650)	–	–	(49)	–	–	(699)
Ending balance	21,393,429	–	–	8,234,729	7,620	306,894	29,942,672
Accumulated Depreciation							
Beginning balance	3,030,498	–	–	4,315,225	7,620	–	7,353,343
Depreciation	–	–	–	326,474	–	–	326,474
Provision (reversal) of impairment losses	(164,815)	–	–	2,353	–	–	(162,462)
Transfer/disposal	205,454	–	–	(1,398,030)	–	–	(1,192,576)
Foreign currency differences	–	–	–	(412)	–	–	(412)
Ending balance	3,071,137	–	–	3,245,610	7,620	–	6,324,367
Net Book Value	₱18,322,292	₱–	₱–	₱4,989,119	₱–	₱306,894	₱23,618,305

The Group's investment properties consist of parcels of land for appreciation and residential and condominium units for lease, which are valued at cost.

13. **Other Noncurrent Assets**

	March 31, 2013	December 31, 2012
	(In Thousands)	
Deferred Input vat	**₱461,142**	₱591,050
Deposit for future investments	**272,533**	272,533
Goodwill	**163,735**	163,735
Refundable deposits	**128,434**	135,190
Software costs	**31,812**	45,538
Other noncurrent assets	**4,625,315**	2,215,380
	₱4,798,843	₱3,423,426

Others include assets held by SPV, real estate under JV agreements, deferred reinsurance premiums and various assets which are individually not significant.

14. **Accounts Payable and Accrued Expenses**

	March 31, 2013	December 31, 2012
	(In Thousands)	
Accrued expenses	₱6,316,068	₱6,807,952
Trade payables	2,506,634	2,115,158
Retention payable	624,437	746,373
Deposit liability on returnable containers	481,044	612,718
Nontrade payables	201,751	548,487
Output value added tax	92,811	385,519
Advances from customers	20,030	179,788
Provision for tax contingencies	–	428,050
Other payables	7,364	166,583
	₱10,250,139	₱11,990,628

15. **Other Liabilities**

Deposit Liabilities

Of the total deposit liabilities of the Group, ₱18.6 billion and ₱17.4 billion are noninterest-bearing as of March 31, 2013 and December 31, 2012, respectively. Remaining deposit liabilities generally earned annual fixed interest rates ranging from 0.02% to 4.50% in 2013 and from 0.001% to 4.50% in 2012 for foreign currency-denominated deposit liabilities, and from 0.09% to 3.625% in 2013 and from 0.25% to 4.32% in 2012 for peso-denominated deposit liabilities.

On March 29, 2012, BSP Circular No. 753 was issued providing 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 the Group are subject to reserves equivalent to 18.00%. Available reserves follow:

	March 31, 2013	December 31, 2012
Due from BSP	**₱82,055,188**	₱54,013,614
AFS investments	**5,563,977**	6,965,950
Time loan unquoted securities	**3,095,302**	3,092,529
	₱90,714,467	₱64,072,093

The banking segment is in compliance with such regulations as of March 31, 2012 and December 31, 2012.

As of March 31, 2013 and December 31, 2012, current and noncurrent portion of deposit liabilities are as follows:

	March 31, 2013	December 31, 2012
Current	**₱369,249,168**	₱358,462,436
Noncurrent	**20,232,084**	24,805,196
	₱389,481,252	₱383,267,632

Financial Liabilities at Fair Value Through Profit or Loss

	March 31, 2013	December 31, 2012
Designated at FVPL	**₱6,101,879**	₱6,302,136
Derivative liabilities (Note 22)	**75,131**	283,751
	₱6,177,010	₱6,585,887

Financial liability designated at FVPL represents the subordinated note issued in 2008. On June 19, 2008, the Parent Company issued ₱6.0 billion subordinated notes due in 2018 (2008 Notes). The subordinated note is part of a group of financial instruments that together are managed on a fair value basis, in accordance with the Parent Company's documented risk management and investment strategy.

As of March 31, 2013 and December 31, 2012, change in the fair value of the designated subordinated debt at FVPL that is attributable to changes in credit risk is not significant.

On March 21, 2013, the Parent Company's BOD approved the early redemption of the ₱6.0 billion subordinated notes due in 2018 subject to the approval by the BSP.

Bills and Acceptances Payable

	March 31, 2013	December 31, 2012
Bills payable to:		
BSP and local banks	**₱4,877,020**	₱8,337,750
Foreign banks	**4,667,019**	4,736,696
Others	**5,762,483**	5,031,300
	15,306,522	18,105,746
Acceptances outstanding	**365,675**	336,507
	₱15,672,197	₱18,442,253

As of March 31, 2013, the annual interest rates range from 0.15% to 1.77% for foreign currency-denominated borrowings, and from 1.27% to 16.00% for peso-denominated borrowings of the Group.

As of December 31, 2012, the annual interest rates range from 0.35% to 1.77%for foreign currency-denominated borrowings, and from 0.03% to 16.00% for peso-denominated borrowings of the Group.

Customer's 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. As of March 31, 2013 and December 31, 2012, customer's deposit amounted to ₱2.8 billion and ₱2.6 billion, respectively.

Other current liabilities

	March 31, 2013	December 31, 2012
Insurance contract liabilities	**₱6,718,640**	₱6,697,443
Banking trade payables	**5,785,985**	6,230,099
Bills purchased - contra	**3,909,252**	4,033,015
Provisions	**1,755,943**	1,756,105
Managers' checks and demand drafts outstanding	**1,134,115**	1,062,164
Deferred reinsurance premiums	**544,951**	509,488
Payment order payable	**329,991**	195,149
Margin deposits and cash letters of credit	**317,523**	101,414
Due to other banks	**286,155**	209,693
Due to BSP	**141,016**	102,616
Deposit on lease contracts	**59,174**	233,183
Due to TOP	**2,268**	2,324
Other current liabilities	**3,787,915**	550,986
	₱24,772,928	₱21,683,679

16. Short-term and Long-term Debts

Short-term Debts

At various dates in 2013 and 2012, the Group obtained unsecured short-term loans from various local banks to meet its working capital requirements. The loans, which are payable in lump sum on various dates, are subject to annual interest rates ranging from 5.0% to 6.0% and 3.5% to 7.0% in 2013 and 2012, respectively. As of March 31, 2013 and December 31, 2012, outstanding short term debts amounted to ₱1.6 billion and ₱6.1 billion, respectively.

Long-term Debts

	March 31, 2013	December 31, 2012
	(In Thousands)	
Bonds payable	**₱4,971,725**	₱4,968,295
Unsecured term loan	**3,221,113**	9,938,816
Notes payable	**9,942,407**	1,174,784
Obligation under finance lease	**16,309**	17,996
	18,151,554	16,099,891
Less current portion	**2,002,841**	2,741,143
	₱16,148,713	₱13,358,748

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, 2012, 2011 and 2010, unamortized bond issue cost amounted to ₱31.7 million, ₱44.9 million and ₱56.9 million, respectively (presented as a reduction from the principal loan balance) (see Note 17).

The proceeds from the bond issuance was used to preterminate and fully pay the outstanding balance of TDI's syndicated loan on February 15, 2010 amounting to ₱4.2 billion.

The bond provides that TDI may at any time purchase any of the bonds at any price in the open market or by tender or by contract at any price, without any obligation to purchase bonds pro-rata from all bondholders and the bondholders shall not be obliged to sell. Any bonds so purchased shall be redeemed and cancelled and may not be re-issued.

The bond also provides for certain negative covenants on the part of TDI such as:

- TDI shall not create or suffer to exist any lien, security interest or other charge or encumbrance, upon or with respect to any of its properties, whether now owned or hereafter acquired.
- TDI shall not assign any right to receive income for the purpose of securing any other debt, unless at the same time or prior thereto, its obligations under the bond agreement are forthwith secured equally and ratably therewith.
- TDI shall not have the benefit of such other security as shall not be materially less beneficial to the bondholders.
- TDI shall maintain, based on the most recent audited financial statements prepared in accordance with PFRS, a maximum debt-to-equity ratio of 1.75 times and a minimum current ratio of 2.0 times.

As of March 31, 2013 and December 31, 2012, TDI is compliant with these terms and conditions.

Unsecured term loans of Eton
On December 10, 2009, Eton entered into an unsecured term loan agreement with Allied Bank to finance the construction of Eton's investment properties. The loan amounting to ₱300.00 million bears fixed interest rate of 6.66%. Principal repayments are due annually for at least 10.00% of the total principal amount with final repayment in 2012.

Eton obtained additional loans from Allied Bank on various dates for purposes of financing its working capital requirements totaling to ₱990.0 million in 2010 and ₱1,120.0 million in 2011 with interest rates ranging from 5.18% to 6.57% and 6.0%, respectively. Principal repayments are due annually for at least 5.00% of the total principal amount with final payments due in 2013 and 2014, respectively.

Notes payable of Eton
Notes payable include various notes from BDO which arose from assigning Eton's contracts receivables on a with recourse basis in 2012, 2011 and 2010 (see Note 6). These notes bear interest based on Philippine Dealing System Treasury Fixing rate for one year plus 1.5% net of gross receipts tax, which ranges from 6.00% to 6.66% in 2012 and 2011 and 6.34% to 6.92% in

2010, 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 ₱77.0 million and ₱10.4 million in 2012. Capitalization rate in 2012 was 5.83%.

17. Finance Costs and Finance Income

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

	Three Months Ended March 31	
	2013	2012
	(In Thousands)	
Finance costs:		
Short-term debts	**₱11,665**	₱10,931
Long-term debts:	**1,262**	19,750
Security deposit (Note 29)	**98,450**	99,569
Others	**6,172**	5,018
Finance costs	**₱117,549**	₱135,268
Finance income:		
Cash in banks and cash equivalents	**₱2,320**	₱25,091
Receivables	**10,972**	18,325
Due from related parties	**–**	1,550
	₱13,292	₱44,966

18. Related Party Transactions

The Company has transacted with its subsidiaries and associates and other related parties as follows:

Parent Company, Subsidiaries, Associate and Joint Venture	**Entities Under Common Control**	
Parent Company	*Other Bank Holding Companies*	*Other Entities Under Common Control*
Tangent	All Seasons Realty Corp. (3	Ascot Holdings, Inc.
	Dynaworld Holdings Inc. (3)	Pol Holdings, Inc.
Subsidiaries	Fil-Care Holdings Inc. (3)	Sierra Holdings & Equities, Inc.
TDI and Subsidiaries	Kentwood Development Corp. (3)	Grand Cargo and Warehousing Services., Inc.
ADI	La Vida Development Corp. (3)	Northern Corporation Tobacco Redrying Co., Inc.
AAC	Profound Holdings Inc. (3)	Basic Holdings Corporation
TBI	Purple Crystal Holdings, Inc. (3)	Dominium Realty & Construction Corp
ABI and Subsidiaries	Safeway Holdings & Equities Inc. (3)	Foremost Farms Inc.
Agua Vida	Society Holdings Corp. (3)	Grandspan Development Corp.
Interbev	Total Holdings Corp. (3)	Himmel Industries Inc.
Waterich		Lapu Lapu Packaging
Packageworld		Lucky Travel Corporation
Saturn		Philippine Airlines, Inc.

Parent Company, Subsidiaries, Associate and Joint Venture	**Entities Under Common Control**
Paramount and Subsidiaries	Rapid Movers & Forwarders Co. Inc.
Eton	Upright Profits Ltd.
Belton	Dyzum Distillery Inc.
Eton City	Parity Packaging Corp.
FirstHomes	Heritage Holdings Corp.
Bank Holding Companies:[2]	Maxell Holdings, Corp.
Allmark Holdings Corp. [2]	Networks Holdings & Equities, Inc.
Dunmore Development Corp. [2]	Cube Factor Holdings, Inc.
Kenrock Holdings Corp. [2]	Trustmark Holdings Corporation
Leadway Holdings, Inc. [2]	Polima International Limited
Multiple Star Holdings Corp. [2]	Cosmic Holdings Corp.
Pioneer Holdings & Equities, Inc.[2]	Negros Biochem Corporation
Donfar Management Ltd. [2]	Shareholdings [3].
Fast Return Enterprises Ltd. [2]	Grandway Konstruct, Inc.
Mavelstone International Ltd. [2]	Harmonic Holdings Corp.
Uttermost Success, Ltd. [2]	Proton Realty & Development Corporation
Ivory Holdings, Inc. [2]	Billinge Investments Limited
Merit Holdings & Equities Corp. [2]	Step Dragon Co. Limited
True Success Profits Ltd. [2]	High Above Properties Ltd.
Key Landmark Investments Ltd. [2]	Penick Group Limited
Fragile Touch Investments Ltd. [2]	In Shape Group Ltd.
Caravan Holdings, Corp. [2]	Hibersham Assets Ltd.
Solar Holdings Corp. [2]	Orient Legend Developments Ltd.
PNB and Subsidiaries [1]	Complete Best Development Ltd.
	Cormack Investments Ltd
Associate	Link Great International Ltd.
PMFTC	Bright Able Holdings Ltd.
Joint Venture	
ABI Pascual Holdings	
ABI Pascual Foods	

[1] As of March 31, 2013, LTG has 45.5% effective ownership interest over the merged PNB (see Note 1).
[2] In various dates in February and March 2013, LTG acquired these holding companies through subscription of unissued shares of the holding companies.
[3] Bank holding companies to be acquired by LTG to increase ownership interest in PNB to 59.88%.

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

	Nature	**March 31, 2013**	March 31, 2012
		(In Thousands)	
Associate	Sales	**₱1,523**	₱–
	Sales	**2,610**	5,658
	Purchases	**(15,144)**	(16,891)
Entities Under	Management and professional fee	**(60,316)**	(109,099)
Common Control	Shared cost	**(240)**	(254)
	Freight and handling	**(1,253)**	(1,543)
	Rent	**(6,300)**	(6,300)
	Transportation and travel	**(81)**	–

The consolidated balance sheet includes the following account balances with related parties:

	Financial Statement Account	Terms and Conditions	March 31, 2013	December 31, 2012
			(In Thousands)	
Parent Company	Due from related parties	On demand; non-interest bearing except for the ₱9.9 million and ₱391.2 million in 2011 and 2010, respectively, which are subject to 10% interest	**₱7,567,957**	₱5,671,578
	Due to related parties	On demand; non-interest bearing	**(33,896,208)**	(28,407,180)
Stockholders	Due from related parties	On demand; non-interest bearing	**–**	1,776,483
	Due to related parties	On demand; non-interest bearing	**(218,386)**	–
Associate	Receivables - net	30 to 90 days terms; non-interest bearing	**1,690**	366,418
	Due from related parties	On demand; non-interest bearing	**310,224**	2,772
	Account payable and other liabilities	30 to 90 days terms; non-interest bearing	**–**	(56,152)
Entities Under Common Control	Cash and cash equivalents	On demand; earn rates at bank deposit rates	**6,802,038**	173
	Receivables - net	30 to 60 days terms; non-interest bearing	**666,975**	6,513,720
	Due from related parties	On demand; non-interest bearing	**6,022,333**	8,792,677
	Available-for-sale financial assets	Shares of stocks; no impairment	**255,200**	1,186,486
	Account payable and other liabilities	30 to 60 days terms; non-interest bearing	**(537,606)**	(653,842)
	Short-term debt	On demand; non-interest bearing	**(250,000)**	–
	Due to related parties	On demand; non-interest bearing	**(11,802,344)**	(12,098,362)
	Long-term debt	On demand; non-interest bearing	**(500,000)**	–

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.

19. 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, 2012, 2011 and 2010, 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:

	March 31, 2013	December 31, 2012 (As restated)
	(In Thousands)	
Net retirement plan assets:		
FTC	**₱1,151,909**	₱1,206,389
Allied Bank*	**–**	139,389
AAC	**19,221**	–
TDI	**–**	9,214
	₱1,171,130	₱1,354,992

	March 31, 2013	December 31, 2012 (As restated)
	(In Thousands)	
Accrued retirement benefits:		
PNB**	**₱–**	₱1,386,796
ABI and Subsidiaries	**751,529**	481,390
Eton	**9,693**	23,120
AAC	**81,947**	16,603
LTG	**8,925**	8,543
ADI	**17,339**	4,388
	₱869,433	₱1,920,840

* *"Includes ₱140.1 million as of December 31, 2012 presented under "Other assets" ₱0.7 million as of December 31, 2012 presented under "Other liabilities.""*
***Presented under "Other noncurrent liabilities."*

The principal assumptions used in determining retirement benefits cost for the Group's plans as of March 31, 2013 and December 31, 2012 are as follows:

Discount rates per annum	5.16% to 6.85%
Expected annual rates of return on plan assets	2.3% to 8.5%
Future annual increase in salary	5.0% to 10.0%

Transactions with Retirement Plans

Management of the retirement funds of the banking segment is handled by the PNB Trust Banking Group (TBG). As of March 31, 2013 and December 31, 2012, the retirement fund of the Group include 7,833,795 shares of PNB classified under HFT. No limitations and restrictions are provided and voting rights over these shares are exercised by a trust officer or any of its designated alternate officer of TBG.

As of March 31, 2013 and December 31, 2012, AFS and HTM investments include government and private debt securities and various funds. Deposits with other banks pertain to Special Deposit Accounts (SDA) placement with BSP.

The retirement funds of the other companies in the Group are maintained by Allied Bank, as the trustee bank.

Allied Bank's retirement funds have no investments in debt or equity securities of the companies in the Group.

20. Revenue and Cost of Sales

Revenue consists of:

	Three Months Ended March 31	
	2013	2012
	(In Thousands)	
Sale of consumer goods	**₱6,214,152**	₱6,550,878
Banking revenue	**10,310,909**	8,432,602
Real estate sales	**1,159,834**	560,231
	₱17,684,895	₱15,543,711

Banking revenue consists of:

	Three Months Ended March 31	
	2013	2012
	(In Thousands)	
Interest income on:		
Loans and receivables	**₱3,411,086**	₱3,609,051
Trading and investment securities	**1,159,896**	1,464,620
Deposits with banks and interbank loans receivable	**323,524**	369,568
	4,894,506	5,443,239
Trading and securities gains	**4,626,281**	2,281,738
Service fees and commission income	**790,122**	707,625
	₱10,310,909	₱8,432,602

Cost of sales consists of:

	Three Months Ended March 31	
	2013	2012
	(In Thousands)	
Cost of consumer goods sold:		
Materials used and changes in inventories	**₱2,768,588**	₱2,752,540
Taxes and licenses	**389,034**	616,311
Fuel and power	**267,239**	290,035
Depreciation and amortization	**297,555**	235,769
Personnel costs	**308,901**	294,901
Repairs and maintenance	**89,387**	111,539
Freight and handling	**58,068**	75,502
Occupancy	**24,066**	18,999
Others	**267,616**	272,054
	4,470,499	4,667,663

(Forward)

	Three Months Ended March 31	
	2013	2012
	(In Thousands)	
Cost of real estate sales	**₱742,706**	₱307,040
Cost of rental income	**38,090**	29,556
Cost of banking services	**1,905,064**	1,982,105
Cost of sales	**₱7,156,359**	₱6,986,364

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

Cost of banking services consist of:

	Three Months Ended March 31	
	2013	2012
	(In Thousands)	
Interest expense on:		
Deposit liabilities	**₱1,261,677**	₱1,372,179
Bills payable and other borrowings	**432,919**	444,781
Services and commission expense	**210,468**	165,145
	₱1,905,064	₱1,982,105

21. Selling Expenses

	Three Months Ended March 31	
	2013	2012
	(In Thousands)	
Advertising and promotions	**₱230,536**	₱268,462
Depreciation and amortization	**222,454**	233,212
Travel and transportation	**76,837**	82,973
Personnel costs	**26,968**	23,914
Repairs and maintenance	**15,170**	18,255
Materials and consumables	**13,242**	14,913
Occupancy	**10,177**	3,801
Others	**136,340**	129,152
	₱731,724	₱774,682

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

22. General and Administrative Expenses

	Three Months Ended March 31	
	2013	2012
	(In Thousands)	
Personnel costs	**₱1,800,877**	₱1,656,015
Taxes and licenses	**807,917**	609,493
Occupancy	**487,083**	451,855
Depreciation and amortization	**342,721**	345,370
Insurance	**236,194**	225,456
Increase in aggregate reserve for life policies	**210,121**	192,306
Outside services	**196,249**	188,768
Management, consulting and professional fees	**169,915**	175,782
Promotional	**143,851**	163,228
Foreclosure and other ROPA related expenses	**115,159**	125,213
Information technology	**99,154**	105,621
Materials and consumables	**97,299**	76,106
Provision for tax contingencies	**93,098**	184,750
Travel and transportation	**85,403**	82,622
Communication, light and water	**55,305**	50,747
Entertainment, amusement and recreations	**47,371**	53,124
Repairs and maintenance	**13,129**	15,132
Others	**785,717**	1,380,584
	₱5,786,563	₱6,082,172

Others include expense items mostly relating to banking operations, which are individually not significant as to amounts.

23. Other Income (Charges) - net

	Three Months Ended March 31	
	2013	2012
	(In Thousands)	
Interchange fees and awards revenue on credit cards	**₱37,585**	₱54,403
Credit cards and ATM transaction fees	**9,065**	16,806
Rental income	**79,126**	70,042
Gain (loss) on disposal of PPE	**118,009**	224,232
Others	**1,112,719**	584,875
	₱1,356,504	₱950,358

Others include income items mostly relating to banking operations, which are individually not significant as to amounts.

24. Income Taxes

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

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

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

Provision for current income tax consists of:

	Three Months Ended March 31	
	2013	2012
	(In Thousands)	
RCIT	**₱388,813**	₱364,718
MCIT	**101**	–
Final tax	**606,470**	371,768
Provision for current income tax	**₱995,382**	₱736,488

25. Equity

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

	March 31, 2013	December 31, 2012
Number of shares		
Authorized capital stock at ₱1 par value	**25,000,000,000**	**25,000,000,000**
Issued capital stock at ₱1 par value:		
At beginning of the period	**₱8,981,388,889**	₱3,583,250,000
Issuance in July 2012	**–**	5,398,138,889
Stock dividends	**–**	–
At end of the period	**₱8,981,388,889**	₱8,981,388,889

a. 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

b. As discussed in Note 1, in July 2012, the Company received from Tangent ₱5.0 billion cash in exchange for LTG's 5,000,000,000 common shares. Costs related to the share issuance amounted to ₱67.5 million and is presented as a deduction to additional paid in capital.

Retained Earnings and Dividends
As of March 31, 2013 and December 31, 2012, retained earnings include undistributed earnings, representing accumulated earnings of subsidiaries and equity in net earnings of associate, which are not available for dividend declaration until received in the form of dividends from the subsidiaries and associates.

Retained earnings are further restricted for the payment of dividends to the extent of the cost of the shares held in treasury and deferred income tax assets recognized as of March 31, 2013 and December 31, 2012.

Deposit for Future Subscription
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 THC 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 THC 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 THC to use the offer proceeds to subscribe to additional new shares in LTG's unissued capital stock.

In December 2011, LTG received from THC the net offer proceeds amounting to ₱1,639.4 million, net of stock issue cost amounting to ₱40.7 million, as deposit for future subscription. Subsequently, LTG invested ₱1,627.0 million 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 ₱1,639.4 million 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 ₱1,241.3 million, respectively.

Shares Held by a Subsidiary
LTG has 76.5 million shares owned by Saturn amounting to ₱150.9 million and presented as "Shares Held by a Subsidiary" in the consolidated balance sheets as of December 31, 2011 and 2010. On July 25, 2012, these shares of stocks 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.

26. Basic/Diluted Earnings Per Share

Basic/diluted earnings per share were calculated as follows:

	Three Months Ended March 31	
	2013	2012
	(In Thousands)	
Net income attributable to equity holders of the parent company	**₱3,767,309**	₱2,782,803
Divided by weighted-average number of shares	**8,981,389**	8,583,250
Basic/diluted EPS for net income attributable to equity holders of the parent company	**₱0.42**	₱0.32

EPS is calculated using the consolidated net income attributable to equity holders of the parent company divided by the weighted average number of shares, wherein the 5,000,000,000 additional shares issued in 2012 to effect and fund the group restructuring were recognized as if these shares were issued at the beginning of the earliest period presented (see Note 1).

27. Financial Risk Management Objectives and Policies

Risk Management Strategies

The Group's financial risk management strategies are handled on a group-wide basis, side by side with those of the other related companies within the Group. The Group's management and the BODs 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. Funds are normally deposited with affiliated local banks and financial transactions are normally dealt with companies belonging to the Group (see Note 18).

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

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

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

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

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

Managing the level of these risks as provided for by the baking 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 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;
- Providingservices 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.

<u>Financial Risk Management Policy</u>
The Group's principal financial instruments comprise of short-term and long-term debts and cash and cash equivalents. 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 liquidity risk, counterparty risk, credit risk and market risks (consisting of foreign exchange risk, cash flow interest rate risk and equity price risk),

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

financial transactions are normally dealt with related parties. These strategies, to an extent, mitigate the Group's counterparty risk. he Group manages its credit risk at various levels (i.e., strategic level, portfolio level down to individual transaction).

In addition, credit risk of Property development group 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.

For the banking segment, managing credit risk also involves monitoring of migration risk, concentration risk, country risk and settlement risk. 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)

Continuous changes have been made in the policies, procedures, system and quality of people. The baking 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 PNB's model for internal Probability of Default (PD) and Loss Given Default (LGD).

Credit-related commitments of the banking segment
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 of the banking segment
Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the consolidated balance sheets.

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 Group 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

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 Group is not permitted to sell or repledge the collateral in the absence of default by the owner of the collateral.

The table below summarizes the Group’s exposure to credit risk for the components of the interim consolidated balance sheets.

	March 31, 2013	December 31, 2012
	(In Thousands)	
Loans and receivables:		
Cash and cash equivalents	**₱8,636,621**	₱9,326,426
Trade receivables	**21,556,548**	11,016,277
Other receivables	**2,252,870**	1,067,401
Due from related parties	**21,043,555**	15,401,860
Refundable deposits	–	135,190
AFS debt investments	**917,319**	26,354,091
	₱54,406,913	₱63,301,245

The table below shows the maximum exposure for banking segment's loans and receivable to credit risk (amounts in millions):

	March 31, 2013		December 31, 2012	
	Maximum Exposure		Maximum Exposure	
	Before Collateral	**After Financial Effect of Collateral or Credit Enhancement**	Before Collateral	After Financial Effect of Collateral or Credit Enhancement
Securities Held Under Agreements to Resell	**₱20,000**	**₱–**	₱18,442	₱–
Loans and receivables:				
Receivable from customers*:	–	–	–	–
Business loans	**161,116**	**106,532**	162,557	105,003
GOCCs and National Government Agencies (NGAs)	**25,125**	**18,111**	25,778	18,282
LGUs	**7,821**	**1,842**	7,190	6,288
Consumers	**22,329**	**15,464**	21,759	9,646
Fringe benefits	**651**	**197**	670	195
Unquoted debt securities	**7,648**	**1,073**	10,193	1,118
Other receivable	**16,114**	**11,097**	16,645	10,927
	₱260,804	**₱154,316**	₱263,234	₱151,459

**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.*

As of March 31, 2013 and December 31, 2012, fair value of collateral held for loans and receivables amounted to ₱300.7 billion and ₱308.6 billion, respectively.

The maximum exposure to credit risks for the other financial assets is limited to the carrying value as of March 31, 2013 and December 31, 2012.

Excessive risk concentration

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 main customers with sales to them comprising about 99% of total distilled spirits sales.
- Beverage segment annual sales pertain mainly to 13 parties with sales to them comprising about 100% of the total beverage sales.
- Tobacco and property development segments are not exposed to concentration risk because it has diverse base of counterparties.
- 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 the banking segment 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 Group 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 credit risk exposures, before taking into account any collateral held or other credit enhancements, categorized by geographic location (in millions):

	March 31, 2013	December 31, 2012
Philippines	**₱440,406**	₱443,765
USA and Canada	**30,311**	8,257
Asia (excluding the Philippines)	**18,395**	23,368
United Kingdom	**5,362**	6,124
Other European Union Countries	**3,004**	6,459
Middle East	**8**	2
	₱497,486	₱487,975

c. Concentration by Industry
The table below show the industry sector analysis of the Group's financial assets at amounts before taking into account the fair value of the loan collateral held or other credit enhancements (amounts in millions).

	March 31, 2013	December 31, 2012
Loans and Receivables		
Receivable from customers:		
Primary target industry:		
Public administration and defense	**₱24,444**	₱23,643
Wholesale and retail	**38,013**	40,723
Transport, storage and communication	**23,760**	25,979
Electricity, gas and water	**26,371**	22,453
Manufacturing	**28,763**	28,513
Financial intermediaries	**17,088**	16,129
Agriculture, hunting and forestry	**3,326**	3,539
Secondary target industry:		
Real estate, renting and business activities	**26,294**	28,733
Construction	**5,189**	4,378
Others*	**23,794**	23,864

(Forward)

	March 31, 2013	December 31, 2012
Unquoted debt securities:		
Government	**₱3,193**	₱9,650
Financial intermediaries	**4,295**	383
Manufacturing	**160**	160
	224,690	228,197
Other receivables	**16,114**	16,645
	240,804	244,792
Trading and Financial Investment Securities		
Government	**87,298**	82,990
Financial intermediaries	**8,884**	11,230
Others	**6,674**	8,157
Electricity, gas and water	**830**	2,461
Real estate, renting and business activities	**2,493**	1,527
Manufacturing	**511**	1,733
	106,690	108,098
Other Financial Assets**		
Financial intermediaries	**109,987**	116,894
Government	**19,073**	102
Others	**20,932**	18,089
	149,992	135,085
	₱497,486	₱487,975

* *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 bank', 'Interbank loans receivable', 'Securities held under agreements to resell', 'Receivable from SPV', 'Miscellaneous COCI' and 'Commitments'.*

Credit quality per class of financial assets used by the Group except for the banking segment

The tables below show the credit quality of financial assets and an aging analysis of past due but not impaired accounts:

March 31, 2013:

	Neither past due nor impaired		Past due but not impaired				Impaired	
	Standard Grade	Substandard Grade	31 to 60 days	61 to 90 days	91 to 120 days	Over 120 Days	Financial Assets	Total
			(In Thousands)					
Loans and receivables:								
Cash in banks and cash equivalents	₱8,636,621	₱–	₱–	₱–	₱–	₱–	₱–	₱8,636,621
Trade receivables	1,826,267	2,578,080	1,478,311	1,297,749	2,274,473	12,101,668	600,511	22,157,059
Other receivables	114	1,092,294	535,208	51,409	445,422	128,423	5,514	2,258,384
Due from related parties	21,043,555	–	–	–	–	–	–	21,043,555
Refundable deposits	–	–	–	–	–	–	–	–
AFS financial assets	857,580	59,739	–	–	–	–	1,968	919,287
	₱32,364,137	₱3,730,114	₱2,013,519	₱1,349,158	₱2,719,895	₱12,230,091	₱607,993	₱55,014,906

December 31, 2012:

	Neither past due nor impaired		Past due but not impaired				Impaired	
	Standard Grade	Substandard Grade	31 to 60 days	61 to 90 days	91 to 120 days	Over 120 Days	Financial Assets	Total
			(In Thousands)					
Loans and receivables:								
Cash in banks and cash equivalents	₱9,326,426	₱–	₱–	₱–	₱–	₱–	₱–	₱9,326,426
Trade receivables	7,983,447	–	1,233,235	421,830	225,004	1,152,761	9,984	11,026,261
Other receivables	1,002,203	88	863	144	23	64,080	5,514	1,072,915
Due from related parties	4,019,950	–	–	–	–	11,381,910	–	15,401,860
Refundable deposits	135,190	–	–	–	–	–	–	135,190
AFS financial assets	26,354,091	–	–	–	–	–	–	26,354,091
	₱48,821,307	₱88	₱1,234,098	₱421,974	₱225,027	₱12,598,751	₱15,498	₱63,316,743

"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.

Credit quality per class of financial assets of the banking segment
The credit quality of financial assets 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 PNB's Receivables from customers classified as business loans 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.

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.

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 PNB.

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.

PNB 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. 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 Group's receivable from customers, gross of allowance for credit losses and unearned and other deferred income, for each CRR as of March 31, 2013 and December 31, 2012 (in millions).

	March 31, 2013		
	Neither Past Due nor Individually Impaired	**Past Due or Individually Impaired**	**Total**
Rated Receivable from Customers			
1 – Excellent	**₱11,422**	**₱2**	**₱11,424**
2 – Super Prime	**38,134**	**0**	**38,134**
3 – Prime	**16,561**	**0**	**16,561**
4 – Very Good	**7,638**	**0**	**7,638**
5 – Good	**27,994**	**0**	**27,994**
6 – Satisfactory	**26,293**	**0**	**26,293**
7 – Average	**25,617**	**4**	**25,621**
8 – Fair	**7,632**	**15**	**7,647**
9 – Marginal	**4,604**	**1**	**4,605**
10 – Watchlist	**9,749**	**2,017**	**11,766**
11 – Special Mention	**2,606**	**120**	**2,726**
12 – Substandard	**1,377**	**2,554**	**3,931**
13 – Doubtful	**7**	**2,479**	**2,486**
14 – Loss	**–**	**3,242**	**3,242**
	179,634	**10,434**	**190,068**
Unrated Receivable from Customers			
Business Loans	**10,642**	**481**	**10,792**
GOCCs and NGAs	**1,315**	**1,641**	**2,956**
LGUs	**7,633**	**263**	**7,896**
Consumers	**14,389**	**719**	**15,002**
Fringe Benefits	**594**	**53**	**634**
	34,573	**3,157**	**37,280**
	₱214,207	**₱13,591**	**₱227,348**

	December 31, 2012		
	Neither Past Due nor Individually Impaired	Past Due or Individually Impaired	Total
Rated Receivable from Customers			
1 – Excellent	₱11,547	₱132	₱11,679
2 – Super Prime	33,705	–	33,705
3 – Prime	14,135	–	14,135
4 – Very Good	9,591	3	9,594
5 – Good	29,184	13	29,197
6 – Satisfactory	25,605	229	25,834
7 – Average	29,084	57	29,141

(Forward)

	December 31, 2012		
	Neither Past Due nor Individually Impaired	Past Due or Individually Impaired	Total
8 – Fair	₱13,948	₱25	₱13,973
9 – Marginal	4,090	5	4,095
10 – Watchlist	8,147	552	8,699
11 – Special Mention	3,935	75	4,010
12 – Substandard	476	3,638	4,114
13 – Doubtful	–	2,595	2,595
14 – Loss	154	3,319	3,473
	183,601	10,643	194,244
Unrated Receivable from Customers			
Business Loans	8,291	512	8,803
GOCCs and NGAs	1,391	1,651	3,042
LGUs	6,868	419	7,287
Consumers	13,830	894	14,724
Fringe Benefits	622	37	659
	31,002	3,513	34,515
	₱214,603	₱14,156	₱228,759

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 past due but not impaired loans receivables per class (in millions).

	March 31, 2013			
	Less than 30 days	**31 to 90 days**	**91 to 180 days**	**Total**
Consumers	**₱82**	**₱77**	**₱293**	**₱452**
Business loans	**83**	**259**	**485**	**827**
Fringe benefits	**–**	**1**	**1**	**2**
Total	**₱165**	**₱337**	**₱779**	**₱1,281**

	December 31, 2012			
	Less than 30 days	31 to 90 days	91 to 180 days	Total
Consumers	₱61	₱90	₱313	₱464
Business loans	198	168	743	1,109
LGUs	133	–	–	133
GOCCs and NGAs	–	–	–	–
Fringe benefits	1	1	12	14
Total	₱393	₱259	₱1,068	₱1,720

Below are the financial assets of the Group, excluding loans receivables, which are monitored using external ratings (in millions).

	March 31, 2013					
	Rated					
	Aaa to Aa3	**A1 to A3**	**Baa1 and below**	**Subtotal**	**Unrated[6/]**	**Total**
Due from BSP	**₱–**	**₱–**	**₱–**	**₱–**	**₱83,189**	**₱83,189**
Due from other banks	**3,190**	**5,687**	**2,362**	**11,239**	**5,170**	**16,409**
Interbank loans receivables	**2,790**	**4,472**	**1,489**	**8,751**	**613**	**9,364**
Securities held under agreements to resell[2/]	**–**	**–**	**–**	**–**	**20,000**	**20,000**
Financial assets at FVPL:						
Held-for-trading:						
Government securities	**–**	**–**	**2,976**	**2,976**	**710**	**3,686**
Derivative assets[3/]	**7**	**191**	**40**	**238**	**175**	**413**

(Forward)

	March 31, 2013					
	Rated					
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal	Unrated[6/]	Total
Equity securities	₱–	₱–	₱–	₱–	₱301	₱301
Private debt securities	–	–	–	–	27	27
Designated at FVPL:						
Private debt securities	–	–	–	–	1,229	1,229
Loans and receivables:						
Unquoted debt securities[4/]	–	–	34	34	7,681	7,715
Others[5/]	–	–	–	–	21,737	21,737
AFS investments:						
Government securities	510	57	74,330	74,897	9,183	84,080
Other debt securities	369	906	4,109	5,384	9,996	15,380
Quoted equity securities	24	–	162	186	1,276	1,462
Unquoted equity securities	–	–	–	–	109	109
Other assets[1/]	–	–	–	–	145	145

	December 31, 2012					
	Rated					
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal	Unrated[6/]	Total
Due from BSP	₱–	₱–	₱–	₱–	₱63,258	₱63,258
Due from other banks	3,969	5,302	2,471	11,742	4,073	15,815
Interbank loans receivables	3,864	9,825	4,844	18,533	779	19,312
Securities held under agreements to resell[2/]	–	–	142	142	18,300	18,442
Financial assets at FVPL:						
Held-for-trading:						
Government securities	–	–	1,928	1,928	6,402	8,330
Derivative assets[3/]	2	274	187	463	140	603
Equity securities	–	–	46	46	250	296
Private debt securities	–	311	261	572	349	921
Designated at FVPL:						
Private debt securities	–	–	–	–	1,248	1,248
Loans and receivables:						
Unquoted debt securities[4/]	–	–	31	31	10,162	10,193
Others[5/]	–	–	–	–	16,645	16,645
AFS investments:						
Government securities	748	4	52,516	53,268	24,745	78,013
Other debt securities	3,305	1,352	4,776	9,433	7,828	17,261
Quoted equity securities	484	–	134	618	665	1,283
Unquoted equity securities	–	–	–	–	142	142
Other assets[1/]	–	–	–	–	157	157

[1/] *Other assets represent Returned COCI (unsettled demand items delivered to the Philippine Clearing House Corporation), bond sinking fund, security deposits, other investments and financial portion of Bank's commitments and contingents and '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 the Banking segment.*

[2/] *Securities held under agreements to resell represent overnight lending to the BSP collateralized by securities. The interest rate applicable is fixed by the BSP through a memorandum.*

[3/] *Derivative assets represent the value of credit derivatives embedded in host contracts issued by financial intermediaries and the mark-to-market valuation of freestanding derivatives (see Note 22).*

[4/] *Unquoted debt securities represent investments in bonds and notes not quoted in the market issued by financial intermediaries, government and private entities.*

[5/] *Loans and receivables - Others is composed of Accrued interest receivable, Accounts receivable, Sales contracts receivable and other miscellaneous receivables (see Note 8)*

[6/] *As of March 31, 2013 and December 31, 2012 financial assets that are unrated are neither past due nor impaired.*

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.

Impairment assessment

The main consideration for impairment assessment includes whether there are known difficulties in the cash flow of the counterparties. The Group assesses impairment in two ways: individually and collectively.

The two methodologies applied by the Group in assessing and measuring impairment/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/credit allowances, 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.

The amount of loss is recognized in the consolidated statement of income with a corresponding reduction in the carrying value of the loans and receivables through an allowance account.

Liquidity Risk and Fund Management
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 baking segment's liquidity management involves maintaining funding capacity to accommodate fluctuations in asset and liability levels due to changes in PNB's business operations or unanticipated events created by customer behavior or capital market conditions. The baking 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 of the banking segment 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 baking 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 Group'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 than the expected date the assets will be realized (in millions).

March 31, 2013:

	Less than one year	**1 to less than 3 years**	**3 to less than 5 years**	**More than 5 years**	**Total**
			(In Thousands)		
Cash and cash equivalents	**₱8,636,621**	**₱–**	**₱–**	**₱–**	**₱8,636,621**
Trade receivables	**20,691,048**	**865,500**	**–**	**–**	**21,556,548**
Other receivables	**2,242,643**	**10,227**	**–**	**–**	**2,252,870**
Due from related parties	**21,043,555**	**–**	**–**	**–**	**21,043,555**
AFS financial assets	**917,319**	**–**	**–**	**–**	**917,319**
	₱53,531,186	**₱875,727**	**₱–**	**₱–**	**₱54,406,913**
Short term debts	**₱1,620,000**	**₱–**	**₱–**	**₱–**	**₱1,620,000**
Accounts payable and other liabilities*	**5,892,585**	**–**	**–**	**–**	**5,892,585**
Long-term debts	**2,398,730**	**6,925,302**	**–**	**–**	**9,324,032**
Due to related parties	**52,981,633**	**–**	**–**	**–**	**52,981,633**
Other liabilities	**2,064,573**	**145,262**	**–**	**–**	**2,209,835**
	₱64,957,521	**₱7,070,564**	**₱–**	**₱–**	**₱72,028,085**

December 31, 2012:

	Less than one year	1 to less than 3 years	3 to less than 5 years	More than 5 years	Total
			(In Thousands)		
Cash and cash equivalents	₱9,326,426	₱–	₱–	₱–	₱9,326,426
Trade receivables	10,141,987	444,016	66,119	364,155	11,016,277
Other receivables	1,067,401	–	–	–	1,067,401
Due from related parties	15,401,860	–	–	–	15,401,860
Refundable deposits	135,190	–	–	–	135,190
AFS financial assets	26,354,091	–	–	–	26,354,091
	₱62,426,955	₱444,016	₱66,119	₱364,155	₱63,301,245

(Forward)

	Less than one year	1 to less than 3 years	3 to less than 5 years	More than 5 years	Total
			(In Thousands)		
Short term debts	₱1,880,738	₱–	₱–	₱–	₱1,880,738
Accounts payable and other liabilities*	7,031,203	–	–	–	7,031,203
Long-term debts	2,997,983	6,504,753	–	–	9,502,736
Due to related parties	35,600,338	–	–	–	35,600,338
Other liabilities	32,846	1,459,740	6,135	2,458	1,501,179
	₱47,543,108	₱7,964,493	₱6,135	₱2,458	₱55,516,194

Market Risks (other than 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 2012, 2011 and 2010, changes in fair value of equity instruments held as AFS equity instruments dues to a reasonably possible change in equity interest, with all other variables held constant, will increase other comprehensive income by ₱16.8 million if equity prices will increase by 5.2%. An equal change in the opposite direction would have decreased in equity by the same amount.

Foreign Exchange Risk

The Group's foreign currency risk related 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.

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:

March 31, 2013		December 31, 2012	
Change in Foreign Exchange Rate	**Effect on Income Before Income Tax *(In Thousands)***	Change in Foreign Exchange Rate	Effect on Income Before Income Tax *(In Thousands)*
+6.13%	**Increase by ₱107,752**	+6.13%	Increase by ₱75,966
-6.13%	**Decrease by ₱107,752**	-6.13%	Decrease by ₱75,966

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, 2012, 2011 and 2010, certain long-term debts of the Group such as the bonds payable and the secured and unsecured loans are not exposed to the risk in changes in market interest rates since the debts are issued at fixed rates. As of March 31, 2013, the Group's exposure pertains mainly to short-term debts and long-term notes payable (see Note 16). Repricing of floating rate financial instruments is mostly at interval of three months or six months for the short-term debts and annually for the notes payable.

Market Risk of the Banking Segment
Market risk of the banking segment 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 the banking segment'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 Executive Committee on a monthly basis. All risk reports discussed in the EXCOM meeting are noted by the BOD. The VaR figures are backtested to validate the robustness of the VaR model.

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 underestimated 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.

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.

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 PNB. VaR is computed on an undiversified basis; hence, PNB does not consider the correlation effects of the three trading portfolios.

There is no instance that the aggregate daily losses were greater than the total VaR (in millions).

Trading Portfolio	**Foreign Exchange***	**Interest Rate**	**Equities Price**	**Total VaR****
March 31, 2013	**₱24.71**	**₱152.40**	**₱10.66**	**₱187.77**
Average Daily	**15.89**	**183.10**	**9.80**	**208.79**
Highest	**62.63**	**277.03**	**12.13**	**310.08**
Lowest	**2.45**	**109.17**	**7.61**	**121.11**

Trading Portfolio	Foreign Exchange*	Interest Rate	Equities Price	Total VaR**
December 31, 2012	₱18.32	₱255.73	₱9.91	₱283.96
Average Daily	31.04	277.05	11.04	319.13
Highest	56.80	598.94	12.97	655.77
Lowest	8.81	64.22	8.34	83.89

* *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 (in millions):

	March 31, 2013	December 31, 2012
End of year	**₱2,872.63**	₱2,704.15
Average Daily	**2,229.99**	2,466.61
Highest	**2,909.73**	3,243.58
Lowest	**1,777.23**	1,746.82

Structural Market Risk

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. The banking segment 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 consolidated balance sheet positions tempered with approved assumptions. To evaluate earnings exposure, interest rate sensitive liabilities in each time band are subtracted from the corresponding interest rate assets to produce a "repricing gap" for that time band. The difference in the amount of assets and liabilities maturing or being repriced over a one year period would then give the banking segment an indication of the extent to which it is exposed to the risk of potential changes in net interest income. A negative gap occurs when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. Vice versa, positive gap occurs when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities.

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

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

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

The following table sets forth the repricing gap position of the banking segment (in millions):

	March 31, 2013					
	Up to 1 Month	**1 to 3 Months**	**3 to 6 Months**	**6 to 12 months**	**Beyond 1 year**	**Total**
Financial Assets						
COCI	**₱–**	**₱–**	**₱–**	**₱–**	**₱8,471**	**₱8,471**
Due from BSP and other banks	**57,896**	**30**	**–**	**–**	**41,672**	**99,598**
Interbank loans receivable	**6,042**	**130**	**–**	**–**	**–**	**6,172**
Securities held under agreements to resell	**20,000**	**–**	**–**	**–**	**–**	**20,000**
Financial assets at FVPL:						
Held-for-trading:						
Government securities	**–**	**–**	**–**	**–**	**3,686**	**3,686**
Derivative assets	**25**	**–**	**–**	**–**	**389**	**414**
Equity securities	**–**	**–**	**–**	**–**	**27**	**27**
Private debt securities	**–**	**–**	**–**	**–**	**301**	**301**
Designated at FVPL:						
Private debt securities	**–**	**1,229**	**–**	**–**	**–**	**1,229**
Receivable from customers	**79,727**	**49,993**	**9,301**	**6,270**	**104,244**	**249,535**
Unquoted debt securities – gross	**242**	**60**	**1**	**2,743**	**8,628**	**11,674**
AFS investments	**6,917**	**457**	**141**	**966**	**93,489**	**101,970**
Miscellaneous COCI	**137**	**–**	**–**	**–**	**8**	**145**
Total financial assets	**₱170,986**	**₱51,899**	**₱9,443**	**₱9,979**	**₱260,915**	**₱503,222**
Financial Liabilities						
Deposit liabilities:						
Demand	**₱–**	**₱–**	**₱–**	**₱–**	**₱84,182**	**₱84,182**
Savings	**121,860**	**22,777**	**4,293**	**6,085**	**108,969**	**263,984**
Time	**35,468**	**3,951**	**977**	**5,046**	**2,676**	**48,118**
Financial liabilities at FVPL	**–**	**6,097**	**–**	**–**	**75**	**6,172**
Bills and acceptances payable	**11,335**	**1,038**	**1,352**	**587**	**1,361**	**15,673**
Subordinated debt	**–**	**–**	**–**	**–**	**9,942**	**9,942**
Accrued interest and other financial liabilities	**140**	**4**	**–**	**–**	**14,591**	**14,735**
Total financial liabilities	**₱168,803**	**₱33,867**	**₱6,622**	**₱11,718**	**₱221,796**	**₱442,806**
Repricing gap	**₱2,183**	**₱18,032**	**₱2,821**	**(₱-1,739)**	**₱39,119**	**₱60,416**
Cumulative gap	**₱2,183**	**₱20,215**	**₱23,036**	**₱21,297**	**₱60,416**	**₱–**

Note: Non-interest bearing financial assets and liabilities are lumped in greater than 1 year bucket.

	December 31, 2012					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 months	Beyond 1 year	Total
Financial Assets						
COCI	₱–	₱–	₱–	₱–	₱9,485	₱9,485
Due from BSP and other banks	50,591	–	–	–	28,481	79,072
Interbank loans receivable	19,454	–	–	–	–	19,454
Securities held under agreements to resell	18,300	–	–	–	–	18,300
Financial assets at FVPL:						
Held-for-trading:						
Government securities	6,359	–	–	–	1,971	8,330
Derivative assets	149	–	–	–	455	604
Equity securities	46	–	–	–	250	296
Private debt securities	821	–	–	–	99	920
Designated at FVPL:						
Private debt securities	–	–	1,248	–	149	1,397
Receivable from customers	89,490	35,762	7,303	12,838	105,442	250,835
Unquoted debt securities – gross	250	100	–	3	13,868	14,221
AFS investments	676	1,288	6,785	628	87,391	96,768
Miscellaneous COCI	156	–	–	–	1	157
Total financial assets	₱186,292	₱37,150	₱15,336	₱13,469	₱247,592	₱499,839
Financial Liabilities						
Deposit liabilities:						
Demand	₱–	₱–	₱–	₱–	₱79,911	₱79,911
Savings	131,333	14,909	4,607	3,156	106,422	260,427
Time	32,468	3,807	851	4,366	6,096	47,588
Financial liabilities at FVPL	–	–	6,196	–	284	6,480
Bills and acceptances payable	12,154	3,320	894	903	1,173	18,444
Subordinated debt	4,497	–	–	–	9,939	14,436
Accrued interest and other financial liabilities	142	26	–	3	15,126	15,297
Total financial liabilities	₱180,594	₱22,062	₱12,548	₱8,428	₱218,951	₱442,583
Repricing gap	₱5,698	₱15,088	₱2,788	₱5,041	₱28,641	₱57,256
Cumulative gap	₱5,698	₱20,786	₱23,574	₱28,615	₱57,256	₱–

Note: Non-interest bearing financial assets and liabilities are lumped in greater than 1 year bucket.

The following table sets forth the impact of changes in interest rates on the Group's repricing gap for the periods ended March 31, 2013 and December 31, 2012 (in millions):

	March 31, 2013		December 31, 2012	
	Statement of Income	**Equity**	Statement of Income	Equity
+50bps	**₱100**	**₱100**	₱101	₱101
-50bps	**(100)**	**(100)**	(101)	(101)
+100bps	**200**	**200**	202	202
-100bps	**(200)**	**(200)**	(202)	(202)

As one of the long-term goals in the risk management process, the Group has set the adoption of the economic value approach in measuring the interest rate risk in the banking book 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 Group 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 the banking segment'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 the banking segment and foreign currency-denominated borrowings appearing in the regular books of the banking segment.

Foreign currency deposits are generally used to fund the banking segment'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, the banking segment has additional foreign currency assets and liabilities in its foreign branch network.

The Group's policy is to maintain foreign currency exposure within acceptable limits and within existing regulatory guidelines. The Group 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 Group is involved.

The table below summarizes the exposure to foreign exchange rate risk. Included in the table are the assets and liabilities at carrying amounts, categorized by currency (in millions).

	March 31, 2013		
	USD	**Others**	**Total**
Assets			
COCI and due from BSP	**733**	**133**	**866**
Due from other banks	**2,626**	**781**	**3,407**
Interbank loans receivable and securities held under agreements to resell	**941**	**130**	**1,071**
Loans and receivables	**4,782**	**2,999**	**7,781**
Financial assets at FVPL	**1,270**	**–**	**1,270**
AFS investments	**2,572**	**3**	**2,575**
Other assets	**18,517**	**68,510**	**87,027**
Total assets	**31,441**	**72,556**	**103,997**
Liabilities			
Bills and acceptances payable	**4,674**	**91**	**4,765**
Accrued taxes, interest and other expenses	**1,592**	**9**	**1,601**
Other liabilities	**21,876**	**2,315**	**24,191**
Total liabilities	**28,142**	**2,415**	**30,557**
Net Exposure	**3,299**	**70,141**	**73,440**

	December 31, 2012		
	USD	Others	Total
Assets			
COCI and due from BSP	675	185	860
Due from other banks	2,162	665	2,827
Interbank loans receivable and securities held under agreements to resell	672	1	673
Loans and receivables	4,700	338	5,038

(Forward)

	December 31, 2012		
	USD	Others	Total
Financial assets at FVPL	1,288	0	1,288
AFS investments	2,776	6	2,782
Other assets	11,077	172	11,249
Total assets	23,350	1,367	24,717
Liabilities			
Bills and acceptances payable	740	67	807
Accrued taxes, interest and other expenses	5,513	89	5,602
Other liabilities	1,593	9	1,602
Total liabilities	1,720	172	1,892
Net Exposure	9,566	337	9,903
	13,784	1,030	14,814

Prepayment risk
Prepayment risk in PNB is deemed to be relatively low. PNB projects prepayment ratio by way of using historical data on loan prepayment rate. PNB's loans prepayment rate is less than 1.41%, 1.09% and 1.03% of the total loan portfolio in 2012, 2011 and 2010, respectively. In view of this, management believes that 1.41% is not material enough to warrant a separate set of cash flow analyses. All calculations related to asset and liability management (e.g., as net interest margin analysis) take into account the contractual terms of the financial instrument.

Capital management and management of insurance and financial risks
Although life insurance companies are in the business of taking risks, PLII limits its risk exposure only to measurable and quantifiable risks. The main objective of PLII's risk management policies is to ensure that PLII remains financially viable and capable in paying its liabilities.

There are many risks associated in the life insurance business such as insurance risks, investment risks, asset depreciation and other business risks. These risks are managed separately to ensure that PLII is not exposed to risks that are unnecessary or risks with no commensurate expected benefits or returns.

Governance framework
PLII has established a risk management function with clear terms of reference and with the responsibility for developing policies on market, credit, liquidity, insurance and operational risks. It also supports the effective implementation of policies at the overall company and individual business unit levels. The chief financial officer (CFO) and Internal Audit Department performs procedures to identify various risks. The results of the procedures are reported to the BOD and necessary actions are taken to mitigate the risks identified.

The policies define PLII's identification of risk and its interpretation, limit structure to ensure the appropriate quality and diversification of assets, alignment of underwriting and reinsurance strategies to the corporate goals and specific reporting requirements.

Regulatory framework
Regulators are interested in protecting the rights of the policyholders and maintain close vigil to ensure that PLII is satisfactorily managing affairs for their benefit. At the same time, the regulators are also interested in ensuring that PLII maintains appropriate solvency position to meet liabilities arising from claims and that the risk levels are at acceptable levels.

The operations of PLII are subject to the regulatory requirements of the Insurance Commission (IC). Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions (e.g., margin of solvency to minimize the risk of default and insolvency on the part of the insurance companies to meet the unforeseen liabilities as these arise, fixed capitalization requirements, risk-based capital requirements).

Capital management
PLII manages its capital in accordance with the mandates of the IC being its regulator. Under the requirements of the IC and the Code, PLII should meet the minimum levels set for the following capital requirements: Margin of Solvency (MOS), Minimum Statutory Net Worth and Paid-up Capital, and the Risk-Based Capital (RBC). PLII regularly monitors its compliance with these capital requirements. Since PLII is now 100.00% Filipino-owned, the capital requirements have reduced significantly and PLII's current capital now well exceeds the minimum requirements.

Further, government bonds amounting to at least 25.00% of the Minimum Paid-up Capital are free from liens and encumbrances, and deposited under the IC, in accordance to Section 203 of the Code.

a) *MOS*
   Under the Code, a life insurance company doing business in the Philippines shall maintain at all times a MOS equal to ₱0.50 million or ₱2.00 per thousand of the total amount of insurance in force as of the preceding calendar year in all policies (except term insurance), whichever is higher. The MOS shall be the excess of the value of its admitted assets as defined under the same Code, exclusive of the minimum paid-up capital, over the amount of its liabilities, unearned premiums, and reinsurance reserves. As of March 31, 2013 and December 31, 2012 PLII's MOS based on its calculations amounted to ₱399.4 million and ₱341.36 million, respectively.

   The final amounts of the MOS can be determined only after the accounts of PLII have been examined by the IC specifically as to admitted and non-admitted assets as defined in the Code. The 2013 and 2012 MOS will be known only after the IC completes its examination of the accounts of PLII.

   If an insurance company fails to meet the minimum required MOS, the IC is authorized to suspend or revoke all certificates of authority granted to such companies, its officers and agents, and no new business shall be done by and for such company until its authority is restored by the IC.

b) *Minimum statutory net worth and paid up capital*
   Department of Finance issued Order 27-06 provides for the capitalization requirements for life, non-life and reinsurance companies. Under this order, the minimum statutory net worth and minimum paid-up capital requirements vary depending on the level of the foreign ownership in the insurance company. The statutory net worth shall include PLII's paid-up capital, capital in excess of par value, contingency surplus, retained earnings and revaluation increments as may be approved by the IC.

   The required minimum statutory net worth and minimum paid-up capital for PLII, being a wholly-owned Filipino life insurance company is ₱500.00 million and₱250.00 million, respectively, in 2013 and 2012. PLII has complied with the minimum statutory net worth and paid-up capital requirements based on PLII's own calculation.

c) *RBC requirement*

Insurance Memorandum Circular (IMC) No. 6-2006 provides for the risk-based capital framework for the life insurance industry to establish the required amounts of capital to be maintained by the companies in relation to their investment and insurance risks. Every life insurance company is annually required to maintain a minimum RBC ratio of 100.00% and not fail the trend test. Failure to meet the minimum RBC ratio shall subject the insurance company to the corresponding regulatory intervention which has been defined at various levels.

The RBC ratio shall be calculated as net worth divided by the RBC requirement. Net worth shall include PLII's paid-up capital, contributed and contingency surplus and unassigned surplus. Revaluation and fluctuation reserve accounts shall form part of net worth only to the extent authorized by the IC. The RBC requirement is the ratio of the number of insurers which are able to meet the corresponding RBC Hurdle Rate requirement for a given year to the total number of insurers in the industry.

The following table shows how the RBC ratio was determined by PLII based on its calculations:

	2013	2012
Net worth	**P649,399**	₱591,359
RBC requirement	**408,185**	385,645
RBC Ratio	**159.00%**	153.00%

The final amount of RBC ratio can be determined only after the accounts of PLII have been examined by the IC specifically as to admitted and non-admitted assets as defined under the same Code.

d) *Consolidated compliance framework*

IMC 10-2006 integrated the compliance standards for the fixed capitalization and risk-based capital framework.

Subsequent to year 2006, the fixed capitalization requirement for a given year may be suspended for insurers that comply with the required RBC hurdle rate, provided that the industry complies with the required Industry RBC Ratio Compliance Rate. The IMC provides the annual schedule of progressive rates for the Industry RBC Ratio Compliance Rates and the RBC Hurdle Rates from 2007 to 2011. For the review year 2012 which shall be based on the 2011synopsis, the industry RBC Ratio Compliance Rate is 100.0% and the RBC Hurdle Rate is 250.00%. For the review year 2011which shall be based on the 2010 synopsis, the Industry RBC Ratio Compliance Rate is 90.00% and the RBC Hurdle Rate is 250.00%. Failure to achieve one of the rates will result in the imposition of the fixed capitalization requirement for the year under review.

e) *Unimpaired capital requirement*

IMC 22-2008 provided for the purposes of determining compliance with the law, rules and regulations requiring that the paid-up capital should remain intact and unimpaired at all times, the consolidated balance sheet should show that the net worth or stockholders' equity is at least equal to the actual paid-up capital.

PLII has complied with all of the above capital requirements in 2013 and 2012.

Insurance Risk

Nature of risk

The risk under any one insurance contract is the possibility that the insured event occurs. This event may be death, or in the case of some riders, disability, accidental injury, or contraction of critical illness. By the very nature of an insurance contract, this risk is random and unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing, the principal risk that PLII faces under its insurance contracts is that future claim on death, accident, disability, and critical illness claims exceed the future premiums plus the carrying amount of the insurance liabilities. This could occur if the frequency and magnitude of claims is greater than the assumption used in calculating PLII's liability. Occurrence of insured events is random and the actual number of claims will vary from year to year from the mortality assumptions made during product pricing. However, the law of large number is expected to be applicable as the pool of risk increases in volume and aggregate claims becomes more predictable.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller is the relative variability compared to the expected. Insurance risks generally vary by gender and age of the insured as these factors correlate greatly with the incidence rates of the insured events. Because of this, a more diverse demographic profile of insured lives may be more desirable since a more diverse risk profile reduces variability.

To minimize insurance risks, PLII strictly adheres to prudent underwriting standards in assessing insurance applications. These underwriting standards include a schedule of medical and non-medical requirements for specific range of ages and sum assured. Some policyholders are charged with additional premium in the form of flat or multiple extra premiums due to extra risks resulting from the applicant's occupation, health and lifestyle. Applications for insurance may be denied or postponed for certain substandard cases. To guard against anti-selection, insurance applications that do not establish insurable interest are rejected. Statements of assets and liabilities may also be required from the applicant to justify the sum assured applied for, and his ability to pay the premium.

Frequency of claims

For contracts where death is the insured risk, the most significant factors that could increase the overall frequency of claims are epidemics or wide spread changes in lifestyle resulting in earlier or more claims than expected. In the Philippines, higher-than-expected claims also arise from typhoons, landslides, and other geologic events.

For contracts with Discretionary Participating Feature (DPF), a portion of the insurance risk is effectively shared with the policy owner, as policy dividends may be reduced due to adverse claims and investment experience.

For unit-linked insurance policies where the cost of insurance charges is not guaranteed, insurance risk is borne mostly by the policyholders. PLII has the right to alter these charges based on its mortality experience and hence minimize its exposure to mortality risk. Delays in implementing increases in charges and market or regulatory restraints over the extent of the increases may reduce its mitigating effect.

PLII manages these risks through its underwriting strategy and reinsurance arrangements. The underwriting strategy is intended to ensure that the risks underwritten are pooled into a sufficiently large portfolio. Medical selection is also included in the underwriting procedures with premiums varied to reflect the health condition and family medical history of the applicants. PLII has a retention limit of ₱2.50 million on any standard risk. PLII reinsures the excess of the insured benefit over ₱2.50 million for standard risks (from a medical point of view) under an excess of loss reinsurance arrangement. PLII's risk retention is lower for medically impaired or substandard lives, which involves higher risks. PLII also has a Catastrophe Reinsurance agreement, which protects PLII in case of a catastrophic event resulting to multiple death claims.

The tables below present the concentration of individually insured benefits across different bands of insured ages as measured by the face amount (before reinsurance) and net amount at risk (NAAR), after reinsurance:

		December 31, 2012			
		Before reinsurance		**After reinsurance**	
Age bands (in years)	**Policy count**	**Face amount**	**Concentration (%)**	**NAAR**	**Concentration (%)**
0-15	**12,343**	**₱3,138,799**	**17.91**	**₱1,687,149**	**16.01**
16-25	**5,858**	**2,108,679**	**12.04**	**1,340,085**	**12.71**
26-35	**7,662**	**2,898,956**	**16.55**	**1,946,781**	**18.47**
36-45	**8,172**	**3,738,163**	**21.34**	**2,408,411**	**22.85**
46-55	**7,012**	**3,500,636**	**19.98**	**1,959,883**	**18.59**
56-65	**2,972**	**1,762,759**	**10.06**	**935,520**	**8.87**
66-75	**399**	**352,161**	**2.01**	**244,630**	**2.32**
76 and above	**7**	**19,000**	**0.11**	**18,983**	**0.18**
	44,425	**₱17,519,153**	**100.00**	**₱10,541,442**	**100.00**

These tables include whole life, endowment, anticipated endowment, and term insurance contracts, thus the insured risk is a mixture of death and continued survival. NAAR is the net amount at risk, which is the difference between the face amount and the policy reserve. It is the net amount that would be payable upon death less liability released. The risk is spread over the younger through middle-aged bands.

Sources of uncertainty in the estimation of future benefit payments and premium receipts
Uncertainty in the estimation of future benefit payments and premium receipts for long-term insurancecontracts arises from the unpredictability of long-term changes in overall levels of mortality and thevariability in policyholder behavior.

PLII uses appropriate tables of standard mortality for pricing and valuation of liabilities. An investigation into the actual mortality experience of PLII is carried out annually, but the experience is not yet considered statistically significant.

PLII maintains persistency statistics to monitor actual lapse experience against pricing assumptions and performance standards. Statutory reserves are calculated using mortality decrement only, without considering possibility of lapses. This results in a more conservative liability as gains on surrender are not anticipated in the valuation method.

Categories and Fair Value of Financial Instruments

The following tables present a comparison by category of the carrying amounts and fair values of the Group's financial instruments:

	December 31			
	2013		2012	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
	(In Thousands)			
Financial Assets				
Cash on hand	**₱3,816**	**₱3,816**	₱2,815	₱2,815
Loans and Receivables:				
Cash in bank and cash equivalents	**8,636,621**	**8,636,621**	9,326,426	9,326,426
Trade receivables	**21,556,548**	**21,493,032**	11,016,277	11,016,277
Other receivables	**2,252,870**	**2,252,850**	1,067,401	1,067,401
Due from related parties	**21,043,555**	**21,038,793**	15,401,860	15,401,860
Refundable deposits	–	–	135,190	135,190
	53,489,594	**53,421,296**	36,947,154	36,947,154
AFS financial assets	**917,319**	**917,319**	26,677,765	26,677,765
	₱54,410,729	**₱54,342,431**	₱63,627,734	₱63,627,734
Financial Liabilities				
Short term debts	**₱1,620,000**	**₱1,620,000**	₱1,870,000	₱1,870,000
Accounts payable and other liabilities	**5,892,585**	**5,892,585**	7,031,203	7,031,203
Long-term debts	**8,542,838**	**8,963,098**	8,764,575	8,764,575
Due to related parties	**52,981,633**	**52,981,633**	35,600,338	35,600,338
Other liabilities	**2,200,156**	**2,215,152**	1,501,179	1,501,179
	₱71,237,211	**₱71,672,468**	₱54,767,295	₱54,767,295

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

Cash and cash equivalents
The carrying amounts of cash and cash equivalents approximate fair value. The carrying amounts of receivables approximate fair value due to their short-term settlement period.

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.

Other current financial instruments
The historical cost carrying amounts of refundable deposits, accounts payable, accrued expenses and due to related parties approximate their fair values due to the short-term nature of these accounts.

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.

Long-term obligations and short-term, fixed rate notes payable
The fair value of long-term obligations (whether fixed or floating) is generally based on the present value of expected cash flows with discount rates that are based on risk-adjusted benchmark rates (in the case of floating rate liabilities with annual repricing, the carrying value approximates the fair value in view of the recent and regular repricing based on current market rates). The discount rates used for the unsecured debts are 5.03%, 5.03% and 5.20% in 2012, 2011 and 2010, respectively. The fair value of bonds payable is determined by reference to latest transaction price at the end of reporting period.

The carrying value of the short-term bank loans and secured debts approximates its fair value due to their short-term settlement period (i.e., effect of discounting is minimal). The carrying value of the notes payable approximate their fair value since the notes carry interest rates based on market.

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 fair value information are analyzed by source of inputs on fair valuation as follows:

- Quoted prices in active markets for identical assets (Level 1);
- Those involving inputs other than quoted prices included in Level 1 that are observable for the asset, either directly (as prices) or indirectly (derived from prices) (Level 2); and
- Those inputs for the asset that are not based on observable market data (unobservable inputs) (Level 3).

The Group held the following financial instruments measured at fair value:

	March 31, 2013			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial Assets				
Financial assets at FVPL:				
Held-for-trading:				
Government securities	**₱3,685,652**	–	**₱–**	**₱3,685,652**
Derivative assets	**89,286**	**324,106**	**–**	**413,392**
Private debt securities	**27,187**	**–**	**–**	**27,187**
Equity securities	**300,852**	**–**	**–**	**300,852**
Designated at FVPL:				
Private debt securities	**–**	**1,229,018**	**–**	**1,229,018**
	₱4,102,977	**₱1,553,124**	**₱–**	**₱5,656,101**
AFS investments:				
Government securities	**₱84,080,474**	**₱–**	**₱–**	**₱84,080,474**
Other debt securities	**13,266,710**	**2,113,604**	**–**	**15,380,314**
Equity securities	**1,524,486**	**–**	**–**	**1,524,486**
	₱98,871,670	**₱2,113,604**	**₱–**	**₱100,985,274**

(Forward)

	March 31, 2013			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial Liabilities				
Financial Liabilities at FVPL:				
Designated at FVPL	**₱–**	**₱–**	**₱6,096,509**	**₱6,096,509**
Derivative liabilities	**75,131**	**5,370**	**–**	**80,501**
	₱75,131	**₱5,370**	**₱6,096,509**	**₱6,177,010**

28. Capital Management

The main thrust of the Group's capital management policy is to ensure that the Group complies with externally imposed capital requirements, maintains a good credit standing and has a sound capital ratio to be able to support its business and maximize the value of its shareholders equity. The Group is also required to maintain debt-to-equity ratios to comply with certain loan agreements and covenants in 2013 and 2012.

The Group's dividend declaration is dependent on the availability of earnings and operating requirements. The Group manages its capital structure and makes adjustment to it, in light of changes in economic conditions. To maintain or adjust capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes in 2013 and 2012.

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

The table below shows the leverage ratios of the Group:

	March 31, 2013	December 31, 2012
	(In Thousands, except ratios)	
Total liabilities	**₱523,777,720**	₱513,542,133
Total equity	**107,027,288**	101,610,020
Total liabilities and equity	**₱630,805,008**	₱615,152,153
Debt ratio	**0.83:1**	0.83:1
Debt-to-equity ratio	**4.89:1**	5.05:1

29. Agreements, Commitments and Contingencies

<u>Agreements</u>

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 Group 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.

Contingencies
In the ordinary course of business, the Group is a party to various litigations related mainly to trademark infringement, probable claims and tax refund and other cases. The timing of the cash outflows of these provisions is uncertain as it depends upon the outcome of the Group's negotiations and/or legal proceedings, which are currently ongoing with the parties involved.

Disclosure on additional details beyond the present disclosures may seriously prejudice the Group's position and strategy. Thus, as allowed by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, only general descriptions were provided.

BSP Reporting
The following is a summary of various commitments, contingent assets and contingent liabilities at their equivalent peso contractual amounts:

	March 31, 2013	December 31, 2012
Trust department accounts	**₱100,418,539**	₱97,814,661
Deficiency claims receivable	**11,850,751**	11,846,073
Inward bills for collection	**312,517**	493,728
Outstanding guarantees issued	**1,257,880**	951,579
Outward bills for collection	**360,346**	369,923
Unused commercial letters of credit	**139,258**	5,612,460
Other contingent accounts	**520,056**	862,925
Confirmed export letters of credit	**78,901**	80,382
Items held as collateral	**52**	270

Trust Operations
Securities and other properties held by the banking segment in fiduciary or agency capacities for its customers are not included in the accompanying consolidated balance sheets since these are not assets of the banking segment. Such assets held in trust were carried at a value of ₱57.0 billion and ₱56.0 billion as of March 31, 2013 and December 31, 2012, respectively. In connection with the trust functions of the banking segment, government securities amounting to ₱1,111.0 million and ₱1,054.5 million (included under 'AFS investments') as of March 31, 2013 and December 31, 2012, respectively, are deposited with the BSP in compliance with trust regulations.

In compliance with existing banking regulations, the baking segment transferred from surplus to surplus reserves ₱146.9 million and ₱17.6 million as of March 31, 2013 and December 31, 2012, respectively, corresponding to the 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.

30. Business Combination under Common Control

As discussed in Note 1, the business combination in 2013 involving LTG and its subsidiaries were accounted using the pooling of interest method. Below are the restatements on the Group's interim consolidated balance sheets as of December 31, 2012:

	December 31, 2012		
	As Previously Reported	**Effect of Restatements**	**As Restated**
		(In Thousands)	
ASSETS			
Current Assets			
Cash and cash equivalents	₱8,906,360	₱115,308,806	₱124,215,166
Financial assets at fair value through profit or loss	–	11,398,591	11,398,591
Available-for-sale financial assets	–	6,335,811	6,335,811
Loans and receivables	11,090,291	127,244,806	138,335,097
Due from related parties	20,540,635	(4,297,125)	16,243,510
Inventories	10,964,286	–	10,964,286
Other current assets	2,718,823	2,906,173	5,624,996
Total Current Assets	54,220,395	258,897,062	313,117,457
Noncurrent Assets			
Loans and receivables - net of current portion	874,290	121,536,203	122,410,493
Available-for-sale financial assets	765,926	90,832,541	91,598,467
Investment in associate and joint venture	13,906,189	5,061	13,911,250
Property, plant and equipment:			
At appraised values	17,022,509	21,531,030	38,553,539
At cost	3,122,299	1,563,871	4,686,170
Investment properties	4,567,826	19,050,479	23,618,305
Net retirement plan assets	1,215,603	(42,530)	1,173,073
Deferred income tax assets	660,598	1,999,375	2,659,973
Other noncurrent assets	1,243,075	2,180,351	3,423,426
Total Noncurrent Assets	43,378,315	258,656,381	302,034,696
TOTAL ASSETS	₱97,598,710	₱517,553,443	₱615,152,153
LIABILITIES AND EQUITY			
Current Liabilities			
Deposit liabilities	₱–	₱358,462,436	₱358,462,436
Financial liabilities at fair value through profit or loss	–	389,817	389,817
Bills and acceptances payable	–	17,256,919	17,256,919
Short-term debts	1,870,000	4,247,306	6,117,306
Accounts payable and other liabilities	7,805,513	4,185,115	11,990,628
Income tax payable	236,519	153	236,672
Customers' deposits	2,626,388	–	2,626,388
Current portion of long-term debts	2,741,143	–	2,741,143
Current portion of due to related parties	20,503,550	16,515,297	37,018,847
Other current liabilities	–	21,683,679	21,683,679
Total Current Liabilities	35,783,113	422,740,722	458,523,835

(Forward)

	December 31, 2012		
	As Previously Reported	**Effect of Restatements**	**As Restated**
		(In Thousands)	
Noncurrent Liabilities			
Deposit liabilities - net of current portion	₱–	₱24,805,196	₱24,805,196
Financial liabilities at fair value through profit or loss	–	6,196,070	6,196,070
Bills and acceptances payable	–	328,654	328,654
Long-term debts - net of current portion	5,873,432	7,485,316	13,358,748
Accrued retirement benefits	534,044	321,774	855,818
Deferred tax liabilities	1,329,722	983,846	2,313,568
Other noncurrent liabilities	1,468,333	5,691,911	7,160,244
Total Noncurrent Liabilities	9,205,531	45,812,767	55,018,298
Total Liabilities	44,988,644	468,553,489	513,542,133
Equity			
Equity attributable to equity holders of the parent company:			
Capital stock	8,981,389	–	8,981,389
Capital in excess of par	1,173,772	–	1,173,772
Other Comprehensive income	4,993,008	1,873,764	6,866,772
Other equity reserves	270,416	826,472	1,096,888
Retained earnings	31,337,931	13,582,831	44,920,762
	46,756,516	16,283,067	63,039,583
Non-controlling interests	5,853,550	32,716,887	38,570,437
Total Equity	52,610,066	48,999,954	101,610,020
TOTAL LIABILITIES AND EQUITY	₱97,598,710	₱517,553,443	₱615,152,153

Restatements on the interim consolidated statements of income of the Group for the years ended December 31 are as follows:

	Three Months Ended March 31, 2013		
	As Previously Reported	**Effect of Restatements**	**As Restated**
		(In Thousands)	
SALES			
Banking	₱–	₱8,432,602	₱8,432,602
Beverage	–	3,217,165	3,217,165
Distilled spirits	2,783,669	(93,908)	2,689,761
Tobacco	–	643,952	643,952
Property development	–	560,231	560,231
	2,783,669	12,760,042	15,543,711
COST OF SALES	2,136,105	4,850,259	6,986,364
GROSS INCOME	647,564	7,909,783	8,557,347
EQUITY IN NET EARNINGS OF ASSOCIATE	–	1,513,644	1,513,644
	647,564	9,423,427	10,070,991
OPERATING EXPENSES			
Selling expenses	119,829	654,853	774,682
General and administrative expenses	152,798	5,929,374	6,082,172
	272,627	6,584,227	6,856,854
OPERATING INCOME	374,937	2,839,200	3,214,137
OTHER INCOME (CHARGES)			
Finance costs	(104,520)	(30,747)	(135,267)
Finance income	14,742	30,224	44,966
Foreign exchange gains (losses)	(3,854)	367,724	363,870
Others - net	8,963	941,395	950,358
	(84,669)	1,308,596	1,223,927

(Forward)

	Three Months Ended March 31, 2013		
	As Previously Reported	**Effect of Restatements**	**As Restated**
		(In Thousands)	
INCOME BEFORE INCOME TAX	₱290,268	₱4,147,796	₱4,438,064
PROVISION FOR INCOME TAX			
Current	130,429	606,059	736,488
Deferred	(31,715)	(45,109)	(76,284)
	98,714	560,950	660,204
NET INCOME	₱191,554	₱3,586,846	₱3,777,860
Net income attributable to:			
Equity holders of the company	₱191,100	₱2,591,703	₱2,782,803
Non-controlling interests	454	994,603	995,057
	₱191,554	₱3,586,306	₱3,777,860

Restatements on the interim consolidated statements of comprehensive income of the Group for the three months ended March 31, 2012

	March 31, 2012		
	As Previously Reported	**Effect of Restatements**	As Restated
		(In Thousands)	
NET INCOME	₱191,554	₱3,586,306	₱3,777,860
OTHER COMPREHENSIVE INCOME			
Revaluation increment on property, plant and equipment, net of deferred income tax effect (Note 11)	(21,620)	(85,434)	(107,054)
Net changes in fair value of AFS financial assets, net of deferred income tax effect (Note 9)	1,805	(1,805)	
	(19,815)	(87,239)	(107,054)
TOTAL COMPREHENSIVE INCOME	₱171,739	₱3,499,067	₱3,670,806
Total comprehensive income attributable to:			
Equity holders of the parent company	₱171,285	₱2,504,455	₱2,675,740
Non-controlling interests	454	994,612	995,066
	₱171,739	₱3,499,067	₱3,670,806

LT GROUP, INC. AND SUBSIDIARIES
SELECTED EXPLANATORY NOTES
As at March 31, 2013 and December 31, 2012
And for the Three Months Ended March 31, 2013 and 2012
(As required under Par. 7 (d) Selected Explanatory Notes Required Under SRC Rule 68, as Amended 2011)

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

The Company's interim consolidated financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

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

Beverage Segment is affected by seasonality of operations.

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

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

After a series of restructuring activities in 2012 and 2013, the Company was able to consolidate certain businesses of the controlling stockholder to LTG. The current portfolio comprises interests in the following companies:

- **Distilled Spirits**—the Company conducts its distilled spirits business through its 100%-owned subsidiary TDI.
- **Beverage**—the Company conducts its beverage business through its 99.9%-owned subsidiary, Asia Brewery, Inc. (ABI).
- **Tobacco**—the Company conducts its tobacco business through its 99.6% ownership in Fortune Tobacco Corporation (FTC), which in turn owns 49.6% of PMFTC, a company formed in 2010 as a result of business combination between Philip Morris Philippines Manufacturing, Inc. (PMPMI) and FTC.
- **Property Development**—the Company conducts its property development business through Paramount Landequities, Inc. and Saturn Holdings, Inc. resulting to an effective ownership of 99.3% in Eton Properties Philippines, Inc. (ETON).

- **Banking**—the Company conducts its banking business through the 17 local holding companies resulting to an effective ownership of 45.5% in Philippine National Bank (PNB) and Allied Banking Corporation (ABC) as of March 31, 2013.

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

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

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

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

Not Applicable. There were no issuances, repurchases, and repayments of debt and equity securities

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

On December 20, 2011, the Board of Directors of LTG approved the declaration and distribution of cash dividends of P 0.20 to all stockholders of record as of January 5, 2012. The said cash dividends were paid on February 1, 2012.

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

Please refer to Note 4 – Segment Information, in the interim consolidated financial statements.

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

Acquisition of Philippine National Bank (PNB) and Allied Banking Corporation (ABC)
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 59.8% (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.

In various dates in February and March 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 March 31, 2013, LTG obtained majority ownership over certain Bank Holding Companies which collectively own direct ownership interest of 45.5% of the Merged PNB. As of May 6, 2013, LTG is currently obtaining the requisite regulatory approval to increase its stake in PNB to 59.8%.

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

The banks were now included in the interim report. The pooling of interest method was used for the business combination.

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

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

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

Distilled Spirits

In the ordinary course of business, TDI is a party to various legal actions that it believes are routine and incidental to the operation of its business. In the opinion of TDI's management, the outcome and potential liability of these aforementioned legal actions are not likely to have a materially adverse effect on TDI's business, financial condition and results of operations.

Legal actions that may have a materially adverse effect on TDI's business, financial condition and results of operations include a P100 million civil infringement suit filed by GSMI, a cease and desist order filed by the DENR against AAC and a realty tax assessment from the Provincial Assessor of Negros Occidental.

- **GSMI Litigation**

  On August 15, 2003, GSMI filed a trademark infringement lawsuit with the Regional Trial Court ("RTC") of Mandaluyong City, challenging TDI's launch of *Ginebra Kapitan* (now called "*Gin Kapitan*"), a gin product which allegedly has a "confusing similarity" with GSMI's principal gin product. GSMI obtained a temporary restraining order ("TRO") preventing TDI from using the *Ginebra Kapitan* name. The TRO was nullified with finality by the Supreme Court of the Philippines (the "Supreme Court") in November 2009 and TDI was allowed to continue to use the brand name *Ginebra Kapitan*. The Supreme Court ruled that there was no basis for the issuance of an injunction restraining TDI from using *Ginebra Kapitan* as a trademark for its gin products. The IPO also ruled in favor of TDI by declaring that GSMI could not claim ownership over the Ginebra name, as it was generic in nature.

  On July 31, 2012, the RTC of Mandaluyong City dismissed the charges of infringement and unfair competition against TDI. The court also sustained TDI's position that Ginebra is a generic name, free for all to use. The RTC also sustained TDI's claim that there is no confusing similarity between GSMI's *Ginebra San Miguel* brand and TDI's *Ginebra Kapitan* brand. GSMI's motion for reconsideration of the decision was denied.

- **DENR Administrative Proceedings**

  On July 22, 2008, the DENR issued a cease and desist order against AAC upon the request of the Pollution Adjudication Board ("PAB") for failure to meet environmental standards. AAC immediately filed and was granted a temporary lifting order in exchange for agreeing to implement immediate and long-term remedial measures. Despite AAC's implementation of remedial measures, the residents and local government of Pulupandan, where AAC's distillation plant is located, protested against AAC operations and at one point took measures to barricade access to the plant. AAC temporarily suspended operations in June 2009 when an essential water pipeline was damaged allegedly during a road improvement project by the local government. AAC obtained a renewal for its temporary lifting order from the PAB and as a result AAC was able to obtain a permit from the Pulupandan local government to fix its damaged water pipeline. Further, AAC has removed and transferred its new distillery columns, which were to be used for its previous expansion plans, to ADI's plant in Batangas where expansion will now instead be pursued. As of the date of this Offering Circular, while there is nothing that would prevent AAC from operating its distillation plant, AAC is currently evaluating whether or not to recommence operations.

- **Realty Tax Assessments**
  On August 25, 2010, AAC received a Notice of Assessment from the Provincial Assessor of Negros Occidental representing deficiency realty taxes for the period from 1997 to 2009 totaling P263.7 million. AAC formally protested the assessment on multiple grounds. As of March 31, 2013, the case remains pending.

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

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

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

Banks
PNB
PNB is a party in legal proceedings which arise in the ordinary course of its business activities. None of such legal proceedings arising in the ordinary course, either individually or in the aggregate, are expected to have a material adverse effect on PNB or its consolidated financial condition.

Allied Bank
Allied Bank is a party in legal proceedings which arise in the ordinary course of its business activities. Allied Bank believes that none of such legal proceedings arising in the ordinary course, either individually or in the aggregate, are expected to have a material adverse effect on Allied Bank or its consolidated financial condition.

On June 19, 1986, the PCGG sequestered shares of stock in Allied Bank. In response, Allied Bank and concerned stockholders instituted a special civil action (G.R. No. 75643) before the Supreme Court praying for the nullification of the above writs of sequestration. On February 15, 1990, the Supreme Court referred the action, together with related parties, to the Sandiganbayan, the Philippine anti-graft court, for appropriate disposition. In its Joint Decision of March 2, 2006, the Sandiganbayan nullified the writs of sequestration over, among others, shares of stock of Allied Bank. With its motion for reconsideration of the decision having been denied, the PCGG appealed to the Supreme Court through a petition for review. The Supreme Court affirmed the decision of the Sandiganbayan on December 7, 2007, and PCGG's motion for reconsideration was thereafter denied. On January 29, 2008, the Supreme Court ruled with finality on the lifting of the writs of sequestration.

On December 19, 2008, the Republic of the Philippines, through the office of the Solicitor General, filed before the Sandiganbayan Civil Case No. 0005, entitled *Republic v. Lucio Tan, et. al.*, an Application for the Issuance of a Temporary Restraining Order and/or Writ of Preliminary Injunction, seeking to enjoin the merger of Allied Bank and PNB. The Sandiganbayan, in its Resolution of March 19, 2009, however, denied said application. On January 2010, Allied Bank received the Resolution of December 18, 2009 issued by the Sandiganbayan denying the motion for reconsideration of the Office of the Solicitor General.

On February 20, 2012, the PCGG again filed before the SEC its opposition to the merger, the primary basis of which was the pending resolution of the "ill-gotten wealth" case filed against Dr. Lucio C. Tan, identified as Civil Case No. 0005. The PCGG alleged the following: i.) there was no compliance with Sec. 77 of the Corporation Code; ii.) there was a violation of Sec. 2 of EO No. 2 Series of 1986; and iii.) there was no prior approval from the Sandiganbayan. Since there has been no determination or resolution on Civil Case No. 0005, it was alleged that the Republic of the Philippines will be disadvantaged by the proposed merger. By denying the issuance of the Temporary Restraining Order the SEC noted that the Sandiganbayan impliedly gave its approval for the merger.

On June 11, 2012, the Sandiganbayan finally issued its resolution dismissing the "ill-gotten wealth" case against Dr. Lucio C. Tan and finally disposing of Civil Case No. 0005. The SEC on the other hand, issued its order on September 6, 2012 denying the opposition of the PCGG to the merger of Allied Bank and PNB.

The PCGG requested that Dr. Lucio C. Tan's shares of Allied Bank be tagged pending further appeals. Allied Bank complied with the request, tagging a total of 354,419 common shares in Allied Bank. Upon completion of the merger between Allied Bank and PNB, wherein the Allied Bank share were exchanged for PNB shares, the PNB shares thus received by Dr. Lucio C. Tan were also tagged.

On October 30, 2012, the PCGG filed a petition G.R. No. 203592 before the Supreme Court to overturn the Sandiganbayan's resolution dismissing the case against Dr. Lucio C. Tan. On March 18, 2013, the Republic of the Philippines filed a motion before the Supreme Court requesting that Allied Bank and all of its assets be placed in court custody, asserting that Allied Bank shares were substantially diluted as part of its merger with PNB and demanding an explanation for this dilution, and requesting the substitution of PNB in lieu of Allied Bank when appropriate. The Supreme Court has not yet taken action with respect to this motion and the petition remains pending.

Annex “B”

LT GROUP, INC.
(Formerly Tanduay Holdings, Inc.)
AND SUBSIDIARIES

Management Discussion and Analysis of
Financial Condition and Results of Operations

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

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

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

Results of Operations

LT Group's consolidated net income for the quarter ended March 31, 2013 increased significantly by 53.5% from ₱3.8 billion in March 2012 to ₱5.8 billion, while net income attributable to equity holders increased by 35.4% from ₱2.8 billion in March 2012 to ₱3.8 billion of the current period. The improvement in bottom line primarily came from the banking and property sectors which reported a ₱2.0 billion increase in net income. This offset the lower net income contribution from the distilled spirits sector.

Revenues increased by 13.8% coming from the banking, distilled spirits and property development segments which grew by 22.3%, 10.3% and 107.0%, respectively. This was offset however, by the beverage and tobacco segments' revenues which declined by 4.0% and 75.6%, respectively. Revenues from the banking sector increased by ₱1.9 billion primarily due to higher trading and investment securities gains as the sector capitalized on the country's current good economic performance that precipitated the influx of foreign investors in the local capital market. Distilled spirits' sales volumes slid a bit on account of the impact of the new excise tax law but the higher average selling price compensated for the volume drop, causing the segment's revenues to increase by ₱278 million. The property development sector made the highest jump, more than doubling its revenues from ₱560.2 million in the quarter ended March 31, 2012 to ₱1,159.8 million as the construction of its residential and condominium projects accelerated.

The beverage group, however, was affected by the implementation of the excise tax law as the sales volume of its alcoholic beverages, beer and alcopops, declined. The tobacco segment transferred all of its operations to PMFTC, effective January 31, 2013, with revenues coming only from the sale of its remaining inventory to PMFTC and JTI in February 2013. Despite the implementation of the new excise tax law, however, PMFTC was able to generate higher net income due to improved margins and cost reductions. Thus, equity in net earnings of PMFTC increased by ₱53.1 million or 3.5%.

Cost of Sales grew by 2.4% from ₱7.0 billion in March 2012 to ₱7.2 billion in March 31, 2013 in parallel with the revenue movements of the distilled spirits and property development segments. Similarly, the beverage and tobacco segments' cost of sales decreased by 4.3% and 72.6%, respectively, relative to the decline in revenues. The banking segment's 3.4% decline in cost of services was mainly on account of lower interest expense on deposit liabilities, bills payable and other borrowings.

Operating costs were 4.9% lower on account of the 5.5% and 4.9% decline in both selling and general and administrative expenses, respectively.

The higher provision for income tax is in line with the overall increase in LT Group's revenues.

Banking

The banking segment posted a ₱3.7 billion consolidated net income for the three-month period ended March 31, 2013, 105.3% or ₱1.9 billion higher compared to the ₱1.8 billion net income for the same period last year.
Net interest income totaled ₱3.2 billion for the first three months of 2013, lower by ₱384 million compared to the net interest income for the same period last year. Interest income declined by ₱482 million from ₱5.4 billion to ₱4.9 billion while interest expense was also lower by ₱98 million at ₱1.7 billion for the first three months of 2013 compared to the ₱1.8 billion for the same period last year. Average yield rates on loans and investments and cost rates on deposits are both lower in March 2013 compared with March 2012.

Net service fees and commission income was slightly higher at ₱617 million compared to ₱609 million reported for the same period last year.

Fee-based and other income during the first three months of 2013 increased by ₱2.2 billion to ₱5.7 billion from ₱3.5 billion for the same period last year. Trading and investment securities gains/(loss) increased significantly by 100.0% from ₱2.3 billion to ₱4.6 billion, mainly attributed to gain on sale of securities. Foreign exchange difference declined at a net foreign exchange loss of ₱0.2 billion for the first three months of 2013 compared to net foreign exchange gain of ₱0.3 billion for the same period last year. Miscellaneous income improved by ₱352 million from ₱614 million to ₱966 million.

Administrative and other operating expenses are lower by ₱0.5 billion from ₱5.6 billion to ₱5.1 billion, largely due to lower provision for impairment and credit losses and miscellaneous expenses by ₱0.3 billion and ₱0.3 billion, respectively, partly offset by slight increases in Compensation and Fringe Benefits, Depreciation and amortization and Taxes and Licenses which increased by ₱65 million, ₱52 million and ₱78 million, respectively.

Provision for income tax for the three months ended March 31, 2013 and 2012 amounted to ₱0.8 billion and ₱0.4 billion, respectively.

Beverage

Revenues declined by 4.2% from ₱3.5 billion in 2012 to ₱3.4 billion in 2013, mainly on account of the decrease in sales volume of the group's alcoholic beverages brought about by the increase selling prices to cover the increase in excise taxes, effective January 1, 2013. The products that were mainly affected by this increase in taxes were beer and alcopops. Sales of commercial bottles likewise declined as an effect of lower sales volume of Tanduay, its major customer.

Cost of sales decreased by 4.3% from ₱2.4 billion in 2012 to ₱2.3 billion in 2013 due to lower sales volume of beer, alcopops and commercial bottles.

A 2.6% decline in operating expense from ₱756.7 million in 2012 to ₱737.1 million in 2013 was brought about by the reclassification of a portion of professional fees and management fees to cost of goods sold and selling expenses.

Other expense for the period was lower by 20.7% from ₱28.6 million in 2012 to ₱22.7 million in 2013. Payment of a bank loan amounting to ₱253.0 million resulted to lower interest expense.

Provision for income tax also decreased due to lower net revenues.

Relative to the decline in revenues, the beverage segment posted a lower net income of 4.9%, to ₱229.0 million for the quarter ended March 31, 2013 from ₱240.9 million in 2012.

Distilled Spirits

The distilled spirits segment posted an 8.4% increase in revenues from ₱2.8 billion in 2012 to 3.0 billion in 2013, on account of 12.4% higher average selling price offsetting the 0.8% decline in sales volume. The higher excise taxes on alcoholic beverages necessitated the increase in the products' selling prices. The 3 best performers in the product mix are Tanduay Five Years, Tanduay Light and ESQ, holding 62.3%, 18.3% and 11.2% in terms of sales volume, respectively.

Cost of sales rose by 10.9% from ₱2.1 billion in 2012 to ₱2.4 billion in 2013 mainly as a result of higher excise taxes and higher prices of raw materials. Consequently, gross profit slightly decreased from 23.3% to 21.5%.

Operating expenses grew by 36.0% from ₱273.7 million in 2012 to ₱372.3 million in 2013 as the 20.0% decline in selling expenses was offset by the 79.7% increase in general and administrative expenses. The decline in selling expenses was on account of lower depreciation expenses and the termination of the lease contract of the Isla Warehouse in Paco, Manila. The ₱122.6 million increase in general and administrative expenses, on the other hand, mainly came from the separation benefits given to Tanduay's Quiapo plant's daily employees, amounting to ₱94.0 million, in connection with the closing of the Quiapo plant on effective April 1, 2013.

An increase of 138.5% from ₱92.1 million in 2012 to ₱219.7 million in 2013 in other charges resulted primarily from the one-off ₱118 million cost for the fair value adjustment on the claim for refund of excess taxes paid. This amount will be reverted to the principal amount each year and booked as income over the expected recovery period of the claim.

The abovementioned changes resulted in the 96.3% decrease in net income from ₱184.6 million in 2012 to ₱6.9 million for the period ended March 31, 2013.

Property Development

The property development segment's net income rose significantly by 487.2% from ₱18.6 million in 2012 to ₱108.9 million in 2013.

Segment revenues more than doubled this year, growing by 107.0% from ₱560.2 million in 2012 to ₱1,159.8 million in 2013, on account higher completion percentages on its residential and condominium projects. The projects that showed significant progress in construction were 68 Roces and 8 Adriatico for Eton Properties, NBC-Geneva/Julia/Mia/Katrina, West Wing at NBC and West Wing at Eton City for Belton Communities, South Lake Village and Riverbend for Eton City. The segment's commercial projects also did well this year with leasing revenues from Centris Walk, Elements, TERG and Green Podium.

Cost of sales increased by 132.0% from ₱336.6 million in 2012 to ₱780.8 million in 2013, in line with the increase in revenues. Gross profit declined from 39.9% to 32.7% in 2013 due to relatively higher construction costs.

Total operating expenses slightly improved as it decreased from ₱242.9 million in 2012 to ₱241.9 million in 2013 mainly due to lower selling expenses by 21.2% due to lower sales commission and sales incentives during the first quarter of 2013. This was offset by the increase in general and administrative expenses by 17.5%, mainly on account of higher taxes and licenses on bank loans, utilities and repairs and maintenance expenses.

Tobacco

The tobacco segment's net income increased by 3.3% from ₱1.5 billion in 2012 to ₱1.6 billion in 2013, mainly on account of the higher equity in net earnings from PMFTC.

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 49.6%-owned subsidiary. Revenues, therefore, dropped by 75.6% from ₱644.0 million in 2012 to ₱157.2 million in 2013. The revenue recognized by the segment came from the February sale of all remaining inventories to JTI and PMFTC.

The 72.6% drop in cost of sales from ₱559.4 million in 2012 to ₱153.4 million in 2013 and the 71.0% decrease in operating expenses from ₱102.0 million in 2012 to ₱29.6 million in 2013 also resulted from the segments' cessation of manufacturing operations.

Financial Condition

LT Group's total consolidated assets as of March 31, 2013 increased by 2.5% to ₱630.8 billion from ₱615.2 billion as of December 31, 2012 attributable mainly to the increase in current assets by 25.5% offset by 21.3% decrease in non-current assets.

The increase in current assets by ₱80.0 billion was mainly on account of the abovementioned reclassification of Available-for-sale Financial Assets from noncurrent to current and increase in loans and receivables of the banking segment, and 12.4% higher cash and cash equivalents. The increase in cash and cash equivalents resulted primarily from the increase in the Due from BSP account of the banking segment. Other movements in current assets are lower banking loans and receivables in view of the decline in interbank lending to various foreign banks, and decline in inventories on account of the property segment's higher recognition of its cost of sales for the period and higher sales of finished goods in December 2012.

The decrease in total noncurrent assets by 21.3% mainly on account of the abovementioned reclassification of Available-for-sale Financial Assets from noncurrent to current. Other major movements in noncurrent assets are 5.3% increase in investment properties, 9.1% decrease in deferred tax assets, and 40.2% increase in other noncurrent assets as a result of higher input VAT and excise taxes of the distilled spirits and beverage segments.

Consolidated total liabilities as of March 31, 2013 increased by ₱10.2 billion from ₱513.5 billion as of December 31, 2012. Total current liabilities increased by 4.4% due mainly to increase in Financial Liabilities at Fair Value through Profit and Loss coming from Allied Bank's subordinated debt which was due for redemption in March which triggered the reclassification from non-current liability to current liability. Bills and acceptances payable decreased by 9.2% on account of lower interbank borrowings. Short-term bank debts was lower by 73.5% due to payments made during the period. The 20.9% increase in long-term debt-net of current portion to ₱16.1 billion arose mainly from net increase in loan availments of the property development segment. Deferred income tax liabilities declined by 46.8%. Other non-current liabilities decreased by 10.4% from ₱7.2 billion for the period ended December 31, 2012 to ₱6.4 billion as of March 31, 2013.

LTG's consolidated total equity increased by ₱5.4 billion to ₱107.0 billion for the period ended March 31, 2013. This was primarily attributable to the increase in retained earnings by 8.3% as a result of the different segments' positive operational results.

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

1.) Revenue

Sales for March 31, 2013 is higher by 14% from last year's amount of ₱15.5 billion.

2.) Net Income

Consolidated Net Income for March 2013 amounted to ₱5.8 billion higher by 54% from last period's ₱3.8 billion.

3.) Current Ratio

Current ratio increased from 0.68:1 in December 2012 to 0.82:1 in March 2013.

4.) Debt to Equity Ratio

Debt-to-equity ratio declined from 5.05:1 in December 2012 to 4.89:1 in March 2013.

5.) Earnings/ (Loss) Per Share

LTGI's earnings per share attributable to holders of the parent company for March 2013 and March 2012 are ₱0.42 and ₱0.32, respectively.

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

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

Trends, Uncertainties or Contingencies That will Affect Liquidity In The Next Twelve Months:

(I) On September 24, 2012, the Company'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 the Company 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 the Company 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 the Company, including (but not limited to) the timing of the same and total funds to be raised therefrom.

On April 17, 2013, the Placing Agreement for the placing transaction had been executed. The offer shares consist of 1,600,000,000 shares of the Company and up to 240,000,000 shares for the over-allotment option. The offer price for the offer shares had been set at P20.50 per offer share. The Placing and Subscription Transaction allows the Company to raise capital in a most expeditious and efficient manner with the least cost, for the growth and expansion of its subsidiaries. The transaction is also intended to strengthen and broaden the capital base of the Company, as well as to promote a wider dispersion of the common shares to a broad spectrum of public institutional investors, and to comply with the requirement for a minimum public ownership of a listed company on the Philippine Stock Exchange (PSE).

On April 23 and 26, 2013, net proceeds amounting to P37billion were received by the Company. LTG intends to use the proceeds of the Subscription as follows:

a. Up to 35% of the proceeds for organic growth initiatives at ABI, TDI and ETON;
b. Up to 30% of the proceeds to support growth of the banking business;
c. Up to 30% of the proceeds for repayment of certain indebtedness of certain LTG companies as part of the LTG's corporate reorganization; and
d. Any remainder for general corporate purposes.

Except for the above transaction, 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.

(i) There are no events that will trigger direct or contingent financial obligation that is material to the company and its subsidiaries, including any default or acceleration of an obligation.

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

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

Distilled Spirits

Expansion of Absolut Distillers

In September 2012, TDI increased ADI's capacity of 75,000 liters of ethyl alcohol per day to 175,000 liters per day with the addition of new distillation columns, expected to be fully operational by the second quarter of 2013. The project also includes the construction of an alcohol ageing plant with a capacity of 30,000 barrels. The upgrades will provide TDI with more high grade alcohol to be used in the production of new products for Luzon and export markets. The upgrades will also eliminate third party costs relating to the conversion of low grade alcohol to high grade alcohol and ensure a steady supply of high grade alcohol.

Expansion of Negros Plant

TDI has embarked on an additional expansion consisting of the construction of a finished goods and raw materials warehouse, and a new bottle sorting facility, all of which are expected to be completed in 2014.

Rehabilitation of Asian Alcohol Plant
TDI is currently contemplating possible other options for the plant, including shifting to production of ethanol or leasing the plant to a third party. The rehabilitation of the AAC Plant is currently under evaluation.

<u>Beverage</u>
In December, 2012, ABI commissioned a Polyethylene Terephthalate (PET) bottling plant at its Cagayan de Oro complex which is capable of producing both bottled water and carbonated softdrinks at a rated capacity of 15,000 bottles per hour. The fully integrated plant includes a water distillation facility to produce Absolute distilled water and a blow moulding equipment to produce all the PET bottle requirements of the plant. The new facility will be used to serve the growing demand for bottled water and carbonated softdrinks (CSD) in PET in the Mindanao and Visayas area and will result in substantial FTH savings.

The Company undertook major capex projects for its glass manufacturing and beer production facilities in order to improve production efficiencies. In 2012, construction was also started for a new Head Office building at the Cabuyao complex which when completed in 2013 will house the majority of administrative and support staff currently located in Allied Banking Center, Makati.

In 2012, investments were made in returnable containers to both replace fully depreciated bottles/crates and to support increasing sales of Cobra Energy Drinks, Beer and alcopop drinks.

Various projects for 2013 also includes replenishment of returnable containers, rebuilding of glass furnace 4 and investment in cold fill and hot fill PET line fillers.

(v.) Aside from the impact on the new law, R.A. 10351, which modified the applicable excise tax rates on alcohol and tobacco products including cigarettes effective January 1, 2013, the company has no known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales, revenue or income from continuing operations.

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

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

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

1. Cash – H- 12%
2. Financial assets at fair value through profit or loss – H- (50%)
3. Available-for-sale financial assets - current – H- 1495%; V- 15%
4. Loans and receivables - current – H- (14%);
5. Due from related parties – H- (14%)
6. Inventories – H- (19%)
7. Other current assets – H- (9%)
8. Loans and receivables-noncurrent – H- 19%
9. Available-for-sale financial assets - noncurrent – H- (99%); V- (15%)
10. Property, plant and equipment – at cost – H-11%
11. Investment properties – H- 5%
12. Deferred tax assets- H- (9%)
13. Other non-current assets- H- 40%

14. Financial liabilities at fair value through profit or loss – current – H- 1485%
15. Bills and acceptances payable - current – H- (9%)
16. Short term bank debts – H - (74%)
17. Accounts payable and other current liabilities – H- (15%)
18. Income tax payable- H- 60%
19. Customer's deposit – H- 8%
20. Current portion of long-term debt – H- (27%)
21. Current portion of due to related parties – H- 24%
22. Other current liabilities – H- 14%
23. Deposit liabilities – noncurrent – H- (18%)
24. Financial liabilities at fair value through profit or loss - noncurrent – H- (100%)
25. Bills and acceptances payable - noncurrent – H- (100%)
26. Long-term debt – net of current portion – H- 21%
27. Deferred tax liabilities- H- (47%)
28. Other noncurrent liabilities- H- (10%)
29. Other comprehensive income – H- (7%)
30. Other equity reserves- H- (20%)
31. Retained earnings- H- 8%
32. Non-controlling interests- H- 6%
33. Banking Revenue – H- 22%
34. Distilled Spirit Revenue– H- 10%
35. Beverage Revenue - (4%)
36. Property development Revenue – H- 207%
37. Tobacco Revenue – H- (76%)
38. Selling expenses – H- (6%)
39. General and administrative expenses- H- (5%); V- (6%)
40. Finance cost – H- (13%)
41. Finance income – H- (70%)
42. Foreign exchange gains and losses – H- (110%)
43. Others-net – H- 43%
44. Net income- H- 54%; V- 8%
45. Total Comprehensive income – H- 63%

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

LT GROUP, INC. and SUBSIDIARIES
AGING OF ACCOUNTS RECEIVABLE
As of March 31, 2013 (Unaudited)
(In thousands)

TYPE OF ACCOUNTS RECEIVABLE		TOTAL	CURRENT	31-60 days	61-90 days	91-120 days	over 120 days
(a) Trade Receivable		23,298,764	4,658,177	1,772,879	1,475,678	3,035,933	12,356,097
Less: Allowance for Doubtful Accounts		19,255,461	19,250,363	-	-	-	5,098
NET TRADE RECEIVABLE	P	4,043,303	-14,592,186	1,772,879	1,475,678	3,035,933	12,350,999
(b) Non-Trade Receivables		261,003,453	260,241,333	7,103	10,913	13,469	730,635
Less: Allowance for Doubtful Accounts		626,619	-	-	-	-	626,619
NET NON-TRADE RECEIVABLE	P	260,376,834	260,241,333	7,103	10,913	13,469	104,016
NET RECEIVABLES	P	264,420,137	245,649,147	1,779,982	1,486,591	3,049,402	12,455,015

ACCOUNTS RECEIVABLE DESCRIPTION	NATURE OF DESCRIPTION	COLLECTION PERIOD
Accounts Receivable - Trade	Sale of liquor, beer products, beverages and cigarettes	30 to 90 days
Accounts Receivable - Non-Trade	Downpayment on various suppliers, advances to affiliates, officers and employees, other receivables	-

LT GROUP, INC. and Subsidiaries
FINANCIAL SOUNDNESS INDICATORS

	31-Mar-13	31-Dec-12
CURRENT RATIO	**0.82**	0.68
DEBT TO EQUITY RATIO	**4.89**	5.05
ASSET TO EQUITY RATIO	**5.89**	6.05

	31-Mar-13	31-Mar-12
INTEREST RATE COVERAGE RATIO	**58.78**	33.81
SOLVENCY RATIO	**0.32**	0.25
PROFITABILITY RATIOS:		
PROFIT MARGIN	**0.21**	0.18
RETURN ON ASSET (ROA)	**0.006**	0.005
RETURN ON EQUITY (ROE)	**0.04**	0.03