COVER SHEET

PW-343

LT GROUP, INC.
(A Subsidiary of Tangent Holdings Corporation)
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. Jose Gabriel D. Olives
(Contact Person)

808-1266
(Company Telephone Number)

12 **31**
Month *Day*
(Calendar Year)

17-Q
(Form Type)

06 **09**
Month *Day*
(Annual Meeting)

(Secondary License Type, If Applicable)

SEC
Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

572
Total No. of Stockholders

Domestic | Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

Remarks: Please use BLACK ink for scanning purposes.

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, 2014

2. SEC Identification Number PW-343

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

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

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

6. Industry Classification Code: (SEC Use Only)

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

   Postal Code
   1634

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

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

   N/A

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

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

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

    Yes [/] No [ ]

12. Indicate by check mark whether the registrant:

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

    Yes [/] No [ ]

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

    Yes [/] No [ ]

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

The unaudited interim condensed financial statements of LT Group, Inc. (the Company) and its subsidiaries as of and for the period ended March 31, 2014 (with comparative figures as of December 31, 2013 and for the period March 31, 2013) 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	**JOSE GABRIEL D. OLIVES**
Deputy CFO	Chief Finance Officer
May 14, 2014	May 14, 2014

Annex “A”

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

Consolidated Financial Statements
As at March 31, 2014
(with comparative figures as at December 31, 2013)
And Three Months and Quarter Ended
March 31, 2014 and 2013)

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

Unaudited Interim Condensed Consolidated Financial Statements
As of March 31, 2014 and December 31, 2013
and for the three months ended March 31, 2014 and 2013

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

UNAUDITED CONSOLIDATED BALANCE SHEETS
(Amounts in Thousands)

	March 31, 2014 (Unaudited)	December 31, 2013 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	**₱185,339,551**	₱188,319,662
Financial assets at fair value through profit or loss (Notes 5 and 19)	**14,328,160**	12,556,152
Available for sale (AFS) investments (Note 6)	**1,797,844**	2,926,104
Loans and receivables (Note 7)	**139,296,201**	83,185,666
Due from related parties (Note 21)	**2,716,767**	2,710,185
Inventories (Note 8)	**11,779,606**	10,279,959
Other current assets (Note 9)	**7,223,511**	5,627,293
Total Current Assets	**362,481,640**	305,605,021
Noncurrent Assets		
Loans and receivables - net of current portion (Note 7)	**146,596,351**	204,749,366
AFS investments (Note 6)	**62,916,624**	78,029,572
Held-to-maturity (HTM) investments (Note 6)	**21,489,426**	–
Investment in an associate and a joint venture (Note 10)	**13,262,435**	13,664,449
Property, plant and equipment (Note 11):		
At appraised values	**37,682,115**	37,834,527
At cost	**4,951,069**	4,846,852
Investment properties (Note 11)	**27,225,089**	26,187,597
Net retirement plan assets (Note 22)	**233,599**	243,793
Deferred income tax assets (Note 27)	**1,294,925**	2,681,327
Other noncurrent assets (Note 12)	**2,291,689**	4,607,718
Total Noncurrent Assets	**317,943,322**	372,845,201
TOTAL ASSETS	**₱680,424,962**	₱678,450,222
LIABILITIES AND EQUITY		
Current Liabilities		
Deposit liabilities (Note 13)	**₱420,630,931**	₱415,690,524
Financial liabilities at fair value through profit or loss (Notes 14 and 19)	**8,353,817**	192,195
Bills and acceptances payable (Note 15)	**4,725,757**	11,423,153
Short-term debts (Note 17)	**300,000**	300,000
Accounts payable and accrued expenses (Note 16)	**11,521,322**	13,360,700
Income tax payable	**213,566**	164,045
Current portion of long-term debts (Note 17)	**5,452,808**	1,009,915
Current portion of due to related parties (Note 21)	**5,989,899**	8,036,519
Other current liabilities (Note 18)	**34,575,884**	33,077,731
Total Current Liabilities (Carried Forward)	**491,763,984**	483,254,782

(Forward)

	March 31, 2014	December 31, 2013
Total Current Liabilities (Brought Forward)	**₱491,763,984**	₱483,254,782
Noncurrent Liabilities		
Deposit liabilities - net of current portion (Note 13)	**14,202,965**	10,451,554
Financial liabilities at fair value through profit or loss (Notes 14 and 19)	**–**	7,882,700
Bills and acceptances payable (Note 15)	**1,757,067**	1,748,844
Long-term debts - net of current portion (Note 17)	**11,819,119**	16,879,755
Accrued retirement benefits (Note 22)	**3,013,965**	4,346,262
Deferred income tax liabilities (Note 27)	**1,517,785**	1,815,777
Other noncurrent liabilities (Note 18)	**3,396,292**	2,299,948
Total Noncurrent Liabilities	**35,707,193**	45,424,840
Total Liabilities	**527,471,177**	528,679,622
Equity		
Attributable to equity holders of the Company (Notes 1 and 28):		
Capital stock	**10,821,389**	10,821,389
Capital in excess of par	**35,906,231**	35,906,231
Deposits for future stock subscription	**–**	6,048,534
Preferred shares of subsidiaries issued to Parent Company	**13,452,000**	7,405,000
Other comprehensive income, net of deferred income tax effect	**5,138,044**	6,070,799
Other equity reserves	**790,136**	790,136
Retained earnings	**52,280,917**	50,505,944
Shares of the Company held by subsidiaries	**(12,518)**	(12,518)
	118,376,199	117,535,515
Non-controlling interests (Notes 1 and 28)	**34,577,586**	32,235,085
Total Equity	**152,953,785**	149,770,600
TOTAL LIABILITIES AND EQUITY	**₱680,424,962**	₱678,450,222

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

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

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME
(Amounts in Thousands, Except for Basic/Diluted Earnings Per Share)
FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2013

	2014 (Three Months) (Unaudited)	2013 (Three Months) (Unaudited)
REVENUE (Note 23)		
Banking	**₱6,389,295**	₱10,425,108
Beverage	**3,019,280**	3,049,646
Distilled spirits	**2,957,394**	3,018,685
Tobacco (Note 10)	**–**	157,209
Property development	**539,142**	1,159,834
	12,905,111	17,810,482
COST OF SALES AND SERVICES (Note 23)	**6,120,674**	7,171,635
GROSS INCOME	**6,784,437**	10,638,847
EQUITY IN NET EARNINGS OF AN ASSOCIATE (Note 10)	**480,476**	1,566,716
	7,264,913	12,205,563
OPERATING EXPENSES		
Selling expenses (Note 24)	**650,407**	740,256
General and administrative expenses (Note 25)	**5,315,289**	5,894,707
	5,965,696	6,634,963
OPERATING INCOME	**1,299,217**	5,570,600
OTHER INCOME (CHARGES)		
Finance costs (Note 20)	**(106,944)**	(129,670)
Finance income (Note 20)	**20,846**	27,318
Foreign exchange gains - net	**416,123**	106,079
Others - net (Note 26)	**1,203,995**	1,319,400
	1,534,020	1,323,127
INCOME BEFORE INCOME TAX	**2,833,237**	6,893,727
PROVISION FOR INCOME TAX (Note 27)		
Current	**605,940**	973,131
Deferred	**6,263**	19,264
	612,203	992,395
NET INCOME	**₱2,221,034**	₱5,901,332
NET INCOME ATTRIBUTABLE TO:		
Equity holders of the Company	**₱1,611,703**	₱4,136,070
Non-controlling interests	**609,331**	1,765,262
	₱2,221,034	₱5,901,332
Basic/Diluted Earnings Per Share (Note 29)	**₱0.15**	₱0.46

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See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

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

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in Thousands)
FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2013

	2014 (Three Months) (Unaudited)	2013 (Three Months) (Unaudited)
NET INCOME	**₱2,221,034**	₱5,901,332
OTHER COMPREHENSIVE INCOME (LOSS)		
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:		
Accumulated translation adjustment	**(171,021)**	(319,864)
Net changes in fair value of AFS financial assets, net of deferred income tax effect	**232,097**	(332,326)
	61,076	(652,190)
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:		
Revaluation increment on property, plant and equipment, net of deferred income tax effect	**(1,337,670)**	–
Re-measurement gains (losses) on defined benefit plans, net of deferred income tax effect	**(10,702)**	779,184
	(1,348,372)	779,184
OTHER COMPREHENSIVE INCOME (LOSS) - Net of income tax effect	**(1,287,296)**	126,994
TOTAL COMPREHENSIVE INCOME	**₱933,738**	₱6,028,326
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:		
Equity holders of the Company	**₱842,218**	₱3,883,952
Noncontrolling interests	**91,520**	2,144,374
	₱933,738	₱6,028,326

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

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

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2013
(Amounts in Thousands)

	Attributable to Equity Holders of the Company (Notes 1 and 28)										
	Capital Stock	Capital in Excess of Par	Deposit for Future Stock Subscription	Preferred shares of Subsidiaries Issued to Parent Company	Other Equity Reserves	Other Comprehensive Income (Loss), Net of Deferred Income Tax Effect	Retained Earnings	Shares of the Company Held by Subsidiaries	Total	Non-controlling Interests (Notes 1 and 28)	Total
BALANCES AT DECEMBER 31, 2012	**₱8,981,389**	**₱1,173,772**	**₱–**	**₱–**	**₱987,057**	**₱9,257,162**	**₱42,268,202**	**(₱12,518)**	**₱62,655,064**	**₱31,051,046**	**₱93,706,110**
Net income for the period	–	–	–	–	–	–	4,136,070	–	4,136,070	1,765,262	5,901,332
Other comprehensive income (loss)	–	–	–	–	–	(252,118)	–	–	(252,118)	379,112	126,994
Total comprehensive income (loss) for the period	–	–	–	–	–	(252,118)	4,136,070	–	3,883,952	2,144,374	6,028,326
Acquisition of shares of subsidiaries from the Controlling Shareholders	–	–	–	–	(107,305)	–	–	–	(107,305)	(247,112)	(354,417)
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	–	–	–	–	–	(268,644)	268,644	–	–	–	–
BALANCES AT MARCH 31, 2013	**₱8,981,389**	**₱1,173,772**	**₱–**	**₱–**	**₱879,752**	**₱8,736,400**	**₱46,672,916**	**(₱12,518)**	**₱66,431,711**	**₱32,948,308**	**₱99,380,019**
BALANCES AT DECEMBER 31, 2013	**₱10,821,389**	**₱35,906,231**	**₱6,048,534**	**₱7,405,000**	**₱790,136**	**₱6,070,799**	**₱50,505,944**	**(₱12,518)**	**₱117,535,515**	**₱32,235,085**	**₱149,770,600**
Net income for the period	–	–	–	–	–	–	**1,611,704**	–	**1,611,704**	**609,330**	**2,221,034**
Other comprehensive income (loss)	–	–	–	–	–	**(769,486)**	–	–	**(769,486)**	**(517,810)**	**(1,287,296)**
Total comprehensive income (loss) for the period	–	–	–	–	–	**(769,486)**	**1,611,704**	–	**842,218**	**91,520**	**933,738**
Issuance of preferred shares of subsidiaries	–	–	**(6,048,534)**	**6,047,000**	–	–	–	–	**(1,534)**	–	**(1,534)**
Increase in non-controlling interests without loss of control	–	–	–	–	–	–	–	–	–	**2,250,981**	**2,250,981**
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	–	–	–	–	–	**(163,269)**	**163,269**	–	–	–	–
BALANCES AT MARCH 31, 2014	**₱10,821,389**	**₱35,906,231**	**₱–**	**₱13,452,000**	**₱790,136**	**₱5,138,044**	**₱52,280,917**	**(₱12,518)**	**₱118,376,199**	**₱34,577,586**	**₱152,953,785**

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

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

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2013
(Amounts in Thousands)

	2014 (Three Months)	2013 (Three Months)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱2,833,237**	₱6,893,727
Adjustments for:		
Depreciation and amortization (Note 11)	**734,119**	866,710
Provision for losses	**365,463**	363,862
Gain on disposal of:		
AFS (Notes 6 and 26)	**–**	(279,509)
Other assets (Notes 11 and 26)	**347,501**	118,009
Equity in net earnings of an associate (Note 10)	**(480,476)**	(1,566,716)
Finance costs (Note 20)	**106,944**	129,670
Finance income (Note 20)	**(20,846)**	(27,318)
Movement in accrued retirement benefits (Note 22)	**(1,322,103)**	478,198
Operating income before changes in working capital	**2,563,839**	6,976,633
Decrease (increase) in:		
Financial assets at fair value through profit or loss	**(1,772,008)**	9,484,249
Receivables - net	**2,042,480**	(5,791,628)
Inventories	**(1,499,647)**	1,350,615
Other assets	**(2,987,807)**	(1,204,452)
Increase (decrease) in:		
Deposit liabilities	**8,691,818**	10,733,466
Accounts payable and accrued expenses	**(1,839,378)**	(1,554,913)
Financial liabilities at fair value through profit or loss	**278,922**	(4,148,453)
Other liabilities	**2,286,156**	6,830,762
Cash generated from operations	**7,968,542**	22,676,279
Dividends received	**963,007**	979,749
Interest received	**20,846**	27,318
Income taxes paid, including creditable withholding and final taxes	**(547,418)**	(1,398,400)
Net cash from operating activities	**8,404,977**	22,284,946
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of:		
AFS investments (Note 6)	**(27,419,896)**	(4,250,143)
Property, plant and equipment (Note 11)	**(1,170,713)**	(3,035,326)
Investment properties (Note 11)	**(295,439)**	(110,663)
Proceeds from sale of:		
AFS (Note 6)	**23,424,148**	–
Other assets (Note 11)	**1,293,874**	557,807
Net cash used in investing activities	**(4,168,026)**	(6,838,325)

(Forward)

	2014 (Three Months)	2013 (Three Months)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of shares to non-controlling interests arising from stock rights offering of the banking segment	**₱2,250,981**	₱–
Proceeds from (payments of) bill and acceptance payable	**(6,689,173)**	(2,090,379)
Availments of long term debts (Note 17)	**–**	2,789,965
Payments of long term debts (Note 17)	**(625,306)**	–
Payment of advances from affiliates (Note 21)	**(2,046,620)**	(2,966,825)
Payment of finance cost	**(106,944)**	(129,670)
Net cash used in financing activities	**(7,217,062)**	(2,396,909)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(2,980,111)**	13,049,712
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**188,319,662**	126,620,890
CASH AND CASH EQUIVALENTS AT END OF PERIOD (Note 4)	**₱185,339,551**	₱139,670,602

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

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

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

1. Corporate Information

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

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

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

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

2. Summary of Significant Accounting and Financial Reporting Policies

Basis of Preparation

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

The interim condensed consolidated financial statements of LTG have been prepared in accordance with PAS 34, *Interim Financial Reporting*. The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's December 31, 2013 annual consolidated financial statements.

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

Basis of Consolidation

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

	Percentage of Ownership						
	March 31, 2014		December 31, 2013		March 31, 2013		Country of
	Direct	**Indirect**	Direct	Indirect	Direct	Indirect	Incorporation
Distilled Spirits							
TDI and subsidiaries	**100.0**	**–**	100.0	–	100.0	–	Philippines
Absolut Distillers, Inc. (ADI)	**–**	**95.0**	–	95.0	–	95.0	Philippines
Asian Alcohol Corporation (AAC)	**–**	**96.0**	–	96.0	–	96.0	Philippines
Tanduay Brands International, Inc. (TBI) (1)	**100.0**	**–**	100.0	–	100.0	–	Philippines
Beverages							Philippines
ABI and subsidiaries	**99.9**	**–**	99.9	–	99.9	–	Philippines
Agua Vida Systems, Inc.	**–**	**99.9**	–	99.9	–	99.9	Philippines
Interbev	**–**	**99.9**	–	99.9	–	99.9	Philippines
Waterich	**–**	**99.9**	–	99.9	–	99.9	Philippines
Packageworld	**–**	**99.9**	–	99.9	–	99.9	Philippines
Tobacco							
Shareholdings, Inc.	**97.7**	**–**	97.7	–	97.7	–	Philippines
FTC	**82.7**	**16.9**	82.7	16.9	82.7	16.9	Philippines
Property Development							
Saturn	**100.0**	**–**	100.0	–	100.0	–	Philippines
Paramount and subsidiaries	**100.0**	**–**	100.0	–	100.0	–	Philippines
Eton	**–**	**99.3**	–	99.3	–	99.3	Philippines
Belton Communities, Inc. (BCI)	**–**	**99.3**	–	99.3	–	99.3	Philippines
Eton City, Inc. (ECI)	**–**	**99.3**	–	99.3	–	99.3	Philippines
FirstHomes, Inc. (FHI)	**–**	**99.3**	–	99.3	–	99.3	Philippines
Eton Properties Management Corporation (EPMC)	**–**	**99.3**	–	99.3	–	99.3	Philippines
Banking							
Bank Holding Companies	**80-100**	**–**	80-100	–	80-100	–	Various
PNB and Subsidiaries(2)	**–**	**56.5**	–	56.5	–	56.5	Philippines
PNB Capital and Investment Corporation (PNB Capital)	**–**	**56.5**	–	56.5	–	56.5	Philippines
PNB Securities, Inc. (PNB Securities)	**–**	**56.5**	–	56.5	–	56.5	Philippines

(Forward)

	Percentage of Ownership						
	March 31, 2014		December 31, 2013		March 31, 2013		Country of
	Direct	**Indirect**	Direct	Indirect	Direct	Indirect	Incorporation
Banking (continued)							
PNB Forex, Inc.	**–**	**56.5**	–	56.5	–	56.5	Philippines
PNB Holdings Corporation (PNB Holdings)	**–**	**56.5**	–	56.5	–	56.5	Philippines
PNB General Insurers, Inc. (PNB Gen)	**–**	**56.5**	–	56.5	–	56.5	Philippines
PNB Corporation - Guam	**–**	**56.5**	–	56.5	–	56.5	United States of America (USA)
PNB International Investments Corporation (PNB IIC)	**–**	**56.5**	–	56.5	–	56.5	USA
PNB Remittance Centers, Inc. (PNBRCC)	**–**	**56.5**	–	56.5	–	56.5	USA
PNB RCI Holding Co. Ltd.	**–**	**56.5**	–	56.5	–	56.5	USA
PNB Remittance Co. (Canada)	**–**	**56.5**	–	56.5	–	56.5	Canada
PNB Europe PLC	**–**	**56.5**	–	56.5	–	56.5	United Kingdom
PNB Global Remittance & Financial Co. (HK) Ltd. (PNB GRF)	**–**	**56.5**	–	56.5	–	56.5	Hong Kong
PNB Italy SpA	**–**	**56.5**	–	56.5	–	56.5	Italy
Japan - PNB Leasing and Finance Corporation (Japan-PNB Leasing)	**–**	**50.8**	–	50.8	–	50.8	Philippines
Japan - PNB Equipment Rentals Corporation	**–**	**50.8**	–	50.8	–	50.8	Philippines
Allied Savings Bank (ASB)	**–**	**56.5**	–	56.5	–	56.5	Philippines
Allied Bank Philippines (UK) Plc (ABUK)	**–**	**56.5**	–	56.5	–	56.5	United Kingdom
Allied Commercial Bank (ACB)	**–**	**50.8**	–	50.8	–	50.8	People's Republic of China
Allied Banking Corporation (Hongkong) Limited (ABCHKL)	**–**	**28.8**	–	28.8	–	28.8	Hong Kong
ACR Nominees Limited	**–**	**28.8**	–	28.8	–	28.8	Hong Kong
PNB Life Insurance, Inc. (PLII)	**–**	**45.2**	–	45.2	–	45.2	Philippines
Allied Leasing and Finance Corporation (ALFC)	**–**	**32.3**	–	32.3	–	32.3	Philippines
Oceanic Holdings (BVI) Ltd. (OHBVI)	**–**	**15.7**	–	15.7	–	15.7	USA

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

(2) *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.*

Changes in Accounting Policies and Disclosures

The accounting policies adopted in the preparation of the interim condensed 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, 2013, except for the adoption of new standards and interpretations effective as of January 1, 2014.

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

- *Investment Entities (Amendments to PFRS 10, PFRS 12 and PAS 27)*, provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10, *Consolidated Financial Statements*. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments did not have an impact to the Group, since none of the entities in the Group qualifies to be an investment entity under PFRS 10.

- *Offsetting Financial Assets and Financial Liabilities - Amendments to PAS 32,* clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These amendments did not have an impact on the Group.

- *Novation of Derivatives and Continuation of Hedge Accounting - Amendments to PAS 39*, provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments did not have an impact to the Group as the Group has not novated its derivatives during the current or prior periods.

- *Recoverable Amount Disclosures for Non-Financial Assets - Amendments to PAS 36*. These amendments remove the unintended consequences of PFRS 13, *Fair Value Measurement* on the disclosures required under PAS 36, *Impairment of Assets*. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which an impairment loss has been recognized or reversed during the period. These amendments did not have an impact on the Group.

- IFRIC 21, *Levies*, is effective for annual periods beginning on or after January 1, 2014 and is applied retrospectively. It is applicable to all levies imposed by governments under legislation, other than outflows that are within the scope of other standards (e.g., PAS 12, *Income Taxes*) and fines or other penalties for breaches of legislation. The interpretation clarifies that an entity recognizes a liability for a levy no earlier than when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, no liability is recognized before the specified minimum threshold is reached. The interpretation requires these same principles to be applied in interim financial statements. This interpretation did not have an impact on the Group.

New Accounting Standards, Interpretations and Amendments to
<u>Existing Standards Effective Subsequent to December 31, 2014</u>
The Group will adopt the standards, amendments and interpretations enumerated below when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new changes in PFRS to have a significant impact on the consolidated financial statements. The relevant disclosures will be included in the notes to the consolidated financial statements when these become effective.

Effective in 2015

- PAS 19, *Employee Benefits - Defined Benefit Plans: Employee Contributions* (Amendments), apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as reductions to current service costs if they are linked to service or as part of the remeasurements of the net defined benefit asset or liability if they are not linked to service. Contributions that are discretionary shall be accounted for as reductions of current service cost upon payment of these contributions to the plans. The amendments will have no impact on the Group's financial position and performance since the Group has no contributory defined benefit plans.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Standard with no mandatory effective date
- PFRS 9, *Financial Instruments*, reflects the first and third phases of the project to replace PAS 39 and applies to the classification and measurement of financial assets and liabilities and hedge accounting, respectively. Work on the second phase, which relate to impairment of financial instruments, and the limited amendments to the classification and measurement model is still ongoing, with a view to replace PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the

contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For liabilities designated as at FVPL using the fair value option, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change relating to the entity's own credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward to PFRS 9, including the embedded derivative bifurcation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

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

Compliance to SEC Disclosure Requirement on the Adoption of PFRS 9
PFRS 9 currently has no mandatory effective date. PFRS 9 may be applied before the completion of the limited amendments to the classification and measurement model and impairment methodology. An evaluation of the requirements was conducted to determine the impact of early adoption of PFRS 9 and the accounts affected are "Available for sale investments" and "Loans and receivables". As at March 31, 2014, the Group opted not to early adopt the standard before the completion of the limited amendments and the second phase of the project.

Effectivity date to be determined

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

3. **Segment Information**

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

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

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

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

- Beverage, which is engaged in brewing and soft drinks and bottled water manufacturing in the Philippines. It also operates other plants, which includes commercial glass division and corrugated cartons production facility, to support the requirements of its brewing, bottled water and non-beer products operations. The Group conducts its beverage business through ABI, Interbev, Waterich and Packageworld.

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

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

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

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

The Group's assets are located mainly in the Philippines. The Group operates and derives principally all of its revenue from domestic operations. The Group's banking segment operates in key cities in key cities in the USA, Canada, Western Europe, Middle East and Asia.

Further, the measurement of the segments is the same as those described in the summary of significant accounting and financial reporting policies, except for TDI investment properties which are carried at fair value in TDI's consolidated financial statements and certain assets and liabilities of PNB that were recognized at fair value in PNB's consolidated financial statements upon merger of PNB and ABC. TDI's investment property is adjusted at the consolidated level to carry it at cost in accordance with the Group's policy. Certain assets and liabilities of PNB are also adjusted at the consolidated level of LTG to reflect the original carrying values prior to the merger.

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

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

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

The Group's distilled spirits segment derives 99% of its revenue from four major distributors from 2011 to 2013. Revenue from each of the four major distributors averaged 46%, 46%, 6% and 1%, respectively of the total revenue of the segment. The other segments of the Group have no significant customer which contributes 10% or more of their segment revenues.

There are no changes or differences on the basis of segmentation or basis of measurement of segment profit or loss from the last audited annual consolidated financial statements of the Group.

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

For the year ended March 31, 2014:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
				(In Thousands)			
Segment revenue:							
External customers	**₱6,389,295**	**₱2,957,394**	**₱3,019,280**	**₱–**	**₱539,142**	**₱–**	**₱12,905,111**
Inter-segment	–	–	**352,410**	–	–	**(352,410)**	–
	6,389,295	**2,957,394**	**3,371,690**	–	**539,142**	**(352,410)**	**12,905,111**
Cost of sales	**1,201,057**	**2,450,439**	**2,419,484**	–	**407,992**	**(358,298)**	**6,120,674**
Gross profit	**5,188,238**	**506,955**	**952,206**	–	**131,150**	**5,888**	**6,784,437**
Equity in net earnings of an associate	–	–	–	**480,476**	–	–	**480,476**
	5,188,238	**506,955**	**952,206**	**480,476**	**131,150**	**5,888**	**7,264,913**
Selling expenses	–	**235,137**	**385,213**	**150**	**34,585**	**(4,678)**	**650,407**
General and administrative expenses	**4,714,948**	**173,319**	**209,172**	**63,221**	**121,664**	**32,965**	**5,315,289**
Operating income	**473,290**	**98,499**	**357,821**	**417,105**	**(25,099)**	**(22,399)**	**1,299,217**
Finance costs	–	**(102,176)**	**(2,900)**	–	**(7,379)**	**5,511**	**(106,944)**
Finance income	–	**17**	**5,061**	**13,158**	**7,570**	**(4,960)**	**20,846**
Foreign exchange gains - net	**414,728**	**(644)**	–	–	**(98)**	**2,137**	**416,123**
Others - net	**916,318**	**3,757**	**5,175**	**191,493**	**59,436**	**27,816**	**1,203,995**
Income before income tax	**1,804,336**	**(547)**	**365,157**	**621,756**	**34,430**	**8,105**	**2,833,237**
Provision for income tax	**450,113**	**9,958**	**102,046**	**43,470**	**5,628**	**988**	**612,203**
Segment profit	**₱1,354,223**	**(₱10,505)**	**₱263,111**	**₱578,286**	**₱28,802**	**₱7,117**	**₱2,221,034**
Depreciation and amortization expense	**299,433**	**2,788**	**399,189**	**2,788**	**25,747**	**4,174**	**734,119**
Segment profit attributable to:							
Equity holders of the Company	**745,741**	**(8,722)**	**263,111**	**575,857**	**28,600**	**7,117**	**1,611,704**
Non-controlling interests	**608,482**	**(1,783)**	–	**2,429**	**202**	–	**609,330**

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

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
				(In Thousands)			
Assets:							
Current assets	**₱323,865,685**	**₱10,066,709**	**₱8,373,849**	**₱8,845,948**	**₱10,760,447**	**₱569,002**	**₱362,481,640**
Noncurrent assets	**271,281,504**	**6,735,408**	**14,206,903**	**14,813,128**	**10,239,188**	**667,191**	**317,943,322**
	₱595,147,189	**₱16,802,117**	**₱22,580,752**	**₱23,659,076**	**₱20,999,635**	**₱1,236,193**	**₱680,424,962**
Liabilities:							
Current liabilities	**₱487,198,424**	**₱6,521,936**	**₱4,566,696**	**₱376,186**	**₱9,586,149**	**(₱16,485,407)**	**₱491,763,984**
Noncurrent liabilities	**36,126,144**	**601,359**	**1,633,425**	**–**	**3,426,864**	**(6,080,599)**	**35,707,193**
	₱523,324,568	**₱7,123,295**	**₱6,200,121**	**₱376,186**	**₱13,013,013**	**(₱22,566,006)**	**₱527,471,177**
Investments in an associate and a joint venture	**₱–**	**₱–**	**₱13,262,435**	**₱–**	**₱–**	**₱–**	**₱13,262,435**
Equity attributable to:							
Equity holders of the Company	**68,695,031**	**9,556,597**	**16,380,631**	**23,282,890**	**7,986,621**	**(7,525,571)**	**118,376,199**
Non-controlling interests	**3,127,590**	**122,225**	**–**	**–**	**–**	**31,327,771**	**34,577,586**
Short-term debts	**–**	**–**	**300,000**	**–**	**–**	**–**	**300,000**
Long-term debts	**9,957,487**	**4,986,271**	**9,007**	**–**	**2,328,169**	**(9,007)**	**17,271,927**

For the three months ended March 31, 2013:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
				(In Thousands)			
Segment revenue:							
External customers	₱10,425,108	₱3,018,685	₱3,049,646	₱157,209	₱1,159,834	₱–	₱17,810,482
Inter-segment	–	–	325,419	–	–	(325,419)	–
	10,425,108	3,018,685	3,375,065	157,209	1,159,834	(325,419)	17,810,482
Cost of sales	1,914,769	2,369,319	2,284,451	153,366	780,796	(331,066)	7,171,635
Gross profit	8,510,339	649,366	1,090,614	3,843	379,038	5,647	10,638,847
Equity in net earnings of an associate	–	–	–	1,566,716	–	–	1,566,716
	8,510,339	649,366	1,090,614	1,570,559	379,038	5,647	12,205,563
Selling expenses	-	95,841	555,504	150	88,761	–	740,256
General and administrative expenses	5,110,375	276,455	181,616	29,461	153,096	143,704	5,894,707
Operating income	3,399,964	277,070	353,494	1,540,948	137,181	(138,057)	5,570,600
Finance costs	–	(101,880)	(26,523)	(5)	(1,262)	–	(129,670)
Finance income	–	30	350	10,253	11,918	4,767	27,318
Foreign exchange gains - net	105,754	(56)	–	1,075	168	(862)	106,079
Others - net	1,093,160	(117,793)	3,524	9,250	45,510	285,749	1,319,400
Income before income tax	4,598,878	57,371	330,845	1,561,521	193,515	151,597	6,893,727
Provision for income tax	753,598	50,448	101,809	372	84,575	1,593	992,395
Segment profit	₱3,845,280	₱6,923	₱229,036	₱1,561,149	₱108,940	₱150,004	₱5,901,332
Depreciation and amortization expense	385,712	7,477	432,657	7,477	29,517	3,870	866,710
Segment profit attributable to:							
Equity holders of the Company	2,083,934	10,327	229,036	1,554,592	108,177	150,004	4,136,070
Non-controlling interests	1,761,346	(3,404)	–	6,557	763	–	1,765,262

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

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
				(In Thousands)			
Assets:							
Current assets	₱276,146,858	₱10,051,486	₱8,103,570	₱7,703,222	₱9,489,339	(₱5,889,454)	₱305,605,021
Noncurrent assets	325,967,220	6,758,658	14,229,436	15,391,255	10,550,852	(52,220)	372,845,201
	₱602,114,078	₱16,810,144	₱22,333,006	₱23,094,477	₱20,040,191	(₱5,941,674)	₱678,450,222
Liabilities:							
Current liabilities	₱498,100,979	₱1,537,568	₱4,622,420	₱378,464	₱8,602,241	(₱29,986,890)	₱483,254,782
Noncurrent liabilities	34,622,189	5,586,397	1,593,065	–	3,480,131	143,058	45,424,840
	₱532,723,168	₱7,123,965	₱6,215,485	₱378,464	₱12,082,372	(₱29,843,832)	₱528,679,622
Investments in an associate and a joint venture	₱–	₱–	₱–	₱13,664,449	₱–	₱–	₱13,664,449
Equity attributable to:							
Equity holders of the Company	37,418,881	9,562,171	16,117,521	22,606,278	7,928,506	23,902,158	117,535,515
Non-controlling interests	31,972,029	124,008	–	109,735	29,313	–	32,235,085
Additions to noncurrent assets:							
Property, plant and equipment	964,974	780,849	1,396,895	14,464	13,377	16,587	3,187,146
Investment properties	1,632,953	–	–	–	2,197,321	(123,773)	3,706,501
Short-term debts	–	–	300,000	–	–	–	300,000
Long-term debts	9,953,651	4,982,544	10,919	–	2,953,475	(10,919)	17,889,670

4. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	March 31, 2014	December 31, 2013
	(In Thousands)	
Cash and other cash items	**₱17,653,505**	₱12,651,411
Cash equivalents:		
Due from *Bangko Sentral ng Pilipinas* (BSP)	**132,017,882**	153,169,330
Due from other banks	**27,457,014**	14,093,671
Interbank loans receivable and securities held under agreements to resell	**8,211,149**	8,405,250
	₱185,339,551	₱188,319,662

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

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

c. Securities held under agreements to resell represent overnight placements with the BSP where the underlying securities cannot be sold or repledged. The interest rate applicable is fixed by the BSP through a memorandum.

d. Interest earned on cash and other cash items and cash equivalents are presented under "Finance income" and "Banking revenue", respectively (see Note 23).

5. Financial Assets at Fair Value through Profit or Loss

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

	March 31, 2014	December 31, 2013
	(In Thousands)	
Financial assets at fair value through profit or loss (FVPL):		
Held for trading:		
Government securities	**₱4,946,831**	₱3,355,721
Private debt securities	**661,031**	830,528
Derivative assets (Note 19)	**301,837**	258,697
Equity securities	**240,352**	249,518
	6,150,051	4,694,464
Designated at FVPL - Segregated fund assets	**8,178,109**	7,861,688
	₱14,328,160	₱12,556,152

6. Available for Sale Investments

Available for sale investments consist of:

	March 31, 2014	December 31, 2013
	(In Thousands)	
Government securities	**₱41,205,935**	₱59,380,333
Other debt securities	**19,563,812**	18,654,987
Equity securities:		
Quoted	**3,708,656**	2,663,182
Unquoted	**1,233,110**	1,185,582
	65,711,513	81,884,084
Allowance for impairment losses	**(997,045)**	(928,408)
	64,714,468	80,955,676
Noncurrent portion	**(62,916,624)**	(78,029,572)
	₱1,797,844	₱2,926,104

With the prescription of the tainting period in December 2013, the banking segment reclassified some of its AFS investments to the HTM portfolio due to the economic value that it brings to the balance sheet. The reclassification is also to mitigate the substantial swings in the mark-to-market values that are directly recognized in the equity portion of the consolidated balance sheets due to the high degree of volatility in the interest rate markets. As of March 31, 2014, the amount of AFS securities reclassified to HTM amounted to ₱21.3 billion.

7. Loans and Receivables

Loans and receivables consist of:

	March 31, 2014	December 31, 2013
	(In Thousands)	
Finance receivables	**₱288,141,902**	₱291,434,545
Trade receivables	**11,284,020**	10,784,851
Other receivables	**3,019,949**	2,918,862
	302,445,871	305,138,258
Allowance for doubtful accounts and credit losses	**(16,553,319)**	(17,203,226)
	285,892,552	287,935,032
Noncurrent portion	**(146,596,351)**	(204,749,366)
	₱139,296,201	₱83,185,666

<u>Finance Receivables</u>

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

	March 31, 2014	December 31, 2013
	(In Thousands)	
Receivables from customers:		
Loans and discounts	**₱241,586,694**	₱237,061,751
Customers' liabilities on acceptances, letters of credit and trust receipts	**10,032,865**	10,387,199
Bills purchased	**3,965,871**	3,827,510

(Forward)

	March 31, 2014	December 31, 2013
	(In Thousands)	
Credit card receivables	**₱4,082,238**	₱4,105,025
Finance lease receivables	**2,756,283**	2,666,316
	262,423,951	258,047,801
Unquoted debt securities	**8,864,479**	11,571,023
Other receivables:		
Accounts receivable	**8,147,808**	10,308,901
Accrued interest receivable	**5,130,901**	7,514,686
Sales contract receivables	**4,346,712**	4,647,352
Miscellaneous	**383,247**	499,314
	18,008,668	22,970,253
	289,297,098	292,589,077
Unearned interest and other deferred income	**(1,155,196)**	(1,154,532)
	288,141,902	291,434,545
Allowance for credit losses	**(16,502,482)**	(17,165,122)
	271,639,420	274,269,423
Noncurrent portion	**144,681,463**	202,512,151
	₱126,957,957	₱71,757,272

Trade receivables

Trade receivables consist of:

	March 31, 2014	December 31, 2013
	(In Thousands)	
Consumer goods	**₱8,249,144**	₱7,787,960
Contract receivables	**2,973,042**	2,947,033
Lease receivables	**61,834**	49,858
	11,284,020	10,784,851
Allowance for credit losses	**(56,351)**	(32,590)
	11,227,669	10,752,261
Less noncurrent portion of contract receivables	**(1,914,888)**	(2,237,215)
	₱9,312,781	₱8,515,046

8. Inventories

Inventories consist of:

	March 31, 2014	December 31, 2013
	(In Thousands)	
Consumer goods:		
Alcohol	**₱2,575,920**	₱2,559,043
Beverage	**1,658,605**	1,461,630
	4,234,524	4,020,673
Real estate inventories	**6,266,201**	4,932,871
Fuel, materials and supplies	**1,278,881**	1,326,415
	₱11,779,606	₱10,279,959

9. Other Current Assets

	March 31, 2014	December 31, 2013
	(In Thousands)	
Prepaid expenses	**₱1,008,072**	₱577,580
Excise tax	**922,944**	925,030
Creditable withholding taxes (CWT)	**706,173**	715,174
Advances to suppliers	**591,888**	685,740
Input VAT	**453,467**	499,167
Advances to contractors	**358,951**	404,347
Stationeries, office supplies and stamps on hand	**241,611**	248,768
Miscellaneous cash and other cash items	**390,909**	182,295
Others	**3,471,589**	1,334,648
	₱7,223,511	₱5,627,293

10. Subsidiaries, Associates and Joint Venture

<u>Investments in Associates and a Joint Venture</u>
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.

	March 31, 2014	December 31, 2013
	(In Thousands)	
PMFTC	**₱13,262,435**	₱13,664,449
ABI Pascual Holdings	**–**	–
	₱13,262,435	₱13,664,449

Investment in PMFTC
Details of investment in PMFTC are as follows:

	March 31, 2014	December 31, 2013
	(In Thousands)	
Acquisition cost	**₱13,483,541**	₱13,483,541
Accumulated equity in net earnings:		
Balance at beginning of year	**180,908**	402,557
Equity in net earnings	**480,476**	3,704,117
Share in other comprehensive income	**–**	27,454
Less cash dividends	**(882,490)**	(3,953,220)
Balance at end of year	**(221,106)**	180,908
	₱13,262,435	₱13,664,449

Equity in net earnings amounted to ₱480.5 million and ₱1,566.7 million for the period ended March 31, 2014 and 2013, respectively. Dividends received amounted to ₱882.5 million and ₱1,027.4 million for the period ended March 31, 2014 and 2013, respectively.

Investment in a Joint Venture
The Group discontinued recognition of its share of losses in ABI Pascual Holdings since the carrying value of the Group's investment in ABI Pascual Holdings has been reduced to zero and the Group has not incurred any obligations or guaranteed any obligations in respect of the joint venture.

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

Additions to Property, Plant and Equipment amounted to ₱1,170.7 million while retirement and disposals amounted to ₱573.8 million for the period ended March 31, 2014.

Additions to Investment properties amounted to ₱295.4 million while retirement and disposals amounted to ₱372.6 million for the period ended March 31, 2014.

12. Other Noncurrent Assets

Other noncurrent assets consist of:

	March 31, 2014	December 31, 2013
	(In Thousands)	
Deferred input VAT	**₱505,613**	₱539,296
Deferred reinsurance premiums	**327,503**	245,157
Deferred charges	**194,498**	121,156
Refundable deposits	**186,586**	167,547
Deposit for future investments	**252,669**	355,716
Software costs	**390,329**	425,928
Goodwill	**252,671**	252,671
Chattel properties - net	**108,737**	120,615
Investment in Heritage Park	**–**	999,035
Others - net	**73,083**	1,380,597
	₱2,291,689	₱4,607,718

13. Deposit Liabilities

	March 31, 2014	December 31, 2013
	(In Thousands)	
Demand	**₱109,986,033**	₱90,428,033
Savings	**271,223,307**	284,599,682
Time	**53,624,556**	51,114,363
	434,833,896	426,142,078
Presented as noncurrent	**14,202,965**	10,451,554
Presented as current	**₱420,630,931**	₱415,690,524

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

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

	March 31, 2014	December 31, 2013
	(In Thousands)	
Designated at FVPL - Segregated fund liabilities	**₱8,213,622**	₱7,911,794
Derivative liabilities (Note 19)	**140,195**	163,101
	8,353,817	8,074,895
Presented as noncurrent	**–**	7,882,700
Presented as current	**₱8,353,817**	₱192,195

15. Bills and Acceptances Payable

Bills and acceptance payable consists of:

	March 31, 2014	December 31, 2013
	(In Thousands)	
Bills payable to:		
BSP and local banks	**₱3,024,908**	₱8,522,539
Foreign banks	**2,800,438**	2,821,186
Others	**186,857**	1,463,979
	6,012,203	12,807,704
Acceptances outstanding	**470,621**	364,293
	6,482,824	13,171,997
Presented as noncurrent	**1,757,067**	1,748,844
Presented as current	**₱4,725,757**	₱11,423,153

16. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of:

	March 31, 2014	December 31, 2013
	(In Thousands)	
Trade payables	**₱2,184,207**	₱2,553,547
Accrued expenses	**6,785,423**	8,797,794
Retention payable	**728,489**	731,493
Nontrade payables	**403,661**	601,965
Provision for tax contingencies	**335,410**	335,410
Due to government agencies	**714,442**	178,545
Output value added tax	**99,339**	99,622
Other payables	**270,348**	62,324
	₱11,521,320	₱13,360,700

17. **Short-term and Long-term Debts**

Short-term Debts

The Group has no availments and payments of short term debts for the period ended March 31, 2014. In 2013, the Group availed short term debts amounting to ₱300.0 million and paid outstanding debts amounting to ₱1,920.0 million. Interest expense on short term debts amounted to ₱2.6 million.

Long-term Debts

	March 31, 2014	December 31, 2013
	(In Thousands)	
Subordinated debts	**₱9,957,487**	₱9,953,651
Bonds payable	**4,986,271**	4,982,544
Unsecured term loan	**1,873,708**	1,990,120
Notes payable	**454,461**	963,355
	17,271,927	17,889,670
Less current portion	**5,452,808**	1,009,915
	₱11,819,119	₱16,879,755

In January 2014, the Group paid portion of its notes payable and unsecured term loans amounting to ₱508.89 million and ₱116.41 million, respectively. The Group also reclassified all its Bonds payable which are due on February 2015 from noncurrent liabilities to current liabilities. As of March 31, 2014 and December 31, 2013, the Group has complied with the covenants related to its long term debts.

18. **Other Liabilities**

	March 31, 2014	December 31, 2013
	(In Thousands)	
Insurance contract liabilities	**₱11,801,871**	₱11,546,043
Banking accounts payable	**5,406,176**	9,061,565
Bills purchased - contra	**3,397,396**	3,417,082
Customers deposits	**2,725,551**	2,849,147
Provisions	**2,288,720**	1,771,242
Provisions	**1,771,242**	1,771,242
Payable to landowners	**1,296,785**	1,296,785
Managers' checks and demand drafts outstanding	**1,169,323**	1,028,301
Reserve for unearned premiums	**586,875**	576,889
Deposit on lease contracts	**542,608**	502,293
Other dormant credits	**451,910**	437,715
Due to *Treasurer of the Philippines*	**304,208**	311,387
Premium deposits fund	**300,710**	–
Payment order payable	**181,103**	194,628
Due to other banks	**180,275**	–
Due to BSP	**160,831**	117,821
Margin deposits and cash letters of credit	**123,892**	393,006
Tenants' rental deposits	**108,742**	161,600

(Forward)

	March 31, 2014	December 31, 2013
	(In Thousands)	
Transmission liability	**₱73,771**	₱90,005
Advanced rentals	**48,403**	98,658
Others	**7,340,504**	1,501,640
	37,972,176	35,377,679
Presented as noncurrent	**3,396,292**	2,299,948
Presented as current	**₱34,575,884**	₱33,077,731

19. Derivative Financial Instruments

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

	March 31, 2014	December 31, 2013
	(In Thousands)	
Balance at beginning of year	**₱95,596**	₱213,445
Changes in fair value	**64,722**	(194,550)
Settlements	**1,324**	76,701
	₱161,642	₱95,596

The changes in fair value of the derivatives are included in "Trading and investments securities gains - net" presented as part of "Banking revenues" in the consolidated statements of income (see Note 23).

20. Finance Costs and Finance Income

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

	March 31, 2014 (Three Months)	March 31, 2013 (Three Months)
	(In Thousands)	
Finance costs (Note 17):		
Short-term debts	**₱2,900**	₱26,528
Bonds payable and amortization of bond issue costs	**102,176**	101,880
Unsecured term loan and notes payable	**1,868**	1,262
Finance costs	**₱106,944**	129,670
Finance income:		
Cash and other cash items (Note 4)	**₱13,656**	₱16,2346
Interest-bearing contracts receivable (Note 7)	**7,190**	10,972
	₱20,846	₱27,318

21. Related Party Transactions

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

	Nature	**March 31, 2014 (Three Months)**	March 31, 2013 (Three Months)
		(In Thousands)	
Associate	Sales	**₱420**	₱560
	Dividend income	**882,490**	1,027,380
Entities Under Common Control	Banking revenue - interest on loans and receivables	**4,725**	39,799
	Sales of consumer products	**2,430**	2,610
	Rent income	**6,281**	9,993
	Freight and handling	**1,153**	(1,253)
	Purchases of inventories	**(9,123)**	(15,144)
	Cost of banking services - interest expense on deposit liabilities	**(15,028)**	(29,737)
	Management and professional fee	**(60,316)**	(60,316)
	Rent expense	**(7,200)**	(7,200)

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

			Amount/Volume		Outstanding Balance	
	Financial Statement Account	**Terms and Conditions**	**March 31, 2014**	December 31, 2013	**March 31, 2014**	December 31, 2013
			(In Thousands)			
Parent Company	Due to related parties	On demand; non-interest bearing	**(₱2,301,805)**	(₱7,001,728)	**(₱4,654,527)**	(₱6,956,332)
Associate	Dividends receivable	30 to 90 days terms; non-interest bearing	**80,516**	3,953,406	**277,339**	357,855
	Trade receivables	30 to 90 days terms; non-interest bearing	**149**	4,372	**238**	387
	Due from related parties	On demand; non-interest bearing	–	(2,772)	–	–
Entities Under Common Control	Finance Receivables	Loans with interest rates ranging from 0.5% to 16.5% and maturity terms ranging from one (1) month to 25 years; Collateral includes bank deposit hold-out, real estate and chattel mortgages	**183,605**	184,370	**3,206,911**	3,390,516
	Trade and other receivables	30 to 60 days terms; non-interest bearing	**(9,196)**	60,673	**22,436**	13,240

(Forward)

	Financial Statement Account	Terms and Conditions	Amount/Volume **March 31, 2014**	Amount/Volume December 31, 2013	Outstanding Balance **March 31, 2014**	Outstanding Balance December 31, 2013
			(In Thousands)			
Entities Under Common Control	Due from related parties	On demand; non-interest bearing	**(6,773)**	1,755,327	**2,716,767**	2,709,994
	Advances to suppliers and contractors	30 to 60 days terms; non-interest bearing	**12,552**	(64,265)	**50,059**	62,611
	Deposit liabilities	With annual rates ranging from 0.38% to 1.73% and maturity ranging from 30 days to one (1) year	**11,497,533**	18,831	**(13,091,521)**	(1,593,988)
	Bills payable	Foreign currency-denominated bills payable; with fixed annual interest rate of 1.77% and maturity term of 181 days; no collateral	–	40,000	**(40,000)**	(40,000)
	Account payable and other liabilities	30 to 90 days terms; non-interest bearing	**(62,955)**	577,793	**(263,462)**	(326,417)
	Due to related parties	On demand; non-interest bearing	**255,185**	(1,150,000)	**(643,762)**	(388,577)
Stockholders	Due from related parties	On demand; non-interest bearing	–	–	–	191
	Due to related parties	On demand; non-interest bearing	–	(109,459)	**(691,610)**	(691,610)

As of March 31, 2014 and December 31, 2013, the outstanding related party balances are unsecured and settlement occurs in cash, unless otherwise indicated. The Group has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related parties and the market in which these related parties operate.

22. Retirement Benefits

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

	March 31, 2014	December 31, 2013
	(In Thousands)	
Net retirement plan assets:		
FTC	**₱214,367**	₱224,530
AAC	**19,232**	19,263
	₱233,599	₱243,793

	March 31, 2014	December 31, 2013
	(In Thousands)	
Accrued retirement benefits:		
PNB	**₱1,999,657**	₱3,388,863
ABI and subsidiaries	**927,747**	878,951
TDI and ADI	**42,054**	39,090
Eton	**34,421**	29,653
LTG	**10,087**	9,705
	₱3,013,965	₱4,346,262

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, 2014 and December 31, 2013, the retirement fund of the Group includes 7,833,795 shares of PNB classified under HFT. No limitations and restrictions are provided and voting rights over these shares are exercised by a trust officer or any of its designated alternate officer of TBG.

As of March 31, 2014 and December 31, 2013, AFS and HTM investments include government and private debt securities and various funds. Deposits with other banks pertain to Special Deposit Accounts (SDA) placement with BSP.

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

23. Revenue and Cost of Sales and Services

Revenue consists of:

	March 31, 2014 (Three Months)	March 31, 2013 (Three Months)
	(In Thousands)	
Banking revenue	**₱6,389,295**	₱10,425,108
Sale of consumer goods	**5,976,674**	6,225,540
Real estate sales	**407,913**	1,021,912
Rental income	**131,229**	137,922
	₱12,905,111	₱17,810,482

Sale of consumer goods consists of:

	March 31, 2014 (Three Months)	March 31, 2013 (Three Months)
	(In Thousands)	
Gross sales	**₱6,040,489**	₱6,422,071
Less sales returns, discounts and allowances	**63,815**	196,532
	₱5,976,674	₱6,225,540

Banking revenue consists of:

	March 31, 2014 (Three Months)	March 31, 2013 (Three Months)
	(In Thousands)	
Interest income on:		
Loans and receivables	**₱3,768,237**	₱3,516,737
Trading and investment securities	**841,760**	1,159,896
Deposits with banks and others	**787,165**	295,713
Interbank loans receivable	**3,424**	27,812
	5,400,586	5,000,158
Trading and securities gains	**166,775**	4,596,639
Service fees and commission income	**821,934**	828,311
	₱6,389,295	₱10,425,108

Cost of sales and services consists of:

	March 31, 2014 (Three Months)	March 31, 2013 (Three Months)
	(In Thousands)	
Cost of consumer goods sold:		
Materials used and changes in inventories (Note 8)	**₱2,986,830**	₱2,893,563
Taxes and licenses	**311,509**	394,659
Depreciation and amortization (Note 11)	**341,731**	279,155
Personnel costs	**297,045**	257,629
Fuel and power	**164,169**	228,038
Communication, light and water	**166,961**	180,275
Repairs and maintenance	**108,316**	75,848
Management, consulting, and professional fees	**58,229**	34,062
Freight and handling	**19,822**	52,240
Others	**62,899**	86,247
	4,517,513	4,481,716
Cost of banking services	**1,195,170**	1,909,122
Cost of real estate sales	**350,456**	741,928
Cost of rental income	**57,535**	38,868
Cost of sales and services	**₱6,120,674**	₱7,171,635

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

Cost of banking services consist of:

	March 31, 2014 (Three Months)	March 31, 2013 (Three Months)
	(In Thousands)	
Interest expense on:		
Deposit liabilities	**₱810,802**	₱1,265,735
Bills payable and other borrowings	**200,456**	432,919
Services fees and commission expense	**183,912**	210,468
	₱1,195,170	₱1,909,122

24. **Selling Expenses**

	March 31, 2014 (Three Months)	March 31, 2013 (Three Months)
	(In Thousands)	
Advertising and promotions	**₱310,927**	₱247,917
Depreciation and amortization (Note 11)	**132,849**	222,454
Freight and handling	**76,701**	76,859
Personnel costs	**31,862**	26,968
Commissions	**31,016**	71,380
Management, consulting and professional fees	**24,602**	36,489
Repairs and maintenance	**18,816**	15,170
Materials and consumables	**11,150**	13,081
Others	**12,484**	29,938
	₱650,407	₱740,256

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

25. **General and Administrative Expenses**

	March 31, 2014 (Three Months)	March 31, 2013 (Three Months)
	(In Thousands)	
Personnel costs	**₱1,825,409**	₱1,931,834
Taxes and licenses	**591,257**	856,687
Depreciation and amortization (Notes 11 and 12)	**366,566**	459,194
Provision for losses	**365,463**	363,862
Occupancy	**325,278**	344,539
Insurance	**246,027**	236,750
Outside services	**220,717**	228,039
Increase in aggregate reserve for life policies	**220,336**	210,121
Marketing expenses	**181,963**	198,231
Management, consulting and professional fees	**181,590**	197,207
Litigation expenses	**112,461**	115,159
Information technology	**105,787**	99,155
Policyholder benefits and claim benefits	**100,006**	76,611
Travel and transportation	**87,620**	88,556
Materials and consumables	**74,167**	97,622
Repairs and maintenance	**50,604**	41,545
Communication, light and water	**33,382**	31,160
Others	**226,656**	318,435
	₱5,315,289	₱5,894,707

26. **Other Income (Charges) - net**

	March 31, 2014 (Three Months)	March 31, 2013 (Three Months)
	(In Thousands)	
Premiums - net of reinsurance	**₱412,034**	₱377,167
Net gains on sale or exchange of assets	**347,501**	118,009
Rental income (Note 11)	**227,593**	189,281
Processing and referral fees	**55,074**	12,753
Recoveries	**20,446**	173,085
Penalties	**16,654**	29,657
Gain on disposal of AFS investments	**–**	279,509
Others	**124,693**	139,939
	₱1,203,995	₱1,319,400

27. **Income Taxes**

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

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

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

Provision for current income tax consists of:

	March 31, 2014 (Three Months)	March 31, 2013 (Three Months)
	(In Thousands)	
RCIT/MCIT	**₱425,808**	₱398,528
Final tax	**180,132**	574,603
Provision for current income tax	**₱605,940**	₱973,131

28. **Equity**

Capital Stock

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

	March 31, 2014	December 31, 2013
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	**₱10,821,388,889**	₱8,981,388,889
Issuance	**–**	1,840,000,000
At end of the period	**₱10,821,388,889**	₱10,821,388,889

Preferred shares of subsidiaries issued to Parent Company

On March 20, 2013, the respective BOD's and stockholders of various Bank Holding Companies approved the increase in their authorized capital stocks comprising of common shares and preferred shares with par value of ₱1.00 per share. The preferred shares were subscribed by Tangent through conversion of its advances into invesments in certain Bank Holding Companies. Upon approval of the SEC of the increase in authorized capital stock of Bank Holding Companies in various dates in October, November and December 2013 and in 2014, preferred shares amounting to ₱13.5 billion presented under "Preferred shares of subsidiary issued to Parent Company" were issued to Tangent. Unissued preferred shares amounting to ₱6.0 billion which are pending approval of the SEC are presented under "Deposit for future stock subscription" in December 2013.

Upon issuance, the preferred shares shall have the following features: non-voting, non-cumulative and non-participating as to dividends, non-redeemable for a period of seven years from the issuance and redeemable at the option of the Bank Holding Companies after seven years from the issuance thereof.

29. **Basic/Diluted Earnings Per Share**

Basic/diluted earnings per share were calculated as follows:

	March 31, 2014 (Three Months)	March 31, 2013 (Three Months)
	(In Thousands)	
Net income attributable to equity holders of the Company	**₱1,611,703**	₱4,136,070
Divided by weighted-average number of shares	**10,821,389**	8,981,389
Basic/diluted EPS for net income attributable to equity holders of the Company	**₱0.15**	₱0.46

30. **Financial Risk Management Objectives and Policies**

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

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

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

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

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

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

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

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

Managing the level of these risks as provided for by the Group's ERM framework is critical to its continuing profitability. The Risk Oversight Committee (ROC) of the Group's BOD determines the risk policy and approves the principles of risk management, establishment of limits for all relevant risks, and the risk control procedures. The ROC of the Group is also responsible for the risk management of the banking segment.

The RMG provides the legwork for the ROC in its role of formulating the risk management strategy, the management of regulatory capital, the development and maintenance of the internal risk management framework, and the definition of the governing risk management principles.
The mandate of the RMG involves:

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

Credit Risk

<u>Credit Risk of the Group other than the Banking Segment</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.

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

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

- Distilled spirits segment's sale of alcoholic beverage pertains mainly to four trusted parties with sales to them comprising about 99% of total alcoholic beverage sale.
- Beverage segment annual sales pertain mainly to 13 parties with sales to them comprising about 100% of the total beverage sales.
- Tobacco and property development segments are not exposed to concentration risk because it has diverse base of counterparties.

Credit quality per class of financial assets
"Standard grade" accounts consist of financial assets from trusted parties with good financial condition. "Substandard grade" accounts, on the other hand, are financial assets from other counterparties with relatively low defaults. The Group did not regard any financial asset as "high grade" in view of the erratic cash flows or uncertainty associated with the financial instruments. "Past due but not impaired" are items with history of frequent default, nevertheless, the amount

due are still collectible. Lastly, “Impaired financial assets” are those that are long-outstanding and have been provided with allowance for doubtful accounts.

Credit Risk of the Banking Segment

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

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

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

- Documented credit policies and procedures: sound credit granting process, risk asset acceptance criteria, target market and approving authorities;
- System for administration and monitoring of exposure;
- Pre-approval review of loan proposals;
- Post approval review of implemented loans;
- Work out system for managing problem credits;
- Regular review of the sufficiency of valuation reserves;
- Monitoring of the adequacy of capital for credit risk via the Capital Adequacy Ratio (CAR) report;
- Monitoring of breaches in regulatory and internal limits;
- Credit Risk Management Dashboard;
- Diversification;
- Internal Risk Rating System for corporate accounts;
- Credit Scoring for retail accounts; and
- Active loan portfolio management undertaken to determine the quality of the loan portfolio and identify the following:

  a. portfolio growth
  b. movement of loan portfolio (cash releases and cash collection for the month)
  c. loss rate
  d. recovery rate
  e. trend of nonperforming loans (NPLs)
  f. concentration risk (per classified account, per industry, clean exposure, large exposure, contingent exposure, currency, security, facility, demographic, etc.)

Credit-related commitments

The exposures represent guarantees, standby letters of credit (LCs) issued by the banking segment and documentary/commercial LCs which are written undertakings by the banking segment. To mitigate this risk the banking segment requires hard collaterals, as discussed under *Collateral and other credit enhancement*, for standby LCs lines while commercial LCs are collateralized by the underlying shipments of goods to which they relate.

Derivative financial instruments

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

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

The main types of collateral obtained are as follows:

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

The disposal of the foreclosed properties is handled by the Asset Management Sector which adheres to the general policy of disposing assets at the highest possible market value. Management regularly monitors the market value of the collateral and requests additional collateral in accordance with the underlying agreement. The existing market value of the collateral is considered during the review of the adequacy of the allowance for credit losses. Generally, collateral is not held over loans and advances to banks except for reverse repurchase agreements. The banking segment is not permitted to sell or repledge the collateral held over loans and advances to counterparty banks and BSP in the absence of default by the owner of the collateral.

The maximum credit risk, without taking into account the fair value of any collateral and netting agreements, is limited to the amounts on the balance sheet plus commitments to customers such as unused commercial letters of credit, outstanding guarantees and others as disclosed in Note 35 to the financial statements.

Excessive risk concentration
The banking segment's credit risk concentrations can arise whenever a significant number of borrowers have similar characteristics. The banking segment analyzes the credit risk concentration to an individual borrower, related group of accounts, industry, geographic, internal rating buckets, currency, term and security. For risk concentration monitoring purposes, the financial assets are broadly categorized into (1) loans and receivables and (2) trading and financial investment securities. To mitigate risk concentration, the banking segment constantly checks for breaches in regulatory and internal limits. Clear escalation process and override procedures are in place, whereby any excess in limits are covered by appropriate approving authority to regularize and monitor breaches in limits.

a. Limit per Client or Counterparty
   For loans and receivables, the banking segment sets an internal limit for group exposures which is equivalent to 100.00% of the single borrower's limit (SBL) for loan accounts with credit risk rating (CRR) 1 to CRR 5 or 50.00% of SBL if rated below CRR 5.For trading and investment securities, the Group limits investments to government issues and securities issued by entities with high-quality investment ratings.

b. Geographic Concentration

c. Concentration by Industry

The internal limit of the banking segment based on the Philippine Standard Industry Classification (PSIC) sub-industry is 12.00% for priority industry, 8.00% for regular industry and 30.00% for power industry, versus total loan portfolio.

The banking segment's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. In order to avoid excessive concentrations of risks, identified concentrations of credit risks are controlled and managed accordingly.

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

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

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

- CRR 1 - Excellent
  Loans receivables rated as excellent include borrowers which are significant in size, with long and successful history of operations, an industry leader, with ready access to all equity and debt markets and have proven its strong debt service capacity.

- CRR 2 - Super Prime
  Loans receivables rated as super prime include borrowers whose ability to service all debt and meet financial obligations remains unquestioned.

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

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

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

Standard

- CRR 6 - Satisfactory
  These are loans receivables to borrowers whose ability to service all debt and meet financial obligations remains unquestioned, but with somewhat lesser capacity than in CRR 5 accounts.

- CRR 7 - Average
  These are loans receivables to borrowers having ability to repay the loan in the normal course of business activity, although may not be strong enough to sustain a major setback.

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

Sub-standard Grade

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

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

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

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

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

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

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

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

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

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

Impairment Assessment of the Group

The Group recognizes impairment or credit losses based on the results of specific (individual) and collective assessment of its credit exposures. A possible impairment has taken place when there are presence of known difficulties in the payment of obligation by counterparties, a significant credit rating downgrade takes place, infringement of the original terms of the contract has happened, or when there is an inability to pay principal or interest overdue beyond a certain threshold (e.g., 90 days). These and other factors, either singly or in tandem with other factors, constitute observable events and/or data that meet the definition of an objective evidence of impairment.

The two methodologies applied by the Group in assessing and measuring impairment or credit losses include:

a. Specific (individual) assessment

   The Group assesses each individually significant credit exposure or advances for any objective evidence of impairment.

   Among the items and factors considered by the Group when assessing and measuring specific impairment/credit allowances are:
   - the going concern of the borrower's business;
   - the ability of the borrower to repay its obligations during financial crises;
   - the projected receipts or expected cash flows;
   - the availability of other sources of financial support;
   - the existing realizable value of collateral; and
   - the timing of the expected cash flows.

   The impairment or credit allowance, if any, are evaluated every quarter or as the need arises in view of favorable or unfavorable developments.

b. Collective assessment

   Loans and advances that are not individually significant (e.g., credit cards, housing loans, car loans, development incentives loans, fringe benefit loans) and individually significant loans and advances where there is no apparent evidence of individual impairment are collectively assessed for impairment. A particular portfolio is reviewed every quarter to determine its corresponding appropriate allowances.

   Impairment losses are estimated by taking into consideration the following information:
   - historical losses of the portfolio;
   - current adverse economic conditions that have direct impact on the portfolio;
   - losses which are likely to occur but has not yet occurred; and
   - expected receipts and recoveries once impaired.

Liquidity Risk and Funding Management

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

Liquidity Risk and Funding Management of the Group except for the Banking Segment

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

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

Liquidity Risk and Funding Management of the Banking Segment

The Banking segment's liquidity management involves maintaining funding capacity to accommodate fluctuations in asset and liability levels due to changes in the banking segment's business operations or unanticipated events created by customer behavior or capital market conditions. The banking segment seeks to ensure liquidity through a combination of active management of liabilities, a liquid asset portfolio composed substantially of deposits in primary and secondary reserves, and the securing of money market lines and the maintenance of repurchase facilities to address any unexpected liquidity situations.

Liquidity risk is monitored and controlled primarily by a gap analysis of maturities of relevant assets and liabilities reflected in the maximum cumulative outflow (MCO) report, as well as an analysis of available liquid assets. The MCO focuses on a 12-month period wherein the 12-month cumulative outflow is compared to the acceptable MCO limit set by the BOD. Furthermore, an internal liquidity ratio has been set to determine sufficiency of liquid assets over deposit liabilities.

Liquidity is monitored by the banking segment on a daily basis through the Treasury Group. Likewise, the RMG monitors the static liquidity via the MCO under normal and stressed scenarios.

The table below shows the banking segment's financial assets and financial liabilities' liquidity information which includes coupon cash flows categorized based on the expected date on which the asset will be realized and the liability will be settled. For other assets, the analysis into maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date or if earlier, the expected date the assets will be realized.

Market Risk

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

Market Risks of the Group other than the Banking Segment

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

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

Market Risks of the Banking Segment

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

Trading market risk

Trading market risk exists in the banking segment as the values of its trading positions are sensitive to changes in market rates such as interest rates, foreign exchange rates and equity prices. PNB is exposed to trading market risk in the course of market making as well as from taking advantage of market opportunities. The banking segment adopts the Parametric Value-at-Risk (VaR) methodology (with 99% confidence level, and one day holding period for FX and equity price risks VaR and ten day holding period for interest rate risk VaR) to measure PNB's trading market risk. Volatilities are updated monthly and are based on historical data for a rolling 260-day period. The RMG reports the VaR utilization and breaches to limits to the risk taking personnel on a daily basis and to the ALCO and Risk Oversight Committee (ROC) on a monthly basis. All risk reports discussed in the ROC meeting are noted by the BOD. The VaR figures are backtested to validate the robustness of the VaR model. Below are the objectives and limitations of the VaR methodology, VaR assumptions and VaR limits.

a. Objectives and limitations of the VaR methodology

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

b. VaR assumptions/parameters

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

c. VaR Limits

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

Structural Market Risk of the Banking Segment

<u>Non-trading Market Risk</u>

Interest rate risk

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

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

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

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

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

Foreign currency risk

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

Foreign currency liabilities generally consist of foreign currency deposits in PNB's FCDU books, accounts made in the Philippines or which are generated from remittances to the Philippines by Filipino expatriates and overseas Filipino workers who retain for their own benefit or for the benefit of a third party, foreign currency deposit accounts with PNB and foreign currency-denominated borrowings appearing in the regular books of PNB. Foreign currency deposits are generally used to fund PNB's foreign currency-denominated loan and investment portfolio in the FCDU. Banks are required by the BSP to match the foreign currency liabilities with the foreign currency assets held through FCDUs. In addition, the BSP requires a 30.00% liquidity reserve on all foreign currency liabilities held through FCDUs. Outside the FCDU, PNB has additional foreign currency assets and liabilities in its foreign branch network.

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

31. Fair Values of Financial Instruments

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

As of March 31, 2014 and December 31, 2013, the carrying values of the Group's financial assets and liabilities approximate their respective fair values, except for the following financial instruments:

	March 31, 2014		December 31, 2013	
	Carrying Value	**Fair Market Value**	Carrying Value	Fair Market Value
		(In Thousands)		
Financial Assets:				
HTM investments	**₱21,489,426**	**₱21,374,843**	₱–	₱–
Loans and receivables:				
Receivables from customers	**252,525,360**	**261,941,457**	248,321,931	274,331,315
Unquoted debt securities	**4,838,987**	**6,463,276**	7,545,531	12,692,201
	₱278,853,773	**₱289,779,576**	₱255,867,462	₱287,023,516
Financial Liabilities:				
Financial liabilities at amortized cost:				
Deposit liabilities -				
Time deposits	**₱53,624,556**	**₱53,103,388**	₱51,114,363	₱52,259,893
Long term debts:				
Subordinated debt	**9,957,487**	**9,542,006**	9,953,651	10,995,537
Unsecured term loan and notes payable	**2,328,169**	**2,328,025**	2,953,475	2,988,917
Bonds payable	**4,986,271**	**5,200,000**	4,982,544	5,250,000
Other liabilities:				
Payable to landowners	**1,296,785**	**1,408,077**	1,296,785	1,312,839
Tenants' rental deposits	**108,742**	**105,797**	161,601	150,852
Advance rentals	**126,256**	**125,456**	98,658	94,594
	₱72,428,266	**₱71,812,749**	₱70,561,077	₱73,052,632

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

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

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

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

Loans and receivables - For loans with fixed interest rates, fair values are estimated by discounted cash flow methodology, using the Group's current market lending rates for similar types of loans. For loans with floating interest rates, with repricing frequencies on a quarterly basis, the Group assumes that the carrying amount approximates fair value. Where the repricing frequency is beyond three months, the fair value of floating rate loans is determined using the discounted cash flow methodologies. The discount rate used in estimating the fair value of loans and receivables is 3.0% in 2013 for peso-denominated receivables. For foreign currency-denominated receivables, discount rate used is 1.0% in 2013.

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

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

Time deposit liabilities and subordinated debt including designated at FVPL - Fair value is determined using the discounted cash flow methodology. The discount rate used in estimating the fair values of the subordinated debt and time deposits ranges from 1.1% to 4.2% as of March 31, 2014 and December 31, 2013, respectively.

Unsecured term loans, notes payable, payable to landowners, tenants' rental deposits and advance rentals - Fair values are estimated using the discounted cash flow method based on the discounted value of future cash flows using the applicable risk-free rates for similar types of instruments. The discount rates used range from 1.79% to 5.63% and from 2.13% to 6.57% as of March 31, 2014 and December 31, 2013, respectively.

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

Fair value hierarchy

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

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

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

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

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

	March 31, 2014			
	Level 1	**Level 2**	**Level 3**	**Total**
		(In Thousands)		
Assets measured at fair value:				
Financial Assets				
Financial assets at FVPL:				
Held-for-trading:				
Government securities	**₱3,643,504**	**₱1,303,327**	**₱–**	**₱4,946,831**
Derivative assets	**–**	**141,271**	**160,566**	**301,837**
Private debt securities	**542,294**	**118,737**	**–**	**661,031**
Equity securities	**240,352**	**–**	**–**	**240,352**
Designated at FVPL:				
Segregated fund assets*	**2,806,834**	**–**	**5,371,275**	**8,178,109**
	₱7,232,984	**₱1,563,335**	**₱5,531,841**	**₱14,328,160**
AFS investments:				
Government securities	**₱27,637,077**	**₱12,991,731**	**₱–**	**₱40,628,808**
Other debt securities	**18,854,464**	**709,348**	**–**	**19,563,812**
Equity securities**	**1,372,058**	**760,943**	**–**	**2,133,001**
	₱47,863,599	**₱14,462,022**	**₱-**	**₱62,325,621**
Liabilities measured at fair value:				
Financial liabilities				
Financial liabilities at FVPL:				
Designated at FVPL:				
Segregated fund liabilities*	**₱2,842,347**	**₱–**	**₱5,371,275**	**₱8,213,622**
Derivative liabilities	**–**	**140,195**	**–**	**140,195**
	₱2,842,347	**₱140,195**	**₱5,371,275**	**₱8,353,817**
Assets for which fair values are disclosed:				
Financial Assets				
HTM investments - Government securities	**₱18,099,869**	**₱3,274,974**	**₱–**	**₱21,374,843**
Loans and receivables:				
Receivables from customers	**–**	**–**	**261,941,457**	**261,941,457**
Unquoted debt securities	**–**	**–**	**6,463,276**	**6,463,276**
	₱18,099,869	**₱3,274,974**	**₱268,404,733**	**₱289,779,576**
Liabilities for which fair values are disclosed:				
Financial liabilities				
Financial liabilities at amortized cost:				
Deposit liabilities:				
Time deposits	**₱–**	**₱–**	**53,103,388**	**53,103,388**
Long term debts:				
Subordinated debt	**–**	**–**	**11,041,886**	**11,041,886**
Unsecured term loan and notes payable	**–**	**–**	**2,328,025**	**2,328,025**
Bonds payable	**5,200,000**	**–**	**–**	**5,200,000**
Other liabilities:				
Payable to landowners	**–**	**–**	**1,296,785**	**1,408,077**
Tenants' rental deposits	**–**	**–**	**108,742**	**105,797**
Advance rentals	**–**	**–**	**126,256**	**125,456**
	₱5,200,000	**₱–**	**₱68,005,082**	**₱73,312,629**

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

	December 31, 2013			
	Level 1	Level 2	Level 3	Total
	(In Thousands)			
Assets measured at fair value:				
Financial Assets				
Financial assets at FVPL:				
Held-for-trading:				
Government securities	₱2,262,113	₱1,093,608	₱–	₱3,355,721
Derivative assets	779,565	50,963	–	830,528
Private debt securities	–	92,834	165,863	258,697
Equity securities	249,518	–	–	249,518
Designated at FVPL:				
Segregated fund assets*	2,481,635	–	5,380,053	7,861,688
	₱5,772,831	₱1,237,405	₱5,545,916	₱12,556,152
AFS investments:				
Government securities	₱33,703,998	₱25,676,335	₱–	₱59,380,333
Other debt securities	18,654,987	–	–	18,654,987
Equity securities**	2,663,182	–	–	2,663,182
	₱55,022,167	₱25,676,335	₱–	₱80,698,502
Liabilities measured at fair value:				
Financial liabilities				
Financial liabilities at FVPL:				
Designated at FVPL:				
Segregated fund liabilities*	₱2,481,635	₱–	₱5,380,053	₱7,861,688
Derivative liabilities	–	163,101	–	163,101
	₱2,481,635	₱163,101	₱5,380,053	₱8,024,789
Assets for which fair values are disclosed:				
Financial Assets				
Loans and receivables:				
Receivables from customers	₱–	₱–	₱274,331,315	₱274,331,315
Unquoted debt securities	–	–	12,692,201	12,692,201
	₱–	₱–	₱287,023,516	₱287,023,516
Liabilities for which fair values are disclosed:				
Financial liabilities				
Financial liabilities at amortized cost:				
Deposit liabilities:				
Time deposits	₱–	₱–	₱52,259,893	₱52,259,893
Long term debts:				
Subordinated debt	–	–	10,995,537	10,995,537
Unsecured term loan	–	–	2,014,001	2,014,001
Bonds payable	5,250,000	–	–	5,250,000
Notes payable	–	–	974,916	974,916
Other liabilities:				
Payable to landowners	–	–	1,312,839	1,312,839
Tenants' rental deposits	–	–	150,852	150,852
Advance rentals	–	–	94,594	94,594
	₱5,250,000	₱–	₱67,802,632	₱73,052,632

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

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

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

Instruments included in Level 3 include those for which there is currently no active market. In applying the discounted cash flow analysis to determine the fair value of financial liabilities designated at FVPL, the Group used discount rates ranging from 1.38% to 3.63% as of December 31, 2013.

As of March 31, 2014 and December 31, 2013, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of level 3 fair value measurements.

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

	March 31, 2014	December 31, 2013
	(In Thousands)	
Financial assets		
Balance at beginning of year	**₱5,545,916**	₱2,674,995
Add acquisition arising from purchase of investments	**–**	2,692,915
Add total gain recorded in profit or loss	**3,481**	178,006
Balance at end of year	**₱5,549,397**	₱5,545,916
Financial liabilities		
Balance at beginning of year	**₱5,380,053**	₱8,812,021
Add acquisition arising from purchase of investments	**–**	2,672,177
Less total gain recorded in profit and loss	**8,778**	(104,145)
Redemption of unsecured subordinated notes	**–**	(6,000,000)
Balance at end of year	**₱5,388,831**	₱5,380,053

The table below sets forth the potential effect of reasonably possible change in interest rates (alternative valuation assumption) on the Group's valuation of Level 3 financial instruments as of December 31, 2013.

Type of Financial Instrument	**Fair Values as of December 31, 2013**	**Valuation Technique**	**Significant Unobservable Input**	**Range of Estimates**	**Fair Value Measurement Sensitivity to Unobservable Input**
	(In thousands)				
Equity and/or Credit-Linked Notes	₱5,380,053	Statistically-Based Simulation Technique	Credit Spread of the Counterparties	2% - 3%	Significant increase in credit spread would result in lower fair values. Significant reduction would result in higher fair values.
Subordinated Debt Instruments and Time Deposit	61,935,662	Discounted Cash Flow	Risk-adjusted Discount Rate	Spread of 1% above risk-free interest rate of 0.08% - 3.22%	A significant increase in the spread above the risk-free rate would result in lower fair values.

Equity and/or Credit-Linked Notes are shown as Segregated Fund Assets carried at FVPL.

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

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

32. Capital Management

The main thrust of the Group's capital management policy is to ensure that the Group complies with externally imposed capital requirements, maintains a good credit standing and has a sound capital ratio to be able to support its business and maximize the value of its shareholders equity. The Group is also required to maintain debt-to-equity ratios to comply with certain loan agreements and covenants in 2014 and 2013.

The Group's dividend declaration is dependent on the availability of earnings and operating requirements. The Group manages its capital structure and makes adjustment to it, in light of changes in economic conditions. To maintain or adjust capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes in 2014 and 2013.

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

The table below shows the leverage ratios of the Group:

	March 31, 2014	December 31, 2013
	(In Thousands, except ratios)	
Total liabilities	**₱527,471,178**	₱528,679,622
Total equity	**152,953,785**	149,770,600
Total liabilities and equity	**₱680,424,963**	₱678,450,222
Debt ratio	**0.78:1**	0.78:1
Debt-to-equity ratio	**3.45:1**	3.53:1

33. Commitments and Contingencies

There were no changes in the Group's commitments and contingencies from those disclosed in the December 31, 2013 annual consolidated financial statements.

35. Seasonality of Interim Operations

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

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

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

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

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

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

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

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

LT GROUP, INC. AND SUBSIDIARIES
SELECTED EXPLANATORY NOTES
As at March 31, 2014 and December 31, 2013
And for the Three Months Ended March 31, 2014 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 Accounting Standards (PAS) 34, *Interim Financial Reporting*, under the Philippine Financial Reporting Standards (PFRS).

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

Beverage Segment is affected by seasonality of operations.

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

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

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 27 local holding companies resulting to an effective ownership of 56.47% in Philippine National Bank (PNB) and Allied Banking Corporation (ABC) as of March 31, 2014.

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.

On April 17, 2013, the Company executed the Placing Agreement for the placing transaction with Tangent offering shares of 1.840 billion shares including 240 million shares for the over-allotment option. The offer price was set at ₱20.50.

On May 9, 2013, Tangent subscribed and paid the 1.840 billion shares thereby increasing LTG's total and outstanding shares from 8.9 billion to 10.8 billion shares.

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

On June 19, 2013, the Board of Directors of LTG approved the declaration and distribution of cash dividends of ₱0.15 per share to all stockholders of record as of July 3, 2013. The dividends were paid on July 29, 2013.

On December 20, 2011, the Board of Directors of LTG approved the declaration and distribution of cash dividends of ₱ 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;

On April 10, 2014 the Board of Directors of LTG approved the declaration and distribution of cash dividends of ₱0.16 per share to all stockholders of record as of April 25, 2014. The dividends will be paid on or before May 22, 2014.

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 to the extent of 56.57%. 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.

Banking

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

Beverage

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

Distilled Spirits

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

Trademark Infringement Suit

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

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

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

On August 15, 2013, the CA rendered a decision in favor of GSMI ordering TDI to recall all gin products bearing the Ginebra brand name, cease and desist from using GINEBRA in any of its gin product, pay GSMI 50% of the gross sales of GINEBRA KAPITAN and ₱2 million as exemplary fees. TDI filed its appeal on October 18, 2013.

As of March 31, 2014, TDI is waiting for the decision of the Supreme Court.

Opposition to Registration of Brand Name

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

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

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

DENR-Administrative Proceedings

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

As of March 31, 2014, the LBAA has not yet responded to the Municipality of Pulupandan and AAC.

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.

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.

Annex "B"

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

The consolidated net income of LT Group, Inc (LTG) for the quarter ended March 31, 2014 amounted to ₱2.2 billion, a significant decline of 62.4% or ₱3.7 billion from the ₱5.9 billion of the previous period. Net income attributable to equity holders of LTG decreased from ₱4.1 billion to ₱1.6 billion. The decline in net income mainly came from the banking and tobacco segment, which reported a drop in net income of ₱2.5 billion and ₱982.9 million, respectively, from that of last year. The property development and distilled spirits segments also posted decreases in their net income by ₱80.1 million and ₱17.4 million, respectively. On the other hand, the beverage segment reported higher earnings by 14.9% or ₱34.1 million as compared with the reported ₱229.0 million in the previous period.

Consolidated revenues dropped by 27.5% from ₱17.8 billion in 2013 to ₱12.9 billion for three-month period ended March 31, 2014. The decline in banking revenues of 38.7% or ₱4.0 billion from ₱10.4 billion in 2013 to ₱6.4 billion in 2014 was due to lower trading gains this year. Revenues of the beverage and distilled spirits segments revenue were flat at ₱3.4 billion and ₱3.0 billion, respectively. Although sales volume for the beverage segment slightly declined, this was offset by higher selling prices. TDI on the other hand, reported lower average selling prices due to higher sales discounts given to its distributors.

Cost of sales decreased by 14.7% from ₱7.2 billion for the quarter ended March 31, 2013 to ₱6.1 billion for the same period in 2014, mainly due to the bank's lower interest expense on deposit liabilities. Cost of sales of the beverages and distilled spirits segments increased by 5.9% and 3.4% respectively, mainly due to higher excise taxes and material cost. Property development reported a 47.7% decline in cost of sales mainly resulting from the slowdown on residential construction projects.

Operating expenses decreased by 10.1%, due to lower selling and general expenses by 12.1% and 9.8%, respectively. The banking, beverage and property development segments decreased operating expenses by 7.7%, 19.4% and 35.4%, respectively mainly due to the group's cost-cutting efforts. The increase in operating expenses of the distilled spirits segments from ₱372.3 million in 2013 to ₱408.5 million in 2014 was on account of higher selling expenses largely due to higher freight and handling charges and more aggressive advertising campaigns to promote Tanduay products.

Banking

The banking segment posted a ₱1.35 billion net income for the quarter ended March 31, 2014, 64.8% lower than the previous period's income of ₱3.85 billion. This was mainly due to lower trading gains in the first quarter of 2014 by ₱4.4 billion or a drop of 96.4% against the same period last year.

Interest income from banking operations improved by 8.0% to ₱5.4 billion this year mainly due to higher income from deposits with banks and others and partly due to higher collections on past due accounts. Interest expense also decreased by 37.3% on account of lower funding costs with the redemption of the bank's more expensive subordinated debt and higher share of CASA.

Net Service fees and commission income slightly declined from ₱828.3 million in the previous period to ₱821.9 million in the current period.

Miscellaneous income increased by 11.0% mainly on account of higher forex gains due to derivative transactions and gain on sale of assets.

Operating expenses dipped by 7.7% due to lower depreciation, personnel costs, occupancy, taxes and licenses and other miscellaneous expenses. Provision for credit losses partially increased by 0.5% due to increased allowance on doubtful accounts.

Beverage

The beverage segment's net income grew 14.9% to ₱263.1 million for the quarter ended March 31, 2014 from ₱229.0 million for the same period last year. This growth was mainly on account of the segment's lower selling expenses of ₱385.2 million in the current period which were lower by 30.7% as against ₱555.5 million in the same period last year.

Revenues of the beverage segment were flat at ₱3.4 billion. While Cobra energy drink's sales volume slightly dipped, its total revenues remained flat due to higher selling prices. There were improved performances in the non-alcoholic beverages like Absolute and Summit bottled water with increased sales volume and Vitamilk, the country's leading soymilk brand, which continues to post high double digit growth. ABI was able to maintain its market share in the beer segment despite the decline in volume. Although sales volume of Tanduay Ice also declined, it still holds 92% share of the alcopops segment. A growth of 3% was seen in the commercial glass container sales volume, as a result of the increase orders of its main customer, Tanduay.

Operating expenses decreased by 19.4% to ₱594.4 million with selling expenses lower by ₱170.3 million due mainly to a reclassification of depreciation expense to cost of sales and lower promotional expenses. The increase in general and administrative expenses by ₱27.6 million or 15.2% was due to higher taxes and licenses and personnel cost during the current period.

Distilled Spirits

The net revenues of the distilled spirits segment was maintained at ₱3.0 billion for the quarter ended March 31, 2014 and 2013. There was a slight decline in sales volume for the quarter ended March 31, 2014 and a decrease in the average net selling prices per case due to higher discounts given to distributors. A favorable sales mix offset the slight decline in volume and higher discounts as brands with higher selling prices like Five Years and Compañero posted higher volumes in the current period.

Cost of sales slightly increased by 3.4% to ₱2.5 billion in the current period as against ₱2.4 billion in the same period last year. This was due to higher alcohol costs, acquisition of new bottles and higher prices of other raw materials. Gross profit decreased from 21.5% to 17.1%.

Operating expenses grew by 9.7% from ₱372.3 million in 2013 to ₱408.5 million in 2014. Selling expenses increased by 145.3% mainly due to higher freight charges, export project expenses which increased by 62% and advertising expenses which were higher by 112% as a result of massive advertising campaigns to promote Compaero Brandy and Tanduay Five Years. There was a decline in general and administrative expenses by 37.3% as the previous year included the separation payment amounting to ₱105 million in connection with the closing of the Quiapo plant.

The 54.9% decline in other charges- net of other income from ₱219.7 million in 2013 to ₱99.0 million in 2014 was attributable to the fair value adjustment of ₱120 million in 2013 on the claims for excess excise taxes paid. This was however later reversed in December 2013.

The overall impact of the significant changes mentioned contributed to the reversal from a net income of ₱6.9 million for the period ended March 31, 2013 to a net loss of ₱10.5 million for the period ended March 31, 2014.

Property Development

The property development segment had a significant decline in net income of 73.6% from ₱108.9 million for the quarter ended March 31, 2013 to ₱28.8 million in the current period. Gross profit from total revenues likewise decreased by 65.4% or ₱247.9 million as compared to the same period last year. The decrease in the gross profit was mainly due to lower recognition of realized gross profit from Eton's ongoing residential projects during the year. Also, construction of One Centris Place and First Homes Makati were put on hold to give way to design improvements and enhancements. Income for these projects will be recognized once construction reaches 10%.

Selling expenses amounted to ₱34.6 million or a decrease of 61.0% over the same period of last year of ₱88.8 million on account of lower revenue during the first quarter of 2014. General and administrative expenses likewise decreased by 20.5% or ₱31.4 million y-o-y due to lower taxes and licenses, utilities and repairs and maintenance expense. Provision for income tax also decreased as a result of lower income during the year.

Tobacco

Net income for the quarter ended March 31, 2014 of the tobacco segment of ₱578.3 million was lower by 63.0% from last year's ₱1.6 billion. This was mainly a result of lower equity in net earnings from PMFTC from ₱1.6 billion last year to ₱480.5 million in 2014. PMFTC continues to be affected by higher taxes and downtrading to lower priced products in the cigarette industry.

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 associate.

FINANCIAL CONDITION

The Company's consolidated total assets as of March 31, 2014 amounted to ₱680.4 billion, an increase of 0.3% from ₱678.5 billion as of December 31, 2013. This was mainly on account of the 18.6% increase in current assets which was offset by decline in noncurrent assets by 14.7%.

The increase in consolidated current assets was due to higher current portion of loans and receivables, which increased by 67.5% due to more loan releases by the banking segment and reclassifications from noncurrent to current portion of loans and receivables. Current portion of loans and receivables of the banking segment increased by 31.8% from ₱96.3 billion in December 31, 2013 to ₱127.0 billion as of March 31, 2014. Other movement in the current assets was higher prepayments by 17.9%, this is on account of the banking segments increased miscellaneous assets and creditable withholding taxes. Financial assets at fair value through profit or loss of the banking segment increased by 14.1%, mainly due to purchases of various investment securities. Increase in inventories of the beverages, distilled spirits and property and development's segment accounted for the increase in inventories by 14.6%.

The 14.7% decrease in total noncurrent assets was mainly on account of the abovementioned reclassification of loans and receivables account and available for sale securities. Significant movement came from loans and receivables which went down by 28.5%, as a result of reclassifications to current portion. Deferred tax assets significantly decrease by 51.7% mainly due to the banking segments offset of deferred tax liabilities from revaluation increment. Other noncurrent assets decreased by 50.3% due to decrease in miscellaneous assets of the banking segment.

Consolidated total liabilities slightly declined by 0.2% to ₱527.5 billion as of March 31, 2014 from ₱528.7 billion as of December 31, 2013. This was on account of the decrease in total noncurrent liabilities by 21.4% from ₱45.4 billion in December 2013 to ₱35.7 billion in the current period partially offset by the increase in current liabilities of 1.8% from ₱483.3 billion to ₱491.8 billion.

Current portion of bills and acceptances payable and accounts payable and other current liabilities declined by 58.6% and 13.8%, respectively mainly due to the settlement of the banking segments currently maturing bills and acceptances payable and other liabilities. Due to related parties decreased from ₱8.0 billion in 2013 to ₱5.5 billion in March 31, 2014 mainly on account of conversion of liabilities to Tangent Holdings Corporation (THC) into preferred shares. Financial liabilities at fair value through profit or loss increased to ₱8.4 billion mainly due to the banking segments reclassification of these accounts to current. Current portion of long-term debt increased from ₱1.0 billion to ₱6.0 billion on account of the distilled spirits segment's reclassification of the ₱5.0 billion bonds payable to current as it will mature in February 2015.

The decrease in the noncurrent liabilities was on account of the reclassifications of financial liabilities at fair value through profit or loss and bonds payable of the distilled spirits segment to current. The decrease in the accrued retirement to ₱3.0 billion was due to the contribution of the banking segment to the retirement fund. Deferred income tax liabilities decreased by 22.8% mainly due to the adjustments and realization of the tax liabilities of all segments in the current period. Lastly, the increase in other noncurrent liabilities by 52.7% was due to the banking segment's increase in the noncurrent portion of unearned premiums, interoffice float items drafts outstanding.

LT Group's consolidated total equity grew 2.1% to ₱153.0 billion for the quarter ended March 31, 2014, primarily as a result of the Company's conversion of liabilities to ultimate parent THC to equity
.

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

1.) Revenue

Revenues for March 31, 2014 amounted to P12.9 billion, significantly lower from last year's P17.8 billion.

2.) Net Income

Consolidated Net Income for March 2014 amounted to ₱2.2 billion lower by 62.4% from last period's ₱5.9 billion.

3.) Current Ratio

Current ratio increased from 0.63:1 in December 2013 to 0.74:1 in March 2014.

4.) Debt to Equity Ratio

Debt-to-equity ratio declined from 3.53:1 in December 2013 to 3.45:1 in March 2014.

5.) Earnings/ (Loss) Per Share

LTGI's earnings per share attributable to holders of the parent company for March 2014 and March 2013 are ₱0.15 and ₱0.46, respectively.

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

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

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

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

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

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

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

Beverage

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

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

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

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

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

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

1. Available-for-sale financial assets - current – H- (39%)
2. Financial assets at fair value through profit or loss – H- 14%
3. Loans and receivables - current – H- 67%; V- 8%
4. Inventories – H-15%
5. Other current assets- H- 28%
6. Loans and receivables-noncurrent – H- (28%); V- (9%)
7. Available-for-sale financial assets - noncurrent – H- (19%)
8. Deferred tax assets- H- (52%)
9. Other non-current assets- H- (50%)
10. Financial liabilities at fair value through profit or loss – current – H- 4247%
11. Bills and acceptances payable - current – H- (59%)
12. Accounts payable and accrued expense – H- (14%)
13. Income tax payable – H- 30%
14. Current portion of long-term debt – H- 440%
15. Current portion of due to related parties – H- (25%)
16. Other current liabilities- H- 5%
17. Deposit liabilities – noncurrent – H- 36%
18. Financial liabilities at fair value through profit or loss - noncurrent – H- (100%)
19. Long-term debt – net of current portion – H- (30%)
20. Accrued retirement liabilities- H- (31%)
21. Deferred tax liabilities- H- (23%)
22. Other noncurrent liabilities- H- 53%
23. Deposit for future stock subscription- H- (100%)
24. Preferred shares of subsidiary issued to Parent Company- H- 82%
25. Other comprehensive income-H- (15.4%)
26. Banking revenue- H-(39%); V- (9%)
27. Beverage revenue-V-6%

28. Distilled Spirit Revenue– V- 6%
29. Property development Revenue – H- (54%)
30. Tobacco Revenue – H- (100%)
31. Cost of sales- H-(15%); V-7%
32. Equity in net earnings of associate-H- (69%); V-(5%)
33. General and administrative expenses- H-(10%); V-8%
34. Finance cost – H- (18%)
35. Finance income – H- (24%)
36. Foreign exchange gains – H- 292%
37. Others-net – H- (9%)
38. Provision for income tax-H-(38%)
39. Net income- H-(62%); V-(16%)

(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, 2014 (Unaudited)
(In thousands)

TYPE OF ACCOUNTS RECEIVABLE		**TOTAL**	**CURRENT**	**31-60 days**	**61-90 days**	**91-120 days**	**over 120 days**
(a) Trade Receivable		300,950,431	6,744,916	2,271,362	1,329,980	105,685,290	184,918,883
Less: Allowance for Doubtful Accounts		15,911,979	-	-	-	-	15,911,979
NET TRADE RECEIVABLE	P	285,038,452	6,744,916	2,271,362	1,329,980	105,685,290	169,006,904
(b) Non-Trade Receivables		1,495,440	171,637	41,483	53,256	10,587	1,218,477
Less: Allowance for Doubtful Accounts		641,340	-	-	-	-	596,041
NET NON-TRADE RECEIVABLE	P	854,100	171,637	41,483	53,256	10,587	622,436
NET RECEIVABLES	P	285,892,552	6,916,553	2,312,845	1,383,236	105,695,877	169,629,340

ACCOUNTS RECEIVABLE DESCRIPTION	**NATURE OF DESCRIPTION**	**COLLECTION PERIOD**
Accounts Receivable - Trade	Sale of liquor, beer products, beverages and cigarettes, finance receivables and lease contract receivables	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-14	31-Dec-13
CURRENT RATIO	0.74	0.63
DEBT TO EQUITY RATIO	3.45	3.53
ASSET TO EQUITY RATIO	4.45	4.53

	31-Mar-14	31-Mar-13
INTEREST RATE COVERAGE RATIO	26.30	52.95
SOLVENCY RATIO	0.17	0.37
PROFITABILITY RATIOS:		
PROFIT MARGIN	0.12	0.23
RETURN ON ASSET (ROA)	0.002	0.006
RETURN ON EQUITY (ROE)	0.014	0.035