111142014001752

SECURITIES AND EXCHANGE COMMISSION

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Company Information

SEC Registration No.	PW00000343
Company Name	LT GROUP, INC.
Industry Classification	
Company Type	Stock Corporation

Document Information

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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	808-1266
(Contact Person)	(Company Telephone Number)

12 31	17-Q	06 09
Month *Day*	(Form Type)	*Month* *Day*
(Calendar Year)		(Annual Meeting)

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended September 30, 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 — Postal Code
   11/F Unit 3 Bench Tower, 30th St. Corner Rizal drive
   Crescent Park West 5 Bonifacio Global City Taguig City — 1634

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

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

   N/A

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

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

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

    Yes [/] No [ ]

12. Indicate by check mark whether the registrant:

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

    Yes [/] No [ ]

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

    Yes [/] No [ ]

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

The unaudited interim condensed financial statements of LT Group, Inc. (the Company) and its subsidiaries as of and for the period ended September 30, 2014 (with comparative figures as of December 31, 2013 and for the period September 30, 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
November 14, 2014	November 14, 2014

Annex “A”

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

Interim Unaudited Condensed Consolidated Financial Statements
As at September 30, 2014
And for the Nine Months and Quarters Ended
September 30, 2014 and 2013)
(with comparative Consolidated Balance Sheet as at
December 31, 2013)

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

Unaudited Interim Condensed Consolidated Financial Statements
As of September 30, 2014
and for the Nine Months and Quarters Ended
September 30, 2014 and 2013
(with Comparative Audited Consolidated Balance Sheets as of December 31, 2013)

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

UNAUDITED INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS
(Amounts in Thousands)

	September 30, 2014 (Unaudited)	December 31, 2013 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	**₱154,313,440**	₱188,319,662
Financial assets at fair value through profit or loss (Notes 5 and 19)	**16,360,182**	12,556,152
Available for sale (AFS) investments (Note 6)	**1,830,207**	2,926,104
Held-to-maturity (HTM) investments (Note 6)	**101,355**	–
Loans and receivables (Note 7)	**123,078,715**	83,185,666
Due from related parties (Note 21)	**2,696,660**	2,710,185
Inventories (Note 8)	**13,051,296**	10,279,959
Other current assets (Note 9)	**6,127,892**	5,627,293
Total Current Assets	**317,559,747**	305,605,021
Noncurrent Assets		
Loans and receivables - net of current portion (Note 7)	**196,475,198**	204,749,366
AFS investments (Note 6)	**58,698,066**	78,029,572
Held-to-maturity (HTM) investments (Note 6)	**22,910,840**	–
Investment in associates and a joint venture (Note 10)	**12,195,968**	13,664,449
Property, plant and equipment (Note 11):		
At appraised values	**37,534,515**	37,834,527
At cost	**3,957,391**	4,846,852
Investment properties (Note 11)	**27,640,611**	26,187,597
Net retirement plan assets (Note 22)	**236,601**	243,793
Deferred income tax assets (Note 27)	**1,564,042**	2,681,327
Other noncurrent assets (Note 12)	**2,617,638**	4,607,718
Total Noncurrent Assets	**363,830,870**	372,845,201
TOTAL ASSETS	**₱681,390,617**	₱678,450,222
LIABILITIES AND EQUITY		
Current Liabilities		
Deposit liabilities (Note 13)	**₱404,498,164**	₱415,690,524
Financial liabilities at fair value through profit or loss (Notes 14 and 19)	**10,158,194**	192,195
Bills and acceptances payable (Note 15)	**10,480,061**	11,423,153
Short-term debts (Note 17)	**300,000**	300,000
Accounts payable and accrued expenses (Note 16)	**6,552,441**	13,360,700
Income tax payable	**654,613**	164,045
Current portion of long-term debts (Note 17)	**5,461,341**	1,009,915
Current portion of due to related parties (Note 21)	**1,173,247**	8,036,519
Other current liabilities (Note 18)	**23,006,611**	33,077,731
Total Current Liabilities (Carried Forward)	**462,284,672**	483,254,782

(Forward)

	September 30, 2014 (Unaudited)	December 31, 2013 (Audited)
Total Current Liabilities (Brought Forward)	**₱462,284,672**	₱483,254,782
Noncurrent Liabilities		
Deposit liabilities - net of current portion (Note 13)	**16,967,038**	10,451,554
Financial liabilities at fair value through profit or loss (Notes 14 and 19)	**30,423**	7,882,700
Bills and acceptances payable (Note 15)	**12,250,058**	1,748,844
Long-term debts - net of current portion (Note 17)	**11,486,647**	16,879,755
Accrued retirement benefits (Note 22)	**3,162,434**	4,346,262
Deferred income tax liabilities (Note 27)	**1,380,563**	1,815,777
Other noncurrent liabilities (Note 18)	**15,664,498**	2,299,948
Total Noncurrent Liabilities	**60,941,661**	45,424,840
Total Liabilities	**523,226,333**	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	**2,888,791**	6,048,534
Preferred shares of subsidiaries issued to Parent Company	**15,172,000**	7,405,000
Other comprehensive income, net of deferred income tax effect	**4,179,308**	6,070,799
Other equity reserves	**790,136**	790,136
Retained earnings	**51,831,445**	50,505,944
Shares of the Company held by subsidiaries	**(12,518)**	(12,518)
	121,576,782	117,535,515
Non-controlling interests (Notes 1 and 28)	**36,587,502**	32,235,085
Total Equity	**158,164,284**	149,770,600
TOTAL LIABILITIES AND EQUITY	**₱681,390,617**	₱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 INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Amounts in Thousands, Except for Basic/Diluted Earnings Per Share)
FOR THE NINE MONTHS AND QUARTERS ENDED SEPTEMBER 30, 2014 AND 2013

	Nine Months Ended September 30		For the Quarter Ended September 30	
	2014	2013	2014	2013
REVENUE (Notes 3 and 23)				
Banking	**₱18,091,683**	₱23,491,554	₱5,712,506	₱4,984,723
Beverage	**9,762,138**	9,115,772	3,255,390	2,750,667
Distilled spirits	**8,710,916**	7,533,935	3,149,906	2,651,209
Property development	**1,194,376**	3,081,488	323,588	927,314
Tobacco (Notes 1 and 10)	–	151,722	–	(5,487)
	37,759,113	43,374,471	12,441,390	11,308,426
COST OF SALES (Notes 3 and 23)	**18,300,212**	19,339,195	6,237,358	6,038,464
GROSS INCOME	**19,458,901**	24,035,276	6,204,032	5,269,962
EQUITY IN NET EARNINGS OF ASSOCIATES (Note 10)	**488,442**	2,557,923	(216,526)	308,364
	19,947,343	26,593,199	5,987,506	5,578,326
OPERATING EXPENSES				
Selling expenses (Note 24)	**2,023,190**	2,150,588	688,582	761,532
General and administrative expenses (Note 25)	**16,647,123**	16,025,104	5,446,323	4,829,304
	18,670,313	18,175,692	6,134,905	5,590,836
OPERATING INCOME	**1,277,030**	8,417,507	(147,399)	(12,510)
OTHER INCOME (CHARGES)				
Finance costs (Notes 17 and 20)	**(353,899)**	(360,044)	(124,280)	(116,446)
Finance income (Notes 4, 7 and 20)	**68,241**	175,449	35,612	65,947
Foreign exchange gains	**1,028,669**	579,949	269,183	(124,176)
Others – net	**3,317,722**	3,784,128	1,061,255	1,403,203
	4,060,733	4,179,482	1,241,770	1,228,528
INCOME BEFORE INCOME TAX	**5,337,763**	12,596,989	1,094,371	1,216,018
PROVISION FOR INCOME TAX (Note 27)				
Current	**1,842,921**	1,925,271	524,062	117,254
Deferred	**(86,782)**	90,998	(49,570)	131,753
	1,756,139	2,016,269	474,492	249,007
NET INCOME	**₱3,581,624**	₱10,580,720	₱619,879	₱967,011
Net Income Attributable To:				
Equity holders of the parent company	**₱2,496,045**	₱7,626,862	₱335,891	₱676,183
Non-controlling interests	**1,085,579**	2,953,858	283,988	290,828
	₱3,581,624	₱10,580,720	₱619,879	₱967,011
Basic/Diluted Earnings Per Share (Note 29)	**₱0.23**	₱0.70		

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

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

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in Thousands)
FOR THE NINE MONTHS AND QUARTER ENDED SEPTEMBER 30, 2014 AND 2013

	Nine Months Ended September 30		For the Quarter Ended September 30	
	2014	2013	2014	2013
NET INCOME	**₱3,581,624**	₱10,580,720	₱619,879	₱967,011
OTHER COMPREHENSIVE INCOME				
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:				
Accumulated translation adjustment	**40,552**	763,916	(580,543)	304,846
Net changes in fair value of AFS financial assets, net of deferred income tax effect	**(2,869,495)**	(7,159,523)	(2,512,525)	(3,926,271)
	(2,828,943)	(6,395,607)	(3,093,068)	(3,621,425)
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:				
Revaluation increment on property, plant and equipment, net of deferred income tax effect	**802,210**	1,287,855	2,139,880	919,917
Re-measurement gains (losses) on defined benefit plans, net of deferred income tax effect	**(52,193)**	(1,138,507)	624	(1,136,957)
	750,017	149,348	2,140,504	(217,040)
OTHER COMPREHENSIVE INCOME (LOSS) - Net of income tax effect	**(2,078,926)**	(6,246,259)	(952,564)	(3,838,465)
TOTAL COMPREHENSIVE INCOME	**₱1,502,698**	₱4,334,461	(₱332,685)	(₱2,871,454)
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Equity holders of the parent company	**₱1,165,429**	₱4,322,962	(₱374,637)	(₱319,691)
Non-controlling interests	**337,269**	11,499	41,952	(2,551,763)
	₱1,502,698	₱4,334,461	(₱332,685)	(₱2,871,454)

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

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 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	–	–	–	–	–	–	7,626,862	–	7,626,862	2,953,858	10,580,720
Other comprehensive income (loss)	–	–	–	–	–	(3,303,900)	–	–	(3,303,900)	(2,942,359)	(6,246,259)
Total comprehensive income (loss) for the period	–	–	–	–	–	(3,303,900)	7,626,862	–	4,322,962	11,499	4,334,461
Acquisition of shares of subsidiaries from the Controlling Shareholders	–	–	–	–	(196,921)	–	–	–	(196,921)		(196,921)
Issuance of capital stock, net of stock issue costs	1,840,000	34,732,459							36,572,459		36,572,459
Cash dividends declared and paid	–	–	–	–	–	–	(1,623,208)		(1,623,208)		(1,623,208)
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	–	–	–	–	–	(483,390)	483,390	–	–	–	–
BALANCES AT SEPTEMBER 30, 2013	**₱ 10,821,389**	**₱ 35,906,231**	**₱–**	**₱–**	**₱790,136**	**₱5,469,872**	**₱48,755,246**	**(₱12,518)**	**₱ 101,730,356**	**₱ 31,062,545**	**₱ 132,792,901**
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	–	–	–	–	–	–	**2,496,045**	–	**2,496,045**	**1,085,579**	**3,581,624**
Other comprehensive income (loss)	–	–	–	–	–	**(1,330,616)**	–	–	**(1,330,616)**	**(748,310)**	**(2,078,926)**
Total comprehensive income (loss) for the period	–	–	–	–	–	**(1,330,616)**	**2,496,045**	–	**1,165,429**	**337,269**	**1,502,698**
Issuance of preferred shares of subsidiaries	–	–	**(3,159,743)**	**7,767,000**	–	–	–	–	**4,607,257**	–	**4,607,257**
Increase in non-controlling interests without loss of control	–	–	–	–	–	–	–	–	–	**4,015,148**	**4,015,148**
Cash dividends declared and paid							**(1,731,419)**		**(1,731,419)**		**(1,731,419)**
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	–	–	–	–	–	**(560,875)**	**560,875**	–	–	–	–
BALANCES AT SEPTEMBER 30, 2014	**₱10,821,389**	**₱35,906,231**	**₱2,888,791**	**₱15,172,000**	**₱790,136**	**₱4,179,308**	**₱51,831,445**	**(₱12,518)**	**₱121,576,782**	**₱36,587,502**	**₱158,164,284**

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

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

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013
(Amounts in Thousands)

	Nine Months Ended September 30	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱5,337,763**	₱12,596,989
Adjustments for:		
Depreciation and amortization (Notes 11)	**2,915,233**	2,748,706
Provision for doubtful accounts	**1,053,037**	914,973
Gain on disposal of:		
Property and equipment	**(404,655)**	(505,256)
Equity in net earnings of an associate (Note 10)	**(488,442)**	(2,557,923)
Dividend income	**(11,579)**	(8,735)
Finance costs (Notes 17 and 18)	**353,899**	360,044
Finance income (Notes 4 and 7)	**(68,241)**	(175,449)
Unrealized foreign exchange gain	**(1,028,669)**	(579,949)
Movement in accrued retirement benefits	**1,183,828**	−
Operating income before changes in working capital	**8,842,174**	12,810,870
Decrease (increase) in:		
Financial assets at fair value through profit or loss	**(3,804,030)**	(1,152,535)
Receivables-net	**(23,502,565)**	(12,623,198)
Inventories	**(2,771,337)**	(561,638)
Other current assets	**1,489,481**	(6,068,680)
Increase (decrease) in:		
Accounts payable and other liabilities	**6,808,259**	(2,344,858)
Customers’ deposits	**164,933**	108,350
Financial liabilities at fair value through profit or loss	**(2,113,722)**	777,811
Deposit liabilities	**(8,226,232)**	34,930,349
Interest received	**32,629**	58,861
Income taxes paid, including creditable withholding and final taxes	**(547,418)**	(1,809,943)
Dividends received from associate	**2,461,435**	2,888,142
Net cash from (used in) operating activities	**(21,166,393)**	27,013,531
CASH FLOWS FROM INVESTING ACTIVITIES		
Net proceeds from sale of:		
AFS financial assets (Note 6)	**82,190,316**	209,508,713
Property, plant and equipment (Note 11)	**692,262**	254,235
Investment properties (Note 11)	**869,535**	−
Acquisition of:		
AFS financial assets (Note 6)	**(62,255,331)**	(190,726,892)
HTM Investments	**(23,094,870)**	−
Shares in an associate	**(504,512)**	−
Convertible notes in an associate	**(88,357)**	−

(Forward)

	Nine Months Ended September 30	
	2014	2013
Property, plant and equipment (Note 11)	**(₱1,891,947)**	(₱1,459,851)
Investment properties	**(814,736)**	(646,995)
Advances received from affiliates (Note 21)	–	(6,221)
Net cash from (used in) investing activities	**(4,897,640)**	16,922,989
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Bill and acceptance payable	**7,235,457**	50,795,027
Issuance of shares to non-controlling interests arising from stock rights issuance	**4,015,148**	–
Issuance of shares	–	36,586,864
Availment of loan term debts	–	4,016,400
Settlement/Payment of:		
Bill and acceptance payable	**(13,924,630)**	(54,770,713)
Long term debts	**(744,550)**	(7,163,441)
Finance cost	**(229,619)**	(335,986)
Due to related parties	**(3,591,245)**	(6,346,748)
Net proceeds from (payment of) short term debts	–	(1,570,000)
Dividend paid	**(1,731,419)**	(1,623,208)
Net cash from financing activities	**(8,970,858)**	19,588,195
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**1,028,669**	579,949
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(34,006,222)**	64,104,664
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**188,319,662**	124,214,998
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱154,313,440**	₱191,720,370

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 CONSOLIDATEDFINANCIAL 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 September 30, 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

The 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 unaudited interim condensed consolidated financial statements of LTG have been prepared in accordance with PAS 34, *Interim Financial Reporting*. The unaudited 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 unaudited 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 unaudited 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						
	September 30, 2014		December 31, 2013		September 30, 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
AB Nutribev Corp.	**–**	**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						
	September 30, 2014		December 31, 2013		September 30, 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.*

In various dates in February, March and December 2013, upon approval of the SEC for the increase in authorized capital stock of certain Bank Holding Companies, LTG has acquired between 80% to 100% ownership of these Bank Holding Companies. The transactions were consummated through conversion of LTG's advances from the Bank Holding Companies in exchange for the shares acquired. As of December 31, 2013, LTG indirectly owns 56.47% of PNB through the 59.83% collective ownership of the Bank Holding Companies. The acquisition of PNB was accounted for using pooling of interest method. The September 30, 2013 financial information was restated at the beginning of the earliest period presented to reflect the 56.47% effective ownership of LTG.

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 are 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, energy drink 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, AB Nutribev, 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.

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 segments:

For the nine months ended September 30, 2014:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
				(In Thousands)			
Segment revenue:							
External customers	**₱18,091,683**	**₱8,710,916**	**₱9,762,138**	**₱–**	**₱1,194,376**	**₱–**	**₱37,759,113**
Inter-segment	**729,500**	**43,827**	**813,976**	**–**	**–**	**(1,587,303)**	**–**
	₱18,821,183	**₱8,754,743**	**10,576,114**	**–**	**1,194,376**	**(1,587,303)**	**37,759,113**
Cost of sales	**3,531,526**	**7,252,978**	**7,682,828**	**–**	**783,621**	**(950,741)**	**18,300,212**
Gross profit	**15,289,657**	**1,501,765**	**2,893,286**	**–**	**410,755**	**(636,562)**	**19,458,901**
Equity in net earnings of associates	**–**	**–**	**–**	**520,355**	**–**	**(31,913)**	**488,442**
	15,289,657	**1,501,765**	**2,893,286**	**520,355**	**410,755**	**(668,475)**	**19,947,343**
Selling expenses	**–**	**762,300**	**1,191,337**	**400**	**73,831**	**(4,678)**	**2,023,190**
General and administrative expenses	**14,741,623**	**529,448**	**596,355**	**306,537**	**381,280**	**91,880**	**16,647,123**
Operating income	**548,034**	**210,017**	**1,105,594**	**213,418**	**(44,356)**	**(755,677)**	**1,277,030**
Finance costs	**–**	**(312,450)**	**(9,112)**	**–**	**(41,428)**	**9,091**	**(353,899)**
Finance income	**–**	**63**	**13,640**	**73,590**	**19,705**	**(38,757)**	**68,241**
Foreign exchange gains – net	**1,024,953**	**(1,347)**	**–**	**3,550**	**(1,141)**	**2,654**	**1,028,669**
Others – net	**3,441,125**	**5,088**	**26,558**	**195,208**	**198,990**	**(549,247)**	**3,317,722**
Income before income tax	**5,014,112**	**(98,629)**	**1,136,680**	**485,766**	**131,770**	**(1,331,936)**	**5,337,763**
Provision for income tax	**1,299,001**	**(15,272)**	**340,180**	**22,037**	**66,924**	**43,269**	**1,756,139**
Segment profit	**₱3,715,111**	**(₱83,357)**	**₱796,500**	**₱463,729**	**₱64,846**	**(₱1,375,205)**	**₱3,581,624**
Depreciation and amortization expense	**₱1,181,230**	**₱389,613**	**₱1,235,993**	**₱8,217**	**₱87,566**	**₱12,614**	**₱2,915,233**
Segment profit attributable to:							
Equity holders of the Company	**2,631,926**	**(83,349)**	**796,500**	**461,781**	**64.392**	**(1,310,877)**	**2,496,045**
Non-controlling interests	**1,083,185**	**(8)**	**–**	**1,948**	**454**	**–**	**1,085,579**

Other financial information of the operating segments as of September 30, 2014 is as follows:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
				(In Thousands)			
Assets:							
Current assets	**₱279,736,386**	**₱10,002,617**	**₱9,235,413**	**₱9,733,238**	**₱12,540,541**	**(₱3,688,448)**	**₱317,559,747**
Noncurrent assets	**318,466,985**	**6,645,107**	**13,851,366**	**13,800,800**	**10,468,221**	**598,391**	**363,830,870**
	₱598,203,371	**₱16,647,724**	**₱23,086,779**	**₱23,534,038**	**₱23,008,762**	**(₱3,090,057)**	**₱681,390,617**
Liabilities:							
Current liabilities	**₱461,456,857**	**₱6,486,799**	**₱4,544,665**	**₱376,152**	**₱11,118,676**	**(₱21,698,477)**	**₱462,284,672**
Noncurrent liabilities	**54,044,001**	**555,430**	**1,628,094**	**–**	**3,867,421**	**846,715**	**60,941,661**
	₱515,500,858	**₱7,042,229**	**₱6,172,759**	**₱376,152**	**₱14,986,097**	**(₱20,851,762)**	**₱523,226,333**
Investments in associates and a joint venture	**₱–**	**₱–**	**₱–**	**₱11,723,369**	**₱–**	**₱472,599**	**₱12,195,968**
Equity attributable to:							
Equity holders of the Company	**79,802,962**	**9,481,495**	**16,914,020**	**23,157,886**	**8,022,665**	**(15,802,246)**	**121,576,782**
Non-controlling interests	**2,899,551**	**124,000**	**–**	**–**	**–**	**33,563,951**	**36,587,502**
Short-term debts	**–**	**–**	**300,000**	**–**	**–**	**–**	**300,000**
Long-term debts	**9,965,414**	**4,994,051**	**5,001**	**–**	**1,988,523**	**(5,001)**	**16,947,988**

For the nine months ended September 30, 2013:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
				(In Thousands)			
Segment revenue:							
External customers	₱23,491,554	₱7,533,935	₱9,115,772	₱151,722	₱3,081,488	₱–	₱43,374,471
Inter-segment	–	22,298	583,604	–	–	(605,902)	–
	23,491,554	7,556,233	9,699,376	151,722	3,081,488	(605,902)	43,374,471
Cost of sales	4,831,703	5,992,670	6,809,381	154,911	2,186,736	(636,206)	19,339,195
Gross profit	18,659,851	1,563,563	2,889,995	(3,189)	894,752	30,304	24,035,276
Equity in net earnings of associates	–	–	–	2,557,923	–	–	2,557,923
	18,659,851	1,563,563	2,889,995	2,554,734	894,752	30,304	26,593,199
Selling expenses	-	461,356	1,422,498	450	266,284	–	2,150,588
General and administrative expenses	14,159,746	616,244	550,311	74,392	403,015	221,395	16,025,104
Operating income	4,500,105	485,963	917,186	2,479,892	225,453	(191,091)	8,417,507
Finance costs	–	(312,653)	(33,914)	–	(16,902)	3,425	(360,044)
Finance income	–	107	1,349	36,989	31,293	105,711	175,449
Foreign exchange gains – net	566,840	1,814	–	1,075	344	9,876	579,949
Others – net	2,931,750	8,446	8,566	409,918	118,517	306,931	3,784,128
Income before income tax	7,998,695	183,677	893,187	2,927,874	358,705	234,852	12,596,989
Provision for income tax	1,322,808	107,162	267,010	128,762	162,611	27,916	2,016,269
Segment profit	₱6,675,887	₱76,515	₱626,177	₱2,799,112	₱196,094	₱206,936	₱10,580,720
Depreciation and amortization expense	₱999,654	₱366,140	₱1,272,956	₱14,651	₱83,918	₱11,387	₱2,748,706
Segment profit attributable to:							
Equity holders of the Company	3,726,659	85,015	626,177	2,787,355	194,721	206,935	7,626,862
Non-controlling interests	2,949,228	(8,500)	–	11,757	1,373	–	2,953,858

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 associates 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:

	September 30, 2014	December 31, 2013
	(In Thousands)	
Cash and other cash items	**₱15,604,559**	₱12,651,411
Cash equivalents:		
Due from *Bangko Sentral ng Pilipinas* (BSP)	**116,292,161**	153,169,330
Due from other banks	**16,838,162**	14,093,671
Interbank loans receivable and securities held under agreements to resell	**5,578,558**	8,405,250
	₱154,313,440	₱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:

	September 30, 2014	December 31, 2013
	(In Thousands)	
Financial assets at fair value through profit or loss (FVPL):		
Held for trading:		
Government securities	**₱5,336,838**	₱3,355,721
Private debt securities	**798,337**	830,528
Derivative assets (Note 19)	**327,308**	258,697
Equity securities	**182,164**	249,518
	6,644,647	4,694,464
Designated at FVPL - Segregated fund assets	**9,715,535**	7,861,688
	₱16,360,182	₱12,556,152

6. Available for Sale Investments

Available for sale investments consist of:

	September 30, 2014	December 31, 2013
	(In Thousands)	
Government securities	**₱32,740,217**	₱59,380,333
Other debt securities	**25,666,752**	18,654,987
Equity securities:		
Quoted	**2,145,041**	2,663,182
Unquoted	**974,731**	1,185,582
	61,526,741	81,884,084
Allowance for impairment losses	**(998,468)**	(928,408)
	60,528,273	80,955,676
Noncurrent portion	**(58,698,066)**	(78,029,572)
	₱1,830,207	₱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 September 30, 2014, the amount of AFS securities reclassified to HTM amounted to ₱21.3 billion, of which ₱21.1 billion is classified as noncurrent assets in the consolidated balance sheet.

7. Loans and Receivables

Loans and receivables consist of:

	September 30, 2014	December 31, 2013
	(In Thousands)	
Finance receivables	**₱321,412,121**	₱291,434,545
Trade receivables	**11,993,157**	10,784,851
Other receivables	**3,546,088**	2,918,862
	336,951,366	305,138,258
Allowance for doubtful accounts and credit losses	**(17,397,453)**	(17,203,226)
	319,553,913	287,935,032
Noncurrent portion	**(196,475,198)**	(204,749,366)
	₱123,078,715	₱83,185,666

Finance Receivables

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

	September 30, 2014	December 31, 2013
	(In Thousands)	
Receivables from customers:		
Loans and discounts	**₱290,453,240**	₱237,061,751
Customers' liabilities on acceptances, letters of credit and trust receipts	**10,996,011**	10,387,199
Bills purchased	**3,895,030**	3,827,510

(Forward)

	September 30, 2014	December 31, 2013
	(In Thousands)	
Credit card receivables	**₱4,308,344**	₱4,105,025
Finance lease receivables	**3,112,881**	2,666,316
	312,765,506	258,047,801
Unquoted debt securities	**8,834,469**	11,571,023
Other receivables:		
Accounts receivable	**8,672,589**	10,308,901
Accrued interest receivable	**5,252,441**	7,514,686
Sales contract receivables	**4,042,250**	4,647,352
Miscellaneous	**407,743**	499,314
	18,375,023	22,970,253
	339,974,998	292,589,077
Unearned interest and other deferred income	**(1,221,775)**	(1,154,532)
	338,753,223	291,434,545
Allowance for credit losses	**(17,341,102)**	(17,165,122)
	321,412,121	274,269,423
Noncurrent portion	**193,293,083**	202,512,151
	₱128,119,038	₱71,757,272

Trade receivables

Trade receivables consist of:

	September 30, 2014	December 31, 2013
	(In Thousands)	
Consumer goods	**₱9,139,811**	₱7,787,960
Contract receivables	**2,780,401**	2,947,033
Lease receivables	**72,945**	49,858
	11,993,157	10,784,851
Allowance for credit losses	**(56,351)**	(32,590)
	11,936,806	10,752,261
Less noncurrent portion of contract receivables	**(2,214,380)**	(2,237,215)
	₱9,722,426	₱8,515,046

8. **Inventories**

Inventories consist of:

	September 30, 2014	December 31, 2013
	(In Thousands)	
Consumer goods:		
Alcohol	**₱2,715,096**	₱2,559,043
Beverage	**1,688,528**	1,461,630
	4,403,624	4,020,673
Real estate inventories	**7,382,455**	4,932,871
Fuel, materials and supplies	**1,265,217**	1,326,415
	₱13,051,296	₱10,279,959

9. Other Current Assets

	September 30, 2014	December 31, 2013
	(In Thousands)	
Excise tax	**₱906,467**	₱925,030
Advances to suppliers	**866,973**	685,740
Input VAT	**820,878**	499,167
Creditable withholding taxes (CWT)	**624,352**	715,174
Prepaid expenses	**440,501**	577,580
Advances to contractors	**356,321**	404,347
Stationeries, office supplies and stamps on hand	**213,518**	248,768
Miscellaneous cash and other cash items	**138,351**	182,295
Others	**1,760,531**	1,389,192
	₱6,127,892	₱5,627,293

10. Subsidiaries, Associates and Joint Venture

Investments in Associates and a Joint Venture
The Group has the power to participate in the financial and operating policy decisions in PMFTC, a 49.6%-owned associate, which does not constitute control or joint control. The Group also has 50.0% interest in ABI Pascual Holdings Private Limited (ABI Pascual Holdings), which is a joint controlled entity. In 2014, the Group acquired interest in Victorias Milling Company (VMC) through direct common shares purchased and convertible notes. As of September 30, 2014, the Group assessed that it has significant influence over VMC as the group acquired 17.51% direct ownership interest through the common shares and investment in convertible notes that would bring the effective ownership interest of the Group in VMC to 23.5%

The Group’s investments in its associate and joint venture are accounted for using equity method of accounting.

	September 30, 2014	December 31, 2013
	(In Thousands)	
PMFTC	**₱11,723,369**	₱13,664,449
VMC	**472,599**	–
ABI Pascual Holdings	**–**	–
	₱12,195,968	₱13,664,449

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

	September 30, 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	**520,355**	3,704,117
Share in other comprehensive income	**–**	27,454
Less cash dividends	**(2,461,435)**	(3,953,220)
Balance at end of year	**(1,760,172)**	180,908
	₱11,723,369	₱13,664,449

Equity in net earnings on PMFTC amounted to ₱520.4 million and ₱2,557.9 million for the period ended September 30, 2014 and 2013, respectively. Dividends received amounted to ₱2,461.4 million and ₱2,888.1 million for the period ended September 30, 2014 and 2013, respectively.

Investment in VMC
As of September 30, 2014, investment in VMC amounted to ₱432.6 million.

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 ₱1,891.9 million while retirement and disposals amounted to ₱692.3 million for the period ended September 30, 2014.

Additions to Investment properties amounted to ₱814.7 million while retirement and disposals amounted to ₱869.5 million for the period ended September 30, 2014.

12. Other Noncurrent Assets

Other noncurrent assets consist of:

	September 30, 2014	December 31, 2013
	(In Thousands)	
Deferred charges	**₱552,687**	₱121,156
Deferred reinsurance premiums	**420,150**	245,157
Software costs	**390,495**	425,928
Deposit for future investments	**285,006**	355,716
Goodwill	**252,671**	252,671
Refundable deposits	**191,849**	167,547
Chattel properties - net	**96,974**	120,615
Others - net	**427,806**	2,918,928
	₱2,617,638	₱4,607,718

13. Deposit Liabilities

	September 30, 2014	December 31, 2013
	(In Thousands)	
Demand	**₱99,023,296**	₱90,428,033
Savings	**268,285,344**	284,599,682
Time	**54,156,562**	51,114,363
	421,465,202	426,142,078
Presented as noncurrent	**16,967,038**	10,451,554
Presented as current	**₱404,498,164**	₱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:

	September 30, 2014	December 31, 2013
	(In Thousands)	
Designated at FVPL - Segregated fund liabilities	**₱9,854,698**	₱7,911,794
Derivative liabilities (Note 19)	**333,919**	163,101
	10,188,617	8,074,895
Presented as noncurrent	**30,423**	7,882,700
Presented as current	**₱10,158,194**	₱192,195

15. Bills and Acceptances Payable

Bills and acceptance payable consists of:

	September 30, 2014	December 31, 2013
	(In Thousands)	
Bills payable to:		
BSP and local banks	**₱19,840,215**	₱8,522,539
Foreign banks	**962,363**	2,821,186
Others	**1,529,643**	1,463,979
	22,332,221	12,807,704
Acceptances outstanding	**397,898**	364,293
	22,730,119	13,171,997
Presented as noncurrent	**12,250,058**	1,748,844
Presented as current	**₱10,480,061**	₱11,423,153

16. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of:

	September 30, 2014	December 31, 2013
	(In Thousands)	
Trade payables	**₱2,430,928**	₱2,553,547
Accrued expenses	**2,236,047**	8,797,794
Retention payable	**726,293**	731,493
Output value added tax	**457,829**	99,622
Nontrade payables	**307,986**	601,965
Provision for tax contingencies	**335,410**	335,410
Due to government agencies	**33,470**	178,545
Other payables	**24,478**	62,324
	₱6,552,441	₱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 September 30, 2014. For the period ended September 2013, the Group availed short term debts amounting to ₱300.0 million and paid outstanding debts amounting to ₱1,920.0 million.

Long-term Debts

	September 30, 2014	December 31, 2013
	(In Thousands)	
Subordinated debts	**₱9,965,414**	₱9,953,651
Bonds payable	**4,994,051**	4,982,544
Unsecured term loan	**1,521,233**	1,990,120
Notes payable	**467,290**	963,355
	16,947,988	17,889,670
Less current portion	**5,461,341**	1,009,915
	₱11,486,647	₱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 September 30, 2014 and December 31, 2013, the Group has complied with the covenants related to its long term debts.

18. **Other Liabilities**

	September 30, 2014	December 31, 2013
	(In Thousands)	
Insurance contract liabilities	**₱11,144,301**	₱11,546,043
Banking accounts payable	**5,164,984**	9,061,565
Bills purchased - contra	**3,366,774**	3,417,082
Customers deposits	**2,684,214**	2,849,147
Provisions	**1,771,242**	1,771,242
Payable to landowners	**2,208,611**	1,296,785
Managers' checks and demand drafts outstanding	**1,091,006**	1,028,301
Reserve for unearned premiums	**752,270**	576,889
Deposit on lease contracts	**593,564**	502,293
Other dormant credits	**495,123**	437,715
Due to *Treasurer of the Philippines*	**300,253**	311,387
Premium deposits fund	**509,535**	–
Payment order payable	**193,495**	194,628
Due to other banks	**219,548**	–
Due to BSP	**75,162**	117,821
Margin deposits and cash letters of credit	**191,128**	393,006
Tenants' rental deposits	**32,637**	161,600

(Forward)

	September 30, 2014	December 31, 2013
	(In Thousands)	
Transmission liability	**₱101,649**	₱90,005
Advanced rentals	**93,622**	98,658
Others	**7,681,921**	1,501,640
	38,671,109	35,377,679
Presented as noncurrent	**15,664,498**	2,299,948
Presented as current	**₱23,006,611**	₱33,077,731

19. **Derivative Financial Instruments**

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

	September 30, 2014	December 31, 2013
	(In Thousands)	
Balance at beginning of year	**₱95,596**	₱213,445
Changes in fair value	**238,469**	(194,550)
Settlements	**(146)**	76,701
	₱333,919	₱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:

	September 30, 2014 (Nine Months)	September 30, 2013 (Nine Months)
	(In Thousands)	
Finance costs (Note 17):		
Short-term debts	**₱9,597**	₱73,643
Bonds payable and amortization of bond issue costs	**338,121**	282,824
Unsecured term loan and notes payable	**6,181**	3,577
Finance costs	**₱353,899**	₱360,044
Finance income:		
Cash and other cash items (Note 4)	**₱44,704**	₱104,982
Interest-bearing contracts receivable (Note 7)	**23,537**	70,467
	₱68,241	₱175,449

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	**September 30, 2014 (Nine Months)**	September 30, 2013 (Nine Months)
		(In Thousands)	
Associate	Sales	**₱1,260**	₱1,680
	Dividend income	**2,461,436**	2,888,142
Entities Under Common Control	Banking revenue - interest on loans and receivables	**14,175**	119,397
	Sales of consumer products	**7,290**	7,830
	Rent income	**18,843**	29,979
	Freight and handling	**3,459**	3,759
	Purchases of inventories	**(13,685)**	(22,716)
	Cost of banking services - interest expense on deposit liabilities	**(45,084)**	(89,211)
	Management and professional fee	**(96,474)**	(96,474)
	Rent expense	**(21,600)**	(21,600)

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

	Financial Statement Account	Terms and Conditions	Outstanding Balance **September 30, 2014**	Outstanding Balance December 31, 2013
			(In Thousands)	
Parent Company	Due to related parties	On demand; non-interest bearing	**(₱41,975)**	(₱6,956,332)
Associate	Dividends receivable	30 to 90 days terms; non-interest bearing	**248,663**	357,855
	Trade receivables	30 to 90 days terms; non-interest bearing	**181**	387
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	**3,206,911**	3,390,516
	Trade and other receivables	30 to 60 days terms; non-interest bearing	**8,516**	13,240

(Forward)

	Financial Statement Account	Terms and Conditions	Outstanding Balance September 30, 2014	Outstanding Balance December 31, 2013
			(In Thousands)	
Entities Under Common Control	Due from related parties	On demand; non-interest bearing	**2,696,660**	2,709,994
	Advances to suppliers and contractors	30 to 60 days terms; non-interest bearing	**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	**(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)
	Account payable and other liabilities	30 to 90 days terms; non-interest bearing	**(274,787)**	(326,417)
	Due to related parties	On demand; non-interest bearing	**(432,720)**	(388,577)
Stockholders	Due from related parties	On demand; non-interest bearing	–	191
	Due to related parties	On demand; non-interest bearing	**(698,552)**	(691,610)

As of September 30, 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:

	September 30, 2014	December 31, 2013
	(In Thousands)	
Net retirement plan assets:		
FTC	**₱217,762**	₱224,530
AAC	**18,839**	19,263
	₱236,601	₱243,793

	September 30, 2014	December 31, 2013
	(In Thousands)	
Accrued retirement benefits:		
PNB	**₱2,048,786**	₱3,388,863
ABI and subsidiaries	**1,012,007**	878,951
TDI and ADI	**49,222**	39,090
Eton	**43,956**	29,653
LTG	**8,463**	9,705
	₱3,162,434	₱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 September 30, 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 officers of TBG.

As of September 30, 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:

	September 30, 2014 (Nine Months)	September 30, 2013 (Nine Months)
	(In Thousands)	
Banking revenue	**₱18,091,683**	₱23,491,554
Sale of consumer goods	**18,473,054**	16,801,429
Real estate sales	**723,951**	2,703,975
Rental income	**470,425**	377,513
	₱37,759,113	₱43,374,471

Sale of consumer goods consists of:

	September 30, 2014 (Nine Months)	September 30, 2013 (Nine Months)
	(In Thousands)	
Gross sales	**₱18,734,573**	₱17,446,908
Less sales returns, discounts and allowances	**261,519**	645,479
	₱18,473,054	₱16,801,429

Banking revenue consists of:

	September 30, 2014 (Nine Months)	September 30, 2013 (Nine Months)
	(In Thousands)	
Interest income on:		
Loans and receivables	**₱11,097,278**	₱10,404,092
Trading and investment securities	**2,521,064**	2,867,180
Deposits with banks and others	**1,565,573**	1,117,035
Interbank loans receivable	**12,779**	36,422
	15,196,694	14,424,729
Trading and securities gains	**438,240**	6,563,043
Service fees and commission income	**2,456,749**	2,503,782
	₱18,091,683	₱23,491,554

Cost of sales and services consists of:

	September 30, 2014 (Nine Months)	September 30, 2013 (Nine Months)
	(In Thousands)	
Cost of consumer goods sold:		
Materials used and changes in inventories (Note 8)	**₱9,416,042**	₱7,502,406
Depreciation and amortization (Note 11)	**1,024,624**	937,546
Taxes and licenses	**977,294**	1,153,942
Personnel costs	**639,464**	803,068
Fuel and power	**572,037**	608,388
Communication, light and water	**457,172**	514,565
Repairs and maintenance	**346,670**	307,424
Management, consulting, and professional fees	**378,253**	106,694
Freight and handling	**65,288**	122,321
Others	**201,161**	294,708
	14,078,005	12,351,062
Cost of banking services	**3,438,586**	4,801,397
Cost of real estate sales	**601,010**	2,059,223
Cost of rental income	**182,611**	127,513
Cost of sales and services	**₱18,300,212**	₱19,339,195

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

Cost of banking services consist of:

	September 30, 2014 (Nine Months)	September 30, 2013 (Nine Months)
	(In Thousands)	
Interest expense on:		
Deposit liabilities	**₱2,229,152**	₱3,148,121
Bills payable and other borrowings	**608,161**	970,220
Services fees and commission expense	**601,273**	683,056
	₱3,438,586	₱4,801,397

24. **Selling Expenses**

	September 30, 2014 (Nine Months)	September 30, 2013 (Nine Months)
	(In Thousands)	
Advertising and promotions	**₱944,790**	₱945,029
Depreciation and amortization (Note 11)	**447,999**	522,286
Freight and handling	**279,437**	120,894
Personnel costs	**90,444**	87,343
Management, consulting and professional fees	**83,662**	83,175
Commissions	**52,961**	218,678
Repairs and maintenance	**46,805**	60,569
Materials and consumables	**24,124**	54,373
Others	**52,968**	58,241
	₱2,023,190	₱2,150,588

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**

	September 30, 2014 (Nine Months)	September 30, 2013 (Nine Months)
	(In Thousands)	
Personnel costs	**₱5,847,481**	₱5,281,697
Taxes and licenses	**1,749,150**	1,876,044
Depreciation and amortization (Notes 11 and 12)	**1,373,575**	1,233,913
Occupancy	**1,156,574**	1,100,078
Provision for losses	**1,053,037**	914,973
Outside services	**782,043**	732,230
Insurance	**780,063**	702,408
Management, consulting and professional fees	**612,615**	531,468
Increase in aggregate reserve for life policies	**595,589**	556,695
Marketing expenses	**522,728**	640,199
Policyholder benefits and claim benefits	**332,522**	296,475
Information technology	**299,908**	274,931
Travel and transportation	**251,232**	332,776
Materials and consumables	**193,210**	250,029
Litigation expenses	**165,362**	218,578
Communication, light and water	**79,227**	62,874
Repairs and maintenance	**70,347**	88,902
Others	**782,460**	930,834
	₱16,647,123	₱16,025,104

26. Other Income (Charges) - net

	September 30, 2014 (Nine Months)	September 30, 2013 (Nine Months)
	(In Thousands)	
Premiums - net of reinsurance	**₱1,325,269**	₱1,267,655
Rental income (Note 11)	**629,932**	371,636
Net gains on sale or exchange of assets	**404,655**	505,256
Recoveries	**112,004**	33,828
Processing and referral fees	**70,379**	38,560
Gain on disposal of AFS investments	**–**	280,424
Others	**775,483**	1,286,769
	₱3,317,722	₱3,784,128

27. Income Taxes

a. 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.

b. 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.

c. Provision for current income tax consists of:

	September 30, 2014 (Nine Months)	September 30, 2013 (Nine Months)
	(In Thousands)	
RCIT/MCIT	**₱1,310,994**	₱499,720
Final tax	**531,927**	1,425,445
Provision for current income tax	**₱1,842,921**	₱1,925,165

28. Equity

Capital Stock

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

	September 30, 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 investments 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.

Retained Earnings

On April 8, 2014, LTG's BOD approved the declaration of a regular cash dividend of ₱0.15 per share and a special cash dividend of ₱0.01 per share to all stockholders of record of the company as of April 25, 2014 and paid on May 22, 2014.

29. Basic/Diluted Earnings Per Share

Basic/diluted earnings per share were calculated as follows:

	September 30, 2014 (Nine Months)	September 30, 2013 (Nine Months)
	(In Thousands)	
Net income attributable to equity holders of the Company	**₱2,496,045**	₱7,626,862
Divided by weighted-average number of shares	**10,821,389**	10,821,389
Basic/diluted EPS for net income attributable to equity holders of the Company	**₱0.23**	₱0.70

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

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

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

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

- Distilled spirits segment's sale of alcoholic beverage pertains mainly to four 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 back tested 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

Non-trading Market Risk

Interest rate risk

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

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

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

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

As one of the long-term goals in the risk management process, the banking segment has 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 September 30, 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:

	September 30, 2014		December 31, 2013	
	Carrying Value	**Fair Market Value**	Carrying Value	Fair Market Value
		(In Thousands)		
Financial Assets:				
HTM investments	**₱23,012,195**	**₱21,120,914**	₱–	₱–
Loans and receivables:				
Receivables from customers	**312,765,506**	**345,515,821**	248,321,931	274,331,315
Unquoted debt securities	**8,834,469**	**14,860,360**	7,545,531	12,692,201
	₱344,612,170	**₱381,497,095**	₱255,867,462	₱287,023,516
Financial Liabilities:				
Financial liabilities at amortized cost:				
Deposit liabilities -				
Time deposits	**₱54,156,562**	**₱55,428,340**	₱51,114,363	₱52,259,893
Long term debts:				
Subordinated debt	**9,965,414**	**10,961,955**	9,953,651	10,995,537
Unsecured term loan and notes payable	**1,988,523**	**2,009,150**	2,953,475	2,988,917
Bonds payable	**4,994,051**	**5,261,643**	4,982,544	5,250,000
Other liabilities:				
Payable to landowners	**2,208,611**	**2,486,214**	1,296,785	1,312,839
Tenants' rental deposits	**32,637**	**30,421**	161,601	150,852
Advance rentals	**93,622**	**89,765**	98,658	94,594
	₱73,439,420	**₱76,267,488**	₱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 2013for 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 September 30, 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 September 30, 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:

	September 30, 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	**₱3,921,678**	**₱1,415,534**	**₱–**	**₱5,337,212**
Derivative assets	**–**	**228,401**	**98,907**	**327,308**
Private debt securities	**206,746**	**591,591**	**–**	**798,337**
Equity securities	**182,164**	**–**	**–**	**182,164**
Designated at FVPL:				
Segregated fund assets*	**4,220,746**	**–**	**5,494,415**	**9,715,161**
	₱8,531,334	**₱2,235,526**	**₱5,593,322**	**₱16,360,182**
AFS investments:				
Government securities	**₱17,359,961**	**₱15,380,255**	**₱–**	**₱32,740,217**
Other debt securities	**22,511,594**	**1,564,820**	**–**	**24,076,415**
Equity securities**	**2,103,206**	**–**	**–**	**2,103,206**
	₱41,974,761	**₱16,945,076**	**₱–**	**₱58,919,837**
Liabilities measured at fair value:				
Financial liabilities				
Financial liabilities at FVPL:				
Designated at FVPL:				
Segregated fund liabilities*	**₱4,360,283**	**₱–**	**₱5,494,415**	**₱9,854,698**
Derivative liabilities	**–**	**–**	**333,919**	**333,919**
	₱4,360,283	**₱–**	**₱5,828,334**	**₱10,188,617**
Assets for which fair values are disclosed:				
Financial Assets				
HTM investments - Government securities	**₱18,666,112**	**₱2,821,163**	**₱–**	**₱21,487,275**
Loans and receivables:				
Receivables from customers	**–**	**–**	**345,515,821**	**345,515,821**
Unquoted debt securities	**–**	**–**	**14,860,360**	**14,860,360**
	₱18,666,112	**₱2,821,163**	**₱360,376,181**	**₱381,863,456**
Liabilities for which fair values are disclosed:				
Financial liabilities				
Financial liabilities at amortized cost:				
Deposit liabilities:				
Time deposits	**₱–**	**₱–**	**₱55,428,340**	**55,428,340**
Long term debts:				
Subordinated debt	**–**	**–**	**10,961,955**	**10,961,955**
Unsecured term loan and notes payable	**–**	**–**	**2,009,150**	**2,009,150**
Bonds payable	**5,261,643**	**–**	**–**	**5,261,643**
Other liabilities:				
Payable to landowners	**–**	**–**	**2,486,214**	**2,486,214**
Tenants' rental deposits	**–**	**–**	**30,421**	**30,421**
Advance rentals	**–**	**–**	**89,765**	**89,765**
	₱5,261,643	**₱–**	**₱71,005,845**	**₱76,267,488**

* *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 September 30, 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:

	September 30, 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 gain (loss) recorded in profit or loss	**(51,501)**	178,006
Balance at end of year	**₱5,494,415**	₱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 (loss) recorded in profit and loss	**114,362**	(104,145)
Redemption of unsecured subordinated notes	**–**	(6,000,000)
Balance at end of year	**₱5,494,415**	₱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 resulting 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:

	September 30, 2014	December 31, 2013
	(In Thousands, except ratios)	
Total liabilities	**₱523,226,333**	₱528,679,622
Total equity	**158,164,284**	149,770,600
Total liabilities and equity	**₱681,390,617**	₱678,450,222
Debt ratio	**0.77:1**	0.78:1
Debt-to-equity ratio	**3.31:1**	3.53:1

33. Commitments and Contingencies

There were no changes in the Group's commitments and contingencies as of September 30, 2014 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 influenced 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 September 30, 2014 and December 31, 2013
And for the Nine Months Ended September 30, 2014 and 2013
(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 September 30, 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.) There are no issuances, repurchases, and repayments of debt and equity securities.

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

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

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

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

viii.) There were no material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period

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 56.47%. The pooling of interest method was used for the business combination.

In 2014, the Group acquired interest in VMC through direct common shares purchased and convertible notes. As of September 30, 2014, the Group effectively owns VMC 23.5% inclusive of the convertible notes and 17.51% through direct common shares.

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 September 30, 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 July 25, 2012, the Mandaluyong RTC issued its decision in favor of TDI and dismissing the instant complaint for trademark infringement and unfair competition for lack of merit. GSMI filed a Motion for Reconsideration with the Mandaluyong RTC on September 3, 2012. On October 5, 2012, the Mandaluyong RTC denied the Motion for Reconsideration of GSMI. GSMI filed an appeal with the Court of Appeals (CA). On August 15, 2013, the CA rendered a decision in favor of GSMI ordering TDI to recall all gin products bearing the Ginebra brand name, cease and desist from using GINEBRA in any of its gin 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. On November 22 2013, the CA sustained its decision in favor of GSMI.

On December 18, 2013, the Company filed a petition before the Supreme Court questioning the decision of the CA.

As of September 30, 2014, the Company 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.

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

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

DENR-Administrative Proceedings

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

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

In May 2009, the residents of Pulupandan complained to the local government on the alleged pollution being caused by AACs 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 September 30, 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 Negros Occidental representing deficiency realty taxes for the period 1997 to 2009 totaling ₱ 264 million. On September 24, 2010, AAC formally protested the assessment and asked for the cancellation of the assessment on the following grounds:

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

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

The Municipal Treasurer replied on February 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 September 30, 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

LT Group, Inc. (LTG) posted consolidated net income of ₱3.6 billion for the nine months ended September 30, 2014, significantly lower by 66.2% from the ₱10.6 billion reported in the previous period.

Consolidated net income attributable to equity holders of LTG decreased from ₱7.6 billion to ₱2.5 billion. The decline in consolidated net income was mainly due to the tobacco and banking segments' operating results, which reported a drop in net income of ₱2.3 billion and ₱1.7 billion, respectively, from that of last year. The distilled spirits and property development segments' net income have also decreased by ₱160 million and ₱130 million, respectively. On the other hand, the beverage segment reported an improvement of 27.3% in net income or ₱170 million more from the ₱626.0 million realized in the previous period.

Consolidated revenues amounted to ₱37.8 billion for the nine-month period ended September 30, 2014, a 13% decrease from the ₱43.4 billion recognized in 2013 mainly on account of lower bank trading gains which offset higher revenues from the beverage and distilled spirits segments.

Cost of sales decreased by 5.4% from ₱19.3 billion for the nine-month period ended September 30, 2013 to the ₱18.3 billion recorded for the same period in 2014, primarily attributable to the bank's lower interest expense on deposit liabilities, but offset by higher cost of sales of the distilled spirits and beverage segments mainly due to the effects of higher excise taxes and raw material costs. The property development segment reported a 64.2% decline in cost of sales as a result of lower booked sales in real estate.

Operating expenses amounted to ₱18.7 billion in 9M14 and ₱18.2 billion in 9M13 or a slight increase of 2.7%. This was as a result of increased general and administrative expenses by 3.9%, from ₱16 billion in 2013 to ₱16.6 billion in 2014, partially offset by the decrease of 5.9% in selling expenses which amounted to ₱2.2 billion in 2013 to ₱2.0 billion in 2014.

Banking

The banking segment reported a net income of ₱3.7 billion for the nine-month period ended September 30, 2014, 44.8% lower than the ₱6.7 billion realized in same period last year. The drop in earnings was largely due to trading gains that were ₱6.5 billion or 84.7% lower compared to the same period last year.

Interest income from banking operations stood at ₱15.2 billion in 2014, 6.3% higher than the ₱14.3 billion earned last year largely on account of higher interest income on loans and receivables. Net service fees and commission income slightly improved from ₱1.8 billion in the previous period to ₱1.9 billion in the current period.

Interest expense decreased by 29.4% to ₱2.9 billion for the nine-month ended September 30, 2014 from ₱4.1 billion in the same period in 2013 mainly on account of lower funding costs with the redemption of the bank's more expensive subordinated debt and the higher share of CASA to total deposits.

Miscellaneous income improved by 28% due to higher income from leasing, recovery from charged-off assets, premiums-net of reinsurance and referral and trust fees.

Operating expenses increased by 3.8% primarily due to higher compensation and benefits and recorded provisions for credit losses.

Beverage

The beverage segment's net income grew by 27.1% to ₱796.5 million for the nine-months ended September 30, 2014 from ₱626.1 million in the same period last year.

Revenues of the beverage segment were higher by 9% to ₱10.6 billion from ₱9.7 billion in 2013. Revenues from Cobra energy drink, Absolute and Summit water, and Vitamilk soymilk continue to propel this growth. Cobra energy drink accounts for the biggest share of revenues. Bottled water and Vitamilk continue to post high double digit growths in volume. The intense competition in the beer market continues to adversely affect beer volumes, as well as for Tanduay Ice which competes with light beers.

Operating expenses decreased by 9.4% to ₱1.8 billion on account of lower selling expenses by ₱231.2 million due to lower advertising and promotional expenses, which were reduced by 13.9%. This was partially offset by the increase in general and administrative expenses of 8.4% to ₱596.4 million due to higher taxes and licenses, plus management and professional fees.

Distilled Spirits

The distilled spirits segment incurred a net loss of ₱83.4 million for the nine-months ended September 30, 2014, a reversal from the income of ₱76.5 million in 9M13.

TDI's sales volume increased despite the challenging market primarily due to intensified marketing efforts on its flagship product, Tanduay Five Years. Net selling prices, however declined due to higher incentives given to dealers as a strategy to regain market share. Net revenues generated were at ₱8.8 billion in 2014, 15.9% higher than the ₱7.6 billion reported in 2013.

Cost of sales increased by 21% to ₱7.3 billion in the current period as against ₱6.0 billion in the same period last year primarily on account of higher volume, alcohol costs, and acquisition of new bottles and higher prices of other raw materials. Consequently, gross profit margin decreased from 20.7% to 17.2%.

Operating expenses increased by 19.9% from ₱1.1 billion in 2013 to ₱1.3 billion in 2014 due to higher selling expenses to drive growth in sales. Selling expenses increased by 65.2% on account of higher freight charges, export project expenses and advertising expenses. The 14.1% decline in general and administrative expenses was due to lower personnel costs as the previous year included the separation payment amounting to ₱105 million in connection with the closure of the Quiapo plant.

Property Development

The property development segment reported net income of ₱64.8 million, 66.3% lower than the ₱196.1 million in the same period last year.

Gross profit decreased by 54.1% or ₱483.9 million compared to the same period last year due to lower revenues booked from ongoing residential projects. During the year, the construction of some projects were put on hold to give way to design improvements and enhancements. In 2014, Eton started turning over to tenants some of the leased office spaces in the recently completed Three Cyberpod Centris in Eton Centris. As a result, rental income increased to ₱470.4 million or 24.6% higher compared to ₱377.5 million in the same period last year.

The property segment's selling expenses were 72.3% lower at ₱73.8 million in 2014 compared to the ₱266.3 million for the same period last year. This was a result of lower real estate sales recognized for 9M14. General and administrative expenses decreased by 5.4% or ₱21.7 million due to lower expenses for taxes and licenses, representation, entertainment, repairs and maintenance and depreciation.

Tobacco

The tobacco segment's net income was ₱463.7 million for the nine-months ended September 30, 2014, 83.4% lower than the ₱2.8 billion of the same period last year on account of lower equity in net earnings from PMFTC (FTC's 49.6% owned associate) from ₱2.6 billion last year to ₱520.4 million in 2014. PMFTC continues to be adversely affected by the illicit trade in cigarettes, which has kept the price of lower-priced products at economically unsustainable levels.

PMFTC's shipment volume slightly improved in 9M14 versus 9M13. Based on Nielsen estimates on customer off-take, PMFTC has been able to stabilize its market share at slightly over 70%.

FINANCIAL CONDITION

The Company's consolidated total assets as of September 30, 2014 amounted to ₱681.4 billion, an increase of 0.4% from ₱678.5 billion as of December 31, 2013. Thi s was mainly on account of the ₱12 billion or 3.9% increase in current assets partially offset by the decrease in noncurrent assets by 2.4% or ₱9 billion.

The increase in consolidated current assets was due to the 48% growth in the current portion of loans and receivables, mainly on account of major loan releases by the banking segment, and the maturity and reclassification from noncurrent to current loans and receivables. The current portion of loans and receivables of the banking segment increased by 10.5% from ₱99.5 billion in December 31, 2013 to ₱109.9 billion as of September 30, 2014. The other movement in current assets was the 30% rise in inventories, on account of the increased inventories by the property development and distilled spirits segments. Financial assets at fair value through profit or loss of the banking segment increased by 30.3%, mainly due to purchases of various investment securities. Prepayments and other current assets also increased mainly on account of the banking segment's increased miscellaneous assets and creditable withholding taxes. The increase in consolidated current assets was partially offset by the decrease in cash and cash equivalents by 18.1% on account of the banking segment's decrease in due from Bangko Sentral ng Pilipinas and interbank loans and receivables. There was a 37.5% decrease in current available for sale investments due to the reclassification made from available for sale investments (AFS) to held to maturity investments (HTM).

The 2.4% decrease in total noncurrent assets was mainly due to the above-mentioned reclassification of the loans and receivables account and available for sale securities. The significant movement came from loans and receivables which went down by 4.2%, as a result of reclassifications to current portion and noncurrent AFS decreased by 25.2% on account of the reclassifications to HTM. Property, plant and equipment likewise decreased by 2.8% mainly due to depreciation charges. Investment properties increased by 5.5% due to the banking segment's booked acquisitions and adjustments. Investment in associates and joint ventures decreased by 10.7% due to higher levels of dividends received compared with equitize earnings from PMFTC. Deferred tax assets significantly decreased by 41.7% mainly due to the banking segment's offset of deferred tax liabilities from revaluation increment. Other noncurrent assets decreased by 43.2% due to the decrease in miscellaneous assets of the banking segment.

Consolidated total liabilities slightly declined by 1% to ₱523.2 billion as of September 30, 2014 from ₱528.7 billion as of December 31, 2013. This was on account of the decrease in total current liabilities by 4.3% from ₱483.3 billion in December 2013 to ₱462.3 billion in the current period, significantly offset by the increase in noncurrent liabilities of 34.2% from ₱45.4 billion to ₱60.9 billion.

Financial liabilities at fair value through profit or loss increased to ₱10.2 billion mainly on account of the banking segment's reclassification of these accounts to current. Current portion of bills and acceptances payable and accounts payable and other current liabilities declined by 8.3% and 51%, respectively mainly due to the settlement of the banking segment's currently maturing bills and acceptances payable and other liabilities. Customers' deposits decreased by 5.8% billion due to the property development segment's realization of these deposits into sales. Current portion of long-term debt increased from ₱1.0 billion to ₱5.5 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. Due to related parties decreased from ₱8.0 billion in 2013 to ₱1.2 billion in September 30, 2014 mainly on account of conversion of liabilities to Tangent Holdings Corporation (THC) into preferred shares, ₱2.9 billion of which are still presented under deposit for future stock subscription in the equity account.

The increase in the noncurrent liabilities was on account of the increase in the noncurrent deposit liabilities of the banking segment from ₱10.4 billion as of December 31, 2013 to ₱17.0 billion as of September 30, 2014 and increase in noncurrent bills and acceptances payable from ₱1.7 billion as of December 31, 2013 to ₱12.3 billion as of September 30, 2014. This was partially offset by the reclassification in the noncurrent financial liabilities through profit or loss to current. Noncurrent portion of long-term debt decreased from ₱16.9 billion as of December 31, 2013 to ₱11.5 billion as of September 30, 2014 due to the reclassification of the distilled spirits' ₱5.0 billion bonds payable to current. Accrued retirement liabilities decreased by 27.2% to ₱3.2 billion due to the contribution of the banking segment to the retirement fund. Deferred income tax liabilities decreased by 24% 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 581% was mainly due to the banking segment's increase in the noncurrent portion of unearned premiums, inter-office float items drafts outstanding.

LT Group's consolidated total equity grew 5.6% to ₱158.2 billion as of September 30, 2014, primarily as a net result of earnings, less dividends paid and conversion of payables to Tangent Holdings Corporation (THC) to preferred shares.

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

1.) Revenue

Revenues for September 30, 2014 amounted to ₱37.8 billion, significantly lower from last year's ₱43.4 billion.

2.) Net Income

Consolidated Net Income for September 2014 amounted to ₱3.6 billion lower by 66% from last period's ₱10.6 billion.

3.) Current Ratio

Current ratio increased from 0.63:1 in December 2013 to 0.69:1 in September 2014.

4.) Debt to Equity Ratio

Debt-to-equity ratio declined from 3.53:1 in December 2013 to 3.31:1 in September 2014.

5.) Earnings/ (Loss) Per Share

LTGI's earnings per share attributable to holders of the parent company for September 2014 and September 2013 are ₱0.23 and ₱0.70, 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 follow:

Distilled spirits

ADI is planning its Solar Energy and Bio-Ethanol Project that will make ADI the only potable alcohol distillery in Asia with solar power plant. The Project details are to construct and develop its own 2 mega-watt solar power plant with a cost of ₱200 million with zero upfront, zero cash investment. This will benefit ADI as effective leverage against rising cost of electricity and disruptive brown-outs, zero fuel cost and utilizes free, clean and renewable energy from the sun, favorable government incentives such as feed-in-tariff at 9.68/kWh which will be available until March 31, 2015 and 30% tax break for purchase and/or import of solar power system.

(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. Cash and cash equivalents – H-(18%); V-(5%)
2. Financial assets at fair value through profit or loss – H- 30%
3. Available-for-sale financial assets - current – H- (37%)
4. Loans and receivables - current – H- 48%; V- 6%
5. Inventories – H-27%
6. Other current assets- H- 9%
7. Available-for-sale financial assets - noncurrent – H- (25%)
8. Investment in shares of stocks and an associate – H – (11%)
9. Property, plant and equipment – at cost – H- (18%)
10. Investment properties – H-6%
11. Deferred tax assets- H- (42%)
12. Other non-current assets- H- (43%)
13. Financial liabilities at fair value through profit or loss – current – H- 5185%
14. Bills and acceptances payable - current – H- (8%)
15. Accounts payable and accrued expense – H- (51%)
16. Income tax payable – H- 299%
17. Customer's deposit – H- (6%)
18. Current portion of long-term debt – H- 441%
19. Current portion of due to related parties – H- (85%)
20. Other current liabilities- H- (33%)
21. Deposit liabilities – noncurrent – H- 62%
22. Financial liabilities at fair value through profit or loss - noncurrent – H- (100%)
23. Bills and acceptances payable – noncurrent – H- 600%
24. Long-term debt – net of current portion – H- (32%)
25. Accrued retirement liabilities- H- (27%)
26. Deferred tax liabilities- H- (24%)
27. Other noncurrent liabilities- H- 581%
28. Deposit for future stock subscription- H- (52%)
29. Preferred shares of subsidiary issued to Parent Company- H- 105%
30. Other comprehensive income-H- (25%)
31. Noncontrolling interest – H- 14%
32. Banking revenue - H- (23%); V- (6%)
33. Beverage revenue - H-7%
34. Distilled Spirit Revenue– H- 16%; V- 6%
35. Property Development Revenue – H- (61%)
36. Tobacco Revenue – H- (100%)
37. Cost of sales- H-(5%)
38. Equity in net earnings of associate – H- (81%)
39. Selling expenses – H- (6%)
40. General and administrative expenses –V-7%
41. Finance income – H- (61%)

42. Foreign exchange gains – H- 77%
43. Others-net – H- (12%)
44. Provision for income tax-H-(13%)
45. Net income- H-(66%); V-(15%)

(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 September 30, 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		335,392,439	6,606,013	2,224,586	1,302,591	122,346,514	202,912,735
Less: Allowance for Doubtful Accounts		16,756,113	-	-	-	-	16,756,113
NET TRADE RECEIVABLE	P	318,636,326	6,606,013	2,224,586	1,302,591	122,346,514	186,156,622
(b) Non-Trade Receivables		1,558,927	178,957	43,252	55,527	11,039	1,270,152
Less: Allowance for Doubtful Accounts		641,340	-	-	-	-	641,340
NET NON-TRADE RECEIVABLE	P	917,587	178,957	43,252	55,527	11,039	628,812
NET RECEIVABLES	P	319,553,913	6,784,970	2,267,838	1,358,118	122,357,553	186,785,434

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

	30-Sep-14	31-Dec-13
CURRENT RATIO	0.69	0.63
DEBT TO EQUITY RATIO	3.31	3.53
ASSET TO EQUITY RATIO	4.31	4.53

	30-Sep-14	30-Sep-13
INTEREST RATE COVERAGE RATIO	24.32	43.62
SOLVENCY RATIO	0.37	0.59
PROFITABILITY RATIOS:		
PROFIT MARGIN	0.07	0.18
RETURN ON ASSET (ROA)	0.005	0.011
RETURN ON EQUITY (ROE)	0.021	0.075