



Resilience Amid Challenges



LT GROUP, INC.

annual report 2014

CONTENTS

2	Financial Highlights	45	Consolidated Statements
3	Financial Summary		of Comprehensive Income
4	Chairman's Message	46	Consolidated Statements of Changes
6	President's Message		in Equity
12	CFO's Message	48	Consolidated Statements of Cash Flows
14	Subsidiaries	49	Notes to Consolidated Financial
26	Corporate Governance Report		Statements
34	Corporate Social Responsibility	117	Investor Information
40	Statement of Management's	118	Board of Directors
	Responsibility for Financial		
	Statements		
41	Independent Auditor's Report		
42	Consolidated Balance Sheet		
44	Consolidated Statements of Income		



The LT Group Logo

Strength and solidarity. This is the essence of the LT Group (LTG) logo. The clean balance lines and curves are the central elements -- a mystical symmetrical tree. Drawn in an Eastern-Oriental style, it gives hint to the Company's Chinese heritage.

Tree is life. Life is growth. Like a tree, a company with firm roots, properly nurtured, will continuously grow and give value.

The tree's trunk is upright, and the branches spread out -- a symbolic consolidation of the subsidiaries and stakeholders within two circles, one for continuity, the outer one for solidarity.



OUR COVER

In times of uncertainty, be it a typhoon or the strongest gust of wind, the bamboo plant sways with the tide and rises up again unharmed. It bends but it does not break.

The bamboo plant has always been a symbol of flexibility and inner strength. It is flexible and persistent, two important lessons of resiliency in life.

This is the core principle that guides LT Group, Inc. (LTG) and the reason behind its long-term success especially in challenging times.

VISION

A world-class conglomerate at the forefront of Philippine economic growth, successfully maintaining a strong presence and dominant position in key Philippine industries while ensuring continuous benefits to its consumers, communities, employees, business partners and shareholders.

MISSION

Anchored to its Vision, the LT Group commits:

To increase stockholder values through long term growth in its major business groups.

To continuously improve the value of its products and services and to provide consumers with more and better choices.

To build the largest, most effective distribution network and widest customer reach in the Philippines. To leverage on synergies between its various businesses to continuously improve revenues and cost structure.

(The Vision and Mission Statements were reviewed and approved by the Board of Directors on March 17, 2015)



Eton Properties Philippines, Inc.



THE LT Group

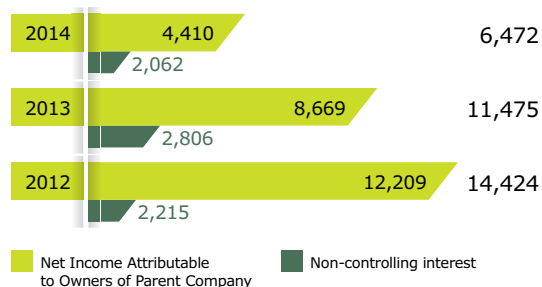


TANDUAY *Distillers, Inc.*

Revenue
(in Php Millions)



Net Income
(in Php Millions)



EBITDA
(in Php Millions)



Per Share Data
(in Php)

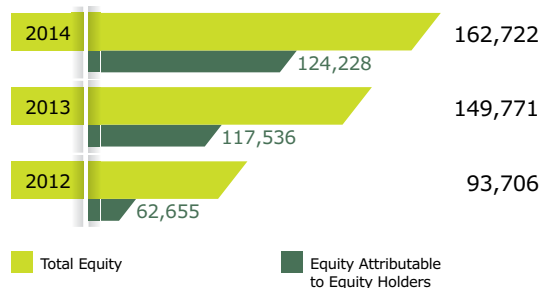
	2014	2013	2012
Earnings Per Share	0.41	0.85	1.44
Book Value (at year end)	15.04	10.86	10.43

FINANCIAL HIGHLIGHTS

Total Assets
(in Php Millions)



Net Equity
(in Php Millions)



Total Liabilities
(in Php Millions)



Ratios and Percentages

	2014	2013	2012
Current	0.73	0.63	0.54
Debt to Equity	3.28	3.53	5.51
Return on Assets	0.9%	1.7%	2.5%
Return on Equity	4%	7%	5%

FINANCIAL SUMMARY

(in Php Millions)

INCOME STATEMENT

	2014	2013	% change
Revenues	52,125	55,792	-7%
Operating costs and expenses	(50,380)	(50,480)	0%
Operating profit	1,746	5,312	-67%
Equity in net earnings of an associate	895	3,704	-76%
Other income	6,521	4,568	43%
Income before income tax	9,161	13,584	-33%
Provision for income tax	(2,689)	(2,109)	28%
Net income from before non-controlling interests	6,472	11,475	-44%
Non-controlling interests	(2,062)	(2,806)	-27%
Net income attributable to equity holders of the parent	4,410	8,669	-49%

EBITDA

2014	13,171	2013	18,099	% change	-27%
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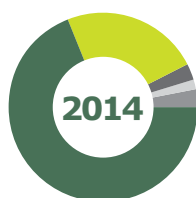
FINANCIAL CONDITION

Total assets	696,833	678,450	3%
Total liabilities	534,111	528,680	1%
Non-controlling interests	38,494	32,235	19%
Equity attributable to equity holders of the parent	124,228	117,536	6%

RATIOS

Per share (Php)			
Earnings	0.85	0.85	0%
Book value	15.04	10.86	38%
Cash dividend	0.16	0.15	7%
Return on equity	3.5%	7.4%	
Current ratio	0.73	0.63	
Debt/equity	3.28	3.53	
Debt/equity - without PNB	0.28	0.28	
Net debt/equity	0.11	0.12	

Income Contribution (in Php Millions)



		% to total
BANKING	3,256	74%
BEVERAGE	1,121	25%
TOBACCO	147	3%
PROPERTY DEVELOPMENT	119	3%
DISTILLED SPIRITS	101	2%
OTHERS	(334)	-8%
TOTAL	4,410	100%



		% to total
BANKING	3,447	40%
BEVERAGE	1,042	12%
TOBACCO	3,921	45%
PROPERTY DEVELOPMENT	104	1%
DISTILLED SPIRITS	185	2%
OTHERS	(30)	0%
TOTAL	8,669	100%



“Together with our team of dedicated workers, we are relentlessly finding ways to regain market share and continue our headway where our companies and products are frontrunners.”

– Dr. Lucio C. Tan

The Philippines continued its growth track in 2014 as it bounced back from a devastating super typhoon the year before. The economy grew by 6.1 percent, fueled by increased consumer spending, higher investments, larger remittance inflows and a 2.8 percent rise in employment.

By the end of our fiscal year, LTG posted over Php4 billion in net profits. Despite a generally difficult and competitive business environment, a number of our products continue to be market leaders in their respective segments.

As we continue to preserve our modest gains, challenges still hover on some of the business sectors where we operate. Significant annual increases in excise taxes which dampen demand, illicit trade in cigarettes that unfairly eat up the market share of legitimate players, and steep competition adversely affected profitability of some of our member-firms.

Overcoming these challenges, therefore, has

MESSAGE FROM THE CHAIRMAN

been management's top priority. Together with our team of dedicated workers, we are relentlessly finding ways to regain market share and continue our headway where our companies and products are frontrunners.

As a good corporate citizen, your Company remains mindful of its social responsibilities. Through the Tan Yan Kee Foundation, Inc., the Foundation for Upgrading the Standard of Education (FUSE) and their respective program partners, we continue to champion the cause of education. Scholarships, teacher training, provision of school supplies and infrastructure are key focus areas. The Tan Yan Kee Foundation, through its social welfare programs like HOPE Caravan continues to support rehabilitation efforts in areas devastated by Super Typhoon Haiyan (Yolanda). Advocacies in health services, environmental protection and manpower development are also being pursued vigorously.

With your continuing support, patience and understanding, the LTG team will work even harder to overcome adversity and increase

shareholder value. This we will pursue as LTG strives to be a model company in terms of corporate governance and commitment to its corporate social responsibility.

Thank you very much.



Dr. Lucio C. Tan
Chairman and Chief Executive Officer



In 2014, the Philippine's Gross Domestic Product (GDP) growth was at 6.1%, the second highest in Asia. Consumer spending remained robust, driven by OFW remittances which reached US\$24.3 billion (+5.9% year-on-year) and the IT-BPO sector which had over one million employees as of the end of the year, and generated revenues of US\$18.4 billion (+18.7% y-o-y).

The year 2014 however, remained a challenging one for your Company, as the illicit trade in the cigarette business continued, while stiff competition in the other consumer sectors we operate in necessitated more selective marketing and advertising programs to boost sales.

As a result of this challenging business environment, LT Group, Inc.'s (LTG) attributable net income for 2014 reached Php4.41 billion, compared to Php8.67 billion in 2013.

Tobacco business continues to be adversely affected by the illicit trade

PMFTC Inc.'s (PMFTC) shipment volume reached 68.4 billion sticks in 2014, 0.1 billion sticks or 0.2% lower than 2013's 68.5 billion sticks. PMFTC estimates that our market share has remained steady at slightly above 70% over the past five quarters, based on customer offtake. Since the implementation of higher excise taxes in 2013, our market share declined from over 90% due to the availability of cheaper cigarettes that are priced at below cost when paying full taxes.

The share of the super-low segment stabilized at around 32% to 34% of the total industry's volume in the second half 2014. While still higher than the 17% share of this segment

our market share has remained steady at slightly above 70% over the past five quarters

After the January 2015 price increase, Philip Morris International (PMI) disclosed that "we have recently witnessed significant positive price movements at the lower end of the market. We believe that the introduction of tax stamps will further improve the competitive environment in a market where cigarette consumption remained resilient last year at around 100 billion units. These developments augur well for profitability to improve over the mid-term and we remain bullish on the prospects for this market."

MESSAGE FROM THE PRESIDENT

in 4Q12, before the Excise Tax Law was implemented in 2013, it is substantially lower than the peak of 47% in 3Q13.

In the super-low segment, our competitor, kept a brand at Php1.25 per stick or a truck price of Php18.30 per pack for most of 2014. This is below cost as this does not even cover the excise tax of Php17 per pack and VAT of Php1.96 per pack, or a total of Php18.96 per pack for taxes alone. Another brand was sold at Php1.50 per stick, or a truck price of Php23 per pack. We matched the prices of our competitor for its low and super-low brands in 2014, until we raised prices in end-October. The competitor raised prices the following month, but by slightly lower amounts.

In end-January 2015, the competitor raised the price of its cigarettes by Php6 to Php28 per pack, higher than the Php4 per pack increase in excise tax to Php21 per pack, effective January 1, 2015. PMFTC followed by matching the prices in the super-low segment.

There were positive developments against the illicit trade in 2014. The Bureau of Customs closed the competitor's customs bonded warehouse in mid-January, and assessed the competitor over a billion pesos in duties and taxes for 2013 importations. The Joint Congressional Oversight Committee on the Comprehensive Tax Reform Program had its initial hearing in March. In October, the Senate Tax Study and Research Office (STSRO) reported to the Committee evidence that shed light on the competitor's ability to sell its products at below tax or below cost which include diverting imported materials for export to the domestic market without paying duties and taxes, and undervaluing the cost of raw materials to evade customs duties. The findings of the STSRO were used as a basis for the extensive ad campaign that PMFTC had in November and December, to get the authorities' attention on the illicit trade and inform the public.

The government started implementing the Internal Revenue Stamps Integrated

System (IRSIS). From December 1, 2014, all local manufacturers were required to affix numbered stamps on each pack of cigarettes. Although the Bureau of Internal Revenue's (BIR) Revenue Regulation 9-2014 states that effective March 1, 2015, all locally manufactured cigarettes in the market should have the said stamps, we believe that it may be by the middle of 2015 before we can see the full effects of the tax stamps, both in terms of compliance and impact on the illicit trade.

We believe that other measures are needed to substantially reduce the illicit trade of cigarettes. These include the installation of CCTV cameras for the 24/7 monitoring of all factories as well as a third-party audit for all cigarette manufacturers.

As a consequence of the difficult environment, LTG's income from Fortune Tobacco Corporation (FTC) amounted to Php147 million in 2014, from Php3.92 billion in 2013. FTC's income is mainly from

is largely due to higher trading gains in 2013 which amounted to Php7.16 billion, compared to 2014's Php2.72 billion.

For full year 2014, net interest income reached Php16.68 billion, 17% higher than 2013. While interest income from loans and receivables rose by 10%, the Bank was able to lower its interest costs with the redemption of the Bank's more expensive subordinated debt, coupled with the focus of increasing low cost deposits as a percentage of total funding. As a result, interest expense was 24% lower and this improved net interest margin to 3.2% from 2.8% a year ago. The limited growth in the interest income was partly due to the Bank's preference of foregoing higher loans growth when interest rates are low. The Bank limited granting long-term fixed rated loans with the view that benchmark interest rates and credit spreads will increase in line with the normalization of rates in the United States, anticipated by

Ten billion pesos of the proceeds were used to recapitalize PNB Savings Bank, which is the vehicle to grow the Bank's consumer loan business.

the equity in net earnings from its 49.6% stake in PMFTC that settled at Php515 million, Php3.19 billion or 86% lower than 2013's Php3.70 billion. FTC also booked some extraordinary items in 2014, including a Php180 million gain from the sale of a property and a Php312 million expense from the de-recognition of tax assets.

Philippine National Bank's (PNB) lower trading gains pulled down earnings, while cautious lending limited loans growth

PNB reported an audited net income of Php5.90 billion in 2014, under the pooling method, 5% lower than 2013's Php6.24 billion. This

the whole world. This is in line with the Bank's balance sheet strategy, wherein it consciously manages its long-term interest rate gaps to lessen the risk of net interest margin compression when rates start moving upwards.

PNB had a Stock Rights Offering in mid-February 2014 that raised a total of Php11.6 billion. Ten billion pesos of the proceeds were used to recapitalize PNB Savings Bank, which is the vehicle to grow the Bank's consumer loan business. LTG subscribed to the Offering to the extent of its beneficial ownership.

Following the merger of PNB and Allied Bank in

February 2013, the Bank is still in the midst of an integration process, substantially in its core banking platform. PNB and the former Allied Bank are still running on two distinct platforms, and it will still take a couple of years until the new core banking system will be fully operational. The integrated system will enable the Bank to increase operational efficiency thus bringing down operating expenses. The Bank currently has to maintain two separate backrooms.

The Bank's asset quality continued to improve with the net non-performing loans (NPL) ratio at 0.9% as of end-2014, from 1.4% as of end-2013. Noteworthy is that the NPL coverage ratio of the Bank --- reserves that the Bank puts relative to its NPL --- has been increased to 99.7% as of end-2014 from 90.8% as of end-2013. The Bank continues its programmed disposal of real properties from its acquired asset portfolio and booked Php1.50 billion in gains from the sale of ROPAs in 2014. The sale of Real and Other Properties

Asia Brewery, Inc. maintains leadership in energy drink, water, alcopop and soymilk categories.

account for close to 40% of revenues and have a market share of over 70%. Cobra's volume was flat y-o-y, as major players in the soft drinks market introduced lower-priced product variants and had aggressive discounting schemes that limited Cobra's ability to capture more of the beverage market.

Our water brands, Absolute and Summit, remain market leaders with close to 30%

MESSAGE FROM THE PRESIDENT

Acquired (ROPAs) will continue in the next few years.

Asia Brewery, Inc. (ABI) maintains leadership in energy drink, water, alcopop and soymilk categories

ABI reported an audited net income of Php1.12 billion in 2014, 8% more than 2013's Php1.04 billion. However, 2013 included a Php291 million gain from the sale of a Makati property to Eton (Belton Place project). Excluding this extraordinary gain, 2013's income would have settled at Php752 million, and 2014's income, on a core basis, would be 49% higher y-o-y.

Revenues were 7% higher y-o-y, due to the growth of our water, energy drink and soymilk brands. The slightly higher GPM at 29% from 27%, coupled with the 2% decline in operating expenses, largely due to more selective selling and marketing expenses, pushed the growth in net income.

Cobra, our carbonated energy drink, continues to

market share as of end-2014. Sales volume grew 9% in 2014. We are currently expanding our capacity in the Cabuyao, Laguna plant as it is currently operating at full capacity. We are likewise implementing a light-weighting project for the PET bottles, which is targeted for completion by mid-2015.

Beer revenues are down by single digit, as the re-launch of Colt 45 in June and intensified marketing efforts helped temper the volume decline. The intense competition in the beer market continues to adversely affect Tanduay Ice's volume as this product competes with light beers. However, Tanduay Ice's market share remains at over 90%.

Vitamilk, our soymilk drink under an exclusive distribution agreement with Green Spot of Thailand, continues to be the country's leading soymilk brand. Sales volume has been increasing monthly, with our 2014 volume double the previous year. Construction of our soymilk plant is ongoing, and we expect to start producing the product locally in mid-2016.

Eton Properties Philippines, Inc.'s (Eton) earnings largely coming from rental

Eton has halted sales activities for about two years to revisit its projects' master plans to optimize values. As a result, revenues from the sale of residential units in 2014 was about half of what it was in 2013. Eton plans to restart selling residential projects within the first half of 2015.

On the other hand, leasing revenues reached Php740 million, 65% more than 2013's level with the start of the contribution of the 60,000 square meter twin-tower Centris Cyberpod Three at Eton Centris, in Quezon City, Metro Manila. Eton started turning over to tenants the office spaces in the buildings in 2014, and had an average take-up rate of 97% as of end-2014. All of Eton's other BPO office spaces are fully leased out.

The growth in leasing revenues for 2015 will come from the full-year contribution of Centris Cyberpod Three, as well as higher

has about 150,000 square meters of office and retail space in its portfolio. Eton plans to increase this by constructing more BPO office buildings.

Eton's net income settled at Php120 million in 2014, 14% higher than the Php105 million reported in 2013.

Tanduay Distillers, Inc. (TDI) halts the drop in market share, posts higher sales volume

TDI was able to arrest the two-year decline in volumes, and stabilize market share in 2014. It intensified marketing efforts and adopted price management initiatives that resulted in a 17% increase in sales volume to 17 million cases in 2014.

According to restated Nielsen figures, TDI's overall market share slightly improved to 22.0% as of end-December 2014 from 21.8% as of end of 2013. This shows that

lease rates from new or renewed lease contracts in other buildings. Eton currently

We are mindful of the possibility of overheating in some segments of the residential sector, and are mitigating the risk by increasing our recurring income base, although at a gradual pace.

TDI's market share has stabilized, from the continuous drop since 2011. TDI continues to have the largest share of the Visayas-Mindanao market, at 56.5% as of end-2014, same as end-2013. Our market share in Metro Manila and the rest of Luzon is still below 5%.

However, net income declined to Php101 million from Php185 million in 2013 as gross profit margin dropped to 18% in 2014 from 21% due to discounts given to wholesalers, as well as higher costs of alcohol and other raw materials, and the acquisition of new bottles.

Our flagship product, Tanduay Five Years, had a volume growth of 18% and accounted for 72% of total volume, while Tanduay Light's volume was 30% lower than a year ago, as customers shifted back to the 40% alcohol Tanduay Five Years. For our Compañero brandy blend, around one million cases were sold in 2014, as we continue to try to penetrate more of the Metro Manila area.

TDI was able to arrest the two-year decline in volumes, and stabilize market share in 2014.

Cautious optimism for 2015

As our country continues on its path of strong economic growth, we look toward 2015 with more optimism than 2014, although the challenges that were present in 2014 still remain. Our different businesses continue to face stiff competition in their various industries.

The problems of the tobacco business have not been resolved, but recent developments point toward a more positive outlook that will hopefully lead toward a level playing field, and enable us to improve earnings.

For the property sector, we will remain cautious and selective, as we continue to develop existing projects and expand into other areas. We are mindful of the possibility of overheating in some segments of the residential sector, and are mitigating the risk by increasing our recurring income base, although at a gradual pace.

The challenging year of 2014 has shown the resiliency of your Company. Working together as a team enabled us to meet and surpass the challenges, and emerge a better and stronger company.

We will continue to work as a team, as we

MESSAGE FROM THE PRESIDENT

Competition in the distilled spirits business continues to be intense, aggravated by higher raw material costs. But a more focused marketing strategy backed by intensified selling activities will help grow volumes and boost profitability.

In the beverage segment, we expect even tougher competition with the entry of more foreign brands. We will continue to capitalize on the growing young adult population and the higher purchasing power in specific segments to meet the changes in consumer preferences through product innovation, while continuing our program toward cost improvement.

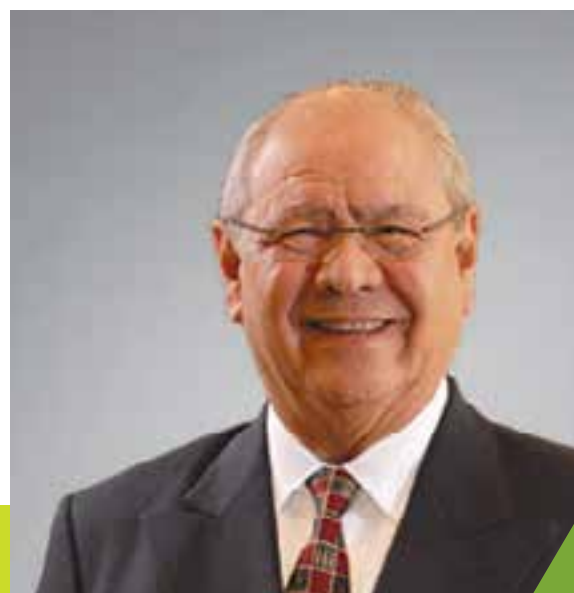
For the Bank, prudent risk management remains a focus as we broaden our reach and offer our customers more innovative products and services. Specific to our consumer loans business is our intention to increase the penetration rate of our current depositors. We will persist on working toward improving asset quality and cost efficiencies, as we grow our business.

work to grow in 2015 and beyond, but at the same time remain financially prudent. Our commitment to excellence by providing quality yet affordable products will sustain our future growth.

I would like to thank our stakeholders who continue to support and trust your Company, our Board of Directors, management team and staff.



Michael G. Tan
President



LT Group, Inc.'s (LTG) attributable net income for 2014 amounted to Php4.41 billion, compared to the Php8.67 billion reported in 2013, mainly due to the difficult operating environment of the tobacco businesses.

Philippine National Bank (PNB) posted an income of Php5.90 billion under the pooling method, with LTG's share at Php3.26 billion. However, PNB's earnings included a Php1.34 billion gain from the sale of some shares of Victorias Milling Company, Inc. (VMC) which were purchased by LTG. Thus, in consolidating the earnings of its subsidiaries, LTG had to deduct its corresponding share from the sale of the VMC shares from its total attributable income, amounting to Php756 million.

PNB's attributable income contribution to LTG amounted to Php2.50 billion or 57% of total. Asia Brewery, Inc. (ABI) accounted for Php1.12 billion or 25%, followed by the tobacco business at Php147 million or 3%. Eton Properties likewise provided Php119 million or 3%. Tanduary Distillers, Inc. (TDI) added Php101 million or 2%. The balance was largely from the Php335 million gain as a result of the additional investment in VMC, now an associate of LTG, and Php45 million from LTG's share in VMC's income.

LTG's stake in VMC stood at 20.17% as of end-2014, from 7.4% (direct) as of end-2013. Aside from purchasing additional shares in VMC, LTG also purchased some convertible notes. When fully converted, LTG's stake in VMC will be at 23.5%.

Equity in net earnings from LTG's 49.6% stake in PMFTC amounted to Php515 million in 2014, Php3.19 billion or 86% lower than 2013's Php3.70 billion as PMFTC's profitability continued to be adversely affected by the illicit trade in the low and super-low segments. LTG's stake in VMC contributed Php379 million to equity in net earnings, from its share of income, and gains resulting from the acquisition of the additional stake.

The Php4.26 billion drop in the attributable net income of LTG in 2014 vis-à-vis 2013 was mainly from the lower contribution of Fortune Tobacco Corporation (FTC), LTG's holding company for the tobacco business. The contribution of FTC dropped by Php3.77 billion, not only because of the lower equity in net earnings from PMFTC, but also due to the Php312 million de-recognition of tax assets, partially offset by the Php185 million gain from the sale of a property to a third party.

The decline in PNB's net income likewise contributed to the decline in LTG's attributable income. The Bank's net income of Php5.90 billion, under the pooling method, was 5% lower than the previous year, due to lower trading gains. Coupled with the elimination of the Bank's gain from the sale of VMC shares to LTG under the consolidation process of LTG, PNB's attributable income contribution dropped by Php947 million or 27% to Php2.50 billion.

TDI likewise reported a 45% drop in net income, to Php101 million from Php185 million in 2013.

ABI reported an 8% increase in net income to Php1.12 billion in 2014. However, as ABI's 2013 net income of Php1.04 billion included a Php291 million gain from the sale of a property, its core income actually increased by 49%.

Eton posted a 14% growth in earnings, to Php120 million from Php105 million the previous year.

of Php0.15 per share and a special cash dividend of Php0.01 per share, or a total of Php1.73 billion, equivalent to 20% of 2013's attributable net income. The dividends were paid to stockholders in May.

Total Revenues were 7% or Php3.67 billion lower year-on-year (y-o-y) at Php52.13 billion, largely due to the drop in revenues from PNB and Eton. The drop in PNB's revenues was mainly due to lower trading gains, while Eton booked lower revenues from the sale of residential units as it revisited its project plans with the objective of optimizing values. TDI's revenues were 14% higher y-o-y on the back of a 17% increase in sales volume from intensified marketing efforts, while ABI's revenues grew 5% y-o-y, net of inter-company transactions with TDI, as higher revenues from water, packaging materials and soymilk offset the drop in beer and alcopops. In 2014, LTG no longer recognized revenues from FTC as the tobacco operations have been consolidated under PMFTC. LTG recognizes its share of income from PMFTC as part of equity in net earnings.

MESSAGE FROM THE CFO

The LTG Parent Company disbursed a total of Php19.5 billion in cash in 2014. The bulk went to its subsidiaries, in line with the disclosed use of funds during the Company's re-IPO in April 2013. The Company used Php6.92 billion to subscribe to the Stock Rights Offering of PNB in February, to the extent of LTG's ownership of 56.47%. Around Php5.50 billion was infused into Eton, while Php2.19 billion went into ABI. Another Php2.12 billion was used to buy the additional shares and convertible notes of VMC. LTG also paid Php1.18 billion to Tangent Holdings Corporation (Tangent) for part of its advances to LTG, which resulted from the infusion of assets into LTG. LTG still owes Tangent Php18 billion for its stake in PNB, and this has been converted into preferred shares in the holding companies of the Bank.

Subsequently, in February 2015, LTG Parent infused Php3.90 billion into TDI, to partly finance the payment of TDI's Php5 billion bonds that matured that month. The payment of TDI's bonds will result to substantial interest savings as the bonds had an 8% coupon rate per annum.

In 2014, LTG paid a regular cash dividend

In 2014, LTG's subsidiaries spent Php7.4 billion for capital expenditures (capex). Eton spent Php4.5 billion for land acquisition and the construction of residential projects. ABI spent Php1.15 billion, while PNB's capex amounted to Php1.4 billion, mostly for IT equipment and the renovation of bank premises. TDI accounted for the balance of Php357 million.

LTG's balance sheet remained strong, with the parent company's cash balance at Php8.1 billion as of the end of 2014. Debt-to-Equity Ratio was at 3.36:1 as of year-end with the bank, and at 0.18:1 without the bank.



Jose Gabriel D. Olives
Chief Finance Officer

Asia Brewery, Inc.

Asia Brewery Inc. (ABI) has the broadest portfolio of beverage products in the Philippines.

Backed by sustained growth and market leadership in the key beverage segments of energy drinks, bottled water, alcopops and soymilk, ABI reported strong financial results in 2014.

This was despite the declines in the beer and alcopop segments, which continued to face regulatory changes and competitive pressures.

Consolidated revenues in 2014 rose to Php14.3 billion, growing 7% from the previous year. Along with improved operating income margin, net income reached Php1.1 billion.

Cobra reinforced its position as the leading energy drink with 73% market share, gaining two percentage points from a year ago.

Its "Sure Win, Big Win" crown collection promo,

complemented by its thematic and tactical campaigns throughout the year, strengthened consumer franchise and generated volumes despite price pressures from indirect competitors in the carbonated softdrinks market.

To further strengthen its portfolio, the Cobra Berry variant was reformulated to cater to consumer preferences in this flavor category and has met some success in containing the main competitor in the market. With sustained revenue growth, Cobra remained the highest contributor to ABI's revenue base.

Absolute and Summit bottled water brands continued to lead the market with close to 30% combined market share. Thematic campaigns, including Judy Ann Santos' TV ad for Absolute and Nonito Donaire's ad for Summit, augmented nationwide trade programs and sustained the growth momentum for the past 3 years.





Vitamilk continued to dominate and expand the soymilk market at 86% market share. Under an exclusive distributorship with Greenspot of Thailand, the Philippines is now the leading importer of Vitamilk in the ASEAN region, outselling 14 countries. The Company believes that Vitamilk's taste has taken hold in the Philippine market and will continue to attract consumers in the years to

BEVERAGES

come. ABI is currently constructing a soymilk plant, targeted to start operations in mid-2016.

The beer and alcopop segments continued to be under pressure from the difficult operating environment, which persisted in 2014. There were higher excise taxes that prompted a fresh round of price hikes, strong competitive activities by the market leader to boost sales and increasing popularity of other beverage choices which resulted in weaker volumes.

To address the downward trend, ABI focused on reinforcing its brand portfolio and launched more targeted consumer promotions.

As a result, Colt 45 was relaunched in July 2014 with an improved product and a thematic campaign "Sanib Pwersa" ("Joint Forces"). Brew Kettle, a Belgian-style Wietbeer introduced in October 2014 is fast gaining acceptance among more discerning beer drinkers. Tanduy Ice alcopop launched an under the crown promotion in the 4th quarter of 2014 to generate consumer tryouts. It also launched Tanduy Ice Zero in October 2014 positioned as "Full Kick, Zero Sugar," targeting the health conscious consumers.

Tanduy Ice has achieved a 93% market share in the alcopop market and the Company is planning to expand this category to gain more acceptance in the mainstream alcohol market.

Glass container revenues picked up during the second half of 2014 with the coming on stream of a second furnace after this was refurbished.

This expanded capacity was complemented by the successful efforts in signing new commercial customers such as Pepsi-Cola and Nutri-Asia as well as increased sales of generic glass containers used by food manufacturers. Sales of corrugated cartons through its subsidiary, Packageworld, Inc. (PWI), contributed significantly to increased revenues as demand from exporters of consumer electronics picked up in 2014.

PWI also expanded into the manufacture of metal closures, initially for internal use, and subsequently for the commercial market.

To complement domestic growth, ABI is exploring opportunities to export products in the Southeast Asian region and the Middle East.

With programs geared toward cost improvement and product innovation, ABI is focused on capitalizing on the continuous rise in young adult population, improving affluence in specific consumer segments and meeting changes in preferences to address the challenges in the increasingly competitive beverage market.

Eton Properties Philippines, Inc.

For Eton Properties Philippines, Inc. (Eton), 2014 was a year to consolidate its areas of strength and revisit its operations, with the goal of enhancing the Company's long-term competitiveness and optimizing future earnings.

In keeping with its long-term strategy of unlocking the best value for its projects, Eton Properties designed and implemented plans to ensure the sustainable growth and profitability of the Company. This included the deferment of sales activities in 2014, to make way for a proper assessment of costs and prices and align these with the market in order to achieve the highest margins. In conjunction with this, the Company also embarked on the critical task of revising its project plans, taking into consideration the best use of the land vis-à-vis evolving market needs.

Eton Centris



The Eton Residences Greenbelt

As a result of these initiatives, the Company reported gross revenues of Php2.28 billion in 2014, 38% lower than 2013's Php3.66 billion. Real Estate Sales accounted for Php1.54 billion or 68% of revenues, a 52% drop from 2013, due to the value optimization process.

Rental income, meanwhile, reached Php740 million, a 65% growth over the year-ago level. Leasing revenues rose with the strong take-up of the Company's BPO office buildings at Eton Centris in Quezon City and Eton Cyberpod Corinthian in Ortigas Center, Pasig City. The renewal of lease contracts was completed at higher rental rates and this is expected to continue through 2015.

The Company currently has seven BPO buildings that are fully leased out, four at Eton Centris and three at Eton Cyberpod Corinthian. These are in strategic locations that are easily accessible to public transportation and surrounded by retail establishments that complement the 24/7 operations of the locators.

Eton's tenants are multinationals and major players in the BPO sector, which include Hewlett Packard, Expert Global Solutions (EGS), Convergys, Wipro, Sitel and Standard Chartered Bank. These locators enjoy incentives given by the Philippine Economic Zone Authority.



68 Rocas

PROPERTY DEVELOPMENT

Eton ended the year with a net income of Php120 million, a 14% increase from its 2013 net income of Php105 million.

In 2014, construction work continued for six residential projects. These are: (1) 68 Rocas, a gated townhouse residential neighborhood along Don A. Rocas Avenue in Quezon City; (2) Eton Tower Makati; (3) West Wing Villas, a cluster of residential developments at North Belton Communities in Quezon City; (4) the West Wing Residences and (5) TierraBela at Eton City, in Laguna; and (6) 8 Adriatico in the city of Manila.

Eton also completed the construction of 8 Adriatico, a 42-storey high-rise condominium project, located close to a major mall and within Manila's tourist and business enclave. It also topped-off Eton Tower Makati in August, a mixed-use high-rise condominium at the corner of Dela Rosa and VA Rufino Streets, within the Makati Central Business District.

Eton has completed residential projects in prime locations across Metro Manila.

In Manila, these include Eton Baypark Manila at the corner of Roxas Boulevard and Kalaw Streets and One Archers Place, a 31-storey condominium in the University Belt. In Makati, the Company completed The Eton Residences Greenbelt, a 39-storey

condominium at the heart of the financial district, Eton Parkview Greenbelt, a 33-storey all-loft tower along Gamboa Street in Legaspi Village, and Belton Place, a high-rise condominium in the western part of Makati near Ayala and Gil Puyat Avenues.

In Pasig, the Company finished Eton Emerald Lofts in Ortigas Center and in Quezon City, and within the North Belton Communities, are The Manors and the West Wing Residences. Within Eton City in Laguna, Eton has completed the South Lake Village and River Bend horizontal projects.

Within Eton Centris, its 12-hectare business district in Quezon City, the Company continued to sustain existing commercial developments. These include Centris Station, a two-level commercial center directly linked to the Quezon Avenue MRT station, Centris Walk, a lifestyle and entertainment cluster, and Elements, an events venue covering 2,000 square meters.

In 2015, the Company will commence the expansion of Centris Walk, together with the development of a fifth BPO tower.

Eton looks forward to 2015 with confidence, after a transition year in 2014. It remains steadfast and committed to its clients and stakeholders as a dependable and trusted developer of value projects.

PMFTC Inc.



Overview

PMFTC Inc. (PMFTC) continues to be the leading cigarette manufacturer in the Philippines despite the serious challenge posed by the illicit cigarette trade. PMFTC is the result of the business combination between Philip Morris Philippines Manufacturing Inc. (PMPMI) and Fortune Tobacco Corporation (FTC) on February 25, 2010. For the past five years, PMFTC has been the industry leader in innovation and in providing the country's adult smokers the best smoking experience. PMFTC manufactures 49 out of 119 cigarette

brand variants available in the market led by Marlboro, Fortune and Jackpot. PMFTC's market share remains stable all throughout 2014 at approximately 70 percent amidst a dynamic marketplace.

PMFTC employs over 5,000 employees and sources tobacco from more than 50,000 tobacco farmers in the country.

Sales and Marketing

The year 2014 presented many business opportunities and challenges to the Philippine tobacco industry. Certain shifts were observed, redefining consumer behavior and the industry climate. The second round of tax increases under the excise tax law of 2013 increased the competitive environment as price sensitive consumers continued to trade down to cheaper alternatives. A local competitor continued to sell super low-priced cigarettes at an economically unsustainable level prompting official inquiries from various government agencies.

Mindful of the need to manage pricing, PMFTC implemented national price compliance campaigns where trade partners are encouraged to sell PMFTC brands within the



recommended retail selling price through incentives. The Company also re-tooled its sales and distribution team with a series of training and incentive programs to boost sales performance.

Fortune, the leading Filipino heritage cigarette brand was reintroduced with a new stick and pack design and a new variant, Fortune Lights, in the first quarter of 2014. This innovation aims to boost the Filipino pride and make the brand more relevant to the adult smokers of today. This was followed by the introduction of three big launches-- Marlboro Black Menthol 100s and Marlboro Premium Black in July 2014, and Chesterfield in December. These product launches were accompanied by rigorous adult smoker engagements in legal-age meeting places (LAMPS) and during local festivities.

Regulations and Illicit Trade

Two key tobacco regulations were passed in 2014. On July 15, 2014, Republic Act 10643, known as the Graphic Health Warnings Law, was signed into law by President Benigno



regulation. PMFTC sees this as an essential first step in combatting illicit trade and tax evasion. What remains to be a key concern for the industry since the implementation of the excise tax law of 2013 is the alleged fraudulent business activities of a local competitor and the proliferation of domestic illicit cigarettes which, according to an international study, resulted in



Aquino III. This law prescribes the placement of picture warnings on 50% of the front and back of cigarette packs. An inter-agency body will issue the implementing rules and regulations for the new law while the Department of Health will issue the design templates for the picture warnings.

On July 7, 2014, the Bureau of Internal Revenue issued Revenue Regulation No. 7-2014 prescribing the affixture of Internal Revenue Stamps on imported and locally manufactured cigarettes. It further directs the use of the Internal Revenue Stamp Integrated System for ordering and distributing tax stamps and monitoring of compliance with the

TOBACCO

billions in lost government revenues.

On June 5, 2014, the Asia 11-Illicit Tobacco Indicator 2013, a study conducted by the Oxford Economics (OE) and the International Tax and Investment Center (ITIC), commissioned by Philip Morris International, was made public. The report shows that illicit trade in the Philippines tripled in 2013, the first year of the implementation of Republic Act 10351, commonly referred to as the new excise tax law. As a consequence, the study said the government may have lost up to Php15.6 billion in uncollected excise tax and value added tax (VAT).

The UK-based OE and US-based ITIC noted that the Philippines' illicit cigarette consumption accounts for 34.5% of all total illicit cigarettes consumed in ASEAN countries in 2013, and is second only to Vietnam with 39%. Almost one in five cigarettes in the Philippines was found to be illicit.

Operations

PMFTC strongly believes in the potential of the country to sustain economic growth.



In November 2014, PMFTC announced an additional investment of US\$50 million, spread over five years, in a groundbreaking Virginia tobacco experimental farm situated on a 10-hectare property in Claveria, Misamis Oriental, the first and the biggest tobacco growing community in Mindanao. Soil and climatic conditions in the area make it viable to grow high-grade tobacco in two cropping seasons a year compared to just one in other provinces. The quality of Virginia tobacco has been found by international agronomists to be comparable to the crop in Brazil, one of the world's top growers of quality Virginia tobacco.

Process improvement and efficiency is one of the cornerstones of the Company's Operations Department. In April 2014, PMFTC was recognized by the Manila Electric Company (Meralco) as its Top Corporate Luminary for significantly reducing its carbon footprint. PMFTC ceased its dependence on aging generators using bunker fuel and instead connected to the Meralco grid and reduced energy consumption by 35%. This project



was initiated in 2012, and 2014 was the first full-year of operations that PMFTC benefited from the shift. The operational savings were utilized to improve factory working conditions and fund award-winning corporate social responsibility (CSR) projects for the benefit of its stakeholders.

Corporate Citizenship and Recognitions

PMFTC recognizes the need to give back to the communities and key stakeholders that help the business thrive. Embrace, the Company's program, mobilized a total of 15 projects on health and poverty alleviation, livelihood, education, environment, disaster preparedness, and calamity relief across the country.

After the onslaught of typhoon Yolanda, PMFTC donated Php100 million, spread over two years, for rehabilitation and reconstruction projects in the devastated areas. In 2014, PMFTC began rebuilding schools in the provinces of Aklan, Antique, Bohol, Cebu, Iloilo, Leyte, Oriental Mindoro, Palawan, and Samar. This project will run until 2015.

Embrace's efforts in making a difference in the lives of the communities where PMFTC operates



TOBACCO

are acknowledged not only from the warm reception of its beneficiaries but also in the number of notable international recognitions it garnered in 2014.

The Cooperative Organizing and Plantation Management Program of Embrace won the Environmental Leadership Award, given by the Asian Leadership Award in Dubai, United Arab Emirates, and the Corporate Social Responsibility Program of the Year for Asia and Oceania, (Bronze), given by the prestigious International Business Awards in Paris, France. The project embodies how PMFTC provides assistance to the tobacco farmers and rehabilitates forests that may have suffered from indiscriminate logging.

As one of the country's leading investors and biggest taxpayers, PMFTC will continue to drive the growth of the industry and will help the Filipino nation to keep moving forward.



Philippine National Bank



Philippine National Bank (PNB) is one of the country's largest private commercial banks. It provides a full range of banking and other financial services to its highly diverse clientele comprised of individual depositors, small and medium enterprises, domestic and international corporations, government institutions, and overseas Filipinos.

PNB was originally established as a government bank in 1916 but was privatized in 1996. In February 2013, PNB merged with Allied Banking Corporation, strengthening its position as the fourth largest private domestic bank in terms of total assets and deposits.

As of December 31, 2014, PNB had a total of 657 branches and 878 ATMs strategically located nationwide. In addition, PNB boasts of having the most extensive international footprint among Philippine banks, across Asia, Europe, Middle East, and North America with 77 overseas branches and offices in 16 countries.

In March 2014, Standard & Poor's Ratings Services upgraded its outlook on PNB to "positive" from "stable," citing the gradual improvement in its asset quality following the merger with

Allied Banking Corporation. Two months later, Moody's Investors Service also raised PNB's credit rating outlook to "positive" from "stable" and at the same time affirmed PNB's Ba2/NP local and foreign currency deposit ratings, reflecting the ongoing improvements in the credit profile of the Bank.

In 2014, PNB reported a net profit of Php5.9 billion under the pooling method. This was 5.4% lower than last year's level which included extraordinary trading gains. Nonetheless, the Bank sustained the growth in its core business with net interest income growing by 17.1% to Php16.7 billion in 2014 from Php14.2 billion in 2013.



Interest income on loans and receivables increased by 10.4% to Php15.2 billion, supported by a steady growth in its loans portfolio, particularly consumer loans. On the other hand, interest expense declined by 24.5% to Php3.9 billion with the redemption of the Bank's high interest-bearing Long Term Negotiable Certificates of Deposits amounting to Php6.75 billion. Furthermore, the Bank's other income, excluding gains from securities trading, rose by 113.1%, boosted by higher income from the sale of foreclosed assets as the Bank conducted regional simultaneous public sealed biddings in all domestic branches.

PNB ended the year with consolidated assets reaching Php612.2 billion. The Bank's capital position remained solid at Php82.8 billion, translating to a Capital Adequacy Ratio of 20.61%. In the first quarter of 2014, PNB successfully raised Php11.6 billion in fresh capital from its stock rights offering, further strengthening its capital position under the Basel III standards, a set of global banking standards. The oversubscription of the stock rights offering



BANKING

from both existing and new investors showed the strong confidence of the investing public on the long-term positive prospects of PNB.

In July 2014, PNB's Consumer Finance Group consolidated its business with PNB Savings Bank, a fully owned subsidiary of the Bank. PNB also infused Php10 billion from its stock rights offering into PNB Savings Bank, to strengthen its consumer lending business and provide a platform for future growth.

The Bank continued to expand its remittance services by partnering with US-based Wells Fargo & Company to provide a more convenient way for Filipinos abroad to send money back to the Philippines. Wells Fargo has an extensive network of more than 9,000 stores and 12,500 ATMs across 39 states in the United States. In 2014, PNB was also recognized by the Bangko Sentral ng Pilipinas (BSP) as the Outstanding PhilPass REMIT Participant during BSP's 2014 Awards Ceremony and Appreciation Lunch for BSP Stakeholders. BSP acknowledged PNB's exceptional performance in terms of remittance volume sent via BSP's Philippine Payments and Settlement System (PhilPass) for processing and settlement.

PNB continued to introduce innovative technological advances to further expand its wide array of products and services. In partnership with the Bureau of Internal Revenue (BIR), the Bank launched the "PNB iTax," a convenient online tax payment service for its clients. This service saves clients the trouble of having to endure long lines at BIR authorized agents when paying their taxes. This innovative product is in line with BIR's eBIRForms project which aims to provide more convenient and accessible filing channels for taxpayers who are enrolled in the BIR Interactive Filing System (BIR-IAFS).

By end of 2014, PNB successfully issued Php7 billion worth of Long Term Negotiable Certificates of Time Deposits (LTNCDs) that were listed at the Philippine Dealing Exchange (PDEX). The fund raising activity will support PNB's asset growth.

Nearing a century of banking experience, PNB is poised to move forward in the banking industry to become a more dynamic, innovative, and service-focused bank, providing service excellence to Filipinos all over the world.

Tanduay Distillers, Inc.

Revenues improved by 14% to Php12.0 billion in 2014 from Php10.5 Billion in 2013, as sales volume increased by 17% year-on-year, enabling the Company to maintain its market share at 23% for the whole of 2014. However, net income declined by 45% to Php101 million from Php185 million due to price management initiatives and higher selling expenses as the Company defended its market share in the Southern Philippines.

The year 2014 was both significant and challenging for Tanduay Distillers, Inc. (TDI).

As the Company celebrated its 160th founding anniversary, it was able to turn around the decline in its market share in the previous two years on the back of aggressive efforts to stave off competition in its stronghold areas.

To strengthen the Company's competitiveness, it launched an integrated marketing communications strategy that aims to refresh and revitalize the Tanduay brand image.

It implemented a new advertising campaign for Tanduay Five Years, the flagship brand, that



centered on the theme "Tibay ng Loob, Tibay Tanduay." The campaign presented Tanduay as a symbol of the Filipino characteristics of perseverance and resilience amid challenging environments. This aggressive move aims to re-install the Tanduay brand as one of the national consumer icons.

On the distribution side, the Company conducted intensified on-ground activation and promotional selling activities in different market channels. A year-round tri-media and merchandising campaign focused heavily on Tanduay Five Years and Tanduay Rhum Light.

In 2014, the Company reaped more awards, adding to Tanduay's growing collection of accolades with Tanduay Superior Rum, Tanduay 1854, Tanduay Asian Rum Gold and Tanduay Asian Rum Silver each bagging a gold award from the prestigious Monde Selection. TDI is the most awarded domestic liquor company, with 176 medals earned, a glowing testament to the excellent quality of Tanduay's products that have won worldwide acclaim.



DISTILLED SPIRITS

Tanduay Superior Rum was also awarded the High Quality Trophy for having won a gold medal for three consecutive years.

On the operational front, Tanduay came closer to realizing its vision of being a world class manufacturing company when its Cabuyao, Laguna (Luzon) and Murcia, Negros Occidental (Visayas) production plants received their ISO 9001:2008 certifications from TUV SUD Asia Pacific. The plant in El Salvador City, Misamis Oriental (Mindanao) is expected to get its ISO certification in 2015.

In March of 2014, Tanduay's subsidiary, Absolut Distillers, Inc., (ADI), sealed a partnership with Aseagas Corporation and formed the country's first venture into the production of an alternative fuel called liquid biomethane (LBM) by converting the distillery's organic effluent.

Moreover, ADI was awarded the Most Outstanding Corporation in the Practice of Waste Management by the Department of Environment and Natural Resources (DENR), as well as a citation in the 2014 CSR Compilation of the Asian Development Bank (ADB).

Despite a very challenging business environment, Tanduay continues to deliver value to the LT Group. **Tibay ng Loob, Tibay Tanduay.**



Transitioning from a single listed company to a conglomerate requires numerous policy and reportorial changes, especially for the subsidiaries that have remained privately owned. The adjustments came in the form of financial reporting, hiring and disclosures consistent with good corporate governance. The business segments under the conglomerate include the tobacco/cigarette, banking, liquor, beverage and real estate development companies.

With the diverse portfolio, it is imperative to put in place a mechanism for tracking the Company's performance in its quest to achieve its Vision

the outstanding capital stock. The directors are elected annually.

INDEPENDENT DIRECTORS

Independent Directors are those who have no ties with the management of the Company, and are free from any business or other relationships which could, or could reasonably be perceived to, materially interfere with the exercise of independent judgment in carrying out one's responsibilities as an independent director of the Company. The Company, in its pursuit of good corporate governance, has chosen men and women of probity and intelligence to be part of the Board as independent directors. Their professional backgrounds include being a former member of the Monetary Board, former ranking officer of an international bank and a former Undersecretary of the Department of Finance, a lawyer and former member of a leading auditing firm and a businessman engaged in shipping and logistics.

On December 5, 2011, the Securities and Exchange Commission (SEC) issued Memorandum Circular No. 9, series of 2011 which provides for term limits for independent directors that will take effect on January 2, 2012. This was reiterated by the SEC Chairperson in a recent seminar, wherein she clarified that the term limit of ten (10) years

and Mission statements to become a world-class conglomerate at the forefront of the Philippines' economic growth, successfully maintaining a strong presence and dominant position in key Philippine industries while ensuring continuous benefits to its consumers, communities, employees, business partners and shareholders.

THE BOARD OF DIRECTORS AND STRUCTURE

The Board of Directors, sets the policies, formulates the strategies, monitors the implementation and evaluates the performance of Management. The Board likewise ensures that proper internal control mechanisms are in place and good governance is inherent all throughout the implementation of the corporate strategy.

COMPOSITION

The LT Group, Inc. Board is composed of thirteen (13) directors, who have diverse backgrounds in business and professions, and are distinguished and successful in their respective disciplines and/or business. Two of the directors are successful owners of non-competing business while others are recognized individuals in the fields of finance, accountancy and law. Out of the thirteen directors, four are independent directors, one of whom is a female director. The Board has three female directors with two of them occupying prominent or important positions in the Board. The non-executive directors comprise eighty five percent (85%) of the Board. None of the independent directors own more than 2% of

shall be reckoned from the time that the subject Circular was issued. Consequently, none of the current Independent Directors have exceeded the term set by the Commission.

The Independent Directors have all the qualifications and none of the disqualifications indicated hereunder:

Disqualifications:

1. The independent director is not a director or officer or substantial stockholder of the Company or of its related companies or any of its substantial shareholders, except when he/she is an independent director of any of the foregoing;
2. He/She does not own more than two percent (2%) of the shares of the Company and/or its related companies or any of its substantial shareholders;
3. He/She is not related to any director, officer, or substantial shareholder of the Company or any of the related companies or substantial shareholders of the Company. For this purpose, relatives include spouse, parent, child, brother, sister, and the spouse of such child, brother or sister;
4. He/She is not acting as a nominee or representative of any director or substantial shareholder of the Company, and/or any of its related companies, and/or any of

its related shareholders pursuant to a Deed of Trust or under any contract or arrangement;

5. He/She has not been employed in any executive capacity by the Company, any of its related companies and/or by any of its substantial shareholders within the last five (5) years;
6. He/She is not retained, either personally or through his/her firm or any similar entity, as a professional adviser of the Company, or any of its related companies and/or any of its substantial shareholders in the last five (5) years; and
7. He/She has not engaged and does not engage in any transaction with the Company and/or with any of its related companies and/or with any of its substantial shareholders, whether by himself/herself and/or with other persons and/or through a firm of which he/she is a partner and/or a company of which he/she is a director or substantial shareholder, other than transactions which are conducted at arms length and are immaterial or insignificant.

BOARD PERFORMANCE

The Board of Directors meeting is held regularly

The Company sets aside an annual training budget for the continued updating and training of its directors and officers on corporate governance. As provided under SEC Memorandum Circular No. 20, Series of 2013, the Company ensures that all directors and officers are able to update themselves with recent developments or attend the required seminar annually. In compliance with the SEC rules for 2014, the Board headed by the Chairman attended Sustainability in the Boardroom Seminar organized by the Institute of Corporate Governance (ICD) where the major speaker was the renowned Prof. Lynn S. Paine. Save for Mr. Lucio K. Tan, Jr., Mr. Washington Z. Sycip and Atty. Wilfrido E. Sanchez, the Board and Officers of the Company all attended the said seminar.

On the other hand, Mr. Lucio K. Tan, Jr. attended the Seminar on Corporate Governance provided by the Risks, Opportunities, Assessment and Management, Inc.; while Mr. Washington Z. Sycip and Atty. Wilfrido E. Sanchez attended the Corporate Governance Requirements Under US Laws and Regulations seminar offered by PLDT and the seminar conducted by SyCip Gorres Velayo & Co., respectively.

The Board of Directors of the Company are:

CORPORATE GOVERNANCE REPORT

during the second Tuesday of the month. Foremost in the Agenda of the said meeting is the report on the results of operations of the respective segments by the respective Chief Finance Officers of all of the subsidiaries. During the quarterly Board Meetings, the Presidents/CEO or COO of the respective subsidiaries are required to be present to respond to possible queries of the Board and to give updates on their strategies to achieve the goals set by each particular segment. The Board meetings partly provide the monitoring mechanism and evaluations of the performance of Management and subsidiaries.

To ensure that good corporate governance is embedded in all companies under the conglomerate, the Board has required all subsidiaries to adopt the structure and practices prescribed under the Manual on Corporate Governance of the Company. Moreover, to ensure adherence to the vision/mission of the Company, the Board requires that elections or appointments to the Board and Senior Management of the subsidiaries shall be passed upon and confirmed with the Board of the Company.

The Board conducts an annual self-performance evaluation to monitor and appraise their individual contribution and commitment to the Company. Further, all senior officers and Management were enjoined to update and/or attend seminars on good corporate governance. If necessary, the Company sponsors or provides the seminars in coordination with recognized authorities on the matter.

Name	Citizenship	Date first elected to the Board
Lucio C. Tan	Filipino	July 2, 1999
Carmen K. Tan	Filipino	May 5, 2010
Harry C. Tan	Filipino	May 28, 2008
Michael G. Tan	Filipino	February 21, 2003
Lucio K. Tan, Jr.	Filipino	February 21, 2003
Joseph T. Chua	Filipino	June 9, 2014
Juanita Tan Lee	Filipino	May 2, 2012
Washington Z. Sycip	American	July 9, 2013
Peter Y. Ong	Filipino	June 9, 2014
Antonino L. Alindogan, Jr.	Filipino	July 31, 2012
Wilfrido E. Sanchez	Filipino	July 31, 2012
Florencia G. Tarriela	Filipino	August 9, 2012
Robin C. Sy	Filipino	June 9, 2014

Below are summaries of the business experience and credentials of the Directors:

Dr. Lucio C. Tan is the Chairman of the Board of the Company. He is also Chairman of Philippine Airlines, Inc., Asia Brewery Inc., Eton Properties Philippines, Inc., Fortune Tobacco Corp., PMFTC Inc., Grandspan Development Corp., Himmel Industries Inc., Lucky Travel Corp., PAL Holdings, Inc., Air Philippines Corporation, Tanduay Distillers, Inc., Tanduay Brands International, Inc., The Charter House, Inc., AlliedBankers Insurance Corp., Allied Leasing and Finance Corp., Asian Alcohol Corp., Absolut Distillers, Inc., Progressive Farms, Inc., Eton City, Inc., Belton Communities, Inc., FirstHomes Inc., Manufacturing Services & Trade Corp., REM Development Corp., Foremost

Farms, Inc., Basic Holdings Corp., Dominion Realty & Construction Corp., Shareholdings, Inc., Sipalay Trading Corp. and Fortune Tobacco International Corp. He is also a Director of Philippine National Bank. He holds a Bachelor of Science degree in Chemical Engineering from Far Eastern University and is an awardee of several honorary Doctorate degrees.

Carmen K. Tan is a Director of the Company. She is also a Director of Asia Brewery, Inc., The Charter House, Inc., Dominion Realty & Construction Corp., Eton City, Inc., Foremost Farms, Inc., Philippine Airlines, Inc. PAL Holdings, Inc., Air Philippines Corporation, Fortune Tobacco Corp., Fortune Tobacco International Corp., Himmel Industries, Inc., Lucky Travel Corp., MacroAsia Corp., Manufacturing Services & Trade Corp., Progressive Farms, Inc., REM Development Corp., PMFTC Inc., Shareholdings, Inc., and Sipalay Trading Corp.

Harry C. Tan is a Director of the Company. He previously held the positions of the Vice Chairman and Treasurer of the Company. Mr. Tan is also Vice Chairman of Eton Properties Philippines, Inc., Eton City, Inc., Belton Communities, Inc., Pan Asia Securities, Inc., and Lucky Travel Corp. He is also the Managing Director of The Charter House, Inc., Director/Chairman for Tobacco Board of Fortune Tobacco Corp., Director/President of Century

a Bachelor of Science degree in Applied Science in Engineering, major in Structural Engineering.

Lucio K. Tan, Jr. is a Director of the Company. He is also Director and President of Tanduay Distillers, Inc. and Eton Properties Philippines, Inc.; a Director/EVP of Fortune Tobacco Corp.; and a Director of AlliedBankers Insurance Corp., Philippine Airlines, Inc., Philippine National Bank, PAL Holdings, Inc., MacroAsia Corp., PMFTC Inc., Lucky Travel Corp., Air Philippines Corporation, Tanduay Brands International, Inc., Asian Alcohol Corp., Absolut Distillers, Inc., Asia Brewery, Inc., Foremost Farms, Inc., Himmel Industries, Inc., Progressive Farms, Inc., The Charter House, Inc., Eton City, Inc., Belton Communities, Inc., FirstHomes, Inc., REM Development Corporation, Grandspan Development Corporation, Dominion Realty & Construction Corp., Manufacturing Services & Trade Corp., and Fortune Tobacco International Corp., and Shareholdings, Inc. He graduated from the University of California, Davis in 1991 with a Bachelor of Science degree in Civil Engineering and has a Master's Degree in Business Administration from the Kellogg School of Management Northwestern University.

Joseph T. Chua is a Director of the Company. He is also the Director/President and Chief Executive Officer of MacroAsia Corporation, the

Park Hotel, and Landcom Realty Corp. He serves as Director of Asia Brewery Inc., AlliedBankers Insurance Corp., Asian Alcohol Corp., Absolut Distillers, Inc., Basic Holdings Corp., Foremost Farms, Inc., Himmel Industries, Inc., MacroAsia Corp., Manufacturing Services & Trade Corp., PMFTC Inc., Philippine National Bank, Progressive Farms, Inc., REM Development Corp., Grandspan Development Corp., Dominion Realty & Construction Corp., Fortune Tobacco International Corp., Shareholdings, Inc., Sipalay Trading Corp., Tanduay Brands International, Inc., and Tanduay Distillers, Inc. He holds a Bachelor of Science degree in Chemical Engineering from the Mapua Institute of Technology.

Michael G. Tan is the President of the Company. Mr. Tan is a Director and the Chief Operating Officer of Asia Brewery, Inc. (ABI). He joined ABI in 1991, and held various positions until his appointment to his current position in 2000. He is also a Director of Tangent Holdings Corp., Eton Properties Philippines, Inc., Philippine National Bank, PMFTC, Inc., Victorias Milling Co., Inc., Abacus Distribution Systems Philippines, Inc., AlliedBankers Insurance Corp., GrandwayKonstruct, Inc., Lucky Travel Corp., Maranaw Hotel (Century Park Hotel), Pan Asia Securities, Inc., Philippine Airlines, Inc., and Shareholdings, Inc. He is a Director and the Treasurer of PAL Holdings, Inc. and Air Philippines Corporation. He graduated as head of his class at the University of British Columbia in Canada with

Chairman of J.F. Rubber Philippines, Watergy Business Solutions, Inc., and Cavite Business Resources, Inc.; Managing Director of Goodwind Development Corporation (Guam); Director/President of MacroAsia Airport Services Corporation, MacroAsia Air Taxi Services, MacroAsia Catering Services, Inc., MacroAsia Properties Development Corp., and MacroAsia Mining Corporation; Director/OIC of Eton Properties Philippines, Inc.; Director of Lufthansa Technik Philippines, Inc., Bulawan Mining, Air Philippines Corporation, Philippine National Bank and Eton China. He is also currently the Vice Chairman of Philippine Airlines Inc. and PAL Holdings, Inc. Mr. Chua has a double degree in AB Economics and BS Management from De La Salle University.

Juanita Tan Lee is a Director and the Treasurer of the Company. She is also Director of Eton Properties Philippines, Inc.; Director/Corporate Secretary of Asia Brewery, Inc., Fortune Tobacco Corp., Dominion Realty and Construction Corp., and Shareholdings, Inc.; Corporate Secretary of Asian Alcohol Corp., Absolut Distillers, Inc., The Charter House, Inc., Far East Molasses Corp., Foremost Farms, Inc., Fortune Tobacco International Corp., Grandspan Development Corp., Himmel Industries, Inc., Landcom Realty Corp., Lucky Travel Corp., Manufacturing Services & Trade Corp., Marcuenco Realty & Development Corp., PMFTC Inc., Progressive Farms, Inc., REM Development Corp., Tanduay Distillers, Inc.,

Tanduary Brands International Inc., Tobacco Recyclers Corp., Total Bulk Corp., Zebra Holdings, Inc.; and Assistant Corporate Secretary of Basic Holdings Corp. She holds a Bachelor of Science degree in Business Administration major in Accounting from the University of the East.

Washington Z. Sycip is a Director of the Company. He is the founder of SyCipGorresVelayo & Co.; Chairman Emeritus of the Board of Trustees and Governors of the Asian Institute of Management; Chairman of MacroAsia Corp., Cityland Development Corp., Chairman of MacroAsia Corp., Cityland Development Corp., Lufthansa Technik Philippines, Inc., STEAG State Power, Inc. and State Properties Corporation; Independent Director of Asian Eye Institute, Belle Corporation, Lopez Holdings Corp., Commonwealth Foods, Inc., First Philippine Holdings, Corp., Highlands Prime Inc., Metro Pacific Investments Corp., Philippine Equity Management Inc., Philippine Hotelier, Inc., Philamlife, Inc., Realty Investment Inc., The PHINMA Group, State Land, Inc., and Century Properties Group Inc.; and Director of Philippine Airlines, Inc., PAL Holdings, Inc. and Philippine National Bank. Mr. Sycip holds BS and MS degrees from the University of Santo Tomas, which later conferred a Doctor of Accounting Education, honoris causa degree on him in 1984. He also obtained a Master of Science in Commerce from Columbia Business School.

stability, and crafting innovative solutions to problem banks. He also took part in the BSP reorganization, upgrading and modernization of facilities and bank-wide planning and budgeting process. He is a Certified Public Accountant and holds a Bachelor of Science in Commerce degree in Accounting (Magna Cum Laude) from De La Salle College.

Wilfrido E. Sanchez is an Independent Director of the Company. He is the Tax Counsel of QuiasonMakalintalBarot Torres Ibarra & Sison Law Offices; Vice Chairman of Center for Leadership & Change, Inc.; Independent Director of Adventure International Tours, Inc., Amon Trading Corp., EEI Corporation, Grepalife Asset Management Corp., Grepalife Fixed Income Fund Corp., House of Investments, Inc., JVR Foundation, Inc., Kawasaki Motor Corp., Magellan Capital Holdings, Corp., Omico Corporation; PETNET, Inc., PETPLANS, Inc., Transnational Diversified Corp., Transnational Diversified Group, Inc., Transnational Financial Services, Inc., and Universal Robina Corp.; Independent Director of Eton Properties Philippines, Inc. and Rizal Commercial Banking Corporation. He holds a Bachelor of Arts degree from the Ateneo de Manila University and has a Post-Graduate degree in Bachelor of Laws from Ateneo De Manila University and Masters of Law from Yale Law School.

CORPORATE GOVERNANCE REPORT

Peter Y. Ong is a Director of the Company. He is Director and the Treasurer of Merit Holdings & Equities Corporation, Director of Fortune Tobacco Corporation, AlliedBankers Insurance Corporation, Allied Leasing and Finance Corporation and Solar Holdings Corporation. He is also a consultant of Philippine Airlines, Inc., Former President of Air Philippines Corporation, Former Senior Vice President for Production of Fortune Tobacco Corporation and Former Director of Allied Savings Bank. Mr. Ong graduated from the Mapua Institute of Technology with a degree in Chemical Engineering.

Antonino L. Alindogan Jr. is an Independent Director of the Company. He is also the Chairman of the Board of An-Cor Holdings, Inc. He serves as Chairman/President of Landrum Holdings, Inc.; Independent Director of Philippine Airlines, Inc., Eton Properties Philippines, Inc., Rizal Commercial Banking Corp., PAL Holdings, Inc., House of Investments, Inc., Great Life Financial Assurance Corp., and Bankard Inc. He is the Former President of C55, Inc.; Former Chairman of the Board of Directors of Development Bank of the Philippines (DBP); Former Consultant for Microfinance of DBP; Former Member of the Monetary Board of BangkoSentral ng Pilipinas where he contributed his efforts and insights on a wide range of concerns, such as the pursuit of good governance, strengthening inflation targeting as an effective tool in price

Florencia G. Tarriela is an Independent Director of the Company. She is the Chairman of the Board of Directors and an Independent Director of Philippine National Bank. She also serves as Chair of PNB Global Remittance and Financial Co., HK Ltd. She is a Trustee/Advisor/Director of Foundation for Filipino Entrepreneurship, Inc., Summer Institute of Linguistics, and TulaysaPagunlad, Inc.; and a Columnist of Manila Bulletin. She obtained her Bachelor of Science in Business Administration, Major in Economics, at the University of the Philippines and her Masters in Economics from the University of California, Los Angeles, where she topped the Masters Comprehensive Examination. She is a Life Sustaining Member of the Bankers Institute of the Philippines (BAIPHIL) and the Financial Executive Institute (Finex), a Trustee of Finex Foundation, TSPI Development Corporation, Kilosbayan and the Summer Institute of Linguistics (SIL). She was formerly an Independent Director of the Philippine Depository and Trust Corporation, the Philippine Dealing and Exchange Corporation and the Philippine Dealing System Holding Corporation. Ms. Tarriela was a former Undersecretary of Finance, and an alternate Member of the Monetary Board of the BSP, Land Bank of the Philippines and the Philippine Deposit Insurance Corporation. She was formerly Deputy Country Head, Managing Partner and the first Filipino lady Vice President of Citibank N. A., Philippine Branch.

Robin C. Sy is an Independent Director of the Company. He is the President of Asian Shipping Corporation, Independent Non-executive Director of Dynamic Holdings Limited, Honorary President of Federation of Filipino-Chinese Chamber of Commerce and Industry, Inc., Former Director of Air Philippines Corporation, Former Director of Zuma Holdings and Management Corporation. His companies are engaged in shipbuilding and repairing business as well as heavy construction equipment trading field in the Philippines.

The Company observes the limit of five board seats in other publicly listed companies outside the conglomerate for its Independent Directors and Executive Directors.

BOARD COMMITTEES

The Board established the Committees to assist itself in assessing issues, evaluate proposals and monitor the performances of the Company. The Committees provide a focused venue for the directors to discuss issues, analyze and evaluate specific goals set by the Company consistent with good governance. Following are the Committees and their respective functions:

businesses and key assets, and corporate debts with a term of at least 5 years or will require some form of corporate guarantee. Further, capital investments, outside regular capex projects, subject to a certain threshold, should also be presented to the Committee.

Nomination and Remuneration Committee

The Committee meets at least once a year, ensuring a formal and transparent Board nomination process. It selects, compensates, monitors and, when necessary, replaces key executives and oversees succession planning. In 2014, the Committee convened twice to pass upon qualifications of candidates nominated for Board and key positions in the Company.

Audit and Risk Management Committee

The Committee primarily assists the Board in fulfilling its oversight responsibilities. It reviews the financial reporting process, system of internal control and management of financial risk, audit process, Company's process for monitoring compliance with laws and regulations and its own code of corporate governance.

There were five meetings of the Committee in 2014, wherein the Committee approved:

1. The unaudited financial statements for the three quarters of the year; 2. The Company's

Name	Nomination and Compensation	Audit and Risk Management	Executive	Corporate Governance
Lucio C. Tan	C		C	
Carmen K. Tan				
Harry C. Tan	✓		✓	
Michael G. Tan	✓		✓	✓
Lucio K. Tan, Jr.	✓	✓	✓	✓
Joseph T. Chua			✓	✓
Juanita Tan Lee	✓	✓	✓	
Washington Z. SyCip		✓		
Peter Y. Ong				
Antonino L. Alindogan, Jr.		C	✓	✓
Wilfrido E. Sanchez	✓	✓		
Florencia G. Tarriela		✓	✓	C
Robin C. Sy				

Executive Committee

The Committee's authority is derived from the Board. The Executive Committee provides a mechanism for Board leaders to engage, within the limits set by Board policy and the By-laws, in decision making, oversight, and communication on important organizational matters.

The Committee initially evaluates any important or material issue, before it is presented to the Board. Material issue includes, but shall not be limited to:

1. Any request by a subsidiary of capital funding from the Company; and
2. Any undertaking by a subsidiary of new business ventures, corporate mergers and acquisitions, joint ventures, divestment of existing

2013 Audited Financial Statements as prepared by SyCip Gorres Velayo & Co. (SGV); and 3. Reviewed and approved the 2014 SGV Audit Plan.

Corporate Governance Committee

The Committee meets every quarter to, among other things, evaluate the Board's and the Board committees' effectiveness and due observance of corporate governance principles and guidelines. Its powers include the authority to require any or all members of the Board of Directors, Executive Management or such other person to attend the Committee meetings as the Committee may deem necessary; and the authority to require the Board of Directors, Management, Board Committees, and all Departments to submit reports to the Committee pertaining to the evaluation of the Company's compliance with corporate governance principles and guidelines.

In preparation for the forthcoming ASEAN Corporate Governance Scorecard Assessment, the Committee convened in 2014 to discuss the latest issuances of the Securities and Exchange Commission in relation to good governance. It also approved and endorsed to the Board the Company's Revised Corporate Governance Manual, which was adopted and became effective on July 8, 2014.

The Company, and its Board of Directors and Management, guided by its Corporate Governance Committee, have fully complied with the requirements of the Revised Corporate Governance Manual for 2014.

CHAIRMAN AND CEO AND PRESIDENT AND COO

The Chairman and CEO is Dr. Lucio C. Tan who assumed the position since 1998 while the President and COO is Mr. Michael G. Tan who has held the position since 2012.

MANAGEMENT

The respective roles of the Chairman/CEO and the President/COO are complementary and designed to support each other, while at the same time clearly defining the leadership functions and accountabilities.

- The CEO draws the Company's vision, strategy and gives directions for new businesses or partnerships to develop.
- The President/COO drives the daily operations, pursue and implement business initiatives, corporate policies and resource allocation.

In critical or sensitive issues, the President coordinates closely with the Chairman/CEO and the latter, together with the President and supported by Management would tackle the issues. The President continuously discusses with Management the business performance and initiatives to grow the Company.

DISCLOSURES AND TIMING

The Company seeks to update the investing public with any strategic, operating and financial information through timely and comprehensive disclosures filed with the SEC and PSE. These disclosures may be accessed through the Company's website: www.ltg.com.ph

The Company has been faithfully reporting any major and market sensitive information such as dividend declaration, and other information that may affect the decision of the investing public immediately after its approval or confirmation by the Board.

The Annual Report (SEC Form 17-A) together with the consolidated audited financial statements for 2013 were submitted to the SEC on April 15, 2014.

The Audited Financial Statements for 2013 contained in the Definitive Information Statements were submitted to the SEC and PSE on April 15, 2014, more than seven (7) weeks before the annual stockholder's meeting.

The interim or quarterly financial statements and results of operations were submitted to the regulators in accordance with the prescribed period or within 45 days from the end of the financial period. The financial statements were likewise submitted or made available to the

CORPORATE GOVERNANCE REPORT

In the course of performing its functions, Management and the Board adhere to the culture of good corporate governance throughout the organization and they ensure that the structure and mechanism for its inherent observance is securely in place. The Chairman/CEO, President/COO, and members of management committees attend the annual stockholders' meetings.

DISCLOSURE AND TRANSPARENCY

UNSTRUCTURED DISCLOSURES

The Company has, among other things, disclosed the following in 2014:

- The amendment of the Articles of Incorporation and By-laws to (i) reflect the change in the principal office of the Company; and (ii) to increase the number of directors from eleven (11) to thirteen (13).
- The appointment of Ms. Juanita Tan Lee as the Company's Treasurer.
- The declaration and distribution of regular cash dividend of Php0.15 per share and special cash dividend of Php0.01 per share, which had a pay-out date of May 22, 2014.
- The election of the Company's Directors and Officers for 2014-2015, as well as the appointment of the members for each Board Committee.
- The acquisition by the Company of shares in Victorias Milling Company, Inc. (VMC). The Company's aggregate interest in VMC, including the convertible notes, amounts to 716,503,347 shares equivalent to 23.5% of the total issued and outstanding shares.
- A creation of a Board of Advisors and the appointment thereto of Mr. Johnip G. Cua.

stock market through the analyst briefings held regularly or as soon as the financial results have been submitted to the regulators. In the said briefing, members of Management are present to answer questions posed by the analysts. The financial statements may also be accessed through the Company website.

Ownership Structure

The Company's outstanding common shares held by record owners of more than 5% are as follows:

Title of Class	Name of Record Owner	Citizenship	No. of Shares	Percent of Class
Common	Tangent Holdings Corporation	Filipino	8,046,318,193	74.36%
Common	PCD Nominee Corporation	Non-Filipino	1,882,780,236	17.40%

COMPENSATIONS OF DIRECTORS AND EXECUTIVE OFFICERS

The Directors of the Company receive an allowance of Php30,000.00 a month and a per diem of Php25,000.00 for every Board meeting and Php15,000.00 for every Committee meeting attended. Other than the stated allowance and the per diem of the Directors, there are no other standard arrangements to which the Directors of the Company are compensated, or are to be compensated, directly or indirectly, for any services provided as a Director, including any additional amounts payable for Committee participation or

special assignments, for the last completed fiscal year and the ensuing year.

Since 2012, the Directors and Executive Officers of the Company have been receiving the following compensation:

SUMMARY COMPENSATIONS TABLE: ANNUAL COMPENSATION

	YEAR	SALARY	BONUS	OTHERS*
Four (4) most highly compensated executive officers (see below)	2014 (Estimate)	Php9,470,780	Php807,565	Php2,249,500
	2013	Php8,609,800	Php734,150	Php2,045,000
	2012	Php6,341,500	Php534,150	Php2,175,000
All other officers and directors as a group unnamed	2014 (Estimate)	Php7,315,000	Php605,000	Php7,188,500
	2013	Php6,650,000	Php734,150	Php6,535,000
	2012	Php6,790,000	Php605,000	Php3,090,000

*Others – includes per diem of directors

The following constitute the Company's four (4) most highly compensated Executive Officers (on a consolidated basis):

1. Dr. Lucio C. Tan, Chairman of the Board of Directors and Chief Executive Officer;

2. Mr. Michael G. Tan, President;
3. Mr. Nestor C. Mendones, Deputy Chief Finance Officer; and
4. Atty. Ma. Cecilia Pesayco, Corporate Secretary.

ACCOUNTABILITY AND AUDIT

The Audit and Risk Committee oversees the performance of the internal and external auditors of the Company and the subsidiaries. The external auditors discuss with the Audit and Risk Committee their findings and recommendations in regard to their examinations of the Company and its subsidiaries. It also discussed its Audit Plan and the issues in regard thereto.

The external auditor of LT Group, Inc. is SyCip Gorres Velayo & Co., (SGV) with Josephine Estomo as the partner-in-charge since 2012. SGV has provided the Company with updates on the latest rulings or revenue regulations from the Bureau of Internal Revenue, as well as updates on Philippine Reporting Standards for the entire group of companies.

AUDIT and AUDIT RELATED FEES:

2013 – Php 1,500,000.00
2014 – Php 1,500,000.00

There was no tax consultancy obtained from SGV for the year 2014.

DEALINGS IN SECURITIES

The Company has adopted and strictly enforces the policy on insider trading stock transactions to ensure compliance with disclosures rules and prevent violations of the government rules on insider trading.

The Company, in line with good corporate governance practices, undertakes to report to the PSE and SEC within three (3) trading days any acquisition or disposal of Company shares by, or any change in the shareholdings therein of, its directors and principal officers.

Trading Blackouts

The Company has approved a policy on insider trading which covers directors, officers, advisers, consultants and employees who may have knowledge of material facts regarding matters that may affect the shares of the Company.

The Company observes the following blackout period before the financials are disclosed to the public: (1) two weeks before disclosure, for quarterly reports; and (2) one month or thirty (30) days before disclosure, for the year end financials.

There had been no instances of trading by insiders for the year 2014.

STAKEHOLDERS RELATIONS

Consistent with its Vision/Mission statements, LT Group, Inc. seeks to attain the level of relationship where the stockholders, employees, customers and trade partners are direct beneficiaries of the growth that the Company aspires for. The Company believes in the honored principles of fairness and integrity as the foundation of any long term relationship and has continuously and consciously exercised the same in its dealings with its stakeholders.

SHAREHOLDERS' MEETING AND VOTING PROCEDURES

Notices to any Stockholders meetings are sent at least 21 days prior to the date of the meeting. The Notice to the Stockholders contains the Agenda of the meeting and if it is an annual stockholders meeting, the Definitive Information Statement is attached to afford all stockholders the opportunity to review the performance of the Board and Management during the prior year and ask the questions if any, in regard thereto. The Company encourages the shareholders to ask questions during the annual stockholders meeting. The Notice also indicates the requirement of a Proxy if the stockholder cannot be personally present, and the date that it is expected to be submitted to the Office of the Corporate Secretary, which is at

least 5 days prior to the date of the meeting in order to accord the Office of the Corporate Secretary time to validate the proxies. Each outstanding common share entitles the registered shareholder to one vote.

The stockholders are also encouraged to send their proposed nominees to the Board to the Office of the Corporate Secretary for proper consideration by the Nomination Committee during its meeting held not later than the end of April.

DIVIDENDS

Each year, the Company has consistently declared Dividends which in accordance with the policy set by the Board, which is a 20% pay-out rate. The Company adheres to the guidance of good corporate governance to distribute the Dividends within 30 days from the time it is approved and declared.

In 2014, the Company declared a cash dividend of Php0.16 per share, or a total of Php1.73 billion, equivalent to 20% of the previous year's attributable net income of Php8.7 billion.

developments with LTG and its subsidiaries. The Company also arranges teleconferences and site visits and participates in non-deal roadshows and conferences in various locations, and also communicates through emails and telephone calls.

In 2014, LTG attended 8 conferences with different brokers in Singapore (3), Manila (2), Hong Kong (1), London (1) and New York (1). The Company had three (3) Analyst Briefings for First Quarter, First Half and 9-Month Results. For Full-Year 2014 Results, LTG had a briefing on March 20, 2015.

LTG also had 31 conference calls and met with 255 investors and analysts in one-on-one meetings or group meetings where they had access to Senior Management.

The Company also issues Press Releases which are distributed to the media and disclosed to the Philippine Stock Exchange on quarterly financial results. Immediately after the Annual Stockholders Meeting on June 9, 2014, the Company held a press briefing where members of the media had access to LTG's senior management, as well as key officers of its subsidiaries and affiliates.

CORPORATE GOVERNANCE REPORT

EMPLOYEE RELATIONS

The Company is committed to the safety and well-being of its employees and keeps open the lines of communications. LT Group, Inc. and its subsidiaries have provided company-wide health insurance to its employees, scholarship benefits to the children and beneficiaries of the employees and further training and learning opportunities for those that aspire and are determined to undertake it. There are numerous scholarship programs and study grants that employees can apply for and qualify in the group.

Moreover, an Employee Code of Conduct or Personnel Policies are in place in all subsidiaries which are observed and implemented all throughout the Company. The Company also subscribes to the "Whistle Blowing Policy" which have been adopted in the operating companies.

INVESTOR RELATIONS

To promote greater understanding of the Company, LTG maintains open communications with the investing community. SEC and PSE reports are disclosed on time, and are available for viewing and downloading in the Company's website.

LTG conducts regular meetings with investors and analysts to keep them updated on

TAN YAN KEE FOUNDATION, INC.

Companies comprising the LT Group, Inc. take their corporate social responsibility to heart. As early as 50 years ago, companies founded by Dr. Lucio C. Tan have been active government and community partners in building a better life for less fortunate Filipinos.

As these companies grew, so did their contributions to the economy, nation building and social welfare.

In 1986, Dr. Tan and his siblings formally established the Tan Yan Kee Foundation, Inc. It was named in honor of the late Tan patriarch whose benevolence inspired his children to share the fruits of their labor to the less privileged.

Steered by Dr. Lucio C. Tan and a 15-man board, the Foundation has allocated over a billion pesos for various social causes and philanthropic activities since its inception. Key focus areas of the Foundation and its affiliates are education, health and social welfare, and environmental advocacies.

In 2014, the following were the Tan Yan Kee Foundation's key contributions:



Chua King Ha Educational Center.

Education

Scholarships

- **University of the East-Tan Yan Kee Scholarship Program**

For S.Y. 2014-2015, there were 77 new scholars and grantees from Ilocos, Cagayan Valley, Central and Southern Luzon, Bicol, Central Visayas and the National Capital Region. Of the 21 who graduated in April 2014, one (1) graduated Summa Cum Laude, 11, Magna Cum Laude and nine (9), Cum Laude. Since its creation in 1998, the UE-TYKFI Scholarship Program has had a total of 1,222 scholars and grantees.

- **Allied Banking Corporation-Tan Yan Kee Scholarship Program**

For S.Y. 2014-2015, there were 180 scholars under this scholarship program enrolled in various colleges and universities. In March 2014, 19 graduated from their respective courses. To date, more than 1,000 scholars have benefited from this scholarship.



CORPORATE SOCIAL RESPONSIBILITY

- Philippine National Bank-Tan Yan Kee Scholarship Program**
 For S.Y. 2014-2015, 12 scholars benefitted from this program.
- Asia Brewery Medical Specialty Scholarship Program**
 Founded more than 20 years ago, the Asia Brewery Medical Specialty Scholarship Program supports sub-specialty training for Filipino physicians. Focus areas vary from year to year, but priority is given to special medical fields where Filipinos still lack expertise. For 2014-2015, Dr. Leon Paolo R. Lara was the latest scholar who qualified for

post graduate studies on clinical fellowship training in retinal surgery at the National University of Singapore. Since its inception, the program has supported the sub-specialty training of more than 100 Filipino physician-scholars and dental practitioners who are currently practicing and sharing their expertise in the Philippines.

Adopt-a-School Program

Supporting government efforts to improve the quality of education, the Foundation continued to adopt select public schools. In 2014, four (4) public schools benefitted from the program through the following infrastructures:

Name of School	Location	Resources Provided
Babayaoan Elementary School	Babayaoan, Sta. Cruz, Ilocos Sur	One-storey 3-classroom school building
Sta. Lucia North Central School	Sta. Lucia, Ilocos Sur	One-storey 3-classroom school building
Bantay East Central School	Bantay, Ilocos Sur	One-storey 2-classroom school building
Tan Yan Kee Elementary School	Balete, Sta. Fe, Nueva Vizcaya	Concrete tire path and playgroud

Dr. Lucio Tan awarding scholarships to students during UE TYKFI Scholars & Grantees Recognition Day.

The UE TYKFI Scholars and Grantees



The Foundation also built 5-classroom and 4-classroom school buildings for Alangalang I Central and Sulpa National High Schools, respectively, in Leyte province in response to the devastation wrought by Super Typhoon Yolanda (Haiyan).

In partnership with the Federation of Filipino-Chinese Chambers of Commerce and Industry, Inc.'s Barrio School Building Project, the Foundation donated two school buildings with two classrooms each to Banna Central and Caestebanan Elementary Schools, in the municipality of Banna, Ilocos Norte.

Education on Television (E-TV) Infrastructure Program

Twenty Five (25) elementary schools in Nueva Vizcaya received one set each of Education on Television (E-TV) materials. Each package includes a television set and a DVD pack containing 33 updated volumes with 501 episodes of Mathinik, Epol/Apple, Hiraya Manawari, Bayani and Sine'skwela. The Foundation also sponsored teachers' training to 623 public school teachers and

administrators for the proper utilization of the E-TV package.

Brigada Eskwela

In support of the Department of Education's (DepEd) Brigada Eskwela program, the Tan Yan Kee Foundation, Inc. continued to conduct annual maintenance of four schools, namely: Tan Yan Kee Elementary School, Buyasyas Elementary School, Macdu Elementary School and Sidaoen Elementary School. The Foundation donated cement, paint, painting tools, glass for windows and roofing materials to keep the facilities in tip-top shape before classes start.

School Supplies Distribution Project

Perennial lack of basic school supplies is a major problem of pupils, especially from poor families. Thus, in partnership with DepEd, the Foundation donated school supplies consisting of bags, notebooks, pad papers, pencils, slippers, uniforms and raincoats in Nueva Vizcaya, Ilocos Sur, Pampanga, Bulacan, Samar and Leyte. More than 11,000 school children mostly from schools in mountainous areas received the packages that would help them pursue their schooling.

Workshops

Summer Science Workshop

To help prepare teachers for the implementation of the K-12 curriculum, the Foundation held a 10-day Summer Science Workshop in partnership with the DepEd and UP Los Banos College of Arts and Sciences. Thirty (30) public school teachers from Ilocos Sur and one (1) from Nueva Vizcaya attended the workshop.

Teaching Reading in English for Grade 3 Teachers

The Foundation brought 27 Grade 3 teachers from La Union, Ilocos Sur and Nueva Vizcaya to a 3-day Teachers Training Program from April 7-9, 2014. The workshop's goal is to provide academic, technical, guidance and support for Grade 3 teachers on how to better teach reading in English. This was also in preparation for the shift to the K-12 system.

Sci-Fun Caravan and Science Sparks! Traveling Science Centrum

Ilocos Sur

In partnership with Philippine Foundation for Science and Technology (PFST), LGU-Sta. Cruz and DepEd-Ilocos Sur Division, the Foundation brought the Sci-Fun Caravan Traveling Science Centrum to Ilocos Sur. More than 20,000 elementary and high school students enjoyed hands-on learning from the mobile exhibit.

Nueva Vizcaya

Also in partnership with PFST, LGU-Bambang and DepEd-Nueva Vizcaya Division, the Foundation brought the Science Sparks! A Science Centrum Traveling Exhibit on Energy to Nueva Vizcaya. Over 28,000 elementary and high school students and teachers enjoyed the combination of learning and fun-filled activities from August 20 to October 11, 2014.

Tan Yan Kee Library

Select children ages 13 to 16 and 6 to 12 had a most fruitful summer as they joined the 2014 Tan Yan Kee Library Summer Class. Chinese History and Chinese Literature were taught to improve the participants' knowledge of history, communication skills and personality.

Tan Yan Kee Foundation, Inc. Manpower Development Center

In partnership with Ang Hortaleza Foundation, the Tan Yan Kee Foundation brought nine (9) trainees composed mostly of housewives, to a 5-day Basic Reflexology and Therapeutic Massage and Basic Facial and Cleaning in October 2014.

Partnership with the Foundation for Upgrading the Standard of Education, Inc. (FUSE)

Teacher Training

The Tan Yan Kee Foundation continued to support the teacher training programs conducted by the Foundation for Upgrading the Standard of Education, Inc. (FUSE), a non-profit, non-governmental organization established by Dr. Tan. Since 1993, FUSE has been training thousands of public and private school teachers how to teach better English, Mathematics, Elementary Science, Chemistry

CORPORATE SOCIAL RESPONSIBILITY



KIDSMART COMPUTERS—Officials and teachers of East Central School and Bibincahan Elementary School, both in Sorsogon province, are recipients of Kidsmart computers from IBM Philippines, in coordination with the Foundation for Upgrading the Standard of Education (FUSE). Each costing Php250,000, the computers will help pupils from kindergarten to Grade 3 better understand and appreciate Reading, Math, Science and Geography. Photo shows from left: IBM Phils. country manager; Agnes Africa; FUSE president Fr. Onofre Inocencio; FUSE founder and Vice chairman Dr. Lucio C. Tan; Sorsogon Rep. Evelina Escudero; Ma. Teresa Dreu, principal, Sorsogon East Central, and other officials and teachers of the two recipient schools. Other beneficiaries of Kidsmart computers were five public elementary schools in Leyte.



LT GROUP, INC.

and Physics. It also produced, in cooperation with DepEd and other higher education institutions, the Continuing Education via Technology (Constec) video-courses that help improve teaching skills and content in specific subject areas. In 2014, FUSE accomplished the following:

Region	Constec DVD sets donated	Teachers Trained	Trainers Trained
NCR	2	-	-
Region 5	216	241	-
Region 8	247	180	33
Total	465	421	33

Donation of IBM 'Kidsmart' computers

Seven (7) sets of IBM "Kidsmart" computers designed to make pupils from kindergarten to Grade 3 better understand and appreciate Reading, Math, Science and Geography were turned over by IBM Philippines, in coordination with FUSE, to key public schools in Sorsogon and Leyte provinces. This brings to 25 the

Foundation rehabilitated the Lasip Small Water Impounding Project in Barangay, Lasip, Lingayen, Pangasinan which can provide water to some 50 hectares of cultivated land. To date, the Foundation has constructed and repaired 11 small water impounding ponds that can irrigate over 1,000 hectares of arable land.

Dr. Lucio C. Tan Legacy Forest Project

Quezon, Laguna and Nueva Vizcaya

The Dr. Lucio C. Tan Legacy Forest project in UP Los Baños (UPLB) aims to plant 15 million trees in 10 years. Nurseries were set up in the Laguna-Quezon land grants of UPLB, where seeds and wildlings are collected, sowed and germinated. The seedling inventory totals approximately 1.1 million. At the end of 2014, close to 330 hectares of land had been planted with more than 165,000 seedlings. Meanwhile, a nursery was also set-up in the Mother of Perpetual Help Parish in Sta. Fe, Nueva Vizcaya. As of end-2014, approximately

number of Kidsmart computers – also known as Young Explorer Learning Desks – donated to state-owned schools in the two provinces. Each "Kidsmart" computer set which costs Php250,000, contains a software for early learning with instructional materials showing cartoon characters, colored keyboards and a furniture set.

Health Services

The monthly Asia Brewery Medical Forum, in partnership with Asia Brewery, Inc. (ABI) and the Association of Asia Brewery Medical Scholars, covered various topics that provide the public better health information and the latest medical options.

Social Welfare and the Environment

Small Water Impounding Project (SWIP)

Since 2005, the Foundation has been constructing and rehabilitating small water impounding dams that store irrigation water which enable farmers to plant crops even during the long dry months. In 2014, the



Livelihood Training Program at Ang Hortaleza Foundation, Inc.

350,000 seedlings have been potted while 200,000 polybags potted with soil have been prepared.

Sta. Cruz, Ilocos Sur

The Tan Yan Kee Foundation, in partnership with the Local Government of Sta. Cruz, Ilocos Sur and community volunteers planted 3,722 mangrove propagules along the coastline of Barangay Las-ud, Sta. Cruz, Ilocos Sur last August 12, 2014.



Signing for Dr. Lucio C. Tan Legacy Forest.

CORPORATE SOCIAL RESPONSIBILITY

HOPE Caravan

In cooperation with Asia Brewery, Inc., Philippine Airlines, Tanduay Distillers, Inc. and MacroAsia Corporation, the Foundation took an active role in helping victims of Super Typhoon Yolanda. It donated some 4,032 cases (145,152 tetra packs) of milk that were coursed through Asia Brewery by Green Spot Co. Ltd. – Thailand. On the other hand, MacroAsia Corp. distributed 764 cases (22,920 pouches) of food items courtesy of Singapore Foods, to various public schools in Leyte. The beneficiaries included more than 30,000 pupils whose families were displaced by the super typhoon.



TYKF revisits Yolanda victims.

Super Typhoon Yolanda Rehabilitation Project

In 2014, the Foundation jumpstarted the construction of fifty four (54) permanent housing units in Barangay 89, Tacloban City, and a Barangay Hall with a Day Care Center and Clinic in Leyte province.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of LT Group, Inc. is responsible for the preparation and fair presentation of the consolidated financial statements as at December 31, 2014 and 2013, and for each of the three years in the period ended December 31, 2014, including the additional components attached therein, in accordance with the Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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

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

Signed under oath by the following:



Lucio C. Tan

Chairman and Chief Executive Officer



Michael G. Tan

President



Jose Gabriel D. Olives

Chief Finance Officer

Signed this 8th day of April 2015

INDEPENDENT AUDITOR'S REPORT



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

Tel: (632) 891 0307
Fax: (632) 819 0872
e.y.c.o.m/p/h

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

The Stockholders and the Board of Directors
LT Group, Inc.

We have audited the accompanying consolidated financial statements of LT Group, Inc. (a subsidiary of Tangent Holdings Corporation) and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2014 and 2013, and the consolidated statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2014, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of LT Group, Inc. and its subsidiaries as at December 31, 2014 and 2013 and their financial performance and their cash flows for each of the three years in the period ended December 31, 2014, in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.


Josephine H. Estomo
Partner

CPA Certificate No. 46349
SEC Accreditation No. 0078-AR-3 (Group A),
February 14, 2013, valid until February 13, 2016
Tax Identification No. 102-086-208
BIR Accreditation No. 08-001998-18-2015,
February 27, 2015, valid until February 26, 2018
PTR No. 4751279, January 5, 2015, Makati City

April 8, 2015

LT GROUP, INC.
(A Subsidiary of Tangent Holdings Corporation)
AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Amounts in Thousands)

	December 31	
	2014	2013
ASSETS		
Current Assets		
Cash and cash equivalents (Note 5)	P147,275,490	P188,319,662
Financial assets at fair value through profit or loss (Notes 6 and 21)	22,811,921	12,556,152
Available for sale (AFS) investments (Notes 7 and 17)	3,774,286	2,926,104
Loans and receivables (Notes 8 and 17)	143,653,521	83,185,666
Due from related parties (Note 22)	1,797,390	2,710,185
Inventories (Note 9)	12,936,865	10,279,959
Other current assets (Notes 7 and 10)	7,886,609	5,627,293
Total Current Assets	340,136,082	305,605,021
Noncurrent Assets		
Loans and receivables - net of current portion (Notes 8 and 17)	187,438,860	204,749,366
AFS investments (Notes 7 and 17)	60,039,059	78,029,572
Held to maturity investments (Note 7)	22,895,493	—
Investments in associates and a joint venture (Note 11)	12,297,509	13,664,449
Property, plant and equipment (Note 12):		
At appraised values	38,470,525	37,834,527
At cost	3,975,397	4,846,852
Investment properties (Note 13)	27,197,933	26,187,597
Deferred income tax assets (Note 29)	717,218	2,681,327
Other noncurrent assets (Note 14)	3,665,132	4,851,511
Total Noncurrent Assets	356,697,126	372,845,201
TOTAL ASSETS	P696,833,208	P678,450,222
LIABILITIES AND EQUITY		
Current Liabilities		
Deposit liabilities (Note 15)	P411,391,378	P415,690,524
Financial liabilities at fair value through profit or loss (Notes 16 and 21)	10,837,220	192,195
Bills and acceptances payable (Note 17)	6,640,221	11,423,153
Accounts payable and accrued expenses (Note 18)	16,120,561	22,422,265
Income tax payable	326,282	164,045
Short-term and long-term debts - current (Note 19)	5,806,123	1,309,915
Current portion of due to related parties (Note 22)	49,859	8,036,519
Other current liabilities (Note 20)	17,974,819	24,016,166
Total Current Liabilities (Carried Forward)	469,146,463	483,254,782

	December 31	
	2014	2013
Total Current Liabilities (Brought Forward)	P469,146,463	P483,254,782
Noncurrent Liabilities		
Deposit liabilities - net of current portion (Note 15)	23,468,731	10,451,554
Financial liabilities at fair value through profit or loss (Notes 16 and 21)	24,805	7,882,700
Bills and acceptances payable (Note 17)	12,409,837	1,748,844
Long-term debts - net of current portion (Note 19)	11,291,321	16,879,755
Accrued retirement benefits (Note 23)	3,776,261	4,346,262
Deferred income tax liabilities (Note 29)	1,355,247	1,815,777
Other noncurrent liabilities (Note 20)	12,638,349	2,299,948
Total Noncurrent Liabilities	64,964,551	45,424,840
Total Liabilities	534,111,014	528,679,622
Equity		
Attributable to equity holders of the Company (Notes 1, 3, 12, 23 and 30):		
Capital stock	10,821,389	10,821,389
Capital in excess of par	35,906,231	35,906,231
Deposits for future stock subscription	—	6,048,534
Preferred shares of subsidiaries issued to Parent Company	18,060,000	7,405,000
Other equity reserves	790,136	790,136
Other comprehensive income, net of deferred income tax effect	4,582,667	6,070,799
Retained earnings	54,079,986	50,505,944
Shares of the Company held by subsidiaries	(12,518)	(12,518)
	124,227,891	117,535,515
Non-controlling interests (Notes 1, 7, 12 and 30)	38,494,303	32,235,085
Total Equity	162,722,194	149,770,600
TOTAL LIABILITIES AND EQUITY	P696,833,208	P678,450,222

See accompanying Notes to Consolidated Financial Statements.

LT GROUP, INC.

(A Subsidiary of Tangent Holdings Corporation)

AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF INCOME**

(Amounts in Thousands, Except for Basic/Diluted Earnings Per Share)

	Years Ended December 31		
	2014	2013	2012
REVENUE (Note 24)			
Banking	P24,639,374	P28,855,871	P32,040,683
Beverage	13,288,369	12,701,784	12,188,007
Distilled spirits	11,919,131	10,425,603	12,767,679
Tobacco (Note 11)	–	151,722	2,974,897
Property development	2,278,600	3,656,950	2,685,795
	52,125,474	55,791,930	62,657,061
COST OF SALES AND SERVICES (Note 24)	25,073,927	26,021,935	30,439,722
GROSS INCOME	27,051,547	29,769,995	32,217,339
EQUITY IN NET EARNINGS OF ASSOCIATES (Note 11)	894,555	3,704,117	6,498,972
	27,946,102	33,474,112	38,716,311
OPERATING EXPENSES			
Selling expenses (Note 25)	2,746,640	2,776,946	2,716,118
General and administrative expenses (Note 26)	22,558,997	21,681,011	23,187,897
	25,305,637	24,457,957	25,904,015
OPERATING INCOME	2,640,465	9,016,155	12,812,296
OTHER INCOME (CHARGES)			
Finance costs (Note 27)	(454,855)	(480,892)	(548,187)
Finance income (Note 27)	119,041	139,093	158,244
Foreign exchange gains - net	1,345,705	1,260,899	824,036
Others - net (Note 28)	5,510,668	3,648,639	4,991,086
	6,520,559	4,567,739	5,425,179
INCOME BEFORE INCOME TAX	9,161,024	13,583,894	18,237,475
PROVISION FOR INCOME TAX (Note 29)			
Current	2,399,603	2,509,506	2,645,034
Deferred	289,215	(400,676)	46,214
	2,688,818	2,108,830	2,691,248
NET INCOME	P6,472,206	P11,475,064	P15,546,227
NET INCOME ATTRIBUTABLE TO:			
Equity holders of the Company	P4,410,230	P8,669,220	P12,757,189
Non-controlling interests	2,061,976	2,805,844	2,789,038
	P6,472,206	P11,475,064	P15,546,227
Basic/Diluted Earnings Per Share (Note 31)	P0.41	P0.85	P1.44

See accompanying Notes to Consolidated Financial Statements.

LT GROUP, INC.

(a Subsidiary of Tangent Holdings Corporation)

AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(Amounts in Thousands)

	Years Ended December 31		
	2014	2013	2012
NET INCOME	P6,472,206	P11,475,064	P15,546,227
OTHER COMPREHENSIVE INCOME (LOSS)			
<i>Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:</i>			
Accumulated translation adjustment	(275,448)	1,607,973	(1,130,819)
Net changes in fair value of AFS investments (Note 7)	551,055	(5,561,739)	(790,115)
Income tax effect	1,383	84,034	110,067
	552,438	(5,477,705)	(680,048)
Net other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods	276,990	(3,869,732)	(1,810,867)
<i>Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:</i>			
Re-measurement gains (losses) on defined benefit plans (Note 23)	(1,047,515)	(369,329)	513,336
Income tax effect	(53,628)	24,318	46,455
	(1,101,143)	(345,011)	559,791
Revaluation increment on property, plant and equipment (Note 12)	–	1,300,593	184,572
Income tax effect	–	(390,178)	(55,372)
	–	910,415	129,200
Share in re-measurement gain on defined benefit plans of an associate (Note 11)	–	27,453	–
Net other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods	(1,101,143)	592,857	688,991
OTHER COMPREHENSIVE LOSS - Net of income tax effect	(824,153)	(3,276,875)	(1,121,876)
TOTAL COMPREHENSIVE INCOME	P5,648,053	P8,198,189	P14,424,351
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Equity holders of the Company	3,816,532	6,702,822	P12,209,440
Non-controlling interests	1,831,521	1,495,367	2,214,911
	P5,648,053	P8,198,189	P14,424,351

See accompanying Notes to Consolidated Financial Statements.

LT GROUP, INC.
(a Subsidiary of Tangent Holdings Corporation)
AND SUBSIDIARIES
BALANCES AND STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 and 2012
(Amounts in Thousands)

Attributable to Equity Holders of the Company (Notes 1, 7, 12, 24, 30 and 36)															
Other Comprehensive Income (Loss)															

See accompanying Notes to Consolidated Financial Statements.

LT GROUP, INC.

(a Subsidiary of Tangent Holdings Corporation)

AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Amounts in Thousands)

	Years Ended December 31		
	2014	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	P9,161,024	P13,583,894	P18,237,475
Adjustments for:			
Depreciation and amortization (Notes 12, 13 and 14)	3,554,992	4,034,210	3,677,908
Provision for losses (Notes 8 and 9)	2,207,864	979,839	2,738,189
Gain on disposal of:			
AFS (Notes 7 and 28)	(245,216)	(290,505)	78
Other assets (Notes 12, 13 and 28)	(1,889,744)	(528,632)	(620,547)
Equity in net earnings of associates (Note 11)	(894,555)	(3,704,117)	(6,498,972)
Share in losses of joint venture (Note 10)	46,043	20,091	—
Finance costs (Note 27)	454,855	480,892	548,187
Finance income (Note 27)	(119,041)	(139,093)	(158,244)
Dividend income (Note 28)	(10,912)	(19,123)	(31,072)
Mark-to-market gain on financial assets at fair value through profit or loss (Note 28)	32,351	—	—
Movement in accrued retirement benefits (Note 23)	2,081,913	(451,688)	(399,190)
Operating income before changes in working capital	14,379,574	13,965,768	17,493,812
Decrease (increase) in:			
Financial assets at fair value through profit or loss	(10,255,769)	2,584,199	(6,201,903)
Receivables	(44,955,219)	(33,367,165)	(18,075,815)
Inventories	(2,656,906)	(41,504)	(1,307,296)
Other assets	(2,247,938)	(1,323,412)	(6,122,137)
Increase (decrease) in:			
Deposit liabilities	8,718,031	47,394,292	(4,219,593)
Financial liabilities at fair value through profit or loss	2,787,130	(2,250,568)	2,218,872
Accounts payable and accrued expenses	(4,285,023)	1,748,626	1,134,893
Other liabilities	3,752,493	7,953,877	2,781,700
Cash generated from (used in) operations	(34,763,627)	36,664,113	(12,297,467)
Dividends received (Notes 11, 22 and 28)	3,371,564	3,980,680	4,208,048
Interest received	143,541	114,551	158,244
Income taxes paid, including creditable withholding and final taxes	(3,615,343)	(3,013,291)	(2,560,494)
Net cash from (used in) operating activities	(34,863,865)	37,746,053	(10,491,669)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of:			
AFS investments (Note 7)	(65,693,182)	(122,879,759)	(274,740,921)
Held to maturity investments	(571,602)	—	—
Property, plant and equipment (Note 12)	(2,534,580)	(3,081,169)	(4,182,600)
Shares and convertible notes of an associate (Note 11)	(772,864)	—	—
Investment in a joint venture (Note 11)	—	—	(20,091)
Investment properties (Note 13)	(2,608,825)	(3,706,501)	(1,906,922)
Software (Note 14)	(419,809)	(238,687)	(131,392)
Proceeds from sale of:			
AFS (Note 7)	63,499,326	135,126,488	269,986,164
Other assets (Notes 12 and 13)	2,434,543	3,956,509	5,956,061
Advances granted to affiliates (Note 22)	—	(1,755,327)	(3,176,552)
Net cash from (used in) investing activities	(6,666,993)	7,421,554	(8,216,253)
CASH FLOWS FROM FINANCING ACTIVITIES			
Availment (payment) of short-term debts (Note 19)	—	(1,320,000)	400,000
Proceeds from (payments of) bill and acceptance payable (Note 17)	2,000,841	(5,270,255)	4,731,528
Availments of long term debts (Note 19)	500,000	2,490,120	3,783,188
Payments of long term debts (Note 19)	(1,623,537)	(5,193,900)	(124,722)
Payment of finance cost	(402,750)	(572,048)	(621,909)
Proceeds from issuance of shares (Note 30)	—	37,720,000	5,000,000
Sale of shares of the Company held by subsidiary	—	—	344,101
Capital contribution of non-controlling interest (Note 30)	4,427,697	—	—
Acquisition of non-controlling interest	—	—	(22,528)
Payment of stock issue costs (Note 30)	—	(1,147,541)	(68,740)
Dividends paid (Note 30)	(1,730,622)	(1,685,349)	(32,445)
Advances from affiliates (Note 22)	—	733,138	1,566,201
Payment of due to related parties (Note 22)	(2,684,943)	(9,223,000)	(2,030,961)
Net cash from financing activities	486,686	16,531,165	12,923,713
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(41,044,172)	61,698,772	(5,784,209)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	188,319,662	126,620,890	132,405,098
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	P147,275,490	P188,319,662	P126,620,890

See accompanying Notes to Consolidated Financial Statements.

LT GROUP, INC.

(a Subsidiary of Tangent Holdings Corporation)

AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

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

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

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

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

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

Capital Raising of LTG

On October 26, 2011, LTG's Board of Directors (BOD) approved a capital raising exercise via the 2-tranche Placing and Subscription Transaction involving (i) the sale by Tangent of 398,138,889 shares in LTG to the public at an offer price of P4.22 each (the "Placing Tranche") and (ii) the subscription at a price equivalent to the offer price offered to the public at the Placing Tranche, as maybe adjusted to account for the expenses of the Placing Tranche (the "Subscription Tranche").

The capital raising exercise is intended to fund LTG's expansion of its distilled spirits segment's plant capacity, increase in operational efficiency and rationalization of operations, and at the same time offer the investing public the opportunity to participate in LTG's growth. In December 2011, Tangent sold the said shares, thereby reducing its ownership interest in LTG from 97% to 86%. In accordance with the Subscription Tranche, Tangent agreed to

subscribe to 398,138,889 new common shares from LTG's unissued capital stock for a total consideration of P1,639.4 million. On May 2, 2012, LTG's BOD and stockholders approved the conversion of the deposit for future stock subscription into issued common shares of LTG, which resulted to an increased ownership of Tangent in LTG, from 86% to 87% as of that date.

On July 27, 2012, LTG's BOD and stockholders approved the amendments in the Articles of Incorporation to reflect the increase in LTG's authorized capital stock from P5.0 billion divided into 5,000,000,000 shares with a par value of P1.00 per share to P25.0 billion divided into 25,000,000,000 shares with a par value of P1.00 per share. On the same date, LTG's BOD and stockholders also approved the issuance of 5,000,000,000 shares to Tangent in support of the increase in authorized capital stock and the waiver of rights/public offering in relation to the said shares to be issued to Tangent. On September 28, 2012, upon approval by the SEC of the increase in authorized capital stock, Tangent increased its ownership interest to 95.25%.

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

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

In April 2013, Tangent sold 1.84 billion shares to the public and agreed to subscribe to the same number of shares newly issued by LTG. The entire proceeds from the sale of LTG's shares was used by Tangent as payment for the subscription to new shares amounting to P36.6 billion, net of stock issuance costs (see Note 30). As a result of the placing and subscription transaction, Tangent's ownership in LTG decreased to 74.36% as of December 31, 2013.

Corporate RestructuringConsolidation of Businesses under LTG

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

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

On May 24, 2012, ABI's BOD approved the subscription to 400,000,000 shares of Interbev Philippines, Inc. (Interbev) at P1.00 par value per share by way of conversion of ABI advances to equity investment in Interbev. On the same date, ABI's BOD approved the acquisition of 125,000,000 shares of Packageworld, Inc. (Packageworld) at P1.00

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

On July 19, 2012, ABI's BOD authorized ABI to issue 800,000,000 shares to LTG from its authorized but unissued capital stock and 1,000,000,000 shares from the proposed increase in its authorized capital stock with par value of P1.00 per share. In August 2012, ABI issued the remaining authorized but unissued capital stock to LTG, thus, making ABI an 80.0%-owned subsidiary. On October 10, 2012, SEC approved ABI's application to increase its authorized capital stock, thus, increasing LTG's ownership interest in ABI to 90.0%. In December 2012, LTG acquired the shares of ABI which are owned by Shareholdings, Inc. (Shareholdings), a company belonging to the Controlling Shareholders, and certain stockholders, thus, increasing LTG's ownership interest in ABI to 99.99%.

B. Acquisition of Fortune Tobacco Corporation (FTC)

On July 31, 2012, LTG's BOD approved the acquisition of at least 83.0% of FTC through a cash subscription to 1,646,489,828 shares at its par value of P1.00 per share. FTC has 49.6% ownership in PMFTC, Inc. (PMFTC), a company incorporated and domiciled in the Philippines which operates the combined businesses contributed by FTC and Philip Morris Philippines Manufacturing, Inc. (PMPMI) (see Note 11).

On September 26, 2012, LTG subscribed to 346,489,828 new shares of FTC with a par value of P1.00 per share, which was paid in cash by LTG in the amount of P346.5 million resulting in 49.5% interest of LTG in FTC.

On September 28, 2012, LTG subscribed in cash an additional 1,300,000,000 common shares of FTC with a par value of P1.00 per share, which was issued to LTG on October 10, 2012 upon approval of the Philippine SEC of FTC's application to increase its authorized capital stock. Thus, LTG increased its direct ownership interest in FTC to 82.32% while diluting ownership interest of Shareholdings in FTC from 98.0% to 17.33%.

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

As of December 31, 2012, LTG has direct ownership interest in FTC of 82.32%, while the balance of 17.33% and 0.35% is owned by Shareholdings and the Controlling Shareholders, respectively.

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

- Acquired subscription rights to 453,500,000 shares of Shareholdings, which represents 90.70% ownership interest in Shareholdings or equivalent to 15.71% indirect ownership interest in FTC;
- Assumed certain liabilities of Shareholdings from Controlling Shareholders amounting to P1.5 billion, which was used as payment for the subscription of 1,500,000,000 out of the unissued capital stock of Shareholdings thereby increasing the ownership interest in Shareholdings to 97.68% (equivalent to 1.21% indirect ownership in FTC);
- Acquired additional 0.34% direct ownership interest in FTC through purchase of FTC's 104,330,633 outstanding shares held by the Controlling Shareholders.

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

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

On September 17, 2012, LTG's BOD approved the assumption by LTG of certain liabilities of Paramount from Step Dragon Co. Ltd. and Billinge Investments Ltd., BVI-based companies, and Saturn from Penick Group Ltd., also a BVI-based company, amounting to P1,350.8 million and P521.3 million, respectively.

On September 25 and September 26, 2012, LTG subscribed to 1,350,819,487 common shares of Paramount and 490,000,000 common shares of Saturn, respectively, with a par value of P1.00 per share and will be issued to LTG out of an increase in Paramount's and Saturn's authorized capital stock. LTG paid the subscription in full by way of conversion into equity of LTG's advances to Paramount and Saturn amounting to P1,350.8 million and P490.0 million, respectively. On the same dates, Paramount and Saturn filed its application for increase in authorized capital with the Philippine SEC in order to accommodate LTG's investment.

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

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

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

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

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

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

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

HKMA took note of the plan of LTG to acquire or increase its shareholdings in PNB up to 59.83%.

In various dates in February, March and December 2013, upon approval of the SEC for the increase in authorized capital stock of certain Bank Holding Companies, LTG has acquired between 80% to 100% ownership of these Bank Holding Companies. The transactions were consummated through conversion of LTG's advances from the Bank Holding Companies in exchange for the shares acquired. As of December 31, 2014 and 2013, LTG indirectly owns 56.47% of PNB through the 59.83% collective ownership of the Bank Holding Companies.

These business combinations were accounted for using pooling of interests method. Accordingly, LTG recognized the net assets of the acquired subsidiaries equivalent to their carrying values.

Authorization for Issue of the Consolidated Financial Statements

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

2. Summary of Significant Accounting and Financial Reporting Policies

Basis of Preparation and Statement of Compliance

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

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

Basis of Consolidation

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

	Percentage of Ownership						Country of Incorporation
	2014		2013		2012		
	Direct	Indirect	Direct	Indirect	Direct	Indirect	
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
Tanday Brands International, Inc. (TBI) ⁽²⁾	100.0	—	100.0	—	100.0	—	Philippines
Beverages							
ABI and subsidiaries	99.9	—	99.9	—	99.9	—	Philippines
Agua Vida Systems, Inc.	—	99.9	—	99.9	—	99.9	Philippines
Interbev	—	99.9	—	99.9	—	99.9	Philippines
Waterich	—	99.9	—	99.9	—	99.9	Philippines
Packageworld	—	99.9	—	99.9	—	99.9	Philippines
AB Nutribev Corp. ⁽³⁾	—	99.9	—	—	—	—	Philippines
Asia Pacific Bev PTE ⁽⁴⁾	—	99.9	—	—	—	—	Singapore
Tobacco							
Shareholdings	97.7	—	97.7	—	97.7	—	Philippines
FTC	82.7	16.9	82.7	16.9	82.7	16.9	Philippines
Property Development							
Saturn	100.0	—	100.0	—	100.0	—	Philippines
Paramount and subsidiaries	100.0	—	100.0	—	100.0	—	Philippines
Eton	—	99.3	—	99.3	—	99.3	Philippines
Belton Communities, Inc. (BCI)	—	99.3	—	99.3	—	99.3	Philippines
Eton City, Inc. (ECI)	—	99.3	—	99.3	—	99.3	Philippines
FirstHomes, Inc. (FHI)	—	99.3	—	99.3	—	99.3	Philippines
Eton Properties Management Corporation (EPMC)	—	99.3	—	99.3	—	99.3	Philippines
Banking							
Bank Holding Companies (Note 23) ⁽⁵⁾	80-100	—	80-100	—	80-100	—	Various
PNB and Subsidiaries ⁽⁶⁾	—	56.5	—	56.5	—	56.5	Philippines
PNB Capital and Investment Corporation (PNB Capital)	—	56.5	—	56.5	—	56.5	Philippines
PNB Securities, Inc. (PNB Securities)	—	56.5	—	56.5	—	56.5	Philippines
PNB Forex, Inc.	—	56.5	—	56.5	—	56.5	Philippines
PNB Holdings Corporation (PNB Holdings)	—	56.5	—	56.5	—	56.5	Philippines
PNB General Insurers, Inc. (PNB Gen)	—	56.5	—	56.5	—	56.5	Philippines
PNB Corporation – Guam	—	56.5	—	56.5	—	56.5	United States of America (USA)
PNB International Investments Corporation (PNB IIC)	—	56.5	—	56.5	—	56.5	USA
PNB Remittance Centers, Inc. (PNBRCC)	—	56.5	—	56.5	—	56.5	USA
PNB RCI Holding Co. Ltd.	—	56.5	—	56.5	—	56.5	USA
PNB Remittance Co. (Canada)	—	56.5	—	56.5	—	56.5	Canada
PNB Europe PLC	—	56.5	—	56.5	—	56.5	United Kingdom
PNB Global Remittance & Financial Co. (HK) Ltd. (PNB GRF)	—	56.5	—	56.5	—	56.5	Hong Kong
PNB Italy SpA (PISpA) ⁽⁷⁾	—	56.5	—	56.5	—	56.5	Italy
Japan - PNB Leasing and Finance Corporation (Japan-PNB Leasing)	—	50.8	—	50.8	—	50.8	Philippines
Japan - PNB Equipment Rentals Corporation	—	50.8	—	50.8	—	50.8	Philippines
PNB Savings Bank	—	56.5	—	56.5	—	56.5	Philippines
Allied Bank Philippines (UK) Plc (ABUK)	—	56.5	—	56.5	—	56.5	United Kingdom
Allied Commercial Bank	—	50.8	—	50.8	—	50.8	People's Republic of China
Allied Banking Corporation (Hongkong) Limited (ABCHKL)	—	28.8	—	28.8	—	28.8	Hong Kong
ACR Nominees Limited	—	28.8	—	28.8	—	28.8	Hong Kong
PNB Life Insurance, Inc. (PLI)	—	45.2	—	45.2	—	45.2	Philippines
Allied Leasing and Finance Corporation (ALFC)	—	32.3	—	32.3	—	32.3	Philippines
Oceanic Holdings (BV) Ltd. (OHBV)	—	15.7	—	15.7	—	15.7	USA

(1) Effective ownership as of December 31, 2012 represents the ownership interest of LTG in the subsidiaries using pooling of interest method as if the newly acquired subsidiaries have always been consolidated.

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

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

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

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

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

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

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

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

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

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

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

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

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

Non-controlling interest

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

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

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

Business Combination and Goodwill

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

When a business is acquired, the financial assets and financial liabilities assumed are assessed for appropriate classification and designation

in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

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

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

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

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

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

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

Common control business combinations

Where there are business combinations involving entities that are

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

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

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

Changes in Accounting Policies and Disclosures

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

- Amendments to PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities*, and PAS 27, *Separate Financial Statements: Investment Entities*, provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. The amendments must be applied retrospectively, subject to certain transition relief. These amendments have no impact to the Group, since none of the entities within the Group qualifies to be an investment entity under PFRS 10.
- Amendments to PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*, clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and are applied retrospectively. These amendments have no impact on the Group, since none of the entities in the Group has any offsetting arrangements.
- Amendments to PAS 39, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting*, provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required. These amendments have no impact on the Group as the Group has not novated its derivatives during the current or prior periods.

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

- Philippine Interpretation IFRIC 21, *Levies* (IFRIC 21), clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21. This interpretation has no impact in the consolidated financial statements as the Group applied the recognition principles under PAS 37, *Provisions, Contingent Liability and Contingent Assets*, consistent with the requirement of IFRIC 21 in prior years.

Annual Improvements to PFRSs (2010-2012 cycle)

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

Annual Improvements to PFRSs (2011-2013 cycle)

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

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

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

Standards issued but not yet effective

- PFRS 9, *Financial Instruments - Classification and Measurement* (2010 version), reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, *Financial Instruments: Recognition and Measurement*. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a

liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

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

Effectivity date to be determined

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11 or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The SEC and the FRSC have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. Adoption of the interpretation when it becomes effective is expected to have a significant impact on the financial position and performance of the property development segment of the Group.

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

Effective 2015

- Amendments to PAS 19, *Employee Benefits - Defined Benefit Plans: Employee Contributions*, requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after January 1, 2015. It is not expected that this amendment would be relevant to the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.
- *Annual Improvements to PFRSs (2010-2012 cycle)*
The Annual Improvements to PFRSs (2010-2012 cycle) are effective for annual periods beginning on or after January 1, 2015 and are not expected to have a material impact on the Group.

They include:

- PFRS 2, *Share-based Payment - Definition of Vesting Condition* is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:
 - A performance condition must contain a service condition
 - A performance target must be met while the counterparty is rendering service
 - A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
 - A performance condition may be a market or non-market condition
 - If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.
- PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business Combination* is applied prospectively for business combinations for which the acquisition date is on or after July 1, 2014. It clarifies that a contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PAS 39, *Financial Instruments: Recognition and Measurement* (or PFRS 9, *Financial Instruments*, if early adopted). The Group shall consider this amendment for future business combinations.
- PFRS 8, *Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*, is applied retrospectively and clarify that:
 - An entity must disclose the judgments made by management in applying the aggregation criteria in the standard, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.
 - The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.
- PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Depreciation and Amortization*, is applied retrospectively and clarifies in PAS 16 and PAS 38 that the asset may be revalued by reference to the observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset.
- PAS 24, *Related Party Disclosures - Key Management Personnel*, is applied retrospectively and clarifies that a management entity, which is an entity that provides key management personnel services, is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.
- *Annual Improvements to PFRSs (2011-2013 cycle)*
The Annual Improvements to PFRSs (2011-2013 cycle) are effective for annual periods beginning on or after January 1, 2015 and are not expected to have a material impact on the Group. They include:
 - PFRS 3, *Business Combinations - Scope Exceptions for Joint Arrangements*, is applied prospectively and clarifies the following regarding the scope exceptions within PFRS 3:
 - Joint arrangements, not just joint ventures, are outside the scope of PFRS 3.
 - This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

- PFRS 13, *Fair Value Measurement - Portfolio Exception*, is applied prospectively and clarifies that the portfolio exception in PFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of PAS 39 (or PFRS 9, as applicable).
- PAS 40, *Investment Property*, is applied prospectively and clarifies that PFRS 3, and not the description of ancillary services in PAS 40, is used to determine if the transaction is the purchase of an asset or business combination. The description of ancillary services in PAS 40 only differentiates between investment property and owner-occupied property (i.e., property, plant and equipment).

Effective 2016

- Amendments to PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortization*, clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.
- Amendments to PAS 16, *Property, Plant and Equipment*, and PAS 41, *Agriculture - Bearer Plants*, change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, will apply. The amendments are retrospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group as the Group does not have any bearer plants.
- Amendments to PAS 27, *Separate Financial Statements - Equity Method in Separate Financial Statements*, will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of PFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to PFRS. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments will not have any impact on the Group's consolidated financial statements.
- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*, address an acknowledged inconsistency between the requirements in PFRS 10 and those in PAS 28

(2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. These amendments are effective from annual periods beginning on or after January 1, 2016. The Group shall consider these amendments for future sale or contribution of assets of the Group to its associates and joint venture.

- Amendments to PFRS 11, *Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations*, require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not re-measured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

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

- PFRS 14, *Regulatory Deferral Accounts*, is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. PFRS 14 is effective for annual periods beginning on or after January 1, 2016. Since the Group is an existing PFRS preparer, this standard would not apply.
- *Annual Improvements to PFRSs (2012-2014 cycle)*
The Annual Improvements to PFRSs (2012-2014 cycle) are effective for annual periods beginning on or after January 1, 2016 and are not expected to have a material impact on the Group. They include:
 - PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations - Changes in Methods of Disposal*, is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.
 - PFRS 7, *Financial Instruments: Disclosures - Servicing Contracts*, requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance in PFRS 7 in order to

assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments.

- PFRS 7 - *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*, is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.
- PAS 19, *Employee Benefits - regional market issue regarding discount rate*, is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.
- PAS 34, *Interim Financial Reporting - disclosure of information 'elsewhere in the interim financial report'*, is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).

Effective 2018

- PFRS 9, *Financial Instruments - Hedge Accounting and amendments to PFRS 9, PFRS 7 and PAS 39 (2013 version)*, already includes the third phase of the project to replace PAS 39 which pertains to hedge accounting. This version of PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items but also for non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a derivative instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.
- PFRS 9 (2013 version) has no mandatory effective date. The mandatory effective date of January 1, 2018 was eventually set when the final version of PFRS 9 was adopted by the FRSC. The adoption of the final version of PFRS 9, however, is still for approval by BOA.

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

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

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

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

- International Financial Reporting Standard (IFRS) 15, *Revenue from Contracts with Customers*, was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2017 with early adoption permitted.
- Amendments to International Accounting Standards (IAS) 1, *Presentation of Financial Statement*, were issued in December 2014. The amendments include narrow-focus improvements in five areas; namely, materiality, disaggregation and subtotals, notes structure, disclosure of accounting policies and presentation of items of other comprehensive income arising from equity accounted investments. The amendments are effective on or after January 1, 2016.
- Amendments to IFRS 10, *Consolidated Financial Statements*, IFRS 12, *Disclosure of Interests in Other Entities*, and IAS 28, *Investments in Associates and Joint Ventures*. In December 2014, the IASB issued *Investment Entities: Applying the Consolidation Exception* (amendments to IFRS 10, IFRS 12 and IAS 28). The amendments address certain issues that have arisen in applying the investment entities exception under IFRS 10.

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

Significant Accounting Policies Applicable to the Group

Investments in Associates and a Joint Venture

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

Under the equity method, the investments in associates and a joint venture are carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of the net assets of the associate and joint venture. The Group's share in the associates' and joint venture's post-acquisition profits or losses is recognized in the consolidated statement of income, and its share of post-acquisition movements in the associate's and joint venture's equity reserves is recognized directly in other comprehensive income. When the Group's share of losses in the associate and joint venture equals or exceeds its interest in the associate and joint venture, including any other unsecured

receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate and joint venture. Profits and losses resulting from transactions between the Group and the associate and joint venture are eliminated to the extent of the interest in the associate and joint venture.

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

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

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

Fair Value Measurement

The Group measures certain financial instruments and nonfinancial assets at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortized cost and investment properties carried at cost are disclosed in Note 34.

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

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

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

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

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

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

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

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

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

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

Cash and Cash Equivalents

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

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

Financial Instruments

Date of recognition

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

Initial recognition of financial instruments

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

Reclassification of financial assets

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

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

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

'Day 1' difference

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

Derivatives recorded at FVPL

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

Embedded derivatives

The Group's banking segment has certain derivatives that are embedded in host financial (such as structured notes, debt investments, and loans receivables) and non-financial (such as purchase orders and service agreements) contracts. These embedded derivatives include credit default swaps (which are linked either to a single reference entity or a basket of reference entities); conversion options in loans receivables; call options in certain long-term debt, and foreign-currency derivatives in debt instruments, purchase orders and service agreements. Embedded derivatives are bifurcated from their host contracts and carried at fair value with fair value changes being reported through profit or loss, when the entire hybrid contracts (composed of both the host contract and the embedded derivative) are not accounted for as financial assets

at FVPL, when their economic risks and characteristics are not closely related to those of their respective host contracts, and when a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative. The Group assesses whether embedded derivatives are required to be separated from the host contracts when the Group first becomes a party to the contract. Reassessment of embedded derivatives is only done when there are changes in the contract that significantly modifies the contractual cash flows.

Other financial assets or financial liabilities held-for-trading

Other financial assets or financial liabilities held for trading (classified as "Financial assets at FVPL" or "Financial liabilities at FVPL") are recorded in the consolidated balance sheet at fair value. Changes in fair value relating to the held-for-trading positions are recognized in "Trading and investment securities gains - net". Interest earned or incurred is recorded in 'Interest income' or 'Interest expense', respectively, while dividend income is recorded in 'Miscellaneous income' when the right to receive payment has been established.

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

Designated financial assets or financial liabilities at FVPL

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

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

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

Loans and receivables

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

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

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

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

AFS investments

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

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

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

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

HTM investments

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

Other financial liabilities

Issued financial instruments or their components, which are not designated at FVPL, are classified as deposit liabilities, bills and acceptances payable, accounts payable and accrued expenses,

short-term and long-term debts and other appropriate financial liability accounts, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

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

Derecognition of Financial Assets and Liabilities

Financial asset

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

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

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

Financial liability

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

Impairment of Financial Assets

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets at amortized cost

For financial assets carried at amortized cost such as loans and receivables, HTM investments, due from BSP and other banks, interbank loans receivable, securities held under agreements to resell and receivable from SPV, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If the Group determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as industry, collateral type, past-due status and term. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with changes in related observable data from period to period (such changes in property prices, payment status, or other factors that are indicative of incurred losses in the Group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to the consolidated statement of income. Interest income continues to be recognized based on the original EIR of the asset. Loans and receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If subsequently, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. If a future write-off is later recovered, any amounts formerly charged are credited to the "Provision for impairment and credit losses" account.

Restructured loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered

past due. Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR. The difference between the recorded value of the original loan and the present value of the restructured cash flows, discounted at the original EIR, is recognized in "Provision for impairment and credit losses" in the consolidated statement of income.

AFS investments

For AFS investments, the Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. In case of equity investments classified as AFS investments, this would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statement of income - is removed from equity and recognized in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income. Increases in fair value after impairment are recognized directly in OCI.

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

Offsetting Financial Instruments

Financial instruments are offset and the net amount reported in the consolidated balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated balance sheet.

Other Current Assets

Prepayments are expenses paid in advance and recorded as asset before they are utilized. This account comprises mainly of prepaid importation charges and excise tax, prepaid rentals and insurance premiums and other prepaid items, and creditable withholding tax. Prepaid rentals and insurance premiums and other prepaid items are apportioned over the period covered by the payment and charged to the appropriate accounts in the consolidated statement of income when incurred.

Prepaid importation charges are applied to respective asset accounts, i.e., inventories and equipment, as part of their direct cost once importation is complete. Prepaid excise taxes are applied to inventory as part of its cost once related raw material item is consumed in the production. Creditable withholding tax is deducted from income tax payable on the same year the revenue was recognized. Prepayments that are expected to be realized for no more than 12 months after the reporting period are classified as current assets, otherwise, these are classified as other noncurrent assets.

Property, Plant and Equipment

Property, plant and equipment, other than land and land improvements, plant buildings and building improvements, and machineries and equipment, are stated at cost less accumulated depreciation and amortization and any impairment in value.

The initial cost of property, plant and equipment consists of its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use and any estimated cost of dismantling and removing the property, plant and equipment item and restoring the site on which it is located to the extent that the Group had recognized the obligation of that cost. Such cost includes the cost of replacing part of the property, plant and equipment if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of property, plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are expensed in the consolidated statement of income as incurred. Borrowing costs incurred during the construction of a qualifying asset is likewise included in the initial cost of property, plant and equipment.

Land and land improvements, plant buildings and building improvements, and machineries and equipment are stated at revalued amounts based on a valuation performed by professionally qualified, independent appraisers. Revaluation is made every three to five years such that the carrying amount does not differ materially from that which would be determined using fair value at the end of reporting period. For subsequent revaluations, the accumulated depreciation at the date of revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals the revalued amount. Any resulting increase in the asset's carrying amount as a result of the revaluation is credited directly to "Revaluation increment on property, plant and equipment, net of related deferred income tax effect" (presented as part of "Other comprehensive income" in the equity section of the consolidated balance sheet). Any resulting decrease is directly charged against any related revaluation increment to the extent that the decrease does not exceed the amount of the revaluation increment in respect of the same asset. Further, the revaluation increment of depreciable property, plant and equipment is transferred to retained earnings as the asset is used by the Group. The amount of the revaluation increment transferred would be the difference between the depreciation and amortization based on the revalued carrying amount of the asset and depreciation and amortization based on the asset's original cost. In case the asset is retired or disposed of, the related remaining revaluation increment is transferred directly to retained earnings. Transfers from revaluation increment to retained earnings are not made through profit or loss.

As discussed in Note 1, certain assets and liabilities of FTC were transferred by the Group as capital contribution to PMFTC. Such properties transferred include revaluation increment on depreciable property, plant and equipment amounting to P4.6 billion. Thus, the carrying value of the net assets transferred to PMFTC, including the revaluation increment, plus the fair value adjustment at the date of transfer, was deemed as the historical cost of such assets for PMFTC.

Upon transfer in 2010, the Group realized through retained earnings portion of its share in the net appraisal increase from the previous revaluation of FTC's property, plant and equipment amounting to P1.9 billion and transferred the unrealized portion amounting to P1.9 billion to "Revaluation increment on property, plant and equipment transferred to an associate, net of related deferred income tax effect" in the consolidated balance sheet and consolidated statement of changes in equity. An annual transfer

from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets' original cost.

Construction in progress consists of properties in the course of construction for production or administrative purposes, which are carried at cost less any recognized impairment loss. This includes cost of construction and equipment, and other direct costs. Construction in progress is not depreciated until such time that the relevant assets are completed and put into operational use.

Containers (i.e., returnable bottles and crates) are stated at cost less accumulated depreciation and any impairment in value. Cost of manufactured containers comprises materials used and applicable allocation of fixed and variable labor and overhead cost. Amortization of returnable containers is included under "Selling expenses" account in the consolidated statement of comprehensive income.

Deposit value for the containers loaned to customer is included as part of "Trade accounts payable" under "Accounts payable and accrued expenses" account in the consolidated balance sheet.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

Depreciation and amortization are computed using the straight-line method over the following estimated useful lives of the assets:

	Number of Years
At Appraisal Values:	
Land improvements	5 - 15
Plant buildings and building improvements	8 - 50
Machineries and equipment	5 - 30
At Cost:	
Office and administration buildings	20 - 40
Leasehold improvements	3 - 30
Transportation equipment	2 - 5
Returnable containers	5 - 7
Furniture, fixtures and other equipment	3 - 20

Leasehold improvements are amortized on a straight-line basis over the terms of the leases or the estimated useful lives, whichever is shorter.

The estimated useful lives and depreciation and amortization method are reviewed periodically to ensure that the periods and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

Depreciation or amortization of an item of property, plant and equipment begins when it becomes available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation or amortization ceases at the earlier of the date that the item is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operation* and the date the item is derecognized.

When assets are sold or retired, their cost and accumulated depreciation and amortization and any impairment in value are removed from the accounts, and any gain or loss resulting from their disposal is recognized in the consolidated statement of income.

Fully depreciated property and equipment are retained in the accounts until they are no longer in use and no further depreciation and amortization is charged to current operations.

Investment Properties

Investment properties are initially measured at cost, including certain transaction costs. Investment properties acquired through a nonmonetary asset exchange is measured initially at fair value



unless the exchange lacks commercial substance or the fair value of neither the asset received nor the asset given up is reliably measurable. Any gain or loss on the exchange is recognized in "Net gain on sale or exchange of assets" and presented in the "Others - net" account in the consolidated statement of income. Foreclosed properties are classified under "Investment properties" upon:

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

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

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

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

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

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

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

Other Properties Acquired

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

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

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

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less

any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the consolidated statement of income in the year in which the expenditure is incurred.

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

Software costs

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

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

Impairment of Noncurrent Nonfinancial Assets

Property, plant and equipment, investment properties, other properties, investments in associates and a joint venture, and software costs

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

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

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

or amortization expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Goodwill

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

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

Revenue

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

Costs and Expenses

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

Selling and general and administrative expenses

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

Taxes and licenses

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

Retirement Benefits

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

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

Defined benefit costs comprise the following:

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

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

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

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

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

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

Employee leave entitlement

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

Borrowing Costs

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

Debt Issue Costs

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

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires

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

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

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

The Group as lessor

Finance leases, where the Group transfers substantially all the risks and benefits incidental to ownership of the leased item to the lessee, are included in the consolidated statement of financial position under 'Loans and receivables' account. A lease receivable is recognized at an amount equivalent to the net investment (asset cost) in the lease. All income resulting from the receivable is included in 'Interest income' in the consolidated statement of income.

Leases where the Group does not transfer substantially all the risks and benefits of the ownership of the asset are classified as operating leases. Fixed lease payments for noncancellable lease are recognized in consolidated statement of income on a straight-line basis over the lease term. Any difference between the calculated rental income and amount actually received or to be received is recognized as deferred rent in the consolidated balance sheet. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Variable rent is recognized as income based on the terms of the lease contract.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized under "Other income" account in the consolidated statement of income.

The Group as lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments and included in "Property and equipment" account with the corresponding liability to the lessor included in "Other liabilities" account. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to 'Interest expense'.

Capitalized leased assets are depreciated over the shorter of the estimated useful lives of the assets or the respective lease terms, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Fixed lease payments for noncancellable lease are recognized as an expense in the consolidated statement of income on a straight-line basis over the lease term while the variable rent is recognized as an expense based on terms of the lease contract.

Foreign Currency-denominated Transaction and Translation

The Group's consolidated financial statements are presented in Philippine peso, which is also LTG's functional currency. Each of the subsidiaries determines its own functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded by the individual entities in the Group in their respective functional currencies at the foreign exchange rates prevailing at the dates of the transactions. Outstanding monetary assets and liabilities denominated in foreign currencies are translated using the closing foreign exchange rate prevailing at the reporting date. All differences are charged to profit or loss in the consolidated statement of income. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the dates of initial transactions. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

FCDU and Overseas Subsidiaries

As of reporting date, the assets and liabilities of foreign subsidiaries, with functional currencies other than the functional currency of the Company, are translated into the presentation currency of the Group using the closing foreign exchange rate prevailing at the reporting date, and their respective income and expenses are translated at the monthly weighted average exchange rates for the year. The exchange differences arising on the translation are recognized in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation shall be recognized in profit or loss.

Taxes

Current income tax

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

Deferred income tax

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

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

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

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

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

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

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

In the consolidated financial statements, deferred income tax assets and deferred income tax liabilities are offset if a legally enforceable right exists to set-off the current income tax asset against the current income tax liabilities and deferred income taxes relate to the same taxable entity and the same taxation authority.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Provisions and Contingencies

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. When the Group expects a provision or loss to be reimbursed, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain and its amount is estimable. The expense relating to any provision is presented in the consolidated statement of income, net of any reimbursement.

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the consolidated financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the consolidated financial statements.

Equity

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

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

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

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

Preferred shares of subsidiaries issued to Parent Company are owned equity instruments by the Bank Holding Companies that are issued to Tangent (see Note 30).

Retained earnings represent the cumulative balance of net income or loss, dividend distributions, prior period adjustments, effects of the changes in accounting policies and other capital adjustments. Unappropriated retained earnings represent that portion which can be declared as dividends to stockholders after adjustments for any unrealized items which are considered not available for dividend declaration. Appropriated retained earnings represent that portion which has been restricted and therefore is not available for any dividend declaration.

Other comprehensive income (loss) comprises items of income and expense (including items previously presented under the consolidated statement of changes in equity) that are not recognized in the consolidated statement of income for the year in accordance with PFRS. Other comprehensive income (loss) of the Group includes cumulative translation adjustments, net changes in fair values of AFS investments, re-measurement gains (losses) on defined benefit plans, revaluation increment in property, plant and equipment and share in other comprehensive income of an associate.

Other equity reserves include effect of transactions with non-controlling interest and equity adjustments arising from business combination under common control and other group restructuring transactions.

Earnings Per Share

Basic earnings per share (EPS) is computed by dividing net income for the period attributable to common shareholders by the weighted average number of common shares outstanding during the period after giving retroactive effect to stock dividends declared and stock rights exercised during the period, if any.

Diluted EPS is calculated by dividing the aggregate of net income attributable to common shareholders by the weighted average number of common shares outstanding during the period adjusted for the effects of any dilutive shares.

Dividends on Common Shares

Cash dividends on common shares are recognized as a liability and deducted from equity when approved by the BOD of the Company.

Stock dividends are treated as transfers from retained earnings to capital stock. Dividends for the year that are approved after the end of reporting period are dealt with as a non-adjusting event after the end of reporting period.

Events after the Reporting Period

Events after the end of reporting period that provides additional information about the Group's position at the end of reporting period (adjusting event) are reflected in the consolidated financial statements. Events after the end of reporting period that are not adjusting events, if any, are disclosed when material to the consolidated financial statements.

Segment Reporting

The Group's operating segments are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on operating segments is presented in Note 4 to the consolidated financial statements.

Significant Accounting Policies Generally Applicable to Banking

Banking Revenue

Interest income

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

Service fees and commission income

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

- *Fee income earned from services that are provided over a certain period of time*

Fees earned for the provision of services over a period of time are accrued over that period. These fees include investment fund fees, custodian fees, fiduciary fees, commission income, credit-related fees, trust fees, portfolio and other management fees, and advisory fees. However, loan commitment fees for loans that are likely to be drawn down are deferred (together with any incremental costs) and recognized as an adjustment to the EIR of the loan.

- *Fee income from providing transaction services*

Fees arising from negotiating or participating in the negotiation of a transaction for a third party - such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses - are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria. These fees include underwriting fees, corporate finance fees, remittance fees, brokerage fees, deposit-related and other credit-related fees. Loan syndication fees are recognized in the consolidated statement of income when the syndication has been completed and the Group retains

no part of the loans for itself or retains part at the same EIR as for the other participants.

Interchange fee and awards revenue on credit cards

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

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

Commissions earned on credit cards

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

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

Commission earned on reinsurance

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

Dividend income

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

Trading and investment securities gains - net

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

Income on direct financing leases and receivables financed

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

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

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

Premiums revenue

Gross insurance written premiums comprise the total premiums receivable for the whole period cover provided by contracts entered into during the accounting period. Premiums include any adjustments

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

Other income

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

Product Classification

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

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

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

DPF is a contractual right to receive, as a supplement to guaranteed contracts, additional benefits that are likely to be a significant portion of the total contractual benefits, whose amount or timing is contractually at the discretion of the issuer, and that are contractually based on the performance of a specified pool of contracts or a specified type of contract, realized and or unrealized investment returns on a specified pool of assets held by the issuer, or the profit or loss of the company, fund or other entity that issues the contract.

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

Repurchase and Reverse Repurchase Agreements

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

Conversely, securities purchased under agreements to resell at a specified future date ('reverse repos') are not recognized in the

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

Financial Guarantees

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

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

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

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

Policy Loans

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

Reinsurance

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

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

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

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

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

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

Deferred Acquisition Cost (DAC)

Commission and other acquisition costs incurred during the financial period that vary with and are related to securing new insurance contracts and/or renewing existing insurance contracts, but which relates to subsequent financial periods, are deferred to the extent that they are recoverable out of future revenue margins. All other acquisition costs are recognized as an expense when incurred.

Subsequent to initial recognition, these costs are amortized using the 24th method except for marine cargo where the DAC pertains to the commissions for the last two months of the year. Amortization is charged to the consolidated statement of income. The unamortized acquisition costs are shown as "Deferred acquisition costs" in the assets section of the consolidated balance sheet.

An impairment review is performed at each end of the reporting period or more frequently when an indication of impairment arises. The carrying value is written down to the recoverable amount and the impairment loss is charged to the consolidated statement of income. The DAC is also considered in the liability adequacy test for each reporting period.

Residual Value of Leased Assets and Deposits on Finance Leases

The residual value of leased assets, which approximates the amount of guaranty deposit paid by the lessee at the inception of the lease, is the estimated proceeds from the sale of the leased asset at the end of the lease term. At the end of the lease term, the residual value of the leased asset is generally applied against the guaranty deposit of the lessee when the lessee decides to buy the leased asset.

Life Insurance Contract Liabilities

Life insurance liabilities

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

Insurance contracts with fixed and guaranteed terms

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

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

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

Aggregate reserve for life policies represents the accumulated total

liability for policies in force on the statement of financial position date. Such reserves are established at amounts adequate to meet the estimated future obligations of all life insurance policies in force. The reserves are calculated using actuarial methods and assumptions in accordance with statutory requirements and as approved by the Insurance Commission (IC), subject to the minimum liability adequacy test.

Unit-linked insurance contracts

PNB LLI issues unit-linked insurance contracts. Considerations received from unit-linked insurance contracts, in excess of the portion that is placed under a withdrawable segregated account, are recognized as revenue.

PNB LLI's revenue from unit-linked contracts consists of charges deducted from the policyholder's separate account, in accordance with the unit-linked policy contract. Since the segregated fund assets belong to the unit-linked policyholders, corresponding segregated fund liabilities are set-up equal to the segregated fund assets less redemptions outside the segregated funds. The segregated fund assets are valued at market price. Changes in the segregated fund assets due to investment earnings or market value fluctuations result in the same corresponding change in the segregated fund liabilities. Such changes in fund value have no effect in the consolidated statement of income. Collections received from unit-linked policies are separated to segregated fund assets from which PNB LLI withdraws administrative and cost of insurance charges in accordance with the policy provisions of the unit-linked insurance contracts. After deduction of these charges, the remaining amounts in the segregated fund assets are equal to the surrender value of the unit-linked policyholders, and are withdrawable anytime.

The equity of each unit-linked policyholder in the fund is monitored through the designation of outstanding units for each policy. Hence, the equity of each unit-linked insurance contract in the fund is equal to the total number of outstanding units of the policyholder multiplied by the net asset value per unit (NAVPU). The NAVPU is the market value of the fund divided by the total number of outstanding units.

Nonlife Insurance Contract Liabilities

Provision for unearned premiums

The proportion of written premiums, gross of commissions payable to intermediaries, attributable to subsequent periods or to risks that have not yet expired is deferred as provision for unearned premiums. Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method except for marine cargo where the provision for unearned premiums pertains to the premiums for the last two months of the year. The portion of the premiums written that relate to the unexpired periods of the policies at the end of reporting period are accounted for as provision for unearned premiums and presented as part of "Insurance contract liabilities" in the liabilities section of the consolidated balance sheet. The change in the provision for unearned premiums is taken to the consolidated statement of income in the order that revenue is recognized over the period of risk. Further provisions are made to cover claims under unexpired insurance contracts which may exceed the unearned premiums and the premiums due in respect of these contracts.

Claims provision and incurred but not reported losses

Outstanding claims provisions are based on the estimated ultimate cost to all claims incurred but not settled at the end of the reporting period, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of which cannot be known with certainty at the end of the reporting period. The liability is

not discounted for the time value of money and includes provision for IBNR. No provision for equalization or catastrophic reserves is recognized. The liability is derecognized when the contract has expired, discharged or cancelled.

Liability Adequacy Test

Liability adequacy tests on life insurance contracts are performed annually to ensure the adequacy of the insurance contract liabilities. In performing these tests, current best estimates of future contractual cash flows, claims handling and policy administration expenses are used. Any deficiency is immediately charged against profit or loss initially by establishing a provision for losses arising from the liability adequacy tests.

For nonlife insurance contracts, liability adequacy tests are performed at the end of each reporting date to ensure the adequacy of insurance contract liabilities, net of related DAC assets. The provision for unearned premiums is increased to the extent that the future claims and expenses in respect of current insurance contracts exceed future premiums plus the current provision for unearned premiums.

Reserve for Policyholders' Dividends

A number of insurance contracts are participating and contain a DPF. This feature entitles the policy holder to receive, as a supplement to guaranteed benefits, annual policy dividends that are credited at each policy anniversary, as long as the policy is in force. These annual policy dividends represent a portion of the theoretical investment and underwriting gains from the pool of contracts. Policy dividends are not guaranteed and may change based on the periodic experience review of the Group. Further, in accordance with regulatory requirements, dividends payable in the following year are prudently set-up as a liability in the consolidated balance sheet.

Local statutory regulations and the terms and conditions of these contracts set out the bases for the determination of the annual cash dividends at the time the product is priced. The Group may exercise its discretion to revise the dividend scale in consideration of the emerging actual experience on each block of participating policies. Reserve for dividends to policyholders on contracts with DPF is shown in the consolidated balance sheet under "Other noncurrent liabilities".

Fiduciary Activities

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

Significant Accounting Policies Generally Applicable to Consumer Products

Sale of Consumer Goods

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

Cost of Consumer Goods Sold

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

Consumer Goods Inventories

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

Finished goods and work in process include direct materials, direct labor, and manufacturing overhead costs. Raw materials

include purchase cost. The cost of these inventories is determined using the following:

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

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

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

Significant Accounting Policies Generally Applicable to Property Development

Property Development Revenue

Real estate sales

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

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

Rental income

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

Charges and expenses recoverable from tenants

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

Cost of Real Estate Sales

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

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

Cost of Rental Income

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

Real Estate Inventories

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

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

Customers' Deposits including Excess of Collections over Recognized Receivables

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

Security Deposits

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

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

Commissions

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

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

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

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

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations,

which have the most significant effects on amounts recognized in the consolidated financial statements:

Determination of functional currency

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

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

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

Assessment of control over the entities for consolidation

The Group has majority owned subsidiaries discussed in Note 2. Management concluded that the Group controls these majority owned subsidiaries arising from voting rights and, therefore, consolidates the entity in its consolidated financial statements. In addition, the Group accounts for its investments in OHBVI as a subsidiary although the Group holds less than 50.00% of OHBVI's issued share capital on the basis of the voting rights of 42.78% assigned by certain stockholders to the Group. Management concluded that the Group has the ability to control the relevant activities and to affect its returns in OHBVI on the basis of the combined voting rights arising from its direct ownership and assigned voting rights of 70.56%.

Significant influence on investee even if the Group holds less than 20% of voting rights on acquisition date

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

Classification of financial instruments

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

The Group's Bank Holding Companies have redeemable preferred shares which can be redeemed at the option of the Bank Holding companies after seven years from the date of issuance. The Group classified these redeemable preferred shares amounting to P18.1 billion and P7.4 billion as equity as of December 31, 2014 and 2013, respectively (see Note 30).

Revenue recognition on real estate sales

Selecting an appropriate revenue recognition method for a particular real estate sale transaction requires certain judgments based on, among others, the buyer's commitment on the sale which may be ascertained through the significance of the buyer's initial investment and stage of completion of the project. Based on the judgment of the Group, the percentage-of-completion method is appropriate in recognizing revenue on real estate sale transactions in 2014, 2013 and 2012.

Operating lease commitments - the Group as lessor

The Group has entered into commercial property leases on its investment properties and certain motor vehicles and items of machinery.

The Group has determined, based on an evaluation of the terms and conditions of the lease agreements (i.e., the lease does not transfer ownership of the asset to the lessee by the end of the lease term, the lessee has no option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option is exercisable and the lease term is not for the major part of the asset's economic life), that it retains all the significant risks and rewards of ownership of these properties and so accounts for these leases as operating leases (see Note 37).

Operating lease commitments - the Group as lessee

Currently, the Group has land lease agreements with several non-related and related parties. Based on an evaluation of the terms and conditions of the arrangements, management assessed that there is no transfer of ownership of the properties by the end of the lease term and the lease term is not a major part of the economic life of the properties. Thus, the Group does not acquire all the significant risks and rewards of ownership of these properties, thus, accounts for the lease agreements as operating leases (see Note 37).

Finance lease commitments - the Group as a lessee

The Group has also entered into a finance lease agreement covering real estate, certain transportation equipment and various machineries and other types of equipment. The Group has determined that it bears substantially all the risks and benefits incidental to ownership of said properties based on the terms of the contracts (such as existence of bargain purchase option and the present value of minimum lease payments amount to at least substantially all of the fair value of the leased asset) (see Note 37).

Classification of properties

The Group determines whether a property is classified as real estate inventory, investment property or owner-occupied property. In making its judgment, the Group considers whether the property generates cash flow largely independent of the other assets held by an entity.

Real estate inventory comprises of property that is held for sale in the ordinary course of business. Principally, this is residential property that the Group develops and intends to sell before or on completion of construction. Investment property comprises land and buildings (principally offices, commercial and retail property) which are not occupied substantially for use by, or in the operations of the Group, nor for sale in the ordinary course of business, but are held primarily to earn rental income and for capital appreciation. Owner-occupied properties classified and presented as property, plant and equipment, generate cash flows that are attributable not only to property but also to the other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions cannot be sold separately as of the financial reporting date, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgment.

Determination of fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated balance sheet cannot be derived from active markets, they are determined using valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives.

Determination of fair value of financial assets not quoted in an active market

The Group classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's length basis.

The Group has AFS investments in unquoted equity securities. As of December 31, 2014 and 2013, management assessed that the fair value of these instruments cannot be measured reliably since the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed. Therefore, the instruments are measured at cost less any impairment in value.

As of December 31, 2014 and 2013, investment in unquoted shares of stock amounted to P0.3 billion and P1.9 billion, respectively (see Note 7).

Bifurcation of embedded derivatives

Where a hybrid instrument is not classified as financial assets at FVPL, the Group evaluates whether the embedded derivative should be bifurcated and accounted for separately. This includes assessing whether the embedded derivative has a close economic relationship to the host contract.

Classification of Bank's Product

The Group classified its unit-linked products as insurance contracts due to the significant insurance risk at issue. All of the Group's products are classified and treated as insurance contracts.

Estimates and Assumptions

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

Revenue and cost recognition on real estate sales

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

The Group recognized revenue from real estate sales amounting to P1.5 billion, P3.2 billion and P2.3 billion and cost of real estate sales amounting to P1.3 billion, P2.5 billion and P1.7 billion in 2014, 2013 and 2012, respectively (see Note 24).

Estimation of allowance for credit losses on loans and receivables

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

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

others. Refer to Notes 8 and 14 for the carrying values of loans and receivables and receivables from SPV, respectively.

Impairment of AFS financial assets

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

As of December 31, 2014 and 2013, the carrying value of the Group's AFS financial assets amounted to P63.8 billion and P81.0 billion, respectively, net of allowance for impairment losses on AFS equity investments amounting to P929.9 million and P928.4 million, respectively (see Note 7).

Valuation of equity-linked free standing derivatives

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

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

Fair values of structured debt instruments and derivatives

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

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

Aggregate reserves for life insurance

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

life insurance policies of the Group presented under "Insurance contract liabilities" in "Other Liabilities" amounted to P11.5 billion as of December 31, 2014 and 2013 (see Note 20).

Valuation of insurance contracts

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

The main assumption underlying the estimation of the claims provision is that a company's past claims development experience can be used to project future claims development and hence ultimate claims costs. Historical claims development is mainly analyzed by accident years as well as by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development.

Measurement of NRV of inventories

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

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

The Group's inventories carried at cost as of December 31, 2014 and 2013 amounted to P12.3 billion and P9.3 billion, respectively. Certain materials and supplies amounting to P0.7 billion and P1.0 billion as of December 31, 2014 and 2013 respectively, are carried at NRV (see Note 9).

Valuation of property, plant and equipment under revaluation basis

The Group's land and land improvements, plant buildings and building improvements, and machineries and equipment are carried at revalued amounts, which approximate their fair values at the date of the revaluation, less any subsequent accumulated depreciation and amortization and accumulated impairment losses. The valuations of property, plant and equipment are performed by independent appraisers. Revaluations are made every three to five years to ensure that the carrying amounts do not differ materially from those which would be determined using fair values at the end of reporting period.

Property, plant and equipment at appraised values amounted to P38.5 billion and P37.8 billion as of December 31, 2014 and 2013, respectively (see Note 12).

Estimation of useful lives of property, plant and equipment and investment properties

The Group estimates the useful lives and residual values of property, plant and equipment and investment properties based on internal technical evaluation and experience with similar assets. Estimated useful lives and residual values of property, plant and equipment and investment properties are reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical and commercial obsolescence and other limits on the use of the assets. It is possible, however, that future results of operations could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. A reduction in the estimated useful life of any item of property and equipment and investment properties would increase the recorded depreciation expenses and decrease the carrying value of property, plant and equipment and investment properties. In 2014 and 2013, there were no significant changes made in the useful lives and residual values of the property, plant and equipment and investment properties (see Notes 12 and 13).

The total carrying amount of depreciable property, plant and equipment as of December 31, 2014 and 2013 amounted to P23.7 billion and P24.3 billion, respectively (see Note 12). The carrying amount of depreciable investment properties, net of accumulated depreciation, as of December 31, 2014 and 2013 amounted to P6.8 billion and P6.1 billion, respectively (see Note 13).

Assessment of impairment of nonfinancial assets and estimation of recoverable amount

The Group assesses at the end of each reporting period whether there is any indication that the nonfinancial assets listed below may be impaired. If such indication exists, the entity shall estimate the recoverable amount of the asset, which is the higher of an asset's fair value less costs to sell and its value-in-use. In determining fair value less costs to sell, an appropriate valuation model is used, which can be based on quoted prices or other available fair value indicators.

In estimating the value-in-use, the Group is required to make an estimate of the expected future cash flows from the cash generating unit and also to choose an appropriate discount rate in order to calculate the present value of those cash flows.

Determining the recoverable amounts of the nonfinancial assets listed below, which involves the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the use of estimates and assumptions that can materially affect the consolidated financial statements. Future events could indicate that these nonfinancial assets are impaired. Any resulting impairment loss could have a material adverse impact on the financial condition and results of operations of the Group.

The preparation of estimated future cash flows involves significant judgment and estimations. While the Group believes that its assumptions are appropriate and reasonable, significant changes in these assumptions may materially affect its assessment of recoverable values and may lead to future additional impairment changes under PFRS.

Assets that are subject to impairment testing when impairment indicators are present (such as obsolescence, physical damage, significant changes to the manner in which the asset is used, worse than expected economic performance, a drop in revenues or other external indicators) are as follows:

	2014	2013
	(In Thousands)	
Other current assets (except held to maturity investments) (Note 10)	P7,875,234	P5,627,293
Investments in associates and a joint venture (Note 11)	12,297,509	13,664,449
Property, plant and equipment (Note 12)	42,445,922	42,681,379
Investment properties (Note 13)	27,197,933	26,187,597
Other noncurrent assets (except refundable deposits) (Note 14)	3,665,132	4,851,511

In 2012, the Group recognized full impairment loss for certain property, plant and equipment amounting to P33.5 million. Reversal of impairment loss recognized in 2013 amounted to P20.2 million (see Notes 12 and 28).

Impairment of goodwill

The Group determines whether goodwill is impaired on an annual basis every December 31, or more frequently, if events or changes in circumstances indicate that it may be impaired. This requires an estimation of the value in use of the CGU to which the goodwill is allocated. Estimating value in use requires management to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Management determined that the goodwill amounting to P163.7 million as of December 31, 2014 and 2013 is not impaired (see Note 14).

Estimation of retirement benefits cost and liability

The Group's retirement benefits cost and liability is actuarially computed. This entails using certain assumptions with respect to future annual increase in salary, expected annual rate of return on plan assets and discount rate per annum.

Net retirement plan assets as of December 31, 2014 and 2013 amounted to P264.1 million and P243.8 million, respectively. Accrued retirement benefits amounted to P3.8 billion and P4.3 billion as of December 31, 2014 and 2013, respectively (see Note 23).

Provisions and contingencies

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

Provision for legal claims amounted to P1.6 billion as of December 31, 2014 and 2013, respectively (see Note 37).

Recognition of deferred income tax assets

The Group reviews the carrying amounts of the deferred income tax assets at the end of each reporting period and adjusts the balance of deferred income tax assets to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. The Group's assessment on the recognition of deferred income tax assets on deductible temporary differences is based on the level and timing of forecasted taxable income of the subsequent reporting periods. This forecast is based on the Group's past results and future expectations on revenues and expenses as well as future tax planning strategies. However, there is no assurance that the Group will generate sufficient future taxable income to allow all or part of the deferred income tax assets to be utilized.

The Group has NOLCO, excess MCIT and other deductible temporary differences, which relate to certain subsidiaries that have a history of losses and may not be used to offset taxable income elsewhere in the Group. The subsidiaries neither have any taxable temporary difference nor was any tax planning opportunities available that could partly support the recognition of these NOLCO, excess MCIT and other deductible temporary differences as deferred income tax assets. On this basis, the Group has determined that it cannot recognize the deferred income tax assets on these NOLCO, excess MCIT and other deductible temporary differences. If the Group is able to recognize all unrecognized deferred income tax assets, profit and equity would have increased by P1.4 billion and P1.7 billion in 2014 and 2013, respectively (see Note 29).

4. Segment Information

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

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

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

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

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

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

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

Others, consist of various holding companies (LTG, Paramount, Saturn,

Shareholdings, TBI and Bank Holding Companies) that provide financing for working capital and capital expenditure requirements of the operating businesses of the Group.

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

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

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

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

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

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

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

For the year ended December 31, 2014:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
(In Thousands)							
Segment revenue:							
External customers	P24,639,374	P11,919,131	P13,288,369	P-	P2,278,600	P-	P52,125,474
Inter-segment	735,384	101,386	1,033,901	-	-	(1,870,671)	-
	25,374,758	12,020,517	14,322,270	-	2,278,600	(1,870,671)	52,125,474
Cost of sales	4,712,917	9,819,049	10,238,090	-	1,582,589	(1,278,718)	25,073,927
Gross profit	20,661,841	2,201,468	4,084,180	-	696,011	(591,953)	27,051,547
Equity in net earnings of associates	-	-	-	515,112	-	379,443	894,555
	20,661,841	2,201,468	4,084,180	515,112	696,011	(212,510)	27,946,102
Selling expenses	-	957,664	1,649,833	-	155,052	(15,909)	2,746,640
General and administrative expenses	20,184,880	665,807	824,347	356,238	427,417	100,308	22,558,997
Operating income	476,961	577,997	1,610,000	158,874	113,542	(296,909)	2,640,465
Finance costs	-	(418,214)	(11,892)	-	(49,317)	24,568	(454,855)
Finance income	-	99	18,516	108,825	42,037	(50,436)	119,041
Foreign exchange gains - net	1,340,197	(1,883)	-	6,599	(1,154)	1,946	1,345,705
Others - net	5,744,362	15,506	(9,219)	205,733	96,882	(542,596)	5,510,668
Income before income tax	7,561,520	173,505	1,607,405	480,031	201,990	(863,427)	9,161,024
Provision for income tax	1,663,614	72,790	485,525	331,676	82,125	53,088	2,688,818
Segment profit	P5,897,906	P100,715	P1,121,880	P148,355	P119,865	(P916,515)	P6,472,206
Depreciation and amortization expense	P1,137,939	P539,345	P1,675,598	P10,983	P174,001	P17,126	P3,554,992
Segment income attributable to:							
Equity holders of the Company	3,117,160	99,668	1,121,880	147,731	118,966	(195,175)	4,410,230
Non-controlling interests	2,780,746	1,047	-	624	899	(721,340)	2,061,976

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

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
<i>(In Thousands)</i>							
Assets:							
Current assets	P298,568,066	P10,219,418	P10,004,167	P10,012,580	P14,777,806	(P3,445,955)	P340,136,082
Noncurrent assets	313,673,332	6,600,617	13,588,070	13,304,339	8,915,819	614,949	356,697,126
	P612,241,398	P16,820,035	P23,592,237	P23,316,919	P23,693,625	(P2,831,006)	P696,833,208
Liabilities:							
Current liabilities	P466,045,382	P6,443,588	P2,959,227	P385,588	P12,925,809	(P19,613,131)	P469,146,463
Noncurrent liabilities	60,022,066	540,528	1,492,193	75,038	2,686,229	148,497	64,964,551
	P526,067,448	P6,984,116	P4,451,420	P460,626	P15,612,038	(P19,464,634)	P534,111,014
Investments in associates and a joint venture	P–	P–	P49,125	P11,011,011	P–	P1,237,373	P12,297,509
Equity attributable to:							
Equity holders of the Company	47,360,474	9,710,664	19,140,817	22,745,969	8,051,375	17,218,592	124,227,891
Non-controlling interests	38,813,476	125,255	–	110,324	30,212	(584,964)	38,494,303
Additions to noncurrent assets:							
Property, plant and equipment	1,051,647	365,947	1,041,141	8,893	16,777	9,639	2,494,044
Investment properties	1,283,966	–	–	929,071	395,788	–	2,608,825
Short-term debts	–	–	300,000	–	–	–	300,000
Long-term debts	9,969,498	4,998,008	2,902	–	1,829,938	(2,902)	16,797,444

For the year ended December 31, 2013:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
<i>(In Thousands)</i>							
Segment revenue:							
External customers	P28,855,871	P10,425,603	P12,701,784	P151,722	P3,656,950	P–	P55,791,930
Inter-segment	–	114,240	683,493	–	–	(797,733)	–
	28,855,871	10,539,843	13,385,277	151,722	3,656,950	(797,733)	55,791,930
Cost of sales	6,121,012	8,293,157	9,738,942	153,366	2,680,123	(964,665)	26,021,935
Gross profit	22,734,859	2,246,686	3,646,335	(1,644)	976,827	166,932	29,769,995
Equity in net earnings of an associate	–	–	–	3,704,117	–	–	3,704,117
	22,734,859	2,246,686	3,646,335	3,702,473	976,827	166,932	33,474,112
Selling expenses	–	648,619	1,783,513	–	365,764	(20,950)	2,776,946
General and administrative expenses	19,133,631	894,020	743,202	121,121	515,967	273,070	21,681,011
Operating income	3,601,228	704,047	1,119,620	3,581,352	95,096	(85,188)	9,016,155
Finance costs	–	(416,999)	(37,107)	–	(35,736)	8,950	(480,892)
Finance income	–	404	5,940	116,227	42,833	(26,311)	139,093
Foreign exchange gains - net	1,167,545	2,248	–	67,975	3,853	19,278	1,260,899
Others - net	2,693,949	75,428	285,366	345,256	159,603	89,037	3,648,639
Income before income tax	7,462,722	365,128	1,373,819	4,110,810	265,649	5,766	13,583,894
Provision for income tax	1,228,074	179,757	330,337	174,278	160,575	35,809	2,108,830
Segment profit	P6,234,648	P185,371	P1,043,482	P3,936,532	P105,074	(P30,043)	P11,475,064
Depreciation and amortization expense	P1,608,859	P547,071	P1,713,053	P16,414	P132,433	P16,380	P4,034,210
Segment income attributable to:							
Equity holders of the Company	3,435,033	196,463	1,043,482	3,919,999	104,286	(30,043)	8,669,220
Non-controlling interests	2,799,615	(11,092)	–	16,533	788	–	2,805,844

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

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
<i>(In Thousands)</i>							
Assets:							
Current assets	P276,146,858	P10,051,486	P8,103,570	P7,703,222	P9,489,339	(P5,889,454)	P305,605,021
Noncurrent assets	325,967,220	6,758,658	14,229,436	15,391,255	10,550,852	(52,220)	372,845,201
	P602,114,078	P16,810,144	P22,333,006	P23,094,477	P20,040,191	(P5,941,674)	P678,450,222
Liabilities:							
Current liabilities	P498,100,979	P1,537,568	P4,622,420	P378,464	P8,602,241	(P29,986,890)	P483,254,782
Noncurrent liabilities	34,622,189	5,586,397	1,593,065	–	3,480,131	143,058	45,424,840
	P532,723,168	P7,123,965	P6,215,485	P378,464	P12,082,372	(P29,843,832)	P528,679,622
Investments in an associate and a joint venture	P–	P–	P–	P13,664,449	P–	P–	P13,664,449
Equity attributable to:							
Equity holders of the Company	37,418,881	9,562,171	16,117,521	22,606,278	7,928,506	23,902,158	117,535,515
Non-controlling interests	31,972,029	124,008	–	109,735	29,313	–	32,235,085
Additions to noncurrent assets:							
Property, plant and equipment	964,974	780,849	1,396,895	14,464	13,377	16,587	3,187,146
Investment properties	1,632,953	–	–	–	2,197,321	(123,773)	3,706,501
Short-term debts	–	–	300,000	–	–	–	300,000
Long-term debts	9,953,651	4,982,544	10,919	–	2,953,475	(10,919)	17,889,670

For the year ended December 31, 2012:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
<i>(In Thousands)</i>							
Segment revenue:							
External customers	P32,040,683	P12,767,679	P12,188,007	P2,974,897	P2,685,795	P-	P62,657,061
Inter-segment	57,011	181,913	1,263,472	-	-	(1,502,396)	-
	32,097,694	12,949,592	13,451,479	2,974,897	2,685,795	(1,502,396)	62,657,061
Cost of sales and services	7,666,772	9,925,429	9,752,155	2,769,695	1,835,107	(1,509,436)	30,439,722
Gross profit	24,430,922	3,024,163	3,699,324	205,202	850,688	7,040	32,217,339
Equity in net earnings of an associate	-	-	-	6,498,972	-	-	6,498,972
	24,430,922	3,024,163	3,699,324	6,704,174	850,688	7,040	38,716,311
Selling expenses	-	601,767	1,841,207	-	308,560	(35,416)	2,716,118
General and administrative expenses	21,069,344	599,888	634,875	273,846	495,656	114,288	23,187,897
Operating income	3,361,578	1,822,508	1,223,242	6,430,328	46,472	(71,832)	12,812,296
Finance costs	-	(417,656)	(113,911)	(1,278)	(72,354)	57,012	(548,187)
Finance income	-	6,686	8,767	94,619	54,222	(6,050)	158,244
Foreign exchange gains - net	926,731	(2,745)	-	(100,198)	12,358	(12,110)	824,036
Others - net	3,692,539	107,443	546	524,682	73,042	592,834	4,991,086
Income before income tax	7,980,848	1,516,236	1,118,644	6,948,153	113,740	559,854	18,237,475
Provision for income tax	1,455,436	495,439	331,691	39,550	66,596	302,536	2,691,248
Segment profit	P6,525,412	P1,020,797	P786,953	P6,908,603	P47,144	P257,318	P15,546,227
Depreciation and amortization expense	P1,355,893	P493,158	P1,644,487	P61,518	P107,177	P15,675	P3,677,908
Segment income attributable to:							
Equity holders of the Company	3,770,546	1,017,437	786,953	6,879,587	45,348	257,318	12,757,189
Non-controlling interests	2,754,866	3,360	-	29,016	1,796	-	2,789,038

5. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	2014	2013
	<i>(In Thousands)</i>	
Cash and other cash items	P18,238,962	P12,651,411
Cash equivalents:		
Due from Bangko Sentral ng Pilipinas (BSP)	105,773,685	153,169,330
Due from other banks	15,591,406	14,093,671
Interbank loans receivable	7,671,437	8,405,250
	P147,275,490	P188,319,662

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.

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.

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

6. Financial Assets at Fair Value through Profit or Loss

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

	2014	2013
	<i>(In Thousands)</i>	
Financial assets at fair value through profit or loss (FVPL):		
Held for trading:		
Government securities	P6,598,386	P3,355,721
Private debt securities	289,313	830,528
Derivative assets (Notes 21 and 33)	136,551	258,697
Equity securities	210,550	249,518
	7,234,800	4,694,464
Designated at FVPL:		
Segregated fund assets (Note 16)	10,654,770	7,861,688
Unit investment trust fund	4,922,351	-
	P22,811,921	P12,556,152

a. As of December 31, 2014 and 2013, unrealized loss on government and private debt securities amounted to P216.2 million and P237.1 million, respectively. As of December 31, 2014 and 2013, the effective

interest rates range from 2.75% to 8.88% and from 3.25% to 8.38% for the government securities, and from 4.25% to 7.38% and from 3.88% to 7.38% for the private debt securities, respectively.

b. The carrying amount of equity securities includes unrealized loss of P17.2 million and P30.7 million as of December 31, 2014 and 2013, respectively.

c. Segregated fund assets designated as financial asset at FVPL refer to the considerations received from unit-linked insurance contracts invested by PNB LII in designated funds.

On March 15, 2005 and June 17, 2005, the Insurance Committee (IC) approved PNB LII's license to sell single-pay and regular-pay unit-linked insurance products, respectively.

Segregated fund assets and the corresponding segregated fund liabilities are designated as financial assets and liabilities at FVPL since they are managed and their performances are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy. The equity of each policyholder in the segregated fund assets is determined by assigning a number of units to each policyholder, corresponding to the net amount deposited in relation to the market value at the time of contribution. The value per unit may increase or decrease depending on the market value of the underlying assets of the corresponding segregated funds.

As of December 31, 2014 and 2013, the segregated fund assets consist of P8.7 billion peso funds and P2.0 billion dollar funds and P6.0 billion peso funds and P1.9 billion dollar funds, respectively. The segregated fund assets include the following equity-linked notes:

Equity-linked notes	Description
Asian Summit	A single-pay variable life insurance product which invests the single premium, net of premium charges, into a five (5)-Year PHP-Linked USD Participation Note which is linked to the performance of a basket of five Asian equity indices.
Summit Select	A single-pay variable life insurance product which invests the single premium, net of premium charges, into a five (5)-Year PHP-Linked USD Participation Note which is linked to the performance of ING Emerging Markets Consumption VT 10.00% Index.

Equity-linked notes	Description
Dollar Income Optimizer	A single-pay variable life insurance product which invests the single premium, net of premium charges, into UBS seven (7)-Year Structured Note which is linked to the performance of a basket of high quality global funds chosen to offer income and potential for capital appreciation.
Variable Unit-Linked Summit Peso and Dollar	A peso and dollar denominated single-pay 5-year linked life insurance plan that provide the opportunity to participate in a risk-managed portfolio of six (6) equally-weighted exchange traded funds of ASEAN member countries via the ING ASEAN Equities VT 10% index.

a. As of December 31, 2012, private debt securities designated at FVPL represent USD-denominated investments in credit-linked note (CLN). The CLNs are part of a group of financial instruments that together are managed on a fair value basis in accordance with the documented risk management and investment strategy of the PNB. Unrealized loss from financial assets designated at FVPL amounted to P16.3 million as of December 31, 2012.

On March 22 and August 17, 2012, PNB pre-terminated investments in CLN designated as financial assets at FVPL with a total face amount of USD47.5 million or P2.0 billion and USD15.0 million or P636.3 million, respectively, in which PNB realized trading gain of USD0.2 million or equivalent to P8.3 million. The carrying amount of the preterminated securities as of pre-termination dates amounted to USD48.1 million or P2.1 billion and USD14.8 million or P628.2 million, respectively.

On May 23, 2013, the remaining investments in CLN designated at FVPL with face value of USD30.0 million or P1.3 billion matured.

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

7. Available for Sale Investments

Available for sale investments consist of:

	2014	2013
	(In Thousands)	
Government securities (Notes 19 and 37)	P37,683,386	P59,380,333
Other debt securities	23,986,694	18,654,987
Equity securities:		
Quoted	2,735,120	2,663,182
Unquoted	338,026	1,185,582
	64,743,226	81,884,084
Allowance for impairment losses	(929,881)	(928,408)
	63,813,345	80,955,676
Noncurrent portion	(60,039,059)	(78,029,572)
	P3,774,286	P2,926,104

a. As of December 31, 2014 and 2013, government securities include the fair value of the AFS investments in the form of Fixed Rate Treasury Notes pledged to fulfill PNB's collateral requirements for the peso rediscounting facility of BSP amounting to P2.4 billion (see Notes 17 and 33). BSP has an obligation to return the securities to PNB once the obligations have been settled. In case of default, BSP has the right to hold the securities and sell them as settlement of the rediscounting facility. There are no other significant terms and conditions associated with the pledged investments.

b. As of December 31, 2014 and 2013, the fair value of the AFS investments in the form of Republic of the Philippines bonds pledged to fulfill its collateral requirements with securities sold under repurchase agreements transactions with the BSP amounted to P8.5 billion and P2.7 billion, respectively (see Note 33). BSP has an obligation to return the securities to the PNB once the obligations have been settled. In case of default, BSP has the right to hold the securities and sell them as settlement of the repurchase agreement. There are no other significant terms and conditions associated with the pledged investments.

c. Included in AFS investments are pledged securities for the Surety Bond amounting to P974.4 million issued by PNB Gen. As of

December 31, 2014 and 2013, the carrying value of these pledged securities amounted to P903.9 million and P928.3 million, respectively.

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

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

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

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

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

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

	2014	2013
	(In Thousands)	
At beginning of year	(P1,714,054)	P3,763,651
Net changes in fair value of AFS investments during the year*:		
Fair value changes during the year on AFS investments	1,344,819	397,865
Reversal of fair value gain on AFS investments reclassified to Investment in associate (Note 11)	238,186	—
Realized gains**(Note 24)	(1,030,567)	(5,875,570)
	552,438	(5,477,705)
At end of year	(P1,161,616)	(P1,714,054)
Attributable to:		
Equity holders of the Company	(P750,414)	(P875,973)
Non-controlling interests	(411,202)	(838,081)
	(P1,161,616)	(P1,714,054)

* Net of deferred income tax effect amounting to P1.4 million and P84.0 million in 2014 and 2013, respectively.

** Included in "Trading and securities gains" under "Banking revenue".

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

	2014	2013
	(In Thousands)	
Balance at beginning of year	P928,408	P997,045
Provisions during the year	1,234	—
Disposals, transfers and others	239	(68,637)
Balance at end of year	P929,881	P928,408

Reclassification of Financial Assets

On October 12, 2011, PNB had identified a clear change of intent to exit or trade in the short term its HTM investments rather than to hold them until maturity, when it disposed of more than an insignificant amount of its HTM investments. This disposal necessitated the reclassification of the remaining HTM investments to AFS securities in accordance with PAS 39. As of the date of reclassification, the amortized cost of HTM investments reclassified to AFS investments amounted to P32.5 billion. Reclassified AFS investments are initially measured at their fair value amounting to P35.7 billion. Any difference between the amortized cost of HTM investments and their fair value at reclassification date is recognized in OCI.

Beginning 2014, the Group is already allowed to classify investments as HTM as the tainting period, required by PAS 39, has lapsed. On March 3 and March 5, 2014, the Group reclassified certain AFS investments with fair values of P15.9 billion and P6.8 billion, respectively, back to its original classification, as HTM investments, as management has established that it continues to have the positive intention and ability to hold these securities to maturity. The reclassification was approved by the BOD of PNB on February 28, 2014. The previous fair valuation gains amounting to P2.7 billion that have been recognized in OCI shall be amortized to profit or loss over the remaining life of the HTM investments using effective interest rates ranging from 3.60% to 5.64%.

As of December 31, 2014, HTM investments of the Group comprise of government securities and private debt securities amounting to P22.9 billion and P50.0 million, respectively.

As of December 31, 2014, the fair value of the HTM investments

in the form of Republic of the Philippines bonds pledged to fulfill its collateral requirements with securities sold under repurchase agreements transactions with BSP amounted to P8.9 billion (Note 33).

8. Loans and Receivables

Loans and receivables consist of:

	2014	2013
	(In Thousands)	
Finance receivables	P328,416,192	P291,434,545
Trade receivables	11,885,157	10,784,851
Other receivables (Note 22)	2,980,818	2,918,862
	343,282,167	305,138,258
Allowance for credit losses	(12,189,786)	(17,203,226)
	331,092,381	287,935,032
Noncurrent portion	(187,438,860)	(204,749,366)
	P143,653,521	P83,185,666

Finance Receivables

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

	2014	2013
	(In Thousands)	
Receivables from customers:		
Loans and discounts	P278,897,612	P237,061,751
Customers' liabilities on acceptances, letters of credit and trust receipts	11,594,378	10,387,199
Bills purchased (Note 20)	4,878,682	3,827,510
Credit card receivables	4,390,966	4,105,025
Finance lease receivables	3,311,150	2,666,316
	303,072,788	258,047,801
Unquoted debt securities	8,044,272	11,571,023
Other receivables:		
Accounts receivable	8,993,706	10,308,901
Accrued interest receivable	4,756,699	7,514,686
Sales contract receivables	4,267,338	4,647,352
Miscellaneous	442,089	499,314
	18,459,832	22,970,253
	329,576,892	292,589,077
Unearned and other deferred income	(1,160,700)	(1,154,532)
	328,416,192	291,434,545
Allowance for credit losses	(12,129,459)	(17,165,122)
	316,286,733	274,269,423
Noncurrent portion	(186,830,742)	(202,512,151)
	P129,455,991	P71,757,272

a. Loans amounting to P219.1 million as of December 31, 2013 have been pledged to the BSP to secure PNB's availments under the BSP rediscounting privileges which are included in Bills payable (see Notes 17 and 33). The pledged loans will be released when the underlying transaction is terminated. In the event of PNB's default, BSP is entitled to apply the collateral in order to settle the rediscounted bills.

b. Unquoted Debt Securities

Unquoted debt instruments include the zero-coupon notes received by PNB from Special Purpose Vehicle (SPV) Companies on October 15, 2004, at the principal amount of P803.5 million (Tranche A Note) payable in five (5) years and at the principal amount of P3.4 billion (Tranche B Note) payable in eight (8) years in exchange for the outstanding loans receivable from National Steel Corporation (NSC) of P5.3 billion. The notes are secured by a first ranking mortgage and security interest over the NSC Plant Assets. As of December 31, 2014 and 2013, the notes are carried at their recoverable values. Management assessed that these loans are not fully recoverable as a result of the Partial Award granted by the Arbitration Panel to the SPV Companies. The consortium banks, including PNB, has filed a Petition to set aside the Partial Award with the Singapore High Court on July 9, 2012. The Petition is pending as of the financial statement issuance date.

As of December 31, 2013, unquoted debt instruments also include

bonds issued by Philippine Sugar Corporation (PSC) amounting to P2.7 billion with accrued interest included under "Accrued interest receivable" amounting to P2.3 billion. The full repayment of principal and accumulated interest to maturity is guaranteed by a sinking fund managed by PNB's Trust Banking Group (TBG). As of December 31, 2013, the sinking fund amounted P5.3 billion, earning an average rate of return of 8.82% per annum. The bonds matured on February 15, 2014 and was settled through liquidation of the sinking fund.

c. Finance Lease Receivable

An analysis of the Group's finance lease receivables as of December 31 is presented as follows:

	2014	2013
	(In Thousands)	
Gross investment in finance lease receivables		
Due within one year	P1,319,896	P1,002,864
Due beyond one year but not over five years	1,369,711	1,182,830
Due beyond five years	58,511	75,850
	2,748,118	2,261,544
Residual value of leased equipment		
Due within one year	138,118	135,310
Due beyond one year but not over five years	425,014	229,254
Due beyond five years	563,032	404,772
	P3,311,150	P2,666,316

d. Accounts Receivable

On November 27, 1997, Maybank Philippines, Inc. (Maybank) and PNB signed a deed of assignment transferring to PNB certain Maybank assets (included under "Accounts receivable") and liabilities in connection with the sale of PNB's 60.00% equity in Maybank. As of December 31, 2014 and 2013, the balance of these receivables amounted to nil and P3.6 billion, respectively, and the transferred liabilities (included under "Bills payable to BSP and local banks" and "Accrued interest payable") amounted to P3.6 billion and P3.3 billion, respectively (see Notes 17 and 18). The excess of the transferred receivables over the transferred liabilities is fully covered by an allowance for credit losses amounting to P262.5 million as of December 31, 2014 and 2013. The remaining 40% equity ownership of PNB in Maybank was sold in June 2000 (see Note 37).

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

	2014	2013	2012
	(In Thousands)		
Receivable from customers and sales contract receivables	P14,697,091	P13,553,287	P13,497,201
Unquoted debt securities	548,555	253,556	582,088
	P15,245,646	P13,806,843	P14,079,289

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

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

Interest income accrued on impaired loans and receivable of the Group amounted to P274.8 million in 2014, P289.1 million in 2013 and P302.8 million in 2012.

Trade receivables

Trade receivables consist of:

	2014	2013
	(In Thousands)	
Consumer goods	P9,026,828	P7,787,960
Contract receivables	2,667,862	2,947,033
Lease receivables	190,467	49,858
	11,885,157	10,784,851
Allowance for credit losses	(54,813)	(32,590)
	11,830,344	10,752,261
Noncurrent portion of contract receivables	(608,118)	(2,237,215)
	P11,222,226	P8,515,046

a. Trade receivables on consumer goods pertain to receivables from various customers of distilled spirits, beverages and tobacco segments, which are noninterest-bearing and generally have 30 to 90 days' terms.

b. Contracts receivables of the property development segment consist of revenues recognized to date based on percentage of completion less collections received from the respective buyers. Interest income from interest-bearing contracts receivables amounted to P37.5 million, P39.4 million and P50.3 million in 2014, 2013 and 2012 respectively.

c. The Group assigned certain contracts receivables to Banco de Oro Unibank, Inc. (BDO) on a with recourse basis. The total assigned contracts receivables amounted to P257.6 million and P367.3 million as of December 31, 2014 and 2013, respectively (see Note 19).

Other Receivables

Other receivables are due and demandable and include accrued interest receivable pertaining to interest earned on cash and cash

equivalents and unpaid utility charges to tenants and receivables from sale of various assets.

Movements of Allowance for Credit Losses

Details and movements of allowance for credit losses, determined using individual and collective assessment follow:

	December 31, 2014			
	Trade Receivables	Finance Receivables	Other Receivables	Total
	(In Thousands)			
Balance at beginning of year	P32,590	P17,165,122	P5,514	P17,203,226
Provisions during the year (Note 26)	22,223	1,712,279	-	1,734,502
Accounts charged off, transfers and others	-	(6,747,942)	-	(6,747,942)
Balance at end of year	P54,813	P12,129,459	P5,514	P12,189,786

	December 31, 2013			
	Trade Receivables	Finance Receivables	Other Receivables	Total
	(In Thousands)			
Balance at beginning of year	P9,984	P18,132,898	P5,514	P18,148,396
Provisions during the year (Note 26)	22,606	889,084	-	911,690
Accounts charged off, transfers and others	-	(1,856,860)	-	(1,856,860)
Balance at end of year	P32,590	P17,165,122	P5,514	P17,203,226

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

	2014	2013
	(In Thousands)	
Individual assessment		
Finance receivables:		
Receivable from customers	P2,153,083	P598,557
Unquoted debt securities	(336,475)	-
Other receivables	(164,331)	1,833
Trade receivables from customers of consumer goods	22,223	22,606
	1,674,500	622,996
Collective assessment		
Finance receivables:		
Receivable from customers	59,930	246,156
Other receivables	72	42,538
	60,002	288,694
	P1,734,502	P911,690

9. Inventories

Inventories consist of:

	2014	2013
	(In Thousands)	
At Cost:		
Consumer goods:		
Alcohol	P2,383,195	P2,559,043
Beverage	2,028,689	1,461,630
	4,411,884	4,020,673
Real estate inventories:		
Condominium and residential units for sale	P3,524,882	P2,933,431
Subdivision land under development	2,315,704	1,524,775
Land held for future development	1,408,237	474,665
	7,248,823	4,932,871
Fuel, materials and supplies	624,150	329,838
	12,284,857	9,283,382
At NRV - Materials and supplies	652,008	996,577
	P12,936,865	P10,279,959

Allowance for inventory obsolescence on materials and supplies amounted to P25.2 million, and P18.2 million as of December 31, 2014 and 2013, respectively.

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

	2014	2013
	(In Thousands)	
Finished goods	P561,011	P472,906
Work in process	1,022,742	1,018,642
Raw materials	2,828,131	2,529,125
	P4,411,884	P4,020,673

Cost of consumer goods inventories recognized as expenses under cost of sales amounted to P12.5 billion, P10.8 billion and P12.7 billion in 2014, 2013 and 2012 respectively (see Note 24).

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

	2014	2013
	(In Thousands)	
Opening balance at January 1	P4,932,871	P5,495,441
Land acquired during the year	328,580	238,997
Construction/development costs incurred	3,127,713	1,459,198
Borrowing costs capitalized (Note 19)	163,393	229,065
Disposals (recognized as cost of real estate sales, Note 24)	(1,303,734)	(2,489,830)
	P7,248,823	P4,932,871

Parcels of land acquired in 2014 and 2013 will be used for development of condominium units for sale and development as part of the consolidation of properties in Eton City, one of the major projects of the Group's property development segment.

10. Other Current Assets

	2014	2013
	(In Thousands)	
Miscellaneous cash and other cash items	P714,726	P182,295
Creditable withholding taxes (CWT)	2,738,802	1,818,972
Excise tax	1,008,484	925,030
Input VAT	827,684	499,167
Advances to suppliers	964,567	685,740
Advances to contractors	367,221	404,347
Stationeries, office supplies and stamps on hand	129,721	248,768
Deferred rent	90,701	54,544
Prepaid expenses	371,466	577,580
Held to maturity investments	11,375	—
Others	661,862	230,850
	P7,886,609	P5,627,293

- CWTs pertain mainly to the amounts withheld from income derived from sale of consumer goods and real estate inventories. The CWTs can be applied against any income tax liability of a company in the Group to which the CWTs relate.
- Excise tax pertains to advance tax payments to the Bureau of Internal Revenue (BIR) pertaining to sale of alcoholic beverages (see Note 37).
- Advances to suppliers pertain to deposits made for raw material purchases and are applied upon delivery of the related inventories.
- Advances to contractors are recouped every progress billing payment based on the percentage of accomplishment of each contract package. The activities to which these advances pertain will be completed within the normal operating cycle.
- Prepaid expenses include prepaid commission amounting to nil and P205.4 million and prepaid importation charges amounting to P80.8 million and P87.6 million as of December 31, 2014 and 2013 respectively. Prepaid commission consists of payments to real estate agents and brokers which will be charged to the consolidated statements of income in the period in which the related revenue is recognized. Prepaid importation charges pertain to the purchases of raw materials by the distilled spirits and beverage businesses.

11. Subsidiaries, Associates and Joint Venture

Investments in Associates and a Joint Venture

The Group has the power to participate in the financial and operating policy decisions in PMFTC and VMC, a 49.6%-owned and a 20.2%-owned associate, respectively, which do not constitute control or joint control. The Group also has 50.0% interest in ABI Pascual Holdings Private Limited (ABI Pascual Holdings), which is a joint controlled entity. The Group's investments in its associates and joint venture are accounted for using equity method of accounting.

	Ownership		Amount	
	2014	2013	2014	2013
			(In Thousands)	
PMFTC	49.6%	49.6%	P11,011,011	P13,664,449
VMC*	20.2%	14.5%	1,237,373	—
ABI Pascual Holdings	50.0%	50.0%	49,125	—
			P12,297,509	P13,664,449

*Ownership interest in 2013 pertains to the combined interest of LTG and PNB of 7.4% and 7.1%, respectively.

Investment in PMFTC

Details of investment in PMFTC are as follows:

	2014	2013	2012
	(In Thousands)		
Acquisition cost	P13,483,541	P13,483,541	P13,483,541
Accumulated equity in net earnings (loss):			
Balance at beginning of year	180,908	402,557	(1,860,154)
Equity in net earnings	515,112	3,704,117	6,498,972
Share in other comprehensive income	—	27,454	—
Less cash dividends (Note 22)	(3,168,550)	(3,953,220)	(4,236,261)
Balance at end of year	(2,472,530)	180,908	402,557
	P11,011,011	P13,664,449	P13,886,098

On February 25, 2010, FTC and PMPMI combined their respective domestic business operations by transferring selected assets and liabilities to PMFTC in accordance with the provisions of the Asset Purchase Agreement (APA) between FTC and its related parties and PMPMI. The establishment of PMFTC allows FTC and PMPMI to benefit from their respective, complementary brand portfolios as well as cost synergies from the resulting integration of manufacturing, distribution and procurement, and the further development and advancement of tobacco growing in the Philippines. FTC and PMPMI hold equal economic interest in PMFTC. Since PMPMI manages the day-to-day operations and has majority members of the BOD, it has control over PMFTC. FTC considers PMFTC as an associate.

As a result of FTC's divestment of its cigarette business to PMFTC, FTC initially recognized the investment amounting to P13.5 billion, representing the fair value of the net assets contributed by FTC, net of unrealized gain of P5.1 billion. The transaction was accounted for similar to a contribution in a joint venture using the Standing Interpretations Committee (SIC) Interpretation 13, Jointly Controlled Entities-Non-Monetary Contributions by Venturers, where FTC recognized only that portion of the gain or loss which is attributable to the interests of PMPMI amounting to P5.1 billion in 2010. The portion attributable to FTC is being recognized once the related assets and liabilities are realized, disposed or settled. FTC recognized the gain amounting to P293.0 million each in 2014, 2013, 2012 and 2011 and an outright loss of P2.0 billion in 2010, which are included in the "Equity in net earnings" in these periods. Further, as a result of the transfer, portion of the revaluation increment on FTC's property, plant and equipment amounting to P1.9 billion was transferred to retained earnings.

Details of the carrying values of the contributed assets are indicated below (In thousands):

Cash	P33,090
Inventories	19,084,092
Other current assets	4,382,894
Property, plant and equipment	8,432,235
Trade and other payable	(2,707,797)
Loans payable	(19,000,000)
Deferred income tax liability	(1,818,551)
	P8,405,963

Also, as a result of the transaction, FTC has obtained the right to sell (put option) its interest in PMFTC to PMPMI, except in certain circumstances, during the period from February 25, 2015 through February 24, 2018, at an agreed-upon value. On December 10, 2013, the BOD of LTG approved the waiver by FTC of its rights under the Exit Rights Agreement entered into with PMI and confirmed the execution of the Termination Agreement.

Summarized financial information of PMFTC, based on its financial statements, are set out below:

	2014	2013
	(In thousands)	
Current assets	P41,868,305	P37,813,624
Noncurrent assets	32,390,102	32,972,587
Current liabilities	(34,231,463)	(29,896,491)
Noncurrent liabilities	(8,646,788)	(4,335,108)
Equity	31,380,156	36,554,612

Summarized statements of income of PMFTC are as follows:

	2014	2013	2012
	(In thousands)		
Revenue	P98,384,104	P89,623,792	P78,941,157
Cost of sales	(86,931,758)	(67,456,713)	(50,678,802)
General and administrative	(12,396,641)	(12,652,233)	(11,506,250)
Others - net	1,508,900	585,702	783,777
Income before income tax	564,605	10,100,548	17,539,882
Provision for income tax	(116,876)	(2,970,655)	(5,280,640)
Net income	447,729	7,129,893	12,259,242
Group's share of income for the year	P222,043	P3,535,947	P6,080,631

Investment in VMC

Details of investment in VMC are as follows:

	2014 (In Thousands)
Acquisition cost	P616,441
Accumulated equity in net earnings:	
Balance at beginning of year	—
Equity in net earnings	44,635
Excess of fair value of net assets of associate over cost of investment	334,808
Balance at end of year	379,443
Balance of convertible note	241,489
	P1,237,373

On December 21, 2007, the Company acquired 170.1 million shares representing 10.67% ownership in the shares of stock of VMC for P85.1 million presented as AFS investments as of December 31, 2013. Net changes in the fair value of AFS investments recognized as other comprehensive income in 2013 amounted to P86.8 million. As of December 31, 2013, the cost of investment plus the accumulated net changes in fair value of AFS investments amounted to P323.3 million.

On various dates in April and May 2014, LTG acquired shares of stock of VMC amounting to P413.6 million, which increased its ownership interest to 17.5%, and convertible notes amounting to P359.3 million, which would increase LTG's interest to 23.5% upon conversion. As of December 31, 2014, portion of the convertible notes amounting to P117.8 million was converted to shares of stock of VMC resulting in an increase in LTG's ownership interest to 20.4%. The cost-based approach was applied in accounting for the step acquisition of VMC as an associate. Accordingly, LTG reclassified the original cost of its AFS investments to investment in an associate and derecognized the net changes in fair value of AFS investments amounting to P238.2 million (presented in other comprehensive income) (see Note 7). The difference of P334.8 million between the sum of the consideration for the 17.5% ownership interest amounting to P498.7 million and the share in fair value of net assets of VMC at the date the investment becomes an associate amounting to P833.5 million is recognized as part of the equity in net earnings of VMC.

The summarized financial information of VMC as of November 30, 2014 and for the six months period from June 1, 2014 to November 30, 2014 follows (in thousands):

Current assets	P2,399,263
Noncurrent assets	5,571,438
Current liabilities	1,322,438
Noncurrent liabilities	1,564,532
Revenue	1,352,346
Income before income tax	386,628
Provision for income tax	120,357
Net income	266,271
Other comprehensive income	—
Total comprehensive income	266,271

Investment in a Joint Venture

On February 15, 2012, ABI and Corporation Empresarial Pascual, S. L. (CEP), an entity organized and existing under the laws of Spain, agreed to form ABI Pascual Holdings, a jointly controlled entity organized and domiciled in Singapore. In accordance with the Agreement, ABI and CEP (the "venturers") will hold 50% interest in ABI Pascual Holdings. Further, the arrangement requires unanimous agreement for financial and operating decisions among venturers.

On November 21, 2012, ABI Pascual Holdings created ABI Pascual Foods Incorporated (ABI Pascual Foods), an operating company, incorporated and domiciled in the Philippines, that will develop a business of marketing and distributing certain agreed products. As part of the joint venture agreement, the venturers also agreed to execute a product distribution agreement.

As of December 31, 2012, ABI has an investment in ABI Pascual Holdings amounting to P20.1 million, while ABI Pascual Holdings has an investment in ABI Pascual Foods amounting to P40.2 million. The joint venture has started operations in September 2013.

Total assets, liabilities and capital deficiency of ABI Pascual Holdings amounted to P54.2 million, P146.3 million and P92.1 million as of December 31, 2014 and P66.4 million, P135.5 million and P69.1 million

as of December 31, 2013. In 2014 and 2013, ABI Pascual Holdings incurred net losses of P23.1 million and P108.9 million, respectively. The Group recognized share in net loss of ABI Pascual Holdings to the extent of the carrying value of the investment amounting to P20.1 million (see Note 28). As of December 31, 2013, the Group's interest in the jointly controlled entity has been reduced to zero and the Group has not incurred any obligations or guaranteed any obligations in respect of the jointly controlled entity. As at December 31, 2013, the Group's share in losses which has not been equity accounted for amounted to P14.4 million. In 2014, the Group determined that its advances to ABI Pascual Foods amounting to P95.2 million to support its operations represent the Group's long-term interest in ABI Pascual Holdings and its subsidiary that, in substance, form part of the Group's net investment in the joint venture. The Group's share in loss of the joint venture in 2014 amounted to P46.1 million (see Note 28).

Disclosures on Subsidiary with Material Non-controlling Interest

Following is the financial information of PNB, which has material non-controlling interests of 43.53% as of and for the years ended December 31:

	2014	2013	2012
	(In Thousands)		
Accumulated balances of material non-controlling interest	P35,600,617	P28,844,411	P27,902,694
Net income allocated to material non-controlling interest	2,507,994	2,647,901	2,906,532
Comprehensive income allocated to material non-controlling interest	2,328,509	959,404	2,550,920
Dividends paid to material non-controlling interest	—	—	13,059

As discussed in Note 1, on February 9, 2013, PNB acquired 100.00% of the voting common stock of ABC. PNB accounted the business combination with ABC under the acquisition method of PFRS 3. In the LTG consolidated financial statements, the merger of PNB and ABC and the acquisition of PNB through the Bank Holding Companies are accounted for under pooling of interest method. Thus, the summarized financial information of PNB below is based on the amounts in the consolidated financial statements of PNB prepared under pooling of interest method before the Group's inter-company eliminations.

Statements of Comprehensive Income:

	2014	2013	2012
	(In Thousands)		
Revenue	P25,374,758	P28,855,871	P32,097,694
Cost of services	(4,712,917)	(6,121,012)	(7,666,772)
General and administrative expenses	(20,184,880)	(19,133,631)	(21,069,344)
Foreign exchange gains - net	1,340,197	1,167,545	926,731
Other income - net	5,744,362	2,693,949	3,692,539
Income before income tax	7,561,520	7,462,722	7,980,848
Provision for income tax	(1,663,614)	(1,228,074)	(1,455,436)
Net income	5,897,906	6,234,648	6,525,412
Other comprehensive loss	(463,460)	(3,500,920)	(1,035,144)
Total comprehensive income	P5,434,446	P2,733,728	P5,490,268
Net income attributable to:			
Equity holders of PNB	P5,761,530	P6,082,933	P6,677,077
Non-controlling interests	136,376	151,714	(151,665)
Total comprehensive income attributable to:			
Equity holders of PNB	5,349,206	2,204,005	5,860,141
Non-controlling interests	85,240	529,723	(369,873)

Balance Sheets:

	2014	2013
	(In Thousands)	
Current assets	P298,568,066	P276,146,856
Noncurrent assets	313,673,332	325,967,220
Current liabilities	466,045,382	498,100,979
Noncurrent liabilities	60,022,066	34,622,189
Equity attributable to:		
Equity holders of the Company	82,961,091	66,263,291
Non-controlling interest	3,212,859	3,127,619

Statements of Cash Flows:

	2014	2013	2012
	(In Thousands)		
Operating	(P61,400,140)	P48,744,659	(P9,626,822)
Investing	(542,830)	(7,555,741)	8,092,588
Financing	17,168,222	70,455,937	12,971,712
	(P 44,774,748)	P111,644,855	P11,437,478

December 31, 2014

December 31, 2013

	At Appraised Values			At Cost								
	Land and Land Improvements	Buildings and Building Improvements	Plant	Machineries and Equipment	Subtotal	Office and Administration Buildings and Improvements	Transportation Equipment	Returnable Containers	Furniture, Fixtures and Other Equipment	Construction in progress	Subtotal	Total
<i>(In Thousands)</i>												
Cost												
Balance at beginning of year	P16,974,126	P20,454,937		P25,568,048	P62,997,111	P1,331,564	P1,714,630	P5,766,085	P8,439,421	P806,996	P18,058,696	P81,055,807
Additions	7,649	492,790		531,931	1,032,360	103,098	98,469	544,221	917,402	491,596	2,154,786	3,187,146
Revaluation increase	275,485	1,025,108		—	1,300,593	—	—	—	—	—	—	1,300,593
Disposals, transfers and other adjustments (Note 28)	228,523	(2,806,922)		506,479	(2,071,920)	(42,261)	(2,793)	(65,016)	(287,679)	(799,908)	(1,197,647)	(3,289,567)
Balance at end of year	17,485,783	19,165,903		26,606,458	63,256,144	1,392,401	1,810,316	6,245,290	9,069,144	498,694	19,015,835	82,273,979
Accumulated Depreciation, Amortization and Impairment Losses												
Balance at beginning of year	845,279	8,689,820		15,381,344	24,916,443	878,146	1,329,855	4,288,174	6,402,763	—	12,898,938	37,815,381
Depreciation and amortization	34,438	784,660		986,296	1,805,394	147,896	140,698	659,596	532,065	—	1,480,255	3,285,649
Disposals, transfers and other adjustments (Note 28)	—	(1,258,873)		(16,054)	(1,274,927)	(50,323)	(2,400)	(37,671)	(122,949)	—	(213,343)	(1,488,270)
Impairment loss (Note 28)	(7,574)	(15,719)		—	(23,293)	—	—	3,133	—	—	3,133	(20,160)
Balance at end of year	872,143	8,199,888		16,351,586	25,423,617	975,719	1,468,153	4,913,232	6,811,879	—	14,168,983	39,592,600
Net Book Value	P16,613,640	P10,966,015		P10,254,872	P37,834,527	P416,682	P342,163	P1,332,058	P2,257,265	P498,694	P4,846,852	P42,681,379

Revaluation of Land and Land Improvements and Plant Buildings and Machineries and Equipment

The corresponding fair values of land and land improvements, plant buildings and building improvements, and machineries and equipment are determined based on valuation performed by independent appraisers. The fair value of the land was determined using the market data approach based on available market evidence and the fair values for land improvements, plant buildings, and machineries and equipment were derived using the depreciated replacement cost. The dates of the latest appraisal valuations were December 31, 2011 (see Note 34). Movements in revaluation increment, net of deferred income tax effect, are as follows:

	2014	2013
	(In Thousands)	
Revaluation increment on the property, plant and equipment, net of deferred income tax effect:		
Beginning of year	P8,963,164	P9,475,117
Revaluation increase	—	910,415
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	(841,802)	(1,422,368)
	P8,121,362	P8,963,164
Attributable to:		
Equity holders of the parent company	P5,781,539	P6,378,188
Non-controlling interests	2,339,823	2,584,976
	P8,121,362	P8,963,164

If land and land improvements, plant buildings and building improvements, and machineries and equipment were measured using cost model, the carrying amount would be as follows:

	2014	2013
	(In Thousands)	
Cost		
Land and land improvements	P7,244,333	P7,235,779
Plant buildings and improvements	14,346,131	13,839,217
Machineries and equipment	42,189,454	16,429,028
	63,779,918	37,504,024

Forward

	2014	2013
	(In Thousands)	
Accumulated depreciation		
Plant buildings and improvements	(P12,908,279)	(P3,836,248)
Machineries and equipment	(24,003,059)	(8,637,769)
	(36,911,338)	(12,474,017)
	P26,868,580	P25,030,007

Impairment, Write-off and Disposal of Property, Plant and Equipment

The Group recognized impairment losses for certain property, plant and equipment amounting to P33.5 million in 2012 (see Note 26). Management assessed that the carrying amounts of these assets should be fully impaired since there is no more expected future economic benefit from these assets.

Depreciation

Depreciation of property, plant and equipment charged to operations is as follows:

	2014	2013	2012
	(In Thousands)		
Cost of sales and services (Note 24)	P1,420,117	P1,298,012	P1,278,879
Selling expenses (Note 25)	593,785	717,807	683,885
General and administrative expenses (Note 26)	1,064,665	1,269,830	1,112,413
	P3,078,567	P3,285,649	P3,075,177

Fully depreciated property, plant and equipment that are still used in operations amounted to P2.9 billion and P2.2 billion as of December 31, 2014 and 2013, respectively.

Borrowing Costs

Borrowing costs capitalized as part of property, plant and equipment under construction amounted to P7.1 million in 2011. Unamortized capitalized borrowing costs amounted to P8.2 million, and P15.1 million as of December 31, 2014 and 2013, respectively. The average capitalization rates used to determine the amount of borrowing costs eligible for capitalization is 5.7% in 2011.

13. Investment Properties

Movements of the Group's investment properties are as follows (in thousands):

December 31, 2014					
	Land	Buildings and Improvements	Residential Unit	Construction in Progress	Total
Cost					
Beginning balance	P22,127,318	P9,421,946	P7,620	P1,331,690	P32,888,574
Additions	1,891,277	535,809	—	181,739	2,608,825
Transfers/disposals/others	(476,708)	107,024	—	(1,374,450)	(1,744,134)
Ending balance	23,541,887	10,064,779	7,620	138,979	33,753,265
Accumulated Depreciation					
Beginning balance	3,336,107	3,357,250	7,620	—	6,700,977
Depreciation	—	315,189	—	—	315,189
Provision for impairment losses	453,462	16,324	—	—	469,786
Transfer/disposals/others	(540,647)	(389,973)	—	—	(930,620)
Ending balance	3,248,922	3,298,790	7,620	—	(6,555,332)
Net Book Value	P20,292,965	P6,765,989	P—	P138,979	P27,197,933

December 31, 2013					
	Land	Buildings and Improvements	Residential Unit	Construction in Progress	Total
Cost					
Beginning balance	P23,333,720	P7,947,754	P7,620	P306,892	P31,595,986
Additions	1,486,023	1,191,003	—	1,029,475	3,706,501
Transfers/disposals/others	(2,692,425)	283,189	—	(4,677)	(2,413,913)
Ending balance	22,127,318	9,421,946	7,620	1,331,690	32,888,574
Accumulated Depreciation and Impairment Losses					
Beginning balance	3,071,137	3,398,207	7,620	—	6,476,964
Depreciation	—	464,690	—	—	464,690
Provision for impairment losses	706,318	59,025	—	—	765,343
Transfer/disposals/others	(441,348)	(564,672)	—	—	(1,006,020)
Ending balance	3,336,107	3,357,250	7,620	—	6,700,977
Net Book Value	P18,791,211	P6,064,696	P—	P1,331,690	P26,187,597

The Group's investment properties consist of parcels of land for appreciation, residential and condominium units for lease and for sale, and real properties foreclosed or acquired in settlement of loans which are all valued at cost. Foreclosed investment properties still subject to redemption period by the borrowers amounted to P169.6 million and P449.5 million as of December 31, 2014 and 2013, respectively. The Group is exerting continuing efforts to dispose these properties. As discussed in Note 37, investment properties with an aggregate fair value of P300.0 million were mortgaged in favor of BSP as of December 31, 2012.

Fair Values of Investment Properties

Below are the fair values of the investment properties which were determined by professionally qualified, independent appraisers based on market values:

	2014	2013
	(In Thousands)	
Land	P36,107,990	P35,072,992
Buildings and improvements	6,025,335	4,857,285
	P42,133,325	P39,930,277

The fair value of investment properties of the Group was arrived at using various acceptable valuation approaches and both observable and unobservable inputs (see Note 34).

Rent Income and Direct Operating Expenses of Investment Properties

Rental income and direct operating expenses arising from the investment properties of property development segment amounted to P740.3 million and P278.9 million in 2014 and P448.7 million and P190.3 million in 2013, P396.8 million and 142.9 million in 2012, respectively (see Note 24).

Rental income of the banking segment on its investment properties is presented under "Other income (charges) - net" (see Note 28).

Depreciation of investment properties charged to operations follows:

	2014	2013	2012
	(In Thousands)		
Cost of rental income (Note 24)	P145,680	P94,223	P70,671
General and administrative expenses (Note 26)	169,509	370,467	269,174
	P315,189	P464,690	P339,845

14. Other Noncurrent Assets

Other noncurrent assets consist of:

	2014	2013
	(In Thousands)	
Deferred input VAT	P352,657	P539,296
Deferred reinsurance premiums	738,685	245,157
Deferred charges	236,773	121,156
Deposit for future investments	357,489	355,716
Investment in Heritage Park	—	999,035
Other investments	19,357	37,233
Refundable deposits	173,305	167,547
Other security deposits	125,656	105,285
Software costs	667,364	425,928
Goodwill	163,735	163,735
Chattel properties - net	49,549	120,615
Receivable from SPV - net	—	500
Net retirement plan assets (Note 23)	264,118	243,793
Others - net	516,444	1,326,515
	P3,665,132	P4,851,511

a. Deferred input VAT arises mainly from the acquisition of capital goods.

b. Refundable deposits consist principally of amounts paid by the property development segment to its utility providers for service applications and guarantee deposit to Makati Commercial Estate Association for plans processing, monitoring fee and development charge of the Group's projects. These refundable deposits amounting to P173.3 million and P167.5 million as of December 31, 2014 and 2013, respectively, will be refunded upon termination of the service contract and completion of the projects' construction.

c. Movements in software costs are as follows:

	2014	2013
	(In Thousands)	
Beginning of year	P425,928	P471,112
Additions	419,809	238,687
Disposals	(17,137)	—
Amortization (Note 26)	(161,236)	(283,871)
End of year	P667,364	P425,928

Software cost amortization amounted to P161.2 million in 2014, P236.7 million in 2013 and P280.9 million in 2012 (see Note 26).

d. The Group recognized goodwill pertains to ADI and Eton amounting to P144.7 million and P19.0 million, respectively. As at December 31, 2014, the Group performed its annual impairment testing of goodwill related to ADI, a CGU.

The recoverable amount of ADI is determined based on value in use calculations using cash flow projections from financial budgets approved by management covering a five-year period. The projected cash flows have been updated to reflect the increase in demand for products based on TDI's projected sales volume increase, selling price increase and cost and expenses increase. The pre-tax discount rate applied to the cash flow projection is 9.7%. The growth rate used to extrapolate the cash flows of until beyond the five-year period is 5.5%. Management assessed that this growth rate is comparable with the average growth for the industry in which ADI operates.

Management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of ADI to exceed its recoverable amount, which is based on value in use. As of December 31, 2014, the recoverable amount of ADI is higher than its carrying value.

e. As of December 31, 2014 and 2013, accumulated depreciation on chattel mortgage properties acquired by PNB in settlement of loans amounted to P74.1 million and P77.8 million, respectively.

f. The Group has receivable from SPV, OPIL, which was deconsolidated upon adoption of PFRS 10.

As of December 31, 2014 and 2013, receivable from SPV represents fully provisioned subordinated notes received by PNB from Golden Dragon Star Equities and its assignee, OPIL, relative to the sale of the first pool and second pool of its NPAs in December 2006 and March 2007, respectively. The asset sale and purchase agreements (ASPA) between PNB, Golden Dragon Star Equities and OPIL for the sale of the NPAs were executed on December 19, 2006. OPIL was specifically organized to hold, manage, service and resolve the non-performing assets sold to Golden Dragon Star Equities. OPIL has been financed through the issuance of equity securities and subordinated debt securities. No income was recognized from OPIL in 2013.

The more significant terms of the sale are as follows:

1. Certain NPAs of PNB were sold to the SPV and divided into two pools. The sale of the first pool of NPAs with an outstanding balance of P11.7 billion was made on December 29, 2006 for a total consideration of P11.7 billion.

2. The agreed purchase price of the first pool of NPAs shall be paid as follows:

i. An initial amount of P1.1 billion, which was received in full and acknowledged by the PNB on February 14, 2007; and

ii. The balance of P10.6 billion, through issuance of SPV Notes, shall be paid over five (5) years based on a cash flow waterfall arrangement and at an interest equivalent to the 3-month MART prevailing as of the end of the quarter prior to the payment date.

Under the ASPA, the sale of the second pool of NPAs amounting to P7.6 billion with allowance for credit losses of P5.5 billion became effective in March 2007. The agreed purchase price of this pool of NPAs were paid as follows:

1. An initial amount of P751.1 million, which was received in full and acknowledged by PNB on April 26, 2007; and

2. The balance of P6.8 billion through issuance of SPV Notes, shall be paid over five (5) years based on a cash flow waterfall arrangement and at an interest equivalent to the 3-month MART prevailing as of the end of the quarter prior to the payment date. In case of

insufficiency of funds for payment of the SPV Notes, the buyer of the NPAs, with the consent of PNB, which consent shall not be unreasonably withheld, may write-off the SPV Notes, including all interest, fees and charges outstanding and payable.

3. Allowance for impairment losses on receivable from SPV amounted to P0.5 million as of December 31, 2014 and 2013.

g. Security fund amounting to P0.15 million (included under "Others - net") is maintained by PNB LII in compliance with Sections 365 and 367 of the Insurance Code (IC) as of December 31, 2014. The amount of such fund is determined by and deposited with the IC for the payment of benefit claims against insolvent companies.

15. Deposit Liabilities

	2014	2013
	(In Thousands)	
Demand	P88,896,863	P90,428,033
Savings	293,201,308	284,599,682
Time	52,759,938	51,114,363
	434,860,109	426,142,078
Presented as noncurrent	(23,468,731)	(10,451,554)
Presented as current	P411,391,378	P415,690,524

Of the total deposit liabilities of PNB, P24.7 billion and P26.1 billion are non-interest bearing as of December 31, 2014 and 2013, respectively. Annual interest rates of the remaining deposit liabilities follow:

	2014	2013	2012
Foreign-currency denominated deposit liabilities	0.02% to 2.26%	0.02% to 2.53%	0.09% to 2.55%
Peso-denominated deposit liabilities	0.03% to 6.11%	0.11% to 5.59%	0.25% to 4.32%

On March 29, 2012, BSP issued Circular No. 753 which provides for the unification of the statutory and liquidity reserve requirement, non-remuneration of the unified reserve requirement, exclusion of vault cash and demand deposits as eligible forms of reserve requirement compliance, and reduction in the unified reserve requirement ratios.

Under existing BSP regulations, non-FCDU deposit liabilities of PNB and PNB Savings Bank are subject to reserves equivalent to 20.00% and 8.00%, respectively. Available reserves follow:

	2014	2013
	(In Thousands)	
Due from BSP	P68,176,685	P63,556,710
Unquoted debt securities	—	2,741,000
	P68,176,685	P66,297,710

As of December 31, 2014 and 2013, PNB and PNB Savings Bank were in compliance with such regulations.

Long-term Negotiable Certificates of Time Deposits

Time deposit of the Group includes the following Long-term Negotiable Certificates of Time Deposits (LTNCDs):

Issue Date	Maturity Date	Face Value (In Thousands)	Carrying Value (In Thousands)	Coupon Rate	Interest Repayment Terms
December 12, 2014	June 12, 2020	P7,000,000	P6,957,175	4.13%	Quarterly
October 21, 2013	April 22, 2019	P4,000,000	P3,976,133	3.25%	Quarterly
August 5, 2013	February 5, 2019	P5,000,000	P4,973,448	3.00%	Quarterly
November 18, 2011	February 17, 2017	P3,100,000	P3,090,564	5.18%	Quarterly

Other significant terms and conditions of the above LTNCDs follow:

- Issue price at 100.00% of the face value of each LTNCD.
- The LTNCDs bear interest rate per annum on its principal amount from and including the Issue Date thereof, up to but excluding the Early Redemption Date or Maturity Date (as the case may be).

Interest in respect of the LTNCD will be calculated on an annual basis and will be paid in arrears quarterly on the last day of each successive Interest Period.

c. Unless earlier redeemed, the LTNCDs shall be redeemed by PNB on maturity date at an amount equal to one hundred percent (100%) of the aggregate issue price thereof, plus any accrued and unpaid interest thereon. The LTNCDs may not be redeemed at the option of the holders.

d. The LTNCDs constitute direct, unconditional, unsecured, and unsubordinated obligations of PNB, enforceable according to these Terms and Conditions, and shall at all times rank paripassu and without any preference or priority among themselves and at least paripassu with all other present and future direct, unconditional, unsecured, and unsubordinated obligations of the Issuer, except for any obligation enjoying a statutory preference or priority established under Philippine laws.

e. Subject to the "Events of Default" in the Terms and Conditions, the LTNCDs cannot be pre-terminated at the instance of any CD Holder before Maturity Date. In the case of an event of default, none of the CD Holders may accelerate the CDs on behalf of other CD Holders, and a CD Holder may only collect from PNB to the extent of his holdings in the CDs. However, PNB may, subject to the General Banking Law of 2000, Section X233.9 of the Manual of Regulations for Banks, Circular No. 304 Series of 2001 of the BSP and other related circulars and issuances, as may be amended from time to time, redeem all and not only part of the outstanding CDs on any Interest Payment Date prior to Maturity Date, at an Early Redemption Amount equal to the Issue Price plus interest accrued and unpaid up to but excluding the Early Redemption Date.

f. The LTNCDs are insured by the PDIC up to a maximum amount of P500,000 subject to applicable laws, rules and regulations, as the same may be amended from time to time.

g. Each Holder, by accepting the LTNCDs, irrevocably agrees and acknowledges that: (a) it may not exercise or claim any right of set-off in respect of any amount owed to it by the PNB arising under or in connection with the LTNCDs; and (b) it shall, to the fullest extent permitted by applicable law, waive and be deemed to have waived all such rights of set-off.

Interest expense on deposit liabilities presented under "Cost of banking services" amounted to P2.9 billion, P3.9 billion and P5.0 billion in 2014, 2013 and 2012, respectively (see Note 24).

In 2014, 2013 and 2012, interest expense on LTNCDs for the Group includes amortization of transaction costs amounting to P22.8 million, P19.4 million and P9.5 million, respectively. Unamortized transaction costs of the LTNCDs amounted to P102.7 million and P81.8 million as of December 31, 2014 and 2013, respectively.

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

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

	2014	2013
	(In Thousands)	
Designated at FVPL - segregated fund liabilities	P10,817,122	P7,911,794
Derivative liabilities (Notes 21 and 33)	44,903	163,101
	10,862,025	8,074,895
Presented as noncurrent	24,805	7,882,700
Presented as current	P10,837,220	P192,195

The balance of segregated fund liabilities consists of:

	2014	2013
	(In Thousands)	
Segregated funds (Note 6)	P10,654,770	P7,861,688
Additional subscriptions	162,352	50,106
Segregated fund liabilities	P10,817,122	P7,911,794

Financial liability designated at FVPL represents the P6.0 billion subordinated notes due in 2018 which was issued by PNB on June 19, 2008. The subordinated note is part of a group of financial instruments that together are managed on a fair value basis, in accordance with PNB's documented risk management and investment strategy.

Among the significant terms and conditions of the issuance of such 2008 Notes are:

- a. Issue price at 100.00% of the principal amount;
- b. The 2008 Notes bear interest at the rate of 8.50% per annum from and including June 19, 2008 to but excluding June 19, 2013. Interest will be payable quarterly in arrears on the 19th of March, June, September and December of each year, commencing on September 19, 2008. Unless the 2008 Notes are previously redeemed, interest from and including June 19, 2013 to but excluding June 19, 2018 will be reset at the equivalent of the higher of (i) five-year PDST-F Fixed Rate Treasury Notes (FXTN) as of reset date multiplied by 80.00%, plus a step-up spread of 2.0123% per annum or (ii) difference of interest rate and five-year PDST-F FXTN as of issue date multiplied by 150% plus five-year PDST-F FXTN as of reset date, and such step-up interest rate shall be payable quarterly in arrears on 19th of March, June, September and December of each year, commencing on September 19, 2013. The 2008 Notes will mature on June 19, 2018, if not redeemed earlier;
- c. The 2008 Notes constitute direct, unconditional, unsecured and subordinated obligations of PNB and at all times rank pari passu without preference among themselves and at least equally with all other present and future unsecured and subordinated obligations of the PNB;
- d. PNB may redeem the 2008 Notes in whole but not in part at a redemption price equal to 100.00% of the principal amount together with accrued and unpaid interest on the day following the last day of the twentieth (20th) interest period from issue date, subject to the prior consent of the BSP and the compliance by PNB with the prevailing requirements for the granting by the BSP of its consent thereof. The 2008 Notes may not be redeemed at the option of the noteholders; and
- e. Each noteholder, by accepting the 2008 Notes, irrevocably agrees and acknowledges that: (i) it may not exercise or claim any right of set-off in respect of any amount owed by PNB arising under or in connection with the 2008 Notes; and (ii) it shall, to the fullest extent permitted by applicable law, waive and be deemed to have waived all such rights of set-off.

On June 18, 2013, PNB exercised its option to redeem the 2008 Notes.

17. Bills and Acceptances Payable

Bills and acceptance payable consists of:

	2014	2013
	<i>(In Thousands)</i>	
Bills payable to:		
BSP and local banks (Note 22)	P16,393,373	P8,522,539
Foreign banks	1,027,442	2,821,186
Others	1,262,389	1,463,979
	18,683,204	12,807,704
Acceptances outstanding	366,854	364,293
	19,050,058	13,171,997
Presented as noncurrent	12,409,837	1,748,844
Presented as current	P6,640,221	P11,423,153

Annual interest rates are shown below:

	2014	2013	2012
Foreign currency-denominated borrowings	0.03% - 2.50%	0.12%-0.99%	0.06%-1.77%
Peso-denominated borrowings	0.63% - 2.00%	1.09%-3.50%	0.03%-4.50%

PNB's bills payable to BSP includes the transferred liabilities from Maybank Philippines, Inc. (Maybank) amounting to P1.7 billion as of December 31, 2014 and 2013 (see Note 8).

Bills payable includes funding from the Social Security System under which PNB acts as a conduit for certain financing programs of these

institutions. Lending to such programs is shown under "Loans and receivables" (see Note 8).

As of December 31, 2014 and 2013, bills payable with a carrying value of P14.1 billion and P2.2 billion, respectively, is secured by a pledge of certain AFS investments and HTM investments with fair value of P8.5 billion and P8.9 million, and P2.5 billion and nil, respectively (see Note 7).

As of December 31, 2013, bills payable under the BSP rediscounting facility with a carrying value of P112.6 million is secured by a pledge of loans amounting to P219.3 million (see Notes 7 and 8).

Following are the significant terms and conditions of the repurchase agreements entered into by PNB:

- a. Each party represents and warrants to the other that it is duly authorized to execute and deliver the Agreement, and to perform its obligations and has taken all the necessary action to authorize such execution, delivery and performance;
- b. The term or life of this borrowing is up to one year;
- c. Some borrowings bear a fixed interest rate while others have floating interest rate;
- d. PNB has pledged its AFS investments, in form of US Treasury Notes and ROP Global bonds, in order to fulfill its collateral requirement;
- e. Haircut from market value ranges from 20.00% to 30.00% depending on the tenor of the bond;
- f. Substitution of pledged securities is allowed if one party requested and the other one so agrees.

Interest expense on bills payable is included under "Cost of banking services" amounting to P0.7 billion, P0.9 billion and P1.1 billion in 2014, 2013 and 2012, respectively (see Note 24).

18. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of:

	2014	2013
Trade payables	P2,347,734	P2,553,547
Banking trade payables	7,162,995	9,061,565
Nontrade payables	323,957	601,965
Accrued expenses:		
Interest (Note 8)	2,070,730	2,151,329
PDIC insurance premiums	479,910	446,717
Reinstatement premium	133,580	152,734
Compensation and benefits	455,978	1,295,334
Purchase of materials and supplies	445,081	366,810
Projects development costs	332,559	1,686,872
Taxes and licenses	225,623	798,672
Information technology-related expenses	103,690	239,308
Rent and utilities payable	98,249	162,889
Others	380,768	1,497,129
Retention payable	710,107	731,493
Provision for contingencies (Note 37)	335,410	335,410
Due to government agencies	267,486	178,545
Output value added tax	136,138	99,622
Other payables	110,566	62,324
	P16,120,561	P22,422,265

Trade Payables

Trade payables are non-interest bearing and are normally settled on 30-to-60 day terms. Trade payables arise mostly from purchases of inventories, which include raw materials and indirect materials (i.e., packaging materials) and supplies, for use in manufacturing and other operations.

Trade payables also include importation charges related to raw materials purchases, as well as occasional acquisitions of production equipment and spare parts.

Accrued Expenses

Other accrued expenses consist of accruals for commission, rent, outside services, fuel and oil, utilities, advertising and promotions and professional fees which are individually not significant as to amounts.

Retention Payable

Retention payable is the amount deducted from the total billing of the contractor which will be paid upon completion of the contracted services of Eton.

Other Payables

Other payables include cash bond payable to haulers as security for inventories and payable other than to suppliers of raw materials which include, but not limited to advertising and freight companies.

19. Short-term and Long-term Debts

Short-term Debts

As of December 31, 2014 and 2013, outstanding unsecured short term debts amounted to P300.0 million. The loans are subject to annual interest rates ranging from 3.5% to 5.0%, are payable lump sum on various dates within one year and subject to renewal upon agreement by the Group and counterparty banks.

Long-term Debts

	2014	2013
	(In Thousands)	
Subordinated debts	P9,969,498	P9,953,651
Bonds payable	4,998,008	4,982,544
Unsecured term loan	1,321,823	1,990,120
Notes payable	508,115	963,355
	16,797,444	17,889,670
Less current portion	5,506,123	1,009,915
	P11,291,321	P16,879,755

PNB's Subordinated Debts

a. 5.88% P3.5 billion Subordinated Notes

On May 9, 2012, PNB's BOD approved the issuance of unsecured subordinated notes of P3.5 billion that qualify as Lower Tier 2 capital.

The 2012 Notes which bear nominal interest of 5.88% and due in 2022 was issued pursuant to the authority granted by the BSP to the Bank on May 27, 2011. EIR on this note is 6.04%.

Among the significant terms and conditions of the issuance of such 2012 Notes are:

1. Issue price at 100.00% of the principal amount;
2. The 2012 Notes bear interest at the rate of 5.88% per annum from and including May 9, 2012 to but excluding May 9, 2022. Interest will be payable quarterly in arrears on the 9th of August, November, February and June of each year, commencing on May 9, 2012, unless the 2012 Notes are previously redeemed at their principal amount on Maturity date or May 9, 2022. The stepped-up interest will be payable quarterly in arrears on 9th of August, November, February and May of each year, commencing on May 9, 2012;
3. The 2011 Notes constitute direct, unconditional, unsecured and subordinated obligations of PNB and at all times rank *pari passu* without preference among themselves and at least equally with all other present and future unsecured and subordinated obligations of PNB;
4. PNB may redeem the 2012 Notes in whole but not in part at a redemption price equal to 100.00% of the principal amount together with accrued and unpaid interest on the day following the last day of the fifteenth (15th) interest period from issue date, subject to the prior consent of the BSP and the compliance by PNB with the prevailing requirements for the granting by the BSP of its consent thereof. The 2012 Notes may not be redeemed at the option of the noteholders; and
5. Each noteholder, by accepting the 2012 Notes, irrevocably agrees and acknowledges that it may not exercise or claim any right of set-off in respect of any amount owed by the PNB arising under or in connection with the 2012 Notes.

b. 6.75% P6.5 billion Subordinated Notes

On May 15, 2011, the PNB's BOD approved the issuance of unsecured subordinated notes of P6.5 billion that qualify as Lower Tier 2 capital.

The 2011 Notes which bear nominal interest of 6.75% and due in 2021, pursuant to the authority granted by the BSP to PNB on May 27, 2011. EIR on this note is 6.94%.

Among the significant terms and conditions of the issuance of such 2011 Notes are:

1. Issue price at 100.00% of the principal amount;
2. The 2011 Notes bear interest at the rate of 6.75% per annum from and including June 15, 2011 to but excluding June 15, 2021. Interest will be payable quarterly in arrears on the 15th of September, December, March and June of each year, commencing on June 15, 2011, unless the 2011 Notes are previously redeemed at their principal amount on Maturity date or June 15, 2021. Interest will be payable quarterly in arrears on 15th of September, December, March and June of each year, commencing on June 15, 2011;
3. The 2011 Notes constitute direct, unconditional, unsecured and subordinated obligations of PNB and at all times rank *pari passu* without preference among themselves and at least equally with all other present and future unsecured and subordinated obligations of PNB;
4. PNB may redeem the 2011 Notes in whole but not in part at a redemption price equal to 100.00% of the principal amount together with accrued and unpaid interest on the day following the last day of the fifteenth (15th) interest period from issue date, subject to the prior consent of the BSP and the compliance by PNB with the prevailing requirements for the granting by the BSP of its consent thereof. The 2011 Notes may not be redeemed at the option of the noteholders; and
5. Each noteholder, by accepting the 2011 Notes, irrevocably agrees and acknowledges that it may not exercise or claim any right of set-off in respect of any amount owed by PNB arising under or in connection with the 2011 Notes.

c. 7.13% P4.5 billion Subordinated Notes

On July 25, 2007, the BOD of PNB approved and authorized the management to conduct capital raising activity by way of issuance of Lower Tier 2 capital up to the maximum amount of P5.0 billion through a public offering subject to the provisions of BSP Circular No. 280 and BSP Memorandum to all banks and financial institutions dated February 17, 2003.

The issuance of the foregoing subordinated debt was approved by the MB in its Resolution No. 98 dated January 24, 2008.

Relative to this, on March 6, 2008, PNB issued P4.5 billion, 7.13% Subordinated Notes due on 2018, callable with step-up in 2013. Among the significant terms and conditions of the issuance of the subordinated notes are:

1. Issue price is at 100.00% of the Principal amount.
The Subordinated Notes bear interest at 7.13% per annum, payable to the noteholder for the period from and including the issue date up to the maturity date if the call option is not exercised on the call option date. Interest shall be payable quarterly in arrears on March 6, June 6, September 6 and December 6 of each year, commencing June 6, 2008. The Subordinated Notes will mature on March 6, 2018, if not redeemed earlier.
2. The Subordinated Notes will constitute direct, unconditional, unsecured and subordinated obligations of PNB. The Subordinated

Notes will, at all times, rank pari passu and without any preference among themselves, but in priority to the rights and claims of holders of all classes of equity securities of PNB, including holders of preferences shares.

3. PNB may redeem the notes in whole, but not in part, at a redemption price equal to 100.00% of the principal amount of the Notes together with accrued and unpaid interest at first banking day after the 20th interest period from issue date subject to at least 30-day prior written notice to noteholders and prior approval of the BSP, subject to the following conditions: (i) the capital adequacy ratio of PNB is at least equal to the required minimum ratio; and (ii) the Subordinated Note is simultaneously replaced with the issues of new capital which are neither smaller in size nor lower in quality than the Subordinated Notes.

4. The Subordinated Note shall not be redeemable or terminable at the instance of any noteholder before maturity date.

On March 6, 2013, the 2018 Notes were redeemed by PNB at par/face value.

As of December 31, 2014 and 2013, the unamortized transaction cost of subordinated debt amounted to P30.5 million and P46.3 million, respectively. In 2014, 2013 and 2012, amortization of transaction costs amounting to P15.8 million, P14.8 million, and P12.2 million, respectively, were charged to "Cost of banking services" in the consolidated statements of income (see Note 24).

TDI's P5.0 billion bonds payable

On November 24, 2009, TDI's and LTG's BOD approved and confirmed the issuance of the retail bonds amounting to P5.0 billion due in 2015 at 8.055% per annum, payable quarterly, to be used for general corporate purposes, including debt refinancing. On February 12, 2010, TDI completed the bond offering and issued the Retail Bonds with an aggregate principal amount of P5.0 billion, which will mature on February 13, 2015. Bond issue cost incurred amounted to P66.7 million. As of December 31, 2014 and 2013, unamortized bond issue cost amounted to P2.0 million and P17.6 million, respectively (presented as a reduction from the principal loan balance).

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

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

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

As of December 31, 2013, TDI has complied with the bond covenants. On February 13, 2015, TDI redeemed the P5.0 billion bonds.

Unsecured term loans of Eton

On January 28, 2013, Eton entered into an unsecured term loan agreement with Banco De Oro Unibank, Inc. (BDO) to finance the construction of its projects. The term loan, which has a face value of P2,000.0 million, was availed by Eton at a discount for total proceeds amounting to P1,987.3 million. The term loan bears a nominal interest rate of 5.53%

and will mature on January 26, 2018. Principal repayments will start one year from the date of availment and are due annually while interest payments are due quarterly starting April 28, 2014.

Notes payable of Eton

Notes payable include various notes from BDO which arose from assigning the Groups' contracts receivables on a with recourse basis in 2014, 2013 and 2012 (see Note 8). These notes bear interest based on Philippine Dealing System Treasury Fixing (PDSTF) rate for one year plus 1.5% net of gross receipts tax, which ranges from 5.14% to 5.58% in 2014, from 5.22% to 6.00% in 2013 and from 6.00% to 6.66% in 2012 subject to annual repricing. Interest is due monthly in arrears during the first two years of the term and thereafter, interest shall be collected with the principal covering the term of three years or the term of the contracts to sell, whichever comes first.

Interest on loans payable from general borrowings capitalized as part of investment properties and real estate inventories amounted to P30.0 million and P163.4 million in 2014, and P34.7 million and P68.4 million in 2013, and P15.8 million and P103.9 million in 2012, respectively. Capitalization rates were 5.00% in 2014, 4.51% in 2013 and 5.30% in 2012, respectively.

Interbev's term loan facility agreement with BDO

On June 24, 2011, Interbev entered into a Facility Agreement with BDO for a term loan facility amounting to P1,200.0 million to refinance its short-term loans and to finance its capital expenditure requirements for capacity expansion of its Davao and Cagayan de Oro plants and establishment of new bottling lines in San Fernando, Pampanga.

In accordance with the Facility Agreement, Interbev shall be subject to the following terms and conditions:

- Compliance with the following financial ratios: maximum debt to equity ratio of 3.0x in 2011, 2.0x in 2012 and 2013 and 1.0x in succeeding years and minimum debt service coverage ratio of 1.2x in all years;
- Existence of negative pledge on all existing and future assets of Interbev, except for permitted liens;
- Increasing the Interbev paid up capitalization by P100.0 million on or before December 31, 2012 and by P800.0 million on or before December 31, 2013, with the increase in capitalization to come from a new shareholder which is belonging to the Controlling Shareholders; and
- Continuing suretyship of Interbev.

In 2014 and 2013, Interbev has not utilized the term loan facility. As of December 31, 2014 and 2013, Interbev was not compliant with minimum required paid capitalization under the term facility agreement.

Finance costs

Interest recognized in profit or loss on short-term and long-term debts, except for subordinated debts, are presented under "Finance costs" in the statements of income (see Note 27). Interest costs from subordinated debts are included in the "Cost of banking services" (see Note 24).

20. Other Liabilities

	2014	2013
	(In Thousands)	
Insurance contract liabilities	P11,507,852	P11,546,043
Bills purchased - contra (Note 8)	4,230,348	3,417,082
Payable to landowners	2,289,708	1,296,785
Customers deposits	2,017,398	2,849,147
Provisions (Note 37)	1,680,648	1,771,242
Reserve for unearned premiums	1,056,794	576,889
Managers' checks and demand drafts outstanding	1,030,298	1,028,301
Deposit on lease contracts	651,371	502,293
Other dormant credits	549,149	437,715
Due to Treasurer of the Philippines	366,841	311,387
Payment order payable	312,144	194,628
Tenants' rental deposits	268,805	161,600
Due to BSP	101,172	117,821
Margin deposits and cash letters of credit (Forward)	86,143	393,006

	2014	2013
	(In Thousands)	
Transmission liability	P76,893	P90,005
Advanced rentals	45,800	98,658
Others	4,341,804	1,523,512
	30,613,168	26,316,114
Presented as noncurrent	12,638,349	2,299,948
Presented as current	P17,974,819	P24,016,166

Customers' Deposits

Customers' deposits represent payments from buyers of residential units which will be applied against the corresponding contracts receivables which are recognized based on the revenue recognition policy of the Group. This account includes the excess of collections over the recognized receivables amounting to P2.0 billion and P2.8 billion as of December 31, 2014 and 2013, respectively.

Payables to Landowners

In 2014, Eton extended P992.9 million promissory note to various landowners in relation to its purchased land located at Sta. Rosa, Laguna with total purchase price of P1.3 billion.

In September 2012, Eton executed a P556.8 million promissory note to a landowner in relation to its purchase of land located at the corner of Dela Rosa and V.A. Rufino Sts., Legaspi Village, Makati City with total purchase price of P742.4 million. In November 2012, Eton again executed a promissory note to a landowner amounting to P740.0 million in relation to its purchase of land located at Don Alejandro Roces Avenue, Barangay Obrero, Quezon City with total purchase P1,000.0 million.

The details of the notes payable are presented below:

Principal amount (In Thousands)	Interest rate	Due date
P992,923	PDSTF 3 years + 0.50%	3 years from execution of note
556,785	PDSTF 3 years + 1.00%	3 years from execution of note
740,000	PDSTF 3 years + 0.50%	3 years from execution of note

Deposits and Other Deferred Credits

Other liabilities of the property development segment include tenants' rental deposits, advance rentals and other deferred credits. Security deposits pertain to the amounts paid by the tenants at the inception of the lease which is refundable at the end of the lease term. Advance rentals pertain to deposits from tenants which will be applied against receivables either at the beginning or at the end of lease term depending on the lease contract. Deferred credits represent the excess of the principal amount of the security deposits over its fair value. Amortization of deferred credits is included in "Rental income" in the consolidated statements of income.

Banking Segment Liabilities

Other liabilities of the banking segment include insurance contract liabilities, accounts payable, bills purchased - contra, managers' checks and demand drafts outstanding, margin deposits and cash letters of credit and due to BSP.

21. Derivative Financial Instruments

The tables below show the fair values of derivative financial instruments entered into by the Group, recorded as derivative assets or derivative liabilities, together with the notional amounts. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding as of December 31, 2014 and 2013 and are not indicative of either market risk or credit risk (amounts in thousands, except average forward rate).

	December 31, 2014				December 31, 2013			
	Assets	Liabilities	Average Forward Rate	Notional Amount*	Assets	Liabilities	Average Forward Rate	Notional Amount*
(In Thousands)								
Freestanding derivatives:								
Currency forwards								
BUY:								
USD	P5,620	P2,246	P44.81	P77,300	P61,867	P1,198	P43.36	P126,462
JPY	13	567	0.37	312,776	98	113	0.01	15,000
EUR	1,686	535	7.75	82,156	76	673	1.36	989
SGD	-	-	-	-	23	-	35.02	1,200
GBP	6	-	1.56	150	-	26	1.64	102
CAD	-	47	1.16	1,614	-	4	1.07	1,065
HKD	539	532	7.75	82,156	-	-	-	-
AUD	81	-	0.82	200	-	-	-	-
SELL:								
USD	6,809	15,717	44.78	208,510	1,293	136,372	43.74	264,471
JPY	634	17	0.37	713,228	329	321	0.43	477,776
GRP	2,152	-	1.56	4,250	97	1,257	1.64	5,100
EUR	4,378	-	1.3	1,797	79	1,240	1.36	5,447
CAD	3	66	1.16	2,195	67	-	1.00	2,365
SGD	449	275	1.32	6,611	-	885	0.79	6,200
AUD	531	-	0.82	800	54	-	0.89	250
CHF	-	-	-	-	23	-	1.12	400
HKD	83	96	7.76	14,100	25	-	7.75	158,946
SEK	-	-	-	-	-	-	-	-
NZD	-	-	-	-	-	-	-	-
Interest rate swaps (Php)	42,407	24,805	-	-	28,803	21,012	-	62,680
Warrants	71,160	-	-	-	165,863	-	-	13,603
	P136,551	P44,903			P258,697	P163,101		

* The notional amounts pertain to the original currency except for the embedded derivatives, which represent the equivalent to USD amount.

a. On June 21, 2011, the Group entered into a cross currency swap agreement with a notional amount of US\$7.0 million or P99.0 million which matured on June 17, 2013. Proceeds of the 2011 Notes were swapped for USD. As of December 31, 2012, its positive fair value amounted to and P11.7 million. In order to fulfill collateral requirements, the Group has pledged its cash amounting to US\$2.0 million or P85.4 million and US\$2.0 million or P85.4 million as of December 31, 2012.

b. As of December 31, 2014 and 2013, PNB holds 306,405 shares of ROP Warrants Series B1 at their fair value of US\$1.6 million and US\$3.0 million, respectively.

c. Embedded derivatives that have been bifurcated are credit derivatives in structured notes presented under other debt securities under AFS investments with a notional reference of USD47.5 million with a positive fair value of P3.9 million. The structured notes and the related credit default swap matured on May 1, 2013.

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

	2014	2013
	(In Thousands)	
Balance at beginning of year	P95,596	P213,445
Changes in fair value	105,244	(194,550)
Availments (Settlements)	(109,192)	76,701
	P91,648	P95,596



The changes in fair value of the derivatives are included in “Trading and investments securities gains - net” presented as part of “Banking revenues” in the consolidated statements of income (see Note 24).

22. Related Party Transactions

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

Parent Company, Subsidiaries, Associate and Joint Venture	Entities Under Common Control
<i>Parent Company</i>	Ascot Holdings, Inc.
Tangent	Pol Holdings, Inc.
<i>Subsidiaries</i>	Sierra Holdings & Equities, Inc.
TDI and Subsidiaries	Grand Cargo and Warehousing Services., Inc.
ADI	Northern Corporation Tobacco Redrying Co., Inc.
AAC	Basic Holdings Corporation
TBI	Dominium Realty & Construction Corp
ABI and Subsidiaries	Foremost Farms Inc.
Agua Vida	Grandspan Development Corp.
Interbev	Himmel Industries Inc.
Waterich	Lapu Lapu Packaging
Packageworld	Lucky Travel Corporation
AB Nutrив	Philippine Airlines, Inc.
Asia Pacific Bev PTE	
FTC	Rapid Movers & Forwarders Co. Inc.
Shareholdings	Upright Profits Ltd.
Saturn	Dyzum Distillery Inc.
Paramount and Subsidiaries	Parity Packaging Corp.
Eton	Heritage Holdings Corp.
Belton	Maxell Holdings, Corp.
Eton City	Networks Holdings & Equities, Inc.
FirstHomes	Cube Factor Holdings, Inc.
Bank Holding Companies: ⁽¹⁾	Trustmark Holdings Corporation
Allmark Holdings Corp.	Polima International Limited
Dunmore Development Corp.	Cosmic Holdings Corp.
Kenrock Holdings Corp.	Negros Biochem Corporation
Leadway Holdings, Inc.	Grandway Konstruct, Inc.
Multiple Star Holdings Corp.	Harmonic Holdings Corp.
Pioneer Holdings & Equities, Inc.	Proton Realty & Development Corporation
Donfar Management Ltd.	Billinge Investments Limited
Fast Return Enterprises Ltd.	Step Dragon Co. Limited
Mavelstone International Ltd.	High Above Properties Ltd.
Uttermost Success, Ltd.	Penick Group Limited
Ivory Holdings, Inc.	In Shape Group Ltd.
Merit Holdings & Equities Corp.	Hibersham Assets Ltd.
True Success Profits Ltd.	Orient Legend Developments Ltd.

Parent Company, Subsidiaries, Associate and Joint Venture	Entities Under Common Control
Key Landmark Investments Ltd.	Complete Best Development Ltd.
Fragile Touch Investments Ltd.	Cormack Investments Ltd
Caravan Holdings, Corp.	Link Great International Ltd.
Solar Holdings Corp.	Bright Able Holdings Ltd.
All Seasons Realty Corp.	
Dynaworld Holdings Inc.	
Fil-Care Holdings Inc.	
Kentwood Development Corp.	
La Vida Development Corp.	
Profound Holdings Inc.	
Purple Crystal Holdings, Inc.	
Safeway Holdings & Equities Inc.	
Society Holdings Corp.	
Total Holdings Corp.	
PNB and Subsidiaries	
<i>Associates</i>	
PMFTC	
VMC	
<i>Joint Venture</i>	
ABI Pascual Holdings	
ABI Pascual Foods	

⁽¹⁾ In various dates in 2013, LTG acquired these holding companies through subscription of the increase in authorized capital stock of the holding companies.

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

	Nature	2014	2013	2012
		(In Thousands)		
		P=	P4,372	P642
Associate	Sales	812,405	1,060,622	—
	Purchases of inventories	3,168,550	3,953,406	4,236,260
	Dividend income	—	—	(188,713)
	Outside services	—	—	(188,713)
Entities Under Common Control	Banking revenue - interest on loans and receivables	153,707	184,370	525,607
	Sales of consumer products	21,011	21,117	121,000
	Interest income on loans and advances	16,806	39,556	23,888
	Rent income	30,942	16,830	28,334
	Other income	52,938	7,672	—
	Freight and handling	(7,772)	(5,364)	(14,144)
	Purchases of inventories	(160,914)	(53,145)	(132,582)
	Cost of banking services - interest expense on deposit liabilities	(14,898)	(18,831)	(10,609)
	Cost of sales and services	(25,864)	(35,168)	(39,663)
	Management and professional fee	(335,016)	(422,866)	(181,285)
	Outside services	(57,150)	(41,672)	(77,200)
	Rent expense	(31,054)	(5,298)	(3,021)
	Short-term employee benefits	(588,709)	(450,881)	(219,542)
	Post-employment benefits	(62,097)	(60,368)	(25,793)

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

			Amount/Volume		Outstanding Balance	
Financial Statement Account	Terms and Conditions		2014	2013	2014	2013
			(In Thousands)			
Parent Company	Due to related parties	On demand; non-interest bearing	(P2,301,805)	(P7,001,728)	(P41,975)	(P6,956,332)
Associate	Other receivables - dividends	30 to 90 days terms; non-interest bearing	3,168,550	3,953,406	165,753	357,855
	Trade receivables	30 to 90 days terms; non-interest bearing	—	4,372	181	387
	Account payable and other liabilities	30 to 60 days terms; non-interest bearing	812,405	1,060,622	(38,354)	(16,398)
Entities Under Common Control	Finance Receivables	Loans with interest rates ranging from 0.5% to 16.5% and maturity terms ranging from one (1) month to 25 years; Collateral includes bank deposit hold-out, real estate and chattel mortgages	153,707	184,370	14,455,539	3,390,516
	Trade receivables	30 to 60 days terms; non-interest bearing	21,011	21,117	7,957	9,879
	Other receivables	30 to 60 days terms; non-interest bearing	16,806	39,556	3,175	3,361
	Due from related parties	On demand; non-interest bearing	(914,164)	1,755,327	1,795,829	2,709,994
	Advances to suppliers	30 to 60 days terms; non-interest bearing	(13,777)	40,225	47,670	61,447
	Advances to contractors	30 to 60 days terms; non-interest bearing	(1,164)	(104,490)	—	1,164
	Deposit liabilities	With annual rates ranging from 0.38% to 1.73% and maturity ranging from 30 days to one (1) year	14,898	18,831	(11,136,419)	(1,593,988)
	Bills payable	Foreign currency-denominated bills payable; with fixed annual interest rate of 1.77% and maturity term of 181 days; no collateral	—	40,000	—	(40,000)
	Account payable and other liabilities	30 to 90 days terms; non-interest bearing	617,770	563,513	(331,866)	(290,215)
	Due to related parties	On demand; non-interest bearing	(383,138)	(1,150,000)	(3,841)	(388,577)
	Other payables	30 to 90 days terms; non-interest bearing	31,706	14,280	(4,496)	(36,202)
	Due from related parties	On demand; non-interest bearing	—	—	—	191
Stockholders	Due to related parties	On demand; non-interest bearing	(691,610)	—	—	(691,610)

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

Other terms and conditions related to the above related party balances and transactions are as follows:

Transactions with Tangent, parent company

- In May 2013, LTG assumed various advances made by FTC to Tangent amounting to P10.8 billion.
- LTG assigned to Tangent its existing liabilities to Billinge, Penick Group and Step Dragon amounting to P1.9 billion and assumed the liabilities of ABI and Saturn to Tangent amounting to P7.4 billion. In various dates in 2013, LTG paid P7.0 billion to Tangent. In July 2013, all the existing advances to Tangent amounting to P11.0 billion were offset with the existing advances from Tangent.
- On April 8, 2014 and June 19, 2013, LTG declared dividends to stockholders, of which P1.3 billion and P1.2 billion were paid to Tangent.
- On March 20, 2013, the respective BOD's of Tangent and the Bank Holding Companies approved a resolution to convert the debt of the Bank Holding Companies to equity by way of subscription to the latter's preferred shares. On the same date, Tangent entered into Deeds of Assignment with the Bank Holding Companies for the assignment of the debt as payment for the subscription. In various dates in October, November and December 2013, the Philippine SEC approved the increase in authorized capital stock of certain Bank Holding Companies and the subscription of Tangent to all the outstanding preferred shares of these companies (see Note 30).

Transactions with Entities under Common Control

- Due to related parties include cash advances provided to the Group to support its working capital requirements.
- Several subsidiaries of the Group entered into management services agreement with Basic Holdings Corporation for certain consideration. Management fees are recorded under "Outside services" in "Cost of goods sold" and "Professional fees" in the "General and administrative expenses".
- The Group's sells by-products to Foremost and various packaging materials to Lapu Lapu which ceased to operate in 2012.
- The property development segment purchases parcels of land from other related parties for use in its various projects.
- The Group has outstanding balances to Grandway and Grandspan pertaining to the development of the Group's projects which comprise of advances to contractors and retention payable. In 2013, all advances to Grandway were collected and all retentions payable were settled due to the dissolution of Grandway.
- Several entities under common control maintain peso and foreign currency denominated deposits and short term and long term loans with PNB. Interest income and financing charges related to these transactions are reported under "Banking revenue" and "Cost of banking services", respectively (see Note 24).

Transactions with an Associate

- Dividend income from PMFTC amounted to P3,168.6 million in 2014, P3,953.2 million in 2013 and P4,236.3 million in 2012 (see Note 11). Dividends receivable from PMFTC as of December 31, 2014 and 2013 are presented as part of nontrade receivables.

Transaction with Joint Venture

- On February 15, 2012, ABI entered into an agreement with a food company for a joint venture. The parties agreed that their initial ownership will be fifty percent (50%) each (see Note 11).

The following are the transactions among related parties which are eliminated in the consolidated statements of income:

Nature	Costs and expenses recognized by:	Revenue and other income recognized by:	2014	2013	2012
				(In Thousands)	
Purchase/Sale of commercial bottles and packaging materials	FTC/TDI	ABI/PWI	P1,033,901	P683,493	P1,263,472
Purchase/Sale of raw materials	ABI/Interbev	TDI/ADI	101,386	114,241	181,913
Royalty fees	ABI	TDI	15,909	20,949	35,417
Management fees	TDI	LTG	48,000	48,000	48,000
Interest on loans	Eton	LTG	4,563	4,563	—
		ABI/ Bank Holding Companies/Paramount	20,005	4,387	—
Interest on promissory note from sale of property	Eton				—
Interest on cash and cash equivalents	PNB	All entities other than PNB	143,431	166,931	64,052
Interest on short term and long term loans	ABI/Interbev/ Eton	PNB	—	—	57,012
		ABI/ Bank Holding Companies/Paramount	175,673	228,407	—
Gain on sale of property	Eton				—

The following are the balances among related parties which are eliminated in the consolidated balance sheets:

Nature	Assets recognized by:	Liabilities recognized by:	December 31	
			2014	2013
			(In Thousands)	
	LTG/FTC	Bank Holding Companies	P145,315	P71,465
	ABI	Eton	444,000	444,000
	LTG	Eton	400,000	400,000
	FTC	ABI/Eton/LTG	525	589
Due from/to related parties	LTG	TBI/Paramount/Saturn	638	638
	TDI	TBI	18,507	10,065
	LTG	TDI	3,880	—
	HOLCOS	Eton	185,597	—
	PLI	Eton	30,367	—
Trade receivables/ payables	TDI/ADI	ABI/Interbev	85,759	122,683
	ABI/PWI	FTC/TDI	416,604	302,650
Cash and cash equivalents/deposit liabilities	All entities other than PNB	PNB	12,662,177	34,944,874
Obligations under finance lease	PNB	ABI/Interbev	2,902	10,919

23. Retirement Benefits

The Group has funded, noncontributory defined benefit retirement plans, administered by a trustee, covering all of its permanent employees. As of December 31, 2014 and 2013, the Group is in compliance with Article 287 of the Labor Code, as amended by Republic Act No. 7641.

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

	2014	2013
	(In Thousands)	
Net retirement plan assets:		
FTC	P223,083	P224,530
AAC	41,035	19,263
	P264,118	P243,793

(Forward)

Net retirement plan assets:

	2014			2013			2012		
	Defined Benefit Obligation	Fair Value of Plan Assets	Net Retirement Plan Assets	Defined Benefit Obligation	Fair Value of Plan Assets	Net Retirement Plan Assets	Defined Benefit Obligation	Fair Value of Plan Assets	Net Retirement Plan Assets
	(In Thousands)								
Beginning balance	P75,033	(P318,825)	(P243,792)	P63,651	(P1,236,724)	(P1,173,073)	P48,422	(P1,092,976)	(P1,044,554)
Change in status of retirement plan	102,970	(81,708)	21,260	—	—	—	—	—	—
Net retirement benefits cost in profit or loss:									
Current service cost	18,037	—	18,037	5,992	—	5,992	4,583	—	4,583
Net interest cost	7,673	(10,726)	(3,053)	3,276	(64,395)	(61,119)	2,885	(63,621)	(60,736)
	25,710	(10,726)	14,984	9,268	(64,395)	(55,127)	7,468	(63,621)	(56,153)
Contributions	—	(1,200)	(1,200)	—	—	—	—	(92,680)	(92,680)
Benefits paid	(16,757)	16,757	—	(3,936)	3,936	—	(2,296)	2,296	—
Plan assets returned to the Company	—	—	—	—	940,820	940,820	(7,433)	—	(7,433)
Past service cost	—	—	—	—	—	—	—	—	—
Re-measurement losses (gains) in other comprehensive income - actuarial changes arising from experience adjustments	(55,899)	529	(55,370)	6,050	37,537	43,587	17,490	10,257	27,747
Ending balance	P131,057	(P395,175)	(P264,118)	P75,033	(P318,826)	(P243,793)	P63,651	(P1,236,724)	(P1,173,073)

Accrued retirement benefits:

	2014			2013			2012		
	Defined Benefit Obligation	Fair Value of Plan Assets	Accrued Retirement Benefits	Defined Benefit Obligation	Fair Value of Plan Assets	Accrued Retirement Benefits	Defined Benefit Obligation	Fair Value of Plan Assets	Accrued Retirement Benefits
	(In Thousands)								
Beginning balance	P7,992,151	(P3,645,889)	P4,346,262	P7,578,184	(P2,220,168)	P5,358,016	P7,763,905	(P1,621,882)	P6,142,023
Change in status of retirement plan	(102,968)	81,708	(21,260)	—	—	—	—	—	—
Net retirement benefits cost in profit or loss:									
Current service cost	561,720	—	561,720	533,140	—	533,140	498,235	—	498,235
Net interest cost	281,403	(86,831)	194,572	306,585	(119,111)	187,474	335,378	(98,853)	236,525
Past service cost	45,767	—	45,767	(70,880)	—	(70,880)	(282,256)	—	(282,256)
	888,890	(86,831)	802,059	768,845	(119,111)	649,734	551,357	(98,853)	452,504
Contributions	—	(2,447,710)	(2,447,710)	—	(1,987,230)	(1,987,230)	—	(695,428)	(695,428)
Benefits paid	(593,393)	593,393	—	(541,545)	541,545	—	(450,564)	450,564	—
Re-measurement losses (gains) in other comprehensive income - actuarial changes arising from changes in:									
Financial assumptions	124,093	—	124,093	(603,258)	—	(603,258)	74,527	—	74,527
Experience adjustments	981,537	(8,720)	972,817	789,925	139,075	929,000	(361,041)	(254,569)	(615,610)
	1,105,630	(8,720)	1,096,910	186,667	139,075	325,742	(286,514)	(254,569)	(541,083)
Ending balance	P9,290,310	(P5,514,049)	P3,776,261	P7,992,151	(P3,645,889)	P4,346,262	P7,578,184	(P2,220,168)	P5,358,016

The fair value of plan assets as of December 31 is as follows:

	2014	2013
	(In Thousands)	
Cash and cash equivalents	P2,221,155	P857,707
Investments in government securities	613,605	956,849
Equity investments:		
Financial institutions	1,106,063	1,271,109
Manufacturing	—	32,342
Others	26,719	36,553
Receivables	1,675,151	550,849
Others	266,531	259,306
Fair value of plan assets	P5,909,224	P3,964,715

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

	2014	2013
Equity investments	18%	31%
Investments in government securities	11%	25%
Cash and cash equivalents	38%	23%
Receivables	27%	14%
Others	6%	7%
Fair value of plan assets	100%	100%

	2014	2013
	(In Thousands)	
Accrued retirement benefits:		
PNB	P2,841,883	P3,388,863
ABI and subsidiaries	877,195	878,951
TDI and ADI	11,730	39,090
Eton	38,392	29,653
LTG	7,061	9,705
	P3,776,261	P4,346,262

The following tables summarize the components of net retirement plan assets and accrued retirement benefits recognized in the consolidated balance sheets, the net benefit expenses recognized in the consolidated statements of income and the remeasurement losses (gains) recognized in consolidated statements of comprehensive income.

The overall investment policy and strategy of the Group's defined benefit plans is guided by the objective of achieving an investment return which, together with contributions, ensures that there will be sufficient assets to pay pension benefits as they fall due while also mitigating the various risk of the plans. The plan assets have diverse investments and do not have concentration risk.

The Group's defined pension plan are funded through the contributions made by the Group to the trust.

The principal assumptions used in determining pension benefit obligations for the Group's plans as of January 1 are shown below:

	2014	2013	2012
Discount rate	5%-6%	5%-7%	5%-7%
Future salary increases	5%-10%	5%-10%	5%-10%

As of December 31, 2014, the discount and future salary increase rates are 4-5% and 5-10%, respectively.

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of the end of the reporting period, assuming if all other assumptions were held constant:

	2014		2013	
	Increase (Decrease)	Increase (Decrease) in Present Value of Defined Benefit Obligation (In Thousands)	Increase (Decrease)	Increase (Decrease) in Present Value of Defined Benefit Obligation (In Thousands)
Discount rates	+0.5% -0.5%	(P37,971) 42,358	+0.5% -0.5%	(P45,361) 149,942
Future salary increases	+1.0% -1.0%	81,802 (66,950)	+1.0% -1.0%	245,918 (117,477)

Full actuarial valuations were performed to test the sensitivity of the defined benefit obligation to a 1% increment in salary increase rate, 1% decrement in the discount rate and a 10% improvement in the employee turnover rate. The results also provide a good estimate of the sensitivity of the defined benefit obligation to a 1% decrement in salary increase rate, 1% increment in the discount rate and a 10% increase in the employee turnover rate but with reverse impact.

The Group employs asset-liability matching strategies to maximize investment returns at the least risk to reduce contribution requirements while maintaining a stable retirement plan. Retirement plans are invested to ensure that liquid funds are available when benefits become due, to minimize losses due to investment pre-terminations and maximize opportunities for higher potential returns at the least risk.

The current plan asset of the Group is allocated to cover benefit payments in the order of their proximity to the present time. Expected benefit payments are projected and classified into short-term or long-term liabilities. Investment instruments that would match the liabilities are identified. This strategy minimizes the possibility of the asset-liability match being distorted due to the Group's failure to contribute in accordance with its general funding strategy.

The Group expects to contribute P1.6 billion to the defined benefit pension plan in 2015.

The average duration of the defined benefit obligation at the end of the reporting period is 21 to 25 years in 2014.

Transactions with Retirement Plans

Management of the retirement funds of the banking segment is handled by the PNB Trust Banking Group (TBG). As of December 31, 2014 and 2013, the retirement fund of the Group includes 9,008,864 and 7,833,795 shares of PNB classified under HFT, respectively. No limitations and restrictions are provided and voting rights over these shares are exercised by a trust officer or any of its designated alternate officer of TBG.

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

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

FTC's Retirement Plan

In 2013, as a result of management's assessment of the status of FTC's retirement fund, management has decided to withdraw funds in excess of the amount actuarially determined to cover the benefits of all its employees.

24. Revenue and Cost of Sales and Services

Revenue consists of:

	2014	2013	2012
	(In Thousands)		
Banking revenue	P24,639,374	P28,855,871	P32,040,683
Sale of consumer goods	25,207,500	23,279,109	27,930,583
Real estate sales	1,538,260	3,208,225	2,288,952
Rental income	740,340	448,725	396,843
	P52,125,474	P55,791,930	P62,657,061

Sale of consumer goods consists of:

	2014	2013	2012
	(In Thousands)		
Gross sales	P26,660,735	P24,390,891	P29,205,504
Less sales returns, discounts and allowances	1,453,235	1,111,782	1,274,921
	P25,207,500	P23,279,109	P27,930,583

Banking revenue consists of:

	2014	2013	2012
	(In Thousands)		
Interest income on:			
Loans and receivables	P15,245,646	P13,806,843	P14,079,289
Trading and investment securities	3,389,450	3,918,460	5,508,929
Deposits with banks and others	1,919,766	1,632,174	1,026,640
Interbank loans receivable	19,218	40,696	147,359
	20,574,080	19,398,173	20,762,217
Trading and securities gains	647,734	5,988,853	8,217,085
Service fees and commission income	3,417,560	3,468,845	3,061,381
	P24,639,374	P28,855,871	P32,040,683

Cost of sales and services consists of:

	2014	2013	2012
	(In Thousands)		
Cost of consumer goods sold:			
Materials used and changes in inventories (Note 9)	P12,473,921	P10,764,864	P12,652,374
Taxes and licenses	1,448,239	1,610,239	2,726,153
Depreciation and amortization (Note 12)	1,420,117	1,298,012	1,278,879
Fuel and power	779,778	922,159	1,186,018
Personnel costs	718,407	522,526	397,074
Communication, light and water	610,569	682,938	698,975
Repairs and maintenance	460,735	390,720	383,994
Outside services	624,678	775,870	877,728
Freight and handling	91,617	124,090	240,850
Others	293,791	296,313	559,850
	18,921,852	17,387,731	21,001,895
Cost of banking services	4,569,486	5,954,081	7,602,720
Cost of real estate sales	1,303,734	2,489,830	1,692,202
Cost of rental income	278,855	190,293	142,905
Cost of sales and services	P25,073,927	P26,021,935	P30,439,722

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

Cost of banking services consist of:

	2014	2013	2012
	(In Thousands)		
Interest expense on:			
Deposit liabilities	P2,894,689	P3,862,813	P5,004,656
Bills payable and other borrowings	856,926	1,126,920	1,801,314
Services fees and commission expense	817,871	964,348	796,750
	P4,569,486	P5,954,081	P7,602,720

25. Selling Expenses

	2014	2013	2012
	<i>(In Thousands)</i>		
Advertising and promotions	P1,242,980	P1,258,520	P1,202,945
Depreciation and amortization (Note 12)	593,785	717,807	683,885
Freight and handling	369,263	54,706	201,511
Commissions	138,877	305,201	199,952
Personnel costs	125,915	122,140	150,636
Outside services	119,341	91,410	86,513
Repairs and maintenance	62,713	63,888	60,295
Materials and consumables	31,205	60,711	27,821
Travel and transportation	25,806	41,122	39,237
Others	36,755	61,441	63,323
	P2,746,640	P2,776,946	P2,716,118

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

26. General and Administrative Expenses

	2014	2013	2012
	<i>(In Thousands)</i>		
Personnel costs	P8,110,980	P6,962,114	P6,700,681
Taxes and licenses	2,253,198	2,402,583	2,305,809
Provision for doubtful accounts and credit losses (Note 8)	1,734,502	911,690	2,288,793
Occupancy	1,492,326	1,629,345	1,949,528
Depreciation and amortization (Notes 12, 13 and 14)	1,395,410	1,924,168	1,644,473
Outside services	1,181,840	1,082,625	1,115,928
Insurance	964,466	944,261	921,546
Management, consulting and professional fees	800,322	719,452	724,856
Increase in aggregate reserve for life policies	761,528	732,920	805,884
Marketing and promotional	708,999	976,040	970,977
Provision for contingencies and other losses - net (Notes 12, 14 and 37)	473,362	88,240	449,396
Information technology	407,074	394,361	395,755
Policy benefits and claim benefits	404,620	403,417	285,050
Travel and transportation	278,840	285,989	299,576
Materials and consumables	244,477	308,763	313,758
Communication, light and water	243,063	292,247	270,977
Litigation	229,886	281,825	339,114
Repairs and maintenance	185,178	193,687	329,128
Freight and handling	76,366	98,242	69,380
Fuel and oil	66,519	141,846	112,758
Real properties disposition	31,404	28,436	30,005
Others	514,637	878,760	864,525
	P22,558,997	P21,681,011	P23,187,897

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

27. Finance Costs and Finance Income

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

	2014	2013	2012
	<i>(In Thousands)</i>		
Finance costs (Note 19):			
Short-term debts	P10,523	P18,353	P1,759
Bonds payable	402,750	402,750	402,750
Unsecured term loan and notes payable	26,118	45,540	130,530
Amortization of bond issue costs	15,464	14,249	13,148
	P454,855	P480,892	P548,187
Finance income:			
Cash and other cash items (Note 5)	P91,371	P84,908	P96,813
Interest-bearing contracts receivable (Note 8)	24,670	39,385	50,331
AFS investments (Note 7)	3,000	14,800	11,100
	P119,041	P139,093	P158,244

28. Other Income (Charges) - net

	2014	2013	2012
	<i>(In Thousands)</i>		
Net gains on sale or exchange of assets	P1,889,744	P528,632	P620,547
Premiums - net of reinsurance	1,571,088	1,584,295	1,433,580
Rental income and dues (Note 13)	805,235	469,538	422,814
Collections from asset pool 1 accounts (Note 37)	—	306,094	82,743
Gain on retirement	—	70,880	—
Gain (loss) on disposal of AFS investments	245,216	290,505	(78)
Recoveries from charged off assets	117,520	91,125	54,037
Dividend income	10,912	19,123	31,072
Reversal of deposit for future Certified Emission (Note 37)	—	—	70,858
Share in net losses of joint venture (Note 11)	(46,043)	(20,091)	—
Referral, processing and trust fees	97,715	68,444	39,166
Mark-to-market gain on financial assets designated at FVPL	32,351	—	—
Others	786,920	240,094	2,236,347
	P5,510,668	P3,648,639	P4,991,086

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

- Net gains on sale or exchange of assets include sale of investment properties of the banking segment in 2014, 2013 and 2012 amounting to P1,023.9 million, P299.4 million and P322.6 million, respectively.
- In 2013, TDI shut down its Quiapo plant and retrenched its employees assigned to the plant. Past service cost amounting to P70.9 million representing the change in the present value of the defined benefit obligation as a result of the implementation of the retrenchment program was immediately recognized in profit or loss in 2013 (see Note 23).

the FCDU transactions. These income taxes, as well as the deferred tax benefits and provisions, are presented as 'Provision for income tax' in the statements of income.

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

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

29. Income Taxes

Income taxes include the corporate income tax, discussed below, and final taxes paid which represents final withholding tax on gross interest income from government securities and other deposit substitutes and income from

- Details of the Group's deferred income tax assets and liabilities as of December follow:

	2014		2013	
	Net Deferred Income Tax Assets ⁽¹⁾	Net Deferred Income Tax Liabilities ⁽²⁾	Net Deferred Income Tax Assets ⁽³⁾	Net Deferred Income Tax Liabilities ⁽⁴⁾
	(In Thousands)			
Recognized directly in the consolidated statements of income:				
Deferred income tax assets on:				
Allowance for impairment loss on:				
Receivables	P4,851,051	P12,524	P5,117,961	P20,206
Inventories	–	5,392	–	3,882
Property, plant and equipment	–	66,660	6,659	66,660
Net retirement benefits liabilities	29,139	231,132	11,745	195,108
Unamortized past service cost	5	1,110	34,333	2,721
Accrued expenses	43,235	12,276	16,937	7,014
Reserve for unearned premiums	8,248	–	99,067	–
Deferred rent expense	–	–	27,808	–
Provision for losses	18,000	16,329	47,425	16,329
Unrealized losses on:				
Foreign exchange	44	466	2,803	–
Inventories on hand	–	20,041	–	–
Sale of property to a subsidiary	–	5,491	–	6,454
Difference between tax and book basis of accounting for real estate and banking transactions	27,273	–	740,069	–
NOLCO	278,279	–	37,104	–
Reserves, MCIT and others	597,608	–	580,826	314
	5,852,882	371,421	6,722,737	318,688
Deferred income tax liabilities on:				
Revaluation increment on property, plant and equipment	1,102,033	1,314,352	1,742,373	1,830,312
Excess of fair values over carrying values of property, plant and equipment acquired through business combination	–	29,846	–	39,640
Borrowing cost capitalized to property, plant, and equipment	–	18,213	–	19,666
Fair value gain on investment properties	3,559,833	–	1,731,832	–
Unrealized trading gains on derivatives	–	–	77,584	–
Deferred reinsurance premiums	–	–	86,013	–
Net retirement plan assets	–	79,285	96,471	20,671
Unrealized foreign exchange gains	597	3	10,161	3,101
Deferred rental income	18,661	–	11,233	–
Difference between tax and book basis of accounting for real estate transactions	35,258	–	52,322	–
Others	379,538	297,111	241,272	4,953
	5,095,920	1,738,810	4,049,261	1,918,343
	756,962	(1,367,389)	2,673,476	(1,599,655)
Recognized directly in equity:				
Deferred income tax assets on:				
Re-measurement losses on retirement benefits	839	22,800	29,175	81,511
Deferred income tax liabilities on:				
Unrealized gains on AFS investments	40,574	10,658	21,326	297,633
	(39,744)	12,142	7,849	(216,122)
	P717,218	(P1,355,247)	P2,681,325	(P1,815,777)

(1) Pertains to LTG, Eton and PNB

(2) Pertain to Saturn, PLI, AAC, ADI, PWI, TDI, ABI, FTC and IP

(3) Pertain to LTG, Eton, PNB and FTC

(4) Pertain to Saturn, PLI, AAC, ADI, PWI, TDI, ABI and IPI

b. Provision for current income tax consists of:

	2014	2013	2012
		(In Thousands)	
RCIT	P1,640,654	P1,624,543	P1,512,240
MCIT	23,962	44,623	20,299
Final tax	734,987	840,340	1,112,495
Provision for current income tax	P2,399,603	P2,509,506	P2,645,034

c. As of December 31, the Group has not recognized deferred income tax assets on certain deductible temporary differences such as NOLCO, excess MCIT and other items based on the assessment that sufficient taxable profit will not be available to allow the deferred income tax assets to be utilized as follows:

	2014	2013	2012
		(In Thousands)	
NOLCO	P667,353	P1,761,281	P535,577
Allowance for credit losses	2,250,081	2,081,671	4,061,544
Allowance for inventory obsolescence	7,489	5,931	5,931
Accrued retirement benefits	874,760	31,054	23,560
Unamortized past service cost	100,865	952,034	1,189,886
Unrealized foreign exchange loss	—	14,537	2,918
Accrued expenses	436,037	277,271	169,966
Derivative liabilities	13,279	51,304	85,125
Others	346,270	422,638	70,737

Details of the Group's NOLCO follow (In thousands):

Year Incurred	Amount	Used/Expired	Balance	Expiry Year
2012	P266,575	P—	P266,573	2015
2013	1,149,477	—	1,149,477	2016
2014	142,596	—	142,596	2017
	P1,558,648	P—	P1,558,648	

Details of the Group's MCIT follow (In thousands):

Year Incurred	Amount	Used/Expired	Balance	Expiry Year
2012	P211,753	(P190,729)	P21,024	2015
2013	32,173	—	32,173	2016
2014	8,053	—	8,053	2017
	P251,979	(P190,729)	P61,250	

d. A reconciliation of the Group's provision for income tax computed based on income before income tax at the statutory income tax rates to the provision for income tax shown in the consolidated statements of income is as follows:

	2014	2013	2012
		(In Thousands)	
Provision for income tax at statutory income tax rate	P2,748,307	P4,075,168	P5,471,243
Adjustments resulting from:			
NOLCO, excess MCIT and other deductible temporary differences for which no deferred income tax assets were recognized	349,209	187,626	81,099
Application of NOLCO, MCIT and other deductible temporary differences for which no deferred income tax assets were recognized in prior years	(665,685)	(10,157)	(23,339)
Nontaxable income	(861,891)	(2,030,276)	(913,610)
Income tax holiday	—	—	40,858
Difference of itemized deduction against 40% of taxable income	(4,685)	19,832	(6,173)
Income subjected to final tax	—	(23,474)	(9,973)
Equity in net earnings of an associate	(154,534)	(1,111,235)	(1,949,692)
Non-deductible expenses	1,278,097	1,001,346	835
Provision for income tax	P2,688,818	P2,108,830	P2,691,248

30. Equity

Capital Stock

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

	2014	2013
Number of shares		
Authorized capital stock at P1 par value:		
At beginning of the year	25,000,000,000	25,000,000,000
Increase in authorized capital stock	—	—
At end of the year	25,000,000,000	25,000,000,000
	(In Thousands)	
Issued capital stock at P1 par value:		
At beginning of the year	P10,821,389	P8,981,389
Issuance	—	1,840,000
At end of the year	P10,821,389	P10,821,389

Capital stock is held by a total of 375 and 572 stockholders as of December 31, 2014 and 2013, respectively.

b. Track record of registration:

Date	Number of Shares Licensed	Issue/Offer Price
August 1948	100,000	P1.00
November 1958	500,000	1.00
December 1961	1,000,000	1.00
March 1966	2,000,000	1.00
—	6,000,000	1.00
October 1995	247,500,000	1.00
October 2011	398,138,889	4.22
April 2013	1,840,000,000	20.50

c. As discussed in Note 1 on October 26, 2011, pursuant to the 2-tranche Placing and Subscription Transaction, LTG's BOD accepted

the offer of Tangent to subscribe to 398,138,889 new common shares from the Company's unissued capital stock at the offer price of P4.22 each, subject to the approval at the Company's annual shareholders' meeting.

The respective BODs of LTG and Tangent approved the execution of a Memorandum of Agreement setting forth each of their rights and obligations under the Placing and Subscription Transaction, including the undertaking of Tangent to use the offer proceeds to subscribe to additional new shares in LTG's unissued capital stock.

In December 2011, LTG received from Tangent the net offer proceeds amounting to P1.6 billion, net of stock issue cost amounting to P40.7 million, as deposit for future subscription. Subsequently, LTG invested P1.6 billion of the total proceeds in TDI for the latter's capital and operational requirements.

On June 13, 2012, LTG's BOD and stockholders approved the conversion of the deposit for future stock subscription amounting to P1.6 billion into 398,138,889 common shares of LTG which resulted to the recognition of capital stock and corresponding additional paid-in capital amounting to P398.1 million and P1.2 billion, respectively.

d. As discussed in Note 1, in July 2012, the Company received from Tangent P5.0 billion cash in exchange for LTG's 5,000,000,000 common shares. Costs related to the share issuance amounted to P67.5 million and is presented as a deduction from additional paid in capital.

e. In April 2013, LTG issued 1,840.0 million shares for P37.7 billion, where excess over par value amounting to P35.9 billion was recorded as capital in excess of par. Stock issue costs amounting to P1.1 billion were charged against capital in excess of par in 2013. Other offering related expenses amounting to P59.0 million were charged directly to "General and administrative expenses".

Retained Earnings and Dividends

a. On April 8, 2014, LTG's BOD and stockholders approved the declaration and distribution of cash dividends of P0.16 per share or a total of P1,731.4 million to all shareholders of record as of April 25, 2014 and to be paid not later than May 22, 2014.

b. On June 19, 2013, LTG's BOD and stockholders approved the declaration and distribution of cash dividends of P0.15 per share or a total of P1.6 billion.

c. On March 22, 2011 and December 20, 2011, LTG's BOD and stockholders, respectively, approved the declaration and distribution of cash dividends of P0.12 per share and P0.20 per share or a total of P403.8 million and P702.7 million, respectively.

d. Retained earnings include undistributed earnings amounting to P41.2 billion in 2014, P36.9 billion in 2013 and P42.0 billion in 2012, representing accumulated earnings of subsidiaries and equity in net earnings of associates, which are not available for dividend declaration until received in the form of dividends from the combining entities and associates.

Retained earnings are further restricted for the payment of dividends to the extent of the cost of the shares held in treasury (shares of the company held by subsidiaries), unrealized foreign exchange gains except those attributable to cash and cash equivalents, fair value adjustment or gains arising from mark-to-market valuation, deferred income tax assets recognized that reduced the income tax expense and increased net income and retained earnings, and other unrealized gains or adjustments as of December 31, 2014 and 2013.

Preferred shares of subsidiaries issued to Parent Company

On March 20, 2013, the respective BOD's and stockholders of

various Bank Holding Companies approved the increase in their authorized capital stocks comprising of common shares and preferred shares with par value of P1.00 per share. The preferred shares were subscribed by Tangent through conversion of its advances into investments in certain Bank Holding Companies (see Note 22). Upon approval of the SEC of the increase in authorized capital stock of Bank Holding Companies in various dates in October, November and December 2013, preferred shares amounting to P7.4 billion presented under "Preferred shares of subsidiary issued to Parent Company" were issued to Tangent. Unissued preferred shares amounting to P6.0 billion which are pending approval of the SEC are presented under "Deposit for future stock subscription" as of December 31, 2013. Upon approval of the SEC on various dates in 2014, the remaining preferred shares of P6.0 billion and additional conversion of advances to preferred shares during the year of P4.7 billion were issued to Tangent. As of December 31, 2014, preferred shares of the subsidiary issued to parent company amounted to P18.1 billion.

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

Other Equity Reserves

Other equity reserves consist of:

	2014	2013
	<i>(In Thousands)</i>	
Equity adjustments arising from business combination under common control (Note 1)	P445,113	P445,113
Equity adjustments from sale of Company's shares held by a subsidiary	193,212	193,212
Effect of transaction with non-controlling interest	52,156	52,156
Effect of sale of a subsidiary to parent company	99,655	99,655
	P790,136	P790,136

Shares Held by Subsidiaries

Shares held by subsidiaries include 4.9 million shares owned by All Seasons amounting to P12.5 million as of December 31, 2014 and 2013 and 76.5 million shares owned by Saturn amounting to P150.9 million as of December 31, 2011. On July 25, 2012, the shares of stocks owned by Saturn were sold to Tangent at P4.50 per share. As a result, the excess of the selling price over the cost of the treasury shares amounting to P193.2 million is presented as an addition to other equity reserves.

Non-controlling Interests

Below are the changes in non-controlling interests:

	2014	2013	2012
	<i>(In Thousands)</i>		
Balance as of January 1	P32,235,085	P31,051,046	P28,722,790
Net income attributable to non-controlling interests	2,061,976	2,805,844	2,789,038
Share in other comprehensive income, net of deferred income tax effect:			
Accumulated translation adjustment	(119,903)	911,051	(674,519)
Net changes in AFS financial assets (Note 7)	426,879	(2,514,123)	(261,223)
Revaluation increment on property, plant and equipment (Note 12)	—	420,332	61,270
Remeasurement gains (losses) on defined benefit plans (Notes 2 and 23)	(537,431)	(127,737)	300,345
Dividends received	—	(64,216)	(15,509)
Capital contribution of non-controlling interest during the year	4,427,697	—	—
Changes in ownership interest	—	(247,112)	128,854
Balance as of December 31	P38,494,303	P32,235,085	P31,051,046



Capital contribution of non-controlling interest in 2014 pertains to the gross proceeds from PNB's stock right offering of common shares following the closure of the offer period on February 3, 2014. A total of 162,931,262 PNB Right shares were issued to its stockholders at a proportion of 15 Rights shares for every 100 existing common shares held as of the record date at the offer price of P17.00 per Right share.

The offer raised gross proceeds of P11.6 billion for PNB, out of which LTG and the non-controlling shareholders of PNB subscribed P6.9 billion and P4.4 billion, respectively, net of stock issue cost. Part of the proceeds will be used as capital injection to PNB Savings Bank (PNB SB) to build and refocus PNB SB's lending business. The offer also strengthened PNB SB's capital position under BASEL III standards effective January 1, 2014.

31. Basic/Diluted Earnings Per Share

Basic/diluted earnings per share were calculated as follows:

	2014	2013	2012
	(In Thousands)		
Net income attributable to equity holders of the Company	P4,410,230	P8,669,220	P12,757,189
Divided by weighted-average number of shares	10,821,389	10,208,056	8,848,676
Basic/diluted EPS for net income attributable to equity holders of the Company	P0.41	P0.85	P1.44

32. Financial Risk Management Objectives and Policies

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

Financial Risk Management Objectives and Policies of the Banking Segment

Risk Management Strategies

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

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

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

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

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

Managing the level of these risks as provided for by the banking segment's ERM framework is critical to its continuing profitability. The Risk Oversight

Committee (ROC) of the banking segment's BOD determines the risk policy and approves the principles of risk management, establishment of limits for all relevant risks, and the risk control procedures. The ROC of the banking segment is also responsible for the risk management of the banking segment.

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

The mandate of the RMG involves:

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

Credit Risk

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

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

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

- Documented credit policies and procedures: sound credit granting process, risk asset acceptance criteria, target market and approving authorities;
- System for administration and monitoring of exposure;
- Pre-approval review of loan proposals;
- Post approval review of implemented loans;
- Work out system for managing problem credits;
- Regular review of the sufficiency of valuation reserves;
- Monitoring of the adequacy of capital for credit risk via the Capital Adequacy Ratio (CAR) report;
- Monitoring of breaches in regulatory and internal limits;
- Credit Risk Management Dashboard;
- Diversification;
- Internal Risk Rating System for corporate accounts;
- Credit Scoring for retail accounts; and
- Active loan portfolio management undertaken to determine the quality of the loan portfolio and identify the following:
 - a. portfolio growth
 - b. movement of loan portfolio (cash releases and cash collection for the month)
 - c. loss rate
 - d. recovery rate
 - e. trend of nonperforming loans (NPLs)
 - f. concentration risk (per classified account, per industry, clean exposure, large exposure, contingent exposure, currency, security, facility, demographic, etc.)

The banking segment has moved one step further by collecting data on risk rating of loan borrowers with an asset size of P15.0 million and above as initial requirement in the banking segment's model for internal Probability of Default (PD) and Loss Given Default (LGD).

Credit-related commitments

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

Derivative financial instruments

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

Collateral and other credit enhancement

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

The main types of collateral obtained are as follows:

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

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

The banking segment is not permitted to sell or repledge the collateral held over loans and advances to counterparty banks and BSP in the absence of default by the owner of the collateral.

The banking segment's maximum exposure to on-balance sheet credit risk is equal to the carrying value of its financial assets except for the following loans and receivables:

	2014		2013	
	Before Collateral	After Financial Effect of Collateral or Credit Enhancement	Before Collateral	After Financial Effect of Collateral or Credit Enhancement
	(In Millions)			
Loans and receivables:				
Receivable from customers*:				
Business loans	P237,995	P180,555	P187,023	P83,798
GOCCs and National Government Agencies (NGAs)	20,252	20,037	25,751	12,397
LGUs	8,334	7,687	8,479	1,098
Consumers	29,241	12,792	26,060	10,235
Fringe benefits	550	198	603	430
Unquoted debt securities	4,425	856	7,546	4,746
Other receivables	15,456	12,202	18,413	7,241
	P316,253	P234,327	P273,875	P119,945

*The Group follows the BOD approved policy on the generic classification of loans based on the type of borrowers and the purpose of the loan.

* Receivables from customers exclude residual value of the leased asset.

For the banking segment, fair values of collateral held for loans and receivables amounted to P212.5 billion and P146.3 billion as of December 31, 2014 and 2013, respectively.

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

Excessive risk concentration

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

a. Limit per Client or Counterparty

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

b. Geographic Concentration

The table below shows the banking segment's credit risk exposures, before taking into account any collateral held or other credit enhancements, categorized by geographic location:

	2014	2013
	(In Millions)	
Philippines	P511,880	P516,743
USA and Canada	8,834	5,937
Asia (excluding the Philippines)	20,516	24,551
United Kingdom	2,481	1,696
Other European Union Countries	4,456	6,122
Middle East	74	248
	P548,241	P555,297

c. Concentration by Industry

The table below show the industry sector analysis of the banking segment's financial assets at amounts before taking into account the fair value of the loan collateral held or other credit enhancements:

	2014	2013
	(In Millions)	
Loans and Receivables		
Receivable from customers:		
Primary target industry:		
Public administration and defense	P37,811	P24,103
Wholesale and retail	43,019	42,565
Transport, storage and communication	14,584	17,586
Electricity, gas and water	42,662	38,471
Manufacturing	39,396	30,352
Financial intermediaries	23,263	21,357
Agriculture, hunting and forestry	4,238	1,869
Secondary target industry:		
Real estate, renting and business activities	38,067	34,126
Construction	8,458	6,950
Others*	60,065	30,527
Unquoted debt securities:		
Government	4,127	7,401
Financial intermediaries	—	33
Manufacturing	—	112
	315,690	255,452
Other receivables	9,352	18,413
	325,042	273,865
Trading and Financial Investment Securities		
Government	66,196	62,060
Financial intermediaries (Forward)	—	6,616

	2014	2013
	(In Millions)	
Electricity, gas and water	P8,160	P1,542
Real estate, renting and business activities	2,762	5,182
Manufacturing	197	646
Public administration and defense	6,173	—
Others**	19,925	15,710
	103,413	91,756
Other Financial Assets***		
Financial intermediaries	23,263	22,499
Government	105,774	153,169
Others	101	14,008
	129,138	189,676
	P557,593	P555,297

* Receivables from customers exclude residual value of the leased asset amounting to P243.4 million and P404 million and P201 million as of December 31, 2014 and 2013, respectively.

** Others include the following sectors - Other community, social and personal services, private household, hotel and restaurant, education, mining and quarrying, and health and social work.

*** Other financial assets include the following financial assets: "Due from BSP", "Due from other banks", "Interbank loans receivable", "Securities held under agreements to resell", "Receivable from SPV", "Miscellaneous COC" and "Commitments".

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

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

Credit quality per class of financial assets

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

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

The CRRs of the banking segment's receivables from customers (applied to loans with asset size of P15.0 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 P15.0 million. Credit scoring details the financial capability of the borrower to pay for any future obligation.

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

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

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

The table below shows the banking segment's receivable from customers, gross of allowance for credit losses and unearned and other deferred income, for each CRR as of December 31, 2014 and 2013 but net of residual values of leased assets. As of December 31, 2014 and 2013, residual value of leased assets of the banking segment amounted to P563.0 million and P404.8 million, respectively.

	2014			2013		
	Neither Past Due nor Individually Impaired	Past Due or Individually Impaired	Total	Neither Past Due nor Individually Impaired	Past Due or Individually Impaired	Total
<i>(In Millions)</i>						
Rated Receivable from Customers						
1 – Excellent	P3,658	P–	P3,658	P2,634	P–	P2,634
2 – Super Prime	54,762	–	54,762	57,316	–	57,316
3 – Prime	44,607	3	44,610	33,365	14	33,379
4 – Very Good	12,837	–	12,837	4,395	38	4,433
5 – Good	28,228	283	28,511	19,480	7	19,487
6 – Satisfactory	42,311	281	42,592	24,546	212	24,758
7 – Average	25,307	310	25,617	30,005	220	30,225
8 – Fair	22,581	454	23,035	8,920	25	8,945
9 – Marginal	5,355	336	5,691	3,860	9	3,869
10 – Watchlist	10,362	108	10,470	12,990	35	13,025
11 – Special Mention	1,870	207	2,077	2,664	331	2,995
12 – Substandard	1,180	2,123	3,303	1,472	3,103	4,575
13 – Doubtful	–	1,506	1,506	5	2,497	2,502
14 – Loss	–	2,671	2,671	–	2,724	2,724
	253,058	8,282	261,340	201,652	9,215	210,867
Unrated Receivable from Customers						
Business Loans	10,194	1,692	11,886	13,105	870	13,975
GOCCs and NGAs	352	1,798	2,150	2,196	46	2,242
LGUs	8,142	248	8,390	7,925	661	8,586
Consumers	18,324	787	19,111	20,536	908	21,444
Fringe Benefits	532	35	567	529	1	530
	37,544	4,560	42,104	44,291	2,486	46,777
	P290,602	P12,842	P303,444	P245,943	P11,701	P257,644

Under PFRS 7, a financial asset is past due when a counterparty has failed to make a payment when contractually due. The table below shows the aging analysis of the banking segment of past due but not impaired loans and receivables per class.

	2014				2013			
	Less than 30 days	31 to 90 days	More than 90 days	Total	Less than 30 days	31 to 90 days	More than 90 days	Total
<i>(In Millions)</i>								
Consumers	P130	P73	P480	P683	P163	P142	P358	P663
Business loans	1,564	159	1,125	2,848	387	436	1,436	2,259
LGUs	62	–	110	172	341	69	34	444
GOCCs and NGAs	–	–	2	2	–	–	–	–
Fringe benefits	–	1	10	11	1	–	1	2
Total	P1,756	P233	P1,727	P3,716	P892	P647	P1,829	P3,368

Below are the financial assets of the banking segment, excluding receivables from customers, which are monitored using external ratings.

December 31, 2014						
	Rated			Subtotal	Unrated ^{6/}	Total
	Aaa to Aa3	A1 to A3	Baa1 and below			
	(In Millions)					
Due from BSP ^{1/}	P–	P–	P10,358	P10,358	P95,416	P105,774
Due from other banks	2,488	3,971	4,687	11,146	4,445	15,591
Interbank loans receivables	2,295	3,569	1,557	7,421	250	7,671
Financial assets at FVPL:						
Held-for-trading:						
Government securities	–	–	5,712	5,712	419	6,131
Private debt securities	–	–	–	–	210	210
Derivative assets ^{2/}	1	43	11	55	234	289
Equity securities	–	–	–	–	210	210
Designated at FVPL:						
Segregated fund assets	–	10,655	–	10,655	–	10,655
Loans and receivables:						
Unquoted debt securities ^{3/}	–	–	349	349	4,076	4,425
Others ^{4/}	4	2	201	207	15,249	15,456
AFS investments ^{5/} :						
Government securities	1,450	83	34,886	36,419	1,264	37,683
Other debt securities	691	1,058	3,267	5,016	18,971	23,987
Quoted equity securities	40	–	163	203	2,532	2,735
Unquoted equity securities	–	–	–	–	338	338
HTM investments						
Government securities	–	4	22,827	22,831	–	22,831
Other debt securities	–	50	–	50	90	140
Miscellaneous COCI	–	–	–	–	–	–

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

2/ Derivative assets represent the value of credit derivatives embedded in host contracts issued by financial intermediaries and the mark-to-market valuation of freestanding derivatives (see Note 21).

3/ Unquoted debt securities represent investments in bonds and notes issued by financial intermediaries, government and private entities that are not quoted in the market, net of allowances.

4/ Loans and receivables - Others is composed of accrued interest receivable, accounts receivable, sales contracts receivable and other miscellaneous receivables, net of allowances (see Note 8)

5/ AFS investments are presented net of allowances (Note 7).

6/ As of December 31, 2014, financial assets that are unrated are neither past due nor impaired.

December 31, 2013

	Rated				Unrated ^{6/}	Total
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal		
	(In Millions)					
Due from BSP ^{1/}	P–	P–	P–	P–	P153,169	P153,169
Due from other banks	1,580	4,131	4,775	10,486	3,608	14,094
Interbank loans receivables	399	4,490	3,285	8,174	231	8,405
Financial assets at FVPL:						
Held-for-trading:						
Government securities	–	–	2,835	2,835	521	3,356
Private debt securities	–	–	8	8	823	831
Derivative assets ^{2/}	7	30	20	57	202	259
Equity securities	–	–	–	–	250	250
Designated at FVPL:						
Segregated fund assets	–	7,862	–	7,862	–	7,862
Loans and receivables:						
Unquoted debt securities ^{4/}	–	–	50	50	7,496	7,546
Others ^{5/}	1	–	196	197	18,215	18,412
AFS investments ^{6/} :						
Government securities	1,510	227	56,727	58,464	241	58,705
Other debt securities	898	1,044	5,098	7,040	11,615	18,655
Quoted equity securities	–	–	172	172	1,505	1,677
Unquoted equity securities	–	–	–	–	162	162

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

2/ Derivative assets represent the value of credit derivatives embedded in host contracts issued by financial intermediaries and the mark-to-market valuation of freestanding derivatives (see Note 21).

3/ Unquoted debt securities represent investments in bonds and notes issued by financial intermediaries, government and private entities that are not quoted in the market, net of allowances.

4/ Loans and receivables - Others is composed of accrued interest receivable, accounts receivable, sales contracts receivable and other miscellaneous receivables, net of allowances (see Note 8)

5/ AFS investments are presented net of allowances (Note 7).

6/ As of December 31, 2014, financial assets that are unsecured are neither past due nor impaired.

Impairment assessment

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

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

a. Specific (individual) assessment

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

Among the items and factors considered by the Group when assessing and measuring specific impairment/credit allowances are:

- the going concern of the borrower's business;
- the ability of the borrower to repay its obligations during financial crises;
- the projected receipts or expected cash flows;
- the availability of other sources of financial support;
- the existing realizable value of collateral; and
- the timing of the expected cash flows.

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

b. Collective assessment

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

Impairment losses are estimated by taking into consideration the following information:

- historical losses of the portfolio;
- current adverse economic conditions that have direct impact on the portfolio;
- losses which are likely to occur but has not yet occurred; and
- expected receipts and recoveries once impaired.

See Notes 7 and 8 for more detailed information on the allowance for credit losses on loans and receivables and other financial assets.

Liquidity Risk and Funding Management

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

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

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

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

December 31, 2014						
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Beyond 1 year	Total
(In Millions)						
Financial Assets						
COCI	P14,628	P–	P–	P–	P–	P14,628
Due from BSP and other banks	113,656	4,909	1,226	153	1,421	121,365
Interbank loans receivable	7,407	86	179	–	–	7,672
Financial assets at FVPL:						
Held-for-trading:						
Government securities	39	53	260	243	7,890	8,485
Equity securities	–	–	–	–	210	210
Private debt securities	–	2	4	6	271	283
Derivative assets:						
Pay	(4,042)	(136)	(56)	–	(461)	(4,695)
Receive	4,061	143	60	–	567	4,831
	19	7	4	–	106	136
Designated at FVPL:						
Designated at FVPL segregated fund liabilities	–	–	–	–	10,817	10,817
Loans receivables - gross	62,949	33,428	12,772	11,689	182,238	303,076
Unquoted debt securities - gross	8	3,557	11	20	4,449	8,045
Other receivables - gross	2,364	568	1,492	369	13,671	18,464
AFS investments	512	978	1,551	3,415	66,234	72,690
HTM investments	1,732	804	250	8,962	29,461	41,209
Other assets	102	–	–	–	–	102
Total financial assets	P203,416	P44,392	P17,749	P24,857	P316,768	P607,182
Financial Liabilities						
Deposit liabilities:						
Demand	P101,561	P–	P–	P–	P–	P101,561
Savings	209,870	33,101	16,374	13,436	20,421	293,202
Time	7,650	10,625	4,899	5,118	24,588	52,880
Financial liability at FVPL						
Derivative liabilities:						
Pay	6,781	54	15	291	490	7,631
Receive	(6,764)	(53)	(13)	(290)	(465)	(7,585)
	17	1	2	1	25	46
Bills and acceptances payable	7,713	997	1,335	31	8,974	19,050
Subordinated debt	–	–	–	–	9,969	9,969
Accrued interest payable and other liabilities	18,569	526	728	367	7,698	27,888
Total financial liabilities	P345,380	P45,250	P23,338	P18,953	P71,675	P504,596

December 31, 2013						
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Beyond 1 year	Total
(In Millions)						
Financial Assets						
COCI	P11,559	P–	P–	P–	P–	P11,559
Due from BSP and other banks	162,722	1,774	4,300	205	199	169,200
Interbank loans receivable	8,328	150	–	–	–	8,478
Financial assets at FVPL:						
Held-for-trading:						
Government securities	36	16	36	78	4,703	4,869
Equity securities	–	–	–	–	15	15
Private debt securities	–	2	4	7	878	891
Derivative assets						
Pay	(2,911)	(850)	(1,141)	(216)	(31)	(5,149)
Receive	2,934	859	1,168	222	31	5,214
	23	9	27	6	–	65
Designated at FVPL:						
Segregated fund assets	–	–	–	–	7,862	7,862
Loans receivables - gross	81,505	43,282	16,537	15,135	235,958	392,417
Unquoted debt securities - gross	69	2,855	11	144	9,176	12,255
Other receivables - gross	2,662	3,309	1,868	273	9,030	17,142
AFS investments	1,003	648	937	3,726	101,011	107,325
Total financial assets	P267,907	P52,045	P23,720	P19,574	P368,832	P732,078
Financial Liabilities						
Deposit liabilities:						
Demand	P127,461	P–	P–	P–	P–	P127,461
Savings	232,842	24,423	8,593	4,839	13,142	283,839
Time	13,155	13,427	4,406	6,817	20,105	57,910
Financial liabilities at FVPL:						
Derivative liabilities:						
Pay	9,771	1,995	694	–	1,391	13,851
Receive	(9,655)	(1,979)	(676)	–	(1,391)	(13,701)
	116	16	18	–	–	150
Designated at FVPL - segregated fund liabilities	–	–	–	–	7,912	7,912
Bills and acceptances payable	8,825	2,129	835	–	1,751	13,540
Subordinated debt	–	147	147	294	13,039	13,627
Accrued interest payable and other liabilities	13,594	362	212	257	6,965	21,390
Total financial liabilities	P395,993	P40,504	P14,211	P12,207	P62,914	P525,829

Market Risks

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

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

Trading market risk

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

a. Objectives and limitations of the VaR methodology

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

b. VaR assumptions/parameters

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

c. VaR Limits

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

Trading Portfolio	Foreign Exchange*	Interest Rate	Equities Price	Total VaR**
December 31, 2014	P54.51	P180.25	P7.76	P242.52
Average Daily	49.60	188.39	8.73	246.50
Highest	103.36	307.42	12.60	349.12
Lowest	8.56	76.55	6.43	160.66
December 31, 2013	P4.28	P159.37	P12.22	175.88
Average Daily	8.81	148.81	9.89	167.51
Highest	24.71	497.11	12.97	413.55
Lowest	0.65	30.24	6.69	70.60

* FX VaR is the bankwide foreign exchange risk

** The high and low for the total portfolio may not equal the sum of the individual components as the highs and lows of the individual trading portfolios may have occurred on different trading days

The table below shows the interest rate VaR for AFS investments:

	2014	2013
	(In Millions)	
End of year	P812.47	P2,283.45
Average Daily	1,416.60	2,176.61
Highest	2,631.36	2,743.57
Lowest	812.47	1,522.48

Structural Market Risk of the Banking Segment

Non-trading Market Risk

Interest rate risk

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

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

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

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

The following table sets forth the repricing gap position of the banking segment:

	December 31, 2014					Total
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 months	Beyond 1 year	
	(In Millions)					
Financial Assets*						
Due from BSP and other banks	P114,062	P5,180	P1,436	P235	P452	P121,365
Interbank loans receivable	7,585	86	—	—	—	7,671
Receivable from customers and other receivables						
- gross**	109,682	52,668	10,239	10,042	30,296	212,927
Total financial assets	P231,329	P57,934	P11,675	P10,277	P30,748	P341,963
Financial Liabilities*						
Deposit liabilities:						
Savings	P80,240	P28,456	P16,173	P20,476	P9,503	P154,848
Time	13,973	6,782	5,620	4,134	3,375	33,884
Bills and acceptances payable	7,574	682	422	669	13,618	22,965
Total financial liabilities	P101,787	P35,920	P22,215	P25,279	P26,496	P211,696
Repricing gap	P129,542	P22,014	(P10,540)	(P15,002)	P4,252	P130,266
Cumulative gap	129,542	151,556	141,016	126,014	130,266	

*Financial instruments that are not subject to repricing/rollforward were excluded.

**Receivable from customers excludes residual value of leased assets.

	December 31, 2013					Total
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 months	Beyond 1 year	
	(In Millions)					
Financial Assets*						
Due from BSP and other banks	P110,636	P—	P—	P—	P—	P110,636
Interbank loans receivable	6,188	149	—	—	—	6,337
Receivable from customers and other receivables - gross**	83,078	41,796	8,611	9,077	42,987	185,549
Total financial assets	P199,902	41,945	8,611	9,077	42,987	302,522
Financial Liabilities*						
Deposit liabilities:						
Savings	P91,078	P17,726	P10,075	P5,979	P4,182	P129,040
Time	14,999	8,913	4,237	2,154	5,747	36,050
Bills and acceptances payable	9,220	902	242	438	1,279	12,081
Total financial liabilities	P115,297	P27,541	P14,554	P8,571	P11,208	P177,171
Repricing gap	P84,605	P14,404	(P5,943)	P506	P31,779	P125,351
Cumulative gap	84,605	99,009	93,066	93,572	125,351	

*Financial instruments that are not subject to repricing/rollforward were excluded.

**Receivable from customers excludes residual value of leased assets.

The following table sets forth, for the year indicated, the impact of changes in interest rates on the banking segment's repricing gap for the years ended December 31:

	2014		2013	
	Statement of Income	Equity (In Millions)	Statement of Income	Equity
+50bps	P248	P248	P442	P442
-50bps	(248)	(248)	(442)	(442)
+100bps	496	496	885	885
-100bps	(496)	(496)	(885)	(885)

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

Foreign currency risk

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

Foreign currency liabilities generally consist of foreign currency deposits

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

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

The table below summarizes the banking segment's exposure to foreign exchange rate risk. Included in the table are the financial assets and liabilities at carrying amounts, categorized by currency (amounts in Philippine peso equivalent).

	December 31, 2014			December 31, 2013		
	USD	Others	Total	USD	Others	Total
(In Millions)						
Assets						
COCI and due from BSP	P236	P300	P536	P1,017	P485	P1,502
Due from other banks	1,491	3,301	4,792	9,719	3,589	13,308
Interbank loans receivable and securities held under agreements to resell	2,044	432	2,476	1,005	1,000	2,005
Financial assets at FVPL	118	35	153	—	—	—
Loans and receivables	7,173	688	7,861	10,268	5,269	15,537
AFS investments	1,484	1,934	3,418	4,255	2,078	6,333
Other assets	91	54	145	—	—	—
Total assets	P12,637	P6,744	P19,381	P26,264	P12,421	P38,685
Liabilities						
Deposit liabilities	P1,961	P2,937	P4,898	P7,621	P5,159	P12,780
Bills and acceptances payable	2,977	113	3,090	6,437	141	6,578
Accrued taxes, interest and other expenses	1,570	24	1,594	1,599	201	1,800
Other liabilities	2,357	144	2,501	4,677	493	5,170
Total liabilities	8,865	3,218	12,083	20,334	5,994	26,328
Net Exposure	P3,772	P3,526	P7,298	P5,930	P6,427	P12,357

Information relating to the banking segment's currency derivatives is contained in Note 21.

Financial Risk Management Objectives and Policies of the Companies in the Group other than the Banking Segment

Risk Management Strategies

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

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

Credit Risk

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

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

Concentration risk

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

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

Credit quality per class of financial assets

"Standard grade" accounts consist of financial assets from trusted parties with good financial condition. "Substandard grade" accounts, on the other hand, are financial assets from other counterparties with relatively low defaults. The Group did not regard any financial asset as "high grade" in view of the erratic cash flows or uncertainty associated with the financial instruments. "Past due but not impaired" are items with history of frequent default, nevertheless, the amount due are still collectible. Lastly, "Impaired financial assets" are those that are long-outstanding and have been provided with allowance for doubtful accounts.

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

December 31, 2014:

	Neither past due nor impaired		Past due but not impaired				Impaired Financial Assets	Total
	Standard Grade	Sub- standard Grade	31 to 60 days	61 to 90 days	91 to 120 days	Over 120 Days		
	(In Millions)							
Loans and receivables:								
Cash and other cash items	P3,607	P–	P–	P–	P–	P–	P–	P3,607
Trade receivables	5,962	–	3,213	1,983	1,382	–	29	12,569
Other receivables	2,702	167	2	7	5	91	6	2,980
Due from related parties	1,353	–	–	–	–	444	–	1,797
Refundable deposits	173	–	–	–	–	–	–	173
Financial assets at FVPL	4,922	–	–	–	–	–	–	4,922
AFS investments	570	52	–	–	–	–	2	624
	P19,289	P219	P3,215	P1,990	P1,387	P535	P37	P26,672

December 31, 2013:

	Neither past due nor impaired		Past due but not impaired				Impaired Financial Assets	Total
	Standard Grade	Sub- standard Grade	31 to 60 days	61 to 90 days	91 to 120 days	Over 120 Days		
	(In Millions)							
Loans and receivables:								
Cash and other cash items	P1,089	P–	P–	P–	P–	P–	P–	P1,089
Trade receivables	7,789	–	1,617	642	646	59	32	10,785
Other receivables	2,514	1	5	50	5	338	6	2,919
Due from related parties	2,710	–	–	–	–	–	–	2,710
Refundable deposits	168	–	–	–	–	–	–	168
AFS investments	675	–	–	–	–	–	–	675
	P14,945	P1	P1,622	P692	P651	P397	P38	P18,346

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.

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

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

The following tables show the maturity profile of the Group's other financial liabilities (undiscounted amounts of principal and related interest) as well as the financial assets used for liquidity management (in millions):

	2014			2013		
	Less than one year	1 to less than 3 years	Total	Less than one year	1 to less than 3 years	Total
Cash and other cash items	P3,607	P–	P3,607	P1,092	P–	P1,092
Trade receivables	12,569	–	12,569	8,515	2,237	10,752
Other receivables	2,980	–	2,980	2,913	–	2,913
Due from related parties	1,797	–	1,797	2,710	–	2,710
Refundable deposits	173	–	173	168	–	168
Financial assets at FVPL	4,922	–	4,922	–	–	–
AFS investments	1,672	–	1,672	675	–	675
	P27,720	P–	P27,720	P16,073	P2,237	P18,310
Short term debts	P300	P–	P300	P300	P–	P300
Accounts payable and other liabilities*	7,263	–	7,263	7,567	–	7,567
Long-term debts	15,475	1,322	16,797	1,010	6,926	7,936
Due to related parties	50	–	50	8,037	–	8,037
Other liabilities	2,640	–	2,640	45	1,507	1,552
	P25,728	P1,322	P27,050	P16,959	P8,433	P25,392

*Excluding non-financial liabilities amounting to P132.6 million and P420.3 million as of December 31, 2014 and 2013.

Market Risks of the Group other than the Banking Segment

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

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

Equity price risk

Equity price risk is the risk that the fair value of equities will decrease as a result of changes in the levels of equity indices and value of individual stocks. In 2014, 2013 and 2012, changes in fair value of equity instruments held as AFS equity instruments due to a reasonable possible change in equity interest, with all other variables held constant, will increase profit by P39.7 million, P43.8 million and P42.6 million, respectively, if equity prices will increase by 5.2%. An equal change in the opposite direction would have decrease equity by the same amount.

Foreign exchange risk

The Group's foreign currency risk relates to its US\$-denominated cash in banks and cash equivalents and due to and from related parties. Management closely monitors the fluctuations in exchange rates so as to anticipate the impact of foreign currency risks associated with the financial instruments. The Group currently does not enter into derivative transactions to hedge its currency exposure.

The Group's significant US\$-denominated financial assets (other than the banking segment) pertain to due from related parties as of December 31, 2013 which was fully collected as of December 31, 2014. Shown below is the impact on the Group's income before income tax of reasonably possible changes in exchange rate of the US\$ against the peso:

	Dollar Value (In Millions)	Peso Equivalent (In Millions)	Change in Foreign Exchange Rate	Effect on Income Before Income Tax (In Millions)
December 31, 2013	\$20	P888	+1 -1	P27 (27)

The reasonable movement in exchange rates was determined using one-year historical data. There is no other impact on the Group's equity other than those already affecting the profit or loss.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates would unfavorably affect future cash flows from financial instruments. As of December 31, 2014 and 2013, the Group's long-term debts are not exposed to the risk in changes in market interest rates since the debts are issued at fixed rates. Fixed rate financial instruments are subject to fair value interest rate risk while floating rate financial instruments are subject to cash flow interest rate risk. Repricing of floating rate financial instruments is mostly at interval of three months or six months.

33. Offsetting of Financial Assets and Liabilities

The amendments to PFRS 7, which is effective January 1, 2013, require the Group to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreements or similar arrangements. The effects of these arrangements are disclosed in the succeeding tables.

Financial assets

December 31, 2014						
Financial assets recognized at end of reporting period by type	Gross carrying Amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in balance sheet [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure [c-d]
				Financial instruments	Fair value of Financial collateral	
	[a]	[b]	[c]	[d]		[e]
(In Thousands)						
Derivative assets (Notes 6 and 21)	P10,038,319	P9,981,741	P56,578	P597	P–	P55,981

December 31, 2013						
Financial assets recognized at end of reporting period by type	Gross carrying Amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in balance sheet [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure [c-d]
				Financial instruments	Fair value of Financial collateral	
	[a]	[b]	[c]	[d]		[e]
(In Thousands)						
Derivative assets (Notes 6 and 21)	P7,853,279	P7,760,445	P92,834	P678	P–	P92,156

Financial liabilities

December 31, 2014						
Financial assets recognized at end of reporting period by type	Gross carrying Amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in balance sheet [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure [c-d]
				Financial instruments	Fair value of Financial collateral	
	[a]	[b]	[c]	[d]		[e]
(In Thousands)						
Derivative liabilities (Notes 16 and 21)	P10,962,654	(P10,919,189)	P43,465	P–	P–	P43,465
Securities sold under agreements to repurchase (Note 17)*	14,085,961	–	14,085,961	–	(17,448,561)	–
Total	P25,048,615	(P10,919,189)	P14,129,426	P–	(P17,448,561)	P43,465

* Included in bills and acceptances payable in the consolidated balance sheet

December 31, 2013						
Financial assets recognized at end of reporting period by type	Gross carrying Amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in balance sheet [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure [c-d]
				Financial instruments	Fair value of Financial collateral	
	[a]	[b]	[c]	[d]		[e]
(In Thousands)						
Derivative liabilities (Notes 16 and 21)	P14,070,601	P13,907,534	P163,067	P678	P–	P162,389
Securities sold under agreements to repurchase (Note 17)*	2,246,319	–	2,246,319	–	2,739,206	–
Bills payable (Note 17)	112,646	–	112,646	–	2,585,761	–
Total	P16,429,566	P13,907,534	P2,522,032	P678	P5,324,967	P162,389

* Included in bills and acceptances payable in the consolidated balance sheet

The amounts disclosed in column (d) include those rights to set-off amounts that are only enforceable and exercisable in the event of default, insolvency or bankruptcy. This includes amounts related to financial collateral both received and pledged, whether cash or non-cash collateral, excluding the extent of over-collateralization.

those that another PFRS requires or permits to be recognized in the consolidated balance sheet in particular circumstances. These include land and land improvements, buildings and building improvements and machineries and equipment measured at revalued amount and investment properties measured at cost but with fair value measurement disclosure.

34. Fair Value Measurement

The Group has assets and liabilities that are measured at fair value on a recurring and non-recurring basis in the consolidated balance sheets after initial recognition. Recurring fair value measurements are those that another PFRS requires or permits to be recognized in the consolidated balance sheets at the end of each reporting period. These include financial assets and liabilities at FVPL and AFS investments. Non-recurring fair value measurements are

The Group's management determines the policies and procedures for both recurring and non-recurring fair value measurement.

External valuers are involved for valuation of significant assets, such as investment properties, land and land improvements, plant buildings and building improvements and machineries and equipment. Involvement of external valuers is decided upon annually by management. Selection criteria include market knowledge, reputation, independence and whether professional standards are

maintained. Management decides, after discussions with the Group's external valuers, which valuation techniques and inputs to use for each case.

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

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

	December 31, 2014		December 31, 2013	
	Carrying Value	Fair Market Value	Carrying Value	Fair Market Value
(In Thousands)				
Financial Assets:				
Loans and receivables:				
Receivables from customers	P296,372,069	P316,486,735	P248,321,931	P274,331,315
Unquoted debt securities	4,425,005	6,013,057	7,545,531	12,692,201
	P300,797,074	P322,499,792	P255,867,462	P287,023,516
Financial Liabilities:				
Financial liabilities at amortized cost:				
Deposit liabilities -				
Time deposits	P52,759,938	P55,296,115	P51,114,363	P52,259,893
Bills payables	18,683,204	18,340,370	-	-
Long term debts:				
Subordinated debt	9,969,498	10,593,485	9,953,651	10,995,537
Unsecured term loan	1,321,823	1,337,684	1,990,120	2,014,001
Bonds payable	4,998,008	5,048,551	4,982,544	5,250,000
Notes payable	508,115	502,089	963,355	974,916
Other liabilities:				
Payable to landowners	2,289,708	2,226,042	1,296,785	1,312,839
Tenants' rental deposits	268,805	323,236	161,601	150,852
Advance rentals	45,800	41,212	98,658	94,594
	P90,844,899	P93,708,784	P70,561,077	P73,052,632

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

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

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

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

Loans and receivables - For loans with fixed interest rates, fair values are estimated by discounted cash flow methodology, using the Group's

current market lending rates for similar types of loans. For loans with floating interest rates, with repricing frequencies on a quarterly basis, the Group assumes that the carrying amount approximates fair value. Where the repricing frequency is beyond three months, the fair value of floating rate loans is determined using the discounted cash flow methodologies. The discount rate used in estimating the fair value of loans and receivables is 3.2% in 2014 and 3.0% in 2013 for peso-denominated receivables. For foreign currency-denominated receivables, discount rate used is 1.2% in 2014 and 1.0% in 2013.

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

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

Time deposit liabilities and subordinated debt including designated at FVPL - Fair value is determined using the discounted cash flow methodology. The discount rate used in estimating the fair values of the subordinated debt and time deposits ranges, from 1.0% to 3.9% and 1.1% to 4.2% as of December 31, 2014 and 2013, respectively.

Unsecured term loans, notes payable, payable to landowners, tenants' rental deposits and advance rentals - Fair values are estimated using the discounted cash flow method based on the discounted value of future cash flows using the applicable risk-free rates for similar types of instruments. The discount rates used range from 1.97% to 6.38% as of December 31, 2014 and from 2.13% to 6.57% as of December 31, 2013, respectively.

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

Fair value hierarchy

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

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

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

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

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

	December 31, 2014			
	Level 1	Level 2	Level 3	Total
(In Thousands)				
Assets measured at fair value:				
Financial Assets				
Financial assets at FVPL:				
Held-for-trading:				
Government securities	P3,802,179	P2,329,099	P-	P6,131,278
Derivative assets	-	65,391	71,160	136,551
Private debt securities	218,193	-	-	218,193
Equity securities	210,674	160	-	210,834
Designated at FVPL:				
Segregated fund assets*	5,386,302	-	5,268,468	10,654,770
	P9,617,348	P2,394,650	P5,339,628	P17,351,626

(Forward)

December 31, 2014				
	Level 1	Level 2	Level 3	Total
<i>(In Thousands)</i>				
AFS investments:				
Government securities	P25,983,779	P11,161,671	P–	P37,145,450
Other debt securities	21,377,038	2,331,118	–	23,708,156
Equity securities**	2,074,200	–	–	2,074,200
	P59,052,365	P15,887,439	P5,339,628	P80,279,432
Non-financial assets				
Property, plant and equipment***				
Land and land improvements	P–	P–	P16,832,987	P16,832,987
Plant buildings and building improvements	–	–	11,602,275	11,602,275
Machineries and equipment	–	–	10,044,263	10,044,263
	P–	P–	P38,479,525	P38,479,525
Liabilities measured at fair value:				
Financial liabilities				
Financial liabilities at FVPL:				
Designated at FVPL:				
Segregated fund liabilities*	P5,308,303	P–	P5,346,467	P10,654,770
Derivative liabilities	–	44,903	–	44,903
	P5,308,303	P44,903	P5,346,467	P10,699,673
Assets for which fair values are disclosed:				
Financial Assets				
HTM investment	P20,584,890	P3,983,878	P–	P24,568,768
Loans and receivables:				
Receivables from customers	–	–	316,486,735	316,486,735
Unquoted debt securities	–	–	6,013,057	6,013,057
	P20,548,890	P3,983,878	P322,499,792	P347,068,560
Non-financial Assets				
Investment properties***				
Land	P–	P–	P36,107,990	P36,107,990
Buildings and improvements	–	–	6,025,335	6,025,335
	P–	P–	P42,133,325	42,133,325
Liabilities for which fair values are disclosed:				
Financial liabilities				
Financial liabilities at amortized cost:				
Deposit liabilities:				
Time deposits	P–	P–	P52,296,115	P52,296,115
Bills payables	–	–	18,683,205	18,683,205
Long term debts:				
Subordinated debt	–	–	10,593,485	10,593,485
Unsecured term loan	–	–	1,337,684	1,337,684
Bonds payable	5,048,551	–	–	5,048,551
Notes payable	–	–	502,089	502,089
Other liabilities:				
Payable to landowners	–	–	2,226,042	2,226,042
Tenants' rental deposits	–	–	323,236	323,236
Advance rentals	–	–	42,500	42,500
	P5,048,551	P–	P86,004,356	P91,052,907

* Excludes cash component

** Excludes unquoted available-for-sale securities

*** Based on the fair values from appraisal reports which are different from their carrying amounts which are carried at cost.

December 31, 2013				
	Level 1	Level 2	Level 3	Total
<i>(In Thousands)</i>				
Assets measured at fair value:				
Financial Assets				
Financial assets at FVPL:				
Held-for-trading:				
Government securities	P2,262,113	P1,093,608	P–	P3,355,721
Private debt securities	–	92,834	165,863	258,697
Derivative assets	779,565	50,963	–	830,528
Equity securities	249,518	–	–	249,518
Designated at FVPL:				
Segregated fund assets*	2,481,635	–	5,380,053	7,861,688
Private debt securities	–	–	–	–
	P5,772,831	P1,237,405	P5,545,916	P12,556,152
AFS investments:				
Government securities	P33,703,998	P25,676,335	P–	P59,380,333
Other debt securities	18,654,987	–	–	18,654,987
Equity securities**	2,663,182	–	–	2,663,182
	P55,022,167	P25,676,335	P–	P80,698,502
Non-financial assets				
Property, plant and equipment***				
Land and land improvements	P–	P–	P16,613,640	P16,613,640
Plant buildings and building improvements	–	–	10,966,015	10,966,015
Machineries and equipment	–	–	10,254,872	10,254,872
	P–	P–	P37,834,527	P37,834,527

December 31, 2013				
	Level 1	Level 2	Level 3	Total
<i>(In Thousands)</i>				
Liabilities measured at fair value:				
Financial liabilities				
Financial liabilities at FVPL:				
Designated at FVPL:				
Segregated fund liabilities*	P2,481,635	P–	P5,380,053	P7,861,688
Derivative liabilities	–	163,101	–	163,101
	P2,481,635	P163,101	P5,380,053	P8,024,789
Assets for which fair values are disclosed:				
Financial Assets				
Loans and receivables:				
Receivables from customers	P–	P–	P274,331,315	P274,331,315
Unquoted debt securities	–	–	12,692,201	12,692,201
	P–	P–	P287,023,516	P287,023,516
Non-financial Assets				
Investment property***				
Land	P–	P–	P35,072,992	P35,072,992
Buildings and improvements	–	–	4,857,285	4,857,285
	P–	P–	P39,930,277	P39,930,277
Liabilities for which fair values are disclosed:				
Financial liabilities				
Financial liabilities at amortized cost:				
Deposit liabilities:				
Time deposits	P–	P–	P52,259,893	P52,259,893
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
	P5,250,000	P–	P67,802,632	P73,052,632

* Excludes cash component

** Excludes unquoted available-for-sale securities

*** Based on the fair values from appraisal reports which are different from their carrying amounts which are carried at cost.

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

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

Instruments included in Level 3 include those for which there is

currently no active market. In applying the discounted cash flow analysis to determine the fair value of financial liabilities designated at FVPL, the Group used discount rates ranging and from 1.33% to 3.72% and from 1.38% to 3.63% as of December 31, 2014 and 2013, respectively.

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

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

	2014	2013
<i>(In Thousands)</i>		
Financial assets		
Balance at beginning of year	P5,545,916	P2,674,995
Add acquisition arising from purchase of investments	–	2,692,915
Add total gain recorded in profit or loss	(206,288)	178,006
Balance at end of year	P5,339,628	P5,545,916
Nonfinancial assets		
Balance at beginning of year	P37,834,527	P38,080,668
Additions during the year	1,190,262	1,032,360
Revaluation increment during the year	–	1,300,593
Depreciation and amortization	(1,631,635)	(1,805,394)
Net carrying value of disposed/transferred assets and other adjustments	1,077,374	(796,993)
Reversal of (provision for) impairment loss during the year	–	23,293
Balance at end of the year	P38,470,528	P37,834,527
Financial liabilities		
Balance at beginning of year	P5,380,053	P8,812,021
Add acquisition arising from purchase of investments	–	2,672,177
Less total gain recorded in profit and loss	(111,585)	(104,145)
Redemption of unsecured subordinated notes	–	(6,000,000)
Balance at end of year	P5,268,468	P5,380,053

Equity and/or Credit-Linked Notes are shown as 'Segregated Fund Assets' under "Financial Assets at FVPL".

The structured Variable Unit-Linked Notes can be decomposed into bond components and options components. The fair value of structured notes has been computed by counterparties using present value calculations and option pricing models, as applicable. The valuation requires management to make certain assumptions about the model inputs particularly the credit spread of the Issuer. The model also used certain market observable inputs including the counterparty's credit default swap (CDS), PHP interest rate swap (IRS) rates (for the Peso-denominated issuances) and ROP CDS rates (for the USD-denominated issuances).

Description of valuation techniques are as follows:

Structured Notes	Valuation Methods	Significant Unobservable Inputs	Significant Observable Inputs
Peso-denominated	DCF Method / Monte Carlo Simulation	Issuer's Funding rate / Issuer's CDS as proxy	PHP IRS
Dollar-denominated	DCF Method / Monte Carlo Simulation	Issuer's Funding rate / Issuer's CDS as proxy	ROP CDS / USD IRS

The sensitivity analysis of the fair market value of the structured notes as of December 31, 2014 and 2013 is performed for the reasonable possible movement in the significant inputs with all other variables held constant, showing the impact to profit and loss follows:

Sensitivity of the fair value measurement to changes in unobservable inputs:

Structured Investments	Significant Unobservable Input	2014		2013	
		Range of Input*	Sensitivity of the Input to Fair Value**	Range of Input	Sensitivity of the Input to Fair Value*
Peso-denominated	Bank CDS Levels	44.00 - 95.67 bps	50 bps increase/(decrease) in change inputs would result in a (decrease) / increase in the market value of the note by P90,838,042	43.80 - 138.89 bps	50 bps increase/(decrease) in change inputs would result in a (decrease) / increase in the market value of the note by P93,593,693
Dollar-denominated	Bank CDS Levels	35.21 - 78.08 bps	50 bps increase/(decrease) in change inputs would result in a (decrease) / increase in the market value of the note by P41,710,217	43.80 - 138.89 bps	50 bps increase/(decrease) in change inputs would result in a (decrease) / increase in the market value of the note by P41,511,299

* The sensitivity analysis is performed only on the fixed income portion of the Note, thus are based on assumptions that if changed may cause the value to fall out of range

Sensitivity of the fair value measurement to changes in observable inputs:

Structured Investments	Significant Observable Input	2014		2013	
		Range of Input*	Sensitivity of the Input to Fair Value**	Range of Input	Sensitivity of the Input to Fair Value*
Peso-denominated	PHP IRS (3Y)	142.00 - 375.00 bps	50 bps increase/(decrease) in change inputs would result in a (decrease) / increase in the market value of the note by P90,838,042	103.00 - 410.00 bps	50 bps increase/(decrease) in change inputs would result in a (decrease) / increase in the market value of the note by P93,593,693.
Dollar-denominated	ROP CDS (5Y)	79.31 - 150.94 bps	50 bps increase/(decrease) in change inputs would result in a (decrease) / increase in the market value of the note by P41,710,217	80.50 - 157.00 bps	50 bps increase/(decrease) in change inputs would result in a (decrease) / increase in the market value of the note by P41,511,299.

* The sensitivity analysis is performed only on the fixed income portion of the Note, thus are based on assumptions that if changed may cause the value to fall out of range

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

The table below summarizes the valuation techniques used and the significant unobservable inputs valuation for each type of property, plant and equipment and investment properties held by the Group:

	Valuation Techniques	Significant Unobservable Inputs	Range of Estimates
Property, plant and equipment:			
Land and land improvements	Market Data Approach	Price per square meter	P6,000-6,200
Plant buildings and building improvements			
Building	Replaceable Fixed Asset Valuation Approach	Replacement cost	P4,287 - 10,000
		Estimated total floor area	24-1548 sq.m
Building improvements	Replaceable Fixed Asset Valuation Approach	Replacement cost	P2.8 million-P26.5 million
		Estimated number of components	315-723 components
Machineries and equipment	Replaceable Fixed Asset Valuation Approach	Replacement cost	P3,200-P8.6 million
		Estimated number of components	465-1,162 components
Investment properties:			
Land	Market Data Approach	Price per square meter, size, location, shape, time element and corner influence	P800- 100,000
Land and building	Market Data Approach and Replacement Cost Approach	New Reproduction Cost	

Significant favorable (unfavorable) adjustments to the aforementioned factors based on the professional judgment of the independent appraisers would increase (decrease) the fair value of land. Significant increases (decreases) in the current replacement cost would result in significantly higher (lower) appraised values whereas significant increase (decrease) in the remaining useful life of the property, plant and equipment over their total useful life would result in significantly higher (lower) appraised values.

Description of the valuation techniques and significant unobservable inputs used in the valuation of the Group's property, plant and equipment and investment properties are as follows:

Valuation Techniques	Description
Market Data Approach	A process of comparing the subject property being appraised to similar comparable properties recently sold or being offered for sale.
Replaceable Fixed Asset Valuation Approach	This method requires an analysis of the buildings and other land improvements by breaking them down into major components. Bills of quantities for each component using the appropriate basic unit are prepared and related to the unit cost for each component developed on the basis of current costs of materials, labor, plant and equipment prevailing in the locality to arrive at the direct costs of the components. Accrued depreciation was based on the observed condition.
Replacement Cost Approach	It is an estimate of the investment required to duplicate the property in its present condition. It is reached by estimating the value of the building "as if new" and then deducting the depreciated cost. Fundamental to the Cost Approach is the estimate of Reproduction Cost New of the improvements.
Significant Unobservable Inputs	
Reproduction Cost	The cost to create a virtual replica of the existing structure, employing the same design and similar building materials.
Size	Size of lot in terms of area. Evaluate if the lot size of property or comparable conforms to the average cut of the lots in the area and estimate the impact of lot size differences on land value.
Shape	Particular form or configuration of the lot. A highly irregular shape limits the usable area whereas an ideal lot configuration maximizes the usable area of the lot which is associated in designing an improvement which conforms with the highest and best use of the property.
Location	Location of comparative properties whether on a main road, or secondary road. Road width could also be a consideration if data is available. As a rule, properties located along a main road are superior to properties located along a secondary road.
Time Element	"An adjustment for market conditions is made if general property values have appreciated or depreciated since the transaction dates due to inflation or deflation or a change in investors' perceptions of the market over time". In which case, the current data is superior to historic data.
Discount	Generally, asking prices in ads posted for sale are negotiable. Discount is the amount the seller or developer is willing to deduct from the posted selling price if the transaction will be in cash or equivalent.
Corner influence	Bounded by two (2) roads.

35. Notes to Consolidated Statements of Cash Flows

Non-cash Investing Activities

- In 2013, the Group assumed in various advances from related parties amounting to P12.8 billion and converted existing advances amounting to P13.5 billion to investment in subsidiaries.
- As of December 31, 2013, due from related parties include accrued interest receivable amounting to P24.5 million.
- As of December 31, 2014 and 2013, unpaid additions to property, plant and equipment amounted to P65.4 million and P106.0 million,

respectively, which is included as part of "Accounts payable and accrued expenses".

- On December 4, 2012, LTG assumed certain receivables of Tangent from various holding companies amounting to P9.9 billion, thereby increasing its payable to Tangent by the same amount.

Non-cash Financing Activities

- In July 2013, all the existing advances to Tangent amounting to P11.0 billion were offset with the existing advances from the Tangent.
- As of December 31, 2014 and 2013, accrued interest payable amounted to P22.9 million and P2.2 million, respectively. Finance costs and cost of hauling services include amortization of bond issue costs and unamortized transaction cost of subordinates debt amounting to P15.6 million and P15.8 million in 2014 and P14.2 million and P14.8 million in 2013, respectively.
- As discussed in Note 30, LTG issued additional common shares to Tangent amounting to P5.4 billion upon conversion of its deposit for future stock subscription of P1.6 billion resulting in an increase in additional paid in capital of P1.2 billion. Transactions costs incurred for the share issuance in 2012 amounted to P67.5 million which are deducted from additional paid in capital.

36. Capital Management

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

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

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

The table below shows the leverage ratios of the Group:

	2014	2013
	<i>(In Thousands, except ratios)</i>	
Total liabilities	P534,111,014	P528,679,622
Total equity	162,722,194	149,770,600
Total liabilities and equity	P696,833,208	P678,450,222
Debt ratio	0.76:1	0.78:1
Debt-to-equity ratio	3.28:1	3.53:1

Regulatory Qualifying Capital for the Banking Segment

Under existing BSP regulations, the determination of PNB's compliance with regulatory requirements and ratios is based on the amount of PNB's "unimpaired capital" (regulatory net worth) reported to the BSP, which is determined on the basis of regulatory policies, which differ from PFRS in some respects.

In addition, the risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10.00% for both solo basis (head office and branches) and consolidated basis (parent bank and subsidiaries engaged in

financial allied undertakings but excluding insurance companies). Qualifying capital and risk-weighted assets are computed based on BSP regulations. Risk-weighted assets consist of total assets less cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits and other non-risk items determined by the MB of the BSP.

PNB and its individually regulated subsidiaries/operations have complied with all externally imposed capital requirement throughout the year.

On January 15, 2013, the BSP issued Circular No. 781, Basel III Implementing Guidelines on Minimum Capital Requirements, which provides the implementing guidelines on the revised risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards. The circular is effective on January 1, 2014.

The Circular sets out a minimum Common Equity Tier 1 (CET1) ratio of 6.0% and Tier 1 capital ratio of 7.5%. It also introduces a capital conservation buffer of 2.5% comprised of CET1 capital. The BSP's existing requirement for Total CAR remains unchanged at 10% and these ratios shall be maintained at all times.

Further, existing capital instruments as of December 31, 2010 which do not meet the eligibility criteria for capital instruments under the revised capital framework shall no longer be recognized as capital upon the effectivity of Basel III. Capital instruments issued under BSP Circular Nos. 709 and 716 (the circulars amending the definition of qualifying capital particularly on Hybrid Tier 1 and Lower Tier 2 capitals), starting January 1, 2011 and before the effectivity of BSP Circular No. 781, shall be recognized as qualifying capital until December 31, 2015. In addition to changes in minimum capital requirements, this Circular also requires various regulatory adjustments in the calculation of qualifying capital.

The Group has taken into consideration the impact of the foregoing requirements on the banking segment to ensure that the appropriate level and quality of capital are maintained on an ongoing basis.

Internal Capital Adequacy Assessment Process (ICAAP) Implementation

In compliance with BSP Circular 639, PNB (the Bank) has adopted its live ICAAP Document for 2011 to 2013. However, the BOD and the Management recognized that ICAAP is beyond compliance, i.e., it is about how to effectively run the Bank's operations by ensuring that the Bank maintains at all times an appropriate level and quality of capital to meet its business objective and commensurate to its risk profile. In line with its ICAAP principles, the Bank shall maintain a capital level that will not only meet the BSP CAR requirement but will also cover all material risks that it may encounter in the course of its business. The ICAAP process highlights close integration of capital planning/strategic management with risk management. The Bank has in place a risk management framework that involves a collaborative process for assessing and managing identified Pillar 1 and Pillar 2 risks. The Bank complies with the required annual submission of updated ICAAP.

37. Commitments, Provision and Contingencies and Other Matters

Commitments

Operating lease commitments - the Group as lessor

The Group entered into lease agreements with third parties covering its investment property portfolio. These leases generally provide for either (a) fixed monthly rent, or (b) minimum rent or a certain percentage of gross revenues, whichever is higher. The Group records rental income on a straight-line basis over less noncancellable lease term. Any difference between the calculated rental income and amount actually received is recognized as "Deferred rent" (see Note 8).

The Group has security deposits and advance rentals which are presented under "Other noncurrent liabilities." Security deposits pertain to the amounts paid by the tenants at the inception of the lease which is refundable at the end of the lease term. Advance rentals pertain to deposits from tenants which will be applied against receivables either at the beginning or at the end of lease term depending on the lease contract. Security deposits and advance rentals amounted to P349.9 million and P33.5 million as of December 31, 2014 and P65.1 million and P36.2 million, as of December 31, 2013, respectively.

Future minimum rental receivables under noncancellable operating leases as of December 31 are as follows:

	2014	2013
	(In Thousands)	
Within one year	P981,662	P618,586
After one year but not more than five years	2,393,116	807,865
More than five years	315,105	433,423
	P3,689,883	P1,859,874

Operating lease commitments - the Group as lessee

The future aggregate minimum lease payments under several operating leases of the Group are as follows:

	2014	2013
	(In Thousands)	
Within one year	P772,888	P582,711
Within two to five years	1,651,825	992,924
More than five years	1,555,153	1,484,119
	P3,979,866	P3,059,754

Future minimum lease receivables under finance leases are as follows:

	2014	2013
	(In Thousands)	
Within one year	P1,358,383	P1,146,191
Beyond one year but not more than five years	1,378,555	1,414,986
More than five years	58,500	116,058
Total	2,795,438	2,677,235
Less amounts representing finance charges	390,018	311,421
Present value of minimum lease payments	P2,405,420	P2,365,814

Trust Operations

Securities and other properties held by PNB in fiduciary or agency capacities for its customers are not included in the accompanying statements of financial position since these are not assets of PNB. Such assets held in trust were carried at a value of P65.8 billion and P56.3 billion as of December 31, 2014 and 2013, respectively. In connection with the trust functions of PNB, government securities amounting to P0.7 billion and P1.3 billion, (included under 'AFS investments') as of December 31, 2014 and 2013, respectively, are deposited with the BSP in compliance with trust regulations.

In compliance with existing banking regulations, PNB transferred from surplus to surplus reserves the amounts of P13.6 million, P9.5 million and P9.7 million in 2014, 2013 and 2012, respectively, which correspond to 10.00% of the net income realized in the preceding years from its trust, investment management and other fiduciary business until such related surplus reserve constitutes 20.00% of its regulatory capital.

Provisions and Contingencies

In the normal course of business, the Group makes various commitments and incurs certain contingent liabilities that are not presented in the financial statements including several suits and claims which remain unsettled. No specific disclosures on such unsettled assets and claims are made because any such specific disclosures would prejudice the Group's position with the other parties with whom it is in dispute. Such exemption from disclosures is allowed under PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. The Group and its legal counsel believe that any losses arising from these contingencies which are not specifically provided for will not have a material adverse effect on the financial statements.

Asset Pool 1

In November 1994, the BSP, Maybank and PNB executed a Memorandum of Agreement (MA) providing for the settlement of

Maybank's P3.0 billion liabilities to the BSP. Under this MA, PNB is jointly and severally liable with Maybank for the full compliance and satisfaction of the terms and conditions therein. The MA provides for the creation of an escrow fund to be administered by the BSP where all collections from conveyed assets and certain annual guaranteed payments required under the MA are to be deposited.

Relative to the sale of PNB's 60% interest in Maybank, PNB has requested the BSP to consider the revision of the terms of the MA to, among others, (a) delete the provision on the annual guaranteed payments in consideration of an immediate payment by the Parent Company of an agreed amount, and (b) exclude Maybank as a party to the MA.

On May 7, 1997, the BSP approved PNB's request to amend the terms of the MA, subject to the following conditions among others:

- a) PNB shall remit P150.0 million to the escrow account out of the proceeds from sale;
- b) PNB shall remit to the escrow account an amount equivalent to 50% of any profit that may be realized by PNB on account of the sale; and
- c) If the amount in the escrow account has not reached the total of P3.0 billion by June 30, 2013, the difference shall be paid by the PNB by way of a debit to its regular account with the BSP.

On November 28, 1997, PNB remitted P150.0 million in compliance with item (a).

PNB's remaining investment in Maybank was sold on June 29, 2000. The sale was approved by the BSP on August 16, 2000.

On August 17, 2007, PNB and the BSP amended certain provisions of the MA as follows:

1. PNB will no longer act as the collecting agent for the BSP on the conveyed assets (Asset Pool 1);
2. PNB will no longer remit the amount collected from the Asset Pool 1 to the escrow account;
3. BSP will revert to PNB all the Asset Pool 1 accounts categorized as sugar and sugar-related accounts; and
4. PNB will submit to BSP acceptable collaterals with an appraised value of at least P300.0 million as substitute for the sugar-related loans under Asset Pool 1.

On the same date, PNB executed a real estate mortgage over certain investment properties with an aggregate fair value of P300.0 million in favor of the BSP (see Note 13).

As of December 31, 2014 and 2013, the total trust assets of the escrow account maintained with the BSP amounted to nil and P2.7 billion, respectively. Average yield during the year was 5.49%.

On February 7, 2013, the BSP accepted PNB's proposal to make an early payment to settle Maybank's P3.0 billion obligation to the BSP in exchange of the assets under the escrow fund. The real estate collaterals pledged to BSP were also released as a result of settlement of the obligation to BSP.

National Steel Corporation (NSC) Loan

As discussed in Note 8, in 2004, PNB sold the outstanding loans receivable of P5.3 billion from NSC to SPV companies under the provisions of RA No. 9182. On October 10, 2008, simultaneous to the denial of their application in the Philippine courts for injunctive relief, the SPV companies filed a Notice of Arbitration with the Singapore International Arbitration Centre ("SIAC"). Mainly, the SPV companies claimed damages and a suspension of payments on the ground that the consortium of banks (the banks) and the Liquidator breached a duty to settle pre-closing real estate taxes (taxes due as of October 14, 2004) due on the NSC Plant Assets and to deliver to them titles to NSC's Plant Assets free from all liens and encumbrances. However, the banks and the Liquidator dispute the assertions that pre-closing

taxes were in arrears, invoking under an installment agreement executed between the Liquidator and the City of Iligan. As part of the agreement to sell the plant assets to the SPV companies, the Liquidator assumed responsibility of settling and paying the Plant Assets' pre-closing real estate taxes, while the SPV companies assumed the responsibility of updating the post-closing taxes (taxes due after October 14, 2004). Consequently, all pre-closing real estate taxes due on the plant assets have been paid in accelerated basis on December 18, 2008.

On October 13, 2008, after the commencement of the arbitration but before the arbitral panel was constituted, the SPV companies filed, as a preservatory measure, a petition for injunctive relief against the NSC Liquidator, NSC Secured Creditors, and NSC Stockholders so that the arbitration proceedings under SIAC will not be rendered moot. On October 14, 2008, the Singapore High Court granted the petition and restrained the NSC Liquidator, the NSC Secured Creditors and the NSC Shareholders, jointly and severally, substantially from declaring the SPV companies in default and declaring all installments due until the arbitration proceeding at the SIAC is settled.

Thereafter, upon application by PNB for a variation of the injunction and an order of the Singapore High court, the SPV companies remitted P750.0 million cash in place of the Standby Letter of Credit which they undertook to provide under the Asset Purchase Agreement, subject to the condition that the amount shall not be subject to any set-off pending an award from the arbitration proceedings.

On January 26, 2009, PNB applied for an Order to compel the SPV companies to issue another Standby Letter of Credit of P1.0 billion which they likewise undertook to provide under the Asset Purchase Agreement, but this application was denied on March 5, 2009 by the Singapore High Court. The denial of the second variation (the P1.0 billion Standby Letter of Credit) was elevated to the Court of Appeals of Singapore but the same was also denied on September 11, 2009, without prejudice, however, to resort to the same reliefs before the Arbitration Panel.

In April 2010, the Arbitral Panel was constituted. PNB filed therein an application to discharge or vary the injunction. On July 7, 2010, the Arbitration Panel issued a ruling denying PNB's application for a discharge of the injunction issued by the Singapore High Court. On the application to vary the injunction order, no ruling was made by the Arbitration Panel.

Consequently, the main issues for alleged breach of the Asset Purchase Agreement, damages and suspension of payments were heard before the Arbitration Panel. On May 9, 2012, the Arbitration Panel issued a Partial Award in favor of the SPV companies, including such reliefs as payment of a certain sum of money and transfer of clean titles on the plant assets under the name of NSC by the bank consortium and the NSC Liquidator in favor of the SPV companies. The Parent Company, one of the members of the consortium, holds a forty-one percent (41%) interest in the claim, and has already set aside the appropriate reserve provision for the same.

On July 9, 2012, the bank consortium filed with the Singapore High Court a Petition to Set Aside the Partial Award rendered by the Arbitration Panel, which Petition is pending to date.

On July 31, 2014, the Singapore High Court issued a Judgment in favor of the bank consortium setting aside the Arbitral Award in its entirety. On September 1, 2014, the SPV companies filed before the Singapore Court of Appeal a Notice of Appeal. On January 26, 2015, the case was heard. As of April 8, 2015, the parties are awaiting decision of the Singapore Court of Appeals.

Movements of provision for legal claims included in "Other liability" in the consolidated balance sheets for the Group are as follows (see Note 20):

	2014	2013
	(In Thousands)	
Balance at beginning of the year	P1,582,081	P1,575,433
Provisions	58,567	—
Reclassification and settlements	—	6,648
	P1,640,648	P1,582,081

Excise Tax Refund Claim

The new excise tax law or RA 10351 became effective on January 1, 2013, and increased the excise tax rates of, among others, distilled spirits. Another change that was brought in by the new law is the shift in the tax burden of distilled spirits from raw materials to the finished product.

To implement the said law, the Secretary of Finance issued Revenue Regulations No. 17-2012 (RR 17-2012), which, in one of its transitory provisions, disallowed the tax crediting of the excise taxes that were already paid under the old law on the raw materials inventory by end of the year 2012 or by the effectivity of RA 10351 in favor of the excise taxes due on the finished goods inventory.

The Commissioner of Internal Revenue issued on January 9, 2013 Revenue Memorandum Circular (RMC) No. 3-2013. This RMC sought to clarify further certain provisions of RR No. 17-2012 but in effect extended the imposition of the excise tax on both the (1) ethyl alcohol as raw materials in the production of compounded liquors and (2) the manufactured finished product. Per the RMC, both ethyl alcohol and compounded liquor are considered as distinct distilled spirits products and are thus separate taxable items under the new law. This interpretation of the law was however modified with the issuance of RMC No. 18-2013. The new RMC allowed the non-payment of excise tax on ethyl alcohol that were purchased after the issuance of RMC No. 3-2013 to be used as raw materials in the manufacture of compounded liquors provided certain requirements such as posting of surety bonds are complied with. RMC No. 18-2013, however, still maintained that taxes previously paid on the raw materials, i.e., ethyl alcohol/ethanol inventory, at the time of the effectivity of the new excise tax law are still not subject to refund/tax credit to the manufacturers.

Under RR No. 17-2012, the amount of excise tax that was disallowed for tax credit was P725.8 million (included under "Other current assets"). Said amount represented taxes paid previously on raw materials and were not allowed to be deducted from the excise taxes that became due on the finished goods as taxed under the new law. The Company is contesting the disallowance of the tax credit and plans to undertake appropriate legal measures to obtain a favorable outcome.

The Company has paid a total of P45.9 million (included under "Other current assets") in excise taxes for the raw materials that were purchased/imported for purposes of compounding during the subsistence of RMC No. 3-2013. The Company also would claim this amount on the basis that the RMC was issued without basis and beyond the authority granted by law to the administrative agency.

Other Matters

Property development tax incentives

- The Group's projects namely, Eton Cyberpod Corinthian and Eton Centris, were registered with PEZA on August 27, 2008 and September 19, 2008, respectively, as non-pioneer "ecozone developer/operator". The locations are created and designated as Information Technology Park.
- The property development segment has three Board of Investment (BOI)-registered projects namely, Belton Place (BP), Eton Emerald Lofts (EEL) and One Archers Place (OAP). BP is registered with BOI as a new developer of low-cost housing project on a Non-Pioneer status under the Omnibus Investments Code of 1987 (Executive Order No. 226) on September 15, 2008. This registration entitles the Group to four years ITH from November 2008 or actual commercial operations or selling, whichever is earlier but in no case earlier than the date of registration. The ITH shall be limited only to the revenue generated from this project. Revenue with selling price exceeding P3.0 million shall not

be covered by ITH. Likewise, on September 23, 2008, two other projects of the Group namely, OAP and EEL, were registered with the BOI as a new developer of low-cost housing project on a Non-Pioneer status. These two projects shall enjoy the same benefits as BP.

Distilled Spirits' Clean Development Mechanism Project (CDM)

On June 30, 2006, the DENR approved the implementation of a greenhouse gas (GHG) reducing project at the ADI's plant in Lian, Batangas. The project is a joint undertaking between TDI (through ADI) and Mitsubishi Corporation (MC) and involves the construction of a waste water treatment digester and methane gas collector in accordance with the CDM of the 1997 Kyoto Protocol.

In accordance with Certified Emission Reductions Purchase Agreement (CERPA), ADI agreed to sell and MC to purchase any and all the CERs generated by the Project up to 480,000 CERs. As of December 31, 2009, MC made US\$1.6 million advance payment or equivalent to P70.9 million. ADI completed the construction and installation of the anaerobic digester and mixing tanks which were put into operation in 2009.

In August 2010, initial validation of CERs was made; however, as of March 4, 2013, no certification on the generated CERs has been issued yet. Since the first CERs generation period has ended on December 31, 2012, ADI's obligation to operate the project regardless of whether there were CERs certified was deemed fulfilled, thus, ADI recognized the deposit for CERs amounting to P70.9 million as income in 2012 (see Note 14).

On October 27, 2014, ADI and Mitsubishi agreed to terminate the CDM project due to unfavorable market for CERs.

Effluent Supply Agreement

On September 26, 2013, ADI and Aseagas Corporation (Aseagas) entered into an effluent (wastewater) supply agreement wherein ADI will supply effluent to Aseagas to be used in the generation of liquid bio-methane for a period of 20 years (delivery period) from the date Aseagas notifies ADI that the liquid bio-methane plant to be constructed by Aseagas becomes ready for commercial operations. The delivery period is renewable for another ten (10) years upon mutual agreement of both parties. As of April 8, 2015, the liquid bio-methane plant is still under construction.

Distilled Spirits' Solar Energy Project

On January 19, 2015, ADI started the construction of the first two-megawatt solar power plant in Batangas. As of April 8, 2015, the construction of the solar power plant is still on-going.

38. Events After Reporting Date

- On February 13, 2015, TDI redeemed the P5.0 billion bonds.
- PNB is looking to raise term funding as part of its liability management initiatives and in preparation for future Basel 3 requirements. The proceeds of the loan will also finance long-term asset growth in line with its three-year strategic plan. PNB has appointed Standard Chartered Bank to arrange a US\$150 million three-year syndicated term loan in this regard. It may increase the deal size in case of an oversubscription.
- On January 30, 2015, the Buy Back of the 15% equity of Japan PNB Leasing by IBJL from PNB was consummated resulting to equity ownership as follows: PNB - 75% and IBJL - 25%. Gain of PNB on the sale of shares of Japan-PNB Leasing by IBJL was P66.2 million.

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