LT GROUP, INC.

ANNUAL REPORT 2015

INVESTING FOR THE FUTURE

CONTENTS

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:

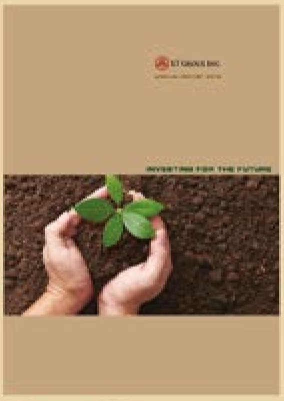
To increase stockholder values through long-term growth in its major business groups.

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 February 9, 2016 and March 17, 2015)



Our Cover

The LT Group is a world-class conglomerate that continuously plants the seeds not just for its own growth but for the country's future.

With its investments in key Philippine industries, the LT Group is a microcosm of the economy and contributes largely to its growth.

It likewise consistently looks for opportunities to expand, planting seeds on fertile ground to continue growing the conglomerate.

This is the LT Group and anchored to its vision, it remains committed to increasing stockholder values and continuously improves the value of its products and services to provide consumers better choices.

The LT Group Logo

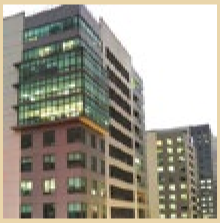
Strength and solidarity. This is the essence of the LT Group (LTG) logo. The clean balance lines and curves are the central elements -- a mystical symmetrical tree. Drawn in an Eastern-Oriental style, it gives hint to the Company's Chinese heritage.

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.

THE LT GROUP

ASIA BREWERY, INC.



ETON PROPERTIES PHILIPPINES, INC.

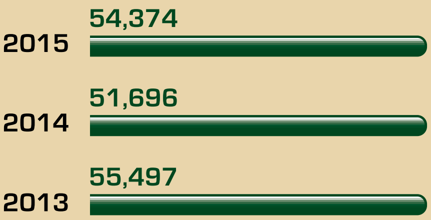
PMFTC INC.

PHILIPPINE NATIONAL BANK

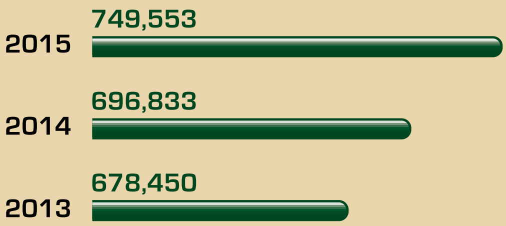
TANDUAY DISTILLERS, INC.

FINANCIAL SUMMARY

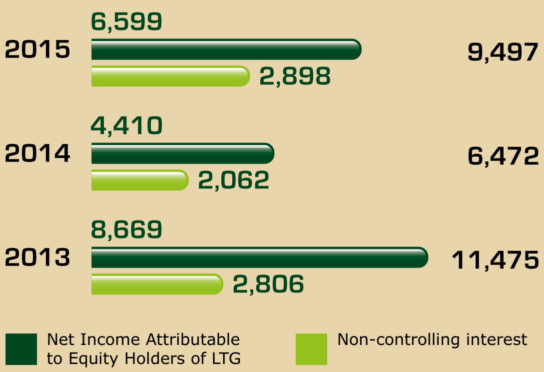
REVENUES
(In Php Millions)



Total Assets
(In Php Millions)

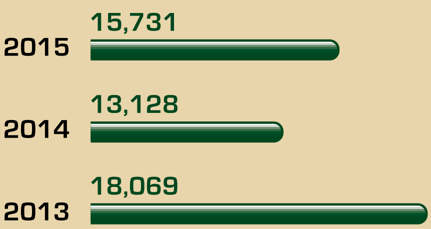


Net Income
(In Php Millions)

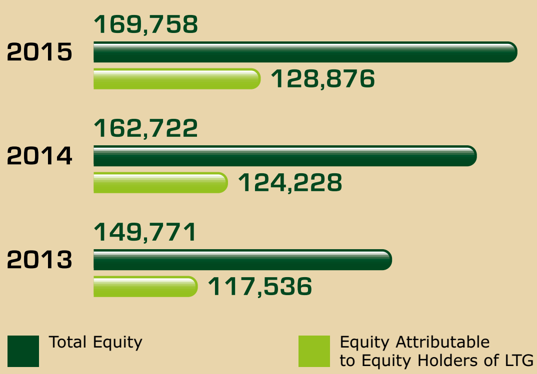


Total Liabilities
(In Php Millions)

EBITDA
(In Php Millions)



Equity
(In Php Millions)



Per Share Data
(In Php, except Pay-out rate)

	2015	2014	2013
Earnings per Share	0.61	0.41	0.85
Book Value (at year end)	11.91	11.48	10.86
Cash Dividend	0.15	0.16	0.15
Pay-out Rate	36.80%	19.97%	12.72%

Ratios and Percentages

	2015	2014	2013
Current (x)	0.75	0.73	0.63
Current w/out PNB (x)	4.29	3.44	3.29
Debt to Equity (x)	3.42	3.28	3.53
Debt to Equity w/out PNB (x)	0.13	0.18	0.28
Return on Average Assets	1.3%	0.9%	1.8%
Return on Average Equity	5.2%	3.6%	9.6%

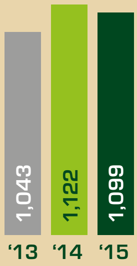
OUR BUSINESSES AT A GLANCE

Net Income
(in Php Millions)

Asia Brewery, Incorporated

99.9%

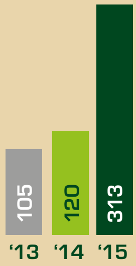
Asia Brewery, Inc. started as a brewery in 1982. It offers alcoholic and non-alcoholic beverages, as well as packaging materials. It is a market leader in the energy drinks, alcopop and soymilk categories. It is also a co-leader in the bottled water segment.



Eton Properties Philippines, Inc.

99.6%

Eton Properties Philippines, Inc. is the real estate arm of the group. It has a diversified portfolio of residential subdivisions, high-rise and mid-rise condominiums, BPO office buildings and commercial centers



PNB

56.47%

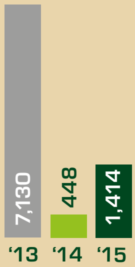
Philippine National Bank is the fourth largest private universal bank in the country.

Note: Pooling Method

PMFTC

49.6%

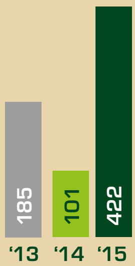
PMFTC Inc. is the business combination of Philip Morris Philippines Manufacturing Inc. and Fortune Tobacco Corp. It is the leading cigarette manufacturer in the Philippines.



Tanduay Distillers, Inc.

100%

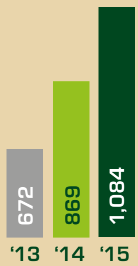
Tanduay Distillers, Inc. has a 99% market share of rum in the Philippines and over 20% market share of the distilled spirits industry.



Victorias Milling Company

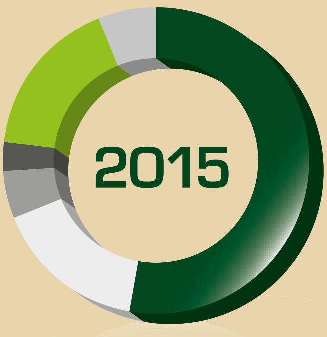
22.54%

Victorias Milling Company, Inc. is a sugar refinery based in Negros Occidental. In crop year 2014-2015, it was the highest contributor of refined sugar nationwide, and accounted for around 27% of refined sugar manufactured in the Philippines.

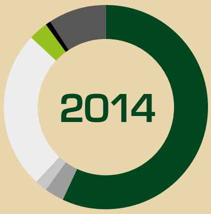


Notes: LTG stake at 30.17% as of end-February 2016
For Crop Years September to August

Attributable Net Income Contribution to LTG
(in Php Millions)



2015		% to total
BANKING	3,508	53%
TOBACCO	1,098	17%
BEVERAGE	1,036	16%
DISTILLED SPIRITS	422	6%
PROPERTY DEVELOPMENT	312	5%
VMC	214	3%
OTHERS	9	0%
TOTAL	6,599	100%



2014		% to total
BANKING	2,501	57%
TOBACCO	1,121	25%
BEVERAGE	147	3%
DISTILLED SPIRITS	101	2%
PROPERTY DEVELOPMENT	119	3%
VMC	379	9%
OTHERS	42	1%
TOTAL	4,410	100%

2013		% to total
BANKING	3,447	40%
TOBACCO	1,042	12%
BEVERAGE	3,921	45%
DISTILLED SPIRITS	185	2%
PROPERTY DEVELOPMENT	104	1%
VMC	–	0%
OTHERS	(30)	0%
TOTAL	8,669	100%

Notes:
Banking: Attributable to LTG, net of inter-company transactions
VMC: 2014 includes Php 335 million gain from the purchase of VMC share and Php 44 million equity in net earnings

"Last year, overcoming challenges was management's top priority. Today and moving forward, we set our sights on preserving gains and sustaining momentum."

–Dr. Lucio C. Tan

In 2015, the Philippine economy sustained its growth, creating more business opportunities and adding more workers to the labor force. Global credit rating agencies continued to give the country positive marks, in recognition of the economy's strong performance and ability to withstand external shocks.

As a result of the continued economic growth, LT Group, Inc. (LTG) registered a net profit of Php6.6 billion in 2015, 50% higher than the Php4.4 billion reported during the previous year.

We, however, remain cautiously optimistic. We have yet to feel the full impact of the ASEAN economic integration, especially in the manufacturing sector. Illicit tobacco trade like non-payment of taxes, counterfeiting and smuggling continues to hound the sector. We will continue to assist government in curbing these illegal activities.

Stiff competition in the beverage, banking, liquor and real estate sectors is also a key-factor that affects profitability. Your management team continues to find ways to innovate, cut costs and invest in new equipment and human capital to keep pace, if not overtake, the competition.

As we devote our group's resources toward profitability, we have not overlooked our corporate social responsibility. We continue to share our gains with the various causes and projects of the Tan Yan Kee Foundation, Inc. and Foundation for Upgrading the Standard of Education (FUSE). Scholarships, teacher training, provision of school supplies and infrastructure are still key focus areas.

Our social welfare programs continue to offer aid and support to victims of natural calamities. We are also doing our modest share in protecting the environment through reforestation, irrigation and water conservation programs.

Last year, overcoming challenges was management's top priority. Today and moving forward, we set our sights on preserving gains and sustaining momentum.

As always, we are grateful to you, our shareholders, for your unwavering support. We assure you that your management team will strive harder to increase shareholder value by making our companies more profitable in the years ahead. We also thank our board of directors, partners and employees for making LTG a profitable and socially responsible conglomerate we can all be proud of.

Dr. Lucio C. Tan
Chairman and Chief Executive Officer

The Philippines reported a Gross Domestic Product (GDP) growth of 5.8% in 2015, slightly slower than 2014's 6.1% growth rate, but still the second highest in Southeast Asia, after Vietnam.

OFW remittances and the Information Technology-Business Process Outsourcing (IT-BPO) sector continued to grow, fueling consumer spending. OFW remittances reached US$25.8 billion, representing a 3.4% growth, while revenues of the IT-BPO sector increased by 16% to almost US$22 billion and had 1.2 million employees by yearend.

While the Philippine economy reported strong growth, 2015 remained a challenging year for us, although there were some gains and improvements over 2014. The illicit trade in the tobacco business persists, although we note some progress on tax compliance and pricing. Stiff competition in our other businesses remains, but more selective yet aggressive marketing efforts yielded positive results.

We have also been able to forge new partnerships that will provide vehicles for future growth.

As a result of the slightly improved business environment, LT Group, Inc.'s (LTG) attributable net income for 2015 reached Php6.60 billion, 49.6% higher than the Php4.41 billion we reported for 2014.

Philippine National Bank (PNB)'s core business drove earnings growth; asset quality improving

15% *Net income growth*

PNB reported a net income of Php6.77 billion for 2015, under the pooling method. This is 15% more than the Php5.90 billion reported for 2014.

Interest Income grew to Php21.7 billion, 6% higher year-on-year (y-o-y) from Php20.6 billion in 2014, as loans grew by 20% to Php336 billion as of end-December 2015 from Php279 billion as of end-2014. Net Interest Margin was steady at 3.2%, resulting in a Net Interest Income of Php17.6 billion for 2015, 6% more than 2014's Php16.7 billion.

Net Service Fees and Commission Income increased by 38% to Php3.6 billion from Php2.6 billion due to higher fees earned by PNB Capital, as well as more deposit- and loan-related fees.

Trading and Foreign Exchange Gains declined to Php1.8 billion or by 34% from Php2.7 billion, while Other Income was 35% lower at Php3.7 billion from Php5.7 billion. Trading Gains and Other Income in 2014 included a Php1.3 billion gain from the sale of Victorias Milling Company (VMC) shares to LTG.

The Bank continued its disposal of Real and Other Properties Acquired (ROPA), reaching Php5.0 billion in book value in 2015, 127% higher than the Php2.2 billion sold in 2014. ROPA sales in 2015 included Php1 billion of Heritage Park memorial lots and Php1.2 billion from the sale of lots to Eton. The Bank booked a gain of Php1.6 billion from the sale of ROPA in 2015 compared to Php1.7 billion in 2014. The Bank also reclassified Php2.2 billion worth of ROPAs to bank premises in 2015. As of end-December 2015, the Bank's ROPA stood at Php11.8 billion.

Operating Expenses declined by 9% or Php1.7 billion to Php18.4 billion from Php20.2 billion as the Bank reversed a previously booked probable loss of Php974 million from the National Steel Corporation case, as well as lower provisioning for 2015. Without the reversal, operating expenses would have been 4% lower. Non-Performing Loans (NPL) cover stood at 126% as of end-2015, from 99% as of end-2014, while net NPL Ratio was at 0.3% from 0.9%.

PMFTC Inc. (PMFTC) posts improvement in profitability with the improved mix and better pricing, but profits still considerably lower than historical level

increased market share to **74%** *from 72% in 2014*

PMFTC's shipment volume for 2015 reached 66.2 billion sticks. While this is 3.1% lower than the previous year, there is a notable shift in the mix, with Marlboro accounting for 27% of total volume from 22% in 2014. The favorable change in mix is attributed to the further narrowing of price gaps and the Marlboro CROSS|**OVER** campaign launched in April 2015, which saw customers trading up to the more premium brand. The 18.8% y-o-y increase in Marlboro's volume also enabled us to slightly improve our market share to 74% as of end-2015 from 72% in 2014, based on Nielsen estimates. As a result, our equity in net earnings from PMFTC reached

Php975 million, 89% higher than the Php515 million reported for 2014.

In 2015, there were two price hikes for the super low-priced brands, and one for the low-end brands. This narrowed the price gap between Marlboro, at Php3.00 per stick, and the bottom of the market from Php1.50 in 2014 to Php1 in 2015. The recent price increases have pushed prices to a level where we are no longer selling at below tax or below cost when matching the prices of our main competitor for the low-end and superlow-end brands. This enabled our Equity in Net Earnings from PMFTC to increase to Php945 million in 2015, 83.5% more than the Php515 million we earned in 2014, but still substantially below the earnings level before the illicit trade escalated to unparalleled levels and resulted in a non-level playing field.

From only Php0.50 per stick in 2012, the recommended retail price of the super low priced cigarettes has gone up by at least four times to Php2.00 since the implementation of the Excise Tax Law in 2013.

The government required tax stamps to be affixed on each pack of cigarettes produced starting December 1, 2014, and on all locally manufactured packs in the market effective March 1, 2015. In recent months, we have seen a strong compliance in the market, although a focused effort on enforcement will be required to remain vigilant against the illicit cigarette trade. We will continue to do our part in informing wholesalers and retailers to purchase only cigarettes that have the proper tax stamps. This improves the prospects of the tobacco business and will enable us to grow our profitability.

Asia Brewery Inc. (ABI)'s profitability slightly affected by highly competitive environment, but strong consumer consumption continues to fuel demand for products

ABI continued to operate in a highly competitive environment with other players in the beverage market engaging in price wars. Net income was 6% lower to Php1.05 billion in 2015 from Php1.12 billion in 2014.

Revenues were relatively flat at Php14.3 billion as the growth in water, packaging and soymilk products were offset by the drop in revenues for energy drinks, beer and alcopop. Gross profit margin (GPM) was slightly lower at 28% from 29% largely due to incentives given to wholesalers and retailers.

Cobra continues to have a dominant market share of over 70%. However, sales volume was 4% lower compared to 2014, as we remain affected by the price war of major carbonated colas.

Through our Absolute and Summit brands, we continue to be one of the top players in the bottled water segment with about a 27% market share. In 2015, we started the expansion of our Laguna plant that will increase capacity by around 60%. We expect this to be completed within the second quarter of 2016.

Vitamilk, the soymilk brand under an exclusive distributorship agreement with Green Spot, continues to post robust sales growth, and enjoys a market share of over 80%. Construction of our plant is in full swing, and we are targeting to commercially manufacture the beverage within the second half of 2016.

dominant position in 3 categories: over 70% market share for energy drinks, alcopop and soymilk

Our beer and alcopop business segments continue to be affected by the stiff competition, with volume declining further in 2015. However, these products still contribute around 20% of ABI's revenues, with Tanduay Ice having a dominant position in the alcopop category with a market share of over 70%.

To continually offer our customers

beverages that cater to changing preferences, as well as capture more of the young adult population, ABI launched Barista's Best in October 2015, a convenient ready-to-drink coffee in a PET bottle.

Tanduay Distillers, Inc. (TDI) gains market share in an industry challenged by shrinking volumes

The year 2015 was a difficult one for the distilled spirits industry, with overall

58%
market share in Visayas Mindanao area

volume declining based on Nielsen estimates on customer off-take, as well as the reported sales volume of three of the country's largest players. However, TDI fared relatively better, increasing nationwide market share to 24.1% by end-2015 from 22.0% as of end-2014, based on Nielsen estimates. The market share gain came from the Visayas-Mindanao area where we continue to have the largest share at 57.9% as of December 2015. TDI reported a 3% decline in volume, slightly lower than the industry's 4% decline, based on reported sales volumes of major industry players.

A price increase was implemented in the fourth quarter of 2014, followed by two price increases in 2015, in January and December, partly to cover the increase in excise tax. Coupled with lower alcohol prices, TDI managed to improve its GPM to 19% in 2015 from 17% in the previous year. TDI ended the year with an income of Php422 million, Php321 million more than 2014's income of Php101 million, boosted by interest savings with the payment of its Php5 billion bond in February 2015.

Our flagship product, Tanduay Five Years, continues to account for bulk of the volume, at around 77% of total, and was 2% higher y-o-y. However, brandy blend Compañero's volumes were substantially lower from a year ago, while Tanduay Light's volume also declined, resulting in an overall drop in volume of 3%.

Mid-year, we launched Tanduay Select, a rum with 30% alcohol content, to try to capture more of the young urban drinkers, and more of the Metro Manila-Luzon market.

Eton Properties Philippines, Inc. (Eton) enjoys full occupancy of its BPO office buildings and plans to build more to increase its recurring income stream

Eton's net income for 2015 reached Php313 million, Php193 million more than the Php120 million reported for 2014. The increase is largely attributed to the growth in rental income. This was brought about by the higher rental rates that Eton was able to get for new and renewed lease contracts in its BPO office buildings that currently enjoy full occupancy and are located at Eton Centris in Quezon City and Eton Cyberpod Corinthian in Ortigas Center, Pasig City. The retail space, which complements these BPO office buildings, likewise saw an increase in revenue contribution.

Revenues from the sale of residential units were lower y-o-y as revenues were largely from the percentage of completion of previously sold units. Eton halted sales activities for about two years to revisit its projects' master plans to optimize values, and only started selling units in projects that it previously launched in May 2015.

Our BPO office-building portfolio is currently around 125,000 square meters of gross leasable area (GLA), in seven buildings. We plan to increase this with the construction of additional BPO buildings at Eton Centris, as well as in other locations that are accessible to public transportation.

In the pipeline is the fifth BPO office building at Eton Centris with a GLA of 37,000 square meters, with construction

100%
occupancy rate for 125,000 square meters of BPO office space

targeted to start in the middle of 2016. To complement the existing retail space of 15,000 square meters at Eton Centris, the Company will also be expanding Centris Walk by 5,000 square meters.

Another project in the pipeline is Eton WestEnd Square, a mixed-used development along Pasong Tamo, Makati. It will have about 15,000 square meters of GLA for retail and office use, as well as a 44-storey residential component. Construction is targeted to start before the end of 2016, with the mall and office component requiring about three years to complete.

Improved prospects for 2016

We are generally more optimistic for 2016 over 2015, as the country's economy is expected to sustain its growth. A low inflation environment is likely to persist. The relatively lower oil prices will help reduce some manufacturing costs like fuel and resins for PET bottles, but may adversely affect OFW remittances with job losses in the Middle East. The BPO sector will continue to grow, fueling demand for consumer products and office space especially in urban areas that have expanded beyond Metro Manila and Cebu into new wave cities. However, the El Niño will affect the purchasing power of those dependent on agriculture.

The outlook for the tobacco business is improving as we move toward a unitized tax and the relatively higher compliance on tax stamps. We are no longer selling some of our products at below cost when we match our competitor's prices, but it is still at a level that does not make economic sense when paying the correct taxes. There is room for margin improvement when the illicit trade is substantially eliminated and when there is a level playing field.

In the banking industry, we expect loans growth to continue on the back of the sustained growth in the country's economy. The streamlining of our approval process for consumer loans will help boost loans growth. The recent bancassurance agreement and joint venture with Allianz will provide another source of fee-based income. We continue to work toward improving our asset quality and cost efficiencies, and the partial implementation of a unified banking system before yearend 2016 and full integration in the first quarter of 2017 will result in cost savings.

In the beverage segment, we will continue to take advantage of the growing adult population and increasing incomes in the midst of even tougher competition. Incremental earnings will come from the soymilk plant that is expected to start commercial operations in the second half of 2016, as well as from the increased capacity of the bottled water plant.

In the distilled spirits business, stiff competition remains. We will improve earnings with continuous improvements on cost efficiencies that include energy-saving initiatives that may also provide additional sources of revenues, as well as new product offerings to try to capture more of the young urban drinkers and the Metro Manila and Luzon market.

In the property sector, demand for BPO office space should continue to grow, and we will take advantage of this by increasing our portfolio, although at a gradual pace.

In early 2016, LTG entered into a joint venture agreement with Ayala Land, Inc. to develop a 35-hectare township project along Circumferential Road 5 (C-5), which spans portions of Pasig City and Quezon City. Development of the master plan is ongoing, and this project will provide LTG additional source of earnings from the property sector, as well as give Eton opportunities to further increase its product offerings.

The past year has shown your Company's ability to bounce back from challenges. Working as a team, we were able to grow our earnings. But a lot of work still has to be done before we get back to the income level prior to the implementation of the excise tax law, which adversely affected some of our businesses.

We are investing for our future. We are strengthening our current brands and products while launching new ones, putting up new plants, expanding into new areas, and forging new partnerships. We remain committed to excellence and providing quality yet affordable products to our customers that will sustain our future growth.

I would like to thank our stakeholders for the continued support and trust in your Company, as well as to our Board of Directors, management team and staff.

Michael G. Tan
President

LT Group, Inc.'s (LTG) total revenues for 2015 amounted to Php54.37 billion, a Php2.67 billion or 5.2% year-on-year (y-o-y) increase, largely from higher revenues from Philippine National Bank (PNB) and Eton Properties Philippines, Inc. (Eton). The increase in the Bank's revenues came from higher interest income and service fee income. The growth in Eton's revenues came from higher rental income of the BPO office buildings while the revenues of Asia Brewery, Inc. (ABI) and Tanduay Distillers, Inc. (TDI) were relatively flat. ABI's lower revenues for energy drinks, beer and alcopop, were offset by the growth in water, packaging and soymilk products. Meanwhile, TDI's sales volume was slightly lower, which coupled with slightly higher selling prices, resulted in flat revenues.

The attributable net income of LTG for 2015 was Php6.60 billion, 49.6% or Php2.19 billion more than the Php4.41 billion reported for 2014. The increase was due to the improved profitability across most of LTG's business units, mainly from the higher net contribution of the Bank, followed by the tobacco business. PNB's net contribution was Php1.00 billion more while the tobacco business added Php889 million more. TDI provided an additional Php321 million, largely from interest savings with the payment of the Php5 billion bond in February 2015. The Php193 million growth in Eton's contribution was brought about by higher lease and occupancy rates at its BPO office buidings.

PNB posted an income of Php6.77 billion under the pooling method, with LTG's share at Php3.72 billion. Part of PNB's income was a Php369 million gain from the sale of four (4) properties to Eton. LTG's share of the gain, at Php208 million was eliminated from LTG's attributable net income from PNB, bringing PNB's contribution for 2015 to Php3.51 billion. In 2014, PNB's attributable income contribution to LTG was at Php2.50 billion, from the Php3.26 billion share in PNB's income, less LTG's share in the gain from the sale of Victorias Milling Company (VMC) shares of Php755 million, as LTG purchased the VMC shares. Overall, PNB contributed an additional Php1 billion in 2015 versus 2014.

Income from the tobacco business is primarily from the equity in net earnings from LTG's 49.6% stake in PMFTC. This reached Php975 million in 2015, 89% higer than the Php515 million realized in 2014. Although an improvement over the previous year, this is still substantially lower than the earnings realized in 2012 and 2013 as the illicit trade continues to affect the overall profitability of the tobacco business.

The Bank's attributable income contribution to LTG of Php3.51 billion was 53% of total. ABI's contribution added Php1.10 billion or 17% of total, followed by the tobacco business at Php1.04 billion or 16%. TDI accounted for Php422 million or 6%, while Eton added Php312 million or 5%. Equity in net earnings from our stake in VMC provided Php214 million or 3% of total.

As of end-2015, LTG's stake in VMC stood at 22.54% compared to 20.17% as of the end of 2014, with the conversion of some convertible notes held into shares. In February 2016, LTG purchased 131.86 million additional shares of VMC at Php5 per share, for a total of Php659 million, and increased LTG's stake in VMC to 30.17%. When the remaining convertible notes are converted to shares, LTG's stake in VMC will be at 30.91%.

The LTG Parent Company infused Php5.5 billion to TDI and Eton in 2015. The Php3.9 billion invested in TDI was part of the funds used to pay the Php5 billion bond. Meanwhile, the Php1.6 billion infused into Eton was used to partially finance its projects. In early June, LTG paid a regular cash dividend of Php0.15 per share or a total of Php1.62 billion to shareholders on record as of May 27. This is equivalent to 36.8% of 2014's attributable income of Php4.41 billion, higher than the dividend policy of a 20% pay-out rate.

LTG's subsidiaries spent Php8.7 billion for capital expenditures in 2015. Eton spent Php3.8 billion for land acquisition and construction of ongoing projects. PNB invested Php2.5 billion, mainly for the new IT system, targeted to be fully operational within the first quarter of 2017, which will integrate the different core banking systems of the former Allied Bank and PNB that were merged in 2013. ABI spent Php1.8 billion, principally on the soymilk plant and the expansion of its bottled water facilities. Tanduay spent Php551 million, primarily for the dehydrator of the ethanol facility and the solar power plant.

LTG's balance sheet remains strong, with the parent company's cash balance at Php2.6 billion as of the end of 2015. Debt-to-Equity Ratio was at 3.41:1 as of end-2015 with the bank, and at 0.13:1 without the bank.

Jose Gabriel D. Olives
Chief Finance Officer

ASIA BREWERY, INC.

Asia Brewery Inc.’s (ABI) performance in 2015 was marked by programs to strengthen and maintain its leading market positions across key beverage categories and the continuous assessment of potential growth opportunities in current and new markets.

With strong brands in the energy drinks, bottled water and soymilk segments, ABI posted resilient financial results in 2015 despite significant declines in the beer and alcopop segments which continue to face regulatory and competitive pressures.

Cobra upheld its market leadership in the energy drinks segment, maintaining its market share of over 70% in 2015. Cobra provided healthy revenues despite a slight volume decline brought about by aggressive price-offs waged by indirect competitors in the carbonated soft drinks market. To differentiate the brand from soft drinks, ABI is reinforcing the “Gusto ko pa” theme campaign. The Company also spent more on promotions and advertising for Cobra.

With sustained revenues, Cobra remained the Company's flagship product, contributing more than a third of ABI's revenue base. Bottled water was the second biggest contributor to revenues, followed closely by beer.

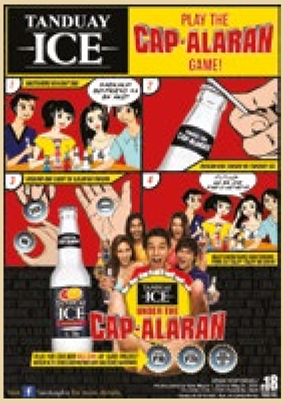
Sales of Absolute and Summit bottled water brands remained strong with volumes improving moderately over 2014. Absolute's "Pure Water, Pure Love" campaign of actress Judy Ann Santos, along with nationwide trade programs, sustained the growth in this segment over the past four years. To support the growth, ABI is adding new production lines to boost capacity.

Vitamilk continued to dominate and expand the soymilk market, holding over 80% market share and increasing volume substantially over 2014. Under an exclusive distributorship license with Thailand's Green Spot Company Ltd, the Philippines is the leading importer of Vitamilk in the ASEAN region. The exemplary growth and acceptance of the brand by the Philippine market over the past years have prompted the construction of a soymilk plant targeted to commence operations in the second half of 2016.

2H16 Commercial operations for soy milk plant

The beverage market continually provides strong growth potentials with the emergence of new product segments as a result of the evolving lifestyles of consumers. ABI launched Barista's Best in October 2015, a ready-to-drink coffee brand catering to consumers who prefer the convenience of consuming their coffee in bottled packaging.

Glass container volume increased by over 30% in 2015, driven by the full year operation of the second furnace which came on stream in the second half of 2014. Higher volumes from commercial customers developed in 2014 and new accounts for generic glass food containers



The beer and alcopop segments were confronted with sustained pressures in 2015. The new round of excise tax hike in January 2015 forced industry-wide price increases which dampened demand for alcoholic beverages. This, coupled with aggressive promotional and pricing activities by the market leader in its effort to stem the industry-wide volume decline, adversely affected ABI's alcoholic offerings. Faced with these challenges, ABI continues to reinforce its brand portfolio and fine-tune its promotional efforts while implementing operational efficiencies to improve profitability.

boosted revenues to increase by close to 30% during the year.

To complement domestic growth, ABI is exploring opportunities to make its products available in other countries in Southeast Asia and the Middle East.

ABI continues to invest in research and development for new products while strengthening operational and distribution efficiencies in order to focus on delivering product innovation and affordability to its customers.

ETON PROPERTIES PHILIPPINES, INC.

The year 2015 was a good year for Eton Properties Philippines, Inc. (Eton), as it further strengthened its core business areas to achieve significant income growth primarily from its leasing operations, with new impetus on its marketing activities.

Driven by strong demand for office spaces from the business process outsourcing (BPO) industry, the Company reported gross revenues of Php2.49 billion in 2015, 9% higher than its 2014 revenues of Php2.28 billion. Net income climbed to Php313 million, a 161% increase from its 2014 net income of Php120 million.

Rental income accounted for Php1.17 billion or 47% of revenues, representing a 58% growth over the year-ago level, as lease contracts were renewed at higher rental rates for the Company's BPO office buildings at Eton Centris in Quezon City and Eton Cyberpod Corinthian in Ortigas Center, Pasig City. Retail properties also contributed to the surge in rental income. These include the lifestyle and entertainment cluster Centris

Walk, events venue Centris Elements and commercial center Centris Station, which is directly linked to the Quezon Avenue MRT station.

To date, Eton has seven fully leased out BPO buildings covering 125,000 square meters. Of the seven buildings, four are in Eton Centris in Quezon City while three are in Eton Cyberpod Corinthian in Pasig City. Both areas are strategically located near transportation hubs and retail establishments, making these accessible to BPO employees and complementing the 24/7 operations of their respective locators. Eton's BPO office buildings are currently leased to top global outsourcing companies.

Real estate sales, on the other hand, accounted for Php1.31 billion or 53% of revenues, a 13% drop from 2014, as the Company assessed its projects and embarked on cost-benefit strategies to ensure long-term sustainable growth. Eton pursued its plans to re-assess its costs and prices and align these with the market, to realize the best value of its projects and optimize margins.

58% ***increase in rental income***

During this period, the Company pushed sales activities for its completed residential projects in prime locations across Metro Manila, including 68 Roces along Don A. Roces Avenue in Quezon City; 8 Adriatico in the City of Manila; Belton Place and Eton Parkview Greenbelt in Makati; the West Wing Residences at Eton City; and the Manors and West Wing Residences at North Belton Communities in Quezon City.

In the face of sustained demand for its properties, especially among BPOs, and confident of the Philippines' strong economic fundamentals, Eton will continue to expand its footprint in both commercial and residential spaces in 2016.

Construction of the 25-storey Cyberpod Centris Five, the fifth BPO facility in Eton Centris, will commence in the middle of 2016. Centris Walk, meanwhile, will be expanded to accommodate more retail and dining spaces. In Eton Tower Makati, the opening of The Mini Suites, a unique serviced residence, and its two-storey retail area that is directly connected to the Dela Rosa elevated walkway, will also take place within the year.

The Company will also break ground and launch Eton WestEnd Square in Makati City, a mixed-use development which includes a high rise residential condominium, an office tower, and a boutique mall, in 2016.

Having realized the early rewards of its refocusing strategy, Eton looks forward to 2016 with optimism and renewed confidence, as it commits to remain a trusted and reliable developer of prime properties and communities.

PMFTC INC.

Overview

PMFTC Inc. (PMFTC), the business combination between Philip Morris Philippines Manufacturing Inc. (PMPMI) and Fortune Tobacco Corporation (FTC), continues to be the leading cigarette manufacturer in the Philippines. For the past six years, PMFTC has been providing the country's adult consumers with the best smoking experience through its diverse brand portfolio.

PMFTC manufactures nine out of top 15 brands available in the market in 2015 led by *Marlboro*, the world's number one cigarette brand and *Fortune,* the best-selling brand in the market today. Amid challenging regulatory, tax, and pricing dynamics, PMFTC's market share has grown in 2015 to 73.4% (up 1.4pp versus prior year), mainly driven by *Marlboro* (21.1% share of market) and *Fortune* (31.1% share of market), according to AC Nielsen.

PMFTC employs over 4,800 employees and directly contracts over 4,500 tobacco

21.1%

Marlboro's market share from 18.4% in 2014

farmers from four tobacco-growing areas in the country. The Company relies on its competent and diverse workforce supported by individual development and career management programs that recognize potential and reward achievement.

Operations

In 2015, PMFTC completed the vertical integration of its leaf buying operations by directly contracting over 4,500 farmers and providing extensive support for all areas of tobacco growing, including best agricultural labor practices, seedling, planting, curing and drying of leaf in addition to improving the leaf growing communities and areas in the country.

PMFTC values the safety of its employees. In October 2015, the Batangas Plant marked a new milestone in Operations, achieving Five Million Safe Man Hours without any injuries or breach of safety policies.

Sales and Marketing

After a challenging 2014 whereby the market observed significant down trading to lower-priced brands following the second excise tax increase after the Sin Tax Law implementation, PMFTC turned the corner in 2015, regaining market share and strengthening its leadership in the key price segments with the strong performance of both *Marlboro* and *Fortune* brand families.

Marlboro led the share growth driven by up trading following the narrowing of price gaps between the premium and super-low price segments. The brand was also a focus for consumer engagement and retail activation initiatives, such as the global *Marlboro* CROSS|**OVER** Campaign, which ran from April to July 2015 and provided a range of unique brand experiences and rewards for adult smokers as well as incentives for trade partners and the field sales force. Capitalizing on *Marlboro*'s position as the leading premium brand in the market, the campaign strengthened brand equity and boosted the brand's distribution and volume growth.

The leading local brand *Fortune* also grew its market share, driven by the *Fortune Tribal* brand family.

PMFTC upgraded the pack and stick designs of the *Fortune Tribal* brand family in the first quarter of 2015 in order to increase its value proposition and differentiation, reinforcing the brand's progressive image. In addition, *Fortune Tribal Mint Splash*, an innovative new menthol variant with a capsule in the filter that delivers an intense refreshing smoking experience and packaged in a modern round corner box pack, was launched in July 2015 to broaden the brand's appeal in the low-price menthol segment. The launch was supported by a full range of distribution and awareness programs, delivering strong results in the key launch areas.

Tackling the Illicit Cigarette Trade

The illicit cigarette trade remains a major concern for PMFTC. The Company fully supported and complied with the introduction of the Bureau of Internal Revenue's (BIR) tax stamp program, intended to ensure the payment of excise taxes on all cigarettes packs manufactured and imported for domestic consumption.

To support this regulatory initiative, PMFTC launched a print advertisement campaign to inform wholesalers and retailers to only purchase packs with affixed tax stamps. The campaign ran from August 2015 to the end of the year in more than 30 widely read publications nationwide. To maximize the reach, the print advertorial was translated into three languages – Tagalog, Ilokano, and Bisaya – aside from English. By the end of the year, published reports by the World Bank showed a high level of tax stamps compliance across the nation, with problematic areas remaining in Cebu and Mindanao and in outlying areas.
PMFTC was also pleased to note enforcement action by the BIR and Bureau of Customs (BOC) in 2015 against traders of illegal cigarettes in different parts of the country, and it foresees these enforcement efforts to continue in 2016.

Human Resources

PMFTC is one of the sources of top talent across Philip Morris International (PMI) affiliates globally. It has consistently provided overseas career opportunities in Asia, Europe and Latin America to its top mobile talents. International assignments provide maximum career acceleration and wider development of talents. It opens talents for an international PMI career or next level roles in the Philippines when they return.

In 2015, PMFTC strengthened its employer brand with the launch of "UNLIMIT YOURSELF AT PMI" and "INKOMPASS" programs, which enable employees to learn the skills that open doors to any desired career.

INKOMPASS is a two-year global internship program, which allows talents to discover the best in themselves and potentially secure a job with PMFTC even before they graduate. In its first year, INKOMPASS received 4,501 applicants from which 93 were selected to undergo an on-ground assessment activity. 17 were given confirmed internships. This affirms PMFTC as an excellent organization to start and build a career.

Diversity and Inclusion

PMFTC joined the global initiative on nurturing a diverse workforce and inclusive work environment and culture. In 2015, the

Company formed a Core Group composed of Diversity and Inclusion champions across different departments. The Core Group aims to review company policies and structure and formulate recommendation for the Company to become more responsible in embracing a multi-generational and multicultural workforce, and gender sensitive policies and protocols.

Public Affairs, Corporate Citizenship and Recognitions

Since 2010, after the successful business combination, PMFTC committed itself to give back to communities where its employees work and live. *Embrace*, the Company's corporate social responsibility (CSR) program, simultaneously mobilized fifteen projects aligned to address the 17 United Nations Sustainable Development Goals. The projects concentrated on community health and poverty alleviation, livelihood, education, environment, disaster preparedness, and calamity relief across the country.

In 2015, PMFTC began forging partnerships to rebuild the communities affected by Typhoon Yolanda (Haiyan) in 2014 and the earthquake that shook Visayas in 2013. This was done after careful consultation with responsible national government agencies and local government authorities after new hazard maps were drawn following the said disasters. The first wave of Memorandum of Agreements was already signed with the receiving local governments and actual construction will commence in 2016.

In 2015, PMFTC held the 9th Bright Leaf Agriculture Journalism Awards (Bright Leaf) with the mission to recognize the most outstanding and relevant agriculture stories in print, radio, and television, published and broadcasted nationwide. It also honors the most compelling photos that capture the essence of tobacco farming and the agriculture industry. After nearly a decade, the program has become one of the most renowned journalism awards.

PMFTC is a proud recipient of the CSR Company of the Year Award where the Company competed with over 100 local and multinational companies in the Philippines. Awarded by the prestigious 2015 Asia CEO Awards, it recognized PMFTC's commitment to improving the lives of Filipino people through the support of impactful and sustainable charitable programs.

This award is only one of the 25 local and international recognitions garnered by PMFTC in 2015.

PHILIPPINE NATIONAL BANK

The **Philippine National Bank (PNB)** is a private universal bank that provides a full range of banking and financial services to large corporate, middle market, small and medium enterprises (SME) and retail customers. In February 2013, PNB merged with Allied Banking Corporation to create the fourth largest private universal bank in terms of total resources.

For 2015, PNB recorded a net profit of Php6.8 billion under the pooling method. Sustained growth in the Bank's core business resulted in a net interest income of Php17.6 billion on the back of a steady growth in the Bank's loan portfolio as well as an increase in its investment portfolio. The loan-to-deposit ratio rose to 74% given the Bank's 18% loan expansion, which outpaced the industry's 13% growth. This was propelled by strong corporate and commercial/SME lending business. The Bank also successfully closed and signed a USD150 million three-year syndicated term loan facility with a large group of international and regional banks in April 2015, marking its return to the syndicated loan market after more than a decade, the last being in 1998. The said loan facility was 1.5 times oversubscribed, indicating the capital market's confidence in the credit strength of the Bank. PNB was able to maintain its Net Interest Margin at 3.2% by tapping cheaper funding sources and increasing low-cost CASA deposits. As of end-2015, PNB's total consolidated resources stood at Php666.5 billion.

Net service fees and commissions reached Php3.6 billion, a 38% increase over the previous year, principally generated from underwriting and credit-related transactions. The improvements in core revenues compensated for the reduced trading gains, which declined by 58% due to challenging conditions in both the local and international financial markets. Operating income was augmented by gains from the sale of PNB's foreclosed assets, which amounted to Php1.56 billion.

During the year, two credit rating agencies upgraded its outlook on PNB. Last May 2015, Moody's Investors Service upgraded PNB's long-term and short term rating two levels to investment grade to Baa3/P-3 from Ba2/NP. In October 2015, Fitch Ratings Inc. gave PNB a higher credit rating of "BB" with a stable outlook, reflecting the Bank's strong franchise and high capital ratios.

Committed to continuously provide value to its customers and stakeholders, PNB has been a recipient of numerous awards and recognitions by international award-giving bodies for market leadership and product innovation. Last March, Global Banking Finance and Review awarded PNB's retail product ATMSafe as the Most Innovative Banking Product. ATMSafe is the country's first insurance product against ATM fraud. In August, PNB won the Best Website of the Year at the Asian Banking and Finance Retail Banking Awards held in Singapore. Revamped last 2014, the PNB website is a fluent interpretation of the Bank's dedication to meet the diverse digital needs of its customers worldwide. With a more dynamic look and feel, the website gives users a hassle-free means to access PNB's products and services online. Later in the year, international publication The Asian Banker awarded PNB with Excellence in Retail Financial Services distinction under the "Best Remittance Business in the Philippines" category. This is in recognition of the value-added differentiation that the Bank provides to overseas Filipinos beyond remittance to include financial services such as Own-a-Philippine Home Loan, Pangarap Loan and Overseas Bills Payable System as well as other

innovative products like the Healthy Ka Pinoy medical card and ATMSafe insurance. PNB and its wholly owned subsidiary, PNB Capital and Investment Corporation, were likewise recognized internationally in the same month, winning four awards from The Asset Triple A Asia Infrastructure Awards in Hong Kong. The following deals were cited: a) Best Project Finance Deal of the Year and Best Transport Deal, both for the Php31 billion project finance syndicated term loan facility for Metro Manila Skyway Stage 3 Project; b) Best Transport Deal, Highly Commended for the Php23.3 billion financing facility for GMR Megawide Cebu Airport Corporation Project; and c) Best Power Deal for the Php33.3 billion financing facility for Pagbilao Energy Corporation Project. These awards clearly demonstrate the Bank's commitment in offering competitive financing structures to clients while contributing to economic development and nation building.

For the past century, PNB has provided customers with a variety of financial services that offer innovative care. With its customers at the forefront and with 100 years of stability as its foundation, PNB is the bank that Filipinos can lean on. PNB is here to serve *You First*.

18%

Loan expansion

ahead of the industry's 13%

TANDUAY DISTILLERS, INC.

Tanduay Distillers Inc.'s (TDI) revenues improved slightly to Php12.1 billion in 2015 from Php12.0 billion in 2014 as a result of higher selling prices. The rum category showed better volumes than the previous year, which enabled the Company to regain market share, particularly in the Southern Philippines to 58% from 56%. The gin and brandy category, however declined in volume due to stiff competition. Net income increased to Php422 million from Php101 million with the improvement in gross profit margin to 19% from 18% and lower operating expenses and interest costs, despite the continued discounts given to dealers and distributors.

Tanduay's stature as an international brand received a big boost when the brand was twice recognized as the *Brand Champion of the World*. The first recognition was given by

Php422M

Net Income from Php101M in 2014

the editors of the *Spirits Business magazine*, the only dedicated international spirits magazine and website with a circulation of more than 50,000 among spirits professionals worldwide. The second was given by the *World Branding Organization* in London which gave the award to a Philippine company for the first time. Tanduay also received the *Monde Selection Crystal Prestige Trophy*, an award given to companies that have won in the competition for 10 consecutive years.

Continuing with the strategy of revitalizing the Tanduay brand and capitalizing on the changing trends in music marketing, a countrywide music tour titled "*Tanduay Polarity: Rhum, Rock & Rave*" featuring famous local artists and disc jockeys was introduced in 2015. The *"Tibay ng Loob, Tibay Tanduay"* campaign was intensified with on-ground activation and promotional selling activities in different market channels. A year-round tri-media and merchandising focused heavily on Tanduay Five Years and Tanduay Rhum Light. In the virtual world, Tanduay engaged the customer through popular social media sites like Facebook, Twitter and Instagram. Tanduay Select 60 proof was launched in the middle of the year to augment the low proof product line which is the current preference among young drinkers. In the premium segment, Tanduay Asian Rum has been made available on Philippine Airlines international flights, duty free shops, select wine cellars, restaurants and bars in Metro Manila.

Further affirming the Company's commitment to environmental best practices and energy-efficient operations, TDI's subsidiary, Absolut Distillers, Inc., (ADI), launched a two-megawatt solar power plant in Lian, Batangas in March 2015. ADI has been advocating sustainable energy since the 1990s and the solar power plant project is the LT Group's first venture of this magnitude in renewable green energy following the Clean Development Mechanism (CDM) Project in 2006. The CDM project captures methane, one of the harmful gases causing global warming, from the distillation process and reuses this as power for the distillation plant. Shortly thereafter, in October, ADI launched its bioethanol facility with a capacity of 100,000 liters per day to further support the Government's green energy program and avail of the opportunities under the Biofuels Act of 2006. Both projects are also expected to provide additional revenue sources and contribute to the Company's bottom line.

The challenges to the Company's business remain formidable but the resolve to perform better under pressure remains firm and stronger than ever.

The Company, notwithstanding external challenges and pressures, continued to experience growth in all business sectors, including the liquor and cigarette businesses. The bank and beverage companies' results of operations exceeded their budgets while the property company continues to regain momentum. The favorable positive performances of the subsidiaries were in no small measures due to the rigorous and determined supervision and support of the Board of Directors and the inspired cooperation of the respective management teams of the subsidiaries.

At the start of the year, the business sectors submitted to the Board their respective business plans and targets which the Board reviewed, assessed and deliberated upon during its first meeting for the year. Thereafter, in the exercise of its oversight functions, the Board reviewed the performances of each of the segments every month and compared the results against targets and prior year performances. The monthly review enabled the Directors to monitor closely and provide the support which each of the segments required. The mechanism adopted by the Board in monitoring the subsidiaries effectively helped the latter achieve their targets.

All of the strategic plans and efforts of the Board and Management are in pursuit of and in promotion of the Vision and Mission Statements of the Company which state:

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.

THE BOARD OF DIRECTORS AND STRUCTURE

The Board of Directors, comprised of thirteen individuals with impressive professional and entrepreneurial backgrounds, have successfully steered the Company to relative growth amidst a volatile and uncertain environment brought about by China's economic slowdown, falling oil prices, stronger US dollar and regulatory challenges.

The Company is proud to note of the thirteen directors, three are female directors chosen for their invaluable professional knowledge and experiences that invariably benefitted the Company. Moreover, four Independent Directors helped in ensuring faithful and comprehensive adherence to the principles of good corporate governance, and together with the other members of the Board, helped in providing guidance and direction to the Management of the Company and the Company's subsidiaries. Consonant with good corporate governance, the Board appointed Independent Directors in all of the Board Committees to render a balance and impartial assessment of issues in order to protect the interest of all Stakeholders of the Company.

Further, as a policy, the Company promotes the election of Independent Directors in the Board and in the Board Committees of the subsidiaries notwithstanding that some are not publicly owned.

Lastly, the Company adheres to the policies set under Circular No. 9 Series of 2011 of the Securities and Exchange Commission (SEC) which prescribes a term limit on independent directors of up to a maximum of ten years. Currently there are three directors whose terms expire in 2017 as they will reach their limits of five (5) years. After the cooling off period of two years, they may be appointed again for a maximum of five (5) years.

Additionally, the Company requires that its Independent Directors be limited to five board seats only in other publicly listed companies outside the conglomerate.

BOARD PERFORMANCE

The Board and Officers of the Company continue to conduct an annual self-performance assessment to evaluate their individual contribution and effectiveness in the corporate body. The measure of effectiveness varies but is generally shown by the positive performances of the respective subsidiaries or businesses where they belong. All members of the Board are expected to attend all Board and Committee meetings. The Board Members' attendance is shown herein together with the meetings held.

Board of Directors' Meetings

Board	Name	Date of Election	No. of Meetings Held during the year (2015)	No. of Meetings Attended	%
Chairman	Lucio C. Tan	06/23/2015	14	10	71
Member	Carmen K. Tan	06/23/2015	14	10	71
Member	Harry C. Tan	06/23/2015	14	12	86
Member	Michael G. Tan	06/23/2015	14	14	100
Member	Lucio K. Tan, Jr.	06/23/2015	14	11	79
Member	Joseph T. Chua	06/23/2015	14	14	100
Member	Juanita Tan Lee	06/23/2015	14	14	100
Member	Washington Z. Sycip	06/23/2015	14	9	64
Member	Peter Y. Ong	06/23/2015	14	14	100
Independent	Robin C. Sy	06/23/2015	14	10	71
Independent	Florencia G. Tarriela	06/23/2015	14	12	86
Independent	Antonino Alindogan, Jr.	06/23/2015	14	11	79
Independent	Wilfrido E. Sanchez	06/23/2015	14	13	93

Audit and Risk Management Committee Meetings

Board	Name	Date of Election	No. of Meetings Held during the year (2015)	No. of Meetings Attended	%
Chairman	Antonino Alindogan, Jr.	06/23/2015	7	5	86
Member	Lucio K. Tan, Jr.	06/23/2015	7	4	79
Member	Juanita Tan Lee	06/23/2015	7	7	100
Member	Washington Z. Sycip	06/23/2015	7	4	79
Member	Florencia G. Tarriela	06/23/2015	7	6	93
Member	Wilfrido E. Sanchez	06/23/2015	7	6	93

Nomination and Compensation Committee Meetings

Board	Name	Date of Election	No. of Meetings Held during the year (2015)	No. of Meetings Attended	%
Chairman	Lucio C. Tan	06/23/2015	2	2	100
Member	Lucio K. Tan, Jr.	06/23/2015	2	1	75
Member	Harry C. Tan	06/23/2015	2	1	75
Member	Michael G. Tan	06/23/2015	2	2	100
Member	Juanita Tan Lee	06/23/2015	2	2	100
Member	Wilfrido E. Sanchez	06/23/2015	2	2	100

Corporate Governance Committee Meetings

Board	Name	Date of Election	No. of Meetings Held during the year (2015)	No. of Meetings Attended	%
Chairman	Florencia G. Tarriela	06/23/2015	2	2	100
Member	Lucio K. Tan, Jr.	06/23/2015	2	2	100
Member	Michael G. Tan	06/23/2015	2	2	100
Member	Joseph T. Chua	06/23/2015	2	2	100
Member	Antonino Alindogan, Jr.	06/23/2015	2	2	100

Furthermore the Board encourages its members and officers to update their knowledge and skills and continue to be relevant in the organization. The Company also sends its officers or staff to study or secure the additional training they require to hone and improve on their respective disciplines. It also sets a training budget for the continued updating and compliance by the directors and officers on good corporate governance as required under SEC Memorandum Circular No. 20 Series of 2013. During the year, the directors and officers attended the following seminars on Good Corporate Governance.

Board of Directors:

Name	Date of the Seminar attended	Service Provider
Lucio C. Tan	Nov. 11, 2015	Center for Global Best Practices
Carmen K. Tan	Nov. 11, 2015	Center for Global Best Practices
Harry C. Tan	Nov. 6, 2015	Institute of Corporate Directors
Michael G. Tan	Nov. 11, 2015	Center for Global Best Practices
Lucio K. Tan, Jr.	Sept. 15,2015; Nov. 11, 2015	Institute of Corporate Directors; Center for Global Best Practices
Joseph T. Chua	Nov. 11, 2015	Center for Global Best Practices
Juanita Tan Lee	Sept. 15, 2015	Institute of Corporate Directors
Washington Z. Sycip	Exempted	
Peter Y. Ong	June 25, 2015	Institute of Corporate Directors
Antonino L. Alindogan, Jr.	Sept. 5, 2015	SGV & Co.
Wilfrido E. Sanchez	Sept. 15, 2015	Institute of Corporate Directors
Florencia G. Tarriela	Dec. 10, 2015	Institute of Corporate Directors
Robin C. Sy	Non-compliance	

Board of Advisor:

Name	Date of the Seminar Attended	Service Provider
Johnip G. Cua	Sept. 15, 2015; Dec. 9, 2015	Institute of Corporate Directors; SGV & Co.

Officers:

Name	Position	Date of the Seminar attended	Service Provider
Ma. Cecilia L. Pesayco	Corporate Secretary	Nov. 14, 2015	Institute of Corporate Directors
Marivic T. Moya	Asst. Corp. Secretary	Nov. 11, 2015	Center for Global Best Practices
Erwin Go	Chief Legal Officer	Sept. 15, 2015	Institute of Corporate Directors

The Board of Directors of the Company are:

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 experiences 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., **MacroAsia Corp.,** Fortune Tobacco Corp., PMFTC Inc., Grandspan Development Corp., Himmel Industries Inc., Lucky Travel Corp**., PAL Holdings Inc**., Air Philippines Corporation, Tanduay Distillers Inc., The Charter House Inc., AlliedBankers Insurance Corp., Absolut Distillers Inc., Progressive Farms Inc., Foremost Farms Inc. and Basic Holdings Corp. He is also a Director of **Philippine National Bank**. He holds a Bachelor of Science degree in Chemical Engineering from Far Eastern University, awarded the degree, Doctor of Philosophy, Major in Commerce, by the University of Santo Tomas in 2003 and is an awardee of several other 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., Foremost Farms Inc., Philippine Airlines Inc., **PAL Holdings Inc,** Air Philippines Corporation, Fortune Tobacco Corp., Himmel Industries Inc., Lucky Travel Corp., Progressive Farms Inc., **MacroAsia Corp.** and PMFTC Inc.

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 Director of Eton Properties Philippines Inc., Pan Asia Securities Inc., and Lucky Travel Corp. He is also the Managing Director of The Charter House Inc., Director/Chairman for Tobacco Board of Fortune Tobacco Corp., Director/President of Century Park Hotel, and Landcom Realty Corp. He serves as Director of Asia Brewery Inc., AlliedBankers Insurance Corp., Absolut Distillers Inc., Basic Holdings Corp., Foremost Farms Inc., Himmel Industries Inc., PMFTC Inc., **Philippine National Bank**, Progressive Farms Inc., Grandspan Development Corp. 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., Grandway Konstruct 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 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 a Director/President of Tanduay Distillers Inc. and Eton Properties Philippines Inc.; Director/EVP of Fortune Tobacco Corp.; Director of AlliedBankers Insurance Corp., Philippine Airlines Inc., **Philippine National Bank**, **PAL Holdings Inc.**, **MacroAsia Corp.**, **Victorias Milling Company Inc.**, PMFTC Inc., Lucky Travel Corp., Air Philippines Corp., Absolut Distillers Inc., Asia Brewery Inc., Foremost Farms Inc., Himmel Industries Inc., Progressive Farms Inc., The Charter House Inc., Grandspan Development Corporation 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; Chairman of J.F. Rubber Philippines, Watergy Business Solutions Inc., and Cavite Business Resources Inc.; Director/President and Chief Operating Officer of **MacroAsia Corp.;** 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, **PAL Holdings Inc.,** Philippine Airlines Inc.; Board of Advisor of **Philippine National Bank**.

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., Corporate Secretary of Absolut Distillers Inc., The Charter House Inc., Foremost Farms Inc., Grandspan Development Corp., Himmel Industries Inc., Landcom Realty Corp., Lucky Travel Corp., PMFTC Inc., Progressive Farms Inc., Tanduay Distillers 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; Founder of SyCip Gorres Velayo & Co.; Chairman Emeritus of the Board of Trustees and Governors of the Asian Institute of Management; Chairman of 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., **MacroAsia Corp.**, **PAL Holdings Inc.** and **Philippine National Bank**. Mr. Sycip holds BS and MS degrees from the University of Santo Tomas, which later conferred him a Doctor of Accounting Education, *honoris causa* degree in 1984. He also obtained a Master of Science in Commerce from Columbia Business School.

Peter Y. Ong is a Director of the Company. He is a 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; 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 Bangko Sentral ng Pilipinas (BSP) 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 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 Quiason Makalintal Barot Torres Ibarra & Sison Law Offices; Vice Chairman of The 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 the Ateneo De Manila University and Masters of Law from Yale Law School.

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

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 and 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.

BOARD COMMITTEES

The Board Committees with its oversight functions are invaluable vehicle in the exercise of good corporate governance. Through the Committees, complex issues are distilled and discussed, proposals are evaluated and recommendations or decisions are made.

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 Executive Committee is provided by the By-Laws and the members are derived from the Board. The Executive Committee is created with authority to engage, within the limits set by Board policy and the By-Laws, in decision-making, oversight, and communication on important organizational matters. It is specifically called to convene where there are important urgent matters to discuss and decide upon between the regular meetings of the Board.

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

1. Any requested 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 businesses and key assets, and corporate debts with a term of at least five (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 2015, 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 overseeing the financial and operational issues of the Company. It reviews the financial reporting process, system of internal control and management of financial risk, audit process and Company's process for monitoring compliance with laws and regulations and its own code of corporate governance.

The Committee is composed of non-executive directors and is headed by an Independent Director as Chairman, who was formerly a member of the Monetary Board of the Bangko Sentral ng Pilipinas, and formerly a Chairman of a state-owned bank and other financial institutions. He is also a Certified Public Accountant and holds a Bachelor of Science in Commerce degree Major in Accounting from De La Salle College where he graduated Magna Cum Laude.

There were seven meetings of the Committee in 2015, which took up among others, the quarterly financial reports and the Audited Financial Statements for the period ending December 31, 2014 for the Company and its subsidiaries.

The Committee likewise reviews and assesses related party transactions to ensure that minority shareholders and stakeholders are not unduly prejudiced in any of the transactions. Lastly, the Committee reviews the performance of the External Auditors and makes the corresponding recommendation to the Board.

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 regarding their examinations of the Company and its subsidiaries as well as the Audit Plan.

Corporate Governance Committee

The Committee meets every quarter to assess the faithful observance of the principles of good corporate governance and its guidelines by the Board and the Management. 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 it 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.

The Committee is ably headed by a female Independent Director, who is currently the Chairwoman of a bank. She was formerly the Undersecretary of Finance of the Philippine Government, an alternate member of the Monetary Board of the Bangko Sentral ng Pilipinas and has worked with one of the biggest international banks in the country. She obtained her Bachelor of Science in Business Administration major in Economics from the University of the Philippines and Masters in Economics from the University of California, Los Angeles.

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.

MANAGEMENT

The Management is headed by Dr. Lucio C. Tan as the Chairman and CEO and by Mr. Michael G. Tan as President and COO. Their roles are complementary to each other to ensure timely and efficient implementation of strategies of the business.

On critical or sensitive issues, the President coordinates closely with the Chairman/CEO for directions and confirmation of decision on the matter at hand. The President also continuously initiates discussions with Management on its business performances and initiatives to grow the Company.

In the course of performing its functions, Management and the Board adhere to the principles of good corporate governance throughout the organization, and they ensure that the structure and mechanism for its observance are securely in place. The President/COO, members of the Board and Members of Management Committees attended the annual stockholders' meetings.

DISCLOSURE AND TRANSPARENCY

UNSTRUCTURED DISCLOSURES

The Company, has among other things, disclosed the following in 2015.

- The appointment of Mr. Joseph T. Chua to the Executive Committee.
- The declaration and distribution of regular Cash Dividend of Php0.15 per share to all stockholders of record which had a payout date of June 10, 2015.
- The endorsement by the Nomination and Remuneration Committee of the nominees to the Board of Directors for the year 2015-2016.
- The election of Directors and Officers for 2015-2016 and the appointment of the members for each Board Committee.

DISCLOSURE AND TIMING

The Company ensures that material information relating to the actions or decisions of the Board affecting the Company are disclosed to the investing public. The financial information and comprehensive disclosures are filed with the SEC and the Philippine Stock Exchange (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 Minutes of the Stockholders' Meeting is uploaded in the Company website within five days from the date of the meeting.

The Annual Report (SEC Form 17-A) together with the consolidated audited financial statements for 2015 was submitted to the SEC on April 14, 2016.

The Audited Financial Statements for 2015 contained in the Definitive Information Statements were submitted to the SEC and PSE on April 14, 2016, more than two months before the Annual Stockholders' 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 stock market through the analyst briefings held regularly or as soon as the financial results have been submitted to the regulators. In the briefings, members of Management were 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 a month and a per diem of Php25,000 for every Board meeting and Php15,000 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)	2016 (Estimate)	Php 7,678,00	Php 654,000	Php 3,085,500
	2015	Php 6,980,000	Php 595,000	Php 2,805,000
	2014	Php 9,169,800	Php 764,150	Php 2,290,000
All other officers and directors as a group unnamed	2016 (Estimate)	Php 2,881,065	Php 240,095	Php 8,464,500
	2015	Php 2,619,150	Php 218, 263	Php 7,695,000
	2014	Php 2,760,000	Php 230,000	Php 7,100,000

*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 is the Chairman of the Board of Directors and Chief Executive Officer (CEO).
2. Mr. Michael G. Tan is the President.
3. Atty. Ma. Cecilia Pesayco is the Corporate Secretary.
4. Ms. Juanita Tan Lee is the Treasurer

EXTERNAL AUDITOR

The external auditor of LT Group, Inc. is SGV & Co., (SGV) with Josephine Estomo as the partner-in-charge since 2012. The SGV has provided the Company with updates on 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
2015 - PHP 1,500,000.00

There was no tax consultancy obtained from SGV for the year 2015.

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 2015.

STAKEHOLDERS RELATIONS

Consistent with its Vision/Mission statements, the Company seeks to attain the level of relationship where the stockholders, employees, customers and trade partners are directly benefitted in 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

Even while the By-Laws of the Company provides that notices to any Stockholders meetings shall be sent at least 15 days prior to the date of the meeting, the Company strives to send the Notices to the Stockholders' Meetings at least 21 days prior to the date of the meeting. In 2015, the Management sent the Notices beginning May 27, 2015 or 27 days prior to the Stockholders' Meeting.

The Notice to the Stockholders contains the Agenda of the meeting and if it is an annual stockholders' meeting, the Definitive Information Statement accompanies said Notice in order to afford all stockholders the opportunity to review the performances of the Board and Management during the prior year and ask the questions if any, in regard thereto. The Definitive Information Statement indicates the major actions taken by the Board during the year which are subject to the confirmation of the Stockholders. 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 five 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 to the Office of the Corporate Secretary their proposed

nominees to the Board for proper consideration by the Nomination Committee during its meeting held not later than the end of April.

DIVIDENDS

Over the past years, the Company has consistently declared Dividends in accordance with the policy set by the Board, of a 20% payout rate. On May 12, 2015, the Company declared a cash dividend of Php0.15 per share, or a total of Php1.623 billion, equivalent to 36.8% of the previous year's attributable net income. The Dividends declared benefitted all common stockholders of record as of May 27, 2015 and the same were paid as of June 10, 2015, 29 days after it was approved and disclosed. The Company adheres strictly to the guidance of good corporate governance to distribute the Dividend within 30 days from the time it is approved and declared.

EMPLOYEE RELATIONS

The Company is committed to the safety and well-being of its employees and keeps open the lines of communications. The Company 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 such opportunities. There are numerous scholarship programs and study grants that employees can apply for and qualify in the group.

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

INVESTOR RELATIONS

LTG maintains open communications with the investing community to promote greater understanding of the Company. Reports to the SEC and PSE are disclosed on time, and are available for viewing and downloading in the Company's website, www.ltg.com.ph.

The Company conducts meetings regularly with investors and analysts to keep them updated on developments with LTG and its subsidiaries. LTG also arranges teleconferences and plant visits, and participates in non-deal roadshows and conferences in various locations arranged by several stockbrokerages. During these activities, investors and analysts have access to Senior Management. The Company also communicates through emails and telephone calls.

In 2015, LTG attended conferences and a non-deal roadshow with different brokers in Manila (3), Singapore (3), Hong Kong (1), London (1) and New York (1). LTG had 176 meetings with different funds during these conferences and roadshows. The Company also had 42 one-on-one meetings and 18 conference calls with several funds. Furthermore, during the year, personnel from 26 local and foreign funds visited the plant facilities of LTG's subsidiaries, specifically Asia Brewery and Tanduay Distillers.

LTG had four (4) Analyst Briefings during the 2015 calendar year, for Full Year 2014 Results, First Quarter 2015, First Half and Nine-Month Results. The briefing for Full Year 2015 Results was held on March 11, 2016. Aside from analysts of stockbrokerages, analysts from local funds also regularly attend LTG's briefings.

LTG issues Press Releases which are distributed to the media and disclosed to the PSE. These statements cover, but are not limited to, quarterly financial results and major events that have a significant impact on the operations or future prospects of the Company. Immediately after the Annual Stockholders' Meetings, the Company holds a press briefing where members of the media have access to LTG's Senior Management.

TAN YAN KEE FOUNDATION, INC.

Even as a young man, Dr. Lucio C. Tan has always believed in the value of sharing the fruits of one's labor. He himself was a beneficiary of the kindness and generosity of others especially during the Second World War and he never forgot to share his blessings with those in need. Hence, for more than 50 years now, Dr. Tan has actively pursued and funded various social welfare and development projects that seek to empower the poor and marginalized.

Through the Tan Yan Kee Foundation, Inc. (TYKFI) which he founded with his siblings in 1986, Dr. Tan and his family pursue the corporate social responsibility of the LT Group, Inc. (LTG) and other companies majority-owned by the family. The Foundation was named in honor of the late Tan Yan Kee, the family patriarch who instilled in his children the values of education, perseverance and benevolence.

Governed by a 15-man board, the Foundation has donated over Php1.5 billion to various social causes and philantropic activities since its inception. The Foundation and its partners pursue projects in education, health and social welfare, and environmental advocacies.

For the year 2015, the following were TYKFI's key contributions:

Education

Scholarships

University of the East-Tan Yan Kee Scholarship Program

For School Year 2015-2016, there were 79 new scholars and grantees at the University of the East and one at the UE Ramon Magsaysay Memorial Medical Center. The latest batch joins 191 continuing scholars and grantees. Since its creation in 1998, the UE-TYKFI Scholarship Program has benefited more than 1,300 scholars including 18 faculty members and 98 grantees. To date, the program has spent more than Php300 million in tuition and other school fees, books, uniform subsidy, monthly stipends and transportation allowances.

PNB-Tan Yan Kee Scholarship Program

For School Year 2015-2016, there were 162 scholars under this scholarship program enrolled in various colleges and universities. In March 2015, twelve graduated from their respective courses. To date, more than 1,000 scholars have benefited from this scholarship.

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 2015-2016, Dr. Jeremy James Munji was the latest scholar who qualified for post graduate studies on clinical fellowship training in Shoulder Arthroscopy and Shoulder Replacement Surgery at the Alps Surgery Institute in Annecy, France. 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.

School Infrastructure

Supporting government efforts to improve the quality of education, the Foundation completed the construction of the Chua King Ha Educational Center in Leyte province consisting of a five-classroom building in Alangalang I Central School and a four-classroom school building at the Sulpa National High School. Both schools suffered major damage during the onslaught of Super Typhoon Yolanda (Haiyan).

Brigada Eskwela

Continuing its support to the Department of Education's (DepEd) *Brigada Eskwela* program, TYKFI assisted in the maintenance of three schools in Sta. Cruz, Ilocos Sur, namely: Babayoan Elementary School, Nagtenga Elementary School and Sidaoen Elementary School. The Foundation donated paint for the roof, painting tools, glass for windows and furniture repair kits to spruce up the facilities in time for school opening.

Tan Yan Kee Library

Children ages 10 to 16 had a memorable summer as they joined the Tan Yan Kee Library Summer Cultural Classes from May 29 to June 7, 2015. Lessons in Chinese History, Culture and Literature were taught to improve the children's knowledge of history, communication skills and personality. Activities included reading and storytelling; understanding history and idioms; learning, understanding and appreciating Tang poetry; singing Chinese inspirational songs; art; composition writing, acting short plays, reporting, narrating poems and song interpretation; and learning and improving Mandarin and Fookien.

Tan Yan Kee Foundation, Inc. Manpower Development Center Workshops

'Ganda Mo, Hanapbuhay Ko' Livelihood Training Workshop

In partnership with the Ang Hortaleza Foundation, TYKFI conducted the second part of the Ganda Mo, Hanapbuhay Ko livelihood training program for a group of 17 trainees from Nueva Vizacaya. Held at the Ang Hortaleza Training Center in Valenzuela City, the trainees were given lectures and beauty enhancement lessons in Basic Facial Cleaning, Basic Hair Relaxing, and Salon Management. Part of their 11-day workshop was an actual demonstration of their newly acquired skills prior to graduation.

Motorcycle Repair Livelihood Training Program

In partnership with the Technical Education and Skills Development Authority (TESDA), the Foundation carefully picked 18 poor and unemployed residents of Alangalang, Leyte and two teachers from the Sulpa National High School for a 15-day motorcycle servicing training in Tacloban City. The workshop's goal is to provide technical skills in small engine servicing that would enable trainees to earn a decent living. Graduates of the course must undergo a 40-hour on-the-job-training to hone their skills prior to performing actual repair jobs.

Electrical Installation and Maintenance Course

In partnership with Christ's Commission Fellowship (CCF), nine out-of-school youth, including two females, were given 60 hours of training at the Meralco Foundation, Inc. to provide them with skills to interpret lighting and power schematic diagrams, use basic electrical measuring instruments and apply electrical safety principles and practices. This is the first collaboration between TYKFI and CCF.

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

Teacher Training

FUSE, a non-profit, non-governmental organization established by Dr. Tan in 1993, continued to receive support from TYKFI in 2015.

- On April 27 to May 1, 2015, 88 public elementary school teachers from various school districts in Region I underwent a "Train the Trainors" Program to hone their skills in English, Elementary Science and Mathematics. The program's goal is to improve and align teaching skills and techniques to the K-12 program so that teacher trainors would be able to guide fellow teachers when they return to their respective schools.

- Since 1993, FUSE has been training thousands of public and private school teachers how to teach better English, Math, Elementary Science, Chemistry and Physics. It also produced, in cooperation with

DepEd and other higher education institutions, the Continuing Education via Technology (Constec) video-courses. At the core of FUSE initiatives in 2015 is the government's K-12 program. FUSE seeks to align its teacher-training programs and supplemental materials with the 12-year basic education curriculum. In so doing, FUSE can ensure that its programs to raise the level of teaching and learning in Science, Mathematics and English effectively complement the K-12 curriculum.

Health Services

In 2015, the Foundation continued to sponsor and hold the monthly Asia Brewery Medical Forum. In partnership with Asia Brewery, Inc. (ABI) and the Association of Asia Brewery Medical Scholars, the medical forum covered various topics that provide laymen with better health information and the latest medical options. Some of the major topics discussed in 2015 were: Breast conservation surgery for early breast cancer; updates on Allergic Rhinitis; Approach on Diabetic Foot; Overcoming barriers and optimizing care for children with ADHD and autism; Dengue Myocarditis; and Allergic Rhinitis, Asthma and Sinusitis and how they are linked.

On April 11, 2015, more than 1,000 residents of Sta. Fe, Nueva Vizcaya availed of free medical services from the TYKFI's medical team and local volunteers. The Foundation also distributed free reading glasses, vitamins, antibiotics and medicines for pulmonary ailments, hypertension, fever and infections.

Social Welfare

Small Water Impounding Project (SWIP)

In June 2015, the Foundation finished construction of its tenth small water-impounding project. Located in Barangay Lasip, Lingayen, Pangasinan, the Php3.8 million Lasip Small Farm Reservoir is capable of storing 350,000 cubic meters of water that can irrigate 50 hectares of cultivated land.

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. To date, the Foundation has constructed and repaired 10 small water-impounding ponds at a cost of about Php23 million.

Dr. Lucio C. Tan Building – Barangay Holy Child Multi-Purpose Hall

Pursuing its three-year Rebuilding the Community Project in Alangalang, Leyte, the Foundation officially turned over to the residents of Barangay Holy Child II, a multi-purpose edifice that would serve as their barangay hall, day care facility and health clinic. Named after Dr. Lucio Tan, the barangay hall is part of the Foundation's plan to help revive communities devastated by Super Typhoon Yolanda. Aside from the barangay hall and school buildings in Alangalang, the Foundation also built 57 housing units for more than 300 residents of Barangay 89 in Tacloban City.

Legacy Forest Project

In pursuit of the Dr. Lucio C. Tan Legacy Forest project, the Foundation and some partners planted 1,000 mangrove seedlings in Boracay Island last May 2015. This is part of a bigger undertaking to plant 15 million trees in 10 years. Nurseries were set up in the Laguna-Quezon land grants of UP Los Baños, where seeds and wildlings were collected, sowed and germinated. The seedling inventory totals approximately 1.1 million.

LT GROUP, INC.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of LT Group, Inc. is responsible for the preparation and fair presentation of the consolidated financial statements for each of the three years in the period ended December 31, 2015, 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 12th day of April 2016

INDEPENDENT AUDITOR'S REPORT

SGV
Building a better working world

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

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

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, 2015 and 2014, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2015, 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, 2015 and 2014 and their financial performance and their cash flows for each of the three years in the period ended December 31, 2015, 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 April 30, 2016
Tax Identification No. 102-086-208
BIR Accreditation No. 08-001998-18-2015,
 February 27, 2015, valid until February 26, 2018
PTR No. 5321634, January 4, 2016, Makati City

April 12, 2016

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

CONSOLIDATED BALANCE SHEETS
(Amounts in Thousands)

	December 31	
	2015	2014
ASSETS		
Current Assets		
Cash and cash equivalents (Note 5)	**P137,556,341**	P147,275,490
Financial assets at fair value through profit or loss (Notes 6 and 21)	**9,663,734**	22,811,921
Available for sale investments (Notes 7 and 17)	**2,915,170**	3,774,286
Loans and receivables (Notes 8 and 17)	**172,140,625**	143,653,521
Due from related parties (Note 22)	**1,593,034**	1,797,390
Inventories (Note 9)	**14,024,047**	12,936,865
Other current assets (Notes 7 and 10)	**8,841,923**	7,886,609
	346,734,874	340,136,082
Assets of disposal group classified as held for sale (Note 37)	**23,526,757**	–
Total Current Assets	**370,261,631**	340,136,082
Noncurrent Assets		
Loans and receivables - net of current portion (Notes 8 and 17)	**206,782,709**	187,438,860
AFS investments (Notes 7 and 17)	**66,649,517**	60,039,059
Held to maturity investments (Notes 7 and 10)	**23,096,473**	22,895,493
Investments in associates and a joint venture (Note 11)	**11,761,290**	12,297,509
Property, plant and equipment (Note 12):		
At appraised values	**39,538,145**	38,470,525
At cost	**5,299,731**	3,975,397
Investment properties (Note 13)	**22,231,525**	27,197,933
Deferred income tax assets (Note 29)	**551,237**	717,218
Other noncurrent assets (Note 14)	**3,380,244**	3,665,132
Total Noncurrent Assets	**379,290,871**	356,697,126
TOTAL ASSETS	**P749,552,502**	P696,833,208

LIABILITIES AND EQUITY		
Current Liabilities		
Deposit liabilities (Note 15)	**P436,362,854**	P411,391,378
Financial liabilities at fair value through profit or loss (Notes 16 and 21)	**126,075**	10,837,220
Bills and acceptances payable (Note 17)	**5,836,839**	6,640,221
Accounts payable and accrued expenses (Note 18)	**17,079,820**	15,785,151
Income tax payable	**294,581**	326,282
Short-term and long-term debts - current (Note 19)	**1,876,015**	5,806,123
Due to related parties (Note 22)	**46,770**	49,859
Other current liabilities (Notes 20 and 38)	**13,249,643**	18,310,229
	474,872,597	469,146,463
Liabilities of disposal group classified as held for sale (Note 37)	**21,452,621**	–
Total Current Liabilities (Carried Forward)	**496,325,218**	469,146,463

	December 31	
	2015	2014
Total Current Liabilities (Brought Forward)	**P496,325,218**	P469,146,463
Noncurrent Liabilities		
Deposit liabilities - net of current portion (Note 15)	**39,793,338**	23,468,731
Financial liabilities at fair value through profit or loss (Notes 16 and 21)	**9,118**	24,805
Bills and acceptances payable (Note 17)	**19,915,383**	12,409,837
Long-term debts - net of current portion (Note 19)	**10,706,431**	11,291,321
Accrued retirement benefits (Note 23)	**3,900,926**	3,776,261
Deferred income tax liabilities (Note 29)	**1,182,976**	1,355,247
Other noncurrent liabilities (Note 20)	**7,961,017**	12,638,349
Total Noncurrent Liabilities	**83,469,189**	64,964,551
Total Liabilities	**579,794,407**	534,111,014
Equity		
Attributable to equity holders of the Company (Notes 1, 7, 12, 23, 24, 30 and 36):		
Capital stock	**10,821,389**	10,821,389
Capital in excess of par	**35,906,231**	35,906,231
Preferred shares of subsidiaries issued to Parent Company	**18,060,000**	18,060,000
Other equity reserves	**804,095**	790,136
Reserves of disposal group classified as held for sale (Note 37)	**335,000**	–
Other comprehensive income, net of deferred income tax effect	**3,116,572**	4,582,667
Retained earnings	**59,855,195**	54,079,986
Shares of the Company held by subsidiaries	**(22,464)**	(12,518)
	128,876,018	124,227,891
Non-controlling interests (Notes 1, 7, 12 and 30)	**40,882,077**	38,494,303
Total Equity	**169,758,095**	162,722,194
TOTAL LIABILITIES AND EQUITY	**P749,552,502**	P696,833,208

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		
	2015	2014 (As restated, Note 37)	2013 (As restated, Note 37)
REVENUE (Note 24)			
Banking	**P26,600,160**	P24,210,181	P28,560,739
Beverage	**13,286,994**	13,288,369	12,701,784
Distilled spirits	**12,002,266**	11,919,131	10,425,603
Tobacco (Note 11)	**–**	–	151,722
Property development	**2,484,453**	2,278,600	3,656,950
	54,373,873	51,696,281	55,496,798
COST OF SALES AND SERVICES (Note 24)	**24,880,372**	24,739,378	25,687,269
GROSS INCOME	**29,493,501**	26,956,903	29,809,529
EQUITY IN NET EARNINGS OF ASSOCIATES (Note 11)	**1,188,974**	894,555	3,704,117
	30,682,475	27,851,458	33,513,646
OPERATING EXPENSES			
Selling expenses (Note 25)	**2,644,096**	2,746,640	2,776,946
General and administrative expenses (Note 26)	**20,808,315**	21,068,078	20,397,317
	23,452,411	23,814,718	23,174,263
OPERATING INCOME	**7,230,064**	4,036,740	10,339,383
OTHER INCOME (CHARGES)			
Foreign exchange gains - net	**1,322,400**	1,347,704	1,255,582
Finance costs (Note 27)	**(202,518)**	(454,855)	(480,892)
Finance income (Note 27)	**110,376**	119,041	139,093
Others - net (Note 28)	**3,257,223**	3,805,059	2,103,605
	4,487,481	4,816,949	3,017,388
INCOME BEFORE INCOME TAX	**11,717,545**	8,853,689	13,356,771
PROVISION FOR INCOME TAX (Note 29)			
Current	**2,359,527**	2,276,204	2,479,063
Deferred	**219,295**	369,443	(400,676)
	2,578,822	2,645,647	2,078,387
NET INCOME FROM CONTINUING OPERATIONS	**9,138,723**	6,208,042	11,278,384
NET INCOME FROM DISCONTINUED OPERATIONS (Note 37)	**357,931**	264,164	196,680
NET INCOME	**P9,496,654**	P6,472,206	P11,475,064
NET INCOME ATTRIBUTABLE TO:			
Equity holders of the Company	**6,599,035**	4,410,230	8,669,220
Non-controlling interests	**2,897,619**	2,061,976	2,805,844
	P9,496,654	P6,472,206	P11,475,064
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Company (Note 31)	**P0.61**	P0.41	P0.85
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Company from Continuing Operations (Note 31)	**P0.58**	P0.39	P0.83

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		
	2015	2014	2013
NET INCOME	**P9,496,654**	P6,472,206	P11,475,064
OTHER COMPREHENSIVE INCOME (LOSS)			
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:			
Net changes in fair value of AFS investments (Note 7)	**(1,098,424)**	551,055	(5,561,739)
Income tax effect	**3,311**	1,383	84,034
	(1,095,113)	552,438	(5,477,705)
Translation adjustments	**662,775**	(275,448)	1,607,973
Net other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods	**(432,338)**	276,990	(3,869,732)
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:			
Re-measurement gains on defined benefit plans (Note 23)	**(50,010)**	(1,047,515)	(369,329)
Income tax effect	**7,679**	(53,628)	24,318
	(42,331)	(1,101,143)	(345,011)
Share in re-measurement gain on defined benefit plans of an associate (Note 11)	**–**	–	27,453
Revaluation increment (decrement) on property, plant and equipment (Note 12)	**(518,611)**	–	1,300,593
Income tax effect	**158,448**	–	(390,178)
	(360,163)	–	910,415
Net other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods	**(402,494)**	(1,101,143)	592,857
OTHER COMPREHENSIVE LOSS, NET OF TAX	**(834,832)**	(824,153)	(3,276,875)
TOTAL COMPREHENSIVE INCOME	**P8,661,822**	P5,648,053	P8,198,189
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Equity holders of the Company	**P6,266,724**	P3,816,532	P6,702,822
Non-controlling interests	**2,395,098**	1,831,521	1,495,367
	P8,661,822	P5,648,053	P8,198,189

See accompanying Notes to Consolidated Financial Statements.

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 and 2013
(Amounts in Thousands)

	Attributable to Equity Holders of the Company (Notes 1, 7, 12, 24, 30 and 36)																	
							Other Comprehensive Income (Loss)											
	Capital Stock	Capital in Excess of Par	Deposit for Future Stock Subscription	Preferred Shares of Subsidiaries Issued to Parent Company	Other Equity Reserves	Reserves of Disposal Group Classified as Held for Sale	Accumulated Translation Adjustments	Net Changes in AFS Investments (Note 7)	Re-Measurement Gains (Losses) on Defined Benefit Plans (Note 23)	Revaluation Increment on Property Plant and Equipment (Note 12)	Revaluation Increment on Property Plant and Equipment Transferred to Associate (Notes 2, 11 and 12)	Re-measurement Gains on Defined Benefit Plans of an Associate (Note 11)	Total Other Comprehensive Income (Loss), Net of Deferred Income Tax Effect	Retained Earnings	Shares of the Company Held by Subsidiaries	Total	Non-controlling Interests (Notes 1, 7, 12 and 30)	Total
BALANCES AT DECEMBER 31, 2012	**P8,981,389**	**P1,173,772**	**P–**	**P–**	**P987,057**	**P–**	**(P397,679)**	**P2,087,609**	**(P606,696)**	**P6,810,285**	**P1,363,643**	**P–**	**P9,257,162**	**P42,268,202**	**(P12,518)**	**P62,655,064**	**P31,051,046**	**P93,706,110**
Net income for the year	–	–	–	–	–	–	–	–	–	–	–	–	–	8,669,220	–	8,669,220	2,805,844	11,475,064
Other comprehensive income (loss)	–	–	–	–	–	–	696,922	(2,963,582)	(217,159)	490,083	–	27,338	(1,966,398)	–	–	(1,966,398)	(1,310,477)	(3,276,875)
Total comprehensive income (loss) for the year	–	–	–	–	–	–	696,922	(2,963,582)	(217,159)	490,083	–	–	(1,966,398)	8,669,220	–	6,702,822	1,495,367	8,198,189
Issuance of capital stock	1,840,000	35,880,000	–	–	–	–	–	–	–	–	–	–	–	–	–	37,720,000	–	37,720,000
Issuance of preferred shares of subsidiaries	–	–	6,048,534	7,405,000	–	–	–	–	–	–	–	–	–	–	–	13,453,534	–	13,453,534
Stock issue costs	–	(1,147,541)	–	–	–	–	–	–	–	–	–	–	–	–	–	(1,147,541)	–	(1,147,541)
Acquisition of shares of subsidiaries from the Controlling Shareholders	–	–	–	–	(196,921)	–	–	–	–	–	–	–	–	–	–	(196,921)	–	(196,921)
Business combination adjustments	–	–	–	–	–	–	–	–	–	–	–	–	–	(29,094)	–	(29,094)	(247,112)	(276,206)
Cash dividends declared	–	–	–	–	–	–	–	–	–	–	–	–	–	(1,622,349)	–	(1,622,349)	(64,216)	(1,686,565)
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	–	–	–	–	–	–	–	–	–	(922,180)	(297,785)	–	(1,219,965)	1,219,965	–	–	–	–
BALANCES AT DECEMBER 31, 2013	**10,821,389**	**35,906,231**	**6,048,534**	**7,405,000**	**790,136**	**–**	**299,243**	**(875,973)**	**(823,855)**	**6,378,188**	**1,065,858**	**27,338**	**6,070,799**	**50,505,944**	**(12,518)**	**117,535,515**	**32,235,085**	**149,770,600**
Net income for the year	–	–	–	–	–	–	–	–	–	–	–	–	–	4,410,230	–	4,410,230	2,061,976	6,472,206
Other comprehensive income (loss)	–	–	–	–	–	–	(155,545)	125,559	(563,712)	–	–	–	(593,698)	–	–	(593,698)	(230,455)	(824,153)
Total comprehensive income (loss) for the year	–	–	–	–	–	–	(155,545)	125,559	(563,712)	–	–	–	(593,698)	4,410,230	–	3,816,532	1,831,521	5,648,053
Issuance of preferred shares of subsidiaries	–	–	(6,048,534)	10,655,000	–	–	–	–	–	–	–	–	–	–	–	4,606,466	–	4,606,466
Capital contribution of non-controlling interest	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	4,427,697	4,427,697
Cash dividends declared	–	–	–	–	–	–	–	–	–	–	–	–	–	(1,730,622)	–	(1,730,622)	–	(1,730,622)
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	–	–	–	–	–	–	–	–	–	(596,649)	(297,785)	–	(894,434)	894,434	–	–	–	–
BALANCES AT DECEMBER 31, 2014	**P10,821,389**	**P35,906,231**	**P–**	**P18,060,000**	**P790,136**	**P–**	**P143,698**	**(P750,414)**	**(P1,387,567)**	**P5,781,539**	**P768,073**	**P27,338**	**P4,582,667**	**P54,079,986**	**(P12,518)**	**P124,227,891**	**P38,494,303**	**P162,722,194**

	Capital Stock	Capital in Excess of Par	Deposits for Future Stock Subscription	Preferred Shares of Subsidiaries Issued to Parent Company	Other Equity Reserves	Reserves of Disposal Group Classified as Held for Sale	Accumulated Translation Adjustments	Net Changes in AFS Investments (Note 7)	Re-Measurement Gains (Losses) on Defined Benefit Plans (Note 23)	Revaluation Increment on Property Plant and Equipment (Note 12)	Revaluation Increment on Property Plant and Equipment Transferred to Associate (Notes 2, 11 and 12)	Re-measurement Gains on Defined Benefit Plans of an Associate (Note 11)	Total Other Comprehensive Income (Loss), Net of Deferred Income Tax Effect	Retained Earnings	Shares of the Company Held by Subsidiaries	Total	Non-controlling Interests (Notes 1, 7, 12 and 30)	Total
	Attributable to Equity Holders of the Company (Notes 1, 7, 12, 24, 30 and 36)						Other Comprehensive Income (Loss)											
BALANCES AT DECEMBER 31, 2014 (BROUGHT FORWARD)	**P10,821,389**	**P35,906,231**	**P–**	**P18,060,000**	**P790,136**	**P–**	**P143,698**	**(P750,414)**	**(P1,387,567)**	**P5,781,539**	**P768,073**	**P27,338**	**P4,582,667**	**P54,079,986**	**(P12,518)**	**P124,227,891**	**P38,494,303**	**P162,722,194**
Net income for the year	–	–	–	–	–	–	–	–	–	–	–	–	–	6,599,035	–	6,599,035	2,897,619	9,496,654
Other comprehensive income (loss)	–	–	–	–	–	–	379,660	(348,779)	(3,029)	(360,163)	–	–	(332,311)	–	–	(332,311)	(502,521)	(834,832)
Total comprehensive income (loss) for the year	–	–	–	–	–	–	379,660	(348,779)	(3,029)	(360,163)	–	–	(332,311)	6,599,035	–	6,266,724	2,395,098	8,661,822
Stock issue cost	–	–	–	–	–	–	–	–	–	–	–	–	–	(213)	–	(213)	–	(213)
Acquisition of shares of subsidiaries from the Controlling Shareholders	–	–	–	–	14,502	–	–	–	–	–	–	–	–	–	–	14,502	–	14,502
Acquisition of non-controlling interest	–	–	–	–	(543)	–	–	–	–	–	–	–	–	–	–	(543)	–	(543)
Acquisition of shares by subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(9,946)	(9,946)	–	(9.946)
Cash dividends declared	–	–	–	–	–	–	–	–	–	–	–	–	–	(1,622,397)	–	(1,622,397)	(7,324)	(1,629,721)
Reserves disposal group classified as held for sale	–	–	–	–	–	335,000	–	(348,786)	13,786	–	–	–	(335,000)	–	–	–	–	–
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	–	–	–	–	–	–	–	–	–	(501,001)	(297,783)	–	(798,784)	798,784	–	–	–	–
BALANCES AT DECEMBER 31, 2015	**P10,821,389**	**P35,906,231**	**P–**	**P18,060,000**	**P804,095**	**P335,000**	**P523,358**	**(P1,447,979)**	**(P1,376,810)**	**P4,920,375**	**P470,290**	**P27,338**	**P3,116,572**	**P59,855,195**	**(P22,464)**	**P128,876,018**	**P40,882,077**	**P169,758,095**

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		
	2015	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax from continuing operations	**P11,717,545**	P8,853,689	P13,356,771
Income before income tax from discontinued operations (Note 37)	**402,236**	307,335	227,123
Income before income tax	**12,119,781**	9,161,024	13,583,894
Adjustments for:			
Depreciation and amortization (Notes 12, 13 and 14)	**3,452,518**	3,554,992	4,034,210
Provision for losses (Note 8)	**865,889**	2,207,864	979,839
Gain on disposal of:			
AFS investments (Notes 7 and 28)	**(2,928)**	(245,216)	(290,505)
Other assets (Notes 12, 13 and 28)	**(1,562,020)**	(1,889,744)	(528,632)
Equity in net earnings of associates (Note 11)	**(1,188,974)**	(894,555)	(3,704,117)
Share in losses of joint venture (Notes 10 and 28)	**2,067**	46,043	20,091
Marked-to-market gain on financial assets at fair value through profit or loss (Note 28)	**42,383**	32,351	–
Finance costs (Note 27)	**202,518**	454,855	480,892
Finance income (Note 27)	**(110,376)**	(119,041)	(139,093)
Dividend income (Note 28)	**(22,464)**	(10,912)	(19,123)
Movement in accrued retirement benefits (Note 23)	**83,058**	2,081,913	(451,688)
Operating income before changes in working capital	**13,881,452**	14,379,574	13,965,768
Decrease (increase) in:			
Financial assets at fair value through profit or loss	**(1,019,885)**	(10,255,769)	2,584,199
Receivables	**(49,118,548)**	(44,955,219)	(33,367,165)
Inventories	**(2,299,582)**	(2,656,906)	(41,504)
Other current assets	**(125,447)**	(2,247,938)	(1,323,412)
Increase (decrease) in:			
Deposit liabilities	**41,296,083**	8,718,031	47,394,292
Financial liabilities at fair value through profit or loss	**2,956,106**	2,787,130	(2,250,568)
Accounts payable and accrued expenses	**1,515,018**	(4,285,023)	1,748,626
Other current and noncurrent liabilities	**(2,337,872)**	3,752,493	7,953,877
Cash generated from (used in) operations	**4,747,325**	(34,763,627)	36,664,113
Dividends received (Notes 11, 22 and 28)	**1,718,432**	3,371,564	3,980,680
Interest received	**94,872**	143,541	114,551
Income taxes paid, including creditable withholding and final taxes	**(3,105,763)**	(3,615,343)	(3,013,291)
Net cash from (used in) operating activities	**3,454,866**	(34,863,865)	37,746,053
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of:			
AFS investments (Note 7)	**(15,078,720)**	(65,693,182)	(122,879,759)
Held to maturity investments	**(1,470,378)**	(571,602)	–
Property, plant and equipment (Note 12)	**(5,036,289)**	(2,534,580)	(3,081,169)
Shares and convertible notes of an associate (Note 11)	**–**	(772,864)	–
Investment properties (Note 13)	**(540,417)**	(2,608,825)	(3,706,501)
Software (Note 14)	**(124,176)**	(419,809)	(238,687)
Return of investment from a joint venture (Note 11)	**27,157**	–	–
Proceeds from sale of:			
AFS investments (Note 7)	**1,502,928**	63,499,326	135,126,488
Other assets (Notes 12 and 13)	**8,320,764**	2,434,543	3,956,509
Advances granted to affiliates (Note 22)	**–**	–	(1,755,327)
Net cash from (used in) investing activities	**(12,399,131)**	(6,666,993)	7,421,554
CASH FLOWS FROM FINANCING ACTIVITIES			
Availment (payment) of short-term debts (Note 19)	**1,100,000**	–	(1,320,000)
Proceeds from (payments of) bill and acceptance payable (Note 17)	**6,702,164**	2,000,841	(5,270,255)
Availments of long-term debts (Note 19)	**–**	500,000	2,490,120
Payments of long-term debts (Note 19)	**(5,000,000)**	(1,623,537)	(5,193,900)
Payment of finance cost	**(802,545)**	(402,750)	(572,048)
Proceeds from issuance of shares (Note 30)	**–**	–	37,720,000
Payment of stock issue costs (Note 30)	**–**	–	(1,147,541)
Capital contribution of non-controlling interest (Note 30)	**–**	4,427,697	–
Acquisition of non-controlling interest (Note 30)	**(601,772)**	–	–
Proceeds from sale of non-controlling interest (Note 30)	**102,623**	–	–
Dividends paid (Note 30)	**(1,629,721)**	(1,730,622)	(1,685,349)
Advances from affiliates (Note 22)	**–**	–	733,138
Payment of due to related parties (Note 22)	**(3,089)**	(2,684,943)	(9,223,000)
Net cash from (used in) financing activities	**(132,340)**	486,686	16,531,165
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(9,076,605)**	(41,044,172)	61,698,772
CASH IN DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE (Note 37)	**(642,544)**	–	–
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**147,275,490**	188,319,662	126,620,890
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	**P137,556,341**	P147,275,490	P188,319,662

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 Statements

Corporate Information

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

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

As of December 31, 2015 and 2014, 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 in 2011 was 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 Placement and Subscription Transaction involving the sale by Tangent of up to, but not exceeding 3,000,000,000 common shares of LTG registered in its name to investors by way of a follow-on offering at a placing price to be determined through a book building exercise to be hereafter conducted (the "Placing Tranche") and the subsequent subscription by Tangent using the proceeds of the Placing Tranche (net of expenses incurred in the Placing Tranche) to new shares of LTG in an amount equivalent to the number of shares sold during the Placing Tranche at an issue price equivalent to the placing price (the "Subscription Tranche"). The total number of the shares subject of the Placing Tranche shall be determined based on investor demand as determined through a book building exercise, provided the same shall not exceed 3,000,000,000 shares and the total number of subscription shares shall not exceed the shares sold in the Placing Tranche. The BOD was granted authority to determine such other terms and conditions of the transaction as may be most beneficial to LTG, including (but not limited to) the timing of the same and total funds to be raised therefrom. Further, the subscription shares shall be listed with the PSE.

In April 2013, Tangent sold 1.84 billion shares to the public and agreed to subscribe to the same number of shares newly issued by LTG. The entire proceeds from the sale of LTG's shares was used by Tangent as payment for the subscription to new shares amounting to 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%.

Corporate Restructuring

Consolidation of Businesses under LTG

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

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 owns 82.66% of FTC.

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%.

On September 30, 2015, upon approval by the Philippine SEC of the increase in authorized capital stock of Eton from 5.0 billion common shares to 8.0 billion common shares with a par value of 1.00 per share, at least 25% of the increase in authorized capital stock or 750,000,000 common shares have been subscribed by Saturn and Paramount resulting in the increase of ownership interest to 56.9% and 42.7%, respectively, thus LTG's effective ownership interest in Eton increased from 99.3% to 99.6% in 2015.

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 was effected via a share-for-share exchange with PNB as the surviving entity. PNB issued to ABC shareholders 130 PNB common shares for every

ABC common share and 22,763 PNB common shares for every ABC preferred share. As of January 17, 2013, PNB 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 is 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 was 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 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 Philippine SEC for the increase in authorized capital stock of certain Bank Holding Companies, LTG 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, 2015 and 2014, 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, 2015 and 2014 and for each of the three years in the period ended December 31, 2015 were authorized for issue by the BOD on April 12, 2016.

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						
	2015		2014		2013		Country of
	Direct	**Indirect**	Direct	Indirect	Direct	Indirect	Incorporation
Distilled Spirits							Philippines
TDI and subsidiaries	**100.0**	**–**	100.00	–	100.0	–	Philippines
Absolut Distillers, Inc. (ADI)	**–**	**95.0**	–	95.0	–	95.0	Philippines
Asian Alcohol Corporation (AAC)	**–**	**96.0**	–	96.0	–	96.0	Philippines
Tanduay Brands International, Inc. (TBI)(1)	**100.0**	**–**	100.0	–	100.0	–	Philippines
Beverages							Philippines
ABI and subsidiaries	**99.9**	**–**	99.9	–	99.9	–	Philippines
Agua Vida Systems, Inc.	**–**	**99.9**	–	99.9	–	99.9	Philippines
Interbev	**–**	**99.9**	–	99.9	–	99.9	Philippines
Waterich	**–**	**99.9**	–	99.9	–	99.9	Philippines
Packageworld	**–**	**99.9**	–	99.9	–	99.9	Philippines
AB Nutribev Corp.(2)	**–**	**99.9**	–	99.9	–	–	Philippines
Asia Pacific Bev PTE (3)	**–**	**99.9**	–	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	**–**	**99.6**	–	99.3	–	99.3	Philippines
Belton Communities, Inc. (BCI)	**–**	**99.6**	–	99.3	–	99.3	Philippines
Eton City, Inc. (ECI)	**–**	**99.6**	–	99.3	–	99.3	Philippines
FirstHomes, Inc. (FHI)	**–**	**99.6**	–	99.3	–	99.3	Philippines
Eton Properties Management Corporation (EPMC)	**–**	**99.6**	–	99.3	–	99.3	Philippines
Banking							
Bank Holding Companies (Note 23) (4)	**80.0-100.0**	**–**	**80.0-100.0**	–	80.0-100.0	–	Various
PNB and Subsidiaries(5)	**–**	**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 (PNB 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. (PNBRCI)	**–**	**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) (6)	**–**	**–**	–	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	**–**	**55.9**	–	50.8	–	50.8	People's Republic of China
PNB Life Insurance, Inc. (PLII)(7)	**–**	**45.2**	–	45.2	–	45.2	Philippines
Allied Leasing and Finance Corporation (ALFC)	**–**	**32.3**	–	32.3	–	32.3	Philippines
Allied Banking Corporation (Hong Kong) Limited (ABCHKL)	**–**	**28.8**	–	28.8	–	28.8	Hong Kong
ACR Nominees Limited	**–**	**28.8**	–	28.8	–	28.8	Hong Kong
Oceanic Holdings (BVI) Ltd. (OHBVI)	**–**	**15.7**	–	15.7	–	15.7	USA

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

(2) On February 3, 2014, the Beverage segment's BOD approved the subscription of the 124,999,995 shares of AB Nutribev Corp. at 1.00 per value per share.

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

(4) As of December 31, 2015 and 2014, 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).

(5) 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.

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

(7) Beginning December 18, 2015, assets and liabilities of PNB LII as of December 31, 2015 have been reclassified as disposal group classified as held for sale and the results of its operations for each of the three years in the period ended December 31, 2015 have been reclassified as discontinued operations, following the approval of PNB's BOD disposing 51.00% of its ownership interest in PNB LII to Allianz SE (see Note 37).

Subsidiaries are entities over which the Company has control. 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.

<u>Business Combination and Goodwill</u>
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 consolidated 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 the 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, 2015. The nature and impact of each new standard and amendment is described below:

- PAS 19, *Employee Benefits - Defined Benefit Plans: Employee Contributions* (Amendments) PAS 19 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 not relevant to the Group since it does not have defined benefit plans with contributions from employees or third parties.

Annual Improvements to PFRSs (2010-2012 cycle)
These improvements are effective from July 1, 2014 and the Group has applied these amendments for the first time in the Group's consolidated financial statements. These amendments are either not relevant or have no impact on the consolidated financial statements.

- 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. 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 have no material impact to 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).

New Accounting Standards, Interpretations and Amendments to Existing Standards Effective Subsequent to December 31, 2015
The Group will adopt the standards, amendments and interpretations enumerated below when these become effective. Except as otherwise indicated, the G roup 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 consolidated financial statements when these become effective.

Deferred

- 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 Philippine SEC and the FRSC have deferred the effectivity of this interpretation until the final Revenue standard is issued by the IASB and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date once locally adopted.

- Amendments to PFRS 10 and PAS 28 - *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*. These amendments address an acknowledged inconsistency between the requirements in PFRS 10 and those in PAS 28 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. On January 13, 2016, the FRSC postponed the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures. The Group will consider these amendments for future sale or contribution of assets of the Group to its associates and joint venture.

Effective on January 1, 2016

- Amendments to PFRS 10, *Consolidated Financial Statements, PFRS 12, Disclosure of Interests in Other Entities and PAS 28, Investments in Associates and Joint Ventures - Investment Entities: Applying the Consolidation Exception*
  The amendments address issues that have arisen in applying the investment entities exception under PFRS 10. The amendments to PFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

  Furthermore, the amendments to PFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to PAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

- PAS 27, *Separate Financial Statements - Equity Method in Separate Financial Statements* (Amendments). The amendments 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 an impact on the consolidated financial statements. However, in the separate financial statements, the Company will continue to account for its investments in associates and joint venture using the cost method.

- PFRS 11, *Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations* (Amendments). The amendments to PFRS 11 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 remeasured 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. The Group will consider these amendments for future transactions.

- PFRS 14, *Regulatory Deferral Accounts*. PFRS 14 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.

- Amendments to PAS 1, *Presentation of Financial Statements - Disclosure Initiative*
  The amendments to PAS 1 clarify, rather than significantly change, existing PAS 1 requirements. The amendments clarify:

  - The materiality requirements in PAS 1
  - That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
  - That entities have flexibility as to the order in which they present the notes to financial statements
  - That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

  Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI.

• PAS 16, *Property, Plant and Equipment, and PAS 38, Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortization* (Amendments). The amendments 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 since it does not use a revenue-based method to depreciate its non-current assets.

• PAS 16, *Property, Plant and Equipment, and PAS 41, Agriculture -Bearer Plants* (Amendments). The amendments 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 it does not have any bearer plants.

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*. The amendment 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*. PFRS 7 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*. This amendment 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*. This amendment 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"*. The amendment 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 in 2018

• PFRS 9, *Financial Instruments*. In July 2014, the final version of PFRS 9, Financial Instruments, was issued. 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.

• International Financial Reporting Standard (IFRS) 15, *Revenue from Contracts with Customers*. IFRS 15 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, 2018 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date once adopted locally.

Effective in 2019

• PFRS 16, *Leases*. The new standard introduces major changes in lease accounting. Under PFRS 16, lessees will no longer classify their leases as operating or finance leases in accordance with PAS 17, Leases. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the leased assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less for which the underlying asset is of low value are exempted from these requirements.

The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

PFRS 16 will replace PAS 17 and supersede the related interpretations. Earlier application is not permitted until the FSRC has adopted the new revenue recognition standard.

The Group is currently assessing the impact of PFRS 16.

The Group continues to assess the impact of the above new and amended accounting standards and interpretations effective subsequent to 2015 on the Group's consolidated financial statements in the period of initial application. Additional disclosures required by these amendments will be included in the consolidated financial statements when these amendments are adopted.

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 associates and a 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 associates' 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 associates 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 associates and joint venture are eliminated to the extent of the interest in the associates 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 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 associates 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.

Non-current Assets and Disposal Group Classified as Held for Sale and Discontinued Operations

The Group classifies non-current assets and disposal group as held for sale if their carrying amounts will be recovered principally through a sale transaction. Such non-current assets and disposal groups are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the sale, excluding the finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the sale expected within one year from the date of the classification.

Assets and liabilities of disposal group classified as held for sale are presented separately in the consolidated statements of financial position.

The Group accounts for any investment to be retained over the disposal group at cost and presents it as part of 'Investment in subsidiaries' in the consolidated balance sheet.

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or
- Is a subsidiary acquired exclusively with a view to resale

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of 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 advantage 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 of 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 of input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level of 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 of 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" under "Revenue - banking" account. 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" under "Revenue - banking" account. Interest earned or incurred is recorded in "Interest income" or "Interest expense", respectively, while dividend income is recorded in "Others - net" 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 following two 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

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 of 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. The Group assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Group and all of the counterparties.

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, accredited and 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.

Returnable 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 or lease term, whichever is shorter
Transportation equipment	2 - 5
Returnable containers	5 - 7
Furniture, fixtures and other equipment	3 - 20

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.

<u>Investment Properties</u>
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.

<u>Other Properties Acquired</u>
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 balance sheet 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, plant 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.

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 Group. When the Group 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.

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).

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.

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 associates.

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.

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 Group.

Deposit for stock subscription represents the amount received which will be applied as payment in exchange for a fixed number of the Company's own equity instruments. It is classified as an equity item if there is sufficient unissued authorized capital stock, or if in case the unissued authorized capital stock is insufficient to cover the amount of the deposit, (1) the BOD and stockholders have approved a proposed increase in authorized capital stock for which a deposit was received, and (2) the proposed increase was filed with the Philippine SEC. Otherwise, the deposit is classified as a liability.

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".

The aggregate reserve for life policies represents the accumulated total liability for policies in force on the reporting 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 (IBNR) losses
Outstanding claims provisions are based on the estimated ultimate cost to all claims incurred but not settled at the end of the reporting period, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of which cannot be known with certainty at the end of the reporting period. The liability is not discounted for the time value of money and includes provision for IBNR. No provision for equalization or catastrophic reserves is recognized. The liability is derecognized when the contract has expired, 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 and materials and supplies	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 and materials and supplies, NRV is current replacement cost.

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 except for the following entities with functional currency other than the Philippine Peso:

Subsidiary	Functional Currency
PNB Guam	United States Dollar
PNB IIC	-do-
PNB RCI	-do-
Nevada	-do-
PNB RCI Holding Co. Ltd.	-do-
ACB	-do-
Oceanic Holding (BVI) Ltd.	-do-
ABUK	Great Britain Pound
PNB Europe PLC	-do-
Canada	Canadian Dollar
PNB GRF	Hongkong Dollar
ABCHKL	-do-
ACR Nominees Limited	-do-

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. 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 of 70.56% arising from its direct ownership of 27.78% and assigned voting rights of 42.78% by certain stockholders to the Group.

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, 2015 and 2014, the ownership of the Group in VMC is 22.5% and 20.2%, respectively, after a series of conversions 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 as equity as of December 31, 2015 and 2014 (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 2015, 2014 and 2013.

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 38).

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 38).

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, 2015 and 2014, 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, 2015 and 2014, investment in unquoted shares of stock amounted to P1.2 billion and P1.0 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.

Determination of whether the assets and liabilities of disposal group are classified as held for sale
On December 21, 2015, PNB entered into a 15-year exclusive partnership with Allianz SE (Singapore Branch) and for the latter to acquire 51.00% of PNB LII, the life insurance subsidiary of PNB. The disposal is considered to meet the criteria to be classified as held for sale for the following reasons:

- Allianz SE will acquire 12,750 shares representing 51.00% stockholdings of PNB LII and will have management control over PNBLII;
- PNB LII shares are available for immediate sale and can be sold in its current condition, subject to terms that are usual and customary;
- The actions to complete the sale were initiated and the sale is expected to be completed by 2016.

For more details on the assets and liabilities of disposal group classified as held for sale, refer to Note 37.

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 P1.3 billion, P1.5 billion and P3.2 billion and cost of real estate sales amounting to P1.0 billion, P1.3 billion and P2.5 billion in 2015, 2014 and 2013, 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, 2015 and 2014, the carrying value of the Group's AFS financial assets amounted to P69.6 billion and P63.8 billion, respectively, net of allowance for impairment losses on AFS equity investments amounting to P998.7 million and P929.9 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 P4.7 billion and P11.5 billion as of December 31, 2015 and 2014, respectively (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, 2015 and 2014 amounted to P13.4 billion and P12.3 billion, respectively. Certain materials and supplies amounting to P0.6 billion and P0.7 billion as of December 31, 2015 and 2014, 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 P39.5 billion and P38.5 billion as of December 31, 2015 and 2014, 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 2015 and 2014, 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, 2015 and 2014 amounted to P24.9 billion and P23.7 billion, respectively (see Note 12). The carrying amount of depreciable investment properties as of December 31, 2015 and 2014 amounted to P6.6 billion and P6.8 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:

	2015	2014
	(In Thousands)	
Other current assets (except miscellaneous cash and other cash items and held to maturity investments) (Note 10)	**P8,670,082**	P7,160,508
Investments in associates and a joint venture (Note 11)	**11,761,290**	12,297,509
Property, plant and equipment (Note 12)	**44,837,876**	42,445,922
Investment properties (Note 13)	**22,231,525**	27,197,933
Other noncurrent assets (except refundable and other security deposits, goodwill and retirement plan assets (Note 14)	**2,800,283**	2,938,318

In 2013, the Group reversed the impairment loss previously recognized amounting to P20.2 million (see Note 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, 2015 and 2014 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, 2015 and 2014 amounted to P255.7 million and P264.1 million, respectively. Accrued retirement benefits amounted to P3.9 billion and P3.8 billion as of December 31, 2015 and 2014, respectively (see Notes 14 and 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 P898.7 million and P1.6 billion as of December 31, 2015 and 2014, respectively (see Note 38).

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 over 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 over RCIT 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 over RCIT and other deductible temporary differences totaling to P4.7 billion as of December 31, 2015 and 2014 (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 and other insurance 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 8.0% and 3.8% as of December 31, 2015, and 4.7% and 4.2% as of December 31, 2014 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 90%, 89% and 94% of the segment's total revenue in 2015, 2014 and 2013, 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, 2015:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
				(In Thousands)			
Segment revenue:							
External customers	P26,600,160	P12,002,266	P13,286,994	P–	P2,484,453	P–	P54,373,873
Inter-segment	10,150	115,079	1,011,781	–	–	(1,137,010)	–
	26,610,310	12,117,345	14,298,775	–	2,484,453	(1,137,010)	54,373,873
Cost of sales and services	4,807,242	9,831,228	10,261,942	–	1,179,549	(1,199,589)	24,880,372
Gross profit	21,803,068	2,286,117	4,036,833	–	1,304,904	62,579	29,493,501
Equity in net earnings of associates	–	–	-	974,543	–	214,431	1,188,974
	21,803,068	2,286,117	4,036,833	974,543	1,304,904	277,010	30,682,475
Selling expenses	–	939,453	1,675,683	–	42,382	(13,422)	2,644,096
General and administrative expenses	18,449,228	653,396	833,069	141,260	588,292	152,482	20,817,727
Operating income	3,353,840	693,268	1,528,081	833,283	674,230	137,950	7,220,652
Foreign exchange gains - net	1,207,840	1,609	–	95,618	3,746	13,587	1,322,400
Finance costs	–	(57,969)	(2,439)	–	(175,787)	33,677	(202,518)
Finance income	–	154	19,572	92,549	50,830	(52,729)	110,376
Others - net	3,393,380	28,066	13,521	71,785	10,620	(250,737)	3,266,635
Income before income tax	7,955,060	665,128	1,558,735	1,093,235	563,639	(118,252)	11,717,545
Provision for income tax	1,543,789	243,043	459,466	53,229	250,358	28,937	2,578,822

(Forward)

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
				(In Thousands)			
Segment profit from :							
Continuing operations	**P6,411,271**	**P422,085**	**P1,099,269**	**P1,040,006**	**P313,281**	**(P147,189)**	**P9,138,723**
Discontinued operations	**357,931**	**–**	**–**	**–**	**–**	–	**357,931**
Segment profit	**P6,769,202**	**P422,085**	**P1,099,269**	**P1,040,006**	**P313,281**	**(P147,189)**	**P9,496,654**
Segment profit attributable to:							
Equity holders of the Company	**P3,673,284**	**P427,930**	**P1,099,269**	**P1,035,563**	**P312,091**	**P50,898**	**P6,599,035**
Non-controlling interests	**3,095,918**	**(5,845)**	**–**	**4,443**	**1,190**	**(198,087)**	**2,897,619**
Depreciation and amortization expense	**1,168,620**	**551,339**	**1,549,879**	**11,975**	**151,693**	**19,012**	**3,452,518**

Other financial information of the operating segments as of December 31, 2015 is as follows:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
				(In Thousands)			
Assets:							
Current assets	**P331,611,312**	**P10,040,792**	**P11,368,663**	**P9,975,983**	**P14,774,964**	**(P7,510,083)**	**P370,261,631**
Noncurrent assets	**334,920,597**	**6,667,777**	**13,294,019**	**12,602,442**	**11,322,217**	**483,819**	**379,290,871**
	P666,531,909	**P16,708,569**	**P24,662,682**	**P22,578,425**	**P26,097,181**	**(P7,026,264)**	**P749,552,502**
Liabilities:							
Current liabilities	**P494,826,886**	**P2,044,210**	**P3,443,633**	**P319,367**	**P7,045,991**	**(P11,354,869)**	**P496,325,218**
Noncurrent liabilities	**79,378,819**	**536,539**	**1,278,930**	**113,459**	**3,122,295**	**(960,853)**	**83,469,189**
	P574,205,705	**P2,580,749**	**P4,722,563**	**P432,826**	**P10,168,286**	**(P12,315,722)**	**P579,794,407**
Investments in associates and a joint venture	**P–**	**P–**	**P19,900**	**P10,289,586**	**P–**	**P1,451,804**	**P11,761,290**
Equity attributable to:							
Equity holders of the Company	**50,946,819**	**14,008,783**	**19,940,119**	**22,047,721**	**15,897,492**	**6,035,084**	**128,876,018**
Non-controlling interests	**41,379,385**	**119,037**	**–**	**97,878**	**31,403**	**(745,626)**	**40,882,077**
Additions to noncurrent assets:							
Property, plant and equipment	**4,166,428**	**559,956**	**1,860,257**	**22,337**	**31,552**	**6,788**	**6,647,318**
Investment properties	**505,262**	**–**	**–**	**–**	**1,464,695**	**(366,238)**	**1,603,719**
Short-term debts	**–**	**350,000**	**1,400,000**	**–**	**–**	**(350,000)**	**1,400,000**
Long-term debts	**9,986,426**	**–**	**–**	**–**	**1,196,020**	**–**	**11,182,446**

For the year ended December 31, 2014 (As restated, Note 37):

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
				(In Thousands)			
Segment revenue:							
External customers	P24,210,181	P11,919,131	P13,288,369	P–	P2,278,600	P–	P51,696,281
Inter-segment	735,384	101,386	1,033,901	–	–	(1,870,671)	–
	24,945,565	12,020,517	14,322,270	–	2,278,600	(1,870,671)	51,696,281
Cost of sales and services	4,378,367	9,819,049	10,238,090	–	1,582,589	(1,278,717)	24,739,378
Gross profit	20,567,198	2,201,468	4,084,180		696,011	(591,954)	26,956,903
Equity in net earnings of associates	–	–	–	515,112	–	379,443	894,555
	20,567,198	2,201,468	4,084,180	515,112	696,011	(212,511)	27,851,458
Selling expenses	–	957,664	1,649,833	–	155,052	(15,909)	2,746,640
General and administrative expenses	18,693,960	665,807	824,347	356,238	427,417	100,309	21,068,078
Operating income	1,873,238	577,997	1,610,000	158,874	113,542	(296,911)	4,036,740
Foreign exchange gains - net	1,342,196	(1,883)	–	6,599	(1,154)	1,946	1,347,704
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
Others - net	4,038,751	15,506	(9,219)	205,733	96,882	(542,594)	3,805,059
Income before income tax	7,254,185	173,505	1,607,405	480,031	201,990	(863,427)	8,853,689
Provision for income tax	1,620,442	72,790	485,525	331,676	82,125	53,089	2,645,647
Segment profit from:							
Continuing operations	5,633,743	100,715	1,121,880	148,355	119,865	(916,516)	6,208,042
Discontinued operations	264,164	–	–	–	–	–	264,164
Segment profit	P5,897,907	P100,715	P1,121,880	P148,355	P119,865	(P916,516)	P6,472,206
Segment profit attributable to:							
Equity holders of the Company	P3,117,161	P99,668	P1,121,880	P147,731	P118,966	(P195,176)	P4,410,230
Non-controlling interests	2,780,746	1,047	–	624	899	(721,340)	2,061,976
Depreciation and amortization expense	1,137,939	539,345	1,675,598	10,983	174,001	17,126	3,554,992

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

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
				(In Thousands)			
Assets:							
Current assets	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	P466,229,722	P6,443,588	P2,959,227	P385,588	P12,925,809	(P19,797,471)	P469,146,463
Noncurrent liabilities	59,837,726	540,528	1,492,193	75,038	2,686,229	332,837	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 (As restated, Note 37):

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
				(In Thousands)			
Segment revenue:							
External customers	P28,560,739	P10,425,603	P12,701,784	P151,722	P3,656,950	P–	P55,496,798
Inter-segment	–	114,240	683,493	–	–	(797,733)	–
	28,560,739	10,539,843	13,385,277	151,722	3,656,950	(797,733)	55,496,798
Cost of sales and services	5,786,346	8,293,157	9,738,942	153,366	2,680,123	(964,665)	25,687,269
Gross profit	22,774,393	2,246,686	3,646,335	(1,644)	976,827	166,932	29,809,529
Equity in net earnings of an associate	–	–	–	3,704,117	–	–	3,704,117
	22,774,393	2,246,686	3,646,335	3,702,473	976,827	166,932	33,513,646
Selling expenses	–	648,619	1,783,513	–	365,764	(20,950)	2,776,946
General and administrative expenses	17,849,937	894,020	743,202	121,121	515,967	273,070	20,397,317
Operating income	4,924,456	704,047	1,119,620	3,581,352	95,096	(85,188)	10,339,383
Foreign exchange gains - net	1,162,228	2,248	–	67,975	3,853	19,278	1,255,582
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
Others - net	1,148,913	75,428	285,366	345,256	159,603	89,039	2,103,605
Income before income tax	7,235,597	365,128	1,373,819	4,110,810	265,649	5,768	13,356,771
Provision for income tax	1,197,630	179,757	330,337	174,278	160,575	35,810	2,078,387
Segment profit from:							
Continuing operations	6,037,967	185,371	1,043,482	3,936,532	105,074	(30,042)	11,278,384
Discontinued operations	196,680	–	–	–	–	–	196,680
Segment profit	P6,234,647	P185,371	P1,043,482	P3,936,532	P105,074	(P30,042)	P11,475,064
Segment profit attributable to:							
Equity holders of the Company	P3,435,032	P196,463	P1,043,482	P3,919,999	P104,286	(P30,042)	P8,669,220
Non-controlling interests	2,799,615	(11,092)	–	16,533	788	–	2,805,844
Depreciation and amortization expense	1,608,859	547,071	1,713,053	16,414	132,433	16,380	4,034,210

5. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	2015	2014
	(In Thousands)	
Cash and other cash items	**P17,555,206**	P18,238,962
Cash equivalents:		
Due from *Bangko Sentral ng Pilipinas* (BSP)	**81,363,444**	105,773,685
Due from other banks	**18,287,308**	15,591,406
Interbank loans receivable	**20,350,383**	7,671,437
	P137,556,341	P147,275,490

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

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

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

6. Financial Assets at Fair Value through Profit or Loss

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

	2015	2014
	(In Thousands)	
Financial assets at fair value through profit or loss (FVPL):		
Held for trading:		
Government securities	**P4,039,612**	P6,598,386
Equity securities	**199,922**	210,550
Derivative assets (Notes 21 and 33)	**181,348**	136,551
Private debt securities	**143,800**	289,313
	4,564,682	7,234,800
Designated at FVPL:		
Unit investment trust fund	**5,099,052**	4,922,351
Segregated fund assets (Notes 16 and 37)	**–**	10,654,770
	P9,663,734	P22,811,921

a. As of December 31, 2015 and 2014, unrealized loss on government and private debt securities amounted to P261.5 million and P216.2 million, respectively. In 2015 and 2014, the effective interest rates range from 2.13% to 10.63% and from 2.75% to 8.88% for the government securities, and from 4.80% to 7.38% and from 4.25% to 7.38% for the private debt securities, respectively.

b. The carrying amount of equity securities includes unrealized loss of P53.4 million and P17.3 million as of December 31, 2015 and 2014, respectively.

c. 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. Mark to market gains on financial assets at FVPL amounted to P99.1 million and P32.4 million in 2015 and 2014. Realized gains from redemption of investment presented under finance income amounted to P22.4 million in 2015 and P7.0 million in 2014 (see Note 27).

d. 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 (Note 37).

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, the segregated fund assets consist of peso and dollar funds amounting to P10.7 billion. In 2015, the segregated funds amounting to P13.6 billion were reclassified to "Assets of disposal group classified as held for sale" (see Note 37). The segregated fund assets include the following equity-linked notes:

Equity-linked notes	Description
Asian Summit	A single-pay variable life insurance product which invests the single premium, net of premium charges, into a five (5)-Year PHP-Linked USD Participation Note which is linked to the performance of a basket of five Asian equity indices.
Summit Select	A single-pay variable life insurance product which invests the single premium, net of premium charges, into a five (5)-Year PHP-Linked USD Participation Note which is linked to the performance of ING Emerging Markets Consumption VT 10.00% Index.
Dollar Income Optimizer	A single-pay variable life insurance product which invests the single premium, net of premium charges, into UBS seven (7)-Year Structured Note which is linked to the performance of a basket of high quality global funds chosen to offer income and potential for capital appreciation.
Variable Unit-Linked Summit Peso and Dollar	A peso and dollar denominated single-pay five (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 10.00% index.
True North (Launched in 2015)	A fund invested in a 5-year UBS Note linked to UBS Multi Asset Portfolio T5 Index (the "UBS MAP T5") issued by UBS A.G.. It provides a minimum redemption value equivalent to 90.00% of the PHP equivalent principal amount, if held to maturity, and provided that no credit default event occurs on UBS A.G.

7. Available for Sale and Held to Maturity Investments

Available for Sale Investments

Available for sale investments consist of:

	2015	2014
	(In Thousands)	
Government securities (Note 17)	**P45,802,968**	P37,211,623
Other debt securities	**22,252,980**	23,708,156
Equity securities:		
Quoted	**1,329,564**	2,817,198
Unquoted	**1,177,924**	1,006,249
	70,563,436	64,743,226
Allowance for impairment losses	**(998,749)**	(929,881)
	69,564,687	63,813,345
Noncurrent portion	**(66,649,517)**	(60,039,059)
	P2,915,170	P3,774,286

a. As of December 31, 2015 and 2014, the fair value of the AFS investments in the form of government and private bonds pledged to fulfill its collateral requirements with securities sold under repurchase agreements transactions with the foreign banks amounted to P8.5 billion (see Notes 17 and 33). The counterparties have an obligation to return the securities to the PNB once the obligations have been settled. In case of default, the foreign banks have the right to hold the securities and sell them as settlement of the repurchase agreement.

b. Included in AFS investments are pledged securities for the Surety Bond with fair value of P800.0 million issued by PNB Gen. As of December 31, 2015 and 2014, the carrying value of these pledged securities amounted to P873.0 million and P903.9 million, respectively.

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

d. No impairment loss has been recognized on unquoted debt securities for the years ended December 31, 2015 and 2014.

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

	2015	2014
Peso-denominated	**1.03% to 5.62%**	2.58% to 5.62%
Foreign-currency denominated	**1.10% to 5.39%**	2.06% to 5.83%

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

	2015	2014
	(In Thousands)	
Balance at beginning of year	**(P1,161,616)**	(P1,714,054)
Net changes in fair value of AFS investments during the year*:		
Fair value changes during the year on AFS investments	**(313,048)**	1,344,819
Reversal of fair value gain on AFS investments reclassified to investment in associate (Note 11)	**–**	238,186
Realized gains**(Note 24)	**(782,065)**	(1,030,567)
	(1,095,113)	552,438
Balance at end of year	**(P2,256,729)**	(P1,161,616)

(Forward)

	2015	2014
	(In Thousands)	
Attributable to:		
Equity holders of the Company***	**(P1,099,193)**	(P750,414)
Non-controlling interests	**(1,157,536)**	(411,202)
	(P2,256,729)	(P1,161,616)

** Net of deferred income tax effect amounting to P2.9 million and P1.4 million in 2015 and 2014, respectively.*
*** Included in "Trading and securities gains" under "Banking revenue".*
**** Including accumulated fair value gain .amounting to P348,786 and nil as at December 31, 2015 and 2014, respectively in disposal group*

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

	2015	2014
	(In Thousands)	
Balance at beginning of year	**P929,881**	P928,408
Provisions during the year	**32,995**	1,234
Disposals, transfers and others	**68,638**	239
Transfer to disposal group classified as held for sale (Note 37)	**(32,765)**	–
Balance at end of year	**P998,749**	P929,881

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%.

Held to Maturity Investments

As of December 31, 2015 and 2014, HTM investments of the Group comprise of government securities amounting to P23.2 billion and P22.9 billion, respectively, including current portion of P68.2 million and P11.4 million, respectively.

As of December 31, 2015 and 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 P7.5 billion and P8.9 billion, respectively (see Note 17).

8. Loans and Receivables

Loans and receivables consist of:

	2015	2014
	(In Thousands)	
Finance receivables (Notes 17 and 22)	**P380,207,907**	P328,416,192
Trade receivables	**12,288,478**	11,885,157
Other receivables	**2,404,704**	2,980,818
	394,901,089	343,282,167
Allowance for credit losses	**(15,977,755)**	(12,189,786)
	378,923,334	331,092,381
Noncurrent portion	**(206,782,709)**	(187,438,860)
	P172,140,625	P143,653,521

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

	2015	2014
	(In Thousands)	
Receivables from customers:		
Loans and discounts	**P335,352,183**	P278,897,612
Customers' liabilities on acceptances, letters of credit and trust receipts	**11,079,224**	11,594,378
Bills purchased (Note 20)	**3,858,750**	4,878,682
Credit card receivables	**5,439,554**	4,390,966
Finance lease receivables	**3,686,790**	3,311,150
	359,416,501	303,072,788
Unquoted debt securities	**4,245,069**	8,044,272
Other receivables:		
Accounts receivable	**8,374,156**	8,993,706
Accrued interest receivable	**5,150,502**	4,756,699
Sales contract receivables	**4,428,062**	4,267,338
Miscellaneous	**429,924**	442,089
	18,382,644	18,459,832
	382,044,214	329,576,892
Unearned and other deferred income	**(1,836,307)**	(1,160,700)
	380,207,907	328,416,192
Allowance for credit losses	**(15,934,483)**	(12,129,459)
	364,273,424	316,286,733
Noncurrent portion	**(206,430,391)**	(186,830,742)
	P157,843,033	P129,455,991

a. Transactions with Maybank Philippines, Inc. (Maybank)

On November 27, 1997, Maybank and PNB signed a deed of assignment transferring to PNB certain Maybank assets (included under "Finance receivables") and liabilities in connection with the sale of PNB's 60.00% equity in Maybank.

As of December 31, 2015 and 2014, the balance of these receivables amounted to P3.7 billion and P3.6 billion, respectively, while the transferred liabilities (included under "Bills payable to BSP and local banks" and "Accrued interest payable") amounted to P1.8 billion and P1.6 billion, respectively. 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, 2015 and 2014. The remaining 40.00% equity ownership of PNB in Maybank was sold in June 2000 (see Note 38).

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, 2015 and 2014, the notes are carried at their recoverable values (see Note 37).

c. Finance Lease Receivable

An analysis of the Group's finance lease receivables as of December 31 is presented as follows:

	2015	2014
	(In Thousands)	
Gross investment in finance lease receivables		
Due within one year	**P1,428,528**	P1,319,896
Due beyond one year but not over five years	**1,498,041**	1,369,711
Due beyond five years	**47,900**	58,511
	2,974,469	2,748,118
Residual value of leased equipment		
Due within one year	**225,590**	138,018
Due beyond one year but not over five years	**486,731**	425,014
	712,321	563,032
Total finance lease receivable	**P3,686,790**	P3,311,150

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

	2015	2014 (As Restated, Note 37)	2013 (As Restated, Note 37)
Receivable from customers and sales contract receivables	**P17,080,888**	P14,705,383	P13,539,406
Unquoted debt securities	**63,478**	521,555	253,556
	P17,144,366	P15,226,938	P13,792,962

As of December 31, 2015 and 2014, 82.8% and 75.7%, respectively, of the total receivable from customers of the Group were subject to interest repricing. Remaining receivables carry annual fixed interest rates ranging from 1.1% to 7.0% in 2015, from 2.5% to 9.0% in 2014 and from 4.8% to 9.0% in 2013 for foreign currency-denominated receivables, and from 0.5% to 15.3% in 2015, from 0.03% to 23.0% in 2014 and 0.3% to 24.4% in 2013 for peso-denominated receivables.

Sales contract receivables bear fixed interest rate per annum ranging from 3.3% to 21.0% and from 5.1% to 21.0% as of December 31, 2015 and 2014, respectively.

Interest income accrued on impaired loans and receivable of the Group amounted to P217.0 million in 2015, P274.8 million in 2014 and P289.1 million in 2013.

Trade receivables
Trade receivables consist of:

	2015	2014
	(In Thousands)	
Consumer goods	**P9,383,633**	P9,026,828
Contract receivables	**2,875,514**	2,667,862
Lease receivables	**29,331**	190,467
	12,288,478	11,885,157
Allowance for credit losses	**(32,032)**	(54,813)
	12,256,446	11,830,344
Noncurrent portion of contract receivables	**(352,318)**	(608,118)
	P11,904,128	P11,222,226

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 P34.6 million, P37.5 million and P39.4 million in 2015, 2014 and 2013 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 P133.4 million and P257.6 million as of December 31, 2015 and 2014, 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, 2015			
	Finance Receivables	**Trade Receivables**	**Other Receivables**	**Total**
	(In Thousands)			
Balance at beginning of year	**P12,129,459**	**P54,813**	**P5,514**	**P12,189,786**
Provisions during the year (Note 26)	**860,163**	**–**	**5,726**	**865,889**
Accounts charged off, transfers and others	**2,944,861**	**(22,781)**	**–**	**2,922,080**
Balance at end of year	**P15,934,483**	**P32,032**	**P11,240**	**P15,977,755**

	December 31, 2014			
	Finance Receivables	Trade Receivables	Other Receivables	Total
	(In Thousands)			
Balance at beginning of year	P17,165,122	P32,590	P5,514	P17,203,226
Provisions during the year (Note 26)	1,712,279	22,223	–	1,734,502
Accounts charged off, transfers and others	(6,747,942)	–	–	(6,747,942)
Balance at end of year	P12,129,459	P54,813	P5,514	P12,189,786

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

	2015	2014
	(In Thousands)	
Individual assessment		
Finance receivables:		
Receivable from customers	**P487,496**	P2,153,083
Unquoted debt securities	**(166,627)**	(336,475)
Other receivables	**69,304**	(164,331)
Trade receivables from customers of consumer goods and other receivables	**5,726**	22,223
	395,899	1,674,500
Collective assessment		
Finance receivables:		
Receivables from customers	**434,960**	59,930
Other receivables	**35,030**	72
	469,990	60,002
	P865,889	P1,734,502

9. Inventories

Inventories consist of:

	2015	2014
	(In Thousands)	
At Cost:		
Consumer goods:		
Alcohol	**P2,387,930**	P2,383,195
Beverage	**1,887,224**	2,028,689
	4,275,154	4,411,884
Real estate inventories:		
Condominium and residential units for sale	**3,978,857**	3,524,882
Subdivision land under development	**3,370,090**	2,315,704
Land held for future development	**1,137,156**	1,408,237
	8,486,103	7,248,823
Fuel, materials and supplies	**613,024**	624,150
	13,374,281	12,284,857
At NRV - Materials and supplies	**649,766**	652,008
	P14,024,047	P12,936,865

Allowance for inventory obsolescence on materials and supplies amounted to P7.0 million, and P25.2 million as of December 31, 2015 and 2014, respectively.

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

	2015	2014
	(In Thousands)	
Finished goods	**P729,321**	P561,011
Work in process	**1,008,228**	1,022,742
Raw materials	**2,537,605**	2,828,131
	P4,275,154	P4,411,884

Cost of consumer goods inventories recognized as expenses under cost of sales amounted to P12.7 billion, P12.5 billion and P10.8 billion in 2015, 2014 and 2013 respectively (see Note 24).

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

	2015	2014
	(In Thousands)	
Balance at beginning of year	**P7,248,823**	P4,932,871
Land acquired during the year	**–**	328,580
Construction/development costs incurred	**2,208,321**	3,127,713
Transfer from (to) investment property	**(80,236)**	–
Borrowing costs capitalized (Note 19)	**61,856**	163,393
Disposals (recognized as cost of real estate sales, Note 24)	**(952,661)**	(1,303,734)
Balance at end of year	**P8,486,103**	P7,248,823

Parcels of land acquired in 2014 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.

The average capitalization rates used to determine the amount of borrowing costs eligible for capitalization is 4.5% and 5.0% in 2015 and 2014.

10. Other Current Assets

	2015	2014
	(In Thousands)	
Miscellaneous cash and other cash items	**P103,668**	P714,726
Creditable withholding taxes (CWT)	**3,409,032**	2,738,802
Excise tax	**959,654**	1,008,484
Advances to suppliers	**985,053**	964,567
Input VAT	**802,637**	827,684
Prepaid expenses	**468,587**	371,466
Advances to contractors	**326,188**	367,221
Stationeries, office supplies and stamps on hand	**300,156**	129,721
Deferred rent	**161,592**	90,701
Deferred reinsurance premiums	**287,139**	–
Deferred charges	**271,257**	–
Others	**766,960**	673,237
	P8,841,923	P7,886,609

a. CWTs pertain mainly to the amounts withheld from income derived from sale of consumer goods and real estate inventories. The CWTs can be applied against any income tax liability of a company in the Group to which the CWTs relate.

b. Excise tax pertains to advance tax payments to the Bureau of Internal Revenue (BIR) on sale of alcoholic beverages (see Note 38).

c. Advances to suppliers pertain to deposits made for raw material purchases and are applied upon delivery of the related inventories.

d. Advances to contractors are recouped every progress billing payment based on the percentage of accomplishment of each contract package. The activities to which these advances pertain will be completed within the normal operating cycle.

e. Prepaid expenses include prepaid importation charges amounting to P72.9 million and P80.8 million as of December 31, 2015 and 2014, respectively. 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 22.5%-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 the equity method of accounting.

	Ownership		Amount	
	2015	2014	2015	2014
		(In Thousands)		
PMFTC	**49.6%**	49.6%	**P10,289,585**	P11,011,011
VMC	**22.5%**	20.2%	**1,451,805**	1,237,373
ABI Pascual Holdings	**50.0%**	50.0%	**19,900**	49,125
			P11,761,290	P12,297,509

Investment in PMFTC

Details of investment in PMFTC are as follows:

	2015	2014	2013
		(In Thousands)	
Acquisition cost	**P13,483,541**	P13,483,541	P13,483,541
Accumulated equity in net earnings (loss):			
Balance at beginning of year	**(2,499,984)**	153,454	402,557
Equity in net earnings	**974,543**	515,112	3,704,117
Cash dividends (Note 22)	**(1,695,969)**	(3,168,550)	(3,953,220)
Balance at end of year	**(3,221,410)**	(2,499,984)	153,454
Accumulated share in other comprehensive income	**27,454**	27,454	27,454
	P10,298,585	P11,011,011	P13,664,449

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 based on 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 of around P293.0 million each year starting 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
Property, plant and equipment	8,432,235
Other current assets	4,382,894
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:

	2015	2014
	(In Thousands)	
Current assets	**P41,833,272**	P41,868,305
Noncurrent assets	**31,592,808**	32,390,102
Current liabilities	**20,760,591**	34,231,463
Noncurrent liabilities	**21,944,755**	8,646,788
Equity	**30,720,734**	31,380,156

Summarized statements of income of PMFTC are as follows:

	2015	2014	2013
	(In Thousands)		
Revenue	**P115,220,990**	P98,384,104	P89,623,792
Cost of sales	**(101,462,725)**	(86,919,392)	(67,456,713)
General and administrative expenses	**(12,656,463)**	(12,394,813)	(12,652,233)
Others - net	**845,105**	1,494,706	585,702
Income before income tax	**1,946,907**	564,605	10,100,548
Provision for income tax	**(533,067)**	(116,876)	(2,970,655)
Net income	**1,413,840**	447,729	7,129,893
Other comprehensive income (loss)	**96,932**	(93,233)	55,350
Total comprehensive income	**P1,510,772**	P354,496	P7,185,243
Group's share of income for the year	**P698,884**	P222,043	P3,535,947

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

	2015	2014
	(In Thousands)	
Acquisition cost		
Balance at beginning of year	**P616,441**	P498,629
Additions	**124,087**	117,812
Balance at end of year	**740,528**	616,441
Accumulated equity in net earnings:		
Balance at beginning of year	**379,443**	–
Equity in net earnings	**196,838**	44,635
Excess of fair value of net assets of associate over cost of investment	**17,593**	334,808
Balance at end of year	**593,874**	379,443
Balance of convertible notes	**117,403**	241,489
	P1,451,805	P1,237,373

In 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.

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. In 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 20.2% as of December 31, 2014. 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 was recognized as part of the equity in net earnings of VMC in 2014.

In 2015, portion of the convertible notes amounting to P124.1 million was converted to shares of stock of VMC resulting to an increase in LTG's ownership interest to 22.5% as of December 31, 2015. The difference of P17.6 million between the sum of the consideration for the additional 2.3% ownership interest amounting to P124.1 million and the share in fair value of net assets of VMC at the date of the conversion amounting to P141.7 million was recognized as part of the equity in net earnings of VMC in 2015.

The summarized financial information of VMC as of and for the year ended November 30, 2015 and as of November 30, 2014 and for the six months period from June 1, 2014 to November 30, 2014 follows:

	2015 (One year)	2014 (Six months)
	(In Thousands)	
Current assets	**P2,896,521**	P2,399,263
Noncurrent assets	**5,660,979**	5,571,438
Current liabilities	**581,440**	1,322,438
Noncurrent liabilities	**1,816,696**	1,564,532
Revenue	**5,034,302**	1,352,346
Income before income tax	**1,593,950**	386,628
Provision for income tax	**(483,712)**	(120,357)
Net income	**1,110,238**	266,271
Other comprehensive income	**2,648**	–
Total comprehensive income	**1,112,886**	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 P71.5 million, P164.8 million and P93.3 million, respectively, as of December 31, 2015 and P54.2 million, P146.3 milion and P92.1 million, respectively, as of December 31, 2014. In 2015 and 2014, ABI Pascual Holdings incurred net losses of P4.1 million and P23.1 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 in 2013 (see Note 28). 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 2015 and 2014 amounted to P2.1 million and P46.1 million, respectively (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:

	2015	2014	2013
	(In Thousands)		
Accumulated balances of material non-controlling interest	**P38,103,827**	P35,600,617	P28,844,411
Net income allocated to material non-controlling interest	**2,860,406**	2,507,994	2,647,901
Total comprehensive income allocated to material non-controlling interest	**2,503,210**	2,328,509	959,404

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:

	2015	2014 (As restated, Note 37)	2013 (As restated, Note 37)
		(In Thousands)	
Revenue	**P26,610,310**	P24,945,565	P28,560,739
Cost of services	**(4,807,242)**	(4,378,367)	(5,786,346)
General and administrative expenses	**(18,449,228)**	(18,693,960)	(17,849,937)
Foreign exchange gains - net	**1,207,840**	1,342,196	1,162,228
Other income - net	**3,393,380**	4,038,751	1,148,913
Income before income tax	**7,955,060**	7,254,185	7,235,597
Provision for income tax	**(1,543,789)**	(1,620,442)	(1,197,630)
Net income from continuing operations	**6,411,271**	5,633,743	6,037,967
Net income from discontinued operations	**357,931**	264,164	196,680
Net income	**6,769,202**	5,897,907	6,234,647
Other comprehensive income (loss)	**1,380,871**	(463,460)	(3,500,920)
Total comprehensive income	**P8,150,073**	P5,434,447	P2,733,727
Net income attributable to:			
Equity holders	**P3,673,284**	P3,117,161	P3,435,032
Non-controlling interests	**3,095,918**	2,780,746	2,799,615
Total comprehensive income attributable to:			
Equity holders	**5,454,974**	2,855,444	1,458,063
Non-controlling interests	**2,695,099**	2,579,003	1,275,665

Balance Sheets:

	2015	2014
	(In Thousands)	
Current assets	**P331,611,312**	P298,568,066
Noncurrent assets	**334,920,597**	313,673,332
Current liabilities	**494,826,885**	466,045,382
Noncurrent liabilities	**79,378,820**	60,022,066
Equity attributable to:		
Equity holders of the Company	**50,946,819**	47,360,474
Non-controlling interest	**41,379,385**	38,813,476

Statements of Cash Flows:

	2015	2014	2013
		(In Thousands)	
Operating	**(P2,263,547)**	(P61,400,140)	P48,744,659
Investing	**(10,634,340)**	(542,830)	(7,555,741)
Financing	**5,275,983**	17,168,222	70,455,937
	(P7,621,904)	(P44,774,748)	P111,644,855

12. Property, Plant and Equipment

December 31, 2015

	At Appraised Values				At Cost						
	Land and Land Improvements	Plant Buildings and Building Improvements	Machineries and Equipment	Subtotal	Office and Administration Buildings and Improvements	Transportation Equipment	Returnable Containers	Furniture, Fixtures and Other Equipment	Construction in progress	Subtotal	Total
					(In Thousands)						
Cost											
Balance at beginning of year	P17,733,967	P19,982,538	P27,125,256	P64,841,761	P3,944,254	P1,718,288	P6,628,513	P9,241,275	P386,422	P21,918,752	P86,760,513
Additions/transfers (Note 13)	2,270,088	736,586	518,931	3,525,605	179,355	88,292	505,223	1,204,136	1,144,707	3,121,713	6,647,318
Disposals/transfers/others (Note 28)	202,772	(742,145)	(3,136,042)	(3,675,415)	216,784	(15,010)	(13,715)	(384,348)	(409,151)	(605,440)	(4,280,855)
Balance at end of year	20,206,827	19,976,979	24,508,145	64,691,951	4,340,393	1,791,570	7,120,021	10,061,063	1,121,978	24,435,025	89,126,976
Accumulated Depreciation, Amortization and Impairment Losses											
Balance at beginning of year	909,980	8,380,263	17,080,993	26,371,236	3,330,800	1,398,039	5,480,748	7,733,768	–	17,943,355	44,314,591
Depreciation and amortization	23,519	591,716	839,602	1,454,837	181,337	138,217	573,090	611,059	–	1,503,703	2,958,540
Disposals/transfers/others (Note 28)	20,090	(2,745,867)	53,510	(2,672,267)	2,445	(14,618)	–	(299,591)	–	(311,764)	(2,984,031)
Balance at end of year	953,589	6,226,112	17,974,105	25,153,806	3,514,582	1,521,638	6,053,838	8,045,236	–	19,135,294	44,289,100
Net Book Value	P19,253,238	P13,750,867	P6,534,040	P39,538,145	P825,811	P269,932	P1,066,183	P2,015,827	P1,121,978	P5,299,731	P44,837,876

December 31, 2014

	At Appraised Values				At Cost						
	Land and Land Improvements	Plant Buildings and Building Improvements	Machineries and Equipment	Subtotal	Office and Administration Buildings and Improvements	Transportation Equipment	Returnable Containers	Furniture, Fixtures and Other Equipment	Construction in progress	Subtotal	Total
					(In Thousands)						
Cost											
Balance at beginning of year	P17,485,783	P19,165,903	P26,606,458	P63,258,144	P1,392,401	P1,810,316	P6,245,290	P9,069,144	P498,684	P19,015,835	P82,273,979
Additions/transfers	8,553	506,914	674,795	1,190,262	120,685	112,851	383,223	580,392	106,631	1,303,782	2,494,044
Disposals/transfers/others (Note 28)	239,631	309,721	(155,997)	393,355	2,431,168	(204,879)	–	(408,261)	(218,893)	1,599,135	1,992,490
Balance at end of year	17,733,967	19,982,538	27,125,256	64,841,761	3,944,254	1,718,288	6,628,513	9,241,275	386,422	21,918,752	86,760,513
Accumulated Depreciation, Amortization and Impairment Losses											
Balance at beginning of year	872,143	8,199,888	16,351,586	25,423,617	975,719	1,468,153	4,913,232	6,811,879	–	14,168,983	39,592,600
Depreciation and amortization	37,837	635,666	958,132	1,631,635	126,517	131,264	567,516	621,635	–	1,446,932	3,078,567
Disposals/transfers/others	–	(455,291)	(228,725)	(684,016)	2,228,564	(201,378)	–	300,254	–	2,327,440	1,643,424
Balance at end of year	909,980	8,380,263	17,080,993	26,371,236	3,330,800	1,398,039	5,480,748	7,733,768	–	17,943,355	44,314,591
Net Book Value	P16,823,987	P11,602,275	P10,044,263	P38,470,525	P613,454	P320,249	P1,147,765	P1,507,507	P386,422	P3,975,397	P42,445,922

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 SEC accredited and 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 January 1, 2015 and December 31, 2011 (see Note 34). Movements in revaluation increment, net of deferred income tax effect, are as follows:

	2015	2014
	(In Thousands)	
Revaluation increment on the property, plant and equipment, net of deferred income tax effect:		
Balance at beginning of year	**P8,121,362**	P8,963,164
Net revaluation decrease	**(360,163)**	–
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	**(511,804)**	(841,802)
Balance at end of year	**P7,249,395**	P8,121,362
Attributable to:		
Equity holders of the Company	**P4,920,375**	P5,781,539
Non-controlling interests	**2,329,020**	2,339,823
	P7,249,395	P8,121,362

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:

	2015	2014
	(In Thousands)	
Cost		
Land and land improvements	**P9,514,421**	P7,244,333
Plant buildings and improvements	**15,082,717**	14,346,131
Machineries and equipment	**20,145,218**	19,383,768
	44,742,356	40,974,232
Accumulated depreciation		
Plant buildings and improvements	**(P5,124,987)**	(P4,509,751)
Machineries and equipment	**(10,435,503)**	(9,595,901)
	(15,560,490)	(14,105,652)
	P29,181,866	P26,868,580

Depreciation

Depreciation of property, plant and equipment charged to operations is as follows:

	2015	2014	2013
		(In Thousands)	
Cost of sales and services (Note 24)	**P1,286,665**	P1,420,117	P1,298,012
Selling expenses (Note 25)	**641,923**	593,785	717,807
General and administrative expenses (Note 26)	**1,029,952**	1,064,665	1,269,830
	P2,958,540	P3,078,567	P3,285,649

As of December 31, 2015 and 2014, the Group's "Construction in progress" under the "Property, plant and equipment" account pertains to the construction of TDI's warehouse and bottle sorting facility, AAC's major rehabilitation of plant facilities, and ABI's construction of new manufacturing plant. These capital expenditure projects are expected to be completed in 2016.

Out of the total additions in 2015 and 2014, P78.1 million and P32.5 million remain to be unpaid as of December 31, 2015 and 2014, respectively.

Certain property and equipment of the Group with carrying amount of P180.8 million and P117.8 million are temporarily idle as of December 31, 2015 and 2014, respectively.

Fully depreciated property, plant and equipment that are still used in operations amounted to P2.7 billion and P2.9 billion as of December 31, 2015 and 2014, respectively.

Borrowing Costs

Unamortized capitalized borrowing costs amounted to P13.2 million and P13.8 million as of December 31, 2015 and 2014, respectively. The average capitalization rates used to determine the amount of borrowing costs eligible for capitalization were 4.5% and 5.0% in 2015 and 2014, respectively.

13. Investment Properties

Movements of the Group's investment properties are as follows (in thousands):

	December 31, 2015				
	Land	Buildings and Improvements	Residential Unit	Construction in Progress	Total
Cost					
Balance at beginning of year	**P23,541,887**	**P10,064,779**	**P7,620**	**P138,979**	**P33,753,265**
Additions	**1,339,183**	**218,252**	**–**	**46,284**	**1,603,719**
Disposals/transfers/others	**(6,178,060)**	**(568,771)**	**–**	**105,541**	**(6,641,290)**
Balance at end of year	**18,703,010**	**9,714,260**	**7,620**	**290,804**	**28,715,694**
Accumulated Depreciation					
Balance at beginning of year	**3,248,922**	**3,298,790**	**7,620**	**–**	**6,555,332**
Depreciation	**–**	**369,803**	**–**	**–**	**369,803**
Provision for impairment losses	**133,961**	**(309,718)**	**–**	**–**	**(175,757)**
Disposals/transfers/others	**–**	**(265,209)**	**–**	**–**	**(265,209)**
Balance at end of year	**3,382,883**	**3,093,666**	**7,620**	**–**	**6,484,169**
Net Book Value	**P15,320,127**	**P6,620,594**	**P–**	**P290,804**	**P22,231,525**

	December 31, 2014				
	Land	Buildings and Improvements	Residential Unit	Construction in Progress	Total
Cost					
Balance at beginning of year	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
Disposals/transfers/others	(476,708)	107,024	–	(1,374,450)	(1,744,134)
Balance at end of year	23,541,887	10,064,779	7,620	138,979	33,753,265
Accumulated Depreciation and Impairment Losses					
Balance at beginning of year	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
Disposals/transfers/others	(540,647)	(389,973)	–	–	(930,620)
Balance at end of year	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

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 P150 million and P141.5 million as of December 31, 2015 and 2014, respectively. The Group is exerting continuing efforts to dispose these properties.

In 2015, investment properties with carrying value of 2.2 billion were converted as branches and head offices of PNB's subsidiaries and were transferred to property, plant and equipment (see Note 12).

As of December 31, 2015 and 2014, the Group's "Construction in progress" under the "Investment properties" account pertains to the contruction of building intended for leasing and which is expected to be completed in 2016.

Out of the total additions in 2015 and 2014, P1,063.3 million and P1,127.8 million remain to be unpaid as of December 31, 2015 and 2014, respectively.

Fair Values of Investment Properties

Below are the fair values of the investment properties which were determined by professionally qualified, accredited and independent appraisers based on market values:

	2015	2014
	(In Thousands)	
Land	**P30,136,203**	P36,107,990
Buildings and improvements	**8,517,345**	6,025,335
	P38,653,548	P42,133,325

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 P1,172.5 million and P226.9 million in 2015, P740.3 million and P278.9 million in 2014, and P448.7 million and P190.3 million in 2013, 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:

	2015	2014	2013
		(In Thousands)	
Cost of rental income (Note 24)	**P130,493**	P145,680	P94,223
General and administrative expenses (Note 26)	**239,310**	169,509	370,467
	P369,803	P315,189	P464,690

14. Other Noncurrent Assets

Other noncurrent assets consist of:

	2015	2014
	(In Thousands)	
Deferred input VAT	**P378,486**	P352,657
Deferred reinsurance premiums	**499,148**	738,685
Deferred charges	**129,974**	236,773
Deposit for future investments	**348,511**	357,489
Other investments	**19,861**	19,357
Refundable and security deposits	**160,510**	298,961
Software costs	**1,131,041**	667,364
Goodwill	**163,735**	163,735
Chattel properties - net	**2,107**	49,549
Receivable from SPV - net	**500**	500
Net retirement plan assets (Note 23)	**255,716**	264,118
Others - net	**290,655**	515,944
	P3,380,244	P3,665,132

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 P145.4 million and P173.3 million as of December 31, 2015 and 2014, respectively, will be refunded upon termination of the service contract and completion of the projects' construction.

c. Movements in software costs are as follows:

	2015	2014
	(In Thousands)	
Balance at beginning of year	**P667,364**	P425,928
Additions	**587,390**	419,809
Disposals	**–**	(17,137)
Other adjustments	**462**	–
Amortization (Note 26)	**(124,175)**	(161,236)
Balance at end of year	**P1,131,041**	P667,364

Software cost amortization amounted to P124.2 million in 2015, P161.2 million in 2014 and P236.7 million in 2013 (see Note 26).

d. The Group recognized goodwill which pertains mainly to ADI and Eton amounting to P144.7 million and P19.0 million, respectively. As of December 31, 2015 and 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% in 2015 and 2014. The growth rate used to extrapolate the cash flows of until beyond the five-year period is 6.0% as of December 31, 2015 and 5.5% as of December 31, 2014. 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, 2015 and 2014, the recoverable amount of ADI is higher than its carrying value.

e. As of December 31, 2015 and 2014, accumulated depreciation on chattel mortgage properties acquired by PNB in settlement of loans amounted to P36.5 million and P80.0 million, respectively.

f. The Group has receivable from SPV, OPII, which was deconsolidated upon adoption of PFRS 10.

As of December 31, 2015 and 2014, receivable from SPV represents fully provisioned subordinated notes received by PNB from Golden Dragon Star Equities and its assignee, OPII, relative to the sale of the first pool and second pool of its NPAs in December 2006 and March 2007, respectively. The asset sale and purchase agreements (ASPA) between PNB, Golden Dragon Star Equities and OPII for the sale of the NPAs were executed on December 19, 2006. OPII was specifically organized to hold, manage, service and resolve the non-performing assets sold to Golden Dragon Star Equities. OPII has been financed through the issuance of equity securities and subordinated debt securities. Collection from OPII in 2015, 2014 and 2013 amounting to P353.0 million, P27.0 million, and P266.0 million, respectively are recorded part of "Other income (charges) (see Note 28).

g. Security fund amounting to P0.2 million and 0.15 million (included under "Others - net") is maintained by PNB LII in compliance with Sections 365 and 367 of the Insurance Code as of December 31, 2015 and 2014, respectively. The amount of such fund is determined by and deposited with the IC for the payment of benefit claims against insolvent companies. In 2015, the security fund was reclassified to " Assets of disposal group classified as held for sale" (see Note 37).

15. Deposit Liabilities

	2015	2014
	(In Thousands)	
Demand	**P113,168,584**	P88,898,863
Savings	**302,476,256**	293,201,308
Time	**60,511,352**	52,759,938
	476,156,192	434,860,109
Presented as noncurrent	**(39,793,338)**	(23,468,731)
Presented as current	**P436,362,854**	P411,391,378

Of the total deposit liabilities of PNB, P23.8 billion and P24.8 billion are non-interest bearing as of December 31, 2015 and 2014, respectively. Annual interest rates of the remaining deposit liabilities follow:

	2015	2014	2013
Foreign-currency denominated deposit liabilities	**0.00% to 2.25%**	0.02% to 2.26%	0.02% to 3.80%
Peso-denominated deposit liabilities	**0.05% to 5.00%**	0.05% to 6.11%	0.00% to 8.40%

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.

BSP issued Circular Nos. 830 and 832 last March 27, 2014 and May 8, 2014, respectively, to approve the 1-point percentage increase in the reserve requirements of universal and commercials banks. 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. As of December 31, 2015 and 2014, available reserves booked under 'Due from BSP' amounted to P74.3 billion and P68.2 billion, respectively.

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	P6,958,411	4.13%	Quarterly
October 21, 2013	April 22, 2019	4,000,000	3,981,365	3.25%	Quarterly
August 5, 2013	February 5, 2019	5,000,000	4,979,615	3.00%	Quarterly
November 18, 2011	February 17, 2017	3,100,000	3,094,836	5.18%	Quarterly

Other significant terms and conditions of the above LTNCDs follow:

a. Issue price at 100.00% of the face value of each LTNCD.

b. The LTNCDs bear interest rate per annum on its principal amount from and including the Issue Date thereof, up to but excluding the Early Redemption Date or Maturity Date (as the case may be).

Interest in respect of the LTNCD will be calculated on an annual basis and will be paid in arrears quarterly on the last day of each successive Interest Period.

c. Unless earlier redeemed, the LTNCDs shall be redeemed by PNB on maturity date at an amount equal to one hundred percent (100%) of the aggregate issue price thereof, plus any accrued and unpaid interest thereon. The LTNCDs may not be redeemed at the option of the holders.

d. The LTNCDs constitute direct, unconditional, unsecured, and unsubordinated obligations of PNB, enforceable according to these Terms and Conditions, and shall at all times rank *pari passu* and without any preference or priority among themselves and at least *pari passu* 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 P0.5 million 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 P3.0 billion, P2.9 billion and P3.9 billion in 2015, 2014 and 2013, respectively (see Note 24).

In 2015, 2014 and 2013, interest expense on LTNCDs for the Group includes amortization of transaction costs amounting to P16.9 million, P22.8 million and P19.4 million, respectively. Unamortized transaction costs of the LTNCDs amounted to P85.8 million and P102.7 million as of December 31, 2015 and 2014, respectively.

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

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

	2015	2014
	(In Thousands)	
Derivative liabilities (Notes 21 and 33)	**P135,193**	P44,903
Designated at FVPL - segregated fund liabilities	**–**	10,817,122
	135,193	10,862,025
Presented as noncurrent	**(9,118)**	(24,805)
Presented as current	**P126,075**	P10,837,220

In 2015, the segregated fund liabilities of PNB LII amounting to P13.7 billion were reclassified as part of "Liabilities of disposal group classified as held for sale" (see Note 37). As of December 31, 2014, the balance of segregated fund liabilities consists of (in thousands):

Segregated funds (Note 6)	P10,654,770
Additional subscriptions	162,352
Segregated fund liabilities	P10,817,122

17. Bills and Acceptances Payable

Bills and acceptances payable consists of:

	2015	2014
	(In Thousands)	
Bills payable to:		
BSP and local banks (Note 22)	**P17,580,304**	P16,393,373
Foreign banks	**7,676,238**	1,027,442
Others	**150,864**	1,262,389
	25,407,406	18,683,204
Acceptances outstanding	**344,816**	366,854
	25,752,222	19,050,058
Presented as noncurrent	**(19,915,383)**	(12,409,837)
Presented as current	**P5,836,839**	P6,640,221

Annual interest rates are shown below:

	2015	2014	2013
Foreign currency-denominated borrowings	**0.01% to 2.50%**	0.03% - 2.50%	0.12%-0.99%
Peso-denominated borrowings	**0.38% to 0.88%**	0.63% - 2.00%	1.09%-3.50%

PNB's bills payable to BSP includes the transferred liabilities from Maybank Philippines, Inc. (Maybank) amounting to P1.8 billion as of December 31, 2015 and 2014 (see Note 8).

As of December 31, 2015, bills payable with a carrying amount of P12.8 billion is secured by a pledge of certain AFS with carrying value and fair value of P8.5 billion and HTM investments with carrying value and fair value of P7.0 billion and P7.5 billion, respectively (see Note 7).

As of December 31, 2014, bills payable with a carrying value of P14.1 billion is secured by a pledge of certain AFS and HTM investments with fair value of P8.5 billion and P8.9 billion, respectively (see Note 7).

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 three years;
c. Some borrowings bear a fixed interest rate while others have floating interest rate;
d. PNB has pledged its AFS and ATM investments, in form of ROP Global bonds, in order to fulfill its collateral requirement;
e. Haircut from market value ranges from 15.00% to 25.00% depending on the tenor of the bond;
f. Certain borrowings are subject to margin call up to USD 1.4 million; and
g. 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 P1.0 billion, P0.9 billion and P1.1 billion in 2015, 2014 and 2013, respectively (see Note 24).

18. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of:

	2015	2014
	(In Thousands)	
Trade payables	**P8,785,564**	P9,510,729
Nontrade payables	**377,087**	323,957
Accrued expenses:		
Interest	**2,085,701**	2,070,730
PDIC insurance premiums	**470,701**	479,910
Reinstatement premium	**-**	133,580
Project development costs	**1,932,508**	332,559
Taxes and licenses	**374,908**	225,623
Information technology-related expenses	**194,974**	103,690
Rent and utilities payable	**103,043**	98,249
Advertising and promotional expenses	**284,281**	243,946
Purchase of materials and supplies and others	**759,244**	1,037,881
Retention payable	**690,714**	710,107
Due to government agencies	**275,757**	267,486
Output value added tax	**661,368**	136,138
Other payables	**83,970**	110,566
	P17,079,820	P15,785,151

Trade Payables
Trade payables are non-interest bearing and are normally settled on 30-to-60 day terms. Trade payables arise mostly from trade purchases of the banking group and 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 Project Development Costs
Accued project development costs represent costs incurred by the Property Development segment in the development and construction of real estate projects.

Accrued Expenses
Other accrued expenses consist of accruals for commission, outside services, fuel and oil, 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, 2015 and 2014, outstanding unsecured short term debts amounted to P1,400 million and P300.0 million, respectively. The loans are subject to annual interest rates ranging from 3.3% to 3.5% in 2015 and 2014, are payable lump sum on various dates within one year and subject to renewal upon agreement by the Group and counterparty banks. In 2015, the Group obtained additional short-term loans from Banco de Oro (BDO) amounting to P1,100 million which are payable in lump-sum after 60 days.

Long-term Debts

	2015	2014
	(In Thousands)	
Subordinated debts	**P9,986,427**	P9,969,498
Unsecured term loan	**720,004**	1,321,823
Notes payable	**476,015**	508,115
Bonds payable	**–**	4,998,008
	11,182,446	16,797,444
Less current portion	**(476,015)**	(5,506,123)
Noncurrent portion	**P10,706,431**	P11,291,321

PNB's Subordinated Debts

5.875% 3.5 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. EIR on this note is 6.04%.

Significant terms and conditions of the subordinated notes follow:

1. 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 May of each year, commencing on May 9, 2012, unless the 2012 Notes are redeemed at a redemption price equal to 100.00% of the principal amount on May 10, 2017, call option date.

2. 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 PNB arising under or in connection with the 2012 Notes.

6.75% 6.5 Billion Subordinated Notes
On May 15, 2011, PNB's BOD approved the issuance of unsecured subordinated notes of P6.5 billion that qualify as Lower Tier 2 capital. EIR on this note is 6.94%.

Significant terms and conditions of the subordinated notes follow:

1. 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 redeemed at a redemption price equal to 100.00% of the principal amount on June 16, 2016, call option date.

2. 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.

As of December 31, 2015 and 2014, the unamortized transaction cost of subordinated debt amounted to P13.6 million and P30.5 million respectively. In 2015, 2014 and 2013, amortization of transaction costs amounting to P16.9 million, P15.8 million, and P14.8 million, respectively, were charged to "Cost of banking services" in the consolidated statements of income (see Note 24).

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, 2015 and 2014, the unamortized transaction cost of subordinated debt amounted to P13.6 million and P30.5 million, respectively. In 2015, 2014 and 2013, amortization of transaction costs amounting to P16.9 million, P15.8 million, and P14.8 million, respectively, were charged to "Cost of banking services" in the consolidated statements of income (see Note 24).

TDI's 5.0 billion bonds payable

On November 24, 2009, TDI's and LTG's BOD approved and confirmed the issuance of the retail bonds amounting to P5.0 billion due in 2015 at 8.6% 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 matured and were redeemed on February 13, 2015.

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.

Unsecured term loans of Eton

On January 28, 2013, Eton entered into an unsecured term loan agreement with 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. Effective on October 28, 2013, ETON and BDO agreed to the new interest rate of 4.75%.

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 2015 and 2014 (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 5.10% to 6.66% in 2015 and from 6.00% to 6.66% in 2014 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. In February 2015, the Group executed a promissory note amounting to P369.0 million in relation to its purchase of land located at Meralco Avenue, Pasig City with a total purchase price of P410.0 million. In December 2015, the Group executed promissory note amounting to P754.0 million in relation to its purchase of land with a total purchase price amounting to P984.0 million.

Interest on loans payable from general borrowings capitalized as part of investment properties and real estate inventories amounted to nil and P61.9 million in 2015, and P30.0 million and P163.4 million in 2014, and P34.7 million and P68.4 million in 2013, respectively. Capitalization rates were 4.5% in 2015, 5.00% in 2014 and 4.51% in 2013, 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 was subjected to certain conditions which were not met in 2013. Accordingly, the term facility agreement was terminated.

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 consolidated statements of income (see Note 27). Interest costs from subordinated debts are included in the "Cost of banking services" (see Note 24).

Compliance with debt covenants
As of December 31, 2015 and 2014, the Group has complied with the covenants of its long-term debts.

20. Other Liabilities

	2015	2014
	(In Thousands)	
Insurance contract liabilities (Note 37)	**P4,719,336**	P11,507,852
Bills purchased - contra (Note 8)	**3,418,002**	4,230,348
Payable to landowners	**1,732,923**	2,289,708
Customers deposits	**1,426,649**	2,017,398
Reserve for unearned premiums	**1,191,405**	1,056,794
Managers' checks and demand drafts outstanding	**937,799**	1,030,298
Provisions (Note 38)	**1,168,011**	2,016,058
Deposit on lease contracts	**854,817**	651,371
Other dormant credits	**753,338**	549,149
Due to Treasurer of the Philippines	**438,943**	366,841
Payment order payable	**407,196**	312,144
Tenants' rental deposits	**306,524**	268,805
Margin deposits and cash letters of credit	**182,640**	86,143
Advanced rentals	**207,470**	45,800
Transmission liability	**24,976**	76,893
Due to BSP	**–**	101,172
Others	**3,440,631**	4,341,804
	21,210,660	30,948,578
Presented as noncurrent	**(7,961,017)**	(12,638,349)
Presented as current	**P13,249,643**	P18,310,229

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 P1.4 billion and P2.0 billion as of December 31, 2015 and 2014, respectively.

Payables to Landowners
In September 2012, Eton executed a P556.8 million promissory note, subject to interest rate of PDSTF 3 years + 1.00%, to a landowner in relation to its purchase of land located in Makati City with total purchase price of P742.4 million. In 2015, the promissory was fully paid.

In November 2012, Eton executed a promissory note to a landowner amounting to P740.0 million, subject to interest rate of PDSTF 3 years + 0.50%, in relation to its purchase of land located in Quezon City with total purchase price of P1,000.0 million. The promissory note is due on the third year from its execution date.

In 2014, Eton executed a P992.9 million promissory note, subject to interest rate of PDSTF 3 years + 0.50%, to various landowners in relation to its purchase of land located in Laguna with total purchase price of P1.3 billion. On November 30, 2015, the terms and conditions of the promissory note were extended beyond 2015.

Interest expense recognized related to these promissory notes amounted to P55.3 million in 2015, and nil in 2014 and 2013, net of capitalized portion amounting to P52.6 million, P81.5 million and P63.3 million in 2015, 2014 and 2013, respectively (see Notes 12, 13 and 27).

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 (see Note 14).

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 in the next page show the fair values of derivative financial instruments entered into by the Group, recorded as derivative assets or derivative liabilities (included under "Financial assets and liabilities at FVPL") , 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, 2015 and 2014 and are not indicative of either market risk or credit risk (amounts in thousands, except average forward rate).

	December 31, 2015				December 31, 2014			
	Assets	Liabilities	Average Forward Rate	Notional Amount*	Assets	Liabilities	Average Forward Rate	Notional Amount*
				(In Thousands)				
Freestanding derivatives:								
Currency forwards								
BUY:								
USD	**P42**	**P5,210**	**P47.37**	**P155,521**	P5,620	P2,246	P44.81	P77,300
JPY	**–**	**–**	**–**	**–**	13	567	0.37	312,776
EUR	**122**	**–**	**1.09**	**898**	1,686	535	7.75	82,156
GBP	**–**	**168**	**1.36**	**1,104**	6	–	1.56	150
CAD	**–**	**170**	**0.72**	**1,385**	–	47	1.16	1,614
HKD	**–**	**66**	**7.75**	**13,012**	539	532	7.75	82,156
AUD	**–**	**–**	**–**	**–**	81	–	0.82	200
SELL:								
USD	**66,932**	**–**	**47.31**	**374,421**	6,809	15,717	44.78	208,510
JPY	**–**	**86,305**	**0.39**	**4,492,495**	634	17	0.37	713,228
GBP	**455**	**139**	**1.49**	**5,700**	2,152	–	1.56	4,250
EUR	**4**	**11**	**1.10**	**2,200**	4,378	–	1.3	1,797
CAD	**520**	**34**	**0.72**	**3,444**	3	66	1.16	2,195
SGD	**411**	**190**	**1.41**	**4,600**	449	275	1.32	6,611
AUD	**–**	**149**	**0.72**	**450**	531	–	0.82	800
HKD	**86**	**184**	**7.75**	**63,733**	83	96	7.76	14,100
Interest rate swaps (Php)	**49,444**	**42,567**	**–**	**–**	42,407	24,805	–	–
Warrants	**63,332**	**–**	**–**	**–**	71,160	–	–	–
	P181,348	**P135,193**			P136,551	P44,903		

* The notional amounts pertain to the original currency except for the embedded derivatives, which represent the equivalent to USD amount.

a. As of December 31, 2015 and 2014, PNB holds 306,405 shares of ROP Warrants Series B1 at their fair value of US$1.3 million and US$1.6 million, respectively.

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

	2015	2014
	(In Thousands)	
Balance at beginning of year	**P91,648**	P95,596
Changes in fair value	**(583,375)**	105,244
Availments (settlements)	**537,882**	(109,192)
Balance at end of year	**P46,155**	P91,648

The changes in fair value of the derivatives are included in "Trading and investments securities gains - net" presented as part of "Banking revenues" in the consolidated statements of income (see Note 24).

22. Related Party Transactions

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

Parent Company, Subsidiaries, Associate and Joint Venture	Entities Under Common Control
Parent Company	Ascot Holdings, Inc.
Tangent	Pol Holdings, Inc.
	Sierra Holdings & Equities, Inc.
Subsidiaries	Grand Cargo and Warehousing Services., Inc.
TDI and Subsidiaries	Northern Corporation Tobacco Redrying Co., Inc.
ADI	Basic Holdings Corporation
AAC	Dominium Realty & Construction Corp
TBI	Foremost Farms Inc.
ABI and Subsidiaries	Grandspan Development Corp.
Agua Vida	Himmel Industries Inc.
Interbev	Lapu Lapu Packaging
Waterich	Lucky Travel Corporation
Packageworld	Philippine Airlines, Inc.
AB Nutribev	Rapid Movers & Forwarders Co. Inc.
Asia Pacific Bev PTE	Upright Profits Ltd.
FTC	Dyzum Distillery Inc.
Shareholdings	Parity Packaging Corp.
Saturn	Heritage Holdings Corp.
Paramount and Subsidiaries	Maxell Holdings, Corp.
Eton	Networks Holdings & Equities, Inc.
BCI	Cube Factor Holdings, Inc.
ECI	Trustmark Holdings Corporation
FHI	Polima International Limited
EPMC	Cosmic Holdings Corp.
Bank Holding Companies:[1]	Negros Biochem Corporation
Allmark Holdings Corp.	Grandway Konstruct, Inc.
Dunmore Development Corp.	Harmonic Holdings Corp.
Kenrock Holdings Corp.	Proton Realty & Development Corporation
Leadway Holdings, Inc.	Billinge Investments Limited
Multiple Star Holdings Corp.	Step Dragon Co. Limited
Pioneer Holdings & Equities, Inc.	High Above Properties Ltd.
Donfar Management Ltd.	Penick Group Limited
Fast Return Enterprises Ltd.	In Shape Group Ltd.
Mavelstone International Ltd.	Hibersham Assets Ltd.
Uttermost Success, Ltd.	Orient Legend Developments Ltd.
Ivory Holdings, Inc.	Complete Best Development Ltd.
Merit Holdings & Equities Corp.	Cormack Investments Ltd
True Success Profits Ltd.	Link Great International Ltd.
Key Landmark Investments Ltd.	Bright Able Holdings Ltd.
Fragile Touch Investments Ltd.	
Caravan Holdings, Corp.	
Solar Holdings Corp.	
All Seasons Realty Corp.	
Dynaworld Holdings Inc.	
Fil-Care Holdings Inc.	
Kentwood Development Corp.	
La Vida Development Corp.	
Profound Holdings Inc.	
Purple Crystal Holdings, Inc.	
Safeway Holdings & Equities Inc.	
Society Holdings Corp.	
Total Holdings Corp.	
PNB and Subsidiaries	
Associates	
PMFTC	
VMC	
Joint Venture	
ABI Pascual Holdings	
ABI Pascual Foods	

[1] In various dates in 2013, LTG acquired these holding companies through subscription of the increase in authorized capital stock of the holding companies.

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

	Nature	2015	2014	2013
			(In Thousands)	
	Dividend income	**P1,695,969**	P3,168,550	P3,953,220
Associates	Sales	**–**	–	4,372
	Purchases of inventories	**1,203,300**	812,405	1,060,622
	Banking revenue - interest on loans and receivables	**337,899**	153,707	184,370
	Sales of consumer products	**24,519**	21,011	21,117
	Interest income on loans and advances	**–**	16,806	39,556
	Rent income	**27,861**	30,942	16,830
	Other income	**136,908**	52,938	7,672
	Freight and handling	**(4,716)**	(7,772)	(5,364)
Entities Under Common Control	Purchases of inventories	**–**	(160,914)	(53,145)
	Cost of banking services - interest expense on deposit liabilities	**(23,461)**	(14,898)	(18,831)
	Cost of sales and services	**(26,296)**	(25,864)	(35,168)
	Management and professional fee	**(527,279)**	(335,016)	(422,866)
	Outside services	**(59,400)**	(57,150)	(41,672)
	Rent expense	**(58,710)**	(31,054)	(5,298)
Key Management	Short-term employee benefits	**(716,317)**	(588,709)	(450,881)
	Post-employment benefits	**(62,633)**	(62,097)	(60,368)

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

	Financial Statement Account	Terms and Conditions	Amount/Volume 2015	Amount/Volume 2014	Outstanding Balance 2015	Outstanding Balance 2014
				(In Thousands)		
Parent Company	Due to related parties	On demand; non-interest bearing	**P–**	(P2,301,805)	**(P41,975)**	(P41,975)
Associate	Other receivables - dividends	30 to 90 days terms; non-interest bearing	**1,695,969**	3,168,550	**228,017**	165,753
	Trade receivables	30 to 90 days terms; non-interest bearing	**17,590**	–	**17,771**	181
	Account payable and other liabilities	30 to 60 days terms; non-interest bearing	**1,203,300**	812,405	**(4,990)**	(38,354)
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	**337,899**	153,707	**18,168,623**	14,455,539
	Trade receivables	30 to 60 days terms; non-interest bearing	**24,519**	21,011	**9,469**	7,957
	Other receivables	30 to 60 days terms; non-interest bearing	**136,908**	16,806	**–**	3,175
	Due from related parties	On demand; non-interest bearing	**(204,356)**	(914,164)	**1,593,034**	1,797,390
	Advances to suppliers	30 to 60 days terms; non-interest bearing	**(269)**	(13,777)	**47,401**	47,670
	Advances to contractors	30 to 60 days terms; non-interest bearing	**–**	(1,164)	**–**	–
	Deposit liabilities	With annual rates ranging from 0.38% to 1.73% and maturity ranging from 30 days to one (1) year	**23,461**	14,898	**(7,418,850)**	(11,136,419)
	Bills payable	Foreign currency-denominated bills payable; with fixed annual interest rate of 1.77% and maturity term of 181 days; no collateral	**–**	–	**–**	–
	Account payable and other liabilitites	30 to 90 days terms; non-interest bearing	**–**	617,770	**(160,393)**	(331,866)
	Due to related parties	On demand; non-interest bearing	**3,089**	(383,138)	**(4,795)**	(7,884)
	Other payables	30 to 90 days terms; non-interest bearing	**673,566**	31,706	**(4,339)**	(4,496)
Stockholders	Due to related parties	On demand; non-interest bearing	**–**	(691,610)	**–**	–

As of December 31, 2015 and 2014, 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. In 2014, the Company fully settled its outstanding liabilities to Tangent amounting to P1.2 billion.
- On May 12, 2015, the Company's BOD and stockholders, respectively, approved the declaration and distribution of cash dividends of P0.15 per share or a total of P1,623.2 million to all stockholders of record as of May 27, 2015 and to be paid not later than June 10, 2015.
- 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 an Associate

- Dividend income from PMFTC amounted to P1.7 billion in 2015, P3.2 billion in 2014 and P4.0 billion in 2013 (see Note 11). Dividends receivable from PMFTC as of December 31, 2015 and 2014 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 ownership will be fifty percent (50%) each (see Note 11).

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 agreements with Basic Holdings Corporation for certain considerations. Management fees are recorded under "Outside services" in "Cost of goods sold" and "Professional fees" in the "General and administrative expenses".

- The property development segment purchases parcels of land from other related parties for use in its various projects.

- 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).

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:**	**2015**	2014	2013
				(In Thousands)	
Purchase/Sale of commercial bottles and packaging materials	FTC/TDI	ABI/PWI	**P1,011,781**	P1,033,901	P683,493
Purchase/Sale of raw materials	ABI/Interbev	TDI/ADI	**115,079**	101,386	114,241
Royalty fees	ABI	TDI	**13,421**	15,909	20,949
Management fees	TDI	LTG	**16,000**	48,000	48,000
Interest on loans	Eton	LTG	**4,413**	4,563	4,563
Interest on promissory note from sale of property	Eton	ABI/ Bank Holding Companies/ Paramount	**19,114**	20,005	4,387
Interest on cash and cash equivalents	PNB	All entities other than PNB	**72,729**	166,931	166,931
Interest on short term and long term loans	ABI/Interbev/ Eton	PNB	**10,150**	–	–
Gain on sale of property	Eton	ABI/ Bank Holding Companies/ Paramount	**369,084**	175,673	288,407

The following are the balances among related parties which are eliminated in the consolidated balance sheets:

Nature	**Assets recognized by:**	**Liabilities recognized by:**	**December 31** **2015**	2014
			(In Thousands)	
Due from/to related parties	LTG/FTC	Bank Holding Companies	**P153,255**	P145,315
	ABI	Eton	**444,000**	444,000
	LTG	Eton	**–**	400,000
	FTC	ABI/Eton/LTG	**525**	525
	LTG	TBI/Paramount/Saturn	**12,838**	638
	TDI	TBI	**16,571**	18,507
	LTG	TDI	**–**	3,880
	HOLCOS	Eton	**185,597**	185,597
	PLI	Eton	**30,367**	30,367
Trade receivables/ payables	TDI/ADI	ABI/Interbev	**31,103**	85,759
	ABI/PWI	FTC/TDI	**568,427**	416,604
Cash and cash equivalents/ deposit liabilities	All entities other than PNB	PNB	**9,737,169**	12,662,177
Obligations under finance lease	PNB	ABI/Interbev	**–**	2,902

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, 2015 and 2014, 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:

	2015	2014
	(In Thousands)	
Net retirement plan assets:		
FTC	**P227,524**	P223,083
AAC	**19,347**	41,035
LTG	**8,845**	–
	P255,716	P264,118
Accrued retirement benefits:		
PNB	**P2,955,003**	P2,841,883
ABI and subsidiaries	**861,051**	877,195
TDI and ADI	**37,931**	11,730
Eton	**46,941**	38,392
LTG	**–**	7,061
	P3,900,926	P3,776,261

The following tables summarize the components of net retirement plan assets and accrued retirement benefits recognized in the consolidated balance sheets, the net benefit expenses recognized in the consolidated statements of income and the remeasurement losses (gains) recognized in consolidated statements of comprehensive income.

Net retirement plan assets:

	2015			2014			2013		
	Defined Benefit Obligations	**Fair Value of Plan Assets**	**Net Retirement Plan Assets**	Defined Benefit Obligations	Fair Value of Plan Assets	Net Retirement Plan Assets	Defined Benefit Obligations	Fair Value of Plan Assets	Net Retirement Plan Assets
					(In Thousands)				
Beginning balance	**P131,057**	**(P395,175)**	**(P264,118)**	P75,033	(P318,826)	(P243,793)	P63,651	(P1,236,724)	(P1,173,073)
Change in status of retirement plan	**18,453**	**(11,392)**	**7,061**	102,970	(81,708)	21,262	–	–	–
Net retirement benefits cost in profit or loss:									
Current service cost	**29,759**	**–**	**29,759**	18,037	–	18,037	5,992	–	5,992
Net interest cost	**4,107**	**(15,112)**	**(11,005)**	7,673	(10,726)	(3,053)	3,276	(64,395)	(61,119)
Curtailment gain	**(12,523)**	**–**	**(12,523)**	–	–	–	–	–	–
	21,343	**(15,112)**	**6,231**	25,710	(10,726)	14,984	9,268	(64,395)	(55,127)
Contributions	**–**	**(5,084)**	**(5,084)**	–	(1,201)	(1,201)	–	–	–
Benefits paid	**(3,642)**	**3,642**	**–**	(16,757)	16,757	–	(3,936)	3,936	–
Plan assets returned to the Group	**–**	**–**	**–**	–	–	–	–	940,820	940,820
Re-measurement losses (gains) in other comprehensive income - actuarial changes arising from experience adjustments	**(5,510)**	**5,704**	**194**	(55,899)	529	(55,370)	6,050	37,537	43,587
Ending balance	**P161,701**	**(P417,417)**	**(P255,716)**	P131,057	(P395,175)	(P264,118)	P75,033	(P318,826)	(P243,793)

Accrued retirement benefits:

	2015			2014			2013		
	Defined Benefit Obligations	**Fair Value of Plan Assets**	**Accrued Retirement Bene fits**	Defined Benefit Obligations	Fair Value of Plan Assets	Accrued Retirement Benefits	Defined Benefit Obligations	Fair Value of Plan Assets	Accrued Retirement Benefits
					(In Thousands)				
Beginning 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
Change in status of retirement plan	**(18,453)**	**11,392**	**(7,061)**	(102,968)	81,708	(21,260)	–	–	–
Net retirement benefits cost in profit or loss:									
Current service cost	**889,132**	**–**	**889,132**	561,720	–	561,720	533,140	–	533,140
Net interest cost	**343,297**	**(165,172)**	**178,125**	281,403	(86,831)	194,572	306,585	(119,111)	187,474
Past service cost	**7,529**	**–**	**7,529**	45,767	–	45,767	(70,880)	–	(70,880)
	1,239,958	**(165,172)**	**1,074,786**	888,890	(86,831)	802,059	768,845	(119,111)	649,734
Contributions	**–**	**(996,283)**	**(996,283)**	–	(2,447,710)	(2,447,710)	–	(1,987,230)	(1,987,230)
Benefits paid	**(527,023)**	**527,023**	**–**	(593,393)	593,393	–	(541,545)	541,545	–
Benefits paid out of retirement fund	**(23)**	**–**	**(23)**	–	–	–	–	–	–
Others	**69,366**	**34,084**	**103,450**	–	–	–	–	–	–
Re-measurement losses (gains) in other comprehensive income - actuarial changes arising from changes in:									
Financial assumptions	**(471,608)**	**(69)**	**(471,677)**	124,093	–	124,093	(603,258)	–	(603,258)
Demographic assumptions	**485**	**–**	**485**	–	–	–	–	–	–
Experience adjustments	**83,262**	**337,726**	**420,988**	981,537	(8,720)	972,817	789,925	139,075	929,000
	(387,861)	**337,657**	**(50,204)**	1,105,630	(8,720)	1,096,910	186,667	139,075	325,742
Ending balance	**P9,666,274**	**(P5,765,348)**	**P3,900,926**	P9,290,310	(P5,514,049)	P3,776,261	P7,992,151	(P3,645,889)	P4,346,262

The fair value of plan assets as of December 31 is as follows:

	2015	2014
	(In Thousands)	
Cash and cash equivalents	**P2,184,326**	P2,221,155
Investments in government securities	**442,391**	613,605
Equity investments:		
Financial institutions	**1,694,001**	1,106,063
Other	**39,466**	26,719
Receivables	**1,813,219**	1,675,151
Others	**9,362**	266,531
Fair value of plan assets	**P6,182,765**	P5,909,224

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

	2015	2014
Cash and cash equivalents	**37%**	38%
Receivables	**26%**	27%
Equity investments	**29%**	18%
Investments in government securities	**7%**	11%
Others	**1%**	6%
Fair value of plan assets	**100%**	100%

The overall investment policy and strategy of the Group's defined benefit plans is guided by the objective of achieving an investment return which, together with contributions, ensures that there will be sufficient assets to pay pension benefits as they fall due while also mitigating the various risk of the plans. The plan assets have diverse investments and do not have concentration risk.

The Group's defined pension plan are funded through the contributions made by the Group to the trust.

The principal assumptions used in determining pension benefit obligations for the Group's plans as of January 1 are shown below:

	2015	2014	2013
Discount rate	**4%-5%**	5%-6%	5%-7%
Future salary increases	**5%-10%**	5%-10%	5%-10%

As of December 31, 2015 and 2014, the discount and future salary increase rates are 4-5% and 5-10%, and 5-6% and 5-10%, respectively.

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligations as of the end of the reporting period, assuming if all other assumptions were held constant (in thousands):

	2015		2014	
	Increase (Decrease)	**Increase (Decrease) in Present Value of Defined Benefit Obligations**	Increase (Decrease)	Increase (Decrease) in Present Value of Defined Benefit Obligations
Discount rates	**+0.5%**	**(P774,421)**	+0.5%	(P37,971)
	-0.5%	**901,270**	-0.5%	42,358
Future salary increases	**+1.0%**	**920,284**	+1.0%	81,802
	-1.0%	**(794,886)**	-1.0%	(66,950)

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 2016.

The average duration of the defined benefit obligations at the end of the reporting period range from 14 to 21 years as of December 31, 2015 and from 14 to 23 years as of December 31, 2014.

<u>Transactions with Retirement Plans</u>
Management of the retirement funds of the banking segment is handled by the PNB Trust Banking Group (TBG). As of December 31, 2015 and 2014, the retirement fund of the Group includes 9,008,864 shares of PNB classified under HFT. No limitations and restrictions are provided and voting rights over these shares are exercised by a trust officer or any of its designated alternate officer of TBG.

As of December 31, 2015 and 2014, 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.

<u>FTC's Retirement Plan</u>
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:

	2015	2014 (As restated, Note 37)	2013 (As restated, Note 37)
		(In Thousands)	
Banking revenue (Note 5)	**P26,600,160**	P24,210,181	P28,560,739
Sale of consumer goods	**25,289,260**	25,207,500	23,279,109
Real estate sales	**1,311,914**	1,538,260	3,208,225
Rental income	**1,172,539**	740,340	448,725
	P54,373,873	P51,696,281	P55,496,798

Banking revenue consists of:

	2015	2014 (As restated, Note 37)	2013 (As restated, Note 37)
		(In Thousands)	
Interest income on:			
Loans and receivables	**P17,144,366**	P15,226,938	P13,792,962
Trading and investment securities	**3,742,036**	2,992,864	3,649,031
Deposits with banks and others	**785,414**	1,919,443	1,622,102
Interbank loans receivable	**36,747**	19,218	40,696
	21,708,563	20,158,463	19,104,791
Trading and securities gains	**578,698**	633,072	5,987,103
Service fees and commission income	**4,312,899**	3,418,646	3,468,845
	P26,600,160	P24,210,181	P28,560,739

Sale of consumer goods consists of:

	2015	2014	2013
		(In Thousands)	
Gross sales	**P26,787,233**	P26,660,735	P24,390,891
Less sales returns, discounts and allowances	**1,497,973**	1,453,235	1,111,782
	P25,289,260	P25,207,500	P23,279,109

Cost of sales and services consists of:

	2015	2014 (As restated, Note 37)	2013 (As restated, Note 37)
		(In Thousands)	
Cost of consumer goods sold:			
Materials used and changes in inventories (Note 9)	**P12,662,514**	P12,473,921	P10,764,864
Taxes and licenses	**1,363,543**	1,448,239	1,610,239
Depreciation and amortization (Note 12)	**1,286,665**	1,420,117	1,298,012
Personnel costs	**779,378**	718,407	522,526
Outside services	**674,371**	624,678	775,870
Fuel and power	**672,009**	779,778	922,159
Communication, light and water	**641,942**	610,569	682,938
Repairs and maintenance	**442,599**	460,735	390,720
Freight and handling	**118,121**	91,617	124,090
Others	**325,167**	293,792	296,313
	18,966,309	18,921,853	17,387,731
Cost of banking services	**4,734,514**	4,234,936	5,619,415
Cost of real estate sales	**952,661**	1,303,734	2,489,830
Cost of rental income	**226,888**	278,855	190,293
Cost of sales and services	**P24,880,372**	P24,739,378	P25,687,269

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

Cost of banking services consist of:

	2015	2014 (As restated, Note 37)	2013 (As restated, Note 37)
		(In Thousands)	
Interest expense on:			
Deposit liabilities	**P2,987,670**	P2,894,689	P3,862,813
Bills payable and other borrowings	**1,029,995**	856,926	1,121,503
Services fees and commission expense	**716,849**	483,321	635,099
	P4,734,514	P4,234,936	P5,619,415

25. Selling Expenses

	2015	2014	2013
		(In Thousands)	
Advertising and promotions	**P1,125,810**	P1,242,980	P1,258,520
Depreciation and amortization (Note 12)	**641,923**	593,785	717,807
Freight and handling	**379,732**	369,263	54,706
Personnel costs	**134,071**	125,915	122,140
Outside services	**112,307**	119,341	91,410
Materials and consumables	**59,662**	31,205	60,711
Repairs and maintenance	**47,674**	62,713	63,888
Commissions	**22,730**	138,877	305,201
Travel and transportation	**21,001**	25,806	41,122
Others	**99,186**	36,755	61,441
	P2,644,096	P2,746,640	P2,776,946

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

	2015	2014 (As restated, Note 37)	2013 (As restated, Note 37)
		(In Thousands)	
Personnel costs	**P8,821,940**	P7,944,923	P6,847,315
Taxes and licenses	**2,251,590**	2,216,654	2,375,917
Occupancy	**1,451,117**	1,483,130	1,619,244
Outside services	**1,306,491**	1,181,840	1,082,625
Depreciation and amortization (Notes 12, 13 and 14)	**1,393,437**	1,381,371	1,909,021
Insurance	**1,089,818**	964,466	944,261
Provision for credit losses (Note 8)	**865,889**	1,734,502	911,690
Management, consulting and professional fees	**826,478**	800,322	719,452
Marketing and promotional	**764,767**	708,999	976,040
Provision for (reversal of) legal cases and other losses - net (Notes 12, 14 and 38)	**(292,643)**	473,362	88,240
Information technology	**489,036**	407,074	394,361
Travel and transportation	**286,568**	278,840	285,989
Communication, light and water	**274,578**	243,063	292,247
Litigation	**235,526**	229,886	281,825
Materials and consumables	**206,417**	244,477	308,763
Repairs and maintenance	**193,715**	185,178	193,687
Freight and handling	**81,855**	76,366	98,242
Fuel and oil	**36,751**	66,519	141,846
Others	**524,985**	447,106	926,552
	P20,808,315	P21,068,078	P20,397,317

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:

	2015	2014	2013
		(In Thousands)	
Finance costs (Note 19):			
Short-term debts	**P–**	P10,523	P18,353
Unsecured term loan and notes payable (Note 20)	**144,549**	26,118	45,540
Bonds payable	**55,957**	402,750	402,750
Amortization of bond issue costs	**2,012**	15,464	14,249
	P202,518	P454,855	P480,892
Finance income:			
Cash and other cash items (Note 5)	**P71,345**	P91,371	P84,908
Interest-bearing contracts receivable (Note 8)	**34,618**	24,670	39,385
AFS investments (Note 7)	**4,413**	3,000	14,800
	P110,376	P119,041	P139,093

28. Other Income (Charges) - Net

	2015	2014 (As restated, Note 37)	2013 (As restated, Note 37)
		(In Thousands)	
Net gains on sale or exchange of assets	**P1,562,020**	P1,889,744	P528,632
Recovery of insurance claims (Note 38)	**709,160**	–	–
Rental income and dues (Note 13)	**565,083**	805,235	469,538
Recoveries from charged off assets	**162,430**	117,520	91,125
Mark-to-market gain on financial assets designated at FVPL	**42,383**	32,351	–
Dividend income	**22,464**	10,912	19,123
Gain on retirement	**12,523**	–	70,880
Gain on disposal of AFS investments	**2,928**	245,216	290,505
Referral, processing and trust fees	**2,382**	97,715	68,444
Share in net losses of joint venture (Note 11)	**(2,067)**	(46,043)	(20,091)
(Forward)			

	2015	2014 (As restated, Note 37)	2013 (As restated, Note 37)
		(In Thousands)	
Collections from asset pool 1 accounts (Note 38)	**P–**	P–	P306,094
Others	**177,917**	652,409	278,809
	P3,257,223	P3,805,059	P2,103,059

a. Net gains on sale or exchange of assets include sale of investment properties of the banking segment in 2015, 2014 and 2013 amounting to P1,435.8 million, P1,072.7 million and P26.8 million, respectively.

b. Others include income and expense items mainly relating to banking operations, which are individually not significant as to amounts.

29. Income Taxes

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

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

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

a. Details of the Group's deferred income tax assets and liabilities as of December 31 follow:

	2015		2014	
	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	**P4,854,631**	**P14,035**	P4,851,051	P12,524
Inventories	**–**	**1,681**	–	5,392
Property, plant and equipment	**–**	**54,725**	–	66,660
Accumulated depreciation on investment properties	**603,158**	**–**	–	–
Net retirement benefits liabilities	**26,595**	**258,683**	29,139	231,132
Unamortized past service cost	**–**	**1,140**	5	1,110
Accrued expenses	**34,328**	**11,095**	43,235	12,276
Reserve for unearned premiums	**–**	**–**	8,248	–
Deferred rent expense	**37,384**	**–**	–	–
Advance rental income	**26,005**	**–**		
Provision for losses	**–**	**–**	18,000	16,329
(Forward)				

	2015		2014	
	Net Deferred Income Tax Assets[(1)]	**Net Deferred Income Tax Liabilities[(2)]**	Net Deferred Income Tax Assets[(3)]	Net Deferred Income Tax Liabilities[(4)]
Unrealized losses on:		*(In Thousands)*		
Foreign exchange	**P–**	**P–**	P44	P466
Inventories on hand	**–**	**1,868**	–	20,041
Sale of property to a subsidiary	**–**	**4,529**	–	5,491
Difference between tax and book basis of accounting for real estate and banking transactions	**17,180**	**–**	27,273	–
NOLCO	**94,914**	**13,240**	278,279	–
Reserves, excess MCIT and others	**59,788**	**1,187**	597,608	–
	5,753,983	**362,183**	5,852,882	371,421
Deferred income tax liabilities on:				
Revaluation increment on property, plant and equipment	**(2,641,023)**	**(562,197)**	(1,102,033)	(1,314,352)
Excess of fair values over carrying values of property, plant and equipment acquired through business combination	**–**	**(33,472)**	–	(29,846)
Borrowing cost capitalized to property, plant, and equipment	**–**	**(16,760)**	–	(18,213)
Temporary difference associated with investments in disposal group classified as held for sale	**(91,299)**	**–**	–	–
Fair value gain on investment properties	**(1,593,081)**	**–**	(3,559,833)	–
Net changes in fair values of FVPL financial assets	**–**	**(24,370)**		
Net retirement plan assets	**–**	**(87,192)**	–	(79,285)
Unrealized foreign exchange gains	**(579,661)**	**(31,519)**	(597)	(3)
Deferred rental income	**(29,958)**	**–**	(18,661)	–
Difference between tax and book basis of accounting for real estate transactions	**(47,006)**	**–**	(35,258)	–
Others	**(208,205)**	**(309,110)**	(379,538)	(297,111)
	(5,190,233)	**(1,064,620)**	(5,095,920)	(1,738,810)
	563,750	**(702,437)**	756,962	(1,367,389)
Recognized directly in equity:				
Deferred income tax assets on:				
Re-measurement losses on retirement benefits	**–**	**19,365**	830	22,800
Deferred income tax liabilities on:				
Re-measurement gains on defined benefit plans	**(12,513)**	**(4,554)**	(40,574)	(10,658)
Change in AFS	**–**	**(2,895)**	–	–
Revaluation increment on property, plant and equipment	**–**	**(492,455)**	–	–
	(12,513)	**(499,904)**	(40,574)	(10,658)
	(12,513)	**(480,539)**	(39,744)	12,142
	P551,237	**(P1,182,976)**	P717,218	(P1,355,247)

(1) Pertains to Eton and PNB
(2) Pertain to LTG, Saturn, PLI, AAC, ADI, PWI, TDI, ABI, FTC and IPI
(3) Pertains to LTG, Eton and PNB
(4) Pertain to Saturn, PLI, AAC, ADI, PWI, TDI, ABI, FTC and IPI

b. Provision for current income tax consists of:

	2015	2014 (As restated, Note 37)	2013 (As restated, Note 37)
		(In Thousands)	
RCIT	**P1,769,395**	P1,555,343	P1,620,958
MCIT	**14,272**	23,962	44,623
Final tax	**575,860**	696,899	813,482
Provision for current income tax	**P2,359,527**	P2,276,204	P2,479,063

c. As of December 31, 2015 and 2015, 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:

	2015	2014
	(In Thousands)	
NOLCO	**P802,203**	P667,353
Allowance for credit losses	**1,813,269**	2,250,081
Allowance for inventory obsolescence	**18,314**	7,489
Accrued retirement benefits	**786,600**	874,760
Unamortized past service cost	**631,977**	100,865
Unearned income	**112,500**	112,500
Accrued expenses	**426,911**	436,037
Derivative liabilities	**40,503**	13,279
Others	**60,730**	233,770

Details of the Group's NOLCO follow (in thousands):

Year Incurred	Amount	Applied	Expired	Balance	Expiry Year
2012	P266,575	P–	(P266,575)	P–	2015
2013	616,862	–	–	616,862	2016
2014	231,270	–	–	231,270	2017
2015	314,584	–	–	314,584	2018
	P1,429,291	P–	(P266,575)	P1,1,62,716	

Details of the Group's MCIT follow (in thousands):

Year Incurred	Amount	Applied	Expired	Balance	Expiry Year
2012	P21,024	P–	(P21,024)	P–	2015
2013	32,173	–	–	32,173	2016
2014	8,053	–	–	8,053	2017
2015	14,272	–	–	14,272	2018
	P75,522	P–	(P21,024)	P54,498	

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:

	2015	2014	2013
		(In Thousands)	
Provision for income tax at statutory income tax rate from:			
Continuing operations	**P3,515,263**	P2,656,107	P4,007,031
Discontinued operations	**120,671**	92,201	68,137
	3,635,934	2,748,308	4,075,168
Adjustments resulting from:			
NOLCO and other deductible temporary differences for which no deferred income tax assets were recognized	**2,683**	349,209	187,626
Application of NOLCO and other deductible temporary differences for which no deferred income tax assets were recognized in prior years	**(153,656)**	(665,685)	(10,157)
Nontaxable income	**(553,381)**	(861,891)	(2,030,276)
Difference of itemized deduction against 40% of taxable income	**(30,229)**	(4,685)	19,832
Income subjected to final tax	**(700,972)**	–	(23,474)
Equity in net earnings of an associate	**(356,692)**	(154,534)	(1,111,235)
Non-deductible expenses	**779,440**	1,278,096	1,001,346
Provision for income tax	**P2,623,127**	P2,688,818	P2,108,830
Provision for income tax from continuing operations	**P2,578,822**	P2,645,647	P2,078,387
Provision for income tax from discontinued operations	**44,305**	43,171	30,443
Provision for income tax	**P2,623,127**	P2,688,818	P2,108,830

30. Equity

Capital Stock

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

	2015	2014
	Number of shares	
Authorized capital stock at 1 par value:		
Balance at beginning and end of year	**25,000,000,000**	25,000,000,000
	(In Thousands)	
Issued capital stock at 1 par value:		
At beginning and end of year	**P10,821,389**	P10,821,389

a. Capital stock is held by a total of 376 and 375 stockholders as of December 31, 2015 and 2014, 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
March 1966	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. 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, the LTG's BOD and stockholders, respectively, 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 July 3, 2014 and to be paid out not later than May 22, 2014.

b. On May 12, 2015, the LTG's BOD and stockholders, respectively, approved the declaration and distribution of cash dividends of P0.15 per share or a total of P1,623.2 million to all stockholders of record as of May 27, 2015 and to be paid not later than June 10, 2015.

c. Retained earnings include undistributed earnings amounting to P47.0 billion in 2015, P42.1 billion in 2014 and P36.9 billion in 2013, 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, 2015 and 2014.

Preferred shares of subsidiaries issued to Parent Company
On March 20, 2013, the respective BOD's and stockholders of various Bank Holding Companies approved the increase in their authorized capital stocks comprising of common shares and preferred shares with par value of 1.00 per share. The preferred shares were subscribed by Tangent through conversion of its advances into invesments in certain Bank Holding Companies (see Note 22). Upon approval of the SEC of the increase in authorized capital stock of Bank Holding Companies in various dates in October, November and December 2013, preferred shares amounting to 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, 2015 and 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:

	2015	2014
	(In Thousands)	
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	**66,658**	52,156
Effect of sale of a subsidiary to parent company	**99,655**	99,655
Effect of sale of direct interest in a subsidiary	**(543)**	–
	P804,095	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, 2015 and 2014 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:

	2015	2014	2013
		(In Thousands)	
Balance as of January 1	**P38,494,303**	P32,235,085	P31,051,046
Net income attributable to non-controlling interests	**2,897,619**	2,061,976	2,805,844
Share in other comprehensive income, net of deferred income tax effect:			
Net changes in AFS financial assets (Note 7)	**(746,334)**	426,879	(2,514,123)
Accumulated translation adjustments	**283,115**	(119,903)	911,051
Remeasurement gains (losses) on defined benefit plans (Notes 2 and 23)	**(39,302)**	(537,431)	(127,737)
Revaluation increment on property, plant and equipment (Note 12)	**–**	–	420,332
Dividends received	**(7,324)**	–	(64,216)

(Forward)

	2015	2014	2013
		(In Thousands)	
Capital contribution of non-controlling interest during the year	**P–**	P4,427,697	P–
Changes in ownership interest	**–**	–	(247,112)
Balance as of December 31	**P40,882,077**	P38,494,303	P32,235,085

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 was used as capital injection to PNB Savings Bank (PNB SB) to build and refocus PNB SB's lending business. The offer also sthrengthen PNB SB's capital position under BASEL III standards effective January 1, 2014.

31. Basic/Diluted Earnings Per Share

The following tables reflect the net income and share data used in the earnings per share computations:

Basic/diluted earnings per share were calculated as follows:

	2015	2014 (As restated, Note 37)	2013 (As restated, Note 37)
		(In Thousands)	
Net income attributable to equity holders of the Company	**P6,599,035**	P4,410,230	P8,669,220
Divided by weighted-average number of shares	**10,821,389**	10,821,389	10,208,056
Basic/diluted EPS for net income attributable to equity holders of the Company	**P0.61**	P0.41	P0.85

Earnings per share attributable to equity holders of the Group from continuing operations:

	2015	2014 (As restated, Note 37)	2013 (As restated, Note 37)
		(In Thousands)	
Net income from continuing operations attributable to equity holders of the Company	**P6,312,690**	P4,198,899	P8,511,876
Divided by weighted-average number of shares	**10,821,389**	10,821,389	10,208,056
Basic/diluted EPS for net income from continuing operations attributable to equity holders of the Company	**P0.58**	P0.39	P0.83

There are no potential common shares with dilutve effect on the basic earnings per share in 2015, 2014 and 2013.

32. Financial Risk Management Objectives and Policies

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

Financial Risk Management Objectives and Policies of the Banking Segment

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

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

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

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

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

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

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

The mandate of the RMG involves:

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

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

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

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

- Documented credit policies and procedures: sound credit granting process, risk asset acceptance criteria, target market and approving authorities;
- System for administration and monitoring of exposure;
- Pre-approval review of loan proposals;
- Post approval review of implemented loans;
- Work out system for managing problem credits;
- Regular review of the sufficiency of valuation reserves;
- Monitoring of the adequacy of capital for credit risk via the Capital
- Adequacy Ratio (CAR) report;
- Monitoring of breaches in regulatory and internal limits;
- Credit Risk Management Dashboard;
- Diversification;
- Internal Risk Rating System for corporate accounts;
- Credit Scoring for retail accounts; and
- Active loan portfolio management undertaken to determine the quality of the loan portfolio and identify the following:
  a. portfolio growth
  b. movement of loan portfolio (cash releases and cash collection for the month)
  c. loss rate
  d. recovery rate
  e. trend of nonperforming loans (NPLs)
  f. concentration risk (per classified account, per industry, clean exposure, large exposure, contingent exposure, currency, security, facility, demographic, etc.

The banking segment has moved one step further by collecting data on risk rating of loan borrowers with an asset size of 15.0 million and above as initial requirement in the banking segment's model for internal Probability of Default (PD) and Loss Given Default (LGD).

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

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

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

The main types of collateral obtained are as follows:

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

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

The banking segment is not permitted to sell or repledge the collateral held over loans and advances to counterparty banks and BSP in the absence of default by the owner of the collateral.

The banking segment's maximum exposure to on-balance sheet credit risk is equal to the carrying value of its financial assets except for the following securities held under agreements to resell and loans and receivables:

	2015			
	Gross Maximum Exposure	**Fair Value of Collateral**	**Net Exposure**	**Financial Effect of Collateral**
	(In Millions)			
Securities held under agreements to resell	**P14,550**	**P14,516**	**P34**	**P14,516**
Loans and receivables:				
Receivable from customers*:				
Business loans	**290,095**	**251,693**	**232,050**	**58,046**
Consumers	**33,616**	**46,756**	**15,652**	**17,964**
GOCCs and National Government Agencies (NGAs)	**23,038**	**27,561**	**3,941**	**19,097**
LGUs	**7,793**	**1,431**	**7,051**	**742**
Fringe benefits	**552**	**830**	**247**	**305**
Unquoted debt securities	**4,245**	**3,435**	**810**	**3,435**
Other receivables	**19,102**	**8,554**	**14,857**	**4,245**
	P392,991	**P354,776**	**P274,642**	**P118,350**

* Receivables from customers exclude residual value of the leased asset.

	2014			
	Gross Maximum Exposure	Fair Value of Collateral	Net Exposure	Financial Effect of Collateral
	(In Millions)			
Loans and receivables:				
Receivable from customers*:				
Business loans	P241,963	P152,970	P180,555	P61,408
Consumers	30,254	40,459	12,792	17,462
GOCCs and NGAs	20,441	223	20,226	215
LGUs	8,397	1,059	7,687	710
Fringe benefits	567	922	198	369
Unquoted debt securities	8,044	3,728	4,317	3,728
Other receivables	18,460	3,543	15,203	3,257
	P328,126	P202,904	P240,978	P87,149

* Receivables from customers exclude residual value of the leased asset.

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 38 to the financial statements.

Excessive risk concentration

The banking segment's credit risk concentration can arise whenever a significant number of borrowers have similar characteristics. The banking segment analyzes the credit risk concentration to an individual borrowe, 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:

	2015	2014
	(In Millions)	
Philippines	**P521,074**	P515,058
Asia (excluding the Philippines)	**44,699**	19,439
Other European Union Countries	**7,365**	4,456
USA and Canada	**6,813**	7,676
United Kingdom	**1,316**	2,481
Middle East	**13**	74
	P581,280	P549,184

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:

	2015			
	Loans and receivables*	**Trading and investment securities**	**Other financial assets*****	**Total**
	(In Millions)			
Primary target industry:				
Financial intermediaries	**P38,776**	**P8,420**	**P24,088**	**P71,284**
Electricity, gas and water	**49,527**	**1,800**	**4**	**51,331**
Wholesale and retail	**50,576**	**–**	**6**	**50,582**
Manufacturing	**40,697**	**31**	**–**	**40,728**
Transport, storage and communication	**28,873**	**2**	**1**	**28,876**
Public administration and defense	**25,294**	**–**	**–**	**25,294**
Agriculture, hunting and forestry	**5,996**	**–**	**–**	**5,996**
Secondary target industry:				
Government	**626**	**72,458**	**95,913**	**168,997**
Real estate, renting and business activities	**43,751**	**5,489**	**28**	**49,268**
Construction	**11,517**	**–**	**–**	**11,517**
Others**	**69,380**	**7,885**	**145**	**77,410**
	P365,013	**P96,085**	**P120,185**	**P581,283**

* Loans and receivables exclude residual value of the leased asset.

** 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' and other financial assets booked under 'Other Assets'

	2014			
	Loans and receivables*	Trading and investment securities	Other financial assets***	Total
	(In Millions)			
Primary target industry:				
Financial intermediaries	P38,125	P6,168	P23,263	P67,556
Electricity, gas and water	43,519	3,147	–	46,666
Wholesale and retail	43,900	–	–	43,900
Manufacturing	39,526	197	–	39,723
Transport, storage and communication	19,274	–	–	19,274
Public administration and defense	23,425	–	–	23,425
Agriculture, hunting and forestry	6,062	–	–	6,062
Secondary target industry:				
Government	4,904	66,196	105,774	176,874
Real estate, renting and business activities	39,119	7,813	–	46,932
Construction	8,503	–	–	8,503
Others**	49,332	19,892	1,045	70,269
	P315,689	P103,413	P130,082	P549,184

* Loans and receivables exclude residual value of the leased asset.
** 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' and other financial assets booked under 'Other Assets'.

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.

<u>Standard</u>
- 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.

<u>Sub-standard Grade</u>
- 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, 2015 and 2014, but net of residual values of leased assets.

	2015			
	Neither Past Due nor Individually Impaired	**Past Due and not Individually Impaired**	**Individually Impaired**	**Total**
		(In Millions)		
Rated Receivable from Customers				
1 – Excellent	**P4,090**	**P–**	**P–**	**P4,090**
2 - Super Prime	**65,178**	**–**	**–**	**65,178**
3 - Prime	**55,510**	**–**	**–**	**55,510**
4 - Very Good	**29,060**	**–**	**–**	**29,060**
5 – Good	**53,998**	**–**	**76**	**54,074**
6 - Satisfactory	**31,701**	**8**	**86**	**31,795**
7 - Average	**19,304**	**1**	**–**	**19,305**
8 - Fair	**24,465**	**2**	**139**	**24,606**
9 - Marginal	**9,847**	**2**	**49**	**9,898**
10 - Watchlist	**18,885**	**–**	**3**	**18,888**
11 - Special Mention	**2,312**	**88**	**148**	**2,548**
12 - Substandard	**613**	**192**	**648**	**1,453**
13 – Doubtful	**–**	**26**	**1,306**	**1,332**
14 - Loss	**–**	**1,364**	**2,264**	**3,628**
	314,963	**1,683**	**4,719**	**321,365**
Unrated Receivable from Customers				
Business Loans	**15,144**	**151**	**46**	**15,341**

(Forward)

	2015			
	Neither Past Due nor Individually Impaired	**Past Due and not Individually Impaired**	**Individually Impaired**	**Total**
Consumers	**P7,944**	**P1,399**	**P32**	**P9,375**
LGUs	**7,697**	**27**	**65**	**7,789**
GOCCs and NGAs	**2,455**	**–**	**47**	**2,502**
Fringe Benefits	**519**	**11**	**26**	**556**
	33,759	**1,588**	**216**	**35,563**
	P348,722	**P3,271**	**P4,935**	**P356,928**

	2014			
	Neither Past Due nor Individually Impaired	Past Due and not Individually Impaired	Individually Impaired	Total
Rated Receivable from Customers				
1 - Excellent	P3,658	P–	P–	P3,658
2 - Super Prime	54,762	–	–	54,762
3 - Prime	44,607	3	–	44,610
4 - Very Good	12,837	–	–	12,837
5 - Good	28,228	283	–	28,511
6 - Satisfactory	42,311	188	92	42,591
7 - Average	24,744	182	128	25,054
8 - Fair	22,581	386	68	23,035
9 - Marginal	5,355	272	64	5,691
10 - Watchlist	10,362	99	10	10,471
11 - Special Mention	1,870	167	40	2,077
12 - Substandard	1,180	138	1,985	3,303
13 - Doubtful	–	217	1,290	1,507
14 - Loss	–	353	2,318	2,671
	252,495	2,288	5,995	260,778
Unrated Receivable from Customers				
Business Loans	10,194	622	1,071	11,887
Consumers	18,324	625	162	19,111
LGUs	8,142	169	79	8,390
GOCCs and NGAs	352	2	1,796	2,150
Fringe Benefits	532	11	24	567
	37,544	1,429	3,132	42,105
	P290,039	P3,717	P9,127	P302,883

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.

	2015				2014			
	Less than 30 days	**31 to 90 days**	**More than 90 days**	**Total**	Less than 30 days	31 to 90 days	More has 90 days	Total
				(In Millions)				
Consumers	**P172**	**P96**	**P1,184**	**P1,452**	P130	P73	P480	P683
Business loans	**60**	**11**	**1,712**	**1,783**	1,564	159	1,125	2,848
LGUs	–	–	**27**	**27**	62	–	110	172
GOCCs and NGAs	–	–	–	–	–	–	2	2
Fringe benefits	**1**	–	**9**	**10**	–	1	10	11
Total	**P233**	**P107**	**P2,932**	**P3,272**	P1,756	P233	P1,727	P3,716

Trading and Investment Securities and Other Financial Assets

In ensuring quality investment portfolio, PNB uses the credit risk rating based on the external ratings of eligible external credit rating institutions (i.e. Moody's Investors Service) as follows:

Aaa to Aa3 - fixed income are judged to be of high quality and are subject to very low credit risk, but their susceptibility to long-term risks appears somewhat greater.

A1 to A3 - fixed income obligations are considered upper-medium grade and are subject to low credit risk, but have elements present that suggest a susceptibility to impairment over the long term.

Baa1 and below - represents those investments which fall under any of the following grade:

- Baa1, Baa2, Baa3 - fixed income obligations are subject to moderate credit risk. They are considered medium grade and as such protective elements may be lacking or may be characteristically unreliable.
- Ba1, Ba2, Ba3 - obligations are judged to have speculative elements and are subject to substantial credit risk.
- B1, B2, B3 - obligations are considered speculative and are subject to high credit risk.
- Caa1, Caa2, Caa3 - are judged to be of poor standing and are subject to very high credit risk.
- Ca - are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest.
- C - are the lowest rated class of bonds and are typically in default, with little prospect for recovery of principal or interest.

Below are the financial assets of the banking segment, excluding receivables from customers, which are monitored using external ratings.

	December 31, 2015					
	Rated					
	Aaa to Aa3	**A1 to A3**	**Baa1 and below**	**Subtotal**	**Unrated[6/]**	**Total**
			(In Millions)			
Due from BSP[1/]	**P–**	**P–**	**P–**	**P–**	**P81,363**	**P81,363**
Due from other banks	**5,974**	**3,771**	**7,701**	**17,446**	**842**	**18,288**
Interbank loans receivables	**1,814**	**3,525**	**461**	**5,800**	**–**	**5,800**
Securities held under agreements to resell	**–**	**–**	**–**	**–**	**14,550**	**14,550**
Financial assets at FVPL:						
Held-for-trading:						
Government securities	**–**	**–**	**3,795**	**3,795**	**245**	**4,040**
Private debt securities	**–**	**–**	**113**	**113**	**31**	**144**
Derivative assets[2/]	**12**	**10**	**35**	**57**	**123**	**180**
Equity securities	**–**	**–**	**–**	**–**	**200**	**200**
Designated at FVPL:						
Investment in Unit Investment Trust Funds (UITFs)						
AFS investments[5/]:						
Government securities	**1,829**	**–**	**28,626**	**30,455**	**14,806**	**45,261**
Private debt securities	**3,321**	**397**	**10,939**	**14,657**	**7,596**	**22,253**
Quoted equity securities	**–**	**–**	**203**	**203**	**451**	**654**
Unquoted equity securities	**–**	**–**	**1**	**1**	**173**	**174**
HTM investments						
Government securities	**94**	**5**	**23,066**	**23,165**	**–**	**23,165**
Loans and receivables:						
Unquoted debt securities[3/]	**–**	**–**	**75**	**75**	**550**	**625**
Others[4/]	**–**	**–**	**–**	**–**	**15,923**	**15,923**

[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, 2015, financial assets that are unrated are neither past due nor impaired.

	December 31, 2014					
	Rated					
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal	Unrated[6/]	Total
		(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[4/]	–	–	349	349	4,076	4,425
Others[5/]	4	2	201	207	15,249	15,456
AFS investments[6/]:						
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	–	–	–	–	338162	338162
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 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.

	2015					
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	Total
			(In Millions)			
Financial Assets						
COCI	P15,221	P–	P–	P–	P–	P15,221
Due from BSP and other banks	99,654	–	–	–	–	99,654
Interbank loans receivable	5,384	416	2	–	–	5,802
Securities held under agreements to resell	14,583	–	–	–	–	14,583
Financial assets at FVPL:						
Held-for-trading:						
Government securities	3,979	–	–	–	–	3,979
Equity securities	200	–	–	–	–	200
Private debt securities	144	–	–	–	–	144
Derivative assets:						
Gross contractual receivable	16,818	2,059	28	41	349	19,295
Gross contractual payable	(16,753)	(2,040)	(19)	(27)	(275)	(19,114)
	65	19	9	14	74	181
Designated at FVPL:						
Investment in UITFs	17	–	–	–	–	17
AFS investments:						
Government securities	1,059	521	952	1,001	56,959	60,492
Private debt securities	184	534	307	12	27,717	28,754
Equity securities	–	–	–	–	828	828
HTM investments:						
Government securities	180	181	259	678	38,629	39,927
Loans and receivables:						
Receivables from customers	66,383	52,578	14,540	22,197	271,348	427,046
Unquoted debt securities	–	1	7	77	4,179	4,264
Other receivables	2,726	574	1,452	346	14,761	19,859
Other receivables	128	2	1	1	51	183
Total financial assets	P209,907	P54,826	P17,529	P24,326	P414,546	P721,134

	2015					
	Up to 1 Month	**More than 1 Month to 3 Months**	**More than 3 Months to 6 Months**	**More than 6 Months to 1 Year**	**Beyond 1 year**	**Total**
			(In Millions)			
Financial Liabilities						
Deposit liabilities:						
Demand	**P110,030**	**P–**	**P–**	**P–**	**P–**	**110,030**
Savings	**260,880**	**25,251**	**11,251**	**5,732**	**13,746**	**316,860**
Time	**14,064**	**9,319**	**6,450**	**3,815**	**27,445**	**61,093**
Financial liabilities at FVPL:						
Derivative liabilities:						
Gross contractual payable	**5,543**	**2,891**	**255**	**41**	**284**	**9,014**
Gross contractual receivable	**(5,500)**	**(2,830)**	**(246)**	**(27)**	**(275)**	**(8,878)**
	43	**61**	**9**	**14**	**9**	**136**
Bills and acceptances payable	**4,075**	**1,437**	**90**	**538**	**20,204**	**26,344**
Subordinated debt	**–**	**161**	**161**	**103**	**10,103**	**10,528**
Accrued interest payable and accrued other expenses payable	**1,019**	**159**	**18**	**23**	**1,565**	**2,784**
Other liabilities	**16,995**	**336**	**397**	**127**	**1,433**	**19,288**
Total financial liabilities	**P407,106**	**P36,724**	**P18,376**	**P10,352**	**P74,505**	**P547,063**

	2014					
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	Total
			(In Millions)			
Financial Assets						
COCI	P14,628	P–	P–	P–	P–	P14,628
Due from BSP and other banks	123,894	–	–	–	–	123,894
Interbank loans receivable	7,407	86	179	–	–	7,672
Financial assets at FVPL:						
Held-for-trading:						
Government securities	4	27	253	243	7,889	8,416
Equity securities	211	–	–	–	–	211
Private debt securities	–	1	2	6	271	280
Derivative assets:						
Gross contractual receivable	4,094	145	62	–	566	4,867
Gross contractual payable	(4,075)	(139)	(58)	–	(461)	(4,733)
	19	6	4	–	105	134
Designated at FVPL						
Segregated fund assets	–	–	–	–	10,655	10,655
AFS investments:						
Government securities	131	587	1,313	1,087	44,142	47,260
Private debt securities	17	268	132	2,305	26,317	29,039
Equity securities	–	–	–	–	2,238	2,238
HTM investments:						
Government securities	17	163	221	627	35,937	36,965
Private debt securities	–	–	–	–	50	50
Loans and receivables:						
Receivables from customers	61,248	42,705	8,992	14,040	253,798	380,783
Unquoted debt securities	8	3,557	11	20	830	4,426
Other receivables	2,364	568	1,492	369	10,667	15,460
Other assets	944	–	–	–	102	1,046
Total financial assets	P210,892	P47,968	P12,599	P18,697	P393,001	P683,157
Financial Liabilities						
Deposit liabilities:						
Demand	P101,561	P–	P–	P–	P–	P101,561
Savings	210,067	33,072	16,375	13,484	22,428	295,426

(Forward)

	2014					
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	Total
Time	P8,103	P10,787	P5,149	P5,628	P24,290	P53,957
Financial liabilities at FVPL:						
Designated at FVPL:						
Derivative liabilities:						
Gross contractual payable	6,828	55	23	291	490	7,687
Gross contractual receivable	(6,811)	(54)	(21)	(290)	(465)	(7,641)
	17	1	2	1	25	46
Bills and acceptances payable	7,713	997	1,335	31	8,974	19,050
Subordinated debt	–	160	161	322	10,497	11,140
Accrued interest payable and accrued other expenses payable	822	134	1	1	1,555	2,513
Other liabilities	17,900	457	300	408	6,700	25,765
Total financial liabilities	P346,183	P45,608	P23,323	P19,875	P74,469	P509,458

<u>Market Risks</u>

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, 2015	**P1.99**	**P296.83**	**P8.81**	**P307.63**
Average Daily	**3.67**	**306.33**	**8.99**	**318.99**
Highest	**14.52**	**420.79**	**10.5**	**392.93**
Lowest	**0.92**	**144.96**	**7.19**	**170.35**
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

* 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:

	2015	2014
	(In Millions)	
End of year	**P1,303.05**	P812.47
Average Daily	**1,249.75**	1,416.60
Highest	**1,444.14**	2,631.36
Lowest	**797.87**	812.47

Structural Market Risk of the Banking Segment

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

Interest rate risk

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

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

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

For risk management purposes, the repricing gap covering the one year period is multiplied by an assumed change in interest rates to yield an approximation of the change in net interest income that would result from such an interest rate movement.

The banking segment's BOD sets a limit on the level of earnings at risk (EaR) exposure tolerable to the banking segment. Compliance to the EaR limit is monitored monthly by the RMG. This EaR computation is accomplished monthly, with a quarterly stress test.

The following table sets forth the repricing gap position of the banking segment:

	December 31, 2015					
	Up to 1 Month	**More than 1 to 3 Months**	**More than 3 to 6 Months**	**More than 6 to 12 months**	**Beyond 1 year**	**Total**
			(In Millions)			
Financial Assets*						
Due from BSP and other banks	**P23,069**	**P2,140**	**P442**	**P415**	**P227**	**P26,293**
Interbank loans receivable	**5,251**	**158**	**391**	**–**	**–**	**5,800**
Receivable from customers and other receivables - gross**	**119,503**	**54,698**	**7,568**	**2,524**	**51,382**	**235,675**
Total financial assets	**P147,823**	**P56,996**	**P8,401**	**P2,939**	**P51,609**	**P267,768**
Financial Liabilities*						
Deposit liabilities:						
Savings	**P82,042**	**P26,460**	**P18,737**	**P19,105**	**P12,365**	**P158,709**
Time	**19,330**	**8,793**	**6,358**	**3,958**	**3,099**	**41,538**
Bills and acceptances payable	**3,850**	**1,081**	**1,006**	**1,141**	**18,674**	**25,752**
Total financial liabilities	**P105,222**	**P36,334**	**P26,101**	**P24,204**	**P34,138**	**P225,999**
Repricing gap	**P42,601**	**P20,662**	**(P17,700)**	**(P21,265)**	**P17,471**	**P41,769**
Cumulative gap	**42,601**	**63,263**	**45,563**	**24,298**	**41,769**	**–**

*Financial instruments that are not subject to repricing/rollforward were excluded.
**Receivable from customers excludes residual value of leased assets.

	December 31, 2014					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 months	Beyond 1 year	Total
			(In Millions)			
Financial Assets*						
Due from BSP and other banks	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	P211,697
Repricing gap	P129,542	P22,014	(P10,540)	(P15,002)	P4,252	P130,267
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.

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:

	2015		2014	
	Income Before Income Tax	**Equity**	Income Before Income Tax	Equity
		(In Millions)		
+50bps	**P358**	**P358**	P248	P248
-50bps	**(358)**	**(358)**	(248)	(248)
+100bps	**716**	**716**	496	496
-100bps	**(716)**	**(716)**	(496)	(496)

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, 2015			December 31, 2014		
	USD	**Others**	**Total**	USD	Others	Total
			(In Millions)			
Assets						
COCI and due from BSP	**P259**	**P220**	**P479**	P236	P300	P536
Due from other banks	**6,934**	**9,467**	**16,401**	1,491	3,301	4,792
Interbank loans receivable and securities held under agreements to resell	**673**	**1,006**	**1,679**	2,044	432	2,476
Financial assets at FVPL	**–**	**–**	**–**	118	35	153
Loans and receivables	**14,468**	**6,682**	**21,150**	7,173	688	7,861
AFS investments	**525**	**927**	**1,452**	1,484	1,934	3,418
Other assets	**598**	**657**	**1,255**	91	54	145
Total assets	**P23,457**	**P18,959**	**P42,416**	P12,637	P6,744	P19,381
Liabilities						
Deposit liabilities	**P7,691**	**P4,892**	**P12,583**	P1,961	P2,937	P4,898
Bills and acceptances payable	**3,430**	**258**	**3,688**	2,977	113	3,090
Accrued taxes, interest and other expenses	**1,589**	**30**	**1,619**	1,570	24	1,594
Other liabilities	**858**	**555**	**1,413**	2,357	144	2,501
Total liabilities	**13,568**	**5,735**	**19,303**	8,865	3,218	12,083
Net Exposure	**P9,889**	**P13,224**	**P23,113**	P3,772	P3,526	P7,298

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 two trusted parties with sales to them comprising about 90% 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, 2015:

	Neither past due nor impaired		**Past due but not impaired**					
	Standard Grade	**Sub-standard Grade**	**31 to 60 days**	**61 to 90 days**	**91 to 120 days**	**Over 120 Days**	**Impaired Financial Assets**	**Total**
					(In Millions)			
Loans and receivables:								
Cash and other cash items	**P2,331**	**P–**	**P–**	**P–**	**P–**	**P–**	**P–**	**P2,331**
Trade receivables	**2,910**	**–**	**3,143**	**1,354**	**3,267**	**607**	**623**	**11,904**
Other receivables	**839**	**2**	**2**	**6**	**1**	**80**	**9**	**939**
Due from related parties	**1,593**	**–**	**–**	**–**	**–**	**–**	**–**	**1,593**
Refundable deposits	**145**	**–**	**–**	**–**	**–**	**–**	**–**	**145**
Financial assets at FVPL	**5,082**	**–**	**–**	**–**	**–**	**–**	**–**	**5,082**
AFS investments	**541**	**–**	**–**	**–**	**–**	**–**	**–**	**541**
	P13,441	**P2**	**P3,145**	**P1,360**	**P3,268**	**P687**	**P632**	**P22,535**

December 31, 2014:

	Neither past due nor impaired		Past due but not impaired					
	Standard Grade	Sub-standard Grade	31 to 60 days	61 to 90 days	91 to 120 days	Over 120 Days	Impaired Financial Assets	Total
				(In Millions)				
Loans and receivables:								
Cash and other cash items	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

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):

	2015			2014		
	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	**P2,331**	**P–**	**P2,331**	P3,607	P–	P3,607
Trade receivables	**11,282**	**–**	**11,282**	12,569	–	12,569
Other receivables	**922**	**8**	**930**	2,980	–	2,980
Due from related parties	**1,149**	**444**	**1,593**	1,797	–	1,797
Refundable deposits	**145**	**–**	**145**	173	–	173
Financial assets at FVPL	**5,082**	**–**	**5,082**	4,922	–	4,922
AFS investments	**–**	**615**	**615**	1,672	–	1,672
	P20,911	**P1,067**	**P21,978**	P27,720	P–	P27,720
Short term debts	**P–**	**P–**	**P–**	P300	P–	P300
Accounts payable and other liabilities*	**8,658**	**–**	**8,658**	7,263	–	7,263
Long-term debts	**2,226**	**822**	**3,048**	15,475	1,322	16,797
Due to related parties	**47**	**–**	**47**	50	–	50
Other liabilities	**1,081**	**2,203**	**3,284**	2,640	–	2,640
	P12,012	**P3,025**	**P15,037**	P25,728	P1,322	P27,050

* Excluding non-financial liabilities amounting to 128.2 million and 132.6 million as of December 31, 2015 and 2014.

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 2015, 2014 and 2013, 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 P42.1 million, P39.7 million and 43.8 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.

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, 2015 and 2014, 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.

Foreign currency risk

The non-banking segment of the Group is not significantly affected by foreign currency risk since the Group has no significant foreign currency transactions.

33. Offsetting of Financial Assets and Financial 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, 2015

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: Financial instruments	Fair value of Financial collateral	Net exposure [c-d]
	[a]	[b]	[c]	[d]		[e]
			(In Thousands)			
Derivative assets (Notes 6 and 21)	**P14,550,000**	**P–**	**P14,550,000**	**P–**	**P14,516,223**	**P33,777**

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: Financial instruments	Fair value of Financial collateral	Net exposure [c-d]
	[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

Financial liabilities

December 31, 2015

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 n 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: Financial instruments	Fair value of Financial collateral	Net exposure [c-d]
	[a]	[b]	[c]	[d]		[e]
			(In Thousands)			
Derivative liabilities (Notes 16 and 21)	P216,636	P–	P216,636	P465	P250,830	P–
Securities sold under agreements to repurchase (Note 17)*	12,806,499	–	12,806,499	–	15,941,143	–
Total	P13,023,135	–	P13,023,135	P465	P16,191,973	P–

* Included in bills and acceptances payable in the consolidated balance sheet

	December 31, 2014					
				Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		
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]	Financial instruments	Fair value of Financial collateral	Net exposure [c-d]
	[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

The amounts disclosed in column (d) include those rights to set-off amounts that are only enforceable and exercisable in the event of default, insolvency or bankruptcy. This includes amounts related to financial collateral both received and pledged, whether cash or non-cash collateral, excluding the extent of over-collateralization.

34. Fair Value Measurement

The Group has assets and liabilities that are measured at fair value on a recurring and non-recurring basis in the consolidated balance sheets after initial recognition. Recurring fair value measurements are those that another PFRS requires or permits to be recognized in the consolidated balance sheets at the end of each reporting period. These include financial assets and liabilities at FVPL and AFS investments. Non-recurring fair value measurements are those that another PFRS requires or permits to be recognized in the consolidated balance sheet in particular circumstances. These include land and land improvements, buildings and building improvements and machineries and equipment measured at revalued amount and investment properties measured at cost but with fair value measurement disclosure.

The Group's management determines the policies and procedures for both recurring and non-recurring fair value measurement.

External valuers are involved for valuation of significant assets, such as investment properties, land and land improvements, plant buildings and building improvements and machineries and equipment. Involvement of external valuers is decided upon annually by management. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Management decides, after discussions with the Group's external valuers, which valuation techniques and inputs to use for each case.

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

As of December 31, 2015 and 2014, the carrying values of the Group's financial assets and liabilities approximate their respective fair values, except for the following financial instruments:

	December 31, 2015		December, 31, 2014	
	Carrying Value	**Fair Market Value**	Carrying Value	Fair Market Value
		(In Thousands)		
Financial Assets:				
Loans and receivables:				
Receivables from customers	**P349,139,278**	**P351,626,538**	P296,372,069	P316,486,735
(Forward)				

	December 31, 2015		December, 31, 2014	
	Carrying Value	**Fair Market Value**	Carrying Value	Fair Market Value
Unquoted debt securities	**P625,803**	**P648,046**	P4,425,005	P6,013,057
	P349,765,081	**P352,274,584**	P300,797,074	P322,499,792
Financial Liabilities:				
Financial liabilities at amortized cost:				
Deposit liabilities -				
Time deposits	**P60,511,353**	**P60,762,710**	P52,759,938	P55,296,115
Bills payables	**25,407,406**	**25,033,940**	18,683,204	18,340,370
Long term debts:				
Subordinated debt	**9,986,427**	**10,241,659**	9,969,498	10,593,485
Unsecured term loan	**720,004**	**720,004**	1,321,823	1,337,684
Bonds payable	**-**	**-**	4,998,008	5,048,551
Notes payable	**476,015**	**470,370**	508,115	502,089
Other liabilities:				
Payable to landowners	**1,723,923**	**1,803,770**	2,289,708	2,226,042
Tenants' rental deposits	**306,524**	**351,781**	268,805	323,236
Advance rentals	**207,470**	**186,687**	45,800	41,212
	P99,339,122	**P99,570,921**	P90,844,899	P93,708,784

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 2.75% in 2015 and 3.2% in 2014 for peso-denominated receivables. For foreign currency-denominated receivables, discount rate used is 1.5% in 2015 and 2014.

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 2.66% to 3.77% and 1.0% to 3.9% as of December 31, 2015 and 2014, 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 2.67% to 3.89% as of December 31, 2015 and from 2.75% to 5.07% as of December 31, 2014, 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, 2015			
	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	P2,707,811	P1,331,801	P–	P4,039,612
Derivative assets	–	118,016	63,332	181,348
Private debt securities	143,800	–	–	143,800
Equity securities	199,752	170	–	199,922
Designated at FVPL:				
Investment in UITFs	–	17,261	–	17,261
Segregated fund assets*	–	–	–	–
	P3,051,363	P1,467,248	P63,332	P4,581,943
AFS investments:				
Government securities	33,499,835	11,760,562	–	45,260,397
Private debt securities	21,614,280	638,700	–	22,252,980
Equity securities**	560,272	93,659	–	653,931
	P55,674,387	P12,492,921	P–	P68,167,308
Assets of disposal group classified as held for sale:				
Financial assets at FVPL:				
Segregated fund assets	P7,854,450	P–	P5,780,237	P13,634,687
AFS investments:				
Government securities	2,485,902	–	–	2,485,902
Private debt securities	3,604,065	–	–	3,604,065
Equity securities	1,378,686	–	–	1,378,686
	P15,323,103	P–	P5,780,237	P21,103,340
Non-financial assets				
Property, plant and equipment***				
Land and land improvements	P–	P–	P19,253,238	P19,253,238
Plant buildings and building improvements	–	–	13,750,867	13,750,867
Machineries and equipment	–	–	6,534,040	6,534,040
	P–	P–	P39,538,145	P39,538,145
Liabilities measured at fair value:				
Financial liabilities				
Financial liabilities at FVPL:				
Designated at FVPL:				
Segregated fund liabilities*	P7,945,084	P–	P5,780,237	P13,725,321
Derivative liabilities	–	135,193	–	135,193
	P7,945,084	P135,193	P5,780,237	P13,860,514
Assets for which fair values are disclosed:				
Financial Assets				
HTM investment	P18,661,871	P5,887,982	P–	P24,549,853
Loans and receivables:				
Receivables from customers	–	–	351,626,538	351,626,538
Unquoted debt securities	–	–	648,046	648,046
Assets of disposal group classified as held for sale	1,336,814	1,336,814	–	2,673,628
	P19,998,685	P7,224,796	P352,274,584	P379,498,065
Non-financial Assets				
Investment properties***				
Land	P–	P–	P30,136,203	P30,136,203
Buildings and improvements	–	–	8,517,345	8,517,345
	P–	P–	P38,653,548	P38,653,548

(Forward)

	December 31, 2015			
	Level 1	**Level 2**	**Level 3**	**Total**
		(In Thousands)		
Liabilities for which fair values are disclosed:				
Financial liabilities				
Financial liabilities at amortized cost:				
Deposit liabilities:				
Time deposits	**P–**	**P–**	**P60,762,710**	**P60,762,710**
Long term debts:				
Subordinated debt	**–**	**–**	**10,241,659**	**10,241,659**
Bills payable	**–**	**–**	**25,033,940**	**25,033,940**
Unsecured term loan	**–**	**–**	**720,004**	**720,004**
Notes payable	**–**	**–**	**470,370**	**470,370**
Other liabilities:				
Payable to landowners	**–**	**–**	**1,803,770**	**1,803,770**
Tenants' rental deposits	**–**	**–**	**351,781**	**351,781**
Advance rentals	**–**	**–**	**186,687**	**186,687**
	P–	**P–**	**P99,570,921**	**P99,570,921**

* 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, 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
Private debt securities	–	65,391	71,160	136,551
Derivative assets	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
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
	P20,584,890	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	P42,133,325
Liabilities for which fair values are disclosed:				
Financial liabilities				
Financial liabilities at amortized cost:				
Deposit liabilities:				
Time deposits	P–	P–	P55,296,115	P55,296,115
Bills payables	–	–	18,340,370	18,340,370
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	–	–	41,212	41,212
	P5,048,551	P–	P88,660,233	P93,708,784

* 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 1.26% to 3.25% and from 1.33% to 3.72% as of December 31, 2015 and 2014, respectively.

As of December 31, 2015 and 2014, 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:

	2015	2014
	(In Thousands)	
Financial assets		
Balance at beginning of year	**P5,339,628**	P5,545,916
Add (deduct) total gain (loss) recorded in profit or loss	**503,941**	(206,288)
Balance at end of year	**P5,843,569**	P5,339,628
Nonfinancial assets		
Balance at beginning of year	**P38,470,525**	P37,834,527
Additions during the year	**3,525,605**	1,190,262
Revaluation decrement during the year	**(528,159)**	–
Depreciation and amortization	**(1,290,186)**	(1,631,635)
Net carrying value of disposed/transferred assets and other adjustments	**(639,640)**	1,077,371
Balance at end of the year	**P39,538,145**	P38,470,525
Financial liabilities		
Balance at beginning of year	**P5,346,467**	P5,380,053
Add (deduct) total loss (gain) recorded in profit or loss	**433,770**	(33,586)
Balance at end of year	**P5,780,237**	P5,346,467

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, 2015 and 2014 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:

		2015		2014	
Structured Investments	**Significant Unobservable Input**	**Range of Input***	**Sensitivity of the Input to Fair Value****	Range of Input	Sensitivity of the Input to Fair Value*
Peso-denominated	**Bank CDS Levels**	**47.28 - 93.27 bps**	50 bps increase/ (decrease) in change inputs would result in a (decrease) / increase in the market value of the note by 65,500,462	44.00 - 95.67 bps	50 bps increase/ (decrease) in change inputs would result in a (decrease) / increase in the market value of the note by 90,838,042
Dollar-denominated	**Bank CDS Levels**	**40.719 - 76.344 bps**	**50 bps increase/ (decrease) in change inputs would result in a (decrease) / increase in the market value of the note by 41,710,217**	35.21 - 78.08 bps	50 bps increase/ (decrease) in change inputs would result in a (decrease) / increase in the market value of the note by 41,710,217

* 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:

		2015		2014	
Structured Investments	**Significant Observable Input**	**Range of Input***	**Sensitivity of the Input to Fair Value****	Range of Input	Sensitivity of the Input to Fair Value*
Peso-denominated	**PHP IRS (3Y)**	**180.25 - 355.00 bps**	**50 bps increase/ (decrease) in change inputs would result in a (decrease) / increase in the market value of the note by P65,500,462**	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
Dollar-denominated	**ROP CDS (5Y)**	**126.15 - 193.33 bps**	**50 bps increase/ (decrease) in change inputs would result in a (decrease) / increase in the market value of the note by P28,095,617**	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

* 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	6,000-6,200
Plant buildings and building improvements			
Building	Replaceable Fixed Asset Valuation Approach	Replacement cost Estimated total floor area	4,287- 10,000 24-1548 sq.m

	Valuation Techniques	Significant Unobservable Inputs	Range of Estimates
Building improvements	Replaceable Fixed Asset Valuation Approach	Replacement cost Estimated number of components	2.8 million-26.5 million 315-723 components
Machineries and equipment	Replaceable Fixed Asset Valuation Approach	Replacement cost Estimated number of components	3,200-8.6 million 465-1,162 components
Investment properties:			
Land	Market Data Approach	Price per square meter, size, location, shape, time element and corner influence	800- 100,000
Land and building	Market Data Approach and Replacement Cost Approach	New Reproduction Cost	

Significant favorable (unfavorable) adjustments to the aforementioned factors based on the professional judgment of the independent appraisers would increase (decrease) the fair value of land. Significant increases (decreases) in the current replacement cost would result in significantly higher (lower) appraised values whereas significant increase (decrease) in the remaining useful life of the property, plant and equipment over their total useful life would result in significantly higher (lower) appraised values.

Description of the valuation techniques and significant unobservable inputs used in the valuation of the Group's property, plant and equipment and investment properties are as follows:

Valuation Techniques	Description
Market Data Approach	A process of comparing the subject property being appraised to similar comparable properties recently sold or being offered for sale.
Replaceable Fixed Asset Valuation Approach	This method requires an analysis of the buildings and other land improvements by breaking them down into major components. Bills of quantities for each component using the appropriate basic unit are prepared and related to the unit cost for each component developed on the basis of current costs of materials, labor, plant and equipment prevailing in the locality to arrive at the direct costs of the components. Accrued depreciation was based on the observed condition.
Replacement Cost Approach	It is an estimate of the investment required to duplicate the property in its present condition. It is reached by estimating the value of the building "as if new" and then deducting the depreciated cost. Fundamental to the Cost Approach is the estimate of Reproduction Cost New of the improvements.
Reproduction Cost New	The cost to create a virtual replica of the existing structure, employing the same design and similar building materials.
Size	Size of lot in terms of area. Evaluate if the lot size of property or comparable conforms to the average cut of the lots in the area and estimate the impact of lot size differences on land value.
Shape	Particular form or configuration of the lot. A highly irregular shape limits the usable area whereas an ideal lot configuration maximizes the usable area of the lot which is associated in designing an improvement which conforms with the highest and best use of the property.
Location	Location of comparative properties whether on a main road, or secondary road. Road width could also be a consideration if data is available. As a rule, properties located along a main road are superior to properties located along a secondary road.
Time Element	"An adjustment for market conditions is made if general property values have appreciated or depreciated since the transaction dates due to inflation or deflation or a change in investors' perceptions of the market over time". In which case, the current data is superior to historic data.
Discount	Generally, asking prices in ads posted for sale are negotiable. Discount is the amount the seller or developer is willing to deduct from the posted selling price if the transaction will be in cash or equivalent.

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.
Corner influence	Bounded by two (2) roads.

35. Notes to Consolidated Statements of Cash Flows

Non-cash Investing Activities

a. As of December 31, 2013, due from related parties include accrued interest receivable amounting to P24.5 million.

b. As of December 31, 2015 and 2014, unpaid additions to property, plant and equipment amounted to P37.8 million and P65.4 million, respectively, which is included as part of "Accounts payable and accrued expenses".

c. In 2015, the Group reclassified cost of land, which was previously recognized as real estate inventory amounting to P1,106.9 million, to investment property in view of management's plan to develop thereon additional buildings to be held for lease.

d. In 2015, the Group transferred investment properties with a carrying value of P2,000.0 million and P1,200.0 million to inventories, respectively.

e. In 2015, the Group classified PNB LII as disposal group held for sale and as discontinued operations and classified assets, liabilities and equity and reserves of PNB LII amounting to P23,526.8 million, P21,452.6 million and P593.2 million, respectively.

f. Construction costs of building intended for leasing amounting to P105.5 million under real estate inventory, which were still under construction as of December 31, 2015, were transferred to investment properties.

g. On December 4, 2012, the Group 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

a. In July 2013, all the existing advances to Tangent amounting to P11.0 billion were offset with the existing advances from the Tangent.

b. As of December 31, 2015 and 2014, accrued interest payable amounted to P2,071 million and P22.9 million, respectively. Finance costs and cost of hauling services include amortization of bond issue costs and unamortized transaction cost of subordinates debt amounting to P18.0 million and P16.8 million in 2015 and P15.6 million and P15.8 million in 2014, respectively.

c. 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 2015 and 2014.

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 2015 and 2014.

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:

	2015	2014
	(In Thousands, except ratios)	
Total liabilities	**P579,794,407**	P534,111,014
Total equity	**169,758,095**	162,722,194
Total liabilities and equity	**P749,552,502**	P696,833,208
Debt ratio	**0.77:1**	0.76:1
Debt-to-equity ratio	**3.42:1**	3.28:1

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. Assets and Liabilities of Disposal Group Classified as Held for Sale

On December 21, 2015, PNB entered into a 15-year exclusive partnership with Allianz SE under the following arrangements, subject to regulatory approvals:

- Allianz SE will acquire 12,750 shares representing 51.00% stockholdings of PNB LII and will have management control over the new joint venture company;
- The new joint venture company will operate under the name of "Allianz PNB Life Insurance, Inc.";
- A 15-year distribution agreement which will provide Allianz an exclusive access to the more than 660 branches nationwide of PNB.

The acquisition of the shares of PNB LII by Allianz SE is expected to be completed by 2016. As of December 31, 2015, PNB LII was classified as disposal group held for sale and as discontinued operation.

PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, requires assets and liabilities of PNB LII, together with the results of operations, to be classified separately from continuing operations. As a result, the Group reclassified all the assets and liabilities of PNB LII to 'Assets of disposal group classified as held for sale' and 'Liabilities of disposal group classified as held for sale', respectively, in the 2015 consolidated balance sheet.

The business of PNB LII represented the entirety of the PNB's life insurance business until December 21, 2015. PNB LII was previously presented in the 'Others' section of the business segment disclosure. With PNB LII being classified as a discontinued operation in 2015, the comparative consolidated statement of income and comprehensive income in 2014 and 2013 have been re-presented to show the discontinued operations separately from the continued operations.

The results of operation of PNB LII are presented below:

	Years Ended December 31		
	2015	2014	2013
	(In Thousands)		
Interest Income on			
Loans and receivables	**P20,343**	P18,707	P13,880
Trading and investment securities	**443,116**	396,586	269,429
Deposits with banks and others	**3,504**	324	10,072
	466,963	415,617	293,381
Interest Expense on			
Bills payable and other borrowings	**–**	–	5,417
Net Interest Income	**466,963**	415,617	287,964
Net Service Fees and Commission Expense	**(281,639)**	(335,635)	(329,249)
Net insurance premiums	**P1,716,308**	P1,604,500	P1,444,719
Net insurance benefits and claims	**(1,290,439)**	(1,191,359)	(1,032,953)
(Forward)			
Net Insurance premiums	**425,869**	413,141	411,766
Other Income (Charges)			
Trading and investment securities gains - net	**20,874**	14,661	1,750
Foreign exchange gains (losses) - net	**11,806**	(1,999)	5,317
Miscellaneous	**149,061**	101,111	100,317
Total Operating Income	**792,934**	606,896	477,865
Operating Expenses			
Compensation and fringe benefits	**223,322**	166,757	114,799
Taxes and licenses	**39,570**	36,544	26,666
Provision for impairment, credit and other losses	**32,765**	–	–
Depreciation and amortization	**10,704**	14,039	15,147
Occupancy and equipment-related costs	**9,764**	9,196	13,101
Miscellaneous	**74,573**	73,025	81,029
Total Operating Expenses	**390,698**	299,561	250,742
Income from Discontinued Operations Before Income Tax	**402,236**	**307,335**	**227,123**
Provision for income tax			
Regular	**5,839**	5,083	3,584
Final	**38,466**	38,088	26,859
	44,305	43,171	30,443
Net Income from Discontinued Operations	**P357,931**	P264,164	P196,680
Attributable to:			
Equity holders of the Company	**P161,699**	P119,339	P88,852
Non-controlling interests	**196,232**	144,825	107,828
	P357,931	P264,164	P196,680

Earnings per share attributable to equity holders of the Company from discontinued operations are computed as follows:

	2015	2014	2013
a) Net income attributable to equity holders of the banking segment	**P161,699**	P119,339	P88,852
b) Weighted average number of common shares for basic earnings per share	**10,821,389**	10,821,389	10,208,056
c) Basic earnings per share (a/b)	**P0.02**	P0.01	P0.01

The net cash flows directly associated with disposal group follow:

	2015	2014	2013
	(In Thousands)		
Net cash provided by operating activities	**P1,210,588**	P1,535,951	P101,961
Net cash used in investing activities	**(903,161)**	(1,395,508)	(8,030)

The major classes of assets and liabilities of PNB LII classified as disposal group held for sale as of December 31, 2015 are as follows:

Assets	
Cash and other cash items	P642,544
Financial assets at fair value through profit or loss	
Segregated fund assets	13,634,687
AFS investments	
Government securities	2,485,902
Private debt securities	3,604,065
Equity securities	1,378,686
HTM investments	
Government securities	1,269,398
(Forward)	
Assets	
Other receivables	
Accounts receivable	277,479
Accrued interest receivable	101,925
Sales contract receivable	57,806
Property and equipment – net	29,546
Other assets	44,719
Assets of disposal group classified as held for sale	P23,526,757
Liabilities	
Financial liabilities at fair value through profit or loss	
Segregated fund liabilities	P13,725,321
Accrued taxes, interest and other expenses	161,817
Other liabilities	
Insurance contract liabilities	6,837,144
Accounts payable	74,303
Retirement benefit liability	21,822
Withholding taxes payable	10,139
Miscellaneous liabilities	622,075
Liabilities of disposal group classified as held for sale	**P21,452,621**
Reserves	
Net unrealized gain on AFS investments	P617,649
Remeasurement losses on retirement plan	(24,412)
Reserves of disposal group classified as held for sale	P593,237
Attributable to:	
Equity holders of the Company	P335,000
Non-controlling interests	258,237
	P593,237

38. 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 P387.6 million and P145.6 million as of December 31, 2015 and P349.9 million and P33.5 million, as of December 31, 2014, respectively.

Future minimum rental receivables under noncancellable operating leases as of December 31 are as follows:

	2015	2014
	(In Thousands)	
Within one year	**P1,179,758**	P981,662
After one year but not more than five years	**2,508,002**	2,393,116
More than five years	**264,551**	315,105
	P3,952,311	P3,689,883

Operating lease commitments - the Group as lessee

The future aggregate minimum lease payments under several operating leases of the Group are as follows:

	2015	2014
	(In Thousands)	
Within one year	**P487,388**	P772,888
Within two to five years	**856,828**	1,651,825
More than five years	**1,526,715**	1,555,153
	P2,870,931	P3,979,866

Future minimum lease receivables under finance leases are as follows:

	2015	2014
Within one year	**P1,654,119**	P1,358,383
Beyond one year but not more than five years	**1,984,772**	1,378,555
More than five years	**47,900**	58,500
Total	**3,686,791**	2,795,438
Less amounts representing finance charges	**62,206**	390,018
Present value of minimum lease payments	**P3,624,585**	P2,405,420

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 P78.7 billion and P65.8 billion as of December 31, 2015 and 2014, respectively. In connection with the trust functions of PNB, government securities amounting to P0.7 billion, (included under 'AFS investments') as of December 31, 2015 and 2014 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 16.6 million, 13.6 million and 9.5 million in 2015, 2014 and 2013, 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.

Claim from PNB Gen

In 2015, PNB recognized income amounting to P716.2 million under 'Other income (charges)' arising from the fire insurance claims of PNB from PNB Gen involving the Ever Gotesco Grand Central ('Insured Property') which was mortgaged to PNB by Gotesco Investment, Inc. and Ever Emporium, Inc. (collectively 'Ever Gotesco Group') to secure certain credit accommodations . The insurable interest of PNB (as mortgagee) was insured with PNB Gen. The Insured Property was razed by fire on March 19, 2012, which justified the payment by PNB Gen of the insurance claims of PNB, after the Court cleared the legal issues between PNB and Ever Gotesco Group that might potentially bar the payment thereof.

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. PNB, 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. The Singapore High Court set aside in its entirety the Award of the Arbitral Tribunal. Global Steel appealed the Decision of the Singapore High Court. On March 31, 2015, the Singapore Court of Appeal issued a Decision upholding in part the earlier Decision of the High Court, i.e., setting aside the monetary portions of the Arbitral Award that rendered the Bank Consortium/Secured Creditors not liable for certain sums of money by way of damages.

Movements of provision for legal claims included in "Other liabilities" in the consolidated balance sheets for the Group are as follows (see Note 20):

	2015	2014
	(In Thousands)	
Balance at beginning of year	**P1,640,648**	P1,582,081
Provisions (reversals) during the year (Note 26)	**(741,911)**	58,567
Balance at end of year	**P898,737**	P1,640,648

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. TDI is contesting the disallowance of the tax credit and is undertaking appropriate legal measures to obtain a favorable outcome.

TDI 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. TDI 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.

<u>Other Matters</u>
Property development tax incentives

a. The Group's projects namely, Eton Cyberpod Corinthian and Eton Centris, were registered with PEZA on August 27, 2008 and September 19, 2008, respectively, as non-pioneer "ecozone developer/operator". The locations are created and designated as Information Technology Park.

b. The property development segment has three Board of Investment (BOI)-registered projects namely, Belton Place (BP), Eton Emerald Lofts (EEL) and One Archers Place (OAP). BP is registered with BOI as a new developer of low-cost housing project on a Non-Pioneer status under the Omnibus Investments Code of 1987 (Executive Order No. 226) on September 15, 2008. This registration entitles the Group to four years ITH from November 2008 or actual commercial operations or selling, whichever is earlier but in no case earlier than the date of registration. The ITH shall be limited only to the revenue generated from this project. Revenue with selling price exceeding 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 digestor and methane gas collector in accordance with the CDM of the 1997 Kyoto Protocol.

In accordance with Certified Emission Reductions Purchase Agreement (CERPA), ADI agreed to sell and MC to purchase any and all the CERs generated by the Project up to 480,000 CERs. As of December 31, 2009, MC made US$1.6 million advance payment or equivalent to 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.

On October 27, 2014, ADI and Mistubishi agreed to terminate the CDM project due to unfavorable market for CERs.

<u>Effluent Supply Agreement</u>
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 12, 2016, 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 December 31, 2015, the construction of the solar power plant has been substantially completed.

39. Events After Reporting Date

On January 21, 2016, the Group entered into an agreement with Ayala Land, Inc. (ALI) to jointly develop a project along C5 corridor. The project is envisioned to be a township development that spans portion of Pasig City and Quezon City.

On February 18, 2016, the Group purchased 131,863,677 shares of VMC at a price of P5.0 per share. This resulted an increase in the Group's effective ownership in VMC to 30.12%.

BOARD OF DIRECTORS

DR. LUCIO C. TAN
Chairman & Chief Executive Officer

MICHAEL G. TAN
President & Chief Operating Officer

JUANITA T. TAN LEE
Director / Treasurer

BOARD OF ADVISORS

JOHNIP G. CUA
Advisor

EXECUTIVE OFFICERS

JOSE GABRIEL D. OLIVES
Chief Finance Officer

NESTOR C. MENDONES
Deputy Chief Finance Officer

Atty. MA. CECILIA L. PESAYCO
Corporate Secretary

Atty. MARIVIC T. MOYA
Assistant Corporate Secretary

Atty. ERWIN C. GO
Chief Legal Counsel


ANTONINO L. ALINDOGAN, JR.
Independent Director


JOSEPH T. CHUA
Director


PETER Y. ONG
Director


WILFRIDO E. SANCHEZ
Independent Director


ROBIN C. SY
Independent Director


WASHINGTON Z. SYCIP
Director


CARMEN K. TAN
Director


HARRY C.TAN
Director


LUCIO K. TAN, JR.
Director


FLORENCIA G.TARRIELA
Independent Director

INVESTOR INFORMATION

LT Group, Inc.
11th Floor Unit 3 Bench Tower, 30th Street corner
Rizal Drive, Crescent Park West 5
Bonifacio Global City, Taguig City
Tel: +63 2 808 1266;
Facsimile: +63 2 869 8336
Website: www.ltg.com.ph

Business Groups:

Asia Brewery, Inc.
Head Office: 6th Floor Allied Bank Center, 6754
Ayala Avenue, Makati City
Tel: +63 2 816 3421 to 40;
Facsimile: +63 2 810 4041
Website: www.asiabrewery.com.ph

Eton Properties Philippines, Inc.
Head Office: 8th Floor Allied Bank Center, 6754
Ayala Avenue, Makati City
Tel: +63 2 845 3866;
Facsimile: +63 2 887 1549
Website: www.eton.com.ph

PMFTC Inc.
Head Office: 27th Floor Tower 1 The Enterprise Center
6766 Ayala Avenue corner Paseo de Roxas, Makati
City
Tel: +63 2 886 5901;
Facsimile: +63 2 889 8004
Website: www.pmi.com

Philippine National Bank
Head Office: PNB Financial Center
President Diosdado Macapagal Boulevard,
Pasay City
Tel: +63 2 573 8888;
Facsimile: +63 2 573 4580
www.pnb.com.ph

Tanduay Distillers, Inc.
Head Office: Km. 43 National Highway, Barangay
Sala, Cabuyao , Laguna
Tel.: +63 2 816 5523 or +63 2 816 5131;
Facsimile: +63 2 816 5101
Website: www.tanduay.com

Legal Counsel
Atty. Erwin C. Go
Office of the Legal Counsel
Lucio Tan Group of Companies
2nd Floor Allied Bank Center, 6754 Ayala Avenue,
Makati City

External Auditor
SyCip Gorres Velayo & Co.
6760 Ayala Avenue, Makati City

Stockholder Services and Assistance
For matters concerning dividend payments, account status, lost or damaged stock certificates or change of address, please write or call:

Philippine National Bank - Trust Banking Group
(Corporate Services)
Attention: Ms. Joanna Marie L. Aviles
or Ms. Emylyn P. Audemard
Address: 3/F PNB Financial Center, President Diosdado
Macapagal Blvd., Pasay City
Tel: +63 2 526 3131 or +632 891 6040 local 2307
Email: avilesjml@pnb.com.ph or audemardep@pnb.com.ph or anghy@pnb.com.ph

Investor Relations
LTG welcomes inquiries from institutional investors, analysts and the financial community.
Please write or call:
Ms. Annabelle Arceo
LT Group, Inc.
Tel: +63 2 808 1266
Email: ir@ltg.com.ph or annabelle.arceo@ltg.com.ph

LT GROUP, INC.
Annual Report 2015

Paper used:	MOHAWK Options PC White 216 gsm 210mm x 297mm 100% post consumer recycled fiber Limited Edition Planner Cream 80 gsm 50% post consumer recycled pulp
Ink used:	Printed with soy based ink Alcohol free fountain solution
Printer:	Velprint Corp. SMETA-certified printer www.Velprint.com.ph

LT GROUP, INC.

11th Floor Unit 3 Bench Tower, 30th Street corner Rizal Drive,
Crescent Park West 5, Bonifacio Global City, Taguig City
ltg.com.ph