



LT GROUP, INC. | 2017 ANNUAL REPORT

**TOWARD
A STRONGER
TOMORROW**



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.

VISION

To be 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.

To enhance the welfare of its employees and the communities where it lives and works.

(The Vision and Mission Statements are reviewed and approved annually by the Board of Directors. The latest reviews were on March 14, 2017 and January 16, 2018.)

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OUR COVER

THE LT Group Inc. is on track toward its overall goal of becoming a leading and innovative player in all the businesses it is engaged in.

For years, it has laid the groundwork for future growth through organic expansion and strategic partnerships.

And today, the conglomerate is reaping the benefits of such investments although the work isn't finished yet. LT Group continues to work toward achieving a better and brighter future.

Its journey to become bigger and better is best captured by the cranes that continuously migrate to better places, flying in formation to conserve energy over long distances and taking advantage of the swirl of air created by each and everyone in the flock starting with the lead bird.

With the flapping of its wings, each bird in the group creates a free lift for every bird down the line. When the lead crane gets tired, another takes its place to lead the flock and continue the journey. These traits epitomize the synergies that the businesses within the group expect to achieve.

The crane is a symbol of prosperity and longevity. The use of the crane, which in Chinese culture is venerated as the prince of all feathered creatures, also gives hint to LT Group's Chinese heritage.



The LT Group

ASIA BREWERY, INC.

ETON PROPERTIES PHILIPPINES, INC.

PMFTC INC.

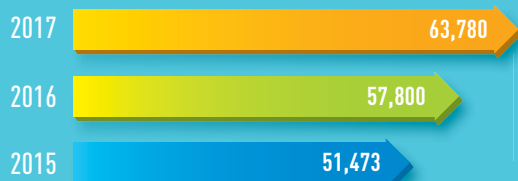
PHILIPPINE NATIONAL BANK

TANDUAY DISTILLERS, INC.

FINANCIAL SUMMARY

REVENUES

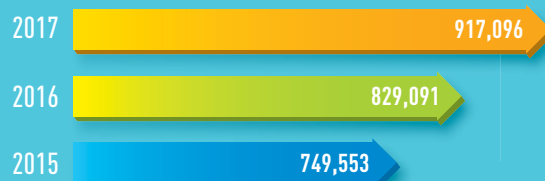
(In Php Millions)



Note: Revenues were restated to exclude ABI's alcoholic beverages, which were spun off into AB Heineken Philippines Inc. in November 2016

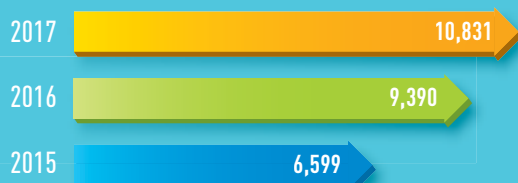
Total Assets

(In Php Millions)



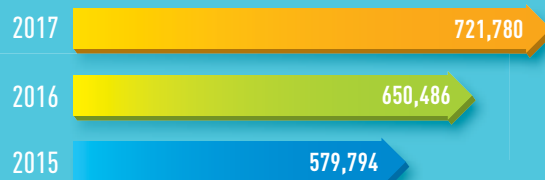
Net Income Attributable to Equity Holders of LTG

(In Php Millions)



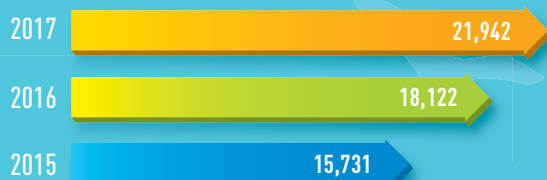
Total Liabilities

(In Php Millions)



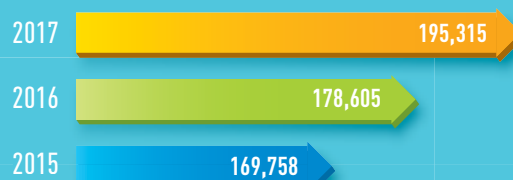
EBITDA

(In Php Millions)



Total Equity

(In Php Millions)



Per Share Data

(In Php, except Pay-out rate)

	2017	2016	2015
Earnings per Share	1.00	0.87	0.61
Book Value (at year end)	13.71	12.58	11.91
Cash Dividend	0.18	0.15	0.15
Pay-Out Rate	20.74%	24.60%	36.80%

Ratios and Percentages

	2017	2016	2015
Current (x)	0.63	0.70	0.75
Current w/out PNB (x)	4.39	4.20	4.29
Debt to Equity (x)	3.70	3.64	3.42
Debt to Equity w/out PNB (x)	0.15	0.15	0.13
Return on Average Assets	1.2%	1.2%	1.3%
Return on Average Equity	7.6%	7.1%	5.2%

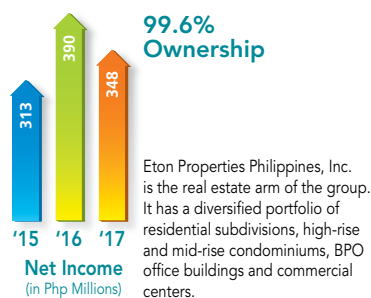
OUR BUSINESSES AT A GLANCE

ASIA BREWERY INCORPORATED

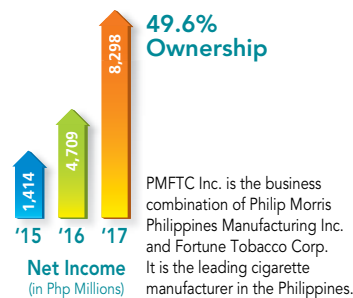


ETON

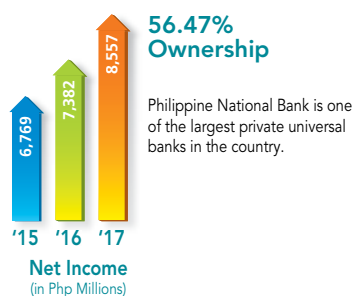
Eton Properties Philippines, Inc.



PMFTC



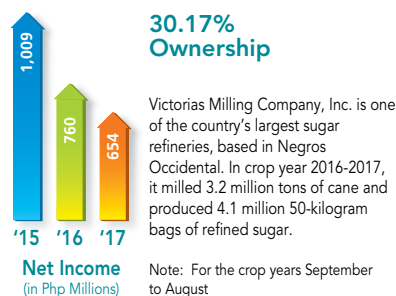
PNB



TANDUAY Distillers, Inc.



Victoria's Milling Company, Inc.



Attributable Net Income Contribution to LTG

(In Php Millions)

2017



		% to total
BANKING	4,826	45%
TOBACCO	4,385	40%
DISTILLED SPIRITS	631	6%
BEVERAGE	551	5%
PROPERTY DEVELOPMENT	348	3%
VMC	174	2%
OTHERS	(84)	-1%
TOTAL	10,831	100%

2016



		% to total
BANKING	4,140	44%
TOBACCO	2,582	27%
DISTILLED SPIRITS	908	10%
BEVERAGE	1,753	19%
PROPERTY DEVELOPMENT	388	4%
VMC	142	2%
OTHERS	(523)	-6%
TOTAL	9,390	100%

2015



		% to total
BANKING	3,508	53%
TOBACCO	1,036	16%
DISTILLED SPIRITS	422	6%
BEVERAGE	1,098	15%
PROPERTY DEVELOPMENT	312	5%
VMC	214	3%
OTHERS	9	0%
TOTAL	6,599	100%

OUR PARTNERSHIPS



ABI Pascual Holdings Pte. Ltd. is a 50%-50% joint venture between Asia Brewery, Inc. and Calidad Pascual of Spain.

Currently, the Company imports yogurt from Spain and distributes it in the Philippine market under the Pascual Creamy Delight brand. There are variants offered to cater to a wide array of customers, from the original, non-fat, thick and creamy to Greek style for high-end customers. As of end-2017, Creamy Delight had a market share of almost 30%, based on AC Nielsen

estimates and internal data. The aim is to eventually build a dairy plant in the Philippines.

Pascual Creamy Delight Yogurt has a long shelf life and does not require refrigeration. It is made from real fresh milk full of calcium, protein and zinc. It is a healthy product that is great for the whole family and gives a natural boost.

Filipinos lack dairy products in their daily intake. ABI Pascual aims to become the leader in providing consumers with the first affordable yogurt brand for all Filipinos.

ALI Eton Development Corporation

The Company is a 50%-50% joint venture between Ayala Land, Inc. and LT Group, Inc. It was formed to develop a 35-hectare property along the C-5 corridor that spans portions of Pasig City and Quezon City into a mixed-use estate.

The project, called Parklinks, is envisioned to be the greenest urban estate in Metro Manila, with 50% of the area devoted to open spaces. A 110-meter long iconic bridge will link Pasig and Quezon City over the Marikina River, creating a new route to help ease vehicular traffic

in the northeast and east of Metro Manila. The ground breaking ceremony was held in January 2018.

The first phase will cover 16 hectares. It will have a mall with 58,000 square meters which is targeted to open in 2021. Five towers of residential buildings under the Ayala Land Premier brand will be launched in the next five years, while another five towers will be under the Alveo brand, creating a portfolio of over 5,000 units. The first tower is targeted to be launched before the end of 2018.



AB Heineken Philippines, Inc. (ABHP) is a 50%-50% joint venture between Asia Brewery, Inc. and the globally-renowned Dutch brewer, Heineken International B.V. This joint venture officially commenced operations in November 2016, and armed with Asia Brewery's local knowledge and distribution network as well as with Heineken's brewing and marketing expertise, ABHP continues to deliver quality beer brands and an exceptional experience for its customers.

ABHP's portfolio combines internationally acclaimed brands such as Heineken and Tiger with local brands such as Beer Na Beer and Tanduay Ice.

ABHP operates two breweries -- one in Cabuyao, Laguna and another in El Salvador, Misamis Oriental. Significant investment in infrastructure and equipment has been made in the last two years, giving ABHP the capacity and capability to brew beers in the Philippines against the highest international quality standards.



Allianz PNB Life Insurance, Inc. is a joint venture between global insurance leader Allianz SE, and local banking giant, Philippine National Bank (PNB). In 2016, Allianz SE acquired 51% of PNB Life, the life insurance arm of PNB. The JV included a 15-year exclusive bancassurance agreement where products of Allianz PNB Life are exclusively sold in the Bank's over 600 branch network nationwide, including the branch network of PNB Savings Bank.

With a diverse product portfolio, Allianz PNB Life offers insurance and investment solutions that address the different financial needs of young & growing and middle income and established families, high net worth individuals, as well as millennials. These products are made available to PNB customers by Financial Advisors stationed in PNB and PNB Savings Bank branches.

Apart from bancassurance, Allianz PNB Life also launched the Life Changer program

which serves as the framework for its Agency Channel, to further expand the Company's footprint nationwide.

Operations in 2017, which represented one full year of the partnership, showed targets being exceeded. This is attributable to the strong collaboration with PNB, as well as to the renewed vigor of PNB's branch personnel as they carry the Allianz global insurance brand.

Moving forward, Allianz PNB Life will introduce first-in-

market propositions that will contribute to the nation's goal of improving the insurance penetration rate. In 2018, the Company will focus on the roll-out of a series of training programs for bank referrers to upgrade their sales and customer service skills. This is aligned with the PNB's "You First" campaign, focusing on customer centricity. With all these endeavors, Allianz PNB Life envisions to be among the major insurers of choice in the country.



PMFTC Inc. (PMFTC) is the business combination between Philip Morris Philippines Manufacturing Inc. and Fortune Tobacco Corporation, a 99.6%-owned subsidiary of LT Group, Inc. It continues to be the leading cigarette manufacturer in the Philippines, with a market share of 67.6% in 2017. PMFTC manufactures nine out of the top 15 brands in the market today, led by Marlboro, the world's number one cigarette brand, and Fortune, the largest heritage home-grown brand in the Philippines. It operates plants in Batangas and Marikina, employs over 4,500 people and directly contracts around

3,500 tobacco farmers from the provinces of Ilocos Sur and Misamis Oriental.

PMFTC commenced commercial operations of its buying and curing facility in Claveria, Misamis Oriental in January 2015. The state-of-the-art facility consists of 112 bulk barns with a capacity of up to eight tons of fresh leaves per barn, three buying lines supporting 120 tons of fresh leaves per day, two semi-float greenhouses for seedling production with the capacity to plant 45 to 50 hectares, and biomass and diesel boilers as sources of heat for the barns.

In 2017, Claveria grew twofold

from around 400 in 2016 to over 800 farmers supplying tobacco, with each farmer doing two croppings per year. They are composed of regular farmers averaging one hectare each, and mid-scale farmers with an average of 12 hectares of tobacco production per year.



“In many ways, we see our managers and employees as the moving spirit behind LTG. We rely on them to carry out the Group’s business goals to the best of their abilities.”

– *Dr. Lucio C. Tan*



MESSAGE FROM THE CHAIRMAN

Our dear shareholders,

2017 marks a good year for the LT Group, Inc. (LTG) and encourages us to build and expand further **toward a stronger tomorrow**. With Php10.83 billion in net income, LTG achieved a modest 15 percent year-on-year growth despite a generally difficult operating environment.

The Philippine economy grew by a strong 6.7%. This, coupled with positive population expansion, undoubtedly supported our banking, beverage and tobacco products at LTG.

The country's economic strength supported loans growth in our banking unit. Philippine National Bank's (PNB) core income improved in light of better net interest income and fee-based income, while bottom line was given an additional boost by sales of some foreclosed assets.

Our tobacco unit PMFTC experienced some turnaround in the last year, thanks to the Philippine Government's actions against the illicit trade. In the past years, prices of cigarettes were kept artificially low as illicit products were sold at economically unsustainable prices. Some recovery in our 2017 net income was due to favorable sales mix, as our customers switched from our low-cost to our premium brand. At this point, PMFTC is operating in a level playing field.

We continue to invest where it will make the greatest difference. In fact, we focus our efforts on tweaking our product lines to better serve our consumers' changing tastes. This aside, we see much potential in enhancing

our customer care and innovation lines, as well as developing sensible cost efficiency measures and smarter work practices.

In many ways, we see our managers and employees as the moving spirit behind LTG. We rely on them to carry out the Group's business goals to the best of their abilities. With them, we continue to build our Company and accelerate its transformation in preparation for a digital future.

Over the year, we detected a record number of Fintech disruptors in our banking segment. We recognize their potential and opportunity to help us at LTG spark product and service innovation to offer our current and future clients.

On this note, I wish to extend my sincerest thanks to our loyal shareholders and customers for your unwavering support through all our endeavors. With your support, our Board's direction, and our Management and Staff's commitment to progress, let us continue working **toward a stronger tomorrow**.

Dr. Lucio C. Tan
Chairman & Chief Executive Officer

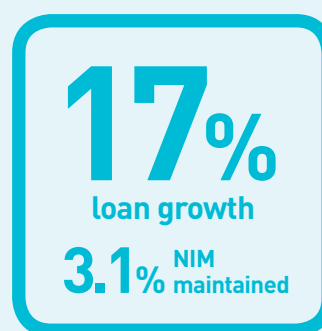


MESSAGE FROM THE PRESIDENT



The Philippines' Gross Domestic Product (GDP) growth was 6.7% in 2017. Although lower than the 6.9% growth of the previous year which benefitted from election-related push, it is still one of the highest in the region. Consumer spending, as measured by household expenditure, grew 5.7%, translating to strong demand for consumer products. This was supported by the 4.3% growth in OFW remittances to US\$28.1 billion, as well employment generated by the Information Technology–Business Process Outsourcing (IT-BPO) industry whose revenues grew 7.0%.

The year 2017 was better for LT Group, Inc. (LTG) despite the stiff competition in the industries that we operate in. The rampant illicit trade in the tobacco industry was finally halted in the latter part of the year and the industry has been able to increase prices to economically sustainable levels. The strong economy also supported the demand for our consumer products and bank services and helped push high occupancy rates in our office buildings. LTG reported an attributable net income of Php10.83 billion, 15.3% more than 2016's Php9.39 billion.



Philippine National Bank's (PNB) core earnings grew, boosted by ROPA sales

PNB's net income under the pooling method was Php8.56 billion in 2017, Php1.18 billion or 16% higher than 2016's Php7.38 billion. Gain from the sale of Real and

Other Properties Acquired (ROPA) in 2017 was Php4.16 billion, compared to 2016's Php2.56 billion.

The Bank's core income improved, with net interest income 13% higher year-on-year (y-o-y) on the back of a 17% increase in loans and receivables, while net service fees and commission income rose 20% due to higher loan, remittance and deposit-related fees.

Moreover, PNB was able to maintain its net interest margin (NIM) at 3.1% and loans to deposit ratio was at 76% as of December 2017, higher than end-2016's 73%. Despite the lower provisioning for probable credit losses at Php884 million from Php3.21 billion a year ago, the Bank was able to maintain its asset quality with net non-performing loans (NPL) ratio at 0.3% from 0.2% as of end-2016, while NPL cover stood at 131% from 133% as of end-2016.

PMFTC Inc.'s sales volume declined, but profit improved as premium Marlboro had more share



The tobacco industry's volume is estimated to have declined 5.6% or 4.4 billion sticks y-o-y to 74.9 billion sticks in 2017, largely due to excise tax driven price increases. This was tempered by trade loading toward the end of 2017,

in anticipation of more price increases as the excise tax was further increased starting 2018. Meanwhile, PMFTC's volume was 10.6% or 6.0 billion sticks lower y-o-y to 50.6 billion sticks.

Trading up to Marlboro and the improved mix led to higher earnings for PMFTC despite the drop in volume. Our equity in net earnings from our 49.6% stake in PMFTC amounted to Php4.37 billion, 69% more than the Php2.59 billion in 2016. While this is an improvement, we are still not back to our former profitability before the illicit trade became substantial.

The Government's actions versus the illicit trade, which includes smuggled and locally produced products, have been a welcome development as this has levelled the playing field. However, we have to remain vigilant to keep the illicit trade from prospering again.

Tanduay Distillers, Inc. (TDI) impacted by lower bioethanol sales; core liquor business remains strong

TDI's earnings were 31% lower y-o-y to Php631 million in 2017 from Php908 million in 2016. The

decline is attributed to lower bioethanol sales.

The Company started selling bioethanol to fuel companies in 2016 to utilize some of the excess capacity of the distillery. However, sales volume fell 21% in 2017 and prices also dropped from an average of Php60 per liter to just slightly above Php52.

However, sales volume of liquor, TDI's core business, was strong, increasing 15% y-o-y. The Company also enjoyed higher market share in the Visayas and Mindanao areas, at an average of 63.0% as of end-2017, compared to 60.4% as of end-2016.

Asia Brewery, Inc. (ABI) in investment stage, additional expenses in the meantime for beer and soymilk

ABI's income for 2017 was Php552 million, 69% lower than 2016's Php1.76 billion which was boosted by a Php594 million extraordinary gain from the revaluation of the beer assets. ABI's earnings in 2017 were weighed down by additional expenses, primarily for marketing beer, soymilk and energy drinks. The launch of the locally manufactured soymilk in returnable glass bottles in February also entailed additional depreciation expenses with the start of commercial operations of the plant while volumes are just starting to pick up.

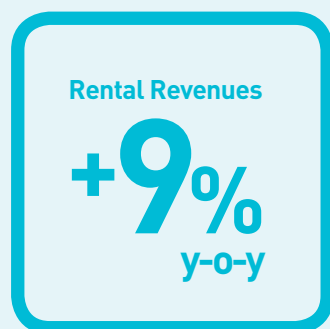
Revenues were 17% higher y-o-y due to volume growth of bottled water, soymilk and packaging which more than offset the slight drop in the volume of energy drinks.

ABI is currently in investment stage. It needs to invest in other beverages for the future growth of the Company. Moreover, Cobra energy drink, currently the largest contributor to revenues, is facing more intense competition from other carbonated drinks,

so alternatives have to be offered to our customers. Our joint venture with Calidad Pascual for yogurt has also been intensifying marketing efforts to have higher penetration in the market.



MESSAGE FROM THE PRESIDENT



Eton Properties Philippines, Inc.'s (Eton) residential sales lower with shift in strategy to increase leasing portfolio

Eton's bottom line in 2017 was Php348 million, 11% lower

than 2016's Php390 million. Revenues from leasing out office buildings and retail space increased 9% due to higher lease rates and additional retail space of 5,200 square meters from the expansion of Centris Walk in Eton Centris, Quezon City. But revenues from sales of residential units were 46% lower given the change in strategy to focus on increasing its recurring income base.

Construction is in full swing for a number of office and retail projects that broke ground in 2016 and 2017. Many of these projects are targeted for completion within 2018. These include the fifth BPO office building in Eton Centris, the retail and office component of WestEnd Square in Pasong Tamo, Makati, and more retail space at Eton Square Ortigas along Ortigas Avenue in San Juan City, all within Metro Manila.

2018 will be better, especially for tobacco, but will be challenging for some consumer businesses

The Government passed in December 2017 the first phase of its tax reform program, otherwise called the Tax Reform for Acceleration and Inclusion (TRAIN) which seeks to correct the deficiencies and simplify the country's tax system. It also aims to lessen the overall tax burden of the poor and the middle class and redistribute some of the gains to the poor.

While TRAIN's Package One translated to additional disposable income for consumers, it remains to be seen how this additional discretionary income will be spent. Moreover, it also increased the prices of some consumer goods with the imposition of a tax on sugary drinks and excise taxes on petroleum products, among others, so consumers will also have to pay more for the products they buy, as well as for their utilities and transportation expenses.

Higher inflation is expected for 2018, which together with the depreciation of the peso and higher fuel costs will translate to higher production costs. Freight and transportation costs are also expected to go up, so it will be a challenge for

manufacturers, including LTG's subsidiaries, to keep costs down.

For ABI, the sugar tax is expected to negatively affect the sales volumes of Cobra, which accounts for the highest share of ABI's revenues. Cobra's price was raised by Php2 per 240ml bottle at the start of 2018 to pass on the sugar tax. But we expect sales of bottled water to remain strong, and the roll-out of the soymilk in returnable glass bottles should continue to expand to more areas.

For TDI, while excise taxes for distilled spirits will likely be further increased under Package Two of TRAIN, demand is expected to remain stable to slightly higher as more jobs are expected to be generated by the Government's Build, Build, Build program for infrastructure.

Growth in the economy will continue to fuel demand for loans and will augur well for the core business of PNB. The Bank's transition to a unified IT system will enable it to offer more services and products through mobile phones and over the web. The joint venture with Allianz for life insurance is on track and bancassurance fees should contribute more in the coming years.

Eton will continue to enjoy high occupancy rates for its BPO office buildings, as well as the retail space that complement these projects. Demand should continue for the buildings being constructed. While there are concerns of artificial intelligence (AI) taking over the jobs of some workers in the medium-term, shifting to more high-value outsourcing jobs in research and analytics will enable the Philippine IT-BPO sector to remain relevant and continue to contribute to the country's economy. The IT-BPO industry expects revenues to grow at an annual rate of 9% up to 2022. The impending removal of income tax holidays is also a concern, but the generally lower labor costs and leasing rates in the Philippines will keep it a viable alternative to other countries.

For the tobacco business, we are now operating in a level playing field. While there are two rounds of excise tax increases in 2018 -- Php2.50 per pack in January and another Php2.50 in July -- we were able to implement substantial price increases in late 2017 and early 2018 across all segments. There may be a further drop in volumes due to higher prices, but the level playing field enables us to pass on additional taxes and no longer price our products at economically unsustainable levels.

The challenges that individual companies in the group have to surpass are part of the work we

have to do **toward a stronger tomorrow**. Stiff competition is a constant challenge but certain difficulties crop up in certain industries from time to time. Some businesses may do better than others in some years. Taking advantage of the synergies within the group helps LTG move **toward a stronger tomorrow**. Our group will continue to work together to build a better and stronger LTG. As always, we remain committed to excellence and to providing quality yet affordable products to our customers.

I would like to thank our stakeholders for the continued trust and support in our Company, during difficult and better times, and to our Board of Directors, management team and all our employees for their hard work and dedication.



Michael G. Tan
President



MESSAGE FROM THE CFO

For the year 2017, LT Group, Inc.'s (LTG) total revenues amounted to Php63.78 billion, an increase of Php5.98 billion or 10.3% over 2016's Php57.80 billion revenues. All business segments reported an increase in revenues except for property development.

Philippine National Bank (PNB) had the highest increase in revenues, followed by Asia Brewery, Inc. (ABI) and Tanduay Distillers, Inc. (TDI). Higher Interest Income improved PNB's revenues, while the higher contribution of bottled water and soymilk added to ABI's revenues. Higher liquor sales improved TDI's revenues. Eton Properties Philippines, Inc.'s (Eton) revenues were lower due to lesser sales of residential units with its change in strategy to focus on increasing its recurring income base.

The attributable net income of LTG reached Php10.83 billion, Php1.44 billion or 15.3% more than 2016's Php9.39 billion. The improved profitability of the tobacco and banking segments more than offset the decrease in the beverage and distilled spirits segments.

The contribution of the tobacco business reached Php4.39 billion, a Php1.81 billion or 70.2% improvement over 2016's Php2.58 billion. The tobacco business' income is primarily from the equity in net earnings of its 49.6% stake in PMFTC, Inc. (PMFTC). This amounted to Php4.37 billion in 2017, a Php1.78 billion or 68.8% increase compared to 2016's Php2.59 billion, mainly due to favorable sales mix. While there was an improvement, the earnings are still lower than what was realized in 2012 as illicit trade continued to affect the tobacco business in the first half of the year.

PNB's contribution amounted to Php4.83 billion in 2017. While LTG's share in PNB's income in 2016 amounted to Php4.14 billion, part of PNB's income was from the sale of a property to Eton. LTG's share of the gain from the sale was Php725 million, which was eliminated from LTG's attributable net income, bringing PNB's net contribution to Php3.42 billion in 2016. This brought PNB's net contribution to LTG in 2017 higher by Php1.41 billion or 41.2% compared to 2016.

TDI's contribution was Php631 million, Php277 million or 30.5% lower than 2016's Php908 million. This was due to the lower volume of bioethanol sales, as well as lower selling prices. TDI started selling bioethanol to fuel companies in 2016 to utilize the excess capacity of its distillery.

ABI contributed Php551 million to LTG, Php1.20 billion or 68.6% lower than 2016. ABI's income in 2016 included Php596 million in extraordinary income, primarily from the revaluation of the beer assets. Meanwhile, ABI's 2017 income was weighed down by

losses from AB Heineken Philippines, Inc. and higher selling and marketing expenses.

Eton's contribution amounted to Php348 million, Php40 million or 10.3% lower than the previous year's Php388 million with the lower contribution of sales from residential units.

PNB accounted for 45% of LTG's attributable income in 2017. The tobacco business contributed 40%, while TDI and ABI accounted for 6% and 5%, respectively. Eton generated 3%, and equity in net earnings from 30.9%-owned Victorias Milling Company, Inc. (VMC) amounted to Php174 million, or 2% of total attributable income.

On April 7, 2017, LTG paid a regular cash dividend of Php0.15 per share and a special cash dividend of Php0.03 per share, or a total of Php1.95 billion to shareholders on record as of March 29. This is equivalent to 20.7% of 2016's attributable income of Php9.39 billion, in line with the dividend policy of a 20% pay-out rate.

Total capital expenditure was Php7.4 billion in 2017. PNB invested Php2.6 billion, primarily for a new IT system, to which the Bank migrated to in August. ABI spent Php1.9 billion, mostly on new bottles for its soymilk and energy drink business. Eton spent Php1.8 billion, mainly for the construction of ongoing projects. TDI spent around Php400 million, largely for plant upgrades. Meanwhile, LTG infused close to Php700 million into its joint venture with Ayala Land Inc. for the 35-hectare Parklinks project.

LTG's balance sheet remains strong, with the parent company's cash balance at Php1.6 billion as of the end of 2017. Debt-to-Equity Ratio was at 3.70:1 with the Bank, and at 0.15:1 without the Bank.



Jose Gabriel D. Olives
Chief Finance Officer



Asia Brewery, Inc.

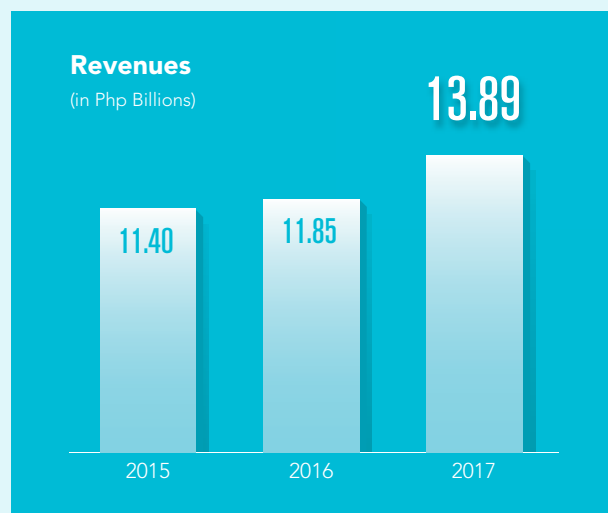


Starting from a humble vision way back in 1982 to be the country's second brewery, Asia Brewery Inc. (ABI) is now a major player in the Philippine beverage and industrial packaging industries. ABI's non-alcoholic top-selling brands remain dominant in the local beverage market, namely: Cobra (#1 energy drink), Vitamilk (#1 soymilk), and Absolute Water (#1 distilled drinking water).

To complement its domestic success, ABI embarked on its first venture in the international beverage market through its Myanmar-based subsidiary, Asia Pacific Beverages Myanmar Co. (APBM), which commenced commercial operations in April 2017. APBM is expected

to provide a boost in ABI's revenue generating capacity as brands like Sunkist and Cobra make their dent on the Myanmar market.

ABI's revenues grew by 17% year-on-year, to Php13.89 billion in 2017 from Php11.85 billion in 2016. The Company's emphasis on excellence in quality and customer service enabled it to sell commercial bottles from the excess capacity – or those not utilized by ABI and its affiliates for their own requirements -- to third parties. Gains were also realized in the non-alcoholic beverage segment, mainly from bottled water growth which more than offset the impact of the contraction of the energy drinks market. Overall gross profit margin was at 31%, lower than the 34% in 2016 mainly due to higher depreciation expense with the start of operations of the soymilk plant.



ABI's net income amounted to Php552 million in 2017, Php1.20 billion or 69% lower than 2016 income. The 2017 net income is inclusive of the Php578 million share in the net losses recognized from the first full year of operations of AB Heineken Philippines, Inc. (ABHP), while 2016 net income includes the Php594 million extraordinary income arising from the revaluation of beer assets.

Cobra upheld its market leadership commanding over 70% of the energy drinks market. Cobra volumes remained stable despite aggressive price-offs waged by indirect competitors in the carbonated soft drinks market.

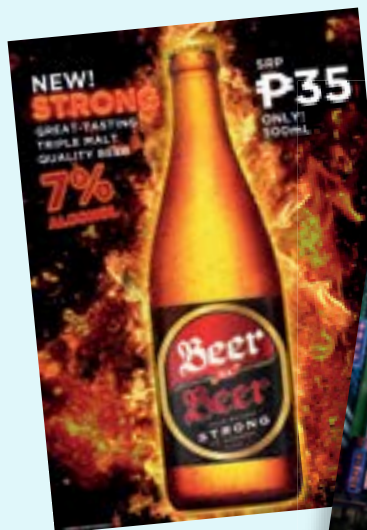


Under the tagline, “Tunay na Lakas,” Cobra reinforced its position as the leading energy drink by maintaining its presence in various sporting events around the country. The various campaigns launched

in 2017 featuring the action primetime king and “Idol ng Masa,” Coco Martin, with the tagline “May Laban Ka!” further strengthened Cobra’s foothold in the mass market. With its sustained revenue base, Cobra remained as the Company’s flagship product, accounting for 35% of revenues.

Bottled water, the second biggest contributor to revenues, continued its growth momentum with 10% volume growth in 2017. Absolute and Summit bottled water brands ranked second with 27% market share. Backed by strong marketing and advertising support, Absolute and Summit continue to strengthen brand equity with nationwide thematic and trade programs. Summit’s “Thirst for More” campaign and Absolute’s “Pure water. Pure love.” campaign of Judy Ann Santos reinforced its position as the affordable and most trusted bottled water brand for the Filipino family and consumer. Pioneering the local production of drinking water in premium glass packaging, Summit Still and Summit Sparkling were launched in November 2017.

Vitamilk continued to dominate the soymilk market with over 80% market share and has maintained its position as one of the top three brands in the ready-to-drink milk category. With the “Pagud-tom, Fills Good” campaign, Vitamilk positions itself as the healthy and energizing drink for the youth market. With commercial operations of the soymilk plant commencing in December 2016, Vitamilk in the 200ml returnable glass bottle (RGB) was formally launched in February 2017. This RGB format introduces Vitamilk to a wider consumer base through availability in sari-sari stores at an affordable price point. This innovation in the ready-to-drink milk business has the potential to reach a new segment of consumers.



In the packaging business, revenues were 4% higher than 2016. The packaging division has aggressively pursued large commercial glass customers through the emphasis on excellence in quality and customer service. Third party customers currently include those in the softdrinks and condiments businesses.

Other emerging product lines continue to experience encouraging growth. Creamy Delight Yogurt for one, has achieved healthy market shares in consumer markets outside of Metro Manila where its expanded flavor line and long shelf life have distinct competitive advantages. Under a joint venture with Calidad Pascual of Spain, continuous product innovations and improved distribution strategies have resulted in a 30% market share by the end of 2017.

Nestea ready-to-drink ice tea, on the other hand, under license from Nestle Philippines grew by a modest but profitable 7% in volume in 2017 in the midst of a crowded market.

Backed by ABI’s local knowledge and distribution network, combined with the brewing and marketing expertise of Heineken Company, ABHP’s Heineken and Tiger beer brands continued their growth trajectory in 2017. Significant investment has been made to reach Heineken world-class quality standards. Heineken’s “Open Manila” campaign built awareness for the brand, generating great response amongst discerning young Filipino adults. Also in 2017, ABHP successfully launched Tiger in returnable glass format, expanding the brand’s consumer reach.

In 2017, ABI once again laid a key foundation for future growth with APBM. Only a year before, we saw the establishment of ABHP and the commencement of commercial operations of the soymilk production facility. ABI is looking forward to building on these foundations, plus its partnership with Calidad Pascual, as well as strengthening its established brands in the energy drinks and bottled water segments to achieve its objective to be the most diversified and innovative beverage company in the Philippines and in other markets.

Eton Properties Philippines, Inc.

Eton City Square

Amidst an increasingly competitive landscape, Eton Properties Philippines, Inc. continued to expand its footprint while rebalancing its portfolio.

Gross revenues reached Php2.2 billion, a 21% decrease from the previous year's revenues of Php2.8 billion. Of this, real estate sales accounted for 38% while rental income reached 62%, reflecting the Company's efforts to enhance its recurring income stream. The Company's BPO office buildings, with a gross leasable area of 125,052 square meters, are now enjoying almost full occupancy.

Selling activities were actively pursued in 2017, specifically for Eton City in Laguna. The lifestyle hub, Eton City Square, likewise started land development works to complement Eton's existing residential developments in the area.



Cyberpod Five topping off

At Centris in Quezon City, Centris Cyberpod Five, the Company's fifth office building topped off in 2017. Eton also broke ground on Eton Square Ortigas in Greenhills, San Juan City. In Makati City, the construction of eWestMall and eWestPod, the retail and office components of the lifestyle hub Eton WestEnd Square, went into full swing. These projects are all slated for completion in 2018, and will increase Eton's leasing portfolio by 56,000 square meters.

Offsetting the drop in real estate sales, rental income rose 9% to Php1.4 billion from Php1.3 billion in 2016,



NXTower



Eton Tower Makati

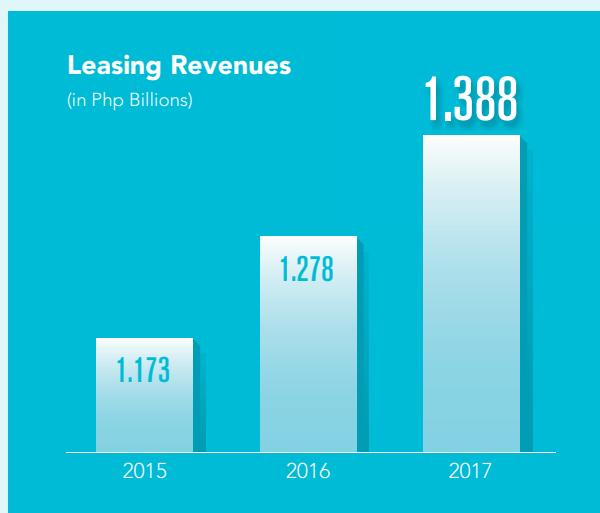


Eton Square Ortigas

driven by higher rental rates from contract renewals of existing tenants.

Net income was recorded at Php348 million, 11% lower than last year's net income after tax of Php390 million. Assets stood at Php29.7 billion, a 2% increment from the 2016 level of Php29.2 billion.

Having achieved our desired revenue mix and with new projects coming onstream, Eton is confident it will remain financially healthy in 2018. With the Philippines' strong economic performance and an improving global economy as a backdrop, Eton will continue strengthening its presence in the market segments it operates in.



PMFTC Inc.

International Marlboro Design



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 and has been providing the country's adult smokers with the best smoking experience through its diverse brand portfolio.

PMFTC manufactures 9 out of the top 15 brands available in the market today, led by Marlboro, the

world's number one cigarette brand, and Fortune, the largest heritage home-grown brand in the Philippines.

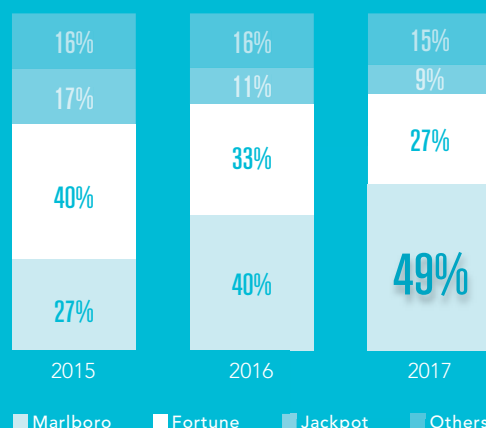
January 2017 marked the first time that the cigarette excise tax system was put under a unitary structure with a rate of Php30.00 per pack as mandated under Republic Act 10351, coming from a two-tier tax structure since 2013.

During this time, the excise tax for lower tier brands increased ten-fold, from Php2.72 per pack in 2012. In 2017, there was also renewed government focus on curbing the illicit trade, mainly counterfeit tax stamps. Meanwhile, Executive Order No. 26, which provides for the establishment of smoke-free environments in public and enclosed places was signed by President Duterte and became effective on July 23, 2017.

The second half of 2017 was also marked by significant changes in the competitive landscape as Japan Tobacco Inc. (JTI) finalized its acquisition of Mighty Corporation, the country's second largest tobacco player. British American Tobacco (BAT) Philippines also announced that it would pull out of the Philippines by year-end.

PMFTC's market share remains strong at 67.6%. Although it is down 3.7 share points versus the prior year, its share improved since the second quarter following price increases for low-priced brands which resulted in narrower price gaps between other brands in the market to Marlboro and Fortune.

Sales Volume Mix



PMFTC employs over 4,500 people and directly contracts around 3,500 tobacco farmers from the provinces of Ilocos Sur and Misamis Oriental. The Company relies on its competent and diverse workforce supported by individual development and a merit-based career management program that recognizes employees with potential and rewards achievements. PMFTC is continually shaping its people and culture in order to continue thriving in the coming years and beyond.

Sales and Marketing

In 2017, Marlboro continued to enjoy the support of adult consumers, a testament of the brand's strength. Although prices were increased for the first time in end-2016 since 2013, price increases at the bottom

felt in previous years slowed and the brand started to recover. This was due to the pricing movements in the low price segment as well as strong consumer and trade support for the brand. A number of initiatives were implemented, including product and pack upgrade for the flagship Fortune Menthol and a re-launch of Fortune Original. To rebuild loyalty with the trade, an innovative new redemption offer "Kilo Panalo" was implemented. This provided an interactive and engaging redemption promotion for retailers. Additionally, in the second half of the year, a large-scale consumer engagement platform, "Tropa Trip," was launched in multiple adult consumer touchpoints, engaging over one million adult smokers. All these efforts have helped rejuvenate the brand and strengthen its position as the leading local cigarette brand in the Philippines.



of the market resulted in the narrowing of price gaps between Marlboro and lower-priced brands. In April 2017, the Marlboro packaging was upgraded with the new International design, giving the brand a bold and progressive new look. The upgrade was supported by large-scale adult consumer engagements, events and trade initiatives. To further emphasize its leadership and gain in switchers from competitive brands to accelerate brand growth, a national consumer promotion "Red Rewards," was implemented. Under this campaign, empty packs of Marlboro Red could be exchanged for exclusive premium items. Other initiatives were executed to ensure the functional and equity superiority of Marlboro including packaging enhancement from Soft pack to Box and the global communication campaign "You Decide." All these efforts have made Marlboro the Number One brand in the Philippines.

2017 was also a good year for Fortune as the decline



Operations

2017 was a turnaround year for PMFTC Operations both in building the business and organization. PMFTC launched "100+1," the new vision for the organization, and ran a massive deployment in all Manufacturing, Leaf, Logistics, Sales and Distribution sites across the country. The campaign aims to promote topnotch operational performance, aspiring to be the number one Preferred Supplier with best-in-class operations and zero loss mindset that can only be achieved with 100% employee engagement.

Focus areas for the "100+1" campaign highlighted Safety, Security and Business Continuity; Quality; People; Equipment Strategy; Manufacturing Excellence; Leaf; Agile Supply Chain; and Peso Productivity. Across these focus areas, PMFTC achieved major milestones as

it recorded zero lost time injury (LTI) for the entire year, surpassed competition in terms of product quality, and significantly improved operational efficiency.

Following new product launches and innovation initiatives this year, PMFTC successfully delivered on schedule without any interruption on product supply despite challenges on equipment movements, transfers, and conversions.

In improving the organization, PMFTC underwent a series of redesigns to deliver operational efficiency amidst industry and market challenges. Optimization initiatives were implemented by combining departments to achieve synergies. This year, the Company launched OPEN+, which aims to develop systems and capabilities in the organization to deliver breakthrough and sustainable results for operations.

Illicit Trade

The government made substantial strides in addressing illicit trade across the country. Throughout 2017, there were at least 45 enforcement actions nationwide against illicit cigarette traders. Highlights of these initiatives include the seizure by the Bureau of Customs (BoC) of more than 117.5 million packs of locally made cigarettes with counterfeit excise tax stamps; shutdown of factories that produced counterfeit cigarettes, such as the one in Bacolod City in August (The Philippine Daily Inquirer, August 26, 2017) and Bureau of Internal Revenue's (BIR) criminal cases for tax evasion against illicit manufacturers (Philippine Star, May 28, 2017).

To increase illicit trade awareness and communicate its impact to the industry, the Federation of Philippine Industries commissioned a study on the impact of illicit trade in the Philippines across eight major industries -- petroleum, tobacco, steel, resins, sugar, palm oil, automotive batteries, and wood products. Findings show that over a five-year period (2011-2015), Php900 billion worth of smuggled goods entered the Philippines, wreaking havoc on the economy.

Going forward, PMFTC will continue to work hand in hand with the Government and industry to reduce illicit trade and shift cigarette volumes back to the legitimate industry.

Human Resources

PMFTC geared up for the cultural transformation needed to win in the future, as it strengthened Managerial Effectiveness and Employee Engagement initiatives across the Company. In 2017, PMFTC successfully rolled out 360, an upgraded learning platform that serves as a one-stop-shop for all learnings at PMFTC.

Through close cross-functional partnerships, PMFTC

successfully completed its nationwide Route-to-Market roll-out, while also driving the "100+1" strategy in support of Operations. Several strategic initiatives were also launched to further strengthen inclusion, trust and accountability under WE Unlimited, which included the following: Strengthened Employee Referral Program; Removal of Biometrics Attendance, which was lauded as one of the Top Performing Projects in the OPEN+ Awarding in Sampoerna, Indonesia; Me Unlimited, which promotes internal applications within the Company and Investing In You, a Company-wide communications campaign on how the Company stays ahead in Compensation and Benefits, and how it lives up to its principles on Talent Management and Meritocracy.

Further, Employee Engagement was enhanced by having employee events throughout the year, including Employee Fairs that showcase Philip Morris International's (PMI) unlimited capabilities by bringing basic benefits and services closer to employees while leveraging PMFTC's in-house capabilities and products, as well as offerings on wellness.

In addition, PMFTC also continued its focus on enhancing its employer branding. Through INKOMPASS, PMI's global internship program, PMFTC received 4,000 applications, resulting in hiring of the top 15 interns. PMFTC also garnered the highest number of qualified interns for the regional INKOMPASS InChallenge, with three PMFTC interns participating in the global competition held in Lausanne, Switzerland. PMFTC was also awarded as co-presenter for the biggest career fair in the University of the Philippines, complementing digital media as its main sourcing strategy in recruiting 2017's batch of Graduate Trainees.

Diversity and Inclusion

PMFTC continued building on the successes of previous years in fostering a diverse and inclusive work environment and culture. In 2017, efforts in building a more inclusive environment included a PMFTC Lecture Series in celebration of the International Women's Month in March and the Pride LGBT Month in June. Highlights from the Lecture Series touched on the roles of women in the family, the workplace, and society, as employees were encouraged to be at the forefront of the drive towards gender equality and women's rights. Moreover, the Pride LGBT Month's keynote speech highlighted a pending bill on prohibiting discrimination based on sexual orientation, gender identity, or expression.

Public Affairs and Corporate Citizenship

As an industry leader, PMFTC is transforming from being just a cigarette manufacturer to an agriculture-based company. With the theme, "Towards Developing a Globally Competitive Tobacco Industry," PMFTC



Senator Cynthia Villar (third from left) with (from left) Philippine Tobacco Institute President Rodolfo Salanga, PMFTC External Affairs Director Bayen Elero-Tinga, PMFTC President Roman Militsyn, PMFTC Corporate Affairs Director Richard James, and member of the Bright Leaf Board of Judges Mandy Navasero.

and other industry stakeholders organized the first ever Philippine Tobacco Industry Forum in Davao City. The participants agreed to work together to chart a development plan for the industry's sustainable growth, protect the domestic tobacco industry, and ensure the competitiveness of Philippine tobacco.

This two-pronged forum provided impetus for future developments in the area of sustainability particularly in helping the Philippine Government adhere to its commitment to ASEAN 2025 and the United Nations Sustainable Development Goals (UN SDGs).

Since tobacco leaf is the most essential part of the industry, the farmers who grow it and their insights were fundamental to the meeting. Farmer leaders were consulted on the following issues: inter-cropping, NextGen farmers, among others. These were carried over to the Forum proper where resource speakers provided insights on agronomy, trade, economics and labor policies and best practices.

PMFTC also held the 11th Bright Leaf Agriculture Journalism Awards (Bright Leaf) to honor the most outstanding and relevant agriculture stories in print, radio and television. It also honors the most compelling photos that capture the essence of farming and the agriculture industry.



Finally, PMFTC, together with the Philippine Advocacy for the Arts Foundation Inc. (PAAFI), launched the 2017-2018 Season of the Philippine Art Awards (PAA).

The PAA will be-expanding its role in the 2017-2018 season, going beyond its traditional role of giving awards.

It will instead delve into the following activities: Art & Community Program, Art & Enterprise Program and Art & Advocacy Initiatives. PAA will also be working with local art groups to promote art with the grassroots.



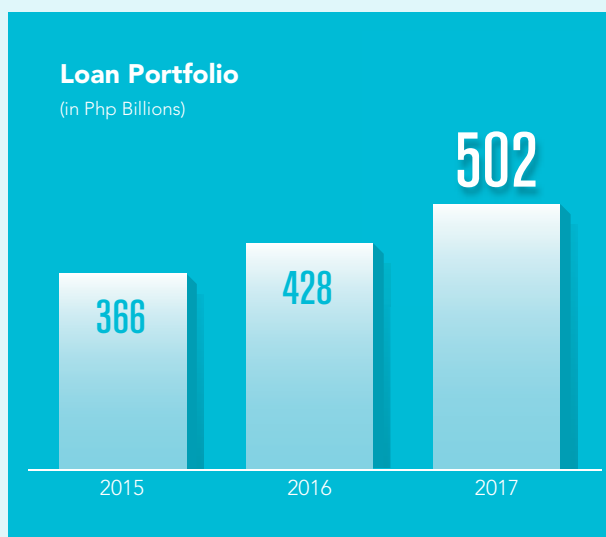
Philippine National Bank



The Philippine National Bank (PNB) continues to be one of the largest private universal banks in the country. In 2017, PNB delivered a robust financial performance, underpinned by a firm commitment to strengthen the core business, manage risks prudently and improve efficiencies in operations. PNB reported a net profit of Php8.6 billion under the pooling method during the year, 16% higher compared to earnings of Php7.4 billion in 2016. Total operating income reached Php32.8 billion, 11% higher than the year-ago level as the Bank sustained the growth in its core business. Net interest income increased by 13% from the previous year on the back of a 17% expansion in loan portfolio, which in turn was boosted by increases in loans to corporate, commercial and small- and medium-sized enterprises.

On the other hand, net service fees and commission income grew 20% as the Bank intensified its cross-selling efforts to its customers.

Despite the absence of significant non-recurring revenues earned in the previous year and the decline in trading gains, the Bank's non-core income improved 3% to Php7.6 billion, mainly due to net gains on disposal of foreclosed properties. Meanwhile, operating expenses excluding provisions for impairment and credit losses expanded moderately at 7% year-on-year due to prudent spending despite aggressive business growth.



By end-2017, PNB's total consolidated resources stood at Php823.5 billion, up Php82.4 billion or 11% from year-ago level. The asset build-up was largely funded by deposits, which rose 12% from end-2016 levels as the Bank continued to focus on generating low-cost funds and replacing matured high-cost Tier 2 Notes with Long-Term Negotiable Certificates of Deposit (LTNCD). The Bank successfully raised Php10.1 billion from the issuance of two tranches of LTNCD in April and October at a weighted interest rate of 3.8%.

Notwithstanding the aggressive loan growth, PNB's asset quality remained strong with non-performing loans (NPL) ratios of 0.26% (net of valuation reserves) and 2.01% (at gross), respectively. NPL coverage is now at 130.59%. PNB's consolidated risk-based capital adequacy ratio (CAR) has consistently exceeded the

minimum regulatory requirement of 10% with a CAR at 15.35% and Common Equity Tier (CET) 1 ratio at 14.58% by end-2017.

Affirming the consistent improvement in PNB's credit profile, Moody's upgraded the Bank's Philippine peso currency and foreign currency deposit ratings from Baa3/P-3 to Baa2/P-2, two notches above investment grade.

Since the launch of its rebranding initiative in 2016, PNB has revitalized its image and position as an institution that continuously transforms itself into a vibrant, relevant and customer-centric universal bank. True to its brand promise of "You First", the Bank continued to deliver products and service solutions attuned to the evolving needs of its clients. In line with its digital banking initiatives, the Bank launched the PNB Mobile Banking App to better serve its customers' diverse banking needs. The app offers secure online banking for clients who transact using their smartphones. The app can be downloaded for free via the App Store or Google Play for a hassle-free banking experience. To offer customers a faster way of depositing funds into their accounts, the Bank also started deploying Cash Accept Machines (CAMs) toward the end of 2017. As of year-end 2017, 15 CAMs have been installed in onsite and offsite locations in Metro Manila.

On the other hand, 55 branches nationwide were transformed into modern sales and service hubs that allow for more efficient and convenient banking experience for customers. As of December 31, 2017, PNB had 692 branches, inclusive of PNB Savings Bank. The Bank ended the year with 1,243 ATMs which are Europay-, Mastercard-, and Visa (EMV)-compliant, ensuring clients that their ATM transactions are secure and protected. PNB likewise started issuing in March 2017 EMV-compliant proprietary debit and prepaid cards to its clients. This was the second wave of conversion initiated by the Bank as it had already migrated its Mastercard branded debit cards to the new standard in July 2016.

Moreover, PNB maintained its position as the Philippine bank with the most extensive international footprint with 72 overseas branches, representative offices, remittance centers and subsidiaries across Asia, Europe, the Middle East and North America. In honor of the country's modern-day heroes, the Bank launched the PNB Global Filipino Lounge at NAIA Terminal 2 in June 2017. With the lounge, travelling Filipinos can conveniently do last-minute transactions at the airport and can easily access remittance services and other financial solutions.

2017 was a good year for PNB in terms of awards. The PNB Mobile Banking App was recognized as "Best in Customer Experience – Mobile" in the Annual Customer



Experience in Financial Awards 2017 held in Singapore last June 2017. PNB also received the "Digital Banking Initiative of the Year" award from the Asian Banking & Finance 2017 Retail Banking Awards.

PNB Savings Bank, meanwhile, received the "New Consumer Lending Product of the Year" award for its Smart Salary Loan Program in the Asian Banking & Finance 2017 Retail Banking Awards.

In April 2017, the Department of Labor and Employment (DOLE) certified PNB as a labor standards-compliant institution, the first in the Philippine banking industry. The DOLE certification indicated that PNB had fulfilled the requirements on general labor and occupational safety and health standards. This is also solid proof that PNB lives up to its corporate values – trustworthiness, adaptability to change, team orientation, commitment and sense of worth.

The Bank received the Outstanding PhilPaSS REMIT Participant award from the Bangko Sentral ng Pilipinas (BSP) in 2017 in recognition of its exceptional performance in terms of remittance volume sent via the BSP's Philippine Payments and Settlement System (PhilPaSS) for processing and settlement.

Backed by over a century of stability and excellence, PNB looks forward to more years of serving its customers first.

Tanduay Distillers, Inc.



TIBAY NG LOOB in English means Inner Strength.

Tanduay's marketing campaign for the past four years centered on the theme **"Tibay ng Loob, Tibay Tanduay."** Aptly enough, Tanduay achieved a significant turnaround in sales amid tough business and economic

pressures relying strongly on the inner strength of the Tanduay brand name, which is anchored on its strong connection with the masses.

Tanduay's liquor sales volume grew 15% in 2017 driving liquor revenues up 21% to Php14.7 billion in 2017 from Php12.1 billion in 2016. Flagship brand Tanduay Rhum Dark Five Years posted a 17% increase in sales volume, boosted by the continuing strong economic performance in the Southern Philippines and an aggressive marketing campaign focused on further strengthening its distribution network. TDI was able to pass on the increase in excise tax with its 3% increase in selling prices.



Bioethanol sales, however, failed to sustain its momentum as ethanol sales volume declined 21% due to competition from cheaper imported ethanol. Ethanol selling prices also went down 14% due to the decline in the reference price set by the regulatory agency. The reference price is based on molasses and sugar prices which declined compared to year ago levels. The unfavorable volumes and selling prices reduced ethanol profits.



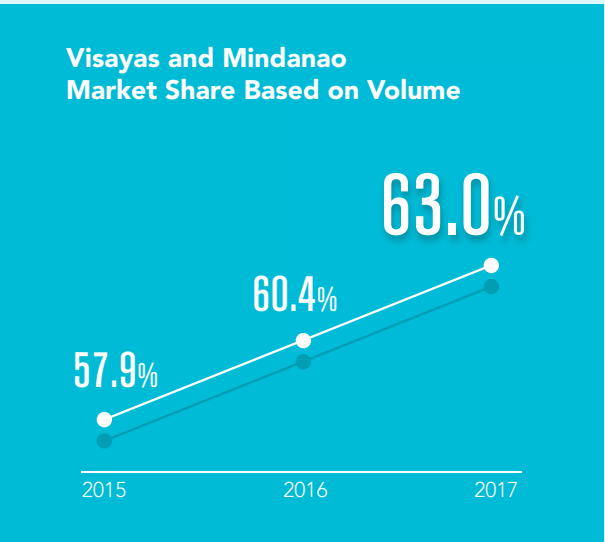
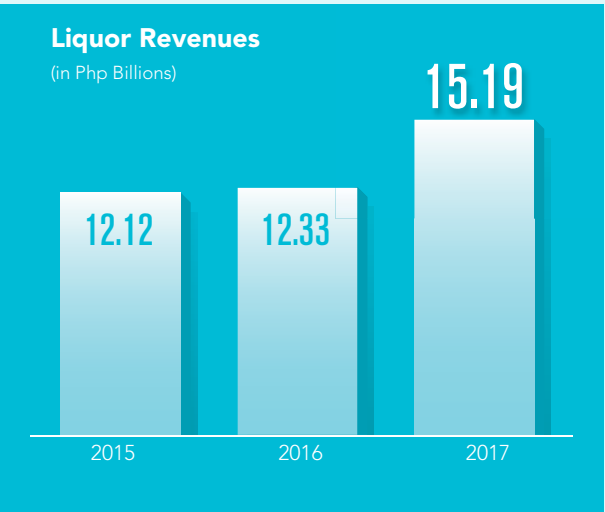
Consolidated revenues increased 12% to Php16.8 billion from Php15.0 billion on the back of higher revenues from the liquor business. Consolidated gross margin however fell 2% on account of lower margins from ethanol and higher costs of alcohol, excise taxes and packaging materials. Consolidated net income declined 31% to Php631 million from Php908 million primarily due to lower gross profit margin and higher selling expenses.

Tanduay received its third consecutive “Brand Of The Year” award from the World Branding Forum, a non-profit organization dedicated to promoting brand standards. Tanduay was among the elite list of 245 winners out of 3,000 entrants.

In 2017, Tanduay ventured into marketing through sports via the Tanduay Athletics program which aims to improve the corporate image and brand equity by riding on the popularity of sports like basketball and volleyball. Apart from sponsoring teams in major leagues like the ASEAN Basketball League, PBA D-League and the Maharlika Pilipinas Basketball League, it also plans to provide support for grassroots programs to develop the skills of young Filipinos in their favorite sports.

Tanduay also scored a first among Filipino companies by entering into sponsorship contracts with two NBA teams, the Golden State Warriors and the Brooklyn Nets. These sponsorship contracts provide a global reach for the Tanduay Brand as the Tanduay name and logo will be shown during games and posted in areas around the playing venue. Tanduay Asian Rum will also be allowed to be sold at select beverage stands throughout the arenas.

As of the end of 2017, Tanduay still has to fully recover market share lost to competitors in the



Southern Philippines in the previous years but it has gained momentum toward this goal with the strong performance shown in 2017. The groundwork has also been laid towards improving performance in other market areas and attaining the vision of being a global brand.

CORPORATE GOVERNANCE REPORT

LT Group, Inc. (LTG) believes that good corporate governance is vital in its pursuit of creating “a world-class conglomerate at the forefront of the Philippine economic growth and 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.”

To achieve the Vision of the Company, its Board of Directors ensure that proper internal control mechanisms are in place and good governance is inherent throughout the implementation of the corporate strategy.

In order to promote a strong corporate governance culture and to keep abreast with recent developments in corporate governance, the Board approved, adopted and implemented changes and/or amendments in its Corporate Governance Manual last May 9, 2017. These changes were made to update and comply with those recommended under the SEC Memorandum No. 19-16, along with the charters and manuals of other Board committees. The changes made included the reorganization and decentralization of the structure and function of the internal audit.

This resulted in the appointment of Mr. Dioscoro Teodorico L. Lim as Chief Audit Executive (CAE) whose function includes reporting to the Audit and Risk Management Committee and overseeing the individual CAEs of the Company's subsidiaries.

Moreover, in compliance with Republic Act No. 10173, otherwise known as the Data Privacy Act, the Company appointed Mr. Jose Gabriel D. Olives as Data Protection Officer. He is tasked to assist in the monitoring and implementation of the said law.

The Company entered into multiple joint ventures or agreements with dominant companies last 2016 to increase the earnings potential of its subsidiaries and share best practices in their respective industries. By doing so, the Company believes that it has assured its existing and/or potential shareholders that the investments they made and the trust they have given to the Company are managed with utmost care and diligence.

BOARD COMPOSITION

“Diversity is the engine of invention. It generates activity that enriches the world.”

-Canadian Prime Minister, Justin Trudeau.

The Company believes that diversity within its Board of Directors would be beneficial not only to the Company's overall performance but will also be in keeping with its vision of ensuring continuous benefits to its consumers, communities, employees, business partners and shareholders. Thus, to ensure that both men and women are well represented within its Board, the Company has elected three (3) women directors, Ms. Carmen K. Tan, Ms. Florencia G. Tarriela and Ms. Juanita Tan Lee last 2016. These women were carefully and thoughtfully selected based on their knowledge and expertise in their own fields. They were specifically nominated and elected to be part of the Board because the Company believes that in building anything, be it a home, a business or a country, women must always be part of the equation.

The LTG Board is composed of thirteen (13) directors who have diverse backgrounds in business and profession. These professionals are distinguished individuals who are found to be successful in their respective disciplines and/or businesses and are elected annually.

In its pursuit of good governance, the Company has chosen four (4) men and women of probity and intelligence as independent directors. Moreover, 85% of the Board is comprised of non-executive directors. These directors do not own more than 2% of the Company's outstanding capital stock; have no ties with management; and are free from any business or other relationships which could, or could possibly be perceived to materially interfere with their exercise of independent judgment in carrying out their responsibility as independent directors of the Company.

For further knowledge as to the qualifications of the members of the Board, their profiles are stated hereinafter:

Dr. Lucio C. Tan, 83. Chairman and CEO

First elected: July 2, 1999

He is the Chairman of Philippine Airlines, Inc., Asia Brewery, Inc., Eton Properties Philippines, Inc.,

MacroAsia Corporation, Fortune Tobacco Corporation, PMFTC Inc., Grandspan Development Corporation, Himmel Industries Inc., Lucky Travel Corporation, **PAL Holdings, Inc.**, Air Philippines Corporation, Tanduy Distillers, Inc., The Charter House Inc., AlliedBankers Insurance Corp., Absolut Distillers Inc., Progressive Farms Inc., Foremost Farms Inc. and Basic Holdings Corporation. He is also a Director of **Philippine National Bank**. He holds a Bachelor of Science degree in Chemical Engineering from Far Eastern University. He was awarded the degree of 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, 76. Director

First elected: May 5, 2010

She is a Director of Asia Brewery, Inc., The Charter House Inc., Foremost Farms Inc., Philippine Airlines, Inc., **PAL Holdings, Inc.**, Air Philippines Corporation, Fortune Tobacco Corporation, Tanduay Distillers, Inc., Himmel Industries Inc., Lucky Travel Corporation, Progressive Farms Inc., **MacroAsia Corporation**, **Philippine National Bank** and PMFTC Inc.

Harry C. Tan, 71. Director

First elected: May 28, 2008

He is a Director of Eton Properties Philippines, Inc., Pan Asia Securities Inc., and Lucky Travel Corporation. He is also the Managing Director of The Charter House Inc., Director/Chairman for Tobacco Board of Fortune Tobacco Corporation, 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 Corporation, Foremost Farms Inc., Himmel Industries Inc., PMFTC Inc., **Philippine National Bank**, Progressive Farms Inc., Grandspan Development Corporation and Tanduay Distillers, Inc. He holds a Bachelor of Science Degree in Chemical Engineering from the Mapua Institute of Technology.

Michael G. Tan, 51. President and COO

First elected: February 21, 2003

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 Tanduay Distillers, Inc., Eton Properties Philippines, Inc., **Philippine National Bank**, PMFTC Inc., **Victorias Milling Company, Inc.**, Abacus Distribution Systems Philippines Inc., AlliedBankers Insurance Corp., Grandway Konstruct Inc., Lucky Travel Corporation, 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 top 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., 51. Director

First elected: February 21, 2003

He is a Director/President of Tanduay Distillers, Inc. and Eton Properties Philippines, Inc.; Director/EVP of Fortune Tobacco Corporation; Director of AlliedBankers Insurance Corp., Philippine Airlines, Inc., **Philippine National Bank**, **PAL Holdings Inc.**, **MacroAsia Corporation**, **Victorias Milling Company, Inc.**, PMFTC Inc., Lucky Travel Corporation, 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, 61. Director

First elected: June 9, 2014

He is Chairman of J.F. Rubber Philippines, Watery Business Solutions Inc., and Cavite Business Resources Inc.; Director/President and Chief Operating Officer of **MacroAsia Corporation**; 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.; Member of the Board of Advisors of Asia Brewery, Inc., Tanduay Distillers, Inc., and **Philippine National Bank**. Mr. Chua has a double degree in AB Economics and BS Management from De La Salle University.

Juanita Tan Lee, 75. Director and Treasurer

First elected: May 2, 2012

She is a Director of Eton Properties Philippines, Inc., Asia Brewery, Inc., and Tanduay Distillers, Inc.; Director/Corporate Secretary of Fortune Tobacco Corporation, Corporate Secretary of Absolut Distillers Inc., The Charter House Inc., Foremost Farms Inc., Grandspan Development Corporation, Himmel Industries Inc., Landcom Realty Corp., Lucky Travel Corporation, PMFTC Inc., and Progressive Farms Inc. and Assistant Corporate Secretary of Basic Holdings Corporation. She holds a Bachelor of Science Degree in Business Administration Major in Accounting from the University of the East.

Washington Z. Sycip*, 95. Director

(*Deceased October 7, 2017)

First elected: July 9, 2013

He is the 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.,



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MacroAsia Corporation, 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, 70. Director

First elected: June 9, 2014

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., 79. Independent Director

First elected: July 31, 2012

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., **PAL Holdings, Inc.**, Asia Brewery, Inc., and Tanduay Distillers, 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 Development Bank of the Philippines; Former Member of the Monetary Board of the 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, 80. Independent Director

First elected: July 31, 2012

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., **EEL 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 Corporation**; Independent Director of Eton Properties Philippines Inc., Asia Brewery, Inc., and Tanduay Distillers, Inc. 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, 70. Independent Director

First elected: August 9, 2012

She is the Chairman of the Board of Directors and an Independent Director of **Philippine National Bank**. She also serves as Chair of PNB Global Remittance and Financial Co. HK Ltd. She is a Trustee/Advisor/Director of Foundation for Filipino Entrepreneurship Inc., Summer Institute of Linguistics, and TulaysaPagunlad Inc.; and a Columnist of Manila Bulletin. She obtained her Bachelor of Science in Business Administration, Major in Economics, at the University of the Philippines and her Masters in Economics from the University of California, Los Angeles, where she topped the Masters Comprehensive Examination. She is a Life Sustaining Member of the Bankers Institute of the Philippines (BAIPHIL) and the Financial Executive Institute of the Philippines (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 Holdings 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 female Vice President of Citibank N.A., Philippine Branch.

Robin C. Sy, 82. Independent Director

First elected: June 9, 2014

He is the President of Asian Shipping Corporation, Independent Non-Executive Director of Dynamic Holdings Limited, Honorary President of the Federation of Filipino-Chinese Chambers 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, repairing and heavy construction equipment.

BOARD RESPONSIBILITIES

The Board of Directors regularly holds its meetings every second Tuesday of the month. During such meetings, it is not only the Chief Financial Officers (CFOs) of the different subsidiaries who are required to report on the operational results of their respective companies but the Board also conducts a performance

evaluation of the Management and its subsidiaries. During Board Meetings where quarterly results are discussed, the subsidiaries' Presidents/CEOs/COOs present the subsidiaries' performance or make themselves available for queries from the Directors. As shown in the table below, the Board conducted thirteen (13) meetings for the year 2017 with consistent participation by its members throughout the year.

Board	Name	Date of Election	No. of Meetings Held during the year (2017)	No. of Meetings Attended	%
Chairman	Lucio C. Tan	06/20/2017	13	10	77
Member	Carmen K. Tan	06/20/2017	13	10	77
Member	Harry C. Tan	06/20/2017	13	12	92
Member	Michael G. Tan	06/20/2017	13	13	100
Member	Lucio K. Tan, Jr.	06/20/2017	13	8	62
Member	Joseph T. Chua	06/20/2017	13	9	69
Member	Juanita Tan Lee	06/20/2017	13	13	100
Member	Washington Z. Sycip*	06/20/2017	13	10	77
Member	Peter Y. Ong	06/20/2017	13	13	100
Independent	Robin C. Sy	06/20/2017	13	10	77
Independent	Florencia G. Tarriela	06/20/2017	13	13	100
Independent	Antonino L. Alindogan, Jr.	06/20/2017	13	12	92
Independent	Wilfrido E. Sanchez	06/20/2017	13	12	92

*Deceased October 7, 2017

BOARD COMMITTEES

The exercise and compliance with the principles of good governance is embedded in the functions of Board Committees, namely, the Audit and Risk Management Committee, the Executive Committee, the Nomination and Remuneration Committee and the Corporate Governance Committee which were created precisely to aid the Company in complying with the principles of good governance.

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				

*Deceased October 7, 2017

AUDIT AND RISK MANAGEMENT COMMITTEE

The Company's Audit and Risk Management Committee is composed of six (6) appropriately qualified Non-Executive Directors in the persons of Antonino L. Alindogan, Jr., Lucio K. Tan, Jr., Wilfrido E. Sanchez, Juanita Tan Lee, Florencia G. Tarriela and Washington Z. Sycip*, four (4) of whom, including the chairman, are independent directors.

The Committee's Chairman, Mr. Antonino L. Alindogan, Jr., a Certified Public Accountant and a degree holder of Bachelor of Science in Commerce from De La Salle University where he graduated Cum Laude, was a former member of the Bangko Sentral ng Pilipinas (Central Bank) Monetary Board and a former Chairman of a state-owned bank and other financial institutions. The Committee's primary function is to assist the Board in fulfilling its oversight responsibilities over the financial reporting process, the system of internal control, the management of financial and non-financial risks, the audit process, and the Company's process for monitoring compliance with laws and regulations including related party transactions and the Revised Corporate Governance Manual.

In 2017, the Committee conducted nine (9) meetings, as provided in the table below:

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee
Chairman (ID)	Antonino L. Alindogan, Jr.	06/20/2017	9	9	100	4 years
Member (NED)	Washington Z. Sycip*	06/20/2017	9	4	44	3 years
Member (NED)	Lucio K. Tan, Jr.	06/20/2017	9	5	56	12 years
Member (ID)	Wilfrido E. Sanchez	06/20/2017	9	9	100	4 years
Member (ID)	Florencia G. Tarriela	06/20/2017	9	8	89	3 years
Member (ED)	Juanita Tan Lee	06/20/2017	9	9	100	12 years

*Deceased October 7, 2017

During its meetings, the Committee took up, among others, the Company's and its subsidiaries' Audited Financial Statements for the year ended December 31, 2016 and the quarterly financial reports up to September 30, 2017. Moreover, to ensure that the minority shareholders and stakeholders are not unduly prejudiced in any of the transactions, the Committee likewise reviewed the related party transactions, and the Tax Plans for the ensuing year. Further, the Committee reviewed, amended and approved the Audit structure of the Company as well as its Internal Audit and Audit and Risk Management Committee Charters.

EXECUTIVE COMMITTEE

The Executive Committee is composed of eight (8) directors vested with the powers of the Board in the management of the business and affairs of the Company but excluding the powers which are expressly reserved for the Board of Directors under the laws of the Philippines, the corporate By-Laws and the Company's Revised Corporate Governance Manual.

The Committee is chaired by Dr. Lucio C. Tan with Mr. Harry C. Tan, Mr. Lucio K. Tan, Jr., Mr. Michael G. Tan, Mr. Joseph T. Chua, Ms. Juanita Tan Lee, Ms. Florencia G. Tarriela and Mr. Antonino L. Alindogan as its members.

As there were no urgent matters for which a Board Meeting could not convene, there were no Executive Committee meetings in 2017.



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NOMINATION AND REMUNERATION COMMITTEE

The Company's Nomination and Remuneration Committee is composed of six (6) directors with Dr. Lucio C. Tan as Chairman and Mr. Harry C. Tan, Mr. Lucio K. Tan, Jr., Mr. Michael G. Tan, Ms. Juanita Tan Lee and Mr. Wilfrido E. Sanchez as members.

The Committee, whose primary duty is to ensure a formal and transparent Board nomination process and to select, compensate, monitor and, when necessary, replace key executives and oversee succession planning, only meets once a year.

As shown in the table below, on June 20, 2017, the Committee convened to pass upon the qualifications of the candidates nominated for the Board and key positions in the Company.

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee
Chairman	Lucio C. Tan	06/20/2017	1	1	100	3 yrs
Member (ED)	Harry C. Tan	06/20/2017	1	1	100	3 yrs
Member (NED)	Lucio K. Tan, Jr.	06/20/2017	1	1	100	3 yrs
Member (ED)	Michael G. Tan	06/20/2017	1	1	100	3 yrs
Member (ID)	Wilfrido E. Sanchez	06/20/2017	1	1	100	3 yrs
Member (ED)	Juanita Tan Lee	06/20/2017	1	1	100	11 yrs

CORPORATE GOVERNANCE COMMITTEE

The Corporate Governance Committee is composed of five (5) directors with Ms. Florencia G. Tarriela as its Chairman and Mr. Lucio K. Tan, Jr., Mr. Michael G. Tan, Mr. Joseph T. Chua and Mr. Antonino L. Alindogan, Jr., as its members.

Its Chairman, Ms. Florencia G. Tarriela is, at present, also the Chairperson of PNB. She previously worked with one of the biggest international banks in the country; was formerly an Undersecretary of Finance of the Philippine Government; and was an alternate member of the Monetary Board of the Bangko Sentral ng Pilipinas (Central Bank). 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 Committee meets at least once a year or as often as may be necessary to ensure the Board's and its committees' effectiveness and due observance of corporate governance principles and guidelines. The Committee is mandated to oversee the periodic performance evaluation of the Board and its committees and executive management, and conduct an annual self-evaluation of its performance; to evaluate and recommend whether or not a Director is able to and has been adequately carrying out his/

her duties as Director; and to review and recommend the manner by which the Board's performance may be evaluated and propose an objective performance criteria approved by the Board.

Guided by its Corporate Governance Committee, the Company and its Board of directors and Management have aptly complied with the requirements of the Revised Corporate Governance Manual.

In 2017, the Committee conducted one (1) joint meeting with the Audit and Risk Management Committee as shown in the table below:

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee*
Chairman	Florencia G. Tarriela	06/20/2017	1	1	100	4 yrs
Member (NED)	Lucio K. Tan, Jr.	06/20/2017	1	0	0	4 yrs
Member (ED)	Michael G. Tan	06/20/2017	1	1	100	4 yrs
Member (ID)	Antonino L. Alindogan, Jr.	06/20/2017	1	1	100	4 yrs
Member (NED)	Joseph T. Chua	06/20/2017	1	1	100	3 yrs

MANAGEMENT

Dr. Lucio C. Tan and Mr. Michael G. Tan head the management of the Company as its Chairman/CEO and President/COO, respectively. In dealing with highly-critical and sensitive issues, the President closely coordinates with the Chairman/CEO to seek his able directives and confirmation as regard the matter at hand.

Out of the thirteen (13) Directors, twelve (12) attended the Annual Stockholders' Meeting held on June 20, 2017, as shown in the table below:

Name of the Director	Present	Absent
Lucio C. Tan	✓	
Carmen K. Tan	✓	
Lucio K. Tan, Jr.	✓	
Harry C. Tan		✓
Michael G. Tan	✓	
Joseph T. Chua	✓	
Juanita Tan Lee	✓	
Washington Z. Sycip	✓	
Peter Y. Ong	✓	
Florencia G. Tarriela	✓	
Wilfrido E. Sanchez	✓	
Antonino L. Alindogan, Jr.	✓	
Robin C. Sy	✓	

TRAINING OF DIRECTORS

In faithful compliance with the SEC Memorandum Circular No. 20, Series of 2013 and to keep themselves up-to-date with current trends and necessities to being globally competitive, the

Company's Directors, Advisors and Officers attended corporate governance seminars as provided in the table below:

Board of Directors:

Name of Director	Date of Seminar Attended	Program	Name of Training Institution
Lucio C. Tan	August 10, 2017	Securities and Exchange Commission: Corporate Governance Forum	The Institute of Corporate Directors
Carmen K. Tan	August 10, 2017	Securities and Exchange Commission: Corporate Governance Forum	The Institute of Corporate Directors
Harry C. Tan	November 22, 2017	Securities and Exchange Commission: Corporate Governance Forum	Securities and Exchange Commission (SEC)
Lucio K. Tan, Jr.	December 21, 2017	Best Parliamentary Procedures for Board Directors and Top Management	Risks, Opportunities, Assessment and Management Incorporated
Michael G. Tan	August 10, 2017	Securities and Exchange Commission: Corporate Governance Forum	The Institute of Corporate Directors
Juanita Tan Lee	August 10, 2017	Distinguished Corporate Governance Speaker Series	The Institute of Corporate Directors
Joseph T. Chua	August 10, 2017	Distinguished Corporate Governance Speaker Series	The Institute of Corporate Directors
Washington Z. Sycip*		Exempted	
Peter Y. Ong	August 10, 2017	Distinguished Corporate Governance Speaker Series	The Institute of Corporate Directors
Antonino L. Alindogan, Jr.	August 10, 2017	Distinguished Corporate Governance Speaker Series	Institute of Corporate Directors
Wilfrido E. Sanchez	August 10, 2017	Distinguished Corporate Governance Speaker Series	The Institute of Corporate Directors
Florencia G. Tarriela	November 22, 2017	Securities and Exchange Commission: Corporate Governance Forum	Securities and Exchange Commission (SEC)
Robin C. Sy	August 10, 2017	Corporate Governance Orientation Program	The Institute of Corporate Directors

*Deceased October 7, 2017

Board of Advisors:

Name	Date of Seminar Attended	Program	Service Provider
Johnip G. Cua	July 19, 2017	Corporate Governance	Sycip Gorres Velayo & Co.

Officers:

Name	Position	Date of Seminar attended	Program	Service Provider
Ma. Cecilia L. Pesayco	Corporate Secretary	August 10, 2017	Distinguished Corporate Governance Speaker Series	Institute of Corporate Directors
Marivic T. Moya	Asst. Corp. Secretary	October 19, 2017	Information Security Governance for Board Directors and Management	Center for Global Best Practices
Jose Gabriel D. Olives	Chief Financial Officer	August 10, 2017	Distinguished Corporate Governance Speaker Series	Institute of Corporate Directors
Nestor C. Mendones	Deputy Chief Financial Officer	August 10, 2017	Distinguished Corporate Governance Speaker Series	Institute of Corporate Directors
Erwin C. Go	Chief Legal Officer	August 10, 2017	Distinguished Corporate Governance Speaker Series	Institute of Corporate Directors

DISCLOSURE AND TRANSPARENCY UNSTRUCTURED DISCLOSURES

The Company has disclosed, among other things, the following in 2017:

- The press release on March 17, 2017 that LTG's 2016 full-year net income is at Php9.39 billion, up 42% from 2015.
- The press release on May 16, 2017 that LTG's 1Q net income is at Php2.25 billion, flat compared to 1Q16.
- A press release last June 20, 2017 that LTG expects a better business environment in 2017.
- The appointment of Mr. Dioscoro Teodorico Lim as the Company's Chief Audit Executive last July 11, 2017.
- The press release that LTG's first half 2017 net income is at Php4.53 billion, slightly lower compared to 1H16.
- The appointment of Mr. Jose Gabriel D. Olives as the Company's Data Protection Officer last August 29, 2017.
- The demise of Director Washington Z. Sycip on October 7, 2017. He faithfully served the Company as one of its directors since 2013.
- The press release on November 17, 2017 that LTG's net income for 9M17 is at Php6.83 billion, 9% higher than 9M16.
- The confirmation that LTG and other Lucio Tan-owned companies are in discussion with other business groups to participate in a project involving the Ninoy Aquino International Airport.

DISCLOSURE AND TIMING

It is the primary concern of the Company to immediately disclose to the investing public any material information relating to the operations of the Company, including financial performance and the actions or decisions of



LT GROUP, INC.

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the Board. Disclosures are filed with the SEC and PSE and may be accessed through the Company's website: ltg.com.ph.

As a Company practice and in compliance with the SEC Memorandum Circular No. 11, Series of 2014, the Minutes of the Annual Stockholders' Meeting is uploaded in the Company website within five (5) days from the date of the said meeting while the Audited Financial Statements (SEC Form 17-A) for the year 2016 was submitted to the SEC and PSE on April 12, 2017, more than two (2) months before the Annual Stockholders' Meeting of June 20, 2017.

The interim and quarterly financial statements and results of operations, which may also be accessed through the Company's website, are submitted to the regulators within forty-five (45) days from the end of the financial period, in accordance with the prescribed period.

The Company releases and discloses a press release, as well as conducts analysts' briefings on the same day that the quarterly financial statements are disclosed to the regulators to provide analysts a better understanding of the Company's financial performance. Members of Management are present during the said briefings to answer any questions raised by the analysts.

OWNERSHIP STRUCTURE

The Company's outstanding common shares held by record owners of more than 5%, as of December 31, 2017, 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	1,515,643,380	14.01%

BOARD REMUNERATION COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS

The Company's Directors 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 those mentioned above, no other standard arrangements are received by the Directors of the Company as compensation, directly or indirectly, for any services rendered as such, including any additional amounts payable for Committee participation or special assignments, for the last completed fiscal year and the ensuing year.

SUMMARY COMPENSATIONS TABLE: ANNUAL COMPENSATION

	Year	Salary	Bonus	Others*
Four (4) most highly compensated executive officers (see below)	2018 (Estimate)	8,074,000	363,000	3,162,500
	2017	7,340,000	330,000	2,875,000
	2016	7,140,000	595,000	2,875,000
All other officers and directors as a group unnamed	2018 (Estimate)	2,640,000	220,000	7,947,500
	2017	2,400,000	200,000	7,225,000
	2016	2,400,000	200,000	7,495,000

*Others – includes per diem of directors

The following constitute LTG'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

SyCip Gorres Velayo & Co. (SGV) is the External Auditor of the Company with Mr. Martin C. Guantes as the partner-in-charge for the year 2016 onwards. The Company has been consistently provided with updates on the latest circulars, rulings or revenue regulations from the Bureau of Internal Revenue, as well as updates on Philippine Reporting Standards for the entire group of companies, by the said auditing firm.

AUDIT and AUDIT RELATED FEES:

The Company incurred audit fees of Php1,500,000 for the year 2017, the same amount for the year 2016. For its quarterly review of financial statements for the years 2016 and 2017, the Company paid Php1,200,000 annually.

DEALINGS IN SECURITIES

The policy against insider trading on stock transactions has been adopted and is being strictly enforced by the Company to ensure compliance with rules on disclosures and prevent violations of the government rules on insider trading. Towards this end, the Company undertakes to report to the SEC and PSE within three (3) trading days any acquisition or disposal of Company shares, or any change in the shareholdings therein, of its directors and principal officers.

Name of Director	Direct shares As of end-2016	Direct shares As of end-2017	Indirect shares / Through (name of record owner)	% of Capital Stock
Lucio C. Tan	2,200	2,200	NIL	-
Carmen K. Tan	2,200	2,200	NIL	-
Harry C. Tan	3,300	3,300	NIL	-
Michael G. Tan	1,100	1,100	NIL	-
Lucio K. Tan, Jr.	1,100	1,100	NIL	-
Joseph T. Chua	2,200	2,200	NIL	-
Juanita Tan Lee	1,100	1,100	NIL	-
Peter Y. Ong	1,100	1,100	NIL	-
Washington Z. SyCip*	1,000	1,000	NIL	-
Antonino L. Alindogan, Jr.	1,000	1,000	NIL	-
Wilfrido E. Sanchez	1,000	1,000	NIL	-
Robin C. Sy	1,000	1,000	NIL	-
Florencia G. Tarriela	1,000	1,000	NIL	-
TOTAL	19,300	19,300	NIL	-

*Deceased October 7, 2017

Trading Blackouts

The Company observes and implements a policy on trading blackouts which covers directors, officers, advisers, consultants and employees who may have knowledge of material facts regarding matters which may affect the Company. The following are the blackout periods before the financials are disclosed to the public: (1) for quarterly reports, two weeks before disclosure; and (2) for the year-end financials, one month or thirty (30) days before disclosure.

There were no instances of trading by insiders for the year 2017.

RIGHTS OF SHAREHOLDERS

The Company considers that good corporate governance is what makes the company attractive to possible investors. With that in mind, the Company makes certain that its shareholders are up-to-date and satisfied with its yearly performance.

Right to Participate

The Company grants its shareholders holding at least one-third (1/3) of the subscribed and paid-up capital stock of Company (1) the right to call for a Special Shareholders' Meeting by written notice to the Corporate Secretary at least ninety (90) days before the suggested date of the meeting; and (2) the right to propose items in the agenda of the Shareholders' Meeting, provided the items are for legitimate business purposes and written notice to request inclusion of the same is sent to the Corporate Secretary at least ninety (90) days before the date of the meeting.

More importantly, the shareholders are encouraged to personally attend the meetings. They are sent Notices of Annual and Special Shareholders' Meetings with sufficient and relevant information at least twenty-eight (28) days before the meeting. Should they be unavailable to attend personally, they will be apprised ahead of time of their right to appoint a proxy.

Right to Vote

Shareholders have the right to elect, remove and replace Directors and vote on certain corporate acts in accordance with the Corporation Code. The affirmative vote of the shareholders present in person or by proxy representing at least a majority of the shareholders present at the Meeting shall be sufficient to carry the vote for any of the matters submitted to a vote at the Annual Shareholders' Meeting, except on the election of Directors and such other matters where the law requires a different threshold for approval.

Right to Inspect or Examine Corporate Records

All shareholders are allowed to inspect corporate books and records, including minutes of Board meetings, stock registries, annual reports and financial statements

subject to conditions which require that prior written notice by the stockholder who has not improperly used any information secured through any previous examination of records of the Company, be given the Corporate Secretary, accompanied with a statement of the purpose for which the intended inspection is being made.

Right to Information

The minority shareholders shall be furnished with relevant information as required by law about the Company on a timely and regular basis.

Right to Dividends

Subject to the discretion of the Board, shareholders shall have the right to receive dividends. Moreover, the Company shall be compelled to declare dividends when its retained earnings shall be in excess of 100% of its paid-in capital stock, except under circumstances as enumerated under the Company's Revised Corporate Governance Manual.

Appraisal Right

All shareholders shall have the right to dissent and demand payment of the fair value of his shares in cases of: (1) an amendment to the Articles of Incorporation will change or restrict the rights of such shareholder or otherwise extends or shortens the term of corporate existence; (2) sale, lease, exchange, transfer, mortgage, pledge, or other disposition of all or substantially all of the corporate property and assets; (3) merger or consolidation; and (4) the Company's decision to invest its funds in another corporation or business or any purpose other than its primary purpose.

STAKEHOLDERS RELATIONS

"Fairness" and "integrity." These two words are the foundation of the lasting relationship between the Company and its stockholders, employees, customers and trade partners. With the Company's vision and mission to ensure that all its partners will likewise benefit from its growth, it has continuously and consciously kept all its transactions with fairness and integrity.

SHAREHOLDERS' MEETING AND VOTING PROCEDURES

As a Company practice, Shareholders are entitled to Notice of the Stockholders' Meeting at least twenty-eight (28) days prior to the date set for the meeting. In 2017, the Management sent the necessary Notices to the Stockholders beginning May 23, 2017 or twenty-eight (28) days prior to the meeting set on June 20, 2017.

The Notices included the Agenda for the meeting and a statement explaining that a Proxy is required in case a Stockholder is unavailable to attend the meeting. Should the Notice be for the Annual Stockholders'





Meeting, the same would include a copy of the Definitive Information Statement which provides for the major actions taken by the Board requiring the confirmation of the Stockholders. By doing so, the Stockholders are given the opportunity to review the performances of the Board and the Management during the previous year, and, if necessary, to ask questions with regard thereto.

The Stockholders are encouraged to send their proposed nominees to the Board through the office of the Corporate Secretary for proper consideration by the Nomination Committee during its meeting held not later than the end of April. Each outstanding common share entitles the registered shareholder to one vote.

DIVIDENDS

The Company has consistently declared Dividends in accordance with the policy set by the Board. On March 14, 2017, the Company declared and authorized the distribution of regular cash dividend of Php0.15 per share, and a special cash dividend of Php0.03 per share to all stockholders of record as of March 29, 2017, which shall be paid out not later than April 7, 2017. The Php0.18 cash dividend per share, or a total of Php1.95 billion is equivalent to 20.7% of the 2016 attributable net income of Php9.39 billion, consistent with the dividend policy of a 20% pay-out rate.

As the Company strictly adheres to the guidance of good corporate governance to distribute the Dividends within thirty (30) days from the time it is approved and declared, the stockholders were paid on April 7, 2017, twenty-four (24) days after it was approved and disclosed.



EMPLOYEE RELATIONS

The employees' safety and well-being are the main concern of the Company. Hence, aside from keeping its lines of communication open, the Company and its subsidiaries have further provided its employees, as well as their children and beneficiaries, wide health insurance and scholarship opportunities. The Company and its subsidiaries help aspiring and determined personnel become significant members of the society by training them and giving them learning opportunities through numerous scholarship programs and study grants which they can apply for.

Aside from the significant opportunities given to its employees, the Company went further by placing an Employee Code of Conduct or Personnel Policies and adopted the "Whistle Blowing Policy" in all subsidiaries which are strictly observed and implemented all throughout the Company.



INVESTOR RELATIONS

The Company 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 from the Company's website, ltg.com.ph. There is also a dedicated Investor Relations Officer.

LTG conducts meetings regularly with investors and analysts to keep them updated on developments with the Company and its subsidiaries. LTG arranges teleconferences and plant visits, and participates in non-deal roadshows and conferences in various locations arranged by several stock brokerages. The Company also communicates through emails and telephone calls.

In 2017, LTG attended 13 conferences with different brokers in Manila (4), Singapore (5), Hong Kong (2), Tokyo (1) and New York (1). During these conferences, LTG met 182 times with representatives of different funds in one-on-one or group meetings. The Company also had 34 one-on-one meetings as well as 25 conference calls with different funds in its office. The Company accommodates requests for visits to its subsidiaries' facilities from groups of sell-side and buy-side analysts.

During the 2017 calendar year, LTG conducted four (4) Analysts' Briefings, for Full Year 2016 Results, First Quarter 2017 Results, First Half 2017 Results and Nine Months 2017 Results. The briefing for Full Year 2017 Results was held on March 16, 2018. LTG disclosed the schedule of these briefings to the PSE at least a week before the briefing date. These were attended by analysts from different brokerages and analysts of local funds.

Moreover, Philippine National Bank, LTG's publicly-listed banking subsidiary, joined two of LTG's Analysts' Briefings in calendar year 2017, on August 11 for 1H17

Results and November 10 for 9M17 Results. PNB presented their quarterly financial results and answered queries from the attendees.

Regular press releases are disclosed to the PSE and SEC and distributed to the media, on quarterly earnings results as well as events that may have a significant impact on the operations of the Company and its subsidiaries. After the Annual Stockholders' Meeting, a press briefing was conducted where members of the media had access to Senior Management.



Tan Yan Kee Foundation, Inc.

The companies under LT Group, Inc. and other companies majority-owned by the Tan family conduct most of their Corporate Social Responsibility (CSR) activities under the Tan Yan Kee Foundation, Inc. (TYKFI).

Dr. Lucio C. Tan and his siblings established TYKFI in 1986. The Foundation is named in honor of the late Tan patriarch and is governed by a 15-member Board.

The Foundation and its partners pursue projects that focus on four advocacies: Education, Health Services, Social Welfare and the Environment.

Education



Teachers' Training in Nueva Vizcaya and Quirino

Sustainable Development Goal



In May 2017, 208 teachers from 18 private schools in Nueva Vizcaya and Quirino attended a 4-day training program sponsored by TYKFI and in partnership with the Foundation for Upgrading the Standards of Education (FUSE). The participants were taught 21st century teaching skills in Mathematics, English, Elementary Science, Physics and Chemistry, to align their skills with the K to 12 curriculum.

Sustainable Development Goal



Brigada Eskwela 2017 (Working Together for Schools)

Brigada Eskwela is an annual project of the Department of Education which brings together people from different sectors of society to get public schools ready for the next school year. Volunteers repaint walls and blackboards, clean windows and doors, repair fences, among others.

As part of this program, in May, TYKFI partnered with two schools, Nagtenga Elementary School and Sidaoen Elementary School in Ilocos Sur, and provided the materials needed such as cement, nails and electrical outlets.

Sustainable Development Goal



Donation of Learning Resource Packages

On April 19, 2017, TYKFI turned over more than 1,500 sets of National Early Learning Curriculum and Learning Resource packages to the Early Childhood Care and Development (ECCD) Council. The ECCD Council leads the management of 200 National Child and Development Centers (NCDCs), more commonly called Bulilit Centers, all over the Philippines. These Bulilit Centers are mostly in hard-to reach areas which are in dire need of educational services for very young children aged 0-4 years, as well as those in strategically located cities and municipalities that showcase early childhood development models.



Basic Cosmetology Training for Mountain Communities in Nueva Vizcaya

In March 2017, a five-day livelihood training program was conducted in the mountain communities of Mapayao and Pinayag in Kayapa, Nueva Vizcaya. The "Ganda Mo, Hanapbuhay Ko" (Your Beauty, My Livelihood) program is in partnership with the Ang Hortaleza Foundation, Inc. The 30 attendees, mostly housewives, were given training on Basic Cosmetology and a kit to enable them to earn by offering services for cutting hair, manicures, pedicures and foot spas. Afterwards, they reported that they were able to earn Php100 to Php1,000 per week to augment their families' income.

Sustainable Development Goals



Health Services

Sustainable Development Goal



Monthly Medical Forum

TYKFI continues to hold the monthly Asia Brewery Medical Forum in cooperation with the Association of Asia Brewery Medical Specialty Scholars. These forums provide laymen with better health information and the latest treatment options. Some of the topics discussed in 2017 include diabetes, the ups and downs of exercise, exercise is medicine, disaster preparedness basics, endoscopy and anxiety. Doctors who are Asia Brewery Medical Scholars also render free consultations during the forums.

Sustainable Development Goal



TYKFI-ABI Medical Specialty Scholarship Program

Two more doctors completed their training abroad under the TYKFI and Asia Brewery, Inc. Medical Specialty Scholarship Program. They are Dr. Michelle Bernadette Lim-Loo and Dr. Lester Bryan Co. Dr. Lim-Loo underwent training at the Body Science and Metabolic Disorders International Medical Center in Taiwan for bariatric and metabolic surgery. On the other hand, Dr. Co went to the Koong Lab at Stanford's Radiation Oncology Department in California, USA.

Social Welfare

Sustainable Development Goal



Relief Operations in Cagayan Valley Region

On January 10, 2017, TYKFI participated in the calamity assistance project of the Saint Peter Metropolitan Cathedral parish in Tuguegarao, Cagayan Province. This was for the victims of Typhoon Lawin that devastated the area in October 2016. Through the TYKFI's Hope Caravan, assistance was given to 317 families in six towns by distributing coupons worth Php3,000 per family, which could be exchanged for roofing and other materials for rebuilding their homes.

Sustainable Development Goals



Training for Early Childhood Care and Development

In January 2017, TYKFI, in cooperation with the Early Childhood Care and Development Council in Vigan City, Ilocos Sur, conducted a five-day training program called "Starting Right on Early Education." Twenty-eight service providers catering to 0-4 year-olds attended, representing the 39 day care centers of the city.

Sustainable Development Goal



Assistance for Typhoon Victims in Oriental Mindoro

TYKFI's Hope Caravan, in coordination with PNB's Calapan City branch, gave financial assistance to some barangays in Calapan, Oriental Mindoro that were affected by Typhoon Nina that struck the area in late December 2016. There 32 beneficiaries in Barangay Bulusan; and 15 from Barangays Mahal na Pangalan, Tibag, Lalud, Lumangbayan and Pachoca.

Environment

Model Farm for LCT Legacy Forest Project

On March 12, 2017, Dr. Lucio C. Tan (LCT) inaugurated the model farm in Barangay Digdig, Carranglan, Nueva Ecija, for the livelihood training of farmers who plant trees for the Legacy Forest Project. There is also a Carmen's Garden where farmers are trained on scientific ways of planting organic vegetables.

In Nueva Ecija, the LCT Legacy Forest project covers 930 hectares, including an additional hectares that the Department of Environment and Natural Resources (DENR) Region 3 and TYKFI signed a Memorandum of Agreement on during the visit of LCT.



Sustainable Development Goals



Our Presence in Marawi

The Filipino spirit lives on in the Lucio Tan Companies, which include LT Group, Inc. (LTG) and its subsidiaries, as we continuously extend help to fellow Filipinos in need. Resources were shared in both corporate and personal capacities to assist the Philippine Government as well as residents in the five-month siege in Marawi City in Lanao del Sur, Mindanao that started on May 23, 2017. President Duterte declared Marawi "liberated from terrorist influence" on October 17 after the death of the militant leaders, but sporadic fighting continued thereafter. The whole island of Mindanao remains under Martial Law due to persistent security threats in the region. Moreover, Marawi has to be rebuilt as the whole city was practically levelled to the ground.

Satellite Bank

Philippine National Bank's (PNB) Marawi Branch was able to serve its clients through its branches in Iligan City and Cagayan de Oro City. Putting the needs of its customers first, PNB Marawi Branch opened last October 24, the first bank to open in the City after the siege. The day before, PNB also became the first bank to resume ATM operations - one machine at the Marawi City Mindanao State University campus branch and another in the Capitol area.

As the Marawi Branch was totally destroyed during the siege, the bank took all the necessary steps to restore and update customer information, signature cards, and other documents to ensure that accounts were fully identified and established.



Inside the PNB Marawi Branch – Mindanao State University campus, after it opened on October 24, 2017



On October 24, 2017, PNB was the first bank to reopen in Marawi



PNB Marawi Branch after the siege

CORPORATE SOCIAL RESPONSIBILITY



Mobile Water Stations and Bottled Water

The Group recognized the primary need of the troops fighting in the conflict and the Marawi people for clean and potable water. Two mobile Agua Vida mobile water stations were deployed to provide filtered water in military camps. Each mobile station has a capacity of processing 2,000 gallons per day. These have been stationed since late-June 2017 and continue to be in the military camps even after Marawi was declared “free from terrorist influence.”

The Group also donated 357,000 bottles of Absolute pure distilled drinking water to the military camps and evacuation centers.



Mobile water stations in the military camps

Food & Drink

The Group donated to military camps and evacuation centers around 24,000 bottles of its various beverage brands such as Cobra Energy Drink, Nestea Iced Tea, Barista's Best ready-to-drink coffee, Sunkist soft drinks, as well as cups of Creamy Delight Yogurt.

In August, tobacco unit PMFTC distributed food packs, water and medical assistance to seven (7) evacuation centers in Iligan which had more than 2,000 evacuees; to the Region 10 provincial police team with more than 1,200 personnel; to two troops of about 5,000 soldiers stationed in Marawi City and to a military hospital with 116 wounded soldiers.

In November, PNB's branches in Marawi likewise distributed five-kilogram bags of rice and hygiene kits to 100 of its clients affected by the siege.



Military troops received boxes of Absolute bottled water



Troops with Cobra Energy Drink



PMFTC employees with some of the food distributed in Iligan and Marawi Cities

Medicine & Medical Services

Medical assistance was conducted by PMFTC in distribution points of relief operations in both Marawi City and Iligan City. LTG's sister company, Philippine Airlines (PAL) flew in 25 medical personnel for medical missions around the area.

Meanwhile, PNB organized three stress debriefing sessions for employees of the Marawi and Iligan branches to aid them as they move forward in the aftermath of the siege.

TRANSPORT & LOGISTICS

PAL played a key role in bringing relief operations to Marawi City, be it for cargo or passenger transportation. It airlifted for free more than 15 tons of donations comprising of food, medical and school supplies, and hygiene kits from various local NGOs, PAL employees, and the PAL Foundation.



Some of the donations being loaded on a PAL plane

PAL likewise provided airfare for seven orphaned children from Marawi to Manila so that they could be brought to a Muslim orphanage in Cavite. PAL also flew to Manila around 100 family members of Marawi's fallen soldiers and policemen to meet the President in Malacañang Palace on July 25 for the turnover of financial assistance.



Seven orphaned children brought to an orphanage in Cavite

And for all active AFP and PNP personnel, the airline provided 40 kilos of free baggage allowance and 20% discount on all regular fares on any PAL domestic route on official or personal capacity, up to end-2017.



At the "Salamat Magiging na Mandirigma, Go Negosyo Kapatid from Marawi Financial Assistance to the Families of Fallen Heroes" event in Malacañang on July 25, 2017

Financial Aid

A fund drive was hosted by PNB employees to assist PNB Marawi Branch employees displaced by the war and to help rebuild their homes. As of January 15, 2018, Php943,513.46 was contributed by Bank employees for their counterparts in Marawi. Meanwhile, Philippine Airlines made a donation of Php2 million to the Armed Forces of the Philippines for financial aid to soldiers who fought in Marawi.



Dr. Lucio C. Tan turns over the check for Php2 million for financial aid to soldiers who fought in Marawi



Asia Brewery, Inc.



Absolute Mommy Welfare Month

Sustainable Development Goals



Absolute Pure Distilled Drinking Water celebrated the Absolute Mommy Welfare Month for the 3rd consecutive year in September 2017. ABI gave out binder kits and bottles of Absolute water to new and soon-to-be moms at its primary partner, the Jose Fabella Hospital in Manila.

The campaign is focused on improving wellness among mothers by addressing key issues on infant development, after-birth physical recovery and postpartum conditions. In 2017, 3,500 kits were distributed in 28 public hospitals.

Sustainable Development Goals



ABI Help Flows

In May 2017, ABI donated Absolute Pure Distilled Drinking Water to 250 families affected by a fire in Biñan City, Laguna. The donation was made through the Philippine Red Cross, Laguna Chapter.



Partnership with Dualtech for Training Program

Sustainable Development Goals



ABI partnered with Dualtech Center Foundation, Inc. for on-the-job training for out of school youth or public school high school graduates who do not have the financial capacity to pursue a college education. This was started in September 2016, and the students undergo six months of basic training in Electromechanics Technology. They then go through eighteen months of in-plant training with the partner-company. Currently, there are 14 scholars under the program, who are now completing their internships at ABI.

Sustainable Development Goal



Earthquake and Fire Drill

ABI conducts earthquake and fire exit drills twice a year to familiarize employees with the protocol and systematic course of action during emergencies. In 2017, the drills were conducted in April and July.



Sustainable Development Goal



Zumba for Workers' Health and Wellness

Since October 2016, employees at ABI's subsidiary, Waterich Resources Corporation (WRC) are encouraged to join the Zumba hour every Monday at 6:00 AM at WRC's grounds. This is to promote a more balanced and healthy work life for employees. All the dayshift personnel, numbering 50 to 60, out of the total 130, participate in the weekly exercise.

Sustainable Development Goal



External Safety Trainings

ABI commits to 100% compliance with all regulatory standards for safety and health skills. A series of trainings started in January 2016 and are still ongoing. Competency and safety trainings cover fire brigade skills, industrial first aid and basic life support, hazardous chemical spill response, Basic Occupational Safety and Health (BOSH) and Construction Occupational Safety and Health (COSH), Safety Program Implementation and Evaluation System (SPIES), emergency management, welder Shielded Metal Arc Welding (SMAW) certification and forklift operator certification.

Sustainable Development Goals



Batang AYOS! Feeding Program

ABI participated in the Batang AYOS! (Active Youth Outreach Service) Feeding Program at the Children's Joy Foundation Home in Calamba, Laguna. From June to November 2017, ABI provided 25 children a healthy meal every month, and also donated 10 cases of Vitamilk soymilk.

Sustainable Development Goals



Safety Summit

ABI and TDI jointly held a Safety Summit in May 2017 at the ABI complex in Laguna. This is an annual event where select global best practices are presented and discussed, then applied to the plants. This aims to strengthen and standardize safety performances. The summit was held over three days and all the Environment, Health and Safety (EHS) officers of the plants participated.

Eton Properties Philippines, Inc.

Sustainable Development Goals



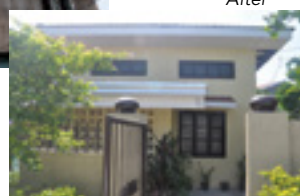
Housing Assistance for Tuguegarao Typhoon Victims

Eton provided housing fund assistance to four families in Tuguegarao City in the Cagayan Valley Region who were victims of Typhoon Lawin that devastated the area in October 2016. Each beneficiary was given from Php70,000 to Php130,000 to help them rebuild their homes. Eton hopes that rebuilding the homes will help bring back normalcy in the lives of these families.

House of Nicanor Abana, Jr.



Before

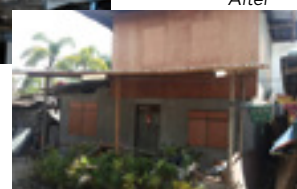


After

House of Mary Jane Cabalquinto



Before



After

House of Vilma Cauilan



Before



After

House of Julieta Datul



Before



After



Sustainable Development Goals



Project PEARLS' Helping Hand Community in Tondo

In June 2017, Eton had its outreach program activity at the Helping Hand community in Tondo, Manila, one of the communities supported by Project PEARLS. Helping Hand is an impoverished community where the residents' main source of living is making "pagpag," which is recycling leftover food from restaurants. Project PEARLS, meanwhile, is a non-profit organization dedicated to helping the poorest of the poor children in the Philippines through education, empowerment, nutrition and healthcare services.

Eton had a half-day Feeding Program & Brain Booster Activity where over 30 Eton employees participated. The Company provided 100 children with delicious and nutritious meals, then hosted arts and crafts sessions with learning activities through storytelling. There was also a filmshowing of educational films.

PMFTC Inc.



Sustainable Development Goals



Bridging the Gap through Educational Assistance for the Youth Scholarship Program (BRIDGE)

The scholarship program is intended for students pursuing agriculture-related courses. It provides scholars with financial assistance to cover tuition and miscellaneous expenses. Four scholars will be sent to Israel for an Agro-Studies Internship Program where they will obtain professional training through studies and hands-on learning on commercial techniques. Currently, BRIDGE has 27 scholars in its roster, and the target is to have at least 180 scholars, of which 162 slots are allotted for families of tobacco farmers and farm workers. This program is currently being implemented in PMFTC host communities. BRIDGE was launched July 2015.

Philippine National Bank



Sustainable Development Goals



Medical Mission: Bisita sa Bahay ni Ate (A Visit to a Sister's House)

PNB's branch in Singapore hosted a talk at a halfway house for abused domestic helpers in October 2017. The talk aims to empower women Overseas Filipino Workers (OFWs) by providing basic knowledge on emergency response, first aid and financial literacy. Special tokens were distributed to the participants. This is targeted to be held four times a year.



Sustainable Development Goals



Philippine Red Cross Million Volunteer Run

On October 21, 2017, PNB and ABI were sponsors of the Philippine Red Cross (PRC) Million Volunteer Runs. The event that PNB sponsored was at the Quirino Grandstand in Manila, while ABI sponsored the event at SM Sta. Rosa in Laguna. It was the fourth installment of the nationwide humanitarian run which helps raise funds for PRC, including its emergency and disaster response programs. Around 40 PNB and four ABI employees participated in the event.

Financial Literacy Learning Sessions

Various business units of the Bank organized these sessions to help educate communities, the youth in particular, about good financial habits. In 2017, these were the events:

Sustainable Development Goals

3 GOOD HEALTH AND WELL-BEING



10 REDUCED INEQUALITIES



MyFirst Savings Roadshow at St. Scholastica's College, Manila, hosted by the PNB Retail Banking Sector on August 17, 2017



Transcending the Youth towards Making a Difference at the PNB Financial Center in Pasay City, hosted by the PNB Institutional Banking Sector on August 19, 2017

Tanduay Distillers, Inc.



Voluntary Bloodletting Activity

Sustainable Development Goal

3 GOOD HEALTH AND WELL-BEING



Employees at Tanduary's El Salvador Plant in Misamis Oriental had voluntary bloodletting sessions for the Philippine Red Cross (PRC). These were held on March 11, July 29 and November 11, 2017 at the plant premises. Around 19 to 20 employees donated blood at each session, and a total of 14.5 liters were donated.



Sustainable Development Goal

11 SUSTAINABLE CITIES AND COMMUNITIES



Fire Hose Donation to the Bureau of Fire Protection

Tanduay donated a fire hose to the local Bureau of Fire Protection in El Salvador City, Misamis Oriental, on July 23, 2017.

Sustainable Development Goals

1 NO POVERTY



11 SUSTAINABLE CITIES AND COMMUNITIES



Active Response to Fires

TDI's El Salvador plant's firefighters responded to calls for help to extinguish fires in nearby areas. In 2017, they helped extinguish fires in Barangay Turburan Taytay Spring (March 11), the Donau Carbon Philippines Corp. factory (April 29), Barangay Sinaloc (June 7), and the El Salvador Police Station (August 8).



LT GROUP, INC.

Asia Brewery, Inc.

Sustainable Development Goals



ABI Cabuyao Admin Building Gets “LEED Platinum” Rating

The Asia Brewery, Inc. Administration Building in Cabuyao, Laguna was awarded a Leadership in Energy and Environmental Design (LEED) Platinum certification on September 25, 2017 by the United States Green Building Council. The 6,000-square meter green building was completed in November 2013 and has the following features:

- Efficient architectural, heating, ventilation, and air conditioning (HVAC) and lighting design that reduced energy consumption by 37%
- Sustainable sites including bicycle parking, e-vehicle charging and parking, vegetated and open spaces at 48% of the area
- Water efficiency with the use of low-flow fixtures that reduced indoor water demand by 42%, resulting in reduction of waste water by 32%, and reduction in outdoor water usage by 57% with an efficient irrigation system and planting of native plants
- Good indoor environment quality with the HVAC system which provides fresh air and adequate thermal comfort, the use of low-emitting materials, and optimized views and natural daylight
- Materials used were extracted and sourced from responsible manufacturers and 75% of the waste generated from the construction was diverted to recycling plants. There is also ample storage space for sorting and segregating waste.

Sustainable Development Goal



Clean-Up Drive

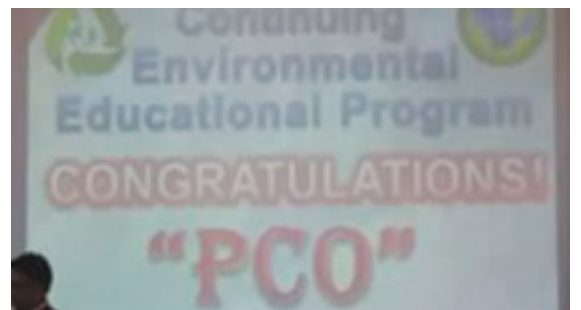
Waterich Resources Corporation, the unit that manufactures bottled water, has a monthly clean-up drive for waste management. This helps reduce the solid waste generated in and around the plant. Around 15 bags of waste are collected per month, with each bag weighing about 10 kilograms. In 2017, 180 kilos were collected. This project was started in October 2016.

Sustainable Development Goals



WWF Partners with ABI: Summit Still & Sparkling Water

ABI launched the first-ever Philippine produced bottled water in a returnable glass bottle in two variants, Summit Still and Sparkling Water. During the launch of the products on November 15, 2017, ABI turned over a one million peso donation to the World Wildlife Fund (WWF) Philippines for its transformational programs for water conservation.



Sustainable Development Goal



Pollution Control Officers (PCO) Accreditation

Three (3) personnel of ABI were accredited by the Laguna Lake Development Authority (LLDA) in December 2017 as Pollution Control Officers (PCOs). This will help ensure the Company's compliance with air, noise and water quality standards.



Education is Adaptation: An Approach to Environmental Awareness & Conservation

Sustainable Development Goals



A joint effort of ABI and WWF, this project aims to raise awareness among various Laguna communities on the environmental impact of waste. A chosen beneficiary was the Sala Elementary School in Cabuyao, Laguna with 199 students. From September to December 2017, the school received 20 sets of segregation bins and two cages for collecting polyethylene terephthalate (PET) bottles. Students were taught proper waste segregation. A total of 248.2 kilograms of PET bottles were collected and sold to junkshops for Php 8-10 per kilogram.

Sustainable Development Goals



Silang-Santa Rosa Subwatershed Management

The Silang-Santa Rosa subwatershed is one of the 24 subwatersheds surrounding Laguna Lake. It covers the cities of Sta. Rosa, Biñan and Cabuyao and the municipality of Silang. The Santa Rosa Watershed Management Council (SWMC) was established in December 2014 to develop and implement a harmonized plan for the protection of this subwatershed. Members of the council include the four local government units and stakeholders in the area. It is in partnership with the Institute for Global Environmental Strategies (IGES) of Japan, and facilitated by WWF's five-year Hydrology Project. The Research Institute for Humanity and Nature of Japan is also helping in gathering data.

A member of SWMC is the Cabuyao River Protection Advocates (CaRPA), a multi-sectoral group of which ABI is an active member. In 2017, ABI participated in CaRPA's river clean-up drives, solid waste management and tree planting activities.

Sustainable Development Goals



Air Compressor Upgrade

In May 2017, the new air compressor unit with magnetic levitation technology was commissioned at the Batangas plant. This reduced the total carbon footprint generated by 622 tons of CO₂.

Sustainable Development Goals



Reforestation in Ilocos Sur

This project is being implemented from 2016 up to 2020 in Sta. Cruz, Ilocos Sur. It aims to plant over one million trees per year, with a cumulative target of 8.4 million trees planted by 2020. The Company engages farmers to plant fuel wood species for traceability and sustainability of wood for curing tobacco. As of the end of 2017, 4.5 million trees have been planted and are being monitored for survival and growth rates.

PMFTC Inc.



Barn Upgrade for Fuel Wood Efficiency

Sustainable Development Goals



An ongoing program that started in the fourth quarter of 2013 and is slated to finish by end-2020, the project aims to improve the traditional curing barns in Sta. Cruz, Ilocos Sur to increase fuel wood efficiency by 21% versus the 2014 baseline. Upgrades are done by improving one or more of the following barn parts: installing wall and roof insulations using recycled C48 cartons (heavy duty corrugated cardboard boxes used for shipping tobacco), installing venture furnaces, heating pipes, chimneys, dampers, vents and windows.

This is part of the goal to reduce cumulative CO₂ emissions by 30% in 2020 versus the 2010 baseline.

Sustainable Development Goals



Vacuum System Upgrade

PMFTC upgraded the vacuum system used in its facilities in Batangas to save on electricity and water consumption. The system was relocated closer to the point of use and upgraded from being water dependent (water sealed) to non-water dependent (air-cooled). In 2017, this optimization reduced the carbon footprint by 940 tons of CO₂. Together with a similar upgrade in the Marikina plants, as well as other electricity efficiency consumption projects in the Batangas and Marikina plants, the Company was able to save around 6% of its electricity consumption.

Sustainable Development Goals



Green Electricity Sourcing (Renewable Energy) for the Reduction of CO₂ Emission

On December 26, 2017, PMFTC started a project that aims to tap renewable energy from geothermal plants for its Batangas and Marikina plants which have significantly lower CO₂ footprints than coal-fired power plants. The project aims to reduce the carbon footprint by 34,849 tons of CO₂ by end-2018.

Sustainable Development Goals



Good Agricultural Practices (GAP) Roadshow

This recurring project aims to reach 100% of tobacco growers across the country and provide them with the knowledge of GAP, as well as good Agricultural Labor Practices (ALP). The program helps farmers improve the yield and quality of their crop and thereby increase profitability, while ensuring compliance with local regulations. PMFTC achieved 60% coverage in 2017, compared to 48% in 2016.

Sustainable Development Goals



Chiller System Optimization

PMFTC implemented changes in the production schedules of the Marikina and Batangas plants to optimize the use of the central chiller, as well as the smaller chillers in the Batangas plant. The changes were implemented starting January 2017 in Marikina and March 2017 in Batangas. A lighter fan blade for the cooling tower was also used. Carbon footprint was reduced by 247 tons of CO₂.

Sustainable Development Goals



Climate Change and Agricultural Summits

PMFTC organized two climate change and agricultural summits, in January 2017 in Cagayan Province, and in October 2017 in Misamis Oriental. The summits' objective is to provide Filipino farmers, local government units (LGUs), and other stakeholders with information, available technology and best practices that can be used in developing local plans to create a more climate-resilient agriculture sector.

Sustainable Development Goals

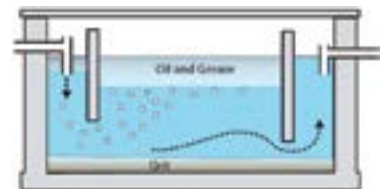


Child Labor Prevention Forum

On October 23, 2017, PMFTC launched its Child Labor Prevention Forum which examined international and national best practices towards achieving child labor-free communities, especially in tobacco-growing provinces nationwide. The Company recruited local and national support to develop regulations to progressively eliminate child labor in Misamis Oriental. PMFTC aims to contribute to ending child labor by 2025.

Philippine National Bank

Sustainable Development Goals



Waste Management Initiative

This was commissioned on February 22, 2017 to ensure that PNB's head office's water discharge is within the limits set by the Laguna Lake Development Authority and the Department of Environment and Natural Resources. PNB had an oil and grease trap installed to prevent clogging of the main sewer pipeline and to prevent oil and grease from entering the sewage treatment plant.

Sustainable Development Goal



Disaster Preparedness Program

On March 19, 2017, PNB conducted an earthquake drill at the PNB Financial Center in Pasay City, with approximately 2,500 PNB employees and tenants participating in the exercise. This is to ensure the organization's preparedness in times of calamities and emergencies.





Sustainable Development Goal

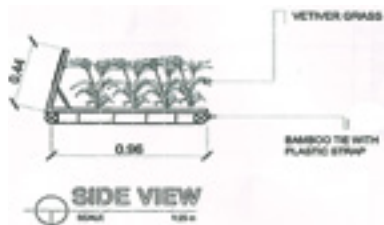


LED Lights Reduce Carbon Footprint

To promote energy efficiency, the Bank throughout the year replaced ordinary light bulbs with the more efficient light-emitting diode (LED) lights to save 1,400 kilowatt hours per month, or Php1.284 million per year.

Tanduay Distillers, Inc.

Sustainable Development Goals



Cabuyao River Rehabilitation Project

The project aims to improve the water quality and the overall health of the Tiwaytiway-Salanglangka River in Laguna. It is in partnership with the City Environment and Natural Resources Office (CENRO)-Cabuyao and the Cabuyao River Protection Advocates (CarPA) where TDI is a member.

The project entails the installation of nine 2 x 1 meter Vetiver pontoons (floating platforms where Vetiver grass is planted). The Vetiver's deep root system will improve the river's water quality by absorbing impurities and pollutants. The project was started in 2017 and is targeted for completion in the first quarter of 2018.

Sustainable Development Goals



Promoting Waste Segregation by Donating Garbage Bins

From May to August 2017, TDI donated garbage bins to four schools in El Salvador City, Misamis Oriental. These are the Cogon National High School, Taytay Elementary School, Himaya Elementary and High School, and Kalabaylabay Elementary School. The project aims to encourage students to practice waste segregation. TDI also donated buckets of paint. TDI has a plant in El Salvador City.

Sustainable Development Goals



Waterbody Clean-Up Drive

On June 18 and November 26, 2017, TDI-Murcia participated in the clean-up drives at the Cabungan-an Creek in Barangay Blumentritt, Murcia, Negros Occidental. Biodegradable, non-biodegradable, recyclable and residual wastes were recovered during the activities.



Sustainable Development Goal



Tree Planting in Murcia

Personnel at TDI's Murcia plant in Negros Occidental planted 100 saplings beside the factory as part of the Company's participation in the Philippine Environment Month in June 2017.

Sustainable Development Goal



Adopt-a-River Program: Trash Trap Project

The project is located in the Barangay 3 section of the Cabuyao River in Laguna, and was completed in April 2017. The trash trap is designed to capture litter before it flows downstream, to prevent the further deterioration of the Cabuyao River.



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 including the schedules attached therein, for each of the three years ended December 31, 2017, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the consolidated financial statements including the schedules attached therein, and submits the same to the stockholders or members.

SyCip Gorres Velayo & Co., the independent auditor appointed by the stockholders, has audited the consolidated financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to the stockholders or members, has expressed its opinion on the fairness of presentation upon completion of such audit.

Signed under oath by the following:

A handwritten signature in black ink, appearing to read "Lucio C. Tan".

Lucio C. Tan
Chairman and Chief Executive Officer

A handwritten signature in black ink, appearing to read "Michael G. Tan".

Michael G. Tan
President

A handwritten signature in black ink, appearing to read "Jose Gabriel D. Olives".

Jose Gabriel D. Olives
Chief Financial Officer

Signed this 13th day of March 2018

INDEPENDENT AUDITOR'S REPORT



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

Tel: (632) 891 0307
Fax: (632) 8190872
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 Board of Directors and Stockholders
LT Group, Inc.

Opinion

We have audited the consolidated financial statements of LT Group, Inc. and its subsidiaries (the Group), which comprise the consolidated balance sheets as at December 31, 2017 and 2016, 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, 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2017 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Adequacy of allowance for credit losses of loans and receivables

The loans and receivables of Philippine National Bank (PNB), a subsidiary, are significant as they represent 56% of the total assets of the Group. The Group determines the allowance for credit losses on loans and receivables on individual basis for individually significant loans and receivables, and collectively, for loans and receivables that are not individually significant such as consumer loans and credit card receivables. We considered the measurement of impairment of loans and receivables as a key audit matter because it involves significant management judgment in determining the allowance for credit losses. The determination of the allowance for credit losses involves various assumptions such as timing of expected future cash flows, probability of collection, observable market prices and expected net selling prices of the collateral. The disclosures related to allowance for credit losses on loans and receivables are included in Notes 3 and 8 of the consolidated financial statements.

Audit Response

For loans and receivables subjected to specific impairment test, we selected samples of individually impaired loans and receivables and obtained an understanding of the borrower's business and financial capacity. This was done by inquiring on the latest developments about the borrower and checking the payment history of the borrower. We tested the assumptions underlying the impairment identification and quantification of the allowance for credit losses by assessing whether the forecasted cash flows are based on the latest developments about the borrower's financial condition and where applicable, inspecting recent appraisal reports to determine the fair value of collateral held. We also checked whether the discount rates used are based on the original effective interest rate or the last repriced rate of the

INDEPENDENT AUDITOR'S REPORT

loans and re-performed the impairment calculation.

For loans and receivables subjected to collective impairment test, we tested the underlying models and the inputs to those models such as the historical loss rates and net flow rates. This was done by agreeing the details of the loan information used in the calculation of the loss rates and net flow rates to the Group's records and subsidiary ledgers, validating the delinquency age buckets of the loans and loan groupings and re-performing the calculation of the provision for credit losses.

Valuation of net retirement benefits liability

As at December 31, 2017, the present value of defined benefit obligation of PNB amounted to P6.77 billion while the fair value of its plan assets amounted to P5.24 billion. PNB also provides certain post-employment benefit through a guarantee of a specified return on contributions to its employee investment plan. The valuation of the retirement benefit liability and post-employment benefit requires the assistance of an actuary due to the complexities involved in the calculation and the use of certain assumptions such as prospective salary and employee turnover rate, as well as discount rate, which could have a material impact on the results. Thus, we considered this as a key audit matter. The disclosures related to net retirement benefits liability are included in Note 23 to the consolidated financial statements.

Audit Response

We involved our internal specialist in the review of the scope, bases, methodology and results of the work by PNB's external actuary, whose professional qualifications, capabilities and objectivity were also taken into consideration. We evaluated the key assumptions used by comparing the employee demographics and attrition rate against PNB's human resources data, and the discount rate and mortality rate against available market data. We inquired from PNB's management about the basis of the prospective salary rate increase and compared it against PNB's historical salary increase rate and forecast. We compared the fair value of the retirement plan assets to market price information.

Migration to new core banking system

In 2017, PNB and PNB Savings Bank implemented their new core banking system supporting the loans, deposits, and financial reporting processes. The migration to the new core banking system represents a financial reporting risk as there might be a breakdown in internal controls during the transition and an increased risk of inaccurate or incomplete migration of financial data. We, therefore, considered the testing of the migration of data from the old system to the new core banking system and the changes in Information Technology application controls as a key audit matter.

Audit Response

We involved our internal specialist in obtaining an understanding of the processes, testing and evaluation of controls over data migration. We also performed substantive testing on the data migrated from the old system to the new core banking system by reviewing the reconciliations performed by PNB of balances between the two systems. We evaluated the related IT application controls of the relevant business processes affected by the migration to the new core banking system. Where necessary, we performed procedures to evaluate the controls design and test the operation of compensating controls. We evaluated and considered the results of the testing of controls in the design and extent of our substantive audit procedures.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2017, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2017 are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with PFRSs, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level

of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Martin C. Guantes.

SYCIP GORRES VELAYO & CO.



Martin C. Guantes

Partner

CPA Certificate No. 88494

SEC Accreditation No. 0325-AR-3 (Group A),

August 25, 2015, valid until August 24, 2018

Tax Identification No. 152-884-272

BIR Accreditation No. 08-001998-52-2018,

February 26, 2018, valid until February 25, 2021

PTR No. 6621267, January 9, 2018, Makati City

March 13, 2018



LT GROUP, INC.

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

CONSOLIDATED BALANCE SHEETS

(Amounts in Thousands)

	December 31	
	2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents (Note 5)	P174,024,418	P174,676,789
Financial assets at fair value through profit or loss (FVPL) [Notes 6 and 21]	6,518,419	6,441,511
Available-for-sale investments (AFS) [Notes 7 and 17]	2,544,589	8,473,221
Loans and receivables (Notes 8 and 17)	204,622,577	189,812,938
Inventories (Note 9)	13,365,089	12,849,799
Due from related parties (Note 22)	2,028,625	1,922,467
Other current assets (Note 10)	13,483,801	10,600,399
Total Current Assets	416,587,518	404,777,124
Noncurrent Assets		
Loans and receivables - net of current portion (Notes 8 and 17)	307,622,788	248,621,351
AFS investments (Notes 7 and 17)	70,664,823	60,128,678
Held-to-maturity investments (Notes 7 and 10)	26,732,182	24,102,594
Investments in associates and joint ventures (Note 11)	17,230,925	16,817,351
Property, plant and equipment (Note 12):		
At appraised values	36,214,947	36,104,048
At cost	6,990,286	5,170,574
Investment properties (Note 13)	28,890,793	28,217,373
Deferred income tax assets - net (Note 29)	1,460,889	1,424,159
Other noncurrent assets (Note 14)	4,700,538	3,727,772
Total Noncurrent Assets	500,508,171	424,313,900
TOTAL ASSETS	P917,095,689	P829,091,024
LIABILITIES AND EQUITY		
Current Liabilities		
Deposit liabilities (Note 15)	P588,394,301	P515,554,099
Financial liabilities at FVPL (Notes 16 and 21)	343,522	232,832
Bills and acceptances payable (Note 17)	36,634,337	25,068,268
Accounts payable and accrued expenses (Note 18)	22,023,972	17,291,277
Income tax payable	1,113,799	282,025
Short-term debts (Note 19)	1,550,000	1,750,000
Current portion of long-term debts (Note 19)	114,681	466,946
Due to related parties (Note 22)	56,842	57,054
Other current liabilities (Notes 20 and 38)	15,166,369	17,364,001
Total Current Liabilities (Carried Forward)	665,397,823	578,066,502

	December 31	
	2017	2016
Total Current Liabilities (Brought Forward)	P665,397,823	P578,066,502
Noncurrent Liabilities		
Deposit liabilities - net of current portion (Note 15)	39,286,226	45,866,133
Bills and acceptances payable (Note 17)	7,282,350	10,817,679
Long-term debts - net of current portion (Note 19)	1,475,466	5,101,801
Net retirement benefits liability (Note 23)	2,205,229	3,899,342
Deferred income tax liabilities - net (Note 29)	1,414,348	1,323,121
Other noncurrent liabilities (Note 20)	4,718,832	5,411,870
Total Noncurrent Liabilities	56,382,451	72,419,946
Total Liabilities	721,780,274	650,486,448
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	804,095
Other comprehensive income, net of deferred income tax effect	4,299,674	1,878,006
Retained earnings	78,435,633	68,640,783
Shares of stock of the Company held by subsidiaries	(12,519)	(12,519)
	148,314,503	136,097,985
Non-controlling interests (Notes 1, 7, 12 and 30)	47,000,912	42,506,591
Total Equity	195,315,415	178,604,576
TOTAL LIABILITIES AND EQUITY	P917,095,689	P829,091,024

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		
	2017	2016	2015
REVENUE (Note 24)			
Banking	P31,893,616	P29,111,818	P26,600,160
Distilled spirits	16,704,933	14,904,343	12,002,266
Beverage	12,948,796	10,932,326	10,386,308
Property development	2,233,063	2,851,514	2,484,453
	63,780,408	57,800,001	51,473,187
COST OF SALES AND SERVICES (Note 24)	29,679,810	26,126,881	22,002,882
GROSS INCOME	34,100,598	31,673,120	29,470,305
EQUITY IN NET EARNINGS OF ASSOCIATES (Note 11)	3,963,290	2,785,845	1,188,974
	38,063,888	34,458,965	30,659,279
OPERATING EXPENSES			
Selling expenses (Note 25)	2,692,425	2,351,522	2,202,441
General and administrative expenses (Note 26)	25,629,894	25,563,084	21,156,533
	28,322,319	27,914,606	23,358,974
OPERATING INCOME	9,741,569	6,544,359	7,300,305
OTHER INCOME (CHARGES)			
Foreign exchange gains - net	1,701,302	1,535,217	1,322,400
Finance income (Note 27)	157,100	106,426	110,376
Finance costs (Note 27)	(141,937)	(202,490)	(202,518)
Others - net (Note 28)	6,619,677	4,952,142	3,686,974
	8,336,142	6,391,295	4,917,232
INCOME BEFORE INCOME TAX	18,077,711	12,935,654	12,217,537
PROVISION FOR INCOME TAX (Note 29)			
Current	3,613,116	2,535,861	2,490,527
Deferred	(116,061)	(361,393)	238,292
	3,497,055	2,174,468	2,728,819
NET INCOME FROM CONTINUING OPERATIONS	14,580,656	10,761,186	9,488,718
NET INCOME FROM DISCONTINUED OPERATIONS (Note 37)	—	1,327,970	7,936
NET INCOME	P14,580,656	P12,089,156	P9,496,654
NET INCOME ATTRIBUTABLE TO:			
Equity holders of the Company	P10,830,773	P9,390,407	P6,599,035
Non-controlling interests	3,749,883	2,698,749	2,897,619
	P14,580,656	P12,089,156	P9,496,654
Basic/Diluted Earnings Per Share			
Attributable to Equity Holders of the Company (Note 31)	P1.00	P0.87	P0.61
Basic/Diluted Earnings Per Share			
Attributable to Equity Holders of the Company from Continuing Operations (Note 31)	P1.00	P0.86	P0.58

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		
	2017	2016	2015
NET INCOME	P14,580,656	P12,089,156	P9,496,654
OTHER COMPREHENSIVE INCOME (LOSS)			
<i>Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:</i>			
Net changes in fair value of AFS investments (Note 7)	2,533,268	(723,853)	(1,098,424)
Income tax effect	(55,010)	8,686	3,311
	2,478,258	(715,167)	(1,095,113)
Translation adjustments	508,364	302,754	662,775
Net other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods	2,986,622	(412,413)	(432,338)
<i>Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:</i>			
Re-measurement gains (losses) on defined benefit plans (Note 23)	1,178,433	(423,766)	(50,010)
Income tax effect	(115,548)	20,179	7,679
	1,062,885	(403,587)	(42,331)
Share in re-measurement gain on defined benefit plans of an associate (Note 11)	28,526	63,642	—
Revaluation increment (decrement) on property, plant and equipment (Note 12)	—	390,727	(518,611)
Income tax effect	—	(117,218)	158,448
	—	273,509	(360,163)
Net other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods	1,091,411	(66,436)	(402,494)
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	4,078,033	(478,849)	(834,832)
TOTAL COMPREHENSIVE INCOME	P18,658,689	P11,610,307	P8,661,822
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Equity holders of the Company	P14,164,368	P9,170,228	P6,266,724
Non-controlling interests	4,494,321	2,440,079	2,395,098
	P18,658,689	P11,610,307	P8,661,822

See accompanying Notes to Consolidated Financial Statements.



CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Amounts in Thousands)

Attributable to Equity Holders of the Company (Notes 1, 7, 12, 24, 30 and 36)													
	Other Comprehensive Income (Loss)												
	Preferred Shares of Subsidiaries Issued to Parent Company	Capital in Excess of Par	Capital Stock	Reserves of Disposal Group Classified as Other Equity Reserves	Cumulative Translation Adjustments	Net Changes in AFS Investments (Note 7)	Re-measurement Gains (Losses) on Defined Benefit Plans (Note 23)	Re-valuation 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	Shares of the Company Held by Subsidiaries	Non-controlling Interests (Notes 1, 7, 12 and 30)	
	P18,060,000	P35,906,231	P10,821,389	P- P790,136	P- P143,698	(P750,414)	(P1,387,567)	P5,781,539	P27,338	P4,582,667	P54,079,986	P38,494,303	
BALANCES AT DECEMBER 31, 2014	P10,821,389	P35,906,231	P18,060,000	P790,136	P- P143,698	(P750,414)	(P1,387,567)	P5,781,539	P27,338	P4,582,667	P54,079,986	P124,227,891	P162,722,194
Net income for the year	-	-	-	-	-	-	-	-	-	-	6,599,035	2,897,619	9,496,654
Other comprehensive income (loss)	-	-	-	-	-	-	-	-	-	-	6,599,035	-	-
Total comprehensive income (loss) for the year	-	-	-	-	-	-	(3,029)	(360,163)	-	(332,311)	-	(502,521)	(834,832)
Stock issue cost	-	-	-	-	-	-	-	-	-	-	-	-	-
Acquisition of shares of subsidiaries from the Controlling Shareholders	-	-	-	-	-	-	-	(360,163)	-	(332,311)	6,599,035	2,395,098	8,661,822
Acquisition of non-controlling interest	-	-	-	14,502	-	-	-	-	-	-	-	-	(213)
Acquisition of shares by subsidiary	-	-	-	(543)	-	-	-	-	-	-	-	-	14,502
Cash dividends declared	-	-	-	-	-	-	-	-	-	-	-	-	(9,946)
Reserves disposal group classified as held for sale	-	-	-	-	-	-	-	-	-	(1,622,397)	-	(7,324)	(1,629,721)
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	-	-	-	-	-	(348,786)	13,786	-	-	(335,000)	-	-	-
BALANCES AT DECEMBER 31, 2015	10,821,389	35,906,231	18,060,000	804,095	523,358	(1,447,979)	(1,376,810)	4,920,375	27,338	3,116,572	59,855,195	128,876,018	169,758,095
Net income for the year	-	-	-	-	-	-	-	-	-	-	9,390,407	2,698,749	12,089,156
Other comprehensive income (loss)	-	-	-	-	-	-	-	-	-	-	9,390,407	-	-
Total comprehensive income (loss) for the year	-	-	-	-	-	-	(204,377)	273,509	-	(220,179)	-	(258,670)	(478,849)
Sale of disposal group	-	-	-	-	-	(523,918)	(204,377)	273,509	-	(220,179)	9,390,407	9,945	11,610,307
Cash dividends declared	-	-	-	-	-	-	-	-	-	-	-	(325,055)	(596,869)
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	-	-	-	-	-	-	-	-	-	-	(1,623,206)	-	(2,166,957)
BALANCES AT DECEMBER 31, 2016	10,821,389	35,906,231	18,060,000	804,095	694,323	(1,971,897)	(1,581,187)	4,473,280	90,980	1,878,006	68,640,783	136,097,985	178,604,576

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

	Other Comprehensive Income (Loss)														
	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)														
		Reserves of Disposal Group	Net Changes in AFS Investments	Re-measurement Gains (Losses) on Defined Benefit Plans	Revaluation Increment on Property, Plant and Equipment	Total Other Comprehensive Income (Loss), Net of Deferred Income Tax	Shares of Stock of the Company Held by Subsidiaries	Non-controlling Interests							
		Other Equity Reserves	Cumulative Translation Adjustments	(Note 7)	(Note 23)	(Note 12)									
														</	

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		
	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax from continuing operations	P18,077,711	P12,935,654	P12,217,537
Income (loss) before income tax from discontinued operations (Note 37)	–	1,385,397	(97,757)
Income before income tax	18,077,711	14,321,051	12,119,780
Adjustments for:			
Depreciation and amortization (Notes 12, 13 and 14)	3,721,723	3,657,358	3,452,518
Provision for losses (Notes 8 and 26)	891,490	3,218,905	865,889
Gain on disposal of:			
Other noncurrent assets (Notes 12, 13 and 28)	(4,163,507)	(1,823,200)	(1,562,020)
AFS investments (Notes 7 and 28)	(7,914)	–	(2,928)
Equity in net earnings of associates (Note 11)	(3,963,290)	(2,785,845)	(1,188,974)
Share in losses of joint venture (Notes 11 and 28)	–	438,961	2,067
Mark-to-market loss (gain) on financial assets at fair value through profit or loss (Note 28)	(59,513)	(62,955)	42,383
Gain on re-measurement of retained interest (Note 28)	–	(1,644,339)	–
Gain on sale of disposal group (Note 37)	–	(834,535)	–
Gain on investment in an associate arising from contribution of non-monetary assets (Note 28)	–	(1,056,240)	–
Gain on sale of brands (Note 37)	–	(46,300)	–
Finance costs (Note 27)	141,937	202,490	202,518
Finance income (Note 27)	(157,100)	(106,426)	(110,376)
Dividend income (Note 28)	(62,143)	(53,729)	(22,464)
Movement in accrued retirement benefits (Note 23)	(831,912)	(362,683)	83,058
Operating income before changes in working capital	13,587,482	13,062,513	13,881,451
Decrease (increase) in:			
Financial assets at fair value through profit or loss	(17,395)	3,284,668	(1,019,884)
Receivables	(74,827,496)	(64,624,296)	(49,118,548)
Inventories	(515,290)	1,174,248	(2,299,582)
Other current assets	(1,815,226)	(1,781,349)	(125,447)
Increase (decrease) in:			
Deposit liabilities	66,260,295	85,264,040	41,296,083
Financial liabilities at fair value through profit or loss	110,690	97,639	2,956,106
Accounts payable and accrued expenses	5,063,878	211,457	1,515,018
Other current and noncurrent liabilities	(2,291,291)	2,984,382	(2,340,961)
Cash generated from operations	5,555,647	39,673,302	4,744,236
Dividends received (Notes 11, 22 and 28)	3,972,939	53,729	1,718,432
Interest received	157,100	106,426	94,872
Interest paid	(141,937)	(202,490)	(202,518)
Income taxes paid, including creditable withholding and final taxes	(3,849,518)	(2,244,451)	(2,903,245)
Net cash from operating activities	5,694,231	37,386,516	3,451,777

(Forward)

	Years Ended December 31		
	2017	2016	2015
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of:			
Held to maturity investments	(P2,629,588)	(P937,948)	(P1,470,378)
Investment properties (Note 13)	(1,048,872)	(6,246,875)	(540,417)
Property, plant and equipment (Note 12)	(5,111,373)	(2,028,339)	(5,036,289)
Software (Note 14)	(1,036,864)	(426,881)	(124,176)
Distribution network access (Note 14)	(286,751)	—	—
AFS investments (Note 7)	(4,607,513)	—	(15,078,720)
Investment in joint venture and associates (Note 11)	(622,000)	187,051	—
Return of investment from a joint venture (Note 11)	—	—	27,157
Proceeds from sale of:			
Disposal group classified as held for sale (Note 37)	—	3,050,850	—
AFS investments (Note 7)	2,718,542	247,621	1,502,928
Other assets (Notes 12 and 13)	4,479,685	3,504,533	8,320,764
Advances extended to affiliates	(106,158)	(329,433)	—
Net cash used in investing activities	(8,250,892)	(2,979,421)	(12,399,131)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from availment of:			
Short-term debts (Note 19)	—	350,000	1,100,000
Bill and acceptance payable (Note 17)	8,030,740	10,133,725	6,702,164
Long-term debts (Note 19)	—	1,500,000	—
Payments of:			
Short-term debts (Note 19)	(200,000)	—	—
Long-term debts (Note 19)	(3,978,600)	(6,775,520)	(5,000,000)
Finance cost	—	(338,179)	(802,545)
Proceeds from sale of non-controlling interest (Note 30)	—	—	102,623
Dividends paid (Note 30)	(1,947,850)	(2,166,957)	(1,629,721)
Advances from affiliates (Note 22)	—	10,284	—
Acquisition of non-controlling interest (Note 30)	—	—	(601,772)
Net cash from (used in) financing activities	1,904,290	2,713,353	(129,251)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(652,371)	37,120,448	(9,076,605)
CASH FROM DISPOSAL GROUP RECLASSIFIED AS PART OF ASSETS HELD FOR SALE (Note 37)	—	—	(642,544)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	174,676,789	137,556,341	147,275,490
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	P174,024,418	P174,676,789	P137,556,341

See accompanying Notes to Consolidated Financial Statements.

LT GROUP, INC. 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 and Authorization for Issue of the Consolidated Financial Statements

Corporate Information

LT Group, Inc. ("LTG" or the "Company") is a stock corporation incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on May 27, 1937 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 the Company's 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%. 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, 2017 and 2016, 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.

Authorization for Issue of the Consolidated Financial Statements

The consolidated financial statements as at December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017 were authorized for issue by the Board of Directors (BOD) on March 13, 2018.

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), available-for-sale (AFS) investments, 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 thousand Peso, except when otherwise indicated.

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

Basis of Consolidation

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

	Percentage of Ownership						Country of Incorporation
	2017		2016		2015		
	Direct	Indirect	Direct	Indirect	Direct	Indirect	
Distilled Spirits							
Tanduay Distillers, Inc. (TDI) and subsidiaries	100.0	—	100.0	—	100.0	—	Philippines
Absolut Distillers, Inc. (ADI)	—	95.0	—	95.0	—	95.0	Philippines
Asian Alcohol Corporation (AAC)	—	96.0	—	96.0	—	96.0	Philippines
Tanduay Brands International, Inc. (TBI) ⁽¹⁾	—	100.0	100.0	—	100.0	—	Philippines
Beverages							
Asia Brewery, Inc. (ABI) and subsidiaries	99.9	—	99.9	—	99.9	—	Philippines
Agua Vida Systems, Inc.	—	99.9	—	99.9	—	99.9	Philippines
Interbev Philippines, Inc.	—	99.9	—	99.9	—	99.9	Philippines
Waterich Resources Corp.	—	99.9	—	99.9	—	99.9	Philippines
Packageworld, Inc.	—	99.9	—	99.9	—	99.9	Philippines
AB Nutribev Corp.	—	99.9	—	99.9	—	99.9	Philippines
Asia Pacific Beverage Pte Ltd	—	99.9	—	99.9	—	99.9	Singapore
Asia Pacific Beverages Myanmar Company Limited ⁽²⁾	—	90.0	—	90.0	—	—	Myanmar
Tobacco							
Shareholdings, Inc. (Shareholdings)	97.7	—	97.7	—	97.7	—	Philippines
Fortune Tobacco Corporation (FTC)	82.7	16.9	82.7	16.9	82.7	16.9	Philippines
Property Development							
Saturn Holdings, Inc.	100.0	—	100.0	—	100.0	—	Philippines
Paramount Landequities, Inc. (PLI) and subsidiaries	100.0	—	100.0	—	100.0	—	Philippines
Eton Properties Philippines, Inc. (Eton)	—	99.6	—	99.6	—	99.6	Philippines
Belton Communities, Inc. (BCI)	—	99.6	—	99.6	—	99.6	Philippines
Eton City, Inc. (ECI)	—	99.6	—	99.6	—	99.6	Philippines
FirstHomes, Inc. (FHI)	—	99.6	—	99.6	—	99.6	Philippines
Eton Properties Management Corporation (EPMC)	—	99.6	—	99.6	—	99.6	Philippines
Banking							
Bank Holding Companies (Note 22) ⁽³⁾	80-100	—	80-100	—	80-100	—	Various
Philippine National Bank (PNB) and Subsidiaries ⁽⁴⁾	—	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

(Forward)

	Percentage of Ownership						Country of Incorporation
	2017		2016		2015		
	Direct	Indirect	Direct	Indirect	Direct	Indirect	
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. (PNB RCI)	—	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)	—	—	—	—	—	—	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 (ACB)	—	55.9	—	55.9	—	55.9	Republic of China
Allianz-PNB Life Insurance, Inc. (APLI) (formerly PNB LI) ⁽⁵⁾	—	24.8	—	45.2	—	45.2	Philippines
Allied Leasing and Finance Corporation (ALFC)	—	32.3	—	32.3	—	32.3	Philippines
Allied Banking Corporation (Hongkong) Limited (ABCHKL)	—	28.8	—	28.8	—	28.8	Hong Kong
ACR Nominees Limited	—	28.8	—	28.8	—	28.8	Hong Kong
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 started its commercial operations in October 2017. On December 20, 2016, the Parent Company sold its 100% ownership interest in TBI to TDI through an execution of a Deed of Sale of Shares of Stocks.

⁽²⁾ On March 16, 2015, the Joint Venture Agreement was entered into by Asia Pacific Beverages Pte. Ltd. (APB Singapore), a subsidiary of ABI, and Aung Maw Thein (NICK), a citizen of the Union of Myanmar, to establish a private company limited by shares which will manufacture, market, sell and distribute non-alcoholic ready-to-drink or powdered mix beverage products in Myanmar. On March 26, 2016, APB Singapore and NICK incorporated Asia Pacific Beverages Myanmar Company Limited under the laws of Myanmar, owning 90% and 10% of the shares, respectively. Its commercial operations formally commenced on April 1, 2017.

⁽³⁾ As of December 31, 2017 and 2016, 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 22).

⁽⁴⁾ Represents the effective ownership interest of LTG through the collective ownership of the Bank Holding Companies in the merged PNB.

⁽⁵⁾ Beginning December 18, 2015, assets and liabilities of APLI 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 years ended December 31, 2016 and 2015 have been reclassified as discontinued operations, following the approval of PNB's BOD disposing 51.00% of its ownership interest in APLI 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.

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

Non-controlling interests

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

Non-controlling interests shares in losses even if the losses exceed the non-controlling equity interests 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 (OCI) to profit or loss or retained earnings, as appropriate.

Business Combination and Goodwill

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

When a business is acquired, the financial assets and financial liabilities assumed are assessed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group as an acquirer shall report in its 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 Philippine Accounting Standards (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-interests 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

The accounting policies adopted are consistent with those of the previous financial year, except that the Group has adopted the following new pronouncements starting January 1, 2017. Adoption of these pronouncements did not have any significant impact on the Group's financial position or performance.

- Amendments to PFRS 12, *Disclosure of Interests in Other Entities, Clarification of the Scope of the Standard (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)*, clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale
- Amendments to PAS 7, *Statement of Cash Flows, Disclosure Initiative*, require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).
- Amendments to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses*, clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions upon the reversal of the deductible temporary difference related to unrealized losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

New Accounting Standards, Amendments to Existing Standards and Interpretation Effective Subsequent to December 31, 2017

The standards, amendments and interpretation which have been issued but not yet effective as at December 31, 2017 are disclosed below. The Group intends to adopt these standards, amendments and interpretation, if applicable, when they become effective.

Effective beginning on or after January 1, 2018

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*, address three main areas: the effects of vesting conditions on the measurement of a cash settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. Early application of the amendments is permitted. The amendments are not applicable to the Group as it does not have any share-based compensation plan for its officers and employees.

- PFRS 9, *Financial Instruments*, 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. Retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

PFRS 9 is required to be applied on a retrospective basis, with certain exceptions. As permitted, the Group will not restate prior period comparative consolidated financial statements when the Group adopts the requirements of the new standard. Restatements and differences in the carrying amounts of financial instruments arising from the adoption of PFRS 9 will be recognized in the 2018 opening balances of surplus and OCI as if the Group had always applied PFRS 9.

In the period of initial application, the requirements of PFRS 9 on the classification and measurement of financial assets and on the recognition of expected credit losses will have an impact on the Group's financial statements. The 2018 opening balances of surplus and OCI in the Group's statement of financial position are expected to change as a result of applying PFRS 9's requirements on classification and measurement of financial assets. This change will result from reclassifications of financial assets depending on the Group's application of its business models and its assessment of the financial assets' cash flow characteristics. The 2018 opening balances of surplus and OCI in the Group's statement of consolidated balance sheet are also expected to change as a result of applying PFRS 9's requirements on the recognition of expected credit losses. This change depends on whether there have been significant increases in the credit risk of the Group's financial assets since initial recognition and on the Group's evaluation of factors relevant to the measurement of expected credit losses such as a range of possible outcomes and information about past events, current conditions and forecasts of future economic conditions. During 2018, PFRS 9's requirements will have an impact on the Group's financial statements depending on certain factors such as the financial assets' corresponding business models, cash flow characteristics, and changes in credit risks. The Group is still completing its assessment of the impact of PFRS 9.

In the period of initial application, the requirements of PFRS 9 on the classification and measurement of financial liabilities and on the application of hedge accounting are not expected to have an impact on the Group's financial statements. The key changes to the Group's accounting policies resulting from the adoption of PFRS 9 are described below.

Classification and measurement

The classification and measurement provisions of PFRS 9 require that all debt financial assets that do not meet the "solely payment of principal and interest" (SPPI) test, including those that contain embedded derivatives, be classified at initial recognition as at fair value through profit or loss (FVPL). The intent of the SPPI test is to ensure that debt instruments that contain non-basic lending features, such as conversion options and equity linked pay-outs, are measured at FVPL. Subsequent measurement of instruments classified as FVPL under PFRS 9 operates in a similar manner to financial instruments held for trading under PAS 39.

For debt financial assets that meet the SPPI test, classification at initial recognition will be determined based on the business model under which these instruments are managed. Debt instruments that are managed on a "held for trading" or "fair value" basis will be classified as at FVPL. Debt instruments that are managed on a "hold to collect and for sale" basis will be classified as at fair value through OCI (FVOCI) for debt. Debt instruments that are managed on a "hold to collect" basis will be classified as at amortized cost. Subsequent measurement of instruments classified as at FVOCI and amortized cost classifications under PFRS 9 operate in a similar manner to AFS financial assets for debt financial assets and loans and receivables, respectively, under existing PAS 39, except for the impairment provisions which are discussed below.

For those debt financial assets that would otherwise be classified as at FVOCI or amortized cost, an irrevocable designation can be made at initial recognition to instead measure the debt instrument at FVPL under the

fair value option (FVO) if doing so eliminates or significantly reduces an accounting mismatch.

All equity financial assets are required to be classified at initial recognition as at FVPL unless an irrevocable designation is made to classify the instrument as at FVOCI for equities. Unlike AFS, for equity securities under PAS 39, the FVOCI for equities category results in all realized and unrealized gains and losses being recognized in OCI with no recycling to profit and loss. Only dividends will continue to be recognized in profit and loss.

The classification and measurement of financial liabilities remain essentially unchanged from the current PAS 39 requirements, except that changes in fair value of FVO liabilities attributable to changes in own credit risk are to be presented in OCI, rather than profit and loss. Derivatives will continue to be measured at FVPL under PFRS 9.

Impairment

The new impairment guidance sets out an expected credit loss (ECL) model applicable to all debt instrument financial assets classified as amortized cost and FVOCI. In addition, the ECL model applies to loan commitments and financial guarantees that are not measured at FVPL.

Expected Credit Loss Methodology

The application of ECL will significantly change the Group credit loss methodology and models. ECL allowances represent credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. ECL allowances will be measured at amounts equal to either: (i) 12-month ECL; or (ii) lifetime ECL for those financial instruments which have experienced a significant increase in credit risk (SICR) since initial recognition or when there is objective evidence of impairment. This compares to the present incurred loss model that incorporates a single best estimate, the time value of money and information about past events and current conditions and which recognizes lifetime credit losses when there is objective evidence of impairment and also allowances for incurred but not identified credit losses.

Stage Migration and Significant Increase in Credit Risk

Financial instruments subject to the ECL methodology are categorized into three stages:

- Stage 1 is comprised of all non-impaired financial instruments which have not experienced a SICR since initial recognition. Entities are required to recognize 12-month ECL for stage 1 financial instruments. In assessing whether credit risk has increased significantly, entities are required to compare the risk of a default occurring on the financial instrument as at the reporting date, with the risk of a default occurring on the financial instrument as at the date of initial recognition.
- Stage 2 is comprised of all non-impaired financial instruments which have experienced a SICR since initial recognition. Entities are required to recognize lifetime ECL for stage 2 financial instruments. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a SICR since initial recognition, then entities shall revert to recognizing 12 months of ECL. In contrast to stage 1 and stage 2, inherent within the incurred loss methodology under PAS 39, allowances are provided for non-impaired financial instruments for credit losses that are incurred but not yet identified.
- Financial instruments are classified as stage 3 when there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on the estimated future cash flows of a financial instrument or a portfolio of financial instruments. The ECL model requires that lifetime ECL be recognized for impaired financial instruments, which is similar to the current requirements under PAS 39 for impaired financial instruments.
- Amendments to PFRS 4, *Insurance Contracts*, Applying PFRS 9, *Financial Instruments*, with PFRS 4, address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the new insurance contracts standard. The amendments introduce two options



for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying PFRS 9.

The Group is assessing the potential effect of adopting this standard.

- PFRS 15, *Revenue from Contracts with Customers*, establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 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 PFRS 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 PFRSs. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Group plans to adopt the new standard on the required effective date using the modified retrospective method.

Based on management's initial assessment, the requirements of PFRS 15 on the following may have a significant impact on the Group's consolidated financial position, performance and disclosures:

- Identification of performance obligations - rewards as separate performance obligation
- Existence of significant financing component in relation to advance payments received from customers
- Capitalization of incremental costs to obtain the contract

In addition, as the presentation and disclosure requirements in PFRS 15 are more detailed than under current PFRSs, the Group is currently assessing what necessary changes it needs to make on its current systems, internal controls, policies and procedures to enable the Group to collect and disclose the required information.

The recognition and measurement requirements in PFRS 15 also apply to gains or losses on disposal of nonfinancial assets, when that disposal is not in the ordinary course of business. However, on transition, the effect of these changes is expected to be material for the Group.

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs 2014 - 2016 Cycle*), clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. The amendments should be applied retrospectively, with earlier application permitted. These amendments are not expected to have any significant impact on the consolidated financial statements.
- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*, clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The

amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight. Since the Group's current practice is in line with the clarifications issued, the Group does not expect any effect on its consolidated financial statements upon adoption of these amendments.

- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*, clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. The adoption of interpretation is not expected to have any significant impact on the consolidated financial statements.

Effective beginning on or after January 1, 2019

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*, allow debt instruments with negative compensation prepayment features to be measured at amortized cost or fair value through other comprehensive income. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted. These amendments are not expected to have any significant impact on the consolidated financial statements.
- PFRS 16, *Leases*, sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees - leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the re-measurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases.

PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17. Early application is permitted, but not before an entity applies PFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. The Group is currently assessing the impact of adopting PFRS 16.

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*, clarify that entities should account for long-term interests in an associate or joint venture to which the equity method is not applied using PFRS 9. An entity shall apply these amendments for annual reporting periods beginning on or

after January 1, 2019. Earlier application is permitted. These amendments are not expected to have any significant impact on the Group's financial statements.

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*, addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12 and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The Group is currently assessing the impact of adopting this interpretation.

Deferred effectivity

- Amendments to PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*, address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, Business Combinations. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes 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. These amendments are not expected to have any significant impact on the consolidated financial statements.

The Group continues to assess the impact of the above new and amended accounting standards and Interpretations effective subsequent to 2017 on the Group's financial statements in the period of initial application. Additional disclosures required by these amendments will be included in the financial statements when these amendments are adopted.

Significant Accounting Policies Applicable to the Group

Current versus Non-Current Classification

The Group presents assets and liabilities in the consolidated balance sheet based on current/ non-current classification. An asset is current when it is:

- expected to be realized or intended to be sold or consumed in normal operating cycle
- held primarily for the purpose of trading
- expected to be realized within 12 months after the reporting period, or
- cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- it is expected to be settled in normal operating cycle
- it is held primarily for the purpose of trading
- it is due to be settled within 12 months after the reporting period, or
- there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period.

Deferred income tax assets and liabilities are classified as non-current assets and liabilities.

Investments in Associates and Joint Ventures

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

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

Where necessary, adjustments are made to the financial statements of the associates and joint ventures 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 ventures 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 balance sheet.

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 sheets.



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 consolidated 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 advantageous market for the asset or liability

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

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

A fair value measurement of a non-financial asset takes into account a market participants' 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.

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 fair value hierarchy, as explained above.

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, Held to maturity (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" 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" 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". Interest earned or incurred is recorded in "Interest income" or "Interest expense", respectively, while dividend income is recorded in "Other 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" under "Banking revenue" account. Interest earned or incurred is recorded in "Finance income" or "Finance cost", respectively, while dividend income is recorded in "Other Income" according to the terms of the contract, or when the right of payment has been established.

Loans and receivables

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

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

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

After initial measurement, the "Loans and receivable", "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" 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" 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 and credit 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 costs such as loans and receivables, HTM investments, due from BSP and other banks, interbank loans receivable, securities held under agreements to resell and receivable from SPV, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

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

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

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

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

Restructured loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have

been renegotiated, the loan is no longer considered past due. Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR. The difference between the recorded value of the original loan and the present value of the restructured cash flows, discounted at the original EIR, is recognized in "Provision for impairment and credit losses" in the consolidated statement of income.

AFS investments

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

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.

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 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 and the date the item is derecognized.

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

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

Investment Properties

Investment properties are initially measured at cost, including certain transaction costs. Investment properties acquired through a nonmonetary asset exchange is measured initially at fair value unless the exchange lacks commercial substance or the fair value of neither the asset received nor the asset given up is reliably measurable. Any gain or loss on the exchange is recognized in "Net gains on sale or exchange of assets" and presented in the "Others" 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" in the year of retirement or disposal.

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

Other Properties Acquired

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

The Group applies the cost model in accounting for other properties acquired. Depreciation is computed on a straight-line basis over the estimated useful life of five years. The estimated useful life and the depreciation method are

reviewed periodically to ensure that the period and the method of depreciation are consistent with the expected pattern of economic benefits from items of other properties acquired.

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

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the consolidated statement of income in the year in which the expenditure is incurred.

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

Software costs

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

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

Impairment of Noncurrent Nonfinancial Assets

Property, plant and equipment, investment properties, other properties, investments in associates and joint ventures, 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).

If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refund from the plan or reduction in future contribution to the plan.

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 Group, 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.

Value-added Tax (VAT)

Revenues, expenses, and assets are recognized net of the amount of VAT, if applicable.

When VAT from sales of goods and/or services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as payable in the consolidated balance sheet. When VAT passed on from purchases of goods or services (input VAT) exceeds VAT from sales of goods and/or services (output VAT), the excess is recognized as an asset in the consolidated balance sheet to the extent of the recoverable amount.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of "Other current assets" or "Accounts payable and accrued expenses" in the consolidated balance sheet.

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 PFRSs. 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 of stock of the Company held by subsidiaries"), 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.

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 FVPL 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 three 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, 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.

- *Bancassurance fees*

Non-refundable access fees are recognized on a straight-line basis over the term of the period of the provision of the access.

Milestone fees or variable and fixed earn-out fees are recognized in reference to the stage of achievement of the milestones.

- *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 revenue from rewards redeemed

"Interchange fees" are taken up as income under "Service fees and commission 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 redeemed. 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. The deferred balance is included under "Other liabilities" in the consolidated balance sheet.

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 period.

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.

Insurance 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.

Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of price or rates, a credit rating or credit index or other variable. Investment contracts mainly transfer financial risk but can also transfer insignificant insurance 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.

For financial options and guarantees which are not closely related to the host insurance contract, bifurcation is required to measure these embedded financial derivatives separately as FVPL. Bifurcation is not required if the embedded derivative is itself an insurance contract or when the host insurance contract itself is measured as financial assets or liabilities at FVPL. The options and guarantees within the insurance contracts issued by the Group are treated as derivative financial instruments which are closely related to the host insurance and therefore not bifurcated subsequently. As such, the Group does not separately measure options to surrender insurance contracts for a fixed amount (or an amount based on a fixed amount and an interest rate). Likewise, the embedded derivative in unit-linked insurance contracts linking the payment on the contract to units of internal investment funds meets the definition of an insurance contract and is therefore not accounted for separately from the host insurance contract.

Based on the Group guidelines, all products in its portfolio meet the definition of insurance contracts, including unit-linked products, which contain features that make use of funds specifically segregated for the benefit of unit-linked policyholders.

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.

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. When claims are paid, such reinsurance assets are reclassified to "Other receivables".

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.

When the Group enters into a proportional treaty reinsurance agreement for ceding out its insurance business, the Group initially recognizes a liability at transaction price. Subsequent to initial recognition, the portion of the amount

initially recognized as a liability which is presented as "Other liabilities" in the consolidated balance sheet will be withheld and recognized as Funds held for reinsurers and included as part of the "Other liabilities" in the consolidated balance sheet. The amount withheld is generally released after a year.

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. 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.

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. 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.



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 consumer goods sold 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
Finished goods	Moving-average	Weighted-average
Work in process	Moving-average	Weighted-average
Raw materials and materials and supplies	Moving-average	Moving-average

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 and Cost Recognition

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.

Rooms and other operated departments

Revenue from room rentals and other ancillary services are recognized when the services are rendered. Revenue from other ancillary services include, among others, business center related services and car rentals, food packages, laundry service, telephone service, and spa/gym services.

Costs of services

Costs of services include expenses incurred by the Group for the generation of revenue from room rentals and other ancillary services. Costs of services are expensed as incurred.

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 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. 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 Peso except for the following entities with functional currency other than the 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-
OHBVI	-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, through PNB, 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 PNB's combined voting rights of 70.56%, which is arising from its direct ownership of 27.78% and assigned voting rights of 42.78% by certain stockholders to the Group.

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 sheet.

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, 2017 and 2016 (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 2017, 2016 and 2015.

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, and accordingly, 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, 2017 and 2016, 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, 2017 and 2016, investment in unquoted shares of stock amounted to P1.1 billion and P1.3 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 Investment in AB Heineken Philippines, Inc. (AB HPI) as Investment in an Associate

The Group and Heineken International B.V. (Heineken) established AB HPI, a 50%-owned associate, through a joint venture agreement. The Group has determined that it has significant influence, but no control or joint control, over the operating and financial activities of AB HPI. Accordingly, the Group classified its investment in AB HPI as an investment in an associate.

Disposal of APLII

In 2016, the Bank completed the sale of its 51% ownership interest in APLII for a consideration amounting to US\$66.0 million (P3.1 billion). Pursuant to the sale of APLII, the Bank also entered into a distribution agreement with APLII where the Bank will allow APLII to have exclusive access to the distribution network of the Bank over a period of 15 years [the Exclusive Distribution Rights (EDR)].

The Group has determined based on its evaluation that the share purchase agreement and distribution agreement have provisions referring to one another, making the distribution agreement an integral component of the sale transaction. Accordingly, the consideration received by the Bank was allocated between the sale of its 51% ownership interest in APLII and the EDR (see Notes 11 and 37).

Classification of transfer of beer segment as discontinued operations

The Group classified the transfer of its beer segment as discontinued operations in accordance with PFRS 5, effective November 15, 2016, based on the joint venture agreement signed on May 27, 2016 in respect of the establishment of AB HPI to manage its beer segment. The beer segment met the criteria of a component of an entity that has been disposed of to be classified as discontinued operations as of December 31, 2016 since it represents a separate major line of business or geographical area of operations (see 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:

The Market Approach involved determining the price to book value of selected publicly traded companies that have been identified to be comparable to APLII such as those with similar business activities and product offerings. The price to book value are then subjected to a control premium and lack of marketability discount.

The fair value of the EDR was determined using the Market Approach where it involved identifying recent bancassurance agreements with upfront payments from publicly available data of comparable companies. Using the amount of upfront payment fee, the number of branches and customers, a value per branch and value per customer multiple were determined. The relevant fair values of the shares of APLII and EDR are disclosed in Note 37 to the consolidated financial statements.

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. The Group determines the allowance for credit losses on loans and receivables on individual basis for individually significant loans and receivables, and collectively, for loans and receivables that are not individually significant such as consumer loans and credit card receivables. The determination of the allowance for credit losses involves various assumptions such as timing of expected future cash flows, probability of collection, observable market prices and expected net selling prices of the collateral. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

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

Estimation of retirement benefits costs and liability

The Group's retirement benefits costs and liability is actuarially computed. This entails using certain assumptions with respect to prospective salary increases, employee turnover rates and discount rates per annum.

Net retirement plan assets as of December 31, 2017 and 2016 amounted to P273.7 million and P276.9 million, respectively. Net retirement benefits liability amounted to P2.2 billion and P3.9 billion as of December 31, 2017 and 2016, respectively (see Notes 14 and 23).

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 P0.8 billion, P1.6 billion and P1.3 billion and cost of real estate sales amounting to P0.4 billion, P1.1 billion and P1.0 billion in 2017, 2016 and 2015, respectively (see Note 24).

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, 2017 and 2016, the carrying value of the Group's AFS financial assets amounted to P73.2 billion and P68.6 billion, respectively, net of allowance for impairment losses on AFS equity investments amounting to P696.2 million and P944.1 million, respectively (see Note 7).

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.

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 (see Note 20).

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, 2017 and 2016 amounted to P12.7 billion and P12.3 billion, respectively. Certain materials and supplies amounting to P0.6 billion and P0.5 billion as of December 31, 2017 and 2016, 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 P36.2 billion and P36.1 billion as of December 31, 2017 and 2016, 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 2017 and 2016, 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, 2017 and 2016 amounted to P26.4 billion and P25.2 billion, respectively (see Note 12). The carrying amount of depreciable investment properties as of December 31, 2017 and 2016 amounted to P7.2 billion and P7.4 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 PFRSs.

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:

	2017	2016
	<i>(In Thousands)</i>	
Other current assets (except miscellaneous cash and other cash items) (Note 10)	P12,817,040	P10,344,336
Investments in associates and joint ventures (Note 11)	17,230,925	16,817,351
Property, plant and equipment (Note 12)	43,205,233	41,274,622
Investment properties (Note 13)	28,890,793	28,217,373
Other noncurrent assets (except net retirement plan assets, refundable and security deposits and goodwill) (Note 14)	4,077,498	3,014,149

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, 2017 and 2016 is not impaired (see Note 14).



Provisions and contingencies

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

Provision for legal claims amounted to P1.0 billion and P1.3 billion as of December 31, 2017 and 2016, 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 the parent company and certain subsidiaries that have a history of losses and may not be used to offset taxable income elsewhere in the Group. The parent company and these certain subsidiaries neither have any taxable temporary difference nor was any tax planning opportunities available that could support the recognition of deferred income tax assets on these NOLCO, excess MCIT over RCIT and other deductible temporary differences totaling to P3.5 billion and P5.7 billion as of December 31, 2017 and 2016, respectively (see Note 29).

Determination of fair value of shares of APLII and EDR

The Group determined the fair value of the shares of APLII using a combination of the Income Approach and the Market Approach. The Income Approach was based on the present value of the future cash flows over a three-year period, adjusted for the control premium and the lack of marketability discount. Significant management judgment is required to determine the expected future cash flows. The valuation under the Income Approach is most sensitive to discount rate and growth rate used to project cash flows.

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, liquor and bioethanol 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, non-beer products operations and to act as a service contractor and enter into service agreements for the supply of services. 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, and Bank Holding Companies) that provide financing for working capital and capital expenditure requirements of the operating businesses of the Group.

The BOD of LTG 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 PFRSs. 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 10.3% and 2.6% as of December 31, 2017, respectively, and 10.5% and 3.6% as of December 31, 2016 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 85%, 84% and 90% of the segment's total revenue in 2017, 2016 and 2015, respectively. The other segments of the Group have no significant customer that 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, 2017:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
<i>(In Thousands)</i>							
Segment revenue:							
External customers	P31,893,616	P16,704,933	P12,948,796	P–	P2,233,063	P–	P63,780,408
Inter-segment	274,244	89,388	944,440	–	–	(1,308,072)	–
	32,167,860	16,794,321	13,893,236	–	2,233,063	(1,308,072)	63,780,408
Cost of sales and services	6,339,368	14,077,274	9,591,814	–	808,582	(1,137,228)	29,679,810
Gross profit	25,828,492	2,717,047	4,301,422	–	1,424,481	(170,844)	34,100,598
Equity in net earnings (loss) of associates and joint ventures	59,000	–	(636,330)	4,396,320	–	144,300	3,963,290
	25,887,492	2,717,047	3,665,092	4,396,320	1,424,481	(26,544)	38,063,888
Selling expenses	–	1,319,102	1,326,726	–	46,597	–	2,692,425
General and administrative expenses	23,013,139	584,829	1,086,694	141,044	684,931	119,257	25,629,894
Operating income	2,874,353	813,116	1,251,672	4,255,276	692,953	(145,801)	9,741,569
Foreign exchange gains (losses) - net	1,674,370	(1,307)	3,772	23,408	(149)	1,208	1,701,302
Finance income	–	215	25,012	101,413	44,556	(14,096)	157,100
Finance costs	–	(33,206)	(50,900)	–	(355,120)	297,289	(141,937)
Others - net	6,330,562	54,361	(37,647)	71,369	129,858	71,174	6,619,677
Income before income tax	10,879,285	833,179	1,191,909	4,451,466	512,098	209,774	18,077,711
Provision for income tax	2,322,213	202,052	639,729	19,110	164,458	149,493	3,497,055
Segment profit	P8,557,072	P631,127	P552,180	P4,432,356	P347,640	P60,281	P14,580,656
Segment profit attributable to:							
Equity holders of the Company	P4,830,426	P623,802	P552,180	P4,413,740	P346,319	P64,306	P10,830,773
Non-controlling interests	3,726,646	7,325	–	18,616	1,321	(4,025)	3,749,883
Depreciation and amortization expense	1,519,111	514,624	1,393,040	19,040	254,105	21,803	3,721,723

Other financial information of the operating segments as of December 31, 2017 is as follows:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
<i>(In Thousands)</i>							
Assets:							
Current assets	P375,392,442	P12,959,935	P12,590,611	P11,508,813	P11,179,580	(P7,043,863)	P416,587,518
Noncurrent assets	448,155,535	7,105,438	15,305,077	14,516,726	18,545,874	(3,120,479)	500,508,171
	P823,547,977	P20,065,373	P27,895,688	P26,025,539	P29,725,454	(P10,164,342)	P917,095,689
Liabilities:							
Current liabilities	P664,985,426	P3,483,340	P4,355,838	P303,905	P4,892,439	(P12,623,125)	P665,397,823
Noncurrent liabilities	51,413,216	623,725	1,011,573	84,530	8,143,165	(4,893,758)	56,382,451
	P716,398,642	P4,107,065	P5,367,411	P388,435	P13,035,604	(P17,516,883)	P721,780,274
Investments in associates and joint ventures	P2,363,757	P–	P1,032,149	P11,447,030	P–	P2,387,989	P17,230,925
Equity attributable to:							
Equity holders of the Company	61,602,401	15,819,758	22,484,240	25,637,104	16,689,850	6,081,150	148,314,503
Non-controlling interests	45,546,934	138,550	44,037	–	–	1,271,391	47,000,912
Additions to noncurrent assets:							
Property, plant and equipment	1,930,786	423,237	1,886,560	47,942	28,785	11,016	4,328,326
Investment properties	625,660	–	–	51,233	1,741,479	–	2,418,372
Short-term debts	–	880,000	1,550,000	–	–	(880,000)	1,550,000
Long-term debts	–	–	–	–	6,080,147	(4,490,000)	1,590,147



For the year ended December 31, 2016:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
<i>(In Thousands)</i>							
Segment revenue:							
External customers	P29,111,818	P14,904,343	P10,932,326	P–	P2,851,514	P–	P57,800,001
Inter-segment	190,274	109,385	917,651	–	–	(1,217,310)	–
	29,302,092	15,013,728	11,849,977	–	2,851,514	(1,217,310)	57,800,001
Cost of sales and services	5,722,739	12,293,366	7,818,988	–	1,342,857	(1,051,069)	26,126,881
Gross profit	23,579,353	2,720,362	4,030,989	–	1,508,657	(166,241)	31,673,120
Equity in net earnings of associates	–	–	–	2,593,261	–	192,584	2,785,845
	23,579,353	2,720,362	4,030,989	2,593,261	1,508,657	26,343	34,458,965
Selling expenses	–	999,866	1,310,612	–	52,848	(11,804)	2,351,522
General and administrative expenses	23,215,141	551,755	907,564	152,630	628,773	107,221	25,563,084
Operating income	364,212	1,168,741	1,812,813	2,440,631	827,036	(69,074)	6,544,359
Foreign exchange gains - net	1,487,740	364	–	27,417	4,251	15,445	1,535,217
Finance income	–	159	20,807	70,136	55,871	(40,547)	106,426
Finance costs	–	(10,967)	(48,789)	–	(357,700)	214,966	(202,490)
Others - net	6,427,747	14,664	(189,206)	50,537	71,811	(1,423,411)	4,952,142
Income before income tax	8,279,699	1,172,961	1,595,625	2,588,721	601,269	(1,302,621)	12,935,654
Provision for (benefit from) income tax	1,517,029	265,459	548,815	(3,579)	211,760	(365,016)	2,174,468
Segment profit (loss) from:							
Continuing operations	6,762,670	907,502	1,046,810	2,592,300	389,509	(937,605)	10,761,186
Discontinued operations	619,563	–	708,407	–	–	–	1,327,970
	P7,382,233	P907,502	P1,755,217	P2,592,300	P389,509	(P937,605)	P12,089,156
Segment profit attributable to:							
Equity holders of the Company	P4,147,220	P898,192	P1,755,217	P2,581,412	P388,029	(P379,663)	P9,390,407
Non-controlling interests	3,235,013	9,310	–	10,888	1,480	(557,942)	2,698,749
Depreciation and amortization expense	1,393,334	529,743	1,538,972	11,477	163,644	20,188	3,657,358

Other financial information of the operating segments as of December 31, 2016 is as follows:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
<i>(In Thousands)</i>							
Assets:							
Current assets	P376,639,685	P11,281,760	P11,899,140	P10,107,420	P12,774,195	(P17,925,076)	P404,777,124
Noncurrent assets	364,245,652	7,159,081	15,017,583	13,362,146	16,415,790	8,113,648	424,313,900
	P740,885,337	P18,440,841	P26,916,723	P23,469,566	P29,189,985	(P9,811,428)	P829,091,024
Liabilities:							
Current liabilities	P575,558,848	P2,463,592	P4,019,000	P317,324	P6,816,393	(P11,108,655)	P578,066,502
Noncurrent liabilities	68,358,018	651,039	1,113,781	92,136	6,043,487	(3,838,515)	72,419,946
	P643,916,866	P3,114,631	P5,132,781	P409,460	P12,859,880	(P14,947,170)	P650,486,448
Investments in associates and a joint venture	P2,532,754	P–	P1,643,304	P11,049,385	P–	P1,591,908	P16,817,351
Equity attributable to:							
Equity holders of the Company	55,888,301	15,196,522	21,783,942	23,060,106	16,330,105	3,839,009	136,097,985
Non-controlling interests	41,080,170	129,688	–	–	–	1,296,733	42,506,591
Additions to noncurrent assets:							
Property, plant and equipment	2,133,146	612,136	1,987,832	3,946	29,258	2,693	4,769,011
Investment properties	681,510	–	–	–	389,314	1,466	1,072,290
Short-term debts	–	–	1,750,000	–	–	–	1,750,000
Long-term debts	3,497,798	–	–	–	4,070,949	(2,000,000)	5,568,747

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	P10,386,308	P–	P2,484,453	P–	P51,473,187
Inter-segment	10,150	115,079	1,011,781	–	–	(1,137,010)	–
	26,610,310	12,117,345	11,398,089	–	2,484,453	(1,137,010)	51,473,187
Cost of sales and services	4,807,242	9,831,228	7,384,452	–	1,179,549	(1,199,589)	22,002,882
Gross profit	21,803,068	2,286,117	4,013,637	–	1,304,904	62,579	29,470,305
Equity in net earnings of associates	–	–	–	974,543	–	214,431	1,188,974
	21,803,068	2,286,117	4,013,637	974,543	1,304,904	277,010	30,659,279
Selling expenses	–	939,453	1,234,028	–	42,382	(13,422)	2,202,441
General and administrative expenses	18,449,228	653,396	744,400	141,260	588,292	579,957	21,156,533
Operating income	3,353,840	693,268	2,035,209	833,283	674,230	(289,525)	7,300,305
Foreign exchange gains - net	1,207,840	1,609	–	95,618	3,746	13,587	1,322,400
Finance income	–	154	19,572	92,549	50,830	(52,729)	110,376
Finance costs	–	(57,969)	(2,439)	–	(175,787)	33,677	(202,518)
Others - net	3,393,380	28,066	6,386	71,785	10,620	176,737	3,686,974
Income before income tax	7,955,060	665,128	2,058,728	1,093,235	563,639	(118,253)	12,217,537
Provision for income tax	1,543,789	243,043	609,464	53,229	250,358	28,936	2,728,819
Segment profit (loss) from:							
Continuing operations	6,411,271	422,085	1,449,264	1,040,006	313,281	(147,189)	9,488,718
Discontinued operations	357,931	–	(349,995)	–	–	–	7,936
	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

5. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	2017	2016
	(In Thousands)	
Cash and other cash items	P17,782,966	P14,865,706
Cash equivalents:		
Due from Bangko Sentral ng Pilipinas (BSP)	108,743,985	127,337,860
Due from other banks	20,038,263	22,709,805
Interbank loans receivable	27,459,204	9,763,418
	P174,024,418	P174,676,789

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. Cash equivalents 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:

	2017	2016
	(In Thousands)	
Held for trading:		
Government securities	P2,207,953	P1,313,400
Equity securities	73,917	54,609
Derivative assets (Notes 21 and 33)	562,984	419,122
Private debt securities	109,081	196,757
	2,953,935	1,983,888
Designated at FVPL -		
Unit investment trust fund	3,564,484	4,457,623
	P6,518,419	P6,441,511

a. As of December 31, 2017, 2016 and 2015, unrealized loss on government and private debt securities amounted to P73.0 million, P66.9 million and P261.5 million, respectively. In 2017, 2016 and 2015, the effective interest rates range from 2.13% to 6.13%, from 2.75% to 10.63% and from 2.13% to 10.63%, respectively, for the government securities, and from 5.23% to 6.63%, from 5.5% to 7.38% and from 4.80% to 7.38%, respectively, for the private debt securities.

b. The carrying amount of equity securities includes unrealized loss of P22.0 million, P21.5 million and P53.4 million as of December 31, 2017, 2016 and 2015, respectively.

c. On 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 P59.5 million, P63.0 million and P99.1 million in 2017, 2016, and 2015, respectively (see Note 28). Realized gains from redemption of investment presented under finance income amounted to P20.2 million in 2017, P6.3 million in 2016 and P22.4 million in 2015 (see Note 27).

7. Available-for-Sale and Held to Maturity Investments

Available-for-Sale Investments

	2017	2016
	(In Thousands)	
Government securities (Note 17)	P41,625,900	P38,367,465
Other debt securities	27,394,342	28,841,070
Equity securities:		
Quoted	3,833,789	1,072,405
Unquoted	1,051,616	1,265,071
	73,905,647	69,546,011
Allowance for impairment losses	(696,235)	(944,112)
	73,209,412	68,601,899
Noncurrent portion	(70,664,823)	(60,128,678)
	P2,544,589	P8,473,221



a. As of December 31, 2017 and 2016, 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 foreign banks amounted to P26.5 billion and P9.8 billion, respectively (see Note 17). The counterparties have an obligation to return the securities to 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, the carrying value of these pledged securities amounted to P873.0 million. As of December 31, 2016, a compromise agreement on the settlement of loans has been made and said Surety Bond was no longer renewed by PNB Gen.

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, 2017, 2016 and 2015.

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

	2017	2016	2015
Peso-denominated	0.88% to 9.33%	1.31% to 5.93%	1.03% to 5.62%
Foreign-currency denominated	0.04% to 10.30%	1.29% to 5.30%	1.10% to 5.39%

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

	2017	2016
	(In Thousands)	
Balance at beginning of year	(P2,971,896)	(P2,256,729)
Net changes in fair value of AFS investments during the year*:		
Fair value changes during the year on AFS investments	2,984,496	649,259
Realized gains**(Note 24)	(506,238)	(1,364,426)
	2,478,258	(715,167)
Balance at end of year	(P493,638)	(P2,971,896)
Attributable to:		
Equity holders of the Company	P371,483	(P1,971,897)
Non-controlling interests	(865,121)	(999,999)
	(P493,638)	(P2,971,896)

* Net of deferred income tax effect amounting to P0.7 million and P0.3 million in 2017 and 2016, respectively.

** Included in "Trading and securities gains" under "Banking revenue".

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

	2017	2016
	(In Thousands)	
Balances at beginning of year	P944,112	P998,749
Provisions during the year	-	15,856
Disposals, transfers and others	(247,877)	(70,493)
Balances at end of year	P696,235	P944,112

Held-to-Maturity Investments

As of December 31, 2017 and 2016, HTM investments of the Group consist of government securities and private debt securities amounting to P26.7 billion and P24.1 billion, respectively.

As of December 31, 2017 and 2016, 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 counterparties amounted to P17.8 billion and P15.3 billion, respectively (see Note 17).

Reclassification of Financial Assets

On March 3 and March 5, 2014, the Group reclassified certain AFS investments with fair values of P15.9 billion and P6.8 billion, respectively, back to its original classification, as HTM investments, as management has established that it continues to have the positive intention and ability to hold these securities to maturity. The reclassification was approved by the BOD of PNB on February 28, 2014. The previous fair valuation gains amounting to P2.7 billion that have been recognized in OCI shall be amortized to profit or loss over the remaining life of the HTM investments using effective interest rates ranging from 3.60% to 5.64%.

As of December 31, 2017 and 2016, the carrying values and fair values of the Group's reclassified investment securities amounted to P24.0 billion and P20.1 billion, respectively. Had these securities not been reclassified as HTM, the additional mark-to-market loss that would have been recognized by the Group in the consolidated statements of comprehensive income amounts to P0.5 billion in 2017, P0.3 billion in 2016 and P0.8 billion in 2015.

8. Loans and Receivables

Loans and receivables consist of:

	2017	2016
	(In Thousands)	
Finance receivables (Notes 17 and 22)	P514,363,730	P441,252,395
Trade receivables	13,266,725	12,703,799
Other receivables	2,731,658	1,784,649
	530,362,113	455,740,843
Allowance for credit losses	(18,116,748)	(17,306,554)
	512,245,365	438,434,289
Noncurrent portion	(307,622,788)	(248,621,351)
	P204,622,577	P189,812,938

Finance Receivables

	2017	2016
	(In Thousands)	
Receivables from customers:		
Loans and discounts	P452,206,784	P389,916,109
Customers' liabilities on acceptances, letters of credit and trust receipts	11,912,916	10,716,781
Bills purchased (Note 20)	1,723,514	3,622,690
Credit card receivables	10,145,474	7,102,207
Finance lease receivables	2,891,043	3,049,375
	478,879,731	414,407,162
Unquoted debt securities	14,674,130	6,972,710
Other receivables:		
Accounts receivable	10,215,695	9,527,554
Accrued interest receivable	4,414,165	3,884,739
Sales contract receivables	7,155,924	7,449,020
Miscellaneous	577,369	501,674
	22,363,153	21,362,987
	515,917,014	442,742,859
Unearned and other deferred income	(1,553,284)	(1,490,464)
	514,363,730	441,252,395
Allowance for credit losses	(18,056,306)	(17,253,410)
	496,307,424	423,998,985
Noncurrent portion	(311,456,276)	(247,950,622)
	P184,851,148	P176,048,363

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

As of December 31, 2015, the balance of these receivables amounted to P3.7 billion while the transferred liabilities amounted to P3.4 billion (P1.8 billion is included under "Bills payable to BSP and local banks" and P1.6 billion is included under "Accrued interest payable"). The excess of the transferred receivables over the transferred liabilities is fully covered by an allowance for credit losses amounting to P0.3 billion as of December 31, 2015.

In 2016, the Group applied the transferred liabilities against the principal and interest components of the transferred receivables. As of December 31, 2016, the remaining receivables amounted to P0.3 billion, which is fully covered by an allowance.

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 years and at the principal amount of P3.4 billion (Tranche B Note) payable in eight 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. In 2016, PNB obtained additional non-resident unquoted debt investments amounting to P3.4 billion. These investments are zero-rated bonds issued by Chinese financial institutions. As of December 31, 2017 and 2016, the notes are carried at their recoverable values.

c. Finance lease receivable

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

	2017	2016
	(In Thousands)	
Gross investment in finance lease receivables		
Due within one year	P1,265,542	P1,177,612
Due beyond one year but not over five years	924,973	1,127,371
Due beyond five years	25,200	36,500
	2,215,715	2,341,483
Residual value of leased equipment		
Due within one year	292,000	249,923
Due beyond one year but not over five years	383,328	457,969
	675,328	707,892
Total finance lease receivable	P2,891,043	P3,049,375

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

	2017	2016	2015
Receivable from customers and sales contract receivables	P22,255,272	P19,454,187	P17,080,888
Unquoted debt securities	146,012	51,160	63,478
	P22,401,284	P19,505,347	P17,144,366

As of December 31, 2017 and 2016, 96.1% and 75.2%, respectively, of the total receivable from customers of the Group were subject to interest repricing. Remaining receivables carry annual fixed interest rates ranging from 2.0% to 8.3% in 2017, from 2.3% to 8.8% in 2016 and from 1.1% to 7.0% in 2015 for foreign currency-denominated receivables, and from 1.9% to 7.9% in 2017, from 1.0% to 35.0% in 2016 and 0.5% to 15.3% in 2015 for peso-denominated receivables.

Sales contract receivables bear fixed interest rate per annum ranging from 2.7% to 21.0%, 5.0% to 21.0% and 3.3% to 21.0% in 2017, 2016 and 2015, respectively. Interest income accrued on impaired loans and receivable of the Group amounted to P99.0 million in 2017, P103.7 million in 2016 and P217.0 million in 2015.

Trade Receivables

Trade receivables consist of:

	2017	2016
	(In Thousands)	
Consumer goods	P12,183,109	P10,897,219
Contract receivables	1,055,912	1,777,640
Lease receivables	27,704	28,940
	13,266,725	12,703,799
Allowance for credit losses	(49,202)	(41,904)
	13,217,523	12,661,895
Noncurrent portion of contract receivables	(766,796)	(670,729)
	P12,450,727	P11,991,166

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 P16.5 million, P41.7 million and P34.6 million in 2017, 2016 and 2015, respectively (see Note 27).

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, 2017			
	Finance Receivables	Trade Receivables	Other Receivables	Total
	(In Thousands)			
Balance at beginning of year	P17,253,410	P41,904	P11,240	P17,306,554
Provisions during the year (Note 26)	1,184,866	7,354	—	1,192,220
Accounts charged off, transfers and others	(381,970)	(56)	—	(382,026)
Balance at end of year	P18,056,306	P49,202	P11,240	P18,116,748

	December 31, 2016			
	Finance Receivables	Trade Receivables	Other Receivables	Total
	(In Thousands)			
Balance at beginning of year	P15,934,483	P32,032	P11,240	P15,977,755
Provisions during the year (Note 26)	2,811,141	6,211	—	2,817,352
Accounts charged off, transfers and others	(1,492,214)	3,661	—	(1,488,553)
Balance at end of year	P17,253,410	P41,904	P11,240	P17,306,554

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

	2017	2016
	(In Thousands)	
Individual assessment		
Finance receivables:		
Receivable from customers	P270,837	P1,555,856
Unquoted debt securities	—	81,457
Other receivables	(552,824)	(247,889)
Trade receivables from customers of consumer goods and other receivables	7,354	6,211
	(274,633)	1,395,635
Collective assessment		
Finance receivables:		
Receivables from customers	256,387	1,563,020
Other receivables	1,210,466	(141,303)
	1,466,853	1,421,717
	P1,192,220	P2,817,352

9. Inventories

Inventories consist of:

	2017	2016
	(In Thousands)	
At Cost:		
Consumer goods:		
Alcohol	P3,341,553	P2,695,689
Beverage	2,034,272	1,923,260
	5,375,825	4,618,949
Real estate inventories:		
Condominium and residential units for sale	926,139	1,326,758
Subdivision land under development	4,459,621	4,288,514
Land held for future development	1,099,584	1,111,274
	6,485,344	6,726,546
Fuel, materials and supplies	881,267	1,004,372
	12,742,436	12,349,867
At NRV - Materials and supplies	622,653	499,932
	P13,365,089	P12,849,799

Allowance for inventory obsolescence on materials and supplies amounted to P5.5 million, and P6.3 million as of December 31, 2017 and 2016, respectively.

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

	2017	2016
	(In Thousands)	
Finished goods	P670,852	P690,076
Work in process	1,479,234	1,080,555
Raw materials	3,225,739	2,848,318
	P5,375,825	P4,618,949

Cost of consumer goods inventories recognized as expenses under cost of sales amounted to P12.2 billion, P10.9 billion and P12.2 billion in 2017, 2016 and 2015, respectively (see Note 24).

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

	2017	2016
	(In Thousands)	
Balance at beginning of year	P6,726,546	P8,486,103
Construction/development costs incurred	729,347	1,787,274
Transfer to investment property	(536,674)	(2,457,805)
Disposals (recognized as cost of real estate sales, Note 24)	(433,875)	(1,089,026)
Balance at end of year	P6,485,344	P6,726,546



10. Other Current Assets

	2017	2016
	(In Thousands)	
Creditable withholding taxes (CWT)	P5,926,539	P4,857,363
Advances to suppliers	1,998,939	2,198,733
Excise tax (Note 38)	1,186,082	934,066
Input VAT	1,080,287	998,003
Deferred reinsurance premiums	820,757	274,904
Prepaid expenses	603,706	488,837
Stationeries, office supplies and stamps on hand	323,630	—
Miscellaneous cash and other cash items	666,761	256,063
Deferred rent	184,628	180,566
Sundry debits	27,248	—
Deferred charges	2,040	9,095
Others	663,184	402,769
	P13,483,801	P10,600,399

- 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. Advances to suppliers pertain to deposits made for raw material purchases and are applied upon delivery of the related inventories.
- c. Excise tax pertains to advance tax payments to the Bureau of Internal Revenue (BIR) on sale of alcoholic beverages (see Note 38).
- d. Prepaid expenses include prepaid importation charges amounting to P103.7 million and P57.8 million as of December 31, 2017 and 2016, respectively. Prepaid importation charges pertain to the purchases of raw materials by the distilled spirits and beverage businesses.
- e. Others include interoffice floats and advances to contractors.

11. Investment in Associates and Joint Ventures

Investments in Associates and Joint Ventures

The Group has the power to participate in the financial and operating policy decisions of PMFTC, VMC, AB HPI, and APLII. The Group also has 50% interest in ABI Pascual Holdings Private Limited (ABI Pascual Holdings) and ALI-Eton Property Development Corporation (AEPDC) which are jointly controlled entities.

	Ownership		Amount	
	2017	2016	2017	2016
	(In Thousands)			
<i>Associates:</i>				
PMFTC	49.6%	49.6%	P10,751,235	P10,382,799
VMC	30.9%	30.2%	2,411,284	2,238,494
AB HPI	50.0%	50.0%	997,736	1,575,348
APLII	44.0%	44.0%	2,363,757	2,532,754
<i>Joint Ventures:</i>				
ABI Pascual Holdings	50.0%	50.0%	34,413	67,956
AEPDC	50.0%	50.0%	672,500	20,000
			P17,230,925	P16,817,351

Investment in PMFTC

Details of investment in PMFTC are as follows:

	2017	2016	2015
	(In Thousands)		
Acquisition cost	P13,483,541	P13,483,541	P13,483,541
Accumulated equity in net earnings:			
Balance at beginning of year	(3,189,762)	(3,221,410)	(2,499,984)
Equity in net earnings	4,366,968	2,587,224	974,543
Cash dividends (Note 22)	(4,086,596)	(2,555,576)	(1,695,969)
Balance at end of year	(2,909,390)	(3,189,762)	(3,221,410)
Accumulated share in other comprehensive income	177,084	89,020	27,454
	P10,751,235	P10,382,799	P10,289,585

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 industry growing in the Philippines. FTC and PMPMI hold equal economic interest in PMFTC. Since PMPMI has majority of the 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 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 a gain of about P293.0 million each year starting 2011 until 2017 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 of selected assets and liabilities, portion of the revaluation increment on FTC's property, plant and equipment amounting to P 1.9 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 as of December 31, are set out below:

	2017	2016
	(In Thousands)	
Current assets	P30,471,572	P39,548,169
Noncurrent assets	28,681,824	30,055,095
Current liabilities	16,573,030	29,538,232
Noncurrent liabilities	7,507,626	8,024,478
Equity	35,072,740	32,040,554

Summarized statements of comprehensive income of PMFTC for the years ended December 31 are as follows:

	2017	2016	2015
	(In Thousands)		
Revenue	P117,396,976	P112,429,500	P115,220,990
Costs and expenses	(105,523,675)	(105,770,205)	(113,274,083)
Income before income tax	11,873,301	6,659,295	1,946,907
Provision for income tax	(3,575,735)	(1,949,921)	(533,067)
Net income	8,297,566	4,709,374	1,413,840
Other comprehensive income	177,549	124,125	96,932
Total comprehensive income	P8,475,115	P4,833,499	P1,510,772
Group's share of income for the year	P4,366,968	P2,587,224	P974,543

Investment in VMC

Details of investment in VMC are as follows:

	2017	2016
	(In Thousands)	
Acquisition cost:		
Balance at beginning of year	P1,400,825	P740,528
Additions	58,943	660,297
Balance at end of year	1,459,768	1,400,825
Accumulated equity in net earnings:		
Balance at beginning of year	718,190	520,763
Equity in net earnings	173,652	196,069
Excess of fair value of net assets of associate over cost of investment	352	1,358
Balance at end of year	892,194	718,190
Share in re-measurement gain on defined benefit plans	862	2,076
Balance of convertible notes	58,460	117,403
	P2,411,284	P2,238,494

On December 21, 2007, the Company acquired 170.1 million shares representing 10.67% ownership in the shares of stock of VMC for P85.1 million presented as AFS investments as of December 31, 2013.

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. 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 became an associate amounting to P833.5 million was recognized as part of the equity in net earnings of VMC in 2014.

In 2015, a 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.

On February 15, 2016, VMC approved the acquisition of its own shares. The sale agreement had been executed on February 18, 2016 and led to the acquisition of 300.0 million treasury shares. This resulted in an increase in the Parent Company's percentage of ownership from 22.5% to 25.1%. On the same date, the Group, through FTC, acquired additional shares of stock of VMC amounting to P660.3 million resulting to an increase in the Group's effective ownership in VMC to 30.2%.

On May 23, 2017, portions of the convertible notes amounting to P58.94 million were converted to shares of stock of VMC resulting to an increase in the Group's percentage of ownership to 30.9% as of December 31, 2017.

The summarized financial information of VMC as of November 30 follows:

	2017	2016
	(In Thousands)	
Current assets	P2,903,212	P2,317,150
Noncurrent assets	9,872,331	6,460,726
Current liabilities	1,572,144	682,111
Noncurrent liabilities	4,191,601	2,993,433
Equity	7,011,798	5,102,332

Summarized statements of comprehensive income of VMC for the years ended November 30 are as follows:

	2017	2016	2015
	(In Thousands)		
Revenue	P9,218,976	P5,195,381	P5,034,302
Costs and expenses	(8,348,308)	(4,296,953)	(3,440,352)
Income before income tax	870,668	898,428	1,593,950
Provision for income tax	(289,427)	(249,141)	(483,712)
Net income	581,241	649,287	1,110,238
Other comprehensive income (loss)	(2,843)	(53)	2,648
Total comprehensive income	P578,398	P649,234	P1,112,886
Group's share of income for the year	P173,652	P196,069	P250,399

Investment in AB HPI

On May 6, 2016, AB HPI was incorporated and registered with the Philippine SEC for 1,000 authorized shares at P1,000 par value per share under the name of Broncobrew, Incorporated (Broncobrew). The Philippine SEC approved the change in corporate name of Broncobrew to AB Heineken Philippines Inc. on July 12, 2016.

On May 30, 2016, the Group, through ABI, purchased 500 shares of stock of AB HPI for a consideration amounting to P5.0 million. On November 15, 2016, the Group purchased additional 782,400 common shares out of the proposed increase in the authorized capital stock of AB HPI for a consideration of P782.4 million. The Group's subscription to AB HPI represents 50% ownership interest.

In accordance with the Shareholders' Agreement entered into by the Group and Heineken, the Group sold nonmonetary assets, (i.e., inventories, returnable containers and brands), to AB HPI for a total consideration of P782.4 million. The nonmonetary assets were sold at their carrying amounts, except for the brands which resulted to a gain from fair valuation amounting to P46.3 million.

The Group's subscription to AB HPI's capital stock and sale of nonmonetary assets to AB HPI is viewed as linked-transaction and is accounted for as contribution of nonmonetary assets to an associate. As a result, the Group recognized the investment amounting to P1,843.6 million representing 50% of the fair value of AB HPI's net assets. The transaction was accounted for in accordance with PFRS 10, paragraph 25, where the Group recognized the gain arising from the contribution of nonmonetary assets amounting to P1,056.2 million in full (see Note 37).

Details of the investment in an associate as of December 31 are as follows:

	2017	2016
	(In Thousands)	
Beginning balance/acquisition cost	P787,400	P787,400
Accumulated equity in net earnings:		
Balance at the beginning of the year	787,948	—
Gain on investment in an associate arising from contribution of non-monetary assets in exchange for shares of stock	—	1,056,240
Share in net loss of an associate	(577,612)	(268,292)
Balance at end of year	210,336	787,948
Ending balance	P997,736	P1,575,348

Summarized financial information of AB HPI as of December 31 are as follows:

	2017	2016
	(In Thousands)	
Current assets	P3,564,521	P2,046,764
Noncurrent assets	1,538,465	2,905,148
Current liabilities	2,458,799	920,850
Noncurrent liabilities	967,236	880,384
Total equity	1,676,951	3,150,678

Summarized statements of comprehensive income of AB HPI for the year ended December 31 are as follows:

	2017	2016
	(In Thousands)	
Revenue	P3,249,696	P341,790
Costs and expenses	(4,405,921)	(878,374)
Loss before income tax	1,156,225	536,584
Provision for income tax	—	—
Net loss	1,156,225	536,584
Other comprehensive loss	—	18
Total comprehensive loss	P1,156,225	P536,602
Group's share of loss for the year	P577,612	P268,292

Investment in APLII

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% stockholdings of APLII 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 branch network of PNB and PNB Savings Bank.

The sale of APLII was completed on June 6, 2016 for a total consideration of US\$66.0 million (P3.1 billion). Pursuant to the sale of APLII, PNB also entered into a distribution agreement with APLII where PNB will allow APLII to have



exclusive access to the distribution network of PNB and its subsidiary, PNB Savings Bank, over a period of 15 years. Both the share purchase agreement and distribution agreement have provisions referring to one another, making the distribution agreement an integral component of the sale transaction. Accordingly, the purchase consideration of US\$66.0 million (P3.1 billion) was allocated between the sale of the 51% interest in APLII and the Exclusive Distribution Rights (EDR) amounting to US\$44.9 million (P2.1 billion) and US\$21.1 million (P1.0 billion), respectively.

PNB will also receive variable annual and fixed bonus earn-out payments based on milestones achieved over the 15-year term of the distribution agreement.

The Group recognized gain on sale of the 51% interest in APLII amounting to P400.3 million, net of taxes and transaction costs amounting to P276.7 million and P153.3 million, respectively. The deferred revenue amounting to P976.2 million allocated to the EDR was presented as "Other deferred revenue" and will be amortized to income over 15 years from date of sale (see Note 20). Amortization amounting to P36.5 million was recognized in 2016 (see Note 28). Prior to the sale of shares to Allianz SE, PNB acquired additional 15% stockholdings from the minority shareholders for a consideration amounting to P292.4 million between June 2, 2016 and June 5, 2016.

Consequently, PNB accounted for its remaining 44% ownership interest in APLII as an associate. At the date of loss of control, PNB's investment in APLII was remeasured to P2.7 billion based on the fair value of its retained equity. PNB recognized gain on re-measurement amounting to P1.6 billion in the 2016 consolidated statement of income.

The fair value of the retained equity was based on a combination of the income approach and market approach.

On September 21, 2016, the Philippine SEC approved the amendment of PNB Life Insurance, Inc.'s article of incorporation to reflect the change in corporate name to Allianz-PNB Life Insurance, Inc.

Summarized financial information of APLII as of December 31 are as follows:

	2017	2016
	(In Thousands)	
Current assets	P9,043,953	P14,812,452
Noncurrent assets	18,478,830	9,602,162
Current liabilities	9,151,219	14,287,861
Noncurrent liabilities	16,537,013	7,995,855
Equity	1,834,551	2,130,898

Summarized statements of comprehensive income of APLII for the seven months ended December 31 are as follows (in thousands):

	2017	2016
	(In Thousands)	
Revenue	P2,190,474	P1,164,407
Costs and expenses	(2,018,549)	(1,022,543)
Income before income tax	171,925	141,864
Provision for income tax	(35,128)	(29,762)
Net income	136,797	112,102
Other comprehensive loss	(133,356)	(556,044)
Total comprehensive income	P3,441	(P443,942)
Group's share of comprehensive income for the period	P60,191	(P195,334)

Investment in ABI Pascual Holdings

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.

The summarized financial information of ABI Pascual Holdings as of December 31 follows:

	2017	2016
	(In Thousands)	
Current assets	P312,747	P164,783
Noncurrent assets	2,385	1,174
Current liabilities	242,714	29,617
Noncurrent liabilities	4,059	2,361
Total equity	68,359	133,979

The summarized statements of comprehensive income of ABI Pascual Holdings for the years ended December 31 follows:

	2017	2016	2015
	(In Thousands)		
Revenue	P246,833	P184,512	P124,247
Costs and expenses	(366,651)	(131,941)	(128,969)
Income (Loss) before income tax	(119,818)	52,571	(4,722)
Provision for income tax	—	(2,612)	—
Net income (loss)	(119,818)	49,959	(4,722)
Other comprehensive income	—	104	2,916
Total comprehensive income (loss)	(P119,818)	P50,063	(P1,806)
Group's share of income (loss) for the year	(P59,909)	P24,665	(P2,067)

Investment in AEPDC

On January 21, 2016, the Company entered into an agreement with Ayala Land Inc. (ALI) to jointly develop a project along the C5 corridor. The project is envisioned to be a township development that spans portion of Pasig City and Quezon City. On April 15, 2016, the Company infused P20.0 million to the joint project with ALI.

On July 5, 2017, the Company subscribed to additional 25,200,000 common shares and 226,800,000 preferred shares from AEPDC's increase in authorized capital stock for a consideration totaling to P252.0 million. Unpaid subscription in shares of stock of AEPDC included as part of "Subscription payable" account amounted to P30.5 million as of December 31, 2017.

On November 20, 2017, the Company made additional capital infusion amounting to P400.5 million for the joint venture's initial purchase of land.

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:

	2017	2016	2015
	(In Thousands)		
Accumulated balances of material non-controlling interest	P45,546,934	P41,080,170	P38,103,827
Net income allocated to material non-controlling interest	3,722,621	3,235,013	3,095,918
Total comprehensive income allocated to material non-controlling interest	4,466,764	2,976,343	2,695,099

On February 9, 2013, PNB acquired 100% 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 the pooling-of-interests method. Thus, the summarized financial information of PNB below is based on the amounts in the consolidated financial statements of PNB prepared under the pooling-of-interests method before the Group's intercompany eliminations.

Statements of Comprehensive Income:

	2017	2016	2015
	<i>(In Thousands)</i>		
Revenue	P32,167,860	P29,302,092	P26,610,310
Cost of services	(6,339,368)	(5,722,738)	(4,807,242)
General and administrative expenses	(23,013,139)	(23,215,141)	(18,449,228)
Foreign exchange gains - net	1,674,370	1,487,740	1,207,840
Other income - net	6,389,562	6,427,747	3,393,380
Income before income tax	10,879,285	8,279,700	7,955,060
Provision for income tax	(2,322,213)	(1,517,030)	(1,543,789)
Net income from continuing operations	8,557,072	6,762,670	6,411,271
Net income from discontinued operations	—	619,563	357,931
Net income	8,557,072	7,382,233	6,769,202
Other comprehensive income (loss)	1,709,495	(594,234)	1,380,871
Total comprehensive income	P10,266,567	P6,787,999	P8,150,073
Net income attributable to:			
Equity holders of the Parent Company	P4,834,451	P4,147,220	P3,673,284
Non-controlling interests	3,722,621	3,235,013	3,095,918
Total comprehensive income attributable to:			
Equity holders of the Parent Company	5,799,803	3,811,656	5,454,974
Non-controlling interests	4,466,764	2,976,343	2,695,099

Balance Sheets:

	2017	2016
	<i>(In Thousands)</i>	
Current assets	P375,392,442	P376,639,685
Noncurrent assets	448,155,535	364,245,652
Current liabilities	664,985,426	575,558,848
Noncurrent liabilities	51,413,216	68,358,018
Equity attributable to:		
Equity holders of the Parent Company	61,602,401	55,888,301
Non-controlling interest	45,546,934	41,080,170

Statements of Cash Flows:

	2017	2016	2015
	<i>(In Thousands)</i>		
Operating	(P1,637,026)	P28,108,324	(P2,263,547)
Investing	(2,913,544)	3,482,266	(10,634,340)
Financing	4,344,472	2,823,720	5,275,983
Net increase (decrease) in cash and cash equivalents	(P206,098)	P34,414,310	(P7,621,904)



12. Property, Plant and Equipment

December 31, 2017

	At Appraised Values			At Cost							
	Land and Land Improvements	Buildings and Plant 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	P16,942,174	P19,564,868	P26,514,896	P63,021,938	P4,799,159	P1,923,462	P3,223,720	P10,901,017	P206,446	P21,053,804	P84,075,742
Additions (Note 13)	13,470	346,206	984,069	1,343,745	236,242	264,006	771,092	826,882	886,359	2,984,581	4,328,326
Disposals/transfers/others (Notes 13 and 28)	71,267	2,241	12,218	85,726	286,339	(19,728)	(9,958)	140,529	(81,427)	315,755	401,481
Balance at end of year	17,026,911	19,913,315	27,511,183	64,451,409	5,321,740	2,167,740	3,984,854	11,868,428	1,011,378	24,354,140	88,805,549
Accumulated Depreciation, Amortization and Impairment Losses											
Balance at beginning of year	1,107,997	6,489,033	19,320,860	26,917,890	3,591,591	1,630,938	2,565,411	8,095,290	-	15,883,230	42,801,120
Depreciation and amortization	135,376	596,887	905,270	1,637,533	298,682	134,009	309,374	801,164	-	1,543,229	3,180,762
Disposals/transfers/others (Notes 13 and 28)	-	(308,453)	(10,508)	(318,961)	40,322	(19,622)	(3,158)	(80,147)	-	(62,605)	(381,566)
Balance at end of year	1,243,373	6,777,467	20,215,622	28,236,462	3,930,595	1,745,325	2,871,627	8,816,307	-	17,383,854	45,600,316
Net Book Value	P15,783,538	P13,135,848	P7,295,561	P36,214,947	P1,391,145	P422,415	P1,113,227	P3,052,121	P1,011,378	P6,990,286	P43,205,233

December 31, 2016

	At Appraised Values			At Cost								
	Land and Land Improvements	Buildings and Building Improvements	Plant and Equipment	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	P20,206,827	P19,976,979	P24,508,145	P64,691,951	P4,340,393	P1,791,570	P7,120,021	P10,061,063	P1,121,978	P24,435,025	P89,126,976	
Additions/transfers (Note 13)	1,366	1,171,957	1,068,927	2,242,250	269,152	161,169	473,441	1,369,699	253,300	2,526,761	4,769,011	
Disposals/transfers/others (Note 28)	(3,266,019)	(1,584,068)	937,824	(3,912,263)	189,614	(29,277)	(4,369,742)	(529,745)	(1,168,832)	(5,907,982)	(9,820,245)	
Balance at end of year	16,942,174	19,564,868	26,514,896	63,021,938	4,799,159	1,923,462	3,223,720	10,901,017	206,446	21,053,804	84,075,742	
Accumulated Depreciation, Amortization and Impairment Losses												
Balance at beginning 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	
Depreciation and amortization	141,787	569,268	863,188	1,574,243	265,234	138,244	460,267	848,363	–	1,712,108	3,286,351	
Disposals/transfers/others (Note 28)	12,621	(306,347)	(483,567)	(189,841)	(188,225)	(28,944)	(3,948,694)	(798,309)	–	(4,964,172)	(4,774,331)	
Balance at end of year	1,107,997	6,489,033	19,320,860	26,917,890	3,591,591	1,630,938	2,565,411	8,095,290	–	15,883,230	42,801,120	
Net Book Value	P15,834,177	P13,075,835	P7,194,036	P36,104,036	P1,207,568	P292,524	P658,309	P2,805,727	P206,446	P5,170,574	P41,274,622	

Revaluation of Land and Land Improvements, 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 Philippine 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 December 31, 2016 and 2011 (see Note 34). Movements in revaluation increment, net of deferred income tax effect, are as follows:

	2017	2016
	(In Thousands)	
Revaluation increment on the property, plant and equipment, net of deferred income tax effect:		
Balance at beginning of year	P6,802,300	P7,249,395
Net revaluation increase	—	273,509
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	(739,420)	(720,604)
Balance at end of year	P6,062,880	P6,802,300
Attributable to:		
Equity holders of the Company	P3,733,860	P4,473,280
Non-controlling interests	2,329,020	2,329,020
	P6,062,880	P6,802,300

If land and land improvements, plant buildings and building improvements, and machineries and equipment were measured using the cost model, the carrying amount would be as follows:

	2017	2016
	(In Thousands)	
Cost		
Land and land improvements	P7,381,419	P7,367,949
Plant buildings and improvements	14,226,250	13,773,131
Machineries and equipment	29,390,400	28,406,332
	50,998,069	49,547,412

(Forward)

	2017	2016
	(In Thousands)	
Accumulated depreciation		
Land and land improvements	(1,179,491)	(1,087,584)
Plant buildings and improvements	(6,224,962)	(5,937,751)
Machineries and equipment	(19,259,849)	(19,098,833)
	(26,664,302)	(26,124,168)
	P24,333,767	P23,423,244

Depreciation

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

	2017	2016	2015
	(In Thousands)		
Continuing operations:			
Cost of sales and services (Note 24)	P1,420,401	P1,078,798	P997,229
Selling expenses (Note 25)	330,508	491,555	481,492
General and administrative expenses (Note 26)	1,429,853	1,320,606	1,019,248
Discontinued operations (Note 37)	—	395,392	460,571
	P3,180,762	P3,286,351	P2,958,540

As of December 31, 2017 and 2016, the Group's "Construction in progress" under the "Property, plant and equipment" account pertains to AAC's major rehabilitation of plant facilities, which are expected to be completed in 2018, and PNB's construction of building.

Out of the total additions in 2017 and 2016, P163.0 million and P86.6 million remain to be unpaid as of December 31, 2017 and 2016, respectively, which represent non-cash investing activities.

Certain property and equipment of the Group with carrying amount of P9.3 million and P178.5 million are temporarily idle as of December 31, 2017 and 2016, respectively.

Borrowing Costs

Unamortized capitalized borrowing costs amounted to P11.9 million and P12.5 million as of December 31, 2017 and 2016, respectively. The average capitalization rate used to determine the amount of borrowing costs eligible for capitalization was 4.5% in 2015. There was no borrowing cost capitalized in 2017 and 2016.

13. Investment Properties

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

December 31, 2017					
	Land	Buildings and Improvements	Residential Unit	Construction in Progress	Total
Cost					
Balance at beginning of year	P21,989,899	P10,514,268	P7,620	P2,212,139	P34,723,926
Additions	402,432	396,413	—	1,619,527	2,418,372
Transfers	69,492	(242,833)	—	(1,196,159)	(1,369,500)
Balance at end of year	22,461,823	10,667,848	7,620	2,635,507	35,772,798
Accumulated Depreciation and Impairment Losses					
Balance at beginning of year	3,383,693	3,115,240	7,620	—	6,506,553
Depreciation	—	344,999	—	—	344,999
Provision for impairment losses	10,164	20,289	—	—	30,453
Balance at end of year	3,393,857	3,480,528	7,620	—	6,882,005
Net Book Value	P19,067,966	P7,187,320	P—	P2,635,507	P28,890,793

December 31, 2016					
	Land	Buildings and Improvements	Residential Unit	Construction in Progress	Total
Cost					
Balance at beginning of year	P18,703,010	P9,714,260	P7,620	P290,804	P28,715,694
Additions	667,914	24,846	—	379,530	1,072,290
Transfers	2,618,975	1,016,505	—	1,541,805	5,177,285
Disposals	—	(241,343)	—	—	(241,343)
Balance at end of year	21,989,899	10,514,268	7,620	2,212,139	34,723,926
Accumulated Depreciation and Impairment Losses					
Balance at beginning of year	3,382,883	3,093,666	7,620	—	6,484,169
Depreciation/transfers	—	261,027	—	—	261,027
Provision for impairment losses	810	1,890	—	—	2,700
Disposals	—	(241,343)	—	—	(241,343)
Balance at end of year	3,383,693	3,115,240	7,620	—	6,506,553
Net Book Value	P18,606,206	P7,399,028	P—	P2,212,139	P28,217,373



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 P115.9 million and P155.4 million as of December 31, 2017 and 2016, respectively. The Group is exerting continuing efforts to dispose these properties.

In 2015, investment properties with carrying value of P2.2 billion were converted as branches and head offices of PNB's subsidiaries and were transferred to property, plant and equipment (see Note 12). In 2016, the Group reclassified certain properties from "property, plant and equipment" to "Investment property" with aggregate carrying amount of P4.7 billion. These properties mainly consist of the office spaces in the Allied Bank Center in Makati City leased out and land in Buendia, Makati City being held for future development.

As of December 31, 2017 and 2016, the Group's "Construction in progress" under the "Investment property" account pertains to the construction of building intended for leasing and which is expected to be completed in 2018.

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 (in thousands):

Property	Fair Value
Land	P37,007,466
Buildings and improvements	16,935,051
	P53,942,517

The fair value of investment properties of the Group was determined using 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 P1,388.0 million and P308.4 million in 2017, P1,278.4 million and P253.8 million in 2016, and P1,172.5 million and P226.9 million in 2015, respectively (see Note 24). Rental income of the banking segment on its investment properties is presented under "Other income (charges)" (see Note 28).

Depreciation of investment properties charged to operations follows:

	2017	2016	2015
		(In Thousands)	
Cost of rental income (Note 24)	P184,504	P137,457	P130,493
General and administrative expenses (Note 26)	160,495	123,570	239,310
	P344,999	P261,027	P369,803

14. Other Noncurrent Assets

Other noncurrent assets consist of:

	2017	2016
	(In Thousands)	
Software costs	P2,288,924	P1,448,022
Deposit for purchase of land	700,000	—
Deferred input VAT	324,666	420,831
Distribution network access	286,751	—
Net retirement plan assets (Note 23)	273,710	276,870
Refundable and security deposits	231,292	273,018
Goodwill	163,735	163,735
Chattel properties - net	149,347	36,585
Other investments	26,309	22,201
Deferred charges	23,545	251,682
Deposit for future investments	—	334,060
Deferred reinsurance premiums	—	302,916
Receivable from SPV - net	—	500
Others - net	232,259	197,352
	P4,700,538	P3,727,772

a. Movements in software costs are as follows:

	2017	2016
	(In Thousands)	
Balance at beginning of year	P1,448,022	P1,131,041
Additions	1,113,038	420,205
Amortization (Note 26)	(195,962)	(109,980)
Other adjustments	(76,174)	6,756
Balance at end of year	P2,288,924	P1,448,022

Additions to software costs pertain primarily to the upgrade of the core banking system of the banking segment.

b. Deposit for purchase of land pertains to the deposit and earnest money paid by FTC for the acquired properties amounting to P500.0 million and P200.0 million, respectively.

c. The distribution network access, which was acquired on March 31, 2017, covers APB Myanmar's relations with Myanmar Distribution Group, its exclusive distributor.

d. Deferred input VAT arises mainly from the acquisition of capital goods.

e. 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 P231.3 million and P273.0 million as of December 31, 2017 and 2016, respectively, will be refunded upon termination of the service contract and completion of the projects' construction.

f. 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, 2017 and 2016, the Group performed its annual impairment testing of goodwill related to its CGUs, ADI and Eton.

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 11.2% and 9.7% in 2017 and 2016, respectively. The growth rate used to extrapolate the cash flows of until beyond the five-year period is 4.9% as of December 31, 2017 and 6.2% as of December 31, 2016. 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, 2017 and 2016, the recoverable amount of ADI is higher than its carrying value.

g. As of December 31, 2017 and 2016, accumulated depreciation on chattel mortgage properties acquired by PNB in settlement of loans amounted to P96.1 million and P79.1 million, respectively.

h. The Group has receivable from OPIL, which was deconsolidated upon adoption of PFRS 10.

As of December 31, 2017 and 2016, receivable from SPV represents fully provisioned subordinated notes received by PNB from Golden Dragon Star Equities and its assignee, OPIL, relative to the sale of the first pool and second pool of its NPAs in December 2006 and March 2007, respectively. The asset sale and purchase agreements (ASPA) between PNB, Golden Dragon Star Equities and OPIL for the sale of the NPAs were executed on December 19, 2006. OPIL was specifically organized to hold, manage, service and resolve the non-performing assets sold to Golden Dragon Star Equities. OPIL has been financed through the issuance of equity securities and subordinated debt securities. Collection from OPIL in 2017, 2016 and 2015 amounting to nil, P500.0 million, and P353.0 million, respectively are recorded part of "Other income (charges)" (see Note 28).

15. Deposit Liabilities

	2017	2016
	(In Thousands)	
Demand	P125,581,889	P112,532,681
Savings	341,182,647	368,798,751
Time	160,915,991	80,088,800
	627,680,527	561,420,232
Presented as noncurrent	(39,286,226)	(45,866,133)
	P588,394,301	P515,554,099

Of the total deposit liabilities of the Group, P28.9 billion and P19.9 billion are non-interest bearing as of December 31, 2017 and 2016, respectively. Annual interest rates of the deposit liabilities follow:

	2017	2016	2015
Foreign-currency denominated deposit liabilities	0.00% to 2.10%	0.00% to 3.71%	0.00% to 2.25%
Peso-denominated deposit liabilities	0.01% to 4.13%	0.00% to 6.23%	0.05% to 5.00%

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 one-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, 2017 and 2016, available reserves booked under "Due from BSP" amounted to P99.3 billion and P89.0 billion, respectively (see Note 5).

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
October 26, 2017	April 26, 2023	P6,350,000	P6,310,032	3.88%	Quarterly
April 27, 2017	October 27, 2022	3,765,000	3,743,546	3.75%	Quarterly
December 6, 2016	June 6, 2022	5,380,000	5,349,341	3.25%	Quarterly
December 12, 2014	June 12, 2020	7,000,000	6,976,118	4.13%	Quarterly
October 21, 2013	April 22, 2019	4,000,000	3,992,376	3.25%	Quarterly
August 5, 2013	February 5, 2019	5,000,000	4,992,542	3.00%	Quarterly
November 18, 2011	February 17, 2017	3,100,000	—	5.18%	Quarterly

Other significant terms and conditions of the above LTNCDs follow:

- Issue price at 100.00% of the face value of each LTNCD.
- The LTNCDs bear interest rate per annum on its principal amount from and including the Issue Date thereof, up to but excluding the Early Redemption Date or Maturity Date (as the case may be).

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

- 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.

- The LTNCDs constitute direct, unconditional, unsecured, and unsubordinated obligations of PNB, enforceable according to the related Terms and Conditions, and shall at all times rank paripassu and without any preference or priority among themselves and at least paripassu with all other present and future direct, unconditional, unsecured, and unsubordinated obligations of the Issuer, except for any obligation enjoying a statutory preference or priority established under Philippine laws.

- 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.

- 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.

- 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 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 P4.8 billion, P3.8 billion and P3.0 billion in 2017, 2016 and 2015, respectively (see Note 24).

In 2017, 2016 and 2015, interest expense on LTNCDs of the Group includes amortization of transaction costs amounting to P32.1 million, P25.3 million and P16.9 million, respectively. Unamortized transaction costs of the LTNCDs amounted to P131.0 million and P97.9 million as of December 31, 2017 and 2016, respectively.

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

Financial liabilities at fair value through profit or loss consist of derivatives liabilities amounting to P343.5 million and P232.8 million as of December 31, 2017 and 2016 respectively (see Notes 21 and 33).

17. Bills and Acceptances Payable

Bills and acceptances payable consist of:

	2017	2016
	(In Thousands)	
Bills payable to:		
BSP and local banks (Note 22)	P41,435,696	P26,575,782
Foreign banks	157,849	7,632,548
Others	91,255	18,277
	41,684,800	34,226,607
Acceptances outstanding	2,231,887	1,659,340
	43,916,687	35,885,947
Less noncurrent portion	7,282,350	10,817,679
	P36,634,337	P25,068,268

Annual interest rates are shown below:

	2017	2016	2015
Foreign currency-denominated borrowings	0.05% to 3.61%	0.30% to 1.75%	0.05% to 2.00%
Peso-denominated borrowings	0.63%	0.63%	0.63%

PNB's bills payable to BSP includes the transferred liabilities from Maybank amounting to P1.8 billion as of December 31, 2015 which were applied against the principal component of the transferred receivables in May 2016 (see Note 8).

Bills payable to foreign banks consist of various repurchase agreements and a three-year syndicated borrowing, with carrying value of P7.4 billion as of December 31, 2016 and was preterminated on August 29, 2017.

Significant terms and conditions of the three-year syndicated borrowing include the following:

- The lenders agree to provide PNB with a term loan facility of up to US\$150.00 million (P7.5 billion). PNB must repay all utilized loans at April 24, 2018, the final maturity date, which is three years from the agreement date.



- The borrowing bears interest at 1.38% over USD LIBOR. PNB may select an interest period of one or three months for each utilization, provided that the interest period for a utilization shall not extend beyond the final maturity date.

- PNB shall ensure that so long as any amount of the facility is utilized, the Common Equity Tier 1 Risk Weighted Ratio, the Tier 1 Risk Weighted Ratio, and the Qualifying Capital Risk Weighted Ratio will, at all times, be equal to or greater than the percentage prescribed by BSP from time to time. Failure to comply with such financial covenants will result to cancellation of the total commitments of the lenders and declare all or part of the loans, together with accrued interest, be immediately due and payable.

- PNB may voluntarily prepay whole or any part of any loan outstanding and in integral multiples of US\$1.0 million (P49.7 million), subject to prior notice of the Agent for not less than 15 business days. Prepayment shall be made on the last day of an interest period applicable to the loan. Mandatory prepayment may occur if a change of control or credit rating downgrade occurs. In this case, the lenders may cancel the facility and declare all outstanding loans, together with accrued interest, immediately due and demandable.

As of December 31, 2016, PNB has complied with the above debt covenants.

As of December 31, 2016, the unamortized transaction cost of the syndicated borrowing amounted to P32.7 million.

As of December 31, 2017, bills payable with a carrying amount of P35.4 billion is secured by a pledge of certain AFS investments with carrying value and fair value of P26.7 billion and P26.5 billion, respectively and HTM investments with carrying value and fair value of P16.5 billion and P17.8 billion, respectively (Note 7).

As of December 31, 2016, bills payable with a carrying amount of P20.6 billion is secured by a pledge of certain AFS investments with carrying value and fair value of P10.0 billion and P9.8 billion, respectively, and HTM investments with carrying value and fair value of P14.5 billion and P15.3 billion, respectively (see Note 7).

Following are the significant terms and conditions of the repurchase agreements entered into by PNB:

- 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;
- The term or life of this borrowing is up to three years;
- Some borrowings bear a fixed interest rate while others have floating interest rate;
- PNB has pledged its AFS and ATM investments, in form of ROP Global bonds, in order to fulfill its collateral requirement;
- Haircut from market value ranges from 15.00% to 25.00% depending on the tenor of the bond;
- Certain borrowings are subject to margin call up to US\$ 1.4 million; and
- Substitution of pledged securities is allowed if one party requested and the other one so agrees.

Interest expense on bills payable is included under "Cost of banking services" amounting to P0.7 billion in 2017, P1.0 billion in 2016 and P1.0 billion in 2015 (see Note 24).

18. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of:

	2017	2016
	(In Thousands)	
Trade payables	P11,895,949	P8,407,159
Nontrade payables	776,558	281,765
Accrued expenses:		
Other benefits - monetary value of leave credits	1,637,877	1,506,395
Purchase of materials and supplies and others	1,266,078	946,185
Rent and utilities payable	1,165,156	542,631
Taxes and licenses	861,390	613,023

(Forward)

	2017	2016
	(In Thousands)	
Retention payable	799,105	658,346
Project development costs	707,328	1,663,547
PDIC insurance premiums	660,290	517,148
Interest	632,907	591,310
Advertising and promotional expenses	484,827	415,536
Due to government agencies	464,911	353,234
Information technology-related expenses	204,666	122,039
Output value added tax	66,500	67,393
Other payables	400,430	605,566
	P22,023,972	P17,291,277

Trade Payables

Trade payables are non-interest bearing and are normally settled on 30 to 60 days 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

Accrued 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, 2017 and 2016, outstanding unsecured short-term debts amounted to P1,550.0 million and P1,750.0 million, respectively. The loans are subject to annual interest rates ranging from 3.3% to 3.5% in 2017 and 2016, 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 BDO amounting to P1.1 billion which are payable in lump-sum after 60 days.

Long-term Debts

	2017	2016
	(In Thousands)	
Subordinated debts	P-	P3,497,798
Unsecured term loan	1,475,466	1,604,003
Notes payable	114,681	466,946
	1,590,147	5,568,747
Current portion	(114,681)	(466,946)
	P1,475,466	P5,101,801

PNB's Subordinated Debts

5.875% P3.5 Billion Subordinated Notes

On May 9, 2012, PNB's BOD approved the issuance of unsecured subordinated notes of P3.5 billion that qualify as Lower Tier 2 capital. 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% 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.

In a resolution dated January 26, 2017, the BSP Monetary Board approved the request of the Parent Company to exercise its call option on the P3.5 Billion Subordinated Notes, subject to compliance of relevant regulations. The 2012 Notes was redeemed on May 10, 2017 at an amount equal to the aggregate issue price of the Notes plus accrued and unpaid interest thereon up to but excluding May 10, 2017.

6.75% P6.5 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% 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.

On June 16, 2016, PNB exercised its call option and paid P6.5 billion to all noteholders as of June 1, 2016.

As of December 31, 2017 and 2016, the unamortized transaction cost of subordinated debt amounted to nil and P2.2 million, respectively. In 2017, 2016 and 2015, amortization of transaction costs amounting to P2.2 million, P11.4 million, P16.9 million, respectively, were charged to "Cost of banking services" in the consolidated statements of income (see Note 24).

Unsecured term loans of Eton

On January 28, 2013, Eton entered into an unsecured term loan agreement with BDO amounting to P2.0 billion to finance the construction of Eton projects. 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%.

In 2016, Eton entered into an unsecured term loan agreement with Asia United Bank (AUB) amounting to P1.5 billion, to finance the construction of Eton's projects. The term loan bears a nominal interest rate of 5% and will mature on September 28, 2023. Principal repayments will commence two years from the date of availment and are due quarterly while interest payments are due quarterly starting December 28, 2016.

Notes payable of Eton

Notes payable include various notes from BDO which arose from the assignment of Eton's contract receivables on a with recourse basis in 2013 and 2012 (see Note 8). These notes bear interest based on Philippine Dealing System Treasury Fixing (PDSTF) rate for one year plus 1.5% net of gross receipts tax. In 2016 and 2015, interest rates ranged from 5.10% to 6.66%, 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 2016, the outstanding notes payable were fully paid by Eton.

Interest on loans payable from general borrowings capitalized as part of real estate inventories amounted to P61.9 million in 2015 wherein capitalization rate was 4.5%. The Group stopped capitalizing interest on loans payable as construction of projects involved in the loans are substantially done as of December 31, 2016.

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, 2017 and 2016, the Group has complied with the covenants of its long-term debts.

20. Other Liabilities

	2017	2016
	(In Thousands)	
Insurance contract liabilities	P4,929,392	P4,581,800
Managers' checks and demand drafts outstanding	2,345,787	1,174,872
Payable to landowners	1,505,191	3,250,573
Bills purchased - contra (Note 8)	1,323,896	3,260,308
Reserve for unearned premiums	1,273,279	1,075,732
Due to other banks	1,212,436	923,777
Other dormant credits	1,078,052	918,217
Customers' deposits	987,862	892,286
Provisions (Note 38)	969,107	1,300,290
Deposit on lease contracts	890,736	805,377
Other deferred revenue (Note 12)	866,473	939,672
Due to Treasurer of the Philippines	574,261	543,002
Tenants' rental deposits	452,372	428,785
Miscellaneous tax securities	295,250	300,226
Margin deposits and cash letters of credit	55,058	174,206
Advance rentals	51,786	167,203
Accounts payable - electronic money	-	791,223
Payment order payable	-	292,336
Transmission liability	-	31,732
Others	1,074,263	924,254
	19,885,201	22,775,871
Presented as noncurrent	(4,718,832)	(5,411,870)
	P15,166,369	P17,364,001

Payables to Landowners

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 P1.0 billion. The promissory note is due on the third year from its execution date. In November 2015, the promissory note was extended and was subsequently settled in February 2016.

In various dates in 2014, Eton executed a P1,061.2 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. In June 2017, the payment of the various promissory notes were extended for another three years.

Interest expense recognized related to these promissory notes amounted to P137.5 million, P180.7 million, P55.3 million in 2017, 2016, and 2015, respectively, net of capitalized portion amounting to P13.5 million in 2017 and nil in 2016 and 2015 (see Notes 12, 13 and 27).

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 P1.0 billion and P0.9 billion as of December 31, 2017 and 2016, respectively.

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 statement 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.

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, 2017 and 2016 and are not indicative of either market risk or credit risk (amounts in thousands, except average forward rate).

	December 31, 2017				December 31, 2016			
	Assets	Liabilities	Average Forward Rate	Notional Amount*	Assets	Liabilities	Average Forward Rate	Notional Amount*
	(In Thousands)							
Freestanding derivatives:								
Currency forwards								
BUY:								
USD	P11,347	P87,446	P50.44	P573,545	P99	P3,766	P49.99	P200,498
CAD	108	—	0.78	1,258	277	—	0.74	1,861
GBP	72	—	1.34	518	—	160	1.23	2,595
HKD	1,548	102	0.13	211,050	630	—	0.13	412,710
EUR	98	—	1.19	3,328	94	48	1.05	979
JPY	8,413	44,371	0.01	16,555,042	—	—	—	—
SGD	3	—	0.75	50	—	—	—	—
SELL:								
USD	222,225	4,382	50.44	680,164	46,155	10,601	49.85	382,664
JPY	33,105	529	0.01	6,766,560	45,957	504	0.01	16,524,949
GBP	142	857	1.34	6,560	5,227	—	1.24	9,550
EUR	—	891	1.19	2,990	740	—	1.05	4,000
CAD	—	328	0.79	2,705	873	258	0.74	1,861
SGD	—	—	—	—	—	361	0.69	5,573
AUD	—	—	—	—	483	—	0.74	450
HKD	102	207	0.13	39,059	—	1,032	0.13	144,748
CHF	28	—	1.02	200	—	—	—	—
NZD	13	—	0.71	150	—	—	—	—
Interest rate swaps (Php)	230,842	204,409	—	—	257,042	216,102	—	—
Warrants	54,938	—	—	—	61,545	—	—	—
	P562,984	P343,522			P419,122	P232,832		

* 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, 2017 and 2016, PNB holds 306,405 shares of ROP Warrants Series B1 at their fair value of US\$1.1 million (P54.9 million) and US\$1.2 million (P56.7 million), respectively.

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

	2017	2016
	(In Thousands)	
Balance at beginning of year		
Derivative assets	P419,122	P181,348
Derivative liabilities	232,832	135,193
	186,290	46,155
Changes in fair value		
Currency forwards and spots*	136,382	(723,245)
Interest rate swaps and warrants**	(7,965)	25,174
	128,417	(698,071)
Availments	(95,245)	838,206
Balance at end of year		
Derivative assets	562,984	419,122
Derivative liabilities	343,522	232,832
	P219,462	P186,290

* Presented as part of "Foreign exchange gains".

** Presented as part of "Trading and investment securities gains-net"

The changes in fair value of the derivatives are included in "Trading and investments securities gains" 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, Associates and Joint Ventures	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	Basic Holdings Corporation
ADI	Foremost Farms Inc.
AAC	Grandspan Development Corp.
TBI	Himmel Industries Inc.
ABI and Subsidiaries	Lapu Lapu Packaging
Agua Vida Systems, Inc.	Lucky Travel Corporation
Interbev	Philippine Airlines, Inc.
Waterich	Rapid Movers & Forwarders Co. Inc.
Packageworld	Upright Profits Ltd.
AB Nutribev	Dyzum Distillery Inc.
Asia Pacific Beverage Pte Ltd	Heritage Holdings Corp.
Asia Pacific Beverage Myanmar Pte Ltd	Maxell Holdings, Corp.
FTC	Networks Holdings & Equities, Inc.
Shareholdings	Cube Factor Holdings, Inc.
Saturn	Trustmark Holdings Corporation
Paramount and Subsidiaries	Polima International Limited
Eton	Cosmic Holdings Corp.
BCI	Negros Biochem Corporation
ECI	Grandway Construct, Inc.
FHI	Harmonic Holdings Corp.
EPMC	Proton Realty & Development Corporation
Bank Holding Companies:	Billing Investments Limited
Allmark Holdings Corp.	Step Dragon Co. Limited
Dunmore Development Corp.	High Above Properties Ltd.
Kenrock Holdings Corp.	Penick Group Limited
Leadway Holdings, Inc.	In Shape Group Ltd.

(Forward)

Parent Company, Subsidiaries, Associates and Joint Ventures	Entities Under Common Control
Multiple Star Holdings Corp.	Hibersham Assets Ltd.
Pioneer Holdings & Equities, Inc.	Orient Legend Developments Ltd.
Donfar Management Ltd.	Complete Best Development Ltd.
Fast Return Enterprises Ltd.	Cornack Investments Ltd.
Mavelstone International Ltd.	Link Great International Ltd.
Uttermost Success, Ltd.	Bright Able Holdings Ltd.
Ivory Holdings, Inc.	
Merit Holdings & Equities Corp.	
True Success Profits Ltd.	
Key Landmark Investments Ltd.	
Fragile Touch Investments Ltd.	
Caravan Holdings, Corp.	
Solar Holdings Corp.	
All Seasons Realty Corp.	
Dynaworld Holdings Inc.	
Fit-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	
APLI	
AB HPI	
Joint Ventures	
ABI Pascual Holdings	
ABI Pascual Foods	
AEPDC	

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	2017	2016	2015
		(In Thousands)		
Associates	Dividend income	P4,086,596	P2,555,576	P1,695,969
	Purchases of inventories	(971,081)	(1,793,767)	(1,203,300)
	Sales	1,094,616	423,335	—
	Leases	35,100	4,388	—
Entities Under Common Control	Banking revenue - interest on loans and receivables	609,817	388,599	337,899
	Sales of consumer products	28,865	26,752	24,519
	Interest income on loans and advances	18,588	12,853	22,613
	Rent income	32,179	30,647	27,861
	Other income	124,894	150,599	136,908
	Freight and handling	(6,937)	(15,004)	(4,716)
	Purchases of inventories	(9,747)	(123,426)	—
	Cost of banking services - interest expense on deposit liabilities	(75,798)	(25,807)	(23,461)
	Cost of sales and services	(41,485)	(38,901)	(26,296)
	Management and professional fees	(566,937)	(263,142)	(527,279)
	Outside services	(52,215)	(62,865)	(59,400)
	Rent expense	(53,361)	(27,890)	(58,710)
	Advertising expense	(12,329)	—	—
	Short-term employee benefits	(667,920)	(636,114)	(716,317)
	Post-employment benefits	(77,651)	(72,891)	(62,633)

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

Financial Statement Account			Terms and Conditions		Amount/Volume		Outstanding Balance	
					2017	2016	2017	2016
Parent Company	Due to related parties	On demand; non-interest bearing	P—	P—	(P41,975)	(P41,975)		
	Due from related parties	On demand; non-interest bearing	189,000	320,000	509,000	320,000		
Associates	Other receivables - dividends	30 to 90 days terms; non-interest bearing	4,086,596	2,555,576	513,610	337,810		
	Trade receivables	- do -	1,094,616	423,335	861,794	234,825		
	Nontrade receivables	- do -	—	—	132,691	213,314		
	Account payable and other liabilities	30 to 60 days terms; non-interest bearing	(971,081)	(1,793,767)	(352,649)	(24,078)		
Secured by hold-out on deposits, government securities, real estate and mortgage trust indenture; Unimpaired; With interest rates ranging from 2.82% to 6.00% with maturity terms ranging from 90 days to 12 years and payment terms of ranging from monthly to quarterly payments								
Entities Under Common Control	Finance receivables		609,817	388,599	23,881,936	17,226,371		
	Trade receivables	- do -	28,865	26,752	7,743	12,986		
	Other receivables	- do -	124,894	150,599	28,594	—		
	Due from related parties	On demand; non-interest bearing	(83,519)	9,613	1,519,625	1,602,467		
	Advances to suppliers	- do -	(26,742)	20,659	—	26,742		
	Deposit liabilities	With annual rates ranging from 0.38% to 1.73% and maturity ranging from 30 days to one year	(5,851,911)	225,851	(13,496,612)	(7,644,701)		
	Account payable and other liabilities	30 to 90 days terms; non-interest bearing	(76,848)	123,426	(343,190)	(283,819)		
	Due to related parties	On demand; non-interest bearing	(22,620)	10,284	(14,867)	(15,079)		
	Other payables	30 to 90 days terms; non-interest bearing	(6,213)	197	—	(4,142)		

As of December 31, 2017 and 2016, 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

- On March 14, 2017 and April 12, 2016, LTG declared cash dividends of P0.18 and P0.15 per share to all stockholders of record as of March 29, 2017 and April 28, 2016, respectively, of which P1.4 billion in 2017 and P1.2 billion in 2016 were paid to Tangent.

Transactions with Associates

- Dividend income from PMFTC amounted to P4.1 billion in 2017, P2.6 billion in 2016 and P1.7 billion in 2015 (see Note 11). Dividends receivable from PMFTC as of December 31, 2017 and 2016 are presented as part of nontrade receivables.
- The Group purchases raw materials such as raw and refined sugar and molasses from VMC.
- ABI entered into an operating lease agreement with AB HPI to lease portions of its two breweries, in Cabuyao, Laguna and El Salvador, Misamis Oriental, subject to the terms and conditions of an asset lease agreement signed last November 15, 2016. The lease has a fixed yearly increase as specified in the contract. As of December 31, 2017 and 2016, the related rent receivable for the lease of land amounted to P35.1 million and P4.4 million, respectively.

- ABI sold inventories to AB HPI aside from the nonmonetary assets sold on November 15, 2016, including work in progress, amounting to P423.3 million.

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).

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, 2017 and 2016, 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:

	2017	2016
	(In Thousands)	
Net retirement plan assets:		
FTC	P241,729	P233,604
TDI	15,515	20,836
AAC	8,286	13,038
LTG	8,180	9,392
	P273,710	P276,870
Net retirement benefits liability:		
PNB	P1,526,962	P3,138,824
ABI and subsidiaries	588,227	682,396
ADI	21,797	22,004
Eton	68,243	56,118
	P2,205,229	P3,899,342



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

Net retirement plan assets:

	2017			2016			2015		
	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
	<i>(In Thousands)</i>								
Beginning balance	P228,448	(P505,318)	(P276,870)	P161,701	(P417,417)	(P255,716)	P131,057	(P395,175)	(P264,118)
Change in status of retirement plan	–	–	–	96,347	(82,267)	14,080	18,453	(11,392)	7,061
Net retirement benefits expense (income) in profit or loss:									
Current service cost	18,376	–	18,376	17,832	–	17,832	29,759	–	29,759
Net interest cost	7,581	(21,823)	(14,242)	9,126	(21,674)	(12,548)	4,107	(15,112)	(11,005)
Curtailement gain	–	–	–	–	–	–	(12,523)	–	(12,523)
	25,957	(21,823)	4,134	26,958	(21,674)	5,284	21,343	(15,112)	6,231
Contributions	–	(1,200)	(1,200)	–	(2,252)	(2,252)	–	(5,084)	(5,084)
Benefits paid	(10,487)	10,487	–	(2,820)	2,820	–	(3,642)	3,642	–
Re-measurement losses (gains) in other comprehensive income - actuarial changes arising from changes in:									
Financial assumptions	(8,250)	–	(8,250)	(38,796)	–	(38,796)	–	–	–
Demographic assumptions	–	–	–	(851)	–	(851)	–	–	–
Experience adjustments	(1,928)	10,404	8,476	(14,091)	15,472	1,381	(5,510)	5,704	194
	(10,178)	10,404	226	(53,738)	15,472	(38,266)	(5,510)	5,704	194
Ending balance	P233,740	(P507,450)	(P273,710)	P228,448	(P505,318)	(P276,870)	P161,701	(P417,417)	(P255,716)

Net retirement benefits:

	2017			2016			2015		
	Defined Benefit Obligations	Fair Value of Plan Assets	Accrued Retirement Benefits	Defined Benefit Obligations	Fair Value of Plan Assets	Accrued Retirement Benefits	Defined Benefit Obligations	Fair Value of Plan Assets	Accrued Retirement Benefits
	<i>(In Thousands)</i>								
Beginning balance	P10,193,817	(P6,294,475)	P3,899,342	P9,666,274	(P5,765,348)	P3,900,926	P9,290,310	(P5,514,049)	P3,776,261
Change in status of retirement plan	–	–	–	(96,347)	82,267	(14,080)	(18,453)	11,392	(7,061)
Net retirement benefits cost (income) in profit or loss:									
Current service cost	756,172	–	756,172	701,627	–	701,627	889,132	–	889,132
Net interest cost	435,361	(234,088)	201,273	377,343	(190,977)	186,366	343,297	(165,172)	178,125
Past service cost	–	–	–	–	–	–	7,529	–	7,529
	1,191,533	(234,088)	957,445	1,078,970	(190,977)	887,993	1,239,958	(165,172)	1,074,786
Contributions	–	(1,472,899)	(1,472,899)	–	(1,123,041)	(1,123,041)	–	(996,283)	(996,283)
Benefits paid from plan assets	(584,444)	584,444	–	(728,330)	650,142	(78,188)	(527,023)	527,023	–
Benefits paid directly from book reserves	–	–	–	–	–	–	(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	(330,733)	–	(330,733)	302,114	–	302,114	(471,608)	(69)	(471,677)
Demographic assumptions	(682,083)	–	(682,083)	–	–	–	485	–	485
Experience adjustments	(318,920)	153,077	(165,843)	(28,864)	52,482	23,618	83,262	337,726	420,988
	(1,331,736)	153,077	(1,178,659)	273,250	52,482	325,732	(387,861)	337,657	(50,204)
Ending balance	P9,469,170	(P7,263,941)	P2,205,229	P10,193,817	(P6,294,475)	P3,899,342	P9,666,274	(P5,765,348)	P3,900,926

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

	2017	2016
	<i>(In Thousands)</i>	
Cash and cash equivalents	P2,231,422	P3,165,371
Receivables	1,927,174	2,007,993
Equity investments:		
Financial institutions	448,357	711,701
Other	412,674	55,613
Investments in government securities	2,731,468	663,788
Others	20,296	195,327
Fair value of plan assets	P7,771,391	P6,799,793

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

	2017	2016
Cash and cash equivalents	29%	47%
Receivables	25%	29%
Equity investments	11%	11%
Investments in government securities	35%	10%
Others	–	3%
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:

	2017	2016	2015
Discount rate	5%-6%	4%-5%	4%-5%
Future salary increases	5%-10%	5%-10%	5%-10%

As of December 31, 2017, the discount and future salary increase rates are 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 all other assumptions were held constant (in thousands):

	2017		2016	
	Change in rate	Increase (Decrease) in Present Value of Defined Benefit Obligations	Change in rate	Increase (Decrease) in Present Value of Defined Benefit Obligations
Discount rates	+0.5%	(P486,672)	+0.5%	(P865,242)
	-0.5%	604,116	-0.5%	1,014,972
Future salary increases	+1.0%	P640,688	+1.0%	P1,028,578
	-1.0%	(517,408)	-1.0%	(886,617)

Full actuarial valuations were performed to test the sensitivity of the defined benefit obligation to a 1% increment in salary increase rate, 0.5% 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, 0.5% 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.

Shown below is the maturity analysis of the undiscounted benefit payments of the Group (in thousands):

	2017
One year and less	P1,016,792
More than one year up to five years	3,644,928
More than five years up to 10 years	4,758,391
More than 10 years up to 15 years	4,278,443
More than 15 years	46,775,963

The Group expects to contribute P1.6 billion to the defined benefit pension plan in 2018. The average duration of the defined benefit obligations at the end of the reporting period range from 15 to 24 years as of December 31, 2017 and 17 to 24 years as of December 31, 2016.

Transactions with Retirement Plans

Management of the retirement funds of the banking segment is handled by the PNB Trust Banking Group (TBG). As of December 31, 2017 and 2016, the retirement fund of the Group includes 9,008,864 shares of PNB classified unde 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, 2017 and 2016, 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.

24. Revenue and Cost of Sales and Services

Revenue consists of:

	2017	2016	2015
	(In Thousands)		
Banking revenue (Note 5)	P31,893,616	P29,111,818	P26,600,160
Sale of consumer goods	29,653,729	25,836,669	22,388,574
Rental income	1,388,010	1,278,447	1,172,539
Real estate sales	845,053	1,573,067	1,311,914
	P63,780,408	P57,800,001	P51,473,187

Banking revenue consists of:

	2017	2016	2015
	(In Thousands)		
Interest income on:			
Loans and receivables	P22,401,284	P19,505,347	P17,144,366
Trading and investment securities (Note 21)	3,432,907	4,026,594	3,742,036
Deposits with banks and others	1,330,144	597,500	785,414
Interbank loans receivable	185,833	33,862	36,747
	27,350,168	24,163,303	21,708,563
Trading and securities gains - net	560,303	1,378,557	578,698
Service fees and commission income	3,983,145	3,569,958	4,312,899
	P31,893,616	P29,111,818	P26,600,160

Sale of consumer goods consists of:

	2017	2016	2015
	(In Thousands)		
Gross sales	P31,557,067	P27,810,969	P23,886,547
Less sales returns, discounts and allowances	1,903,338	1,974,300	1,497,973
	P29,653,729	P25,836,669	P22,388,574

Cost of sales and services consists of:

	2017	2016	2015
	(In Thousands)		
Cost of consumer goods sold:			
Materials used and changes in inventories (Note 9)	P12,221,165	P10,859,240	P12,203,739
Taxes and licenses	4,521,002	3,800,493	11,370
Depreciation and amortization (Note 12)	1,420,401	1,078,798	997,229
Fuel and power	915,246	642,949	564,609
Personnel costs	841,325	531,912	621,224
Communication, light and water	765,499	653,102	558,525
Outside services	458,124	843,531	479,231
Repairs and maintenance	412,990	408,766	340,108
Freight and handling	228,191	148,005	100,366
Others	851,317	134,522	212,418
	22,635,260	19,101,318	16,088,819
Cost of banking services	6,302,228	5,682,707	4,734,514
Cost of real estate sales	433,875	1,089,026	952,661
Cost of rental income (Note 13)	308,447	253,830	226,888
Cost of sales and services	P29,679,810	P26,126,881	P22,002,882

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

Cost of banking services consist of:

	2017	2016	2015
	(In Thousands)		
Interest expense on:			
Deposit liabilities (Note 15)	P4,767,830	P3,770,558	P2,987,670
Bills payable and other borrowings (Notes 7 and 19)	747,481	997,621	1,029,995
Services fees and commission expense	786,917	914,528	716,849
	P6,302,228	P5,682,707	P4,734,514



25. Selling Expenses

	2017	2016	2015
	(In Thousands)		
Advertising and promotions	P1,268,650	P1,019,650	P958,441
Freight and handling	500,420	380,180	379,732
Depreciation and amortization (Note 12)	330,508	491,555	481,492
Personnel costs	145,920	98,626	96,728
Outside services	131,429	128,990	112,307
Materials and consumables	51,950	79,428	20,176
Repairs and maintenance	40,957	52,922	44,728
Commissions	35,364	40,183	22,730
Travel and transportation	32,407	19,408	12,616
Others	154,820	40,580	73,491
	P2,692,425	P2,351,522	P2,202,441

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

	2017	2016	2015
	(In Thousands)		
Personnel costs	P9,829,731	P9,175,493	P8,799,535
Taxes and licenses	2,794,964	2,403,784	2,219,798
Depreciation and amortization (Notes 12, 13 and 14)	1,786,310	1,554,156	1,382,733
Occupancy	1,603,629	1,552,248	1,451,117
Outside services	1,519,014	1,471,963	1,306,491
Insurance	1,457,699	1,156,159	1,089,782
Provision for credit losses (Note 8)	1,192,220	2,817,352	865,889
Net insurance benefits and claims	1,045,080	295,015	436,887
Management, consulting and professional fees	933,482	993,847	800,381
Marketing and promotional	928,613	1,064,993	814,767
Information technology	446,393	499,319	489,036
Travel and transportation	355,668	350,788	281,787
Communication, light and water	255,531	58,481	272,827
Materials and consumables	248,210	300,719	206,490
Repairs and maintenance	224,062	224,325	192,775
Freight and handling	104,490	45,727	81,855
Litigation	80,139	97,097	262,551
Fuel and oil	27,355	31,065	36,751
Provision for (reversal of) legal cases and other losses - net (Notes 13 and 38)	(300,730)	404,253	(292,643)
Others	1,098,034	1,066,300	457,724
	P25,629,894	P25,563,084	P21,156,533

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:

	2017	2016	2015
	(In Thousands)		
Finance costs (Note 19):			
Unsecured term loan and notes payable (Note 20)	P141,937	P202,490	P144,549
Bonds payable	—	—	55,957
Amortization of bond issue costs	—	—	2,012
	P141,937	P202,490	P202,518

(Forward)

	2017	2016	2015
	(In Thousands)		
Finance income:			
Cash and other cash items (Note 5)	P119,369	P55,164	P48,950
FVPL (Note 6)	20,183	6,279	22,395
Interest-bearing contracts receivable (Note 8)	16,473	41,673	34,618
AFS investments (Note 7)	1,075	3,310	4,413
	P157,100	P106,426	P110,376

28. Other Income (Charges)

	2017	2016	2015
	(In Thousands)		
Net gains on sale or exchange of assets	P4,163,507	P1,823,200	P1,562,020
Recovery from insurance claims (Note 38)	1,276,301	630,198	709,160
Rental income and dues (Note 13)	597,612	460,224	565,083
Recoveries from charged off assets	P67,582	P729,594	P592,181
Dividend income	62,143	53,729	22,464
Mark-to-market gain on financial assets designated at FVPL (Note 6)	59,513	62,955	99,084
Gain on disposal of AFS investments	7,914	—	2,928
Gain on retirement	6,869	—	12,523
Referral, processing and trust fees	3,448	2,811	2,382
Gain on re-measurement of a previously held interest (Note 11)	—	1,644,339	—
Share in net losses of associates and a joint venture (Note 11)	—	(513,266)	(2,067)
Others (Note 12)	374,788	58,358	121,216
	P6,619,677	P4,952,142	P3,686,974

Net gains on sale or exchange of assets include sale of investment properties of the banking segment in 2017, 2016 and 2015 amounting to P3,755.5 million, P1,496.5 million and P1,435.8 million, respectively.

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, which is 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 consolidated 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 consolidated 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%. Republic Act No. 9294, an act restoring the tax exemption of OBUs and FCDUs, 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% income tax.

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

	2017		2016	
	Net Deferred Income Tax Assets ⁽¹⁾	Net Deferred Income Tax Liabilities ⁽²⁾	Net Deferred Income Tax Assets ⁽³⁾	Net Deferred Income Tax Liabilities ⁽⁴⁾
<i>(In Thousands)</i>				
<i>Recognized directly in the consolidated statements of income:</i>				
Deferred income tax assets on:				
Allowance for impairment loss on:				
Receivables	P5,581,034	P12,270	P5,142,623	P11,502
Inventories	1,440	3,282	—	3,740
Property, plant and equipment	—	51,333	—	48,383
Accumulated depreciation on investment properties	613,875	—	611,940	—
Unrealized losses on:				
Inventory on hand	—	4,675	—	5,356
Sale of property to a subsidiary	384,523	4,529	384,523	—
Net retirement benefits liabilities	134,581	199,511	54,593	241,550
Deferred rent expense	52,531	—	44,192	—
Advance rentals	25,278	—	27,350	—
Accrued expenses	14,395	—	18,505	5,697
Excess MCIT	13,624	3,315	18,445	—
Reserve for unearned premiums	8,871	—	7,498	—
Unamortized past service cost	904	7,955	4,224	15,003
NOLCO	10,217	11,617	—	—
Difference between tax and book basis of accounting for real estate transactions	5,092	—	625	—
Provision for losses	—	4,396	—	3,372
Gain on sale of asset	—	—	—	6,678
Reserves and others	6,263	53,637	38,599	1,087
	6,852,628	356,520	6,353,117	342,368
Deferred income tax liabilities on:				
Revaluation increment on property, plant and equipment	(2,139,125)	(895,524)	(2,398,472)	(830,472)
Fair value gain on investment properties	(1,615,523)	—	(1,448,798)	—
Unrealized foreign exchange gains	(1,024,651)	(1,337)	(666,382)	(15,789)
Gain on re-measurement of a previously held interest	(160,272)	—	(160,272)	—
Net changes in fair values of FVPL financial assets	(164,480)	(25,503)	(105,646)	(20,357)
Deferred rental income	(44,346)	(12,206)	(47,434)	(1,676)
Difference between tax and book basis of accounting for real estate transactions	(27,117)	—	(31,613)	—
Net retirement plan assets	—	(115,718)	—	(116,813)
Borrowing cost capitalized to property, plant, and equipment	(25,095)	(10,293)	—	(15,306)
Excess of fair values over carrying values of property, plant and equipment acquired through business combination	—	(13,952)	—	(33,472)
Unamortized debt cost	(7,948)	—	—	—
Others	(76,280)	(371)	(42,802)	(26,835)
	(5,284,837)	(1,074,904)	(4,901,419)	(1,060,720)
	1,567,791	(718,384)	1,451,698	(718,352)
<i>Recognized directly in equity:</i>				
Deferred income tax assets on:				
Re-measurement losses on retirement benefits	2,787	33,622	—	30,567
Deferred income tax liabilities on:				
Re-measurement gains on defined benefit plans	(109,689)	(65,738)	(27,539)	(26,498)
Change in AFS	—	(64,042)	—	(9,032)
Revaluation increment on property, plant and equipment	—	(599,806)	—	(599,806)
	(109,689)	(729,586)	(27,539)	(635,336)
	(106,902)	(695,964)	(27,539)	(604,769)
	P1,460,889	(P1,414,348)	P1,424,159	(P1,323,121)

⁽¹⁾ Pertain to PWI, IPI, ADI, Eton and PNB

⁽²⁾ Pertain to LTG, Saturn, PLI, AAC, TDI, ABI and FTC

⁽³⁾ Pertain 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:

	2017	2016	2015
		<i>(In Thousands)</i>	
RCIT	P2,965,239	P2,020,769	P1,900,395
MCIT	11,350	10,050	14,272
Final tax	636,527	505,042	575,860
Provision for current income tax	P3,613,116	P2,535,861	P2,490,527



c. As of December 31, 2017 and 2016, 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:

	2017	2016
	(In Thousands)	
Allowance for credit losses	P1,817,955	P2,288,791
Accrued expenses	473,101	648,784
Net retirement benefits liability	455,720	952,686
Unearned income	106,881	122,269
Derivative liabilities	103,025	69,593
Unamortized past service cost	41,228	666,118
Allowance for inventory obsolescence	—	18,314
NOLCO	414,175	711,195
Excess MCIT	18,733	13,930
Others	70,760	159,208

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

Year Incurred	Amount	Applied	Expired	Balance	Expiry Year
2014	P231,270	(P176,420)	(P54,850)	P—	2017
2015	314,584	—	—	314,584	2018
2016	165,341	—	—	165,341	2019
2017	7,030	—	—	7,030	2020
	P718,225	(P176,420)	(P54,850)	P486,955	

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

Year Incurred	Amount	Applied	Expired	Balance	Expiry Year
2014	P8,053	P—	(P8,053)	P—	2017
2015	14,272	—	—	14,272	2018
2016	10,050	—	—	10,050	2019
2017	11,350	—	—	11,350	2020
	P43,725	P—	(P8,053)	P35,672	

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:

	2017	2016	2015
	(In Thousands)		
Provision for (benefit from) income tax at statutory income tax rate from:			
Continuing operations	P5,423,313	P3,880,696	P3,665,261
Discontinued operations	—	415,619	(29,327)
	5,423,313	4,296,315	3,635,934
Adjustments resulting from:			
NOLCO and other deductible temporary differences for which no deferred income tax assets were recognized in current year	306,365	284,487	2,683
Application of NOLCO and other deductible temporary differences for which no deferred income tax assets were recognized in prior years	(52,926)	(333,810)	(153,656)
Nontaxable gain on re-measurement	—	(493,302)	—
Nontaxable gain on investment in an associate arising from contribution of non-monetary assets	—	(316,872)	—
Nontaxable income	(442,855)	(126,066)	(553,381)
Difference of itemized deduction against 40% of taxable income	(26,198)	(1,965)	(30,229)
Income subjected to final tax	(922,414)	(618,319)	(700,972)
Equity in net earnings of associates	(1,188,987)	(813,462)	(356,692)
Non-deductible expenses	400,757	354,889	779,439
Provision for income tax	P3,497,055	P2,231,895	P2,623,126
Provision for income tax from continuing operations	P3,497,055	P2,174,468	P2,728,819
Provision for (benefit from) income tax from discontinued operations	—	57,427	(105,693)
Provision for income tax	P3,497,055	P2,231,895	P2,623,126

30. Equity

Capital Stock

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

Authorized capital stock at P1 par value	
At beginning and end of year	25,000,000,000 shares
Issued capital stock at P1 par value:	
At beginning and end of year	P10,821,388,889

a. Capital stock is held by a total of 369 and 376 stockholders as of December 31, 2017 and 2016, 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

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

- On May 12, 2015, 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.
- On April 12, 2016, 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 shareholders of record as of April 28, 2016 and to be paid out not later than May 6, 2016.
- On March 14, 2017, LTG's BOD approved the declaration and distribution of regular cash dividends of P0.15 per share and special cash dividends of P0.03 per share or a total of P1,947.9 million to all stockholders of record as of March 29, 2017, to be paid not later than April 7, 2017.
- Retained earnings include undistributed earnings amounting to P65.5 billion in 2017, P55.7 billion in 2016 and P47.0 billion in 2015, representing accumulated earnings of subsidiaries and equity in net earnings of associates and joint ventures, 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 stock 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, 2017 and 2016.

Preferred shares of subsidiaries issued to Parent Company

On March 20, 2013, the respective BOD's and stockholders of various Bank Holding Companies approved the increase in their authorized capital stocks comprising of common shares and preferred shares with par value of P1.00 per share. The preferred shares were subscribed by Tangent through conversion of its advances into investments in certain Bank Holding Companies (see Note 22). Upon approval of the Philippine SEC of the increase in authorized capital stock of Bank Holding Companies on 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 Philippine SEC are presented under "Deposit for future stock subscription" as of December 31, 2013. Upon approval of the Philippine 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, 2017 and 2016, preferred shares of the subsidiary issued to the 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 as at December 31, 2017 and 2016 consist of (in thousands):

Equity adjustments arising from business combination under common control (Note 1)	P445,113
Equity adjustments from sale of the Company's shares of stock held by a subsidiary	193,212
Effect of transaction with non-controlling interest	66,658
Effect of sale of a subsidiary to Company	99,655
Effect of sale of direct interest in a subsidiary	(543)
	P804,095

Shares of stock of the Company 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, 2017 and 2016 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:

	2017	2016	2015
	<i>(In Thousands)</i>		
Balance as of January 1	P42,506,591	P40,882,077	P38,494,303
Net income attributable to non-controlling interests	3,749,883	2,698,749	2,897,619
Share in other comprehensive income, net of deferred income tax effect:			
Net changes in AFS financial assets (Note 7)	134,878	(191,249)	(746,334)
Cumulative translation adjustments	218,809	131,789	283,115
Re-measurement gains (losses) on defined benefit plans (Notes 2 and 23)	416,293	(199,210)	(39,302)
Share in re-measurement gain on defined benefit plans of an associate	(25,542)	—	—
Dividends received	—	(543,751)	(7,324)
Effect of changes in ownership interest (Note 37)	—	(271,814)	—
Balance as of December 31	P47,000,912	P42,506,591	P40,882,077

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:

	2017	2016	2015
	<i>(In Thousands)</i>		
Net income attributable to equity holders of the Company	P10,830,773	P9,390,407	P6,599,035
Divided by weighted-average number of shares	10,821,389	10,821,389	10,821,389
Basic/diluted EPS for net income attributable to equity holders of the Company	P1.00	P0.87	P0.61

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

	2017	2016	2015
	<i>(In Thousands)</i>		
Net income from continuing operations attributable to equity holders of the Company	P10,830,773	P9,342,679	P6,312,690
Divided by weighted-average number of shares	10,821,389	10,821,389	10,821,389
Basic/diluted EPS for net income from continuing operations attributable to equity holders of the Company	P1.00	P0.86	P0.58

There are no potential common shares with dilutive effect on the basic earnings per share in 2017, 2016 and 2015.

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 banking segment continuing profitability.

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

- Credit Risk
- Market Risk
- Liquidity Risk
- Operational 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:

- Interest Rate Risk in Banking Book (IRRBB)
- Strategic Business Risk
- Reputational Risk
- Credit Concentration Risk
- Cyber Security Risk

The banking segment's BOD has overall responsibility for the establishment and oversight of the Group's risk management framework. As delegated by the banking segment's BOD, the Risk Oversight Committee (ROC) is mandated to set risk appetite, approve frameworks, policies and processes for managing risk, and accept risks beyond the approval discretion provided to management. The ROC advises on the overall current and future risk appetite and strategy and assists in overseeing the implementation of those strategies and business plans by the banking segment's senior management.

The Risk Management Group (RMG) provides the legwork for the ROC in its role of formulating the risk management strategy, the development and maintenance of the internal risk management framework, and the definition of the governing risk management principles. The RMG provides assistance to the Assets and Liabilities Committee (ALCO) on capital management and the Board Policy Committee on the management of regulatory capital.

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 the banking segment's 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 collects data on risk rating of loan borrowers with an asset size of P15.0 million and above as initial requirement in the banking segment's model for internal Probability of Default (PD) and Loss Given Default (LGD).

Credit-related commitments

The exposures represent guarantees, standby letters of credit (LCs) issued by the banking segment and documentary/commercial LCs which are written undertakings by the banking segment.

To mitigate this risk, the banking segment requires hard collaterals, as discussed under Collateral and other credit enhancement, for standby LCs lines while commercial LCs are collateralized by the underlying shipments of goods to which they relate.

Derivative financial instruments

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

Unit-linked financial assets

The banking segment issues unit-linked insurance policies. In the unit-linked business, the policy holder bears the investment risk in the assets held in the unit-linked funds as the policy benefits are directly linked to the values of the assets in the fund. Therefore, the banking segment has no material credit risk on unit-linked financial assets.

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.

The banking segment's 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.

Maximum exposure to credit risk after collateral held or other credit enhancements

An analysis of the maximum exposure to credit risk after taking into account any collateral held or other credit enhancements for the Group's banking segment is shown below:

	2017			
	Gross Maximum Exposure	Fair Value of Collateral	Net Exposure	Financial Effect of Collateral
	(In Millions)			
Securities held under agreements to resell	P14,621	P14,473	P148	P14,473
Loans and receivables:				
Receivable from customers*:				
Business loans	408,977	573,329	280,657	128,320
Consumers	45,972	36,704	31,580	14,392
GOCCs and National Government Agencies (NGAs)	17,429	15,117	2,312	15,117
LGUs	7,177	1,024	6,701	475
Fringe benefits	516	553	299	217
Unquoted debt securities	14,674	—	14,674	—
Other receivables	22,461	16,086	21,585	877
	P531,827	P657,286	P357,956	P173,871

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

	2016			
	Gross Maximum Exposure	Fair Value of Collateral	Net Exposure	Financial Effect of Collateral
	(In Millions)			
Securities held under agreements to resell	P1,972	P1,969	P4	P1,969
Loans and receivables:				
Receivable from customers*:				
Business loans	345,154	275,990	276,725	68,430
Consumers	41,225	24,792	28,464	12,761
GOCCs and National Government Agencies (NGAs)	19,897	25,595	3,089	16,808
LGUs	7,336	1,053	6,806	529
Fringe benefits	588	743	292	296
Unquoted debt securities	6,973	2,789	4,126	2,789
Other receivables	21,040	10,745	15,156	5,883
	P444,185	P343,676	P334,662	P109,465

* 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 concentrations can arise whenever a

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

a. Limit per Client or Counterparty

For loans and receivables, the banking segment sets an internal limit for group exposures which is equivalent to 100.00% of the single borrower's limit (SBL) for loan accounts with credit risk rating (CRR) 1 to CRR 5 or 50% 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:

	2017	2016
	(In Millions)	
Philippines	P675,612	P598,849
Asia (excluding the Philippines)	56,927	49,359
USA and Canada	12,225	19,821
United Kingdom	3,399	2,454
Other European Union Countries	2,448	7,012
Oceania	9,318	3,594
Middle East	11	40
	P759,940	P681,129

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:

	2017			
	Loans and receivables*	Trading and investment securities	Other financial assets***	Total
	(In Millions)			
Primary target industry:				
Financial intermediaries	P81,340	P11,386	P52,731	P145,457
Electricity, gas and water	72,591	—	—	72,591
Wholesale and retail	63,607	243	—	63,850
Manufacturing	39,143	256	—	39,399
Transport, storage and communication	30,808	—	—	30,808
Public administration and defense	23,770	—	—	23,770
Agriculture, hunting and forestry	7,139	—	—	7,139
Secondary target industry:				
Government	359	70,845	105,497	176,701
Real estate, renting and business activities	82,786	9,218	—	92,004
Construction	18,743	—	—	18,743
Others**	81,155	7,577	746	89,478
	P501,441	P99,525	P158,974	P759,940

* 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".

	2016			
	Loans and receivables*	Trading and investment securities	Other financial assets***	Total
	(In Millions)			
Primary target industry:				
Financial intermediaries	P60,774	P10,066	P30,507	P101,347
Electricity, gas and water	63,359	—	9	63,368
Wholesale and retail	49,858	4,772	5	54,635
Manufacturing	38,352	7,250	1	45,603
Transport, storage and communication	40,987	497	—	41,484
Public administration and defense	23,290	—	—	23,290
Agriculture, hunting and forestry	5,971	—	—	5,971
Secondary target industry:				
Government	626	63,321	129,310	193,257
Real estate, renting and business activities	67,321	6,815	50	74,186
Construction	18,250	100	1	18,351
Others**	58,533	609	495	59,637
	P427,321	P93,430	P160,378	P681,129

* 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% for priority industry, 8% for regular industry and 30% for power industry, versus total loan portfolio.

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.

Loans and Receivables

The CRRs of the banking segment's receivables from customers (applied to loans with asset size of P15.0 million and above) are defined below:

- **CRR 1 - Excellent**
Loans receivables rated as excellent include borrowers which are significant in size, with long and successful history of operations, an industry leader, with ready access to all equity and debt markets and have proven its strong debt service capacity.
- **CRR 2 - Super Prime**
Loans receivables rated as super prime include borrowers whose ability to service all debt and meet financial obligations remains unquestioned.
- **CRR 3 - Prime**
Under normal economic conditions, borrowers in this rating have good access to public market to raise funds and face no major uncertainties which could impair repayment.
- **CRR 4 - Very Good**
Loans receivables rated as very good include borrowers whose ability to service all debts and meet financial obligations remain unquestioned, but current adverse economic conditions or changing circumstances have minimal impact on payment of obligations.
- **CRR 5 - Good**
Loans receivables rated as good include borrowers with good operating history and solid management, but payment capacity could be vulnerable to adverse business, financial or economic conditions.

Standard

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

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

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

Sub-standard Grade

- **CRR 9 - Fair**
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, 2017 and 2016, but net of residual values of leased assets.

2017				
	Neither Past Due nor Individually Impaired	Past Due and not Individually Impaired	Individually Impaired	Total
(In Millions)				
Rated Receivable from Customers				
1 - Excellent	P4,291	P-	P-	P4,291
2 - Super Prime	44,151	-	-	44,151
3 - Prime	79,626	-	-	79,626
4 - Very Good	51,583	5	-	51,588
5 - Good	41,160	-	-	41,160
6 - Satisfactory	47,553	105	-	47,658
7 - Average	32,300	5	15	32,320
8 - Fair	26,324	1	-	26,325
9 - Marginal	8,112	-	61	8,173
10 - Watchlist	55,367	65	185	55,617
11 - Special Mention	3,030	143	160	3,333
12 - Substandard	958	38	2,245	3,241
13 - Doubtful	-	322	719	1,041
14 - Loss	-	11	2,986	2,997
	394,455	695	6,371	401,521
Unrated Receivable from Customers				
Consumers	P18,241	P469	P711	P19,421
LGUs	51,342	1,427	218	52,987
Fringe Benefits	7,001	35	150	7,186
GOCCs and NGAs	493	4	13	510
	77,077	1,935	1,092	80,104

2017				
	Neither Past Due nor Individually Impaired	Past Due and not Individually Impaired	Individually Impaired	Total
	P471,532	P2,630	P7,463	P481,625
2016				
	Neither Past Due nor Individually Impaired	Past Due and not Individually Impaired	Individually Impaired	Total
(In Millions)				
Rated Receivable from Customers				
1 - Excellent	P5,087	P1	P-	P5,088
2 - Super Prime	50,660	-	-	50,660
3 - Prime	81,566	-	-	81,566
4 - Very Good	46,455	-	-	46,455
5 - Good	28,223	-	-	28,223
6 - Satisfactory	37,119	34	-	37,153
7 - Average	26,039	5	-	26,044
8 - Fair	21,057	-	-	21,057
9 - Marginal	5,856	-	-	5,856
10 - Watchlist	44,136	5	-	44,141
11 - Special Mention	2,786	79	149	3,014
12 - Substandard	777	484	611	1,872
13 - Doubtful	6	113	414	533
14 - Loss	3	257	3,901	4,161
	349,770	978	5,075	355,823
Business Loans	P37,549	P803	P27	P38,379
Consumers	12,367	465	568	13,400
LGUs	7,196	10	130	7,336
GOCCs and NGAs	561	12	-	573
Fringe Benefits	178	-	-	178
	57,851	1,290	725	59,866
	P407,621	P2,268	P5,800	P415,689

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.

	2017				2016			
	Less than 30 days	31 to 90 days	More than 90 days	Total	Less than 30 days	31 to 90 days	More than 90 days	Total
(In Millions)								
Consumers	P237	P148	P1,149	P1,534	P236	P20	P583	P839
Business loans	124	159	773	1,056	118	160	1,529	1,807
LGUs	37	-	-	37	-	-	10	10
Fringe benefits	-	-	3	3	-	-	12	12
Total	P398	P307	P1,925	P2,630	P354	P180	P2,134	P2,668

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, 2017						
Rated						
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal	Unrated ^{6/}	Total
<i>(In Millions)</i>						
Due from BSP ^{1/}	P–	P–	P108,744	P108,744	P–	P108,744
Due from other banks	5,679	5,156	3,392	14,227	7,798	22,025
Interbank loans receivables	5,801	2,754	3,590	12,145	693	12,838
Securities held under agreements to resell	–	–	14,621	14,621	–	14,621
Financial assets at FVPL:						
Held-for-trading:						
Government securities	–	–	1,822	1,822	386	2,208
Derivative assets ^{2/}	97	13	298	408	155	563
Private debt securities	–	–	–	–	31	31
Equity securities	–	–	43	43	31	74
Investment in Unit Investment Trust Funds (UITFs)	–	–	6	6	–	6
AFS investments ^{3/} :						
Government securities	2,240	–	33,736	35,976	5,645	41,621
Private debt securities	2,284	5,942	9,044	17,270	9,650	26,920
Quoted equity securities	–	–	140	140	1,005	1,145
Unquoted equity securities	–	–	1	1	146	147
HTM investments						
Government securities	125	–	23,959	24,084	2,721	26,805
Loans and receivables:						
Unquoted debt securities ^{3/}	–	–	149	149	10,785	10,934
Others ^{4/}	–	–	12,561	–	–	12,561

^{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 (see Note 7).

^{6/} As of December 31, 2017, financial assets that are unrated are neither past due nor impaired.

December 31, 2016						
Rated						
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal	Unrated ^{6/}	Total
<i>(In Millions)</i>						
Due from BSP ^{1/}	P–	P–	P127,338	P127,338	P–	P127,338
Due from other banks	5,051	6,462	10,580	22,093	617	22,710
Interbank loans receivables	4,929	1,867	996	7,792	–	7,792
Securities held under agreements to resell	–	–	1,972	1,972	–	1,972
Financial assets at FVPL:						
Held-for-trading:						
Government securities	–	–	949	949	364	1,313
Private debt securities	44	28	10	82	338	420
Derivative assets ^{2/}	–	–	–	–	121	121
Equity securities	–	–	27	27	27	54
Investment in Unit Investment Trust Funds (UITFs)	–	–	6	6	–	6
AFS investments ^{3/} :						
Government securities	1,548	–	36,202	37,750	84	37,834
Private debt securities	4,299	2,880	4,964	12,143	16,697	28,840
Quoted equity securities	–	–	54	54	440	494
Unquoted equity securities	17	–	1	18	154	172
HTM investments						
Government securities	100	–	22,842	22,942	1,233	24,175
Loans and receivables:						
Unquoted debt securities ^{3/}	–	–	–	–	3,285	3,285
Others ^{4/}	–	–	–	–	18,208	18,208

^{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 (see Note 7).

^{6/} As of December 31, 2016, financial assets that are unrated 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 actors, 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.

	2017					
	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	P12,391	P—	P—	P—	P—	P12,391
Due from BSP and other banks	130,769	—	—	—	—	130,769
Interbank loans receivable	12,287	228	173	150	—	12,838
Securities held under agreements to resell	14,621	—	—	—	—	14,621
Financial assets at FVPL:						
Held-for-trading:						
Government securities	2,208	—	—	—	—	2,208
Equity securities	74	—	—	—	—	74
Private debt securities	31	—	—	—	—	31
Derivative assets:						
Gross contractual receivable	30,057	5,364	565	104	788	36,878
Gross contractual payable	(29,835)	(5,327)	(541)	(81)	(530)	(36,314)
	172,603	265	197	173	258	173,496
Designated at FVPL:						
Investment in UITFs	6	—	—	—	—	6
AFS investments:						
Government securities	467	575	936	1,330	45,921	49,229
Private debt securities	124	122	342	2,260	29,676	32,524
Equity securities	—	—	—	—	1,291	1,291
HTM investments:						
Government securities	189	212	304	757	44,208	45,670
Loans and receivables:						
Receivables from customers	80,262	67,820	22,814	12,711	388,954	572,561
Unquoted debt securities	6,385	4,997	3,218	—	85	14,685
Other receivables	6,366	811	852	870	14,480	23,379
Other assets	887	—	—	—	47	934
Total financial assets	P94,686	P74,537	P28,466	P17,928	P524,662	P740,279
Financial Liabilities						
Deposit liabilities:						
Demand	P125,582	P—	P—	P—	P—	P125,582
Savings	291,611	31,169	12,960	18,754	15,869	370,363
Time	44,892	41,380	12,008	10,078	59,496	167,854
Financial liabilities at FVPL:						
Derivative liabilities:						
Gross contractual payable	(17,063)	(2,950)	(44)	(104)	(598)	(20,759)
Gross contractual receivable	16,935	2,942	41	83	415	20,416
	(128)	(8)	(3)	(21)	(183)	(343)
Bills and acceptances payable	14,828	1,108	4,390	5,075	12,967	38,368
Subordinated debt						

Accrued interest payable and accrued other expenses payable	1,544	156	30	10	17	1,757
Other liabilities	19,622	180	75	183	1,502	21,562
Total financial liabilities	P497,951	P73,985	P29,460	P34,079	P89,668	P725,143

	2016					
	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	P11,015	P–	P–	P–	P–	P11,015
Due from BSP and other banks	150,054	–	–	–	–	150,054
Interbank loans receivable	6,488	1,006	150	151	–	7,795
Securities held under agreements to resell	1,973	–	–	–	–	1,973
Financial assets at FVPL:						
Held-for-trading:						
Government securities	1,318	–	–	–	–	1,318
Equity securities	55	–	–	–	–	55
Private debt securities	121	–	–	–	–	121
Derivative assets:						
Gross contractual receivable	23,135	603	363	97	945	25,143
Gross contractual payable	(23,027)	(603)	(360)	(82)	(652)	(24,724)
	108	–	3	15	293	419
Designated at FVPL:						
Investment in UITFs	6	–	–	–	–	6
AFS investments:						
Government securities	445	1,360	833	952	44,484	48,074
Private debt securities	216	181	312	608	33,527	34,844
Equity securities	–	–	–	–	666	666
HTM investments:						
Government securities	187	188	268	639	42,326	43,608
Loans and receivables:						
Receivables from customers	51,282	61,017	22,992	21,983	322,823	480,097
Unquoted debt securities	58	2,732	3	3	4,211	7,007
Other receivables	7,747	690	1,609	330	12,234	22,610
Other assets	459	1	2	20	86	568
Total financial assets	P231,532	P67,175	P26,172	P24,701	P460,650	P810,230
Financial Liabilities						
Deposit liabilities:						
Demand	P117,329	P–	P–	P–	P–	P117,329
Savings	291,611	31,169	12,960	18,754	15,869	370,363
Time	23,862	17,471	8,226	6,372	33,651	89,582
Financial liabilities at FVPL:						
Derivative liabilities:						
Gross contractual payable	4,267	1,032	338	97	795	6,529
Gross contractual receivable	(4,259)	(1,028)	(336)	(85)	(589)	(6,297)
	8	4	2	12	206	232
Bills and acceptances payable	14,828	1,108	4,390	5,075	12,967	38,368
Subordinated debt	–	51	51	103	4,425	4,630



Accrued interest payable and accrued other expenses payable	586
Other liabilities	19,115
Total financial liabilities	P467,339

Market Risks

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

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

Trading market risk

Trading market risk exists in the banking segment as the values of its trading positions are sensitive to changes in market rates such as interest rates, foreign exchange rates and equity prices. PNB is exposed to trading market risk in the course of market making as well as from taking advantage of market opportunities. For internal monitoring of the risk in the trading portfolio, the banking segment uses the Value-at-Risk (VaR) as a primary risk measurement tool. It adopts both the Parametric VaR methodology and Historical Simulation methodology (with 99% confidence level) models were validated by an external independent validator. Volatilities used in the parametric are updated on a daily basis and are based on historical data for a rolling 261-day period while yields and prices in the historical VaR approach are also updated daily. The RMG reports the VaR utilization and breaches to limits to the risk taking personnel on a daily basis and to the ALCO and ROC on a monthly basis. All risk reports discussed in the ROC meeting are noted by the banking segment's BOD. The VaR figures are back-tested to validate the robustness of the VaR model. Results of backtesting on a rolling one year period are also reported to the ROC. Below are the objectives and limitations of the VaR methodology, VaR assumptions/parameters, backtesting, stress testing 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. Backtesting

The validity of the assumptions underlying the banking segment's VaR models can only be checked by appropriate backtesting procedures. Backtesting is a formal statistical framework that consists of verifying that actual losses are within the projected VaR approximations. The banking segment adopts both the clean backtesting and dirty backtesting approaches approach in backtesting. Clean backtesting, consists of comparing the VaR estimates with some hypothetical P&L values of the portfolio, having kept its composition unchanged. In this case, the same portfolio is repriced or marked-to-market at the end of the time interval and the hypothetical P&L is then compared with the VaR. The other method, called dirty backtesting, consists of comparing the VaR estimates with the actual P&L values at the end of the time horizon. This method, however, may pose a problem if the portfolio has changed drastically because of trading activities between the beginning and the end of the time horizon

since VaR models assume that the portfolio is "frozen" over the horizon. The Parent Company uses the regulatory 3-zone (green, yellow and red) boundaries in evaluating the backtesting results. For the years 2016 and 2015, the number of observations which fell outside the VaR is within the allowed number of exceptions in the green and yellow zones to guarantee that there is no problem with the quality and accuracy of the VaR models at 99.00% confidence level. Nonetheless, closer monitoring and regular review of the model's parameters and assumptions are being conducted.

d. Stress Testing

To complement the VaR approximations, the banking segment conducts stress testing on a quarterly basis, the results of which are being reported to the banking segment's BOD. Scenarios used in the conduct of stress test are event driven and represent the worst one-off event of a specific risk factor. Results of stress testing are analyzed in terms of the impact to earnings and capital.

e. 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**
(In Millions)				
December 31, 2017	P7.30	P179.72	P1.29	P188.31
Average Daily	3.75	178.20	0.74	182.69
Highest	18.25	324.06	1.52	343.83
Lowest	0.63	58.00	0.26	58.89
December 31, 2016	1.65	77.87	1.39	80.91
Average Daily	3.35	161.09	4.73	169.17
Highest	12.09	444.55	9.14	465.78
Lowest	0.62	34.67	1.33	36.62

* 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:

	2017	2016
(In Millions)		
End of year	P1,342	P1,399
Average Daily	1,245	1,262
Highest	1,917	1,575
Lowest	812	859

Structural Market Risk of the Banking Segment

Non-trading Market Risk

Interest rate risk

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

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

During a period of rising interest rates, a company with a positive gap is better positioned because the company's assets are refinanced at increasingly

higher interest rates increasing the net interest margin of the company over time. During a period of falling interest rates, a company with a positive gap would show assets repricing at a faster rate than one with a negative gap, which may restrain the growth of its net income or result in a decline in net interest income. For risk management purposes, the repricing gap covering the one year period is multiplied by an assumed change in interest rates to yield an approximation of the change in net interest income that would result from such an interest rate movement. The banking segment's BOD sets a limit on the level of earnings at risk (EaR) exposure tolerable to the banking segment. Compliance to the EaR limit is monitored monthly by the RMG. This EaR computation is accomplished monthly, with a quarterly stress test.

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

December 31, 2017						
	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
<i>(In Millions)</i>						
Financial Assets*						
Due from BSP and other banks	P24,660	P2,121	P728	P186	P4,590	P32,285
Interbank loans receivable	19,962	7,327	170	–	–	27,459
Receivable from customers and other receivables - gross**	133,507	75,008	17,509	23,249	89,054	338,327
Total financial assets	P178,129	P84,456	P18,407	P23,435	P93,644	P398,071
Financial Liabilities*						
Deposit liabilities:						
Savings	P75,794	P22,624	P12,265	P17,355	P223,384	P351,422
Time***	59,937	25,560	10,091	10,243	23,721	129,552
Bills and acceptances payable	22,795	15,547	753	885	3,937	43,917
Total financial liabilities	P158,526	P63,731	P23,109	P28,483	P251,042	P524,891
Repricing gap	P19,603	P20,725	(P4,702)	(P5,048)	(P157,398)	(P126,820)
Cumulative gap	19,603	40,328	35,626	30,579	(126,820)	–

* Financial instruments that are not subject to repricing/rollforward were excluded.

** Receivable from customers excludes residual value of leased assets.

*** Excludes LTNCD

December 31, 2016						
	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
<i>(In Millions)</i>						
Financial Assets*						
Due from BSP and other banks	P57,092	P3,964	P1,552	P149	P191	P62,948
Interbank loans receivable	6,483	1,159	–	149	–	7,791
Receivable from customers and other receivables - gross**	112,590	69,562	13,940	3,331	66,612	266,035
Total financial assets	P176,165	P74,685	P15,492	P3,629	P66,803	P336,774
Financial Liabilities*						
Deposit liabilities:						
Savings	P87,935	P30,745	P19,342	P26,084	P14,471	P178,577
Time	22,628	11,628	8,195	6,214	11,328	59,993
Bills and acceptances payable	11,917	13,623	5,417	1,085	3,844	35,886
Total financial liabilities	P122,480	P55,996	P32,954	P33,383	P29,643	P274,456
Repricing gap	P53,685	P18,689	(P17,462)	(P29,754)	P37,160	P62,318
Cumulative gap	53,685	72,374	54,912	25,158	62,318	–

* 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:

	2017		2016	
	Income Before Income Tax	Equity <i>(In Millions)</i>	Income Before Income Tax	Equity
+50bps	P196	P196	P358	P358
-50bps	(196)	(196)	(358)	(358)
+100bps	391	391	716	716
-100bps	(391)	(391)	(716)	(716)

As one of the long-term goals in the risk management process, the banking segment has also implemented the adoption of the economic value approach in measuring the impact of the interest rate risk in the banking books to complement the earnings at risk approach using the modified duration approach. Cognizant of this requirement, the Parent Company has undertaken the initial activities such as identification of the business requirement and design of templates for each account and the inclusion of this requirement in

the Asset Liability Management business requirement definition.

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



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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, 2017			December 31, 2016		
	USD	Others*	Total	USD	Others	Total
(In Millions)						
Assets						
COCI and due from BSP	P29	P519	P548	P2,440	P365	P2,805
Due from other banks	2,682	7,082	9,764	6,964	12,843	19,807
Interbank loans receivable and securities held under agreements to resell	2,904	1,679	4,583	2,466	1,650	4,116
Loans and receivables	12,579	941	13,520	13,444	697	14,141
AFS investments	14,380	1,593	15,973	1,877	1,959	3,836
HTM investments	10,727	180	10,907	8	—	8
Other assets	56	210	266	93	82	175
Total assets	P43,357	P12,204	P55,561	P27,292	P17,596	P44,888
Liabilities						
Deposit liabilities	P117,280	P5,230	P122,510	P99,641	P4,444	P104,085
Bills and acceptances payable	12,465	7,667	20,132	4,932	226	5,158
Accrued taxes, interest and other expenses	44	37	81	41	106	147
Other liabilities	10,637	436	11,073	1,070	521	1,591
Total liabilities	140,426	13,370	153,796	105,684	5,297	110,981
Net Exposure	(P97,069)	(P1,166)	(P98,235)	(P78,392)	P12,299	(P66,093)

* Other currencies include UAE Dirham (AED), Australia dollar (AUD), Bahrain dollar (BHD), Brunei dollar (BND), Canada dollar (CAD), Swiss franc (CHF), China Yuan (CNY), Denmark kroner (DKK), Euro (EUR), UK pound (GBP), Hong Kong dollar (HKD), Indonesia rupiah (IDR), Japanese yen (JPY), New Zealand dollar (NZD), PHP: Saudi Arabia riyal (SAR), Sweden kronor (SEK), Singapore dollar (SGD), South Korean won (SKW), Thailand baht (THB) and Taiwan dollar (TWD).

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 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 annual sales pertain mainly to two trusted parties with sales to them comprising about 84% of the total segment revenue.
- 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, 2017:

	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, cash equivalents and other cash items	P3,405	P–	P–	P–	P–	P–	P–	P3,405
Trade receivables	2,888	–	2,494	1,520	1,835	4,497	33	13,267
Other receivables	2,083	–	41	7	76	435	90	2,732
Due from related parties	2,028	–	–	–	–	–	–	2,028
Refundable deposits	25	–	2	159	–	–	–	186
Financial assets at FVPL	3,564	–	–	–	–	–	–	3,564

AFS investments	3,373	–	–	–	–	–	–	3,373
	P17,366	P–	P2,537	P1,686	P1,911	P4,932	P123	P28,555
December 31, 2016:								
	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
<i>(In Millions)</i>								
Loans and receivables:								
Cash, cash equivalents and other cash items	P3,779	P–	P–	P–	P–	P–	P–	P3,779
Trade receivables	3,106	–	3,354	1,445	3,486	648	665	12,704
Other receivables	1,595	4	4	11	2	152	17	1,785
Due from related parties	1,922	–	–	–	–	–	–	1,922
Refundable deposits	8	–	5	142	–	–	–	155
Financial assets at FVPL	4,451	–	–	–	–	–	–	4,451
AFS investments	2,205	–	–	–	–	–	–	2,205
	P17,066	P4	P3,363	P1,598	P3,488	P800	P682	P27,001

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):

	2017			2016		
	Less than one year	1 to less than 3 years	Total	Less than one year	1 to less than 3 years	Total
Cash and other cash items	P3,405	P–	P3,405	P3,779	P–	P3,779
Trade receivables	13,267	–	13,267	12,704	–	12,704
Other receivables	2,732	–	2,732	1,769	15	1,784
Due from related parties	2,028	–	2,028	1,387	536	1,923
Refundable deposits	186	–	186	155	–	155
Financial assets at FVPL	3,564	–	3,564	4,451	–	4,451
AFS investments	–	3,373	3,373	–	2,205	2,205
	P25,182	P3,373	P28,555	P24,245	P2,756	P27,001
Short term debts	P1,550	P–	P1,550	P1,750	P–	P1,750
Accounts payable and other liabilities*	8,071	–	8,071	6,835	–	6,835
Long-term debts	115	1,475	1,590	1,171	433	1,604
Due to related parties	–	–	–	–	–	–
Other liabilities	196	2,220	2,416	608	1,238	1,846

P9,932 **P3,695** **P13,627** **P15,827** **P10,666** **P1,694** 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 2017, 2016 and 2015, 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 P327.4 million, P44.2 million and P42.1 million, respectively, if equity prices will increase by 10.3%, 8.9% and 5.2%, respectively. An equal change in the opposite direction would have decrease equity by the same amount.

*Excluding non-financial liabilities amounting to P181.43 million and P95.75 million as of December 31, 2017 and 2016, respectively.

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

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, 2017 and 2016, 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, 2017						
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 the consolidated balance sheet [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure [c-d]
				Financial instruments	Fair value of Financial collateral	
	[a]	[b]	[c]	[d]		[e]
<i>(In Thousands)</i>						
Derivative assets (Notes 6 and 21)	P37,138,999	(P36,646,558)	P492,441	(P44,921)	P–	P492,441
Securities sold under agreements to repurchase (Note 8)	14,621,483	–	14,621,483	(148,225)	(14,473,258)	148,225
	P51,760,482	(P36,646,558)	P15,113,924	(P193,146)	(P14,473,258)	P640,666

* Included in bills and acceptances payable in the consolidated balance sheets.

December 31, 2016						
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 the consolidated balance sheet [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure [c-d]
				Financial instruments	Fair value of Financial collateral	
	[a]	[b]	[c]	[d]		[e]
<i>(In Thousands)</i>						
Derivative assets (Notes 6 and 21)	P28,500,758	(P28,152,954)	P347,804	P199,855	P–	P147,949
Securities sold under agreements to repurchase (Note 8)	1,972,310	–	1,972,310	–	1,968,603*	3,707
	P30,473,068	(P28,152,954)	P2,320,114	P199,855	P1,968,603	P151,656

* Included in bills and acceptances payable in the consolidated balance sheets.

Financial liabilities

December 31, 2017						
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 the consolidated balance sheet [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure [c-d]
				Financial instruments	Fair value of Financial collateral	
	[a]	[b]	[c]	[d]		[e]
<i>(In Thousands)</i>						
Derivative liabilities (Notes 16 and 21)	P19,126,140	(P19,390,528)	(P264,388)	P91,071	P–	(P249,459)
Securities sold under agreements to repurchase (Note 8)*	35,350,259	–	35,350,259	–	(39,827,898)	–
Total	P54,476,399	(P19,390,528)	P35,085,871	P91,071	(P39,827,898)	(P249,459)

* Included in bills and acceptances payable in the consolidated balance sheets.

December 31, 2016						
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 the consolidated balance sheet [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure [c-d]
				Financial instruments	Fair value of Financial collateral	
	[a]	[b]	[c]	[d]		[e]
<i>(In Thousands)</i>						
Derivative liabilities (Notes 16 and 21)	P15,217,658	(P15,449,106)	(P231,448)	P273,191	P–	P–
Securities sold under agreements to repurchase (Note 17)*	20,635,171	–	20,635,171	–	24,657,929	–
Total	P35,852,829	(P15,449,106)	P20,403,723	P273,191	P24,657,929	P–

* Included in bills and acceptances payable in the consolidated balance sheets.

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 PFRSs 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 PFRSs 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, 2017 and 2016, the carrying values of the Group's financial assets and liabilities approximate their respective fair values, except for the following financial instruments:

	December 31, 2017		December, 31, 2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In Thousands)			
Financial Assets:				
HTM investments	P26,732,182	P27,924,081	P24,102,594	P24,174,479
Loans and receivables:				
Receivables from customers	472,471,979	481,012,205	406,505,998	412,208,402
Unquoted debt securities	10,934,147	10,942,367	3,285,222	3,305,345
	P510,138,308	P519,878,653	P433,893,814	P439,688,226
Financial Liabilities:				
Financial liabilities at amortized cost:				
Deposit liabilities -				
Time deposits	P160,915,991	P179,058,554	P84,364,874	P86,098,591
Bills payables	41,684,801	41,765,052	34,226,607	38,468,732
Long term debts:				
Subordinated debt	-	-	3,497,797	3,551,484

	December 31, 2017		December, 31, 2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Unsecured term loan	6,080,146	5,443,815	4,070,949	3,712,316
(Forward)				
	(In Thousands)			
Other liabilities:				
Payable to landowners	1,937,568	1,934,286	3,250,573	3,186,369
Tenants' rental deposits	452,372	414,362	428,785	390,791
	P211,070,878	P228,616,069	P129,839,585	P135,408,283

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.

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, bills payable with long term maturity 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 3.00% to 4.13% and 2.70% to 6.75% as of December 31, 2017 and 2016, 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 2.36% to 4.73% as of December 31, 2017 and from 1.89% to 3.88% as of December 31, 2016, respectively.

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, 2017				
	Level 1	Level 2	Level 3	Total
<i>(In Thousands)</i>				
Assets measured at fair value:				
Financial Assets				
Financial assets at FVPL:				
Held-for-trading:				
Government securities	P1,534,791	P673,162	P–	P2,207,953
Derivative assets	–	508,045	54,938	562,983
Private debt securities		31,305	–	31,305
Equity securities	151,628	–	–	151,628
Designated at FVPL:				
Investment in UITFs	–	6,303	–	6,303
	P1,686,419	P1,218,815	P54,938	P2,960,172
AFS investments:				
Government securities	P37,083,207	P4,583,318	P–	P41,666,525
Private debt securities	21,018,127	5,928,190	–	26,946,317
Equity securities**	–	1,077,221	147,353	1,224,574
	P58,101,334	P11,588,729	P147,353	P69,837,416
Non-financial assets				
Property, plant and equipment***				
Land and land improvements	P–	P–	P15,783,538	P15,783,538
Plant buildings and building improvements	–	–	13,135,848	13,135,848
Machineries and equipment	–	–	7,295,561	7,295,561
	P–	P–	P36,214,947	P36,214,947
Liabilities measured at fair value:				
Financial liabilities				
Financial liabilities at FVPL:				
Designated at FVPL:				
Derivative liabilities	P–	P343,522	P–	P343,522
	P–	P343,522	P–	P343,522
Assets for which fair values are disclosed:				
Financial Assets				
HTM investment	P23,735,468	P4,188,612	P–	P27,924,080
Loans and receivables:				
Receivables from customers	–	–	481,012,205	481,012,205
Unquoted debt securities	–	–	10,942,367	10,942,367
	P23,735,468	P4,188,612	P491,954,572	P519,878,652
Non-financial Assets				
Investment properties***				
Land	P–	P–	P37,007,466	P37,007,466
Buildings and improvements	–	–	16,935,051	16,935,051
	P–	P–	P53,942,517	P53,942,517
Liabilities for which fair values are disclosed:				
Financial liabilities				
Financial liabilities at amortized cost:				
Deposit liabilities:				
Time deposits	P–	P–	P179,058,533	P179,058,533
Long term debts:				
Bills payable	–	–	41,765,052	41,765,052
Unsecured term loan	–	–	5,443,815	5,443,815
Other liabilities:				
Payable to landowners	–	–	1,934,286	1,934,286
Tenants' rental deposits	–	–	414,362	414,362
	P–	P–	P228,616,048	P228,616,048

* 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, 2016

	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	P1,300,293	P13,107	P–	P1,313,400
Derivative assets	–	357,577	61,545	419,122
Private debt securities	188,773	7,984	–	196,757
Equity securities	54,609	–	–	54,609
Designated at FVPL:				
Investment in UITFs	–	4,457,623	–	4,457,623
	P1,543,675	P4,836,291	P61,545	P6,441,511
AFS investments:				
Government securities	P34,416,112	P3,418,446	P–	P37,834,558
Private debt securities	26,177,419	2,663,651	–	28,841,070
Equity securities**	571,296	73,746	–	645,042
	P61,164,827	P6,155,843	P–	P67,320,670
Non-financial assets				
Property, plant and equipment***				
Land and land improvements	P–	P–	P15,834,177	P15,834,177
Plant buildings and building improvements	–	–	13,075,835	13,075,835
Machineries and equipment	–	–	7,194,036	7,194,036
	P–	P–	P36,104,048	P36,104,048
Liabilities measured at fair value:				
Financial liabilities				
Financial liabilities at FVPL:				
Designated at FVPL:				
Derivative liabilities	P–	P232,832	P–	P232,832
	P–	P232,832	P–	P232,832
Assets for which fair values are disclosed:				
Financial Assets				
HTM investment	P21,010,056	P3,164,423	P–	P24,174,479
Loans and receivables:				
Receivables from customers	–	–	412,208,402	412,208,402
Unquoted debt securities	–	–	3,305,345	3,305,345
	P21,010,056	P3,164,423	P415,513,747	P439,688,226
Non-financial Assets				
Investment properties***				
Land	P–	P–	P24,971,630	P24,971,630
Buildings and improvements	–	–	8,810,139	8,810,139
	P–	P–	P33,781,769	P33,781,769
Liabilities for which fair values are disclosed:				
Financial liabilities				
Financial liabilities at amortized cost:				
Deposit liabilities:				
Time deposits	P–	P–	P86,098,591	P86,098,591
Long term debts:				
Subordinated debt	–	–	3,551,484	3,551,484
Bills payable	–	–	38,468,732	38,468,732
Unsecured term loan	–	–	3,712,316	3,712,316
Other liabilities:				
Payable to landowners	–	–	3,186,369	3,186,369
Tenants' rental deposits	–	–	390,791	390,791
	P–	P–	P135,408,283	P135,408,283

* 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.



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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.

Significant input used in determining fair values of financial instruments under Level 2 comprises of interpolated market rates of benchmark securities. For investments in UITFs, fair values are determined based on published NAVPU as of reporting date.

As of December 31, 2017 and 2016, 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:

	2017	2016
	(In Thousands)	
Financial assets		
Balance at beginning of year	P61,545	P5,843,569
Add (deduct) total gain (loss) recorded in profit or loss	(6,607)	(5,782,024)
Balance at end of year	P54,938	P61,545
Nonfinancial assets		
Balance at beginning of year	P36,104,048	P39,538,145
Additions during the year	1,343,745	2,242,250
Revaluation decrement during the year	—	(720,604)
Depreciation and amortization	(1,637,533)	(1,574,243)
Net carrying value of disposed/transferred assets and other adjustments	404,687	(3,381,500)
Balance at end of the year	P36,214,947	P36,104,048
Financial liabilities		
Balance at beginning of year	P—	P5,780,237
Add (deduct) total loss (gain) recorded in profit or loss	—	(5,780,237)
Balance at end of year	P—	P—

Equity and/or Credit-Linked Notes are shown as “Asset of Disposal Group Classified as Held for Sale” as of December 31, 2015 (Note 37).

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 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	
Structured Investments	Significant Unobservable Input	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 P65,500,462

		2015	
Structured Investments	Significant Unobservable Input	Range of Input	Sensitivity of the Input to Fair Value*
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 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

Sensitivity of the fair value measurement to changes in observable inputs:

		2015	
Structured Investments	Significant Observable Input	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
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

* The sensitivity analysis is performed only on the fixed income portion of the Note, thus are based on assumptions that if changed may cause the value to fall out of range

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

The table below summarizes the valuation techniques used and the significant unobservable inputs valuation for each type of property, plant and equipment and investment properties held by the Group:

	Valuation Techniques	Significant Unobservable Inputs	Range of Estimates
Property, plant and equipment:			
Land and land improvements	Market Data Approach	Price per square meter	P6,000 - P6,200
Plant buildings and building improvements			
Building	Replaceable Fixed Asset Valuation Approach	Replacement cost Estimated total floor area	P4,287 - P10,000 24 - 1548 sq.m
Building improvements	Replaceable Fixed Asset Valuation Approach	Replacement cost Estimated number of components	P2.8 million - P26.5 million 315 - 723 components
Machineries and equipment	Replaceable Fixed Asset Valuation Approach	Replacement cost Estimated number of components	P3,200 - P8.6 million 465 - 1,162 components
Investment properties:			
Land	Market Data Approach	Price per square meter, size, location, shape, time element and corner influence	P800 - P100,000
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:

	Description
Valuation Techniques	
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.
Corner influence	Bounded by two (2) roads.

35. Notes to Consolidated Statements of Cash Flows

Non-cash Investing Activities

- As of December 31, 2017 and 2016, unpaid additions to property, plant and equipment amounted to P163.0 million and P86.6 million, respectively, which is included as part of "Accounts payable and accrued expenses".
- In 2017, 2016 and 2015, the Group reclassified cost of land, which was previously recognized as real estate inventory, amounting to P536.7 million, P2.5 billion and P1.1 billion, respectively, to investment property.
- In 2017, the Group reclassified costs of condominium units and furniture, fixtures and equipment totaling to P973.7 million to property and equipment.
- In 2016, the Group reclassified certain properties from property, plant and equipment with aggregate carrying amount of P4.7 billion to investment properties.
- In 2015, the Group transferred investment properties with a carrying value of P2.0 billion and P1.2 billion to inventories, respectively.
- In 2015, the Group classified APLII as disposal group held for sale and as discontinued operations and classified assets, liabilities and equity and reserves of APLII amounting to P23.5 billion, P21.5 billion and P0.6 billion, respectively.

- 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.

Non-cash Financing Activities

- In July 2013, all the existing advances to Tangent amounting to P11.0 billion were offset with the existing advances from the Tangent.
- As of December 31, 2017 and 2016, accrued interest payable amounted to P632.9 million and P662.3 billion, respectively. Finance costs and cost of hauling services include amortization of bond issue costs and unamortized transaction cost of subordinates debt amounting to nil and nil in 2017 and P2.0 million and P17.3 million in 2016, respectively.
- As discussed in Note 30, LTG issued additional common shares to Tangent amounting to P5.4 billion upon conversion of its deposit for future stock subscription of P1.6 billion resulting in an increase in additional paid in capital of P1.2 billion. Transactions costs incurred for the share issuance in 2012 amounted to P67.5 million which are deducted from additional paid in capital.

36. Capital Management

The main thrust of the Group's capital management policy is to ensure that the Group complies with externally imposed capital requirements, maintains a good credit standing and has a sound capital ratio to be able to support its business and maximize the value of its shareholders equity. The Group is also required to maintain debt-to-equity ratios to comply with certain loan agreements and covenants in 2017 and 2016.

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 2017 and 2016.

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:

	2017	2016
	<i>(In Thousands, except ratios)</i>	
Total liabilities	P721,780,274	P650,486,448
Total equity	195,315,415	178,604,576
Total liabilities and equity	P917,095,689	P829,091,024
Debt ratio	0.79:1	0.78:1
Debt-to-equity ratio	3.70:1	3.64:1

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 PFRSs 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 No. 781 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 and Discontinued Operations

Sale of PNB's 51% share in APLII to Allianz SE

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% stockholdings of APLII 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.

As of December 31, 2015, APLII was classified as disposal group held for sale and as discontinued operation.

The sale of APLII was completed on June 6, 2016 for a total consideration of US\$66.0 million (P3.1 billion). Pursuant to the sale of APLII, PNB also entered into a distribution agreement with APLII where PNB will allow APLII to have exclusive access to the distribution network of PNB and its subsidiary, PNB Savings Bank, over a period of 15 years. Both the share

purchase agreement and distribution agreement have provisions referring to one another; making the distribution agreement an integral component of the sale transaction. Accordingly, the purchase consideration of US\$66.0 million (P3.1 billion), was allocated between the sale of the 51% interest in APLII and the Exclusive Distribution Rights (EDR) amounting to US\$44.9 million (P2.1 billion) and US\$21.1 million (P1.0 billion), respectively.

PNB will also receive variable annual and fixed bonus earn out payments based on milestones achieved over the 15-year term of the distribution agreement.

PNB recognized gain on sale of the 51% interest in APLII amounting to P400.3 million, net of taxes and transaction costs amounting to P276.7 million and P153.3 million, respectively. The consideration amounting to P939.7 million allocated to the EDR was recognized as "Other deferred revenue" and will be amortized to income over 15 years from date of sale (see Note 20).

Prior to the sale of shares to Allianz SE, PNB acquired additional 15% stockholdings from the minority shareholders for a consideration amounting to P292.4 million between June 2, 2016 and June 5, 2016.

PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, requires assets and liabilities of APLII, 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 APLII 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 APLII represented the entirety of PNB's life insurance business until December 21, 2015. APLII was previously presented in the "Others" section of the business segment disclosure. With APLII being classified as a discontinued operation in 2015, the comparative consolidated statement of income and comprehensive income in 2014 have been re-presented to show the discontinued operations separately from the continued operations.

On June 6, 2016, the sale of APLII was completed. PNB recognized gain on sale amounting to P834.5 million recognized in "Net Income from Discontinued Operations" in the consolidated statements of income.

The results of operation of APLII are presented below:

	Years Ended December 31	
	2016	2015
	(In Thousands)	
Interest income		
Loans and receivables	P7,610	P20,343
Trading and investment securities	195,605	443,116
Deposits with banks and others	5,151	3,504
	208,366	466,963
Net service fees and commission expense	(67,591)	(281,639)
Net insurance premiums	508,770	1,716,308
Net insurance benefits and claims	(441,090)	(1,290,439)
Net insurance premiums	67,680	425,869
Other income (charges)		
Trading and investment securities gains - net	1,800	20,874
Foreign exchange gains (losses) - net	(876)	11,806
Miscellaneous	80,667	149,061
Total operating income	290,046	792,934
General and administrative expenses		
Compensation and fringe benefits	71,741	223,322
Taxes and licenses	16,759	39,570
Occupancy and equipment-related costs	7,610	9,764
Depreciation and amortization	4,707	10,704
Provision for impairment, credit and other losses	4,704	32,765
Miscellaneous	39,692	74,573
Total general and administrative expenses	145,213	390,698
Result from operating activities	144,833	402,236
Provision for income tax	(21,049)	(44,305)
Result from operating activities, net of tax	123,784	357,931
Gain on sale of discontinued operation	834,535	—
Transaction cost	(153,307)	—
Provision for income tax	(185,449)	—
Net income from discontinued operations	P619,563	P357,931
Attributable to:		
Equity holders of the Company	P279,894	P161,699
Non-controlling interests	339,669	196,232
	P619,563	P357,931

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

	2016	2015	2014
Net income attributable to equity holders of the banking segment	P279,894	P161,699	P119,339
Weighted average number of common shares for basic earnings per share	10,821,389	10,821,389	10,821,389
Basic earnings per share	P0.03	P0.02	P0.01

The net cash flows directly associated with the disposal group follow:

	2016	2015
	(In Thousands)	
Net cash provided by operating activities	P171,535	P1,210,588
Net cash used in investing activities	(267,458)	(903,161)

The major classes of assets and liabilities of APLII classified as disposal group held for sale as of December 31, 2015 are as follows (in thousands):

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	7,468,653
HTM investments	1,269,398
Other receivables	437,210
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
Insurance contract liabilities	6,837,144
Other liabilities	728,339
Liabilities of disposal group classified as held for sale	P21,452,621
Reserves	
Net unrealized gain on AFS investments	P617,649
Re-measurement 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

Transactions with Heineken

On May 27, 2016, the Group entered into a joint venture agreement with Heineken to establish AB HPI to manage its beer segment. In accordance with the agreement, ABI transferred its beer business comprising of the related inventories, returnable containers and brands to AB HPI in exchange for shares of stock at the fair value of P787.4 million. The Group has significant influence over AB HPI and therefore, treats the investment as investment in associate.

The Group recognized the difference amounting to P1,056.2 million between its investment and its equity interest in AB HPI as gain on investment in an associate arising from contribution of non-monetary assets in exchange for shares of stock. Also, the Group recognized P46.3 million as gain from the sale of its brands (see Note 6). These amounts are presented as part of discontinued operations in 2016.

The results generated from discontinued operations of the beer segment of the Group follow (in thousands):

	Years Ended December 31	
	2016	2015
NET SALES	P3,136,595	P2,900,686
COST OF GOODS SOLD		
Taxes and licenses	1,306,050	1,352,173
Materials used and changes in inventories	816,349	458,775
Depreciation and amortization	249,654	289,436
Utilities	77,478	83,417
Outside services	63,056	135,265
Fuel and oil	90,191	107,400
Repairs and maintenance	79,347	102,491

(Forward)

	Years Ended December 31	
	2016	2015
Salaries, wages and other employee benefits:		
Salaries and wages	P108,093	P125,696
Retirement benefits costs	32,080	32,458
Professional fees	49,181	59,875
Supplies	86,625	72,416
Others	81,446	58,088
	3,039,550	2,877,490
GROSS PROFIT	97,045	23,196
SELLING EXPENSES		
Advertising and promotions	305,174	167,369
Depreciation and amortization (Note 12)	141,031	160,431
Personnel costs	36,175	37,343
Materials and consumables	7,371	39,486
Repairs and maintenance	2,516	2,946
Travel and transportation	8,639	8,385
Others	30,754	25,695
	531,660	441,655
GENERAL AND ADMINISTRATIVE EXPENSES		
Taxes and licenses	40,442	31,792
Management, consulting and professional fees	34,595	26,097
Personnel costs	26,918	22,405
Travel and transportation	3,779	4,781
Communication, light and water	P3,042	P1,751
Repairs and maintenance	865	940
Occupancy	490	—
Materials and consumables	284	73
Insurance	53	36
Others	1,584	794
	112,052	88,669
OPERATING LOSS	(546,667)	(507,128)
OTHER INCOME		
Gain on investment in an associate arising from contribution of non-monetary assets	1,056,240	—
Gain on sale of brands	46,300	—
Others	3,463	7,135
	1,105,999	7,135
INCOME (LOSS) FROM DISCONTINUED OPERATIONS BEFORE INCOME TAX PROVISION FOR (BENEFIT FROM) INCOME TAX	559,336	(499,993)
Current	(132,184)	(131,000)
Deferred	(16,887)	(18,998)
	(149,071)	(149,998)
NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS	P708,407	(P349,995)

The net cash flows directly associated from discontinued operations follow:

	2016	2015
	(In Thousands)	
Net cash provided by operating activities	(P401,289,143)	P185,264,589
Net cash used in investing activities	(230,836,659)	(807,443,468)
	(P632,125,802)	(P622,178,879)

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, certain motor vehicles and items of



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machinery. 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 tenants' rental deposits and advance rentals which are presented under "Other noncurrent liabilities". Tenants' rental 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. Tenants' rental deposits and advance rentals amounted to P452.4 million and P51.8 million as of December 31, 2017 and P428.8 million and P167.2 million as of December 31, 2016, respectively.

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

	2017	2016
	(In Thousands)	
Within one year	P1,185,458	P1,130,072
After one year but not more than five years	1,817,706	1,605,790
More than five years	145,505	305,486
	P3,148,669	P3,041,348

Operating lease commitments - the Group as lessee

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

	2017	2016
	(In Thousands)	
Within one year	P761,675	P457,055
Within two to five years	1,729,169	1,066,976
More than five years	1,758,887	1,667,333
	P4,249,731	P3,191,364

Future minimum lease receivables under finance leases are as follows:

	2017	2016
	(In Thousands)	
Within one year	P1,557,543	P1,738,954
Beyond one year but not more than five years	1,308,300	1,273,921
More than five years	25,200	36,500
Total	2,891,043	3,049,375
Less amounts representing finance charges	62,612	355,743
Present value of minimum lease payments	P2,828,431	P2,693,632

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 P88.0 billion and P75.2 billion as of December 31, 2017 and 2016, respectively. In connection with the trust functions of PNB, government securities amounting to P1.0 billion and P924.8 million (included under 'AFS Investments') as of December 31, 2017 and 2016, respectively, are deposited with the BSP in compliance with trust regulations.

In compliance with existing banking regulations, PNB transferred from surplus to surplus reserves the amounts of P23.9 million, P19.4 million and P16.6 million in 2017, 2016 and 2015, respectively, which correspond to 10% 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% 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.

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

	2017	2016
	(In Thousands)	
Balance at beginning of year	P1,300,290	P898,737
Provisions (reversals) during the year (Note 26)	(331,183)	401,553
Balance at end of year	P969,107	P1,300,290

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.

Other Matter

Effluent Supply Agreement

On September 26, 2013, the Company and Aseagas Corporation (Aseagas) entered into an effluent (wastewater) supply agreement wherein the Company 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 the Company 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.

On January 15, 2018, Aseagas issued a letter notifying the Company for the termination of the Effluent Supply Agreement effective January 16, 2018.

39. Events after the Reporting Period

On March 13, 2018, LTG's BOD approved the declaration and distribution of regular cash dividends of P0.15 per share and special cash dividends of P0.05 per share to all stockholders of record as of March 28, 2018, to be paid not later than April 11, 2018.



BOARD OF DIRECTORS



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*President
& Chief Operating Officer*



Juanita T. Tan Lee
Director / Treasurer



Dr. Lucio C. Tan
Chairman & Chief Executive Officer

Board of Advisors



Johnip G. Cua
Advisor

Executive Officers



Jose Gabriel D. Olives
Chief Finance Officer



Nestor C. Mendones
*Deputy Chief Finance
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**Atty. Ma. Maria Cecilia L.
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Corporate Secretary



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Robin C. Sy
Independent Director



Washington Z. Sycip
Director
+Deceased October 7, 2017



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Director



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Annual Report 2017

Paper used:	MOHAWK Options PC White 216 gsm 210 x 297 mm 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



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