

COVER SHEET

SEC Registration Number

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Company Name

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T	a	n	g	e	n	t		H	o	l	d	i	n	g	s		C	o	r	p	o	r	a	t	i	o	n	)		

Principal Office (No./Street/Barangay/City/Town/Province)

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Form Type

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Department requiring the report

S	E	C	
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Secondary License Type, If Applicable

N	/	A	
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COMPANY INFORMATION

Company's Email Address

info@ltg.com.ph

Company's Telephone Number/s

808-1266

Mobile Number

N/A

No. of Stockholders

373

Annual Meeting
Month/Day

June 9

Fiscal Year
Month/Day

December 31

CONTACT PERSON INFORMATION

The designated contact person **MUST** be an Officer of the Corporation

Name of Contact Person

Jose Gabriel D. Olives

Email Address

josegabriel.olives@ltg.com.ph

Telephone Number/s

N/A

Mobile Number

N/A

Contact Person's Address

11th Floor Unit 3 Bench Tower, 30th St. Corner Rizal Drive Crescent Park West 5 Bonifacio Global City, Taguig

Note: In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q



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

1. For the quarterly period ended March 31, 2015
2. SEC Identification Number PW-343
3. BIR Tax Identification No. 121-145-650-000
4. Exact name of registrant as specified in its charter LT GROUP, INC.
5. Province, country or other jurisdiction of incorporation or organization Philippines
6. Industry Classification Code: (SEC Use Only)
7. Address of registrant's principal office Postal Code
11/F Unit 3 Bench Tower, 30th St. Corner Rizal drive
Crescent Park West 5 Bonifacio Global City Taguig City 1634
8. Registrant's telephone number, including area code (632) 808-1266
9. Former name, former address, and former fiscal year, if changed since last report.

N/A

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

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

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

Yes [/] No []

12. Indicate by check mark whether the registrant:

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

Yes [/] No []

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

Yes [/] No []

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

The unaudited interim condensed financial statements of LT Group, Inc. (the Company) and its subsidiaries as of and for the period ended March 31, 2015 (with comparative figures as of December 31, 2014 and for the period March 31, 2014) are filed as part of this form 17-Q as Annex "A".

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The information required by Part IV, Paragraph a (2) (B) of SRC 12 is attached hereto as Annex "B"

PART II - OTHER INFORMATION

Not Applicable – There are no disclosures not made under SEC form 17-C

SIGNATURES

Pursuant to the requirements of the Securities and Regulation Code, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.


NESTOR C. MENDONES
Deputy CFO
May 14, 2015


JOSE GABRIEL D. OLIVES
Chief Finance Officer
May 14, 2015

Annex “A”

**LT GROUP, INC.
AND SUBSIDIARIES**

Interim Condensed Consolidated Financial
Statements

As at March 31, 2015 and December 31, 2014

And for the Three Months Ended

March 31, 2015 and 2014

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

Interim Condensed Consolidated Financial Statements
As of March 31, 2015 and December 31, 2014
and for the three months ended March 31, 2015 and 2014

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

INTERIM CONSOLIDATED BALANCE SHEETS
(Amounts in Thousands)

	March 31, 2015 (Unaudited)	December 31, 2014 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	₱144,041,580	₱147,275,490
Financial assets at fair value through profit or loss (Notes 5 and 19)	20,525,226	22,811,921
Available for sale (AFS) investments (Note 6)	5,024,091	3,774,286
Loans and receivables (Note 7)	134,261,984	143,653,521
Due from related parties (Note 20)	1,795,975	1,797,390
Inventories (Note 8)	12,268,951	12,936,865
Other current assets (Note 9)	8,274,025	7,886,609
Total Current Assets	326,191,832	340,136,082
Noncurrent Assets		
Loans and receivables - net of current portion (Note 7)	191,532,418	187,438,860
AFS investments (Note 6)	62,736,498	60,039,059
Held-to-maturity (HTM) investments	23,694,845	22,895,493
Investment in associates and a joint venture (Note 10)	12,361,801	12,297,509
Property, plant and equipment (Note 11):		
At appraised values	38,529,340	38,470,525
At cost	4,020,403	3,975,397
Investment properties (Note 11)	26,770,691	27,197,933
Deferred income tax assets (Note 27)	637,231	717,218
Other noncurrent assets (Note 12)	3,603,404	3,665,132
Total Noncurrent Assets	363,886,631	356,697,126
TOTAL ASSETS	₱690,078,463	₱696,833,208

LIABILITIES AND EQUITY

Current Liabilities		
Deposit liabilities (Note 13)	₱407,591,676	₱411,391,378
Financial liabilities at fair value through profit or loss (Notes 14 and 19)	11,992,286	10,837,220
Bills and acceptances payable (Note 15)	5,500,879	6,640,221
Short-term and long-term debts - current (Note 17)	808,114	5,806,123
Accounts payable and accrued expenses (Note 16)	14,482,880	16,120,561
Income tax payable	401,353	326,282
Due to related parties (Note 20)	34,665	49,859
Other current liabilities (Note 18)	16,054,165	17,974,819
Total Current Liabilities (Carried Forward)	456,866,018	469,146,463

(Forward)

	March 31, 2015	December 31, 2014
Total Current Liabilities (Brought Forward)	₱456,866,018	₱469,146,463
Noncurrent Liabilities		
Deposit liabilities - net of current portion (Note 13)	22,739,009	23,468,731
Financial liabilities at fair value through profit or loss (Notes 14 and 19)	52,964	24,805
Bills and acceptances payable (Note 15)	13,945,788	12,409,837
Long-term debts - net of current portion (Note 17)	11,173,596	11,291,321
Accrued retirement benefits (Note 21)	3,819,471	3,776,261
Deferred income tax liabilities (Note 27)	1,329,183	1,355,247
Other noncurrent liabilities (Note 18)	13,972,833	12,638,349
Total Noncurrent Liabilities	67,032,844	64,964,551
Total Liabilities	523,898,862	534,111,014
Equity		
Attributable to equity holders of the Company (Notes 1 and 28):		
Capital stock	10,821,389	10,821,389
Capital in excess of par	35,906,231	35,906,231
Preferred shares of subsidiaries issued to Parent Company	18,060,000	18,060,000
Retained earnings	55,951,558	54,079,986
Other comprehensive income, net of deferred income tax effect	5,316,097	4,582,667
Other equity reserves	790,136	790,136
Shares of the Company held by subsidiaries	(12,518)	(12,518)
	126,832,893	124,227,891
Non-controlling interests (Notes 1 and 28)	39,346,708	38,494,303
Total Equity	166,179,601	162,722,194
TOTAL LIABILITIES AND EQUITY	₱690,078,463	₱696,833,208

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

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

INTERIM CONSOLIDATED STATEMENTS OF INCOME

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

	Three Months Ended March 31	
	2015	2014
	(Unaudited)	(Unaudited)
REVENUE (Note 22)		
Banking	₱6,300,561	₱6,389,295
Beverage	3,205,227	3,010,157
Distilled spirits	2,975,815	2,948,271
Property development	644,456	539,142
	13,126,059	12,886,865
COST OF SALES AND SERVICES (Note 22)	6,167,357	6,097,122
GROSS INCOME	6,958,702	6,789,743
EQUITY IN NET EARNINGS OF ASSOCIATES (Note 10)	507,189	480,476
	7,465,891	7,270,219
OPERATING EXPENSES		
Selling expenses (Note 23)	629,855	649,625
General and administrative expenses (Note 24)	5,537,357	5,289,649
	6,167,212	5,939,274
OPERATING INCOME	1,298,679	1,330,945
OTHER INCOME (CHARGES)		
Finance costs (Note 25)	(75,763)	(106,944)
Finance income (Note 25)	13,596	20,846
Foreign exchange gains - net	292,428	416,123
Others - net (Note 26)	1,202,530	1,172,267
	1,432,791	1,502,292
INCOME BEFORE INCOME TAX	2,731,470	2,833,237
PROVISION FOR INCOME TAX (Note 27)		
Current	656,029	605,940
Deferred	(63,558)	6,263
	592,471	612,203
NET INCOME	₱2,138,999	₱2,221,034
NET INCOME ATTRIBUTABLE TO:		
Equity holders of the Company	₱1,586,674	₱1,611,703
Non-controlling interests	552,325	609,331
	₱2,138,999	₱2,221,034
Basic/Diluted Earnings Per Share (Note 29)	₱0.15	₱0.15

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

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

INTERIM CONSOLIDATED STATEMENTS OF
COMPREHENSIVE INCOME

(Amounts in Thousands)

	Three Months Ended March 31	
	2015	2014
	(Unaudited)	(Unaudited)
NET INCOME	₱2,138,999	₱2,221,034
OTHER COMPREHENSIVE INCOME (LOSS)		
<i>Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:</i>		
Accumulated translation adjustment	(20,416)	(171,021)
Net changes in fair value of AFS financial assets, net of deferred income tax effect	1,341,686	232,097
	1,321,270	61,076
<i>Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:</i>		
Revaluation increment on property, plant and equipment, net of deferred income tax effect	–	(1,337,670)
Re-measurement gains (losses) on defined benefit plans, net of deferred income tax effect	(2,862)	(10,702)
	(2,862)	(1,348,372)
OTHER COMPREHENSIVE INCOME (LOSS) -		
Net of income tax effect	1,318,408	(1,287,296)
TOTAL COMPREHENSIVE INCOME	₱3,457,407	₱933,738
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:		
Equity holders of the Company	₱2,605,002	₱842,218
Noncontrolling interests	852,405	91,520
	₱3,457,407	₱933,738

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

LT GROUP, INC.

(a Subsidiary of Tangent Holdings Corporation)

AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE THREE MONTHS ENDED MARCH 31, 2015 AND 2014

(Amounts in Thousands)

	Attributable to Equity Holders of the Company (Notes 1 and 28)										Non-controlling Interests (Notes 1 and 28)	Total
	Capital Stock	Capital in Excess of Par	Deposit for Future Stock Subscription	Preferred shares of Subsidiaries Issued to Parent Company	Other Equity Reserves	Other Comprehensive Income (Loss), Net of Deferred Income Tax Effect	Retained Earnings	Shares of the Company Held by Subsidiaries	Total			
BALANCES AT DECEMBER 31, 2013	₱10,821,389	₱35,906,231	₱6,048,534	₱7,405,000	₱790,136	₱6,070,799	₱50,505,944	(₱12,518)	₱117,535,515	₱32,235,085		₱149,770,600
Net income for the period	—	—	—	—	—	—	1,611,703	—	1,611,703	609,331		2,221,034
Other comprehensive loss	—	—	—	—	—	(769,486)	—	—	(769,486)	(517,810)		(1,287,296)
Total comprehensive income (loss) for the period	—	—	—	—	—	(769,486)	1,611,703	—	842,217	91,521		933,738
Issuance of preferred shares of subsidiaries	—	—	(6,048,534)	6,047,000	—	—	—	—	(1,534)	—		(1,534)
Increase in non-controlling interests without loss of control	—	—	—	—	—	—	—	—	—	2,250,981		2,250,981
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	—	—	—	—	—	(163,269)	163,269	—	—	—		—
BALANCES AT MARCH 31, 2014	₱10,821,389	₱35,906,231	₱—	₱13,452,000	₱790,136	₱5,138,044	₱52,280,916	(₱12,518)	₱118,376,198	₱34,577,587		₱152,953,785
BALANCES AT DECEMBER 31, 2014	₱10,821,389	₱35,906,231	₱—	₱18,060,000	₱790,136	₱4,582,667	₱54,079,986	(₱12,518)	₱124,227,891	₱38,494,303		₱162,722,194
Net income for the period	—	—	—	—	—	—	1,586,674	—	1,586,674	552,325		2,138,999
Other comprehensive income	—	—	—	—	—	1,018,328	—	—	1,018,328	300,080		1,318,408
Total comprehensive income for the period	—	—	—	—	—	1,018,328	1,586,674	—	2,605,002	852,405		3,457,407
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	—	—	—	—	—	(284,898)	284,898	—	—	—		—
BALANCES AT MARCH 31, 2015	₱10,821,389	₱35,906,231	₱—	₱18,060,000	₱790,136	₱5,316,097	₱55,951,558	(₱12,518)	₱126,832,893	₱39,346,708		₱166,179,601

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

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

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)

	Three Months Ended March 31	
	2015	2014
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱2,731,470	₱2,833,237
Adjustments for:		
Depreciation and amortization	898,780	859,550
Provision for losses	159,231	365,463
Loss (gain) on disposal of other assets (Note 26)	(107,064)	347,501
Equity in net earnings of associates (Note 10)	(507,189)	(480,476)
Finance costs (Note 25)	75,763	106,944
Finance income (Note 25)	(13,596)	(20,846)
Movements in accrued retirement benefits (Note 21)	40,907	(1,322,103)
Operating income before changes in working capital	3,278,302	2,689,270
Decrease (increase) in:		
Financial assets at fair value through profit or loss	2,286,695	(1,899,087)
Receivables	5,972,549	2,042,480
Inventories	667,914	(1,499,647)
Other assets	(328,277)	(2,985,088)
Increase (decrease) in:		
Deposit liabilities	(4,529,424)	8,691,818
Financial liabilities at fair value through profit or loss	1,183,225	301,827
Accounts payable and accrued expenses	(1,310,426)	(1,839,378)
Other liabilities	(787,923)	2,594,497
Cash generated from operations	6,432,635	8,096,692
Dividends received	442,897	963,007
Interest received	13,596	20,846
Income taxes paid, including creditable withholding and final taxes	(580,958)	(547,418)
Net cash from operating activities	6,308,170	8,533,127
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of:		
AFS investments (Note 6)	(14,694,920)	(27,419,896)
Property, plant and equipment (Note 11)	(810,613)	(1,296,144)
Investment properties (Note 11)	(160,937)	(295,439)
Held to maturity investments	(826,323)	–
Software costs	(6,483)	(2,719)
Proceeds from sale of:		
AFS investments (Note 6)	11,078,570	23,424,148
Other assets (Note 11)	461,262	1,293,874
Net cash used in investing activities	(4,742,244)	(4,296,176)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from (payments of) bill and acceptance payable	396,610	(6,689,173)
Payments of long term debts (Note 17)	(5,120,683)	(625,306)
Proceeds from issuance of shares to non-controlling interests arising from stock rights offering of the banking segment	–	2,250,981
Payment of due to affiliates (Note 20)	–	(2,046,620)
Payment of finance cost	(75,763)	(106,944)
Net cash generated from (used in) financing activities	(4,799,836)	(7,217,062)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(3,233,910)	(2,980,111)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	147,275,490	188,319,662
CASH AND CASH EQUIVALENTS AT END OF PERIOD (Note 4)	₱144,041,580	₱185,339,551

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

LT GROUP, INC.

(a Subsidiary of Tangent Holdings Corporation)

AND SUBSIDIARIES

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS

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

1. Corporate Information

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

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

As of March 31, 2015 and December 31, 2014, LTG is 74.36%-owned by its ultimate parent company, Tangent, which is also incorporated in the Philippines.

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

2. Summary of Significant Accounting and Financial Reporting Policies

Basis of Preparation

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

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

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

Basis of Consolidation

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

	Percentage of Ownership						Country of Incorporation
	March 31, 2015		December 31, 2014		March 31, 2014		
	Direct	Indirect	Direct	Indirect	Direct	Indirect	
Distilled Spirits							
TDI and subsidiaries	100.0	—	100.0	—	100.0	—	Philippines
Absolut Distillers, Inc. (ADI)	—	95.0	—	95.0	—	95.0	Philippines
Asian Alcohol Corporation (AAC)	—	96.0	—	96.0	—	96.0	Philippines
Tanduay Brands International, Inc. (TBI) ⁽¹⁾	100.0	—	100.0	—	100.0	—	Philippines
Beverages							
ABI and subsidiaries	99.9	—	99.9	—	99.9	—	Philippines
Agua Vida Systems, Inc.	—	99.9	—	99.9	—	99.9	Philippines
Interbev	—	99.9	—	99.9	—	99.9	Philippines
Waterich	—	99.9	—	99.9	—	99.9	Philippines
Packageworld	—	99.9	—	99.9	—	99.9	Philippines
AB Nutribev Corp. ⁽²⁾	—	99.9	—	99.9	—	99.9	Philippines
Asia Pacific Bev PTE ⁽³⁾	—	99.9	—	99.9	—	99.9	Singapore
Tobacco							
Shareholdings, Inc.	97.7	—	97.7	—	97.7	—	Philippines
FTC	82.7	16.9	82.7	16.9	82.7	16.9	Philippines
Property Development							
Saturn	100.0	—	100.0	—	100.0	—	Philippines
Paramount and subsidiaries	100.0	—	100.0	—	100.0	—	Philippines
Eton	—	99.3	—	99.3	—	99.3	Philippines
Belton Communities, Inc. (BCI)	—	99.3	—	99.3	—	99.3	Philippines
Eton City, Inc. (ECI)	—	99.3	—	99.3	—	99.3	Philippines
FirstHomes, Inc. (FHI)	—	99.3	—	99.3	—	99.3	Philippines
Eton Properties Management Corporation (EPMC)	—	99.3	—	99.3	—	99.3	Philippines
Banking							
Bank Holding Companies ⁽⁴⁾	80-100	—	80-100	—	80-100	—	Various
PNB and Subsidiaries ⁽⁵⁾	—	56.5	—	56.5	—	56.5	Philippines
PNB Capital and Investment Corporation (PNB Capital)	—	56.5	—	56.5	—	56.5	Philippines
PNB Securities, Inc. (PNB Securities)	—	56.5	—	56.5	—	56.5	Philippines
PNB Forex, Inc.	—	56.5	—	56.5	—	56.5	Philippines
PNB Holdings Corporation (PNB Holdings)	—	56.5	—	56.5	—	56.5	Philippines
PNB General Insurers, Inc. (PNB Gen)	—	56.5	—	56.5	—	56.5	Philippines
PNB Corporation - Guam	—	56.5	—	56.5	—	56.5	United States of America (USA)
PNB International Investments Corporation (PNB IIC)	—	56.5	—	56.5	—	56.5	USA

(Forward)

	Percentage of Ownership						Country of Incorporation
	March 31, 2015		December 31, 2014		March 31, 2014		
	Direct	Indirect	Direct	Indirect	Direct	Indirect	
PNB Remittance Centers, Inc. (PNBRCC)	—	56.5	—	56.5	—	56.5	USA
PNB RCI Holding Co. Ltd.	—	56.5	—	56.5	—	56.5	USA
PNB Remittance Co. (Canada)	—	56.5	—	56.5	—	56.5	Canada
PNB Europe PLC	—	56.5	—	56.5	—	56.5	United Kingdom
PNB Global Remittance & Financial Co. (HK) Ltd. (PNB GRF)	—	56.5	—	56.5	—	56.5	Hong Kong
PNB Italy SpA (PISpA) ⁽⁶⁾	—	56.5	—	56.5	—	56.5	Italy
Japan - PNB Leasing and Finance Corporation (Japan-PNB Leasing)	—	50.8	—	50.8	—	50.8	Philippines
Japan - PNB Equipment Rentals Corporation	—	50.8	—	50.8	—	50.8	Philippines
PNB Savings Bank	—	56.5	—	56.5	—	56.5	Philippines
Allied Bank Philippines (UK) Plc (ABUK)	—	56.5	—	56.5	—	56.5	United Kingdom
Allied Commercial Bank (ACB)	—	50.8	—	50.8	—	50.8	People's Republic of China
Allied Banking Corporation (Hongkong) Limited (ABCHKL)	—	28.8	—	28.8	—	28.8	Hong Kong
ACR Nominees Limited	—	28.8	—	28.8	—	28.8	Hong Kong
PNB Life Insurance, Inc. (PLII)	—	45.2	—	45.2	—	45.2	Philippines
Allied Leasing and Finance Corporation (ALFC)	—	32.3	—	32.3	—	32.3	Philippines
Oceanic Holdings (BVI) Ltd. (OHBVI)	—	15.7	—	15.7	—	15.7	USA

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

⁽²⁾ On February 3, 2014, the Beverage segment's BOD approved the subscription of the 124,999,995 shares of AB Nutribev Corp. at P1.00 per value per share.

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

⁽⁴⁾ As of March 31, 2015 and December 31, 2014, the Bank Holding Companies consist of 27 entities with aggregate direct ownership interest of 59.83% in PNB, of which 20 companies are incorporated in the Philippines and seven (7) companies are incorporated in the British Virgin Islands.

⁽⁵⁾ Represents the effective ownership interest of LTG through the collective ownership of the Bank Holding Companies in the merged PNB. Subsidiaries of Merged PNB pertain to the 18 subsidiaries of PNB and Allied Bank, respectively, prior to the merger.

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

Changes in Accounting Policies and Disclosures

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended December 31, 2014, except for the adoption of the following new amended standards and interpretations effective as of January 1, 2015.

- Amendments to PAS 19, *Employee Benefits - Defined Benefit Plans: Employee Contributions*, requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is not relevant to the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.
- *Annual Improvements to PFRSs (2010-2012 cycle)*
The Annual Improvements to PFRSs (2010-2012 cycle) did not have a material impact on the Group. They include:
 - PFRS 2, *Share-based Payment - Definition of Vesting Condition* is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

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

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

New Accounting Standards, Interpretations and Amendments to Existing Standards Effective Subsequent to December 31, 2015

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

Effective 2016

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

apply this method from the date of transition to PFRS. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments will not have any impact on the Group's consolidated financial statements.

- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*, address an acknowledged inconsistency between the requirements in PFRS 10 and those in PAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. These amendments are effective from annual periods beginning on or after January 1, 2016. The Group shall consider these amendments for future sale or contribution of assets of the Group to its associates and joint venture.
- Amendments to PFRS 11, *Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations*, require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not re-measured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

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

- PFRS 14, *Regulatory Deferral Accounts*, is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. PFRS 14 is effective for annual periods beginning on or after January 1, 2016. Since the Group is an existing PFRS preparer, this standard would not apply.
- *Annual Improvements to PFRSs (2012-2014 cycle)*
The Annual Improvements to PFRSs (2012-2014 cycle) are effective for annual periods beginning on or after January 1, 2016 and are not expected to have a material impact on the Group. They include:
 - PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations - Changes in Methods of Disposal*, is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan.

There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.

- PFRS 7, *Financial Instruments: Disclosures - Servicing Contracts*, requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments.
- PFRS 7 - *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*, is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.
- PAS 19, *Employee Benefits - regional market issue regarding discount rate*, is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.
- PAS 34, *Interim Financial Reporting - disclosure of information 'elsewhere in the interim financial report'*, is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).

Effective 2018

- PFRS 9, *Financial Instruments - Hedge Accounting and amendments to PFRS 9, PFRS 7 and PAS 39 (2013 version)*, already includes the third phase of the project to replace PAS 39 which pertains to hedge accounting. This version of PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items but also for non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a derivative instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

PFRS 9 (2013 version) has no mandatory effective date. The mandatory effective date of January 1, 2018 was eventually set when the final version of PFRS 9 was adopted by the FRSC. The adoption of the final version of PFRS 9, however, is still for approval by BOA.

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

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

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

In compliance with SEC Memorandum Circular No. 3 Series 2012, the banking segment discloses the following information:

- The banking segment is still evaluating the effect of the early adoption of PFRS 9 and the impact on its financials; hence the interim financial statements do not reflect the impact of the said standard.
- In case of early adoption of PFRS 9, the following accounts may be affected: (a) Loans and Receivables; (b) Investment Securities; (c) Financial Liabilities Designated at FVPL; (d) Retained Earnings; and (e) Undivided Profits.

Standards issued but not yet effective

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

would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

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

Effectivity date to be determined

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

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

The following new standards and amendments to existing standards issued by the IASB have not yet been adopted by the FRSC as of March 31, 2015:

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

- Amendments to IFRS 10, *Consolidated Financial Statements*, IFRS 12, *Disclosure of Interests in Other Entities*, and IAS 28, *Investments in Associates and Joint Ventures*. In December 2014, the IASB issued *Investment Entities: Applying the Consolidation Exception* (amendments to IFRS 10, IFRS 12 and IAS 28). The amendments address certain issues that have arisen in applying the investment entities exception under IFRS 10.

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

3. Segment Information

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

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

- Banking, provides full range of banking and other financial services to corporate, middle-market and retail customers, the National Government (NG), local government units (LGUs) and government-owned and controlled corporations (GOCCs) and various government agencies, including deposit-taking, lending, bills discounting, foreign exchange dealing, investment banking, fund transfers or remittance servicing and full range of retail banking and trust services. The Group conducts its banking business through PNB and its consolidated subsidiaries.
- Distilled Spirits, which is involved in manufacturing, compounding, bottling, importing, buying and selling of rum, spirit beverages, and liquor products. The Group conducts its distilled spirits business through TDI and its consolidated subsidiaries.
- Beverage, which is engaged in brewing and soft drinks and bottled water manufacturing in the Philippines. It also operates other plants, which includes commercial glass division and corrugated cartons and metal closures production facility, to support the requirements of its brewing, bottled water and non-beer products operations. The Group conducts its beverage business through ABI and its consolidated subsidiaries.
- Tobacco, which is a supplier and manufacturer of cigarettes, casings, tobacco, packaging, labels and filters. The Group conducts its tobacco business through FTC's interest in PMFTC.
- Property Development, which is engaged in ownership, development, leasing and management of residential properties, including but not limited to, all kinds of housing projects, commercial, industrial, urban or other kinds of real property; acquisition, purchasing, development and selling of subdivision lots. The Group conducts its property development business through Eton and its consolidated subsidiaries.
- Others, consist of various holding companies (LTG, Paramount, Saturn, Shareholdings, TBI and Bank Holding Companies) that provide financing for working capital and capital expenditure requirements of the operating businesses of the Group.

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

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

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

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

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

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

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

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

For the three months ended March 31, 2015 (Unaudited):

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
	(In Thousands)						
Segment revenue:							
External customers	₱6,300,561	₱2,975,817	₱3,205,225	₱–	₱644,456	₱–	₱13,126,059
Inter-segment	–	14,714	296,990	–	–	(311,704)	–
	6,300,561	2,990,531	3,502,215	–	644,456	(311,704)	13,126,059
Cost of sales and services	1,226,073	2,417,722	2,509,956	–	354,265	(340,659)	6,167,357
Gross profit	5,074,488	572,809	992,259	–	290,191	28,955	6,958,702
Equity in net earnings of associates	–	–	–	414,508	–	92,681	507,189
	5,074,488	572,809	992,259	414,508	290,191	121,636	7,465,891
Selling expenses	–	241,044	377,994	–	10,817	–	629,855
General and administrative expenses	4,953,726	177,945	200,244	26,065	157,039	22,338	5,537,357
Operating income	120,762	153,820	414,021	388,443	122,335	99,298	1,298,679
Finance costs	–	(46,742)	(2,656)	–	(27,490)	1,125	(75,763)
Finance income	–	1,348	206	13,797	13,276	(15,031)	13,596
Foreign exchange gains - net	292,438	(209)	–	–	298	(99)	292,428
Others - net	1,366,568	4,492	14,564	10,002	(25,242)	(167,854)	1,202,530
Income before income tax	1,779,768	112,709	426,135	412,242	83,177	(82,561)	2,731,470
Provision for income tax	392,309	38,153	125,510	1,013	32,257	3,229	592,471
Segment profit	₱1,387,459	₱74,556	₱300,625	₱411,229	₱50,920	(₱85,790)	₱2,138,999
Depreciation and amortization expense	₱316,448	₱131,255	₱407,163	₱2,702	₱36,891	₱4,321	₱898,780
Segment profit attributable to:							
Equity holders of the Company	837,410	74,388	300,625	409,503	50,538	(1,694)	1,586,674
Non-controlling interests	550,049	168	–	1,726	382	–	552,325

Other financial information of the operating segments as of March 31, 2015 (Unaudited) is as follows:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
	<i>(In Thousands)</i>						
Assets:							
Current assets	₱287,112,894	₱9,038,074	₱10,607,243	₱10,431,157	₱14,151,964	(₱5,149,500)	₱326,191,832
Noncurrent assets	320,075,450	6,787,457	13,380,144	13,296,659	9,088,555	1,258,366	363,886,631
	₱607,188,344	₱15,825,531	₱23,987,387	₱23,727,816	₱23,240,519	(₱3,891,134)	₱690,078,463
Liabilities:							
Current liabilities	₱456,994,205	₱1,479,009	₱3,062,579	₱376,874	₱7,093,902	(₱12,140,551)	₱456,866,018
Noncurrent liabilities	61,890,006	535,847	1,485,976	77,265	2,514,111	529,639	67,032,844
	₱518,884,211	₱2,014,856	₱4,548,555	₱454,139	₱9,608,013	(₱11,610,912)	₱523,898,862
Investments in associates and a joint venture	₱–	₱–	₱49,125	₱10,982,622	₱–	₱1,330,054	₱12,361,801
Equity attributable to:							
Equity holders of the Company	48,640,528	13,685,252	19,438,832	23,161,627	13,601,912	8,304,742	126,832,893
Non-controlling interests	39,660,605	125,423	–	112,050	30,594	(584,964)	39,346,708
Short-term debts	–	–	300,000	–	–	–	300,000
Long-term debts	9,973,596	–	737	–	1,708,114	–	11,682,447

For the three months ended March 31, 2014 (Unaudited):

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
	<i>(In Thousands)</i>						
Segment revenue:							
External customers	₱6,389,295	₱2,948,271	₱3,010,157	₱–	₱539,142	₱–	₱12,886,865
Inter-segment	–	9,123	361,533	–	–	(370,656)	–
	6,389,295	2,957,394	3,371,690	–	539,142	(370,656)	12,886,865
Cost of sales and services	1,201,057	2,450,439	2,419,484	–	402,685	(376,543)	6,097,122
Gross profit	5,188,238	506,955	952,206	–	136,457	5,887	6,789,743
Equity in net earnings of associates	–	–	–	480,476	–	–	480,476
	5,188,238	506,955	952,206	480,476	136,457	5,887	7,270,219
Selling expenses	–	235,137	385,213	150	33,803	(4,678)	649,625
General and administrative expenses	4,714,948	173,319	209,172	63,221	96,024	32,965	5,289,649
Operating income	473,290	98,499	357,821	417,105	6,630	(22,400)	1,330,945
Finance costs	–	(102,176)	(2,900)	–	(7,379)	5,511	(106,944)
Finance income	–	17	5,061	13,158	7,570	(4,960)	20,846
Foreign exchange gains - net	414,728	(644)	–	–	(98)	2,137	416,123
Others – net	916,318	3,757	5,175	191,493	27,707	27,817	1,172,267
Income before income tax	1,804,336	(547)	365,157	621,756	34,430	8,105	2,833,237
Provision for income tax	450,113	9,958	102,046	43,470	5,628	988	612,203
Segment profit	₱1,354,223	(₱10,505)	₱263,111	₱578,286	₱28,802	₱7,117	₱2,221,034
Depreciation and amortization expense	₱299,433	₱128,219	₱399,189	₱2,788	₱25,747	₱4,174	₱859,550
Segment profit attributable to:							
Equity holders of the Company	745,741	(8,722)	263,111	575,857	28,600	7,117	1,611,704
Non-controlling interests	608,482	(1,783)	–	2,429	202	–	609,330

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

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
	<i>(In Thousands)</i>						
Assets:							
Current assets	₱298,568,066	₱10,219,418	₱10,004,167	₱10,012,580	₱14,777,806	(₱3,445,955)	₱340,136,082
Noncurrent assets	313,673,332	6,600,617	13,588,070	13,304,339	8,915,819	614,949	356,697,126
	₱612,241,398	₱16,820,035	₱23,592,237	₱23,316,919	₱23,693,625	(₱2,831,006)	₱696,833,208
Liabilities:							
Current liabilities	₱466,045,382	₱6,443,588	₱2,959,227	₱385,588	₱12,925,809	(₱19,613,131)	₱469,146,463
Noncurrent liabilities	60,022,066	540,528	1,492,193	75,038	2,686,229	148,497	64,964,551
	₱526,067,448	₱6,984,116	₱4,451,420	₱460,626	₱15,612,038	(₱19,464,634)	₱534,111,014
Investments in associates and a joint venture	₱—	₱—	₱49,125	₱11,011,011	₱—	₱1,237,373	₱12,297,509
Equity attributable to:							
Equity holders of the Company	47,360,474	9,710,664	19,140,817	22,745,969	8,051,375	17,218,592	124,227,891
Non-controlling interests	38,813,476	125,255	—	110,324	30,212	(584,964)	38,494,303
Short-term debts	—	—	300,000	—	—	—	300,000
Long-term debts	9,969,498	4,998,008	2,902	—	1,829,938	(2,902)	16,797,444

4. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	March 31, 2015 (Unaudited)	December 31, 2014 (Audited)
	(In Thousands)	
Cash and other cash items	₱14,679,276	₱18,238,962
Cash equivalents:		
Due from <i>Bangko Sentral ng Pilipinas</i> (BSP)	108,238,361	105,773,685
Due from other banks	12,538,753	15,591,406
Interbank loans receivable	8,585,190	7,671,437
	₱144,041,580	₱147,275,490

- Cash and other cash items consist of cash on hand and in banks and short term investments. Cash in banks earn interest at bank deposit rates. Short term investments represent money market placements made for varying periods depending on the immediate cash requirements of the Group.
- Due from BSP is composed of interest-bearing short-term placements with BSP and a demand deposit account to support the regular operations of PNB.
- Securities held under agreements to resell represent overnight placements with the BSP where the underlying securities cannot be sold or repledged. The interest rate applicable is fixed by the BSP through a memorandum.
- Interest earned on cash and other cash items and cash equivalents are presented under “Finance income” and “Banking revenue”, respectively (see Note 22).

5. Financial Assets at Fair Value through Profit or Loss

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

	March 31, 2015 (Unaudited)	December 31, 2014 (Audited)
	(In Thousands)	
Financial assets at fair value through profit or loss (FVPL):		
Held for trading:		
Government securities	₱5,405,562	₱6,598,386
Private debt securities	217,614	289,313
Derivative assets (Note 19)	167,570	136,551
Equity securities	210,369	210,550
	6,001,115	7,234,800
Designated at FVPL		
Segregated fund assets (Note 16)	11,639,592	10,654,770
Unit investment trust fund	2,884,519	4,922,351
	₱20,525,226	₱22,811,921

6. Available for Sale Investments

Available for sale investments consist of:

	March 31, 2015 (Unaudited)	December 31, 2014 (Audited)
	<i>(In Thousands)</i>	
Government securities	₱43,022,883	₱37,683,386
Other debt securities	22,429,620	23,986,694
Equity securities:		
Quoted	2,847,237	2,735,120
Unquoted	390,730	338,026
	68,690,470	64,743,226
Allowance for impairment losses	(929,881)	(929,881)
	67,760,589	63,813,345
Noncurrent portion	(62,736,498)	(60,039,059)
	₱5,024,091	₱3,774,286

7. Loans and Receivables

Loans and receivables consist of:

	March 31, 2015 (Unaudited)	December 31, 2014 (Audited)
	<i>(In Thousands)</i>	
Finance receivables	₱327,021,251	₱328,416,192
Trade receivables	12,802,800	11,885,157
Other receivables	2,225,373	2,980,818
	342,049,424	343,282,167
Allowance for credit losses	(16,255,022)	(12,189,786)
	325,794,402	331,092,381
Noncurrent portion	(191,532,418)	(187,438,860)
	₱134,261,984	₱143,653,521

Finance Receivables

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

	March 31, 2015 (Unaudited)	December 31, 2014 (Audited)
	<i>(In Thousands)</i>	
Receivables from customers:		
Loans and discounts	₱287,980,941	₱278,897,612
Customers' liabilities on acceptances, letters of credit and trust receipts	9,961,704	11,594,378
Bills purchased	3,723,858	4,878,682
(Forward)		

	March 31, 2015 (Unaudited)	December 31, 2014 (Audited)
	<i>(In Thousands)</i>	
Credit card receivables	₱4,262,459	₱4,390,966
Finance lease receivables	213,901	3,311,150
	306,142,863	303,072,788
Unquoted debt securities	4,269,064	8,044,272
Other receivables:		
Accounts receivable	8,536,826	8,993,706
Accrued interest receivable	4,368,330	4,756,699
Sales contract receivables	4,628,656	4,267,338
Miscellaneous	446,317	442,089
	17,980,129	18,459,832
	328,392,056	329,576,892
Unearned interest and other deferred income	(1,370,805)	(1,160,700)
	327,021,251	328,416,192
Allowance for credit losses	(16,194,695)	(12,129,459)
	310,826,556	316,286,733
Noncurrent portion	(190,819,767)	(186,830,742)
	₱120,006,789	₱129,455,991

Trade receivables

Trade receivables consist of:

	March 31, 2015 (Unaudited)	December 31, 2014 (Audited)
	<i>(In Thousands)</i>	
Consumer goods	₱8,857,022	₱9,026,828
Contract receivables	3,817,143	2,667,862
Lease receivables	128,635	190,467
	12,802,800	11,885,157
Allowance for credit losses	(54,813)	(54,813)
	12,747,987	11,830,344
Less noncurrent portion of contract receivables	(712,651)	(608,118)
	₱12,035,336	₱11,222,226

8. Inventories

Inventories consist of:

	March 31, 2015 (Unaudited)	December 31, 2014 (Audited)
	<i>(In Thousands)</i>	
At Cost:		
Consumer goods:		
Alcohol	₱2,424,904	₱2,383,195
Beverage	2,163,345	2,028,689
	4,588,249	4,411,884

	March 31, 2015 (Unaudited)	December 31, 2014 (Audited)
	<i>(In Thousands)</i>	
Real estate inventories:		
Condominium and residential units for sale	₱2,925,306	₱3,524,882
Subdivision land under development	2,350,582	2,315,704
Land held for future development	1,288,848	1,408,237
	6,564,736	7,248,823
Fuel, materials and supplies	514,733	624,150
	11,667,718	12,284,857
At NRV - Materials and supplies	601,233	652,008
	₱12,268,951	₱12,936,865

9. Other Current Assets

Other current assets consist of:

	March 31, 2015 (Unaudited)	December 31, 2014 (Audited)
	<i>(In Thousands)</i>	
Creditable withholding taxes (CWT)	₱3,577,194	₱2,738,802
Advances to suppliers	1,067,388	964,567
Excise tax	946,110	1,008,484
Input VAT	758,536	827,684
Prepaid expenses	712,900	371,466
Advances to contractors	297,072	367,221
Miscellaneous cash and other cash items	124,347	714,726
Deferred rent	96,558	90,701
Stationeries, office supplies and stamps on hand	85,629	129,721
Held to maturity investments	—	11,375
Others	608,291	661,862
	₱8,274,025	₱7,886,609

10. Associates and Joint Venture

Investments in Associates and a Joint Venture

The Group has the power to participate in the financial and operating policy decisions in PMFTC and VMC, a 49.6%-owned and a 20.2%-owned associate, respectively, which do not constitute control or joint control. The Group also has 50.0% interest in ABI Pascual Holdings Private Limited (ABI Pascual Holdings), which is a joint controlled entity. The Group's investments in its associates and joint venture are accounted for using equity method of accounting.

	March 31, 2015 (Unaudited)	December 31, 2014 (Audited)
	<i>(In Thousands)</i>	
PMFTC	₱10,982,622	₱11,011,011
VMC	1,330,054	1,237,373
ABI Pascual Holdings	49,125	49,125
	₱12,361,801	₱12,297,509

Investment in PMFTC

Details of investment in PMFTC are as follows:

	March 31, 2015 (Unaudited)	December 31, 2014 (Audited)
	<i>(In Thousands)</i>	
Acquisition cost	₱13,483,541	₱13,483,541
Accumulated equity in net earnings:		
Balance at beginning of year	(2,472,530)	180,908
Equity in net earnings	414,508	515,112
Less cash dividends	(442,897)	(3,168,550)
Balance at end of year	(2,500,919)	(2,472,530)
	₱10,982,622	₱11,011,011

Investment in VMC

Details of investment in VMC are as follows:

	March 31, 2015	December 31, 2014
	<i>(In Thousands)</i>	
Acquisition cost	₱616,441	₱616,441
Accumulated equity in net earnings:		
Balance at beginning of year	379,443	—
Equity in net earnings	92,681	44,635
Excess of fair value of net assets of associate over cost of investment	—	334,808
Balance at end of year	472,124	379,443
Balance of convertible note	241,489	241,489
	₱1,330,054	₱1,237,373

On December 21, 2007, the Company acquired 170.1 million shares representing 10.67% ownership in the shares of stock of VMC for ₱85.1 million presented as AFS investments as of December 31, 2013. Net changes in the fair value of AFS investments recognized as other comprehensive income in 2013 amounted to ₱86.8 million. As of December 31, 2013, the cost of investment plus the accumulated net changes in fair value of AFS investments amounted to ₱323.3 million.

On various dates in April and May 2014, LTG acquired shares of stock of VMC amounting to ₱413.6 million, which increased its ownership interest to 17.5%, and convertible notes amounting to ₱359.3 million, which would increase LTG's interest to 23.5% upon conversion. As of December 31, 2014, portion of the convertible notes amounting to ₱117.8 million was converted to shares of stock of VMC resulting in an increase in LTG's ownership interest to 20.4%. The cost-based approach was applied in accounting for the step acquisition of VMC as an associate. Accordingly, LTG reclassified the original cost of its AFS investments to investment in an associate and derecognized the net changes in fair value of AFS investments amounting to ₱238.2 million (presented in other comprehensive income). The difference of ₱334.8 million between the sum of the consideration for the 17.5% ownership interest amounting to ₱498.7 million and the share in fair value of net assets of VMC at the date the investment becomes an associate amounting to ₱833.5 million is recognized as part of the equity in net earnings of VMC.

Investment in a Joint Venture

Total assets, liabilities and capital deficiency of ABI Pascual Holdings amounted to ₱57.9 million, ₱163.4 million and ₱105.5 million as of March 31, 2015 and ₱54.2 million, ₱146.3 million and ₱92.1 million as of December 31, 2014. In 2014, the Group determined that its advances to ABI Pascual Foods amounting to ₱95.2 million to support its operations represent the Group's long-term interest in ABI Pascual Holdings and its subsidiary that, in substance, form part of the Group's net investment in the joint venture.

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

Additions to Property, Plant and Equipment amounted to ₱810.6 million while retirement and disposals amounted to ₱76.0 million for the three month period ended March 31, 2015.

Additions to Investment properties amounted to ₱160.9 million while retirement and disposals amounted to ₱510.4 million for the three month period ended March 31, 2015.

12. Other Noncurrent Assets

Other noncurrent assets consist of:

	March 31, 2015 (Unaudited)	December 31, 2014 (Audited)
	<i>(In Thousands)</i>	
Software costs	₱644,395	₱667,364
Deferred reinsurance premiums	559,003	738,685
Deferred charges	489,180	236,773
Deposit for future investments	357,489	357,489
Net retirement plan assets (Note 21)	266,421	264,118

	March 31, 2015 (Unaudited)	December 31, 2014 (Audited)
	<i>(In Thousands)</i>	
Refundable deposits	₱174,836	₱173,305
Goodwill	163,735	163,735
Deferred input VAT	142,233	352,657
Other security deposit	87,579	125,656
Chattel properties - net	49,549	49,549
Other investments	16,583	19,357
Others - net	652,401	516,444
	₱3,603,404	₱3,665,132

13. Deposit Liabilities

Deposit liabilities consist of:

	March 31, 2015 (Unaudited)	December 31, 2014 (Audited)
	<i>(In Thousands)</i>	
Demand	₱98,515,235	₱88,898,863
Savings	278,182,024	293,201,308
Time	53,633,426	52,759,938
	430,330,685	434,860,109
Presented as noncurrent	(22,739,009)	(23,468,731)
Presented as current	₱407,591,676	₱411,391,378

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

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

	March 31, 2015 (Unaudited)	December 31, 2014 (Audited)
	<i>(In Thousands)</i>	
Designated at FVPL - Segregated fund liabilities	₱11,930,260	₱10,817,122
Derivative liabilities (Note 19)	114,990	44,903
	12,045,250	10,862,025
Presented as noncurrent	52,964	24,805
Presented as current	₱11,992,286	₱10,837,220

15. Bills and Acceptances Payable

Bills and acceptance payable consists of:

	March 31, 2015 (Unaudited)	December 31, 2014 (Audited)
	(In Thousands)	
Bills payable to:		
BSP and local banks	₱14,927,526	₱16,393,373
Foreign banks	1,802,384	1,027,442
Others	1,175,288	1,262,389
	17,905,198	18,683,204
Acceptances outstanding	1,541,469	366,854
	19,446,667	19,050,058
Presented as noncurrent	13,945,788	12,409,837
Presented as current	₱5,500,879	₱6,640,221

16. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of:

	March 31, 2015 (Unaudited)	December 31, 2014 (Audited)
	(In Thousands)	
Trade payables	₱2,953,770	₱2,347,734
Banking trade payables	5,753,755	7,162,995
Nontrade payables	406,176	323,957
Accrued expenses:		
Interest (Note 8)	2,045,966	2,070,730
PDIC insurance premiums	340,014	479,910
Reinstatement premium	94,641	133,580
Compensation and benefits	323,059	455,978
Purchase of materials and supplies	315,338	445,081
Projects development costs	235,617	332,559
Taxes and licenses	245,587	225,623
Information technology-related expenses	73,464	103,690
Rent and utilities payable	107,071	98,249
Others	269,773	380,768
Retention payable	724,476	710,107
Provision for contingencies (Note 33)	335,410	335,410
Due to government agencies	31,023	267,486
Output value added tax	149,405	136,138
Other payables	78,335	110,566
	₱14,482,880	₱16,120,561

17. Short-term and Long-term Debts

Short-term Debts

The Group has no availments and payments of short term debts for the period ended March 31, 2015. As of March 31, 2015 and December 31, 2014, outstanding unsecured short term debts amounted to ₱300.0 million. The loans are subject to annual interest rates ranging from 3.5% to 5.0%, are payable lump sum on various dates within one year and subject to renewal upon agreement by the Group and counterparty banks.

Long-term Debts

	March 31, 2015 (Unaudited)	December 31, 2014 (Audited)
	<i>(In Thousands)</i>	
Subordinated debts	₱9,973,595	₱9,969,498
Bonds payable	–	4,998,008
Unsecured term loan	1,500,000	1,321,823
Notes payable	508,115	508,115
	11,981,710	16,797,444
Less current portion	808,114	5,506,123
	₱11,173,596	₱11,291,321

In January 2014, the Group paid portion of its notes payable and unsecured term loans amounting to ₱508.89 million and ₱116.41 million, respectively. The Group also reclassified all its Bonds payable which are due on February 2015 from noncurrent liabilities to current liabilities. On February 13, 2015, the Group paid its Bonds Payable amounting to ₱5,000.0 million. As of March 31, 2015, the Group has complied with the covenants related to its long-term debts.

18. Other Liabilities

	March 31, 2015 (Unaudited)	December 31, 2014 (Audited)
	<i>(In Thousands)</i>	
Insurance contract liabilities	₱11,626,243	₱11,507,852
Bills purchased - contra (Note 7)	3,314,660	4,230,348
Customers deposits	1,891,896	2,017,398
Provisions (Note 33)	1,771,242	1,680,648
Payable to landowners	2,279,104	2,289,708
Managers' checks and demand drafts outstanding	913,533	1,030,298
Reserve for unearned premiums	882,533	1,056,794
Deposit on lease contracts	740,654	651,371
Other dormant credits	463,012	549,149
Due to Treasurer of the Philippines	440,070	366,841
Tenants' rental deposits	262,362	268,805
Payment order payable	167,545	312,144
Due to BSP	149,172	101,172
Margin deposits and cash letters of credit	115,050	86,143
Advanced rentals	97,952	45,800

	March 31, 2015 (Unaudited)	December 31, 2014 (Audited)
	<i>(In Thousands)</i>	
Transmission liability	88,485	76,893
Others	P5,816,408	P4,341,804
	31,019,921	30,613,168
Presented as noncurrent	14,965,756	12,638,349
Presented as current	P16,054,165	P17,974,819

19. Derivative Financial Instruments

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

	March 31, 2015 (Unaudited)	December 31, 2014 (Audited)
	<i>(In Thousands)</i>	
Balance at beginning of year	P91,648	P95,596
Changes in fair value	90,188	105,244
Settlements	129,256	(109,192)
	P52,580	P91,648

The changes in fair value of the derivatives are included in “Trading and investments securities gains - net” presented as part of “Banking revenues” in the consolidated statements of income (see Note 22).

20. Related Party Transactions

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

		Three Months Ended March 31	
		2015 (Unaudited)	2014 (Audited)
		<i>(In Thousands)</i>	
Associate	Sales	P—	P420
	Purchases of inventories	—	—
	Dividend income	442,897	882,490
Entities Under Common Control	Banking revenue - interest on loans and receivables	27,920	4,725
	Sales of consumer products	13,963	2,430
	Rent income	4,514	6,281
	Freight and handling	(975)	(1,153)
	Purchases of inventories	(39,937)	(9,123)
	Cost of banking services - interest expense on deposit liabilities	(4,408)	(15,028)
	Management and professional fee	(57,077)	(60,316)
	Rent expense	(9,263)	(7,200)

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

			Outstanding Balance	
			March 31, 2015	December 31, 2014
			(Unaudited)	(Audited)
			(In Thousands)	
Financial Statement Account	Terms and Conditions			
Parent Company	Due to related parties	On demand; non-interest bearing	(P34,665)	(P41,975)
Associate	Other receivables - dividends	30 to 90 days terms; non-interest bearing	153,710	165,753
	Trade receivables	30 to 90 days terms; non-interest bearing	181	181
	Account payable and other liabilities	30 to 60 days terms; non-interest bearing	—	(38,354)
	Finance Receivables	Loans with interest rates ranging from 0.5% to 16.5% and maturity terms ranging from one (1) month to 25 years; Collateral includes bank deposit hold-out, real estate and chattel mortgages	11,976,462	14,455,539
	Trade receivables	30 to 60 days terms; non-interest bearing	10,083	7,957
	Other receivables	30 to 60 days terms; non-interest bearing	16,831	3,175
Entities Under Common Control	Due from related parties	On demand; non-interest bearing	1,795,975	1,795,829
	Advances to suppliers	30 to 60 days terms; non-interest bearing	47,401	47,670
	Deposit liabilities	With annual rates ranging from 0.38% to 1.73% and maturity ranging from 30 days to one (1) year	(5,354,038)	(11,136,419)
	Account payable and other liabilities	30 to 90 days terms; non-interest bearing	(357,736)	(331,866)
	Due to related parties	On demand; non-interest bearing	—	(3,841)
	Other payables	30 to 90 days terms; non-interest bearing	(844)	(4,496)

As of March 31, 2015 and December 31, 2014, the outstanding related party balances are unsecured and settlement occurs in cash, unless otherwise indicated. The Group has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related parties and the market in which these related parties operate.

21. Retirement Benefits

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

	March 31, 2015 (Unaudited)	December 31, 2014 (Audited)
	<i>(In Thousands)</i>	
Net retirement plan assets:		
FTC	₱226,272	₱223,083
AAC	40,149	41,035
	₱266,421	₱264,118
Accrued retirement benefits:		
PNB	₱2,866,011	₱2,841,883
ABI and subsidiaries	893,497	877,195
TDI and ADI	11,546	11,730
Eton	41,971	38,392
LTG	6,446	7,061
	₱3,819,471	₱3,776,261

Transactions with Retirement Plans

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

As of March 31, 2015 and December 31, 2014, AFS and HTM investments include government and private debt securities and various funds. Deposits with other banks pertain to Special Deposit Accounts (SDA) placement with BSP.

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

22. Revenue and Cost of Sales and Services

Revenue consists of:

	Three Months Ended March 31	
	2015	2014
	(Unaudited)	(Audited)
	<i>(In Thousands)</i>	
Banking revenue	₱6,300,561	₱6,389,295
Sale of consumer goods	6,181,042	5,958,428
Real estate sales	386,500	407,913
Rental income	257,956	131,229
	₱13,126,059	₱12,886,865

Sale of consumer goods consists of:

	Three Months Ended March 31	
	2015	2014
	(Unaudited)	(Audited)
	<i>(In Thousands)</i>	
Gross sales	₱6,575,246	₱6,022,243
Less sales returns, discounts and allowances	394,204	63,815
	₱6,181,042	₱5,958,428

Banking revenue consists of:

	Three Months Ended March 31	
	2015	2014
	(Unaudited)	(Audited)
	<i>(In Thousands)</i>	
Interest income on:		
Loans and receivables	₱4,013,731	₱3,768,237
Trading and investment securities	903,897	841,760
Deposits with banks and others	297,753	787,165
Interbank loans receivable	7,414	3,424
	5,222,795	5,400,586
Trading and securities gains	208,314	166,775
Service fees and commission income	869,452	821,934
	₱6,300,561	₱6,389,295

Cost of sales and services consists of:

	Three Months Ended March 31	
	2015	2014
	(Unaudited)	(Audited)
	<i>(In Thousands)</i>	
Cost of consumer goods sold:		
Materials used and changes in inventories	₱2,981,403	₱2,968,584
Depreciation and amortization (Note 11)	350,468	341,731
Taxes and licenses	338,845	311,509
Personnel costs	204,749	254,701

	Three Months Ended March 31	
	2015	2014
	(Unaudited)	(Audited)
	<i>(In Thousands)</i>	
Fuel and power	196,134	164,169
Outside services	163,802	100,573
Communication, light and water	P162,283	P166,961
Repairs and maintenance	112,956	108,316
Freight and handling	30,682	19,822
Others	74,652	62,899
	4,615,974	4,499,265
Cost of banking services	1,197,118	1,195,170
Cost of real estate sales	299,611	350,456
Cost of rental income	54,654	52,231
Cost of sales and services	P6,167,357	P6,097,122

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

Cost of banking services consist of:

	Three Months Ended March 31	
	2015	2014
	(Unaudited)	(Audited)
	<i>(In Thousands)</i>	
Interest expense on:		
Deposit liabilities	P697,249	P810,802
Bills payable and other borrowings	267,297	200,456
Services fees and commission expense	232,572	183,912
	P1,197,118	P1,195,170

23. Selling Expenses

	Three Months Ended March 31	
	2015	2014
	(Unaudited)	(Audited)
	<i>(In Thousands)</i>	
Advertising and promotions	P267,834	P310,927
Depreciation and amortization	139,480	132,849
Freight and handling	105,638	76,701
Personnel costs	33,593	31,862
Management, consulting and professional fees	28,039	24,602
Repairs and maintenance	12,708	18,816
Materials and consumables	11,169	11,150
Commissions	4,275	31,016
Others	27,119	11,702
	P629,855	P649,625

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

24. General and Administrative Expenses

	Three Months Ended March 31	
	2015	2014
	(Unaudited)	(Audited)
	<i>(In Thousands)</i>	
Personnel costs	₱2,369,518	₱1,825,409
Taxes and licenses	662,982	591,257
Increase in aggregate reserve for life policies	439,070	220,336
Depreciation and amortization	376,561	366,566
Occupancy	339,154	325,278
Insurance	270,221	246,027
Outside services	196,407	220,717
Provision for losses	159,231	365,463
Management, consulting and professional fees	153,580	181,590
Information technology	112,503	105,787
Policyholder benefits and claim benefits	101,225	100,006
Marketing expenses	72,812	181,963
Travel and transportation	66,193	87,620
Litigation expenses	53,633	112,461
Communication, light and water	48,730	33,382
Materials and consumables	33,621	74,167
Repairs and maintenance	25,645	50,604
Others	56,271	201,016
	₱5,537,357	₱5,289,649

25. Finance Costs and Finance Income

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

	Three Months Ended March 31	
	2015	2014
	(Unaudited)	(Audited)
	<i>(In Thousands)</i>	
Finance costs (Note 17):		
Short-term debts	₱2,656	₱2,900
Bonds payable and amortization of bond issue costs	46,742	102,176
Unsecured term loan and notes payable	26,365	1,868
	₱75,763	₱106,944
Finance income:		
Cash and other cash items (Note 4)	₱8,907	₱13,656
Interest-bearing contracts receivable (Note 7)	4,689	7,190
	₱13,596	₱20,846

26. Other Income (Charges) - net

	Three Months Ended March 31	
	2015	2014
	(Unaudited)	(Audited)
	<i>(In Thousands)</i>	
Premiums - net of reinsurance	₱688,638	₱412,034
Net gains on sale or exchange of assets	107,064	347,501
Rental income	81,633	227,593
Processing and referral fees	27,233	55,074
Recoveries	68,090	20,446
Others	229,872	109,619
	₱1,202,530	₱1,172,267

27. Income Taxes

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

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

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

Provision for current income tax consists of:

	Three Months Ended March 31	
	2015	2014
	(Unaudited)	(Audited)
	<i>(In Thousands)</i>	
RCIT/MCIT	₱520,404	₱425,808
Final tax	135,625	180,132
Provision for current income tax	₱656,029	₱605,940

28. Equity

Capital Stock

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

	March 31, 2015 (Unaudited)	December 31, 2014 (Audited)
<i>Number of shares</i>		
Authorized capital stock at ₱1 par value:	25,000,000,000	25,000,000,000
	<i>(In Thousands)</i>	
Issued capital stock at ₱1 par value:		
At beginning and end of the period	₱10,821,389	₱10,821,389

29. Basic/Diluted Earnings Per Share

Basic/diluted earnings per share were calculated as follows:

	Three Months Ended March 31	
	2015 (Unaudited)	2014 (Audited)
	<i>(In Thousands)</i>	
Net income attributable to equity holders of the Company	₱1,586,674	₱1,611,703
Divided by weighted-average number of shares	10,821,389	10,821,389
Basic/diluted EPS for net income attributable to equity holders of the Company	₱0.15	₱0.15

30. Financial Risk Management Objectives and Policies

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

Financial Risk Management Objectives and Policies of the Banking Segment

Risk Management Strategies

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

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

- Credit Risk
- Market Risk
- Liquidity Risk

- Operational Risk
- Information Security and Technology Risk

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

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

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

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

The mandate of the RMG involves:

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

Credit Risk

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

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

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

- Documented credit policies and procedures: sound credit granting process, risk asset acceptance criteria, target market and approving authorities;
- System for administration and monitoring of exposure;
- Pre-approval review of loan proposals;
- Post approval review of implemented loans;

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

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

Credit-related commitments

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

Derivative financial instruments

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

Collateral and other credit enhancement

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

The main types of collateral obtained are as follows:

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

The disposal of the foreclosed properties is handled by the Asset Management Sector which adheres to the general policy of disposing assets at the highest possible market value. Management regularly monitors the market value of the collateral and requests additional collateral in accordance with the underlying agreement. The existing market value of the collateral is

considered during the review of the adequacy of the allowance for credit losses. Generally, collateral is not held over loans and advances to banks except for reverse repurchase agreements.

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

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

Excessive risk concentration

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

a. Limit per Client or Counterparty

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

b. Concentration by Industry

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

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

Credit quality per class of financial assets

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

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

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

- **CRR 1 - Excellent**
Loans receivables rated as excellent include borrowers which are significant in size, with long and successful history of operations, an industry leader, with ready access to all equity and debt markets and have proven its strong debt service capacity.
- **CRR 2 - Super Prime**
Loans receivables rated as super prime include borrowers whose ability to service all debt and meet financial obligations remains unquestioned.
- **CRR 3 - Prime**
Under normal economic conditions, borrowers in this rating have good access to public market to raise funds and face no major uncertainties which could impair repayment.
- **CRR 4 - Very Good**
Loans receivables rated as very good include borrowers whose ability to service all debts and meet financial obligations remain unquestioned, but current adverse economic conditions or changing circumstances have minimal impact on payment of obligations.
- **CRR 5 - Good**
Loans receivables rated as good include borrowers with good operating history and solid management, but payment capacity could be vulnerable to adverse business, financial or economic conditions.

Standard

- **CRR 6 - Satisfactory**
These are loans receivables to borrowers whose ability to service all debt and meet financial obligations remains unquestioned, but with somewhat lesser capacity than in CRR 5 accounts.
- **CRR 7 - Average**
These are loans receivables to borrowers having ability to repay the loan in the normal course of business activity, although may not be strong enough to sustain a major setback.
- **CRR 8 - Fair**
These are loans receivables to borrowers possessing the characteristics of borrowers rated as CRR7 with slightly lesser quality in financial strength, earnings, performance and/or outlook.

Sub-standard Grade

- **CRR 9 - Marginal**
These are performing loans receivables from borrowers not qualified as CRRs 1-8. The borrower is able to withstand normal business cycles, although any prolonged unfavorable economic and/or market period would create an immediate deterioration beyond acceptable levels.
- **CRR 10 - Watchlist**
This rating includes borrower where the credit exposure is not at risk of loss at the moment but the performance of the borrower has weakened and, unless present trends are reversed, could eventually lead to losses.
- **CRR 11 - Special Mention**

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

- CRR 12 - Substandard
These are loans or portions thereof which appear to involve a substantial and unreasonable degree of risk to PNB because of unfavorable record or unsatisfactory characteristics.
- CRR 13 - Doubtful
These are loans or portions thereof which have the weaknesses inherent in those classified as CRR 12 with the added characteristics that existing facts, conditions and values make collection or liquidation in full highly improbable and in which substantial loss is probable.
- CRR 14 - Loss
These are loans or portions thereof which are considered uncollectible or worthless.

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

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

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

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

Under PFRS 7, a financial asset is past due when a counterparty has failed to make a payment when contractually due.

Impairment assessment

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

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

- a. Specific (individual) assessment
The Group assesses each individually significant credit exposure or advances for any objective evidence of impairment.

Among the items and factors considered by the Group when assessing and measuring specific impairment/credit allowances are:

- the going concern of the borrower's business;
- the ability of the borrower to repay its obligations during financial crises;
- the projected receipts or expected cash flows;
- the availability of other sources of financial support;
- the existing realizable value of collateral; and
- the timing of the expected cash flows.

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

b. Collective assessment

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

Impairment losses are estimated by taking into consideration the following information:

- historical losses of the portfolio;
- current adverse economic conditions that have direct impact on the portfolio;
- losses which are likely to occur but has not yet occurred; and
- expected receipts and recoveries once impaired.

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.

Market Risks

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

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

Trading market risk

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

a. Objectives and limitations of the VaR methodology

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

b. VaR assumptions/parameters

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

c. VaR Limits

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

Structural Market Risk of the Banking Segment

Non-trading Market Risk

Interest rate risk

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

Repricing mismatches will expose the banking segment to interest rate risk. PNB measures the sensitivity of its assets and liabilities to interest rate fluctuations by way of a "repricing gap" analysis using the repricing characteristics of its financial instrument positions tempered with approved assumptions. To evaluate earnings exposure, interest rate sensitive liabilities in each

time band are subtracted from the corresponding interest rate assets to produce a “repricing gap” for that time band. The difference in the amount of assets and liabilities maturing or being repriced over a one year period would then give the banking segment an indication of the extent to which it is exposed to the risk of potential changes in net interest income. A negative gap occurs when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. Vice versa, positive gap occurs when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities.

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

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

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

Foreign currency risk

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

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

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

Financial Risk Management Objectives and Policies of the Companies in the Group other than the Banking Segment

Risk Management Strategies

The Group’s principal financial instruments comprise of short-term and long-term debts and cash and other cash items (COCI). The main purpose of these financial instruments is to ensure adequate funds for the Group’s operations and capital expansion. Excess funds are invested in

Available-for-sale financial assets with a view to liquidate these to meet various operational requirements when needed. The Group has various other financial assets and financial liabilities such as receivables and accounts payable and accrued expenses which arise directly from its operations.

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

Credit Risk

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

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

Concentration risk

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

- Distilled spirits segment's sale of alcoholic beverage pertains mainly to two trusted parties with sales to them comprising about 99% of total alcoholic beverage sales.
- 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.

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.

Market Risks

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.

Foreign exchange risk

The Group's foreign currency risk relates to its US\$-denominated cash in banks and cash equivalents and due to and from related parties. Management closely monitors the fluctuations in exchange rates so as to anticipate the impact of foreign currency risks associated with the financial instruments. The Group currently does not enter into derivative transactions to hedge its currency exposure.

The reasonable movement in exchange rates was determined using one-year historical data. There is no other impact on the Group's equity other than those already affecting the profit or loss.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates would unfavorably affect future cash flows from financial instruments. As of March 31, 2015 and December 31, 2014, the Group's long-term debts are not exposed to the risk in changes in market interest rates since the debts are issued at fixed rates. Fixed rate financial instruments are subject to fair value interest rate risk while floating rate financial instruments are subject to cash flow interest rate risk. Repricing of floating rate financial instruments is mostly at interval of three months or six months.

31. Fair Values of Financial Instruments

The Group has assets and liabilities that are measured at fair value on a recurring and non-recurring basis in the consolidated balance sheets after initial recognition. Recurring fair value measurements are those that another PFRS requires or permits to be recognized in the consolidated balance sheets at the end of each reporting period. These include financial assets and liabilities at FVPL and AFS investments. Non-recurring fair value measurements are those that another PFRS requires or permits to be recognized in the consolidated balance sheet in particular

circumstances. These include land and land improvements, buildings and building improvements and machineries and equipment measured at revalued amount and investment properties measured at cost but with fair value measurement disclosure.

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

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

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

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

	March 31, 2015 (Unaudited)		December, 31, 2014 (Audited)	
	Carrying Value	Fair Market Value	Carrying Value	Fair Market Value
	<i>(In Thousands)</i>			
Financial Assets:				
Loans and receivables:				
Receivables from customers	₱306,142,863	₱326,920,669	₱296,372,069	₱316,486,735
Unquoted debt securities	4,269,064	5,801,152	4,425,005	6,013,057
	₱310,411,927	₱332,721,821	₱300,797,074	₱322,499,792
Financial Liabilities:				
Financial liabilities at amortized cost:				
Deposit liabilities -				
Time deposits	₱53,633,426	₱56,211,592	₱52,759,938	₱55,296,115
Bills payable	17,905,198	17,576,640	18,683,204	18,340,370
Long term debts:				
Subordinated debt	9,973,595	10,597,838	9,969,498	10,593,485
Unsecured term loan	1,500,000	1,517,999	1,321,823	1,337,684
Bonds payable	—	—	4,998,008	5,048,551
Notes payable	508,115	502,089	508,115	502,089
Other liabilities:				
Payable to landowners	1,286,181	1,250,418	2,289,708	2,226,042
Tenants' rental deposits	262,362	315,488	268,805	323,236
Advance rentals	97,952	88,140	45,800	41,212
	₱85,166,829	₱88,060,204	₱90,844,899	₱93,708,784

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

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

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

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

Loans and receivables - For loans with fixed interest rates, fair values are estimated by discounted cash flow methodology, using the Group's current market lending rates for similar types of loans. For loans with floating interest rates, with repricing frequencies on a quarterly basis, the Group assumes that the carrying amount approximates fair value. Where the repricing frequency is beyond three months, the fair value of floating rate loans is determined using the discounted cash flow methodologies. The discount rate used in estimating the fair value of loans and receivables is 3.2% in 2014 for peso-denominated receivables. For foreign currency-denominated receivables, discount rate used is 1.2% in 2014.

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

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

Time deposit liabilities and subordinated debt including designated at FVPL - Fair value is determined using the discounted cash flow methodology. The discount rate used in estimating the fair values of the subordinated debt and time deposits ranges from 1.1% to 4.2% as of March 31, 2015 and December 31, 2014, respectively.

Unsecured term loans, notes payable, payable to landowners, tenants' rental deposits and advance rentals - Fair values are estimated using the discounted cash flow method based on the discounted value of future cash flows using the applicable risk-free rates for similar types of instruments. The discount rates used range from 1.87% to 6.06% and from 1.97% to 6.38% as of March 31, 2015 and December 31, 2014, respectively.

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

Fair value hierarchy

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

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

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

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

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

	March 31, 2015 (Unaudited)			
	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	P4,583,335	P822,227	P–	P5,405,562
Derivative assets	–	108,737	58,832	167,569
Private debt securities	209,848	7,766	–	217,614
Equity securities	210,369	–	–	210,369
Designated at FVPL:				
Segregated fund assets*	6,310,050	–	5,329,542	11,639,592
	P11,313,602	P938,730	P5,388,374	P17,640,706
AFS investments:				
Government securities	P34,969,757	P7,496,997	P–	P42,466,754
Other debt securities	19,757,779	2,557,932	113,909	22,429,620
Equity securities**	2,018,302	52,486	–	2,070,788
	P56,745,838	P10,107,415	P113,909	P66,967,162
Non-financial assets				
Property, plant and equipment***				
Land and land improvements	P–	P–	P16,832,987	P16,832,987
Plant buildings and building improvements	–	–	11,602,275	11,602,275
Machineries and equipment	–	–	10,044,263	10,044,263
	P–	P–	P38,479,525	P38,479,525
Liabilities measured at fair value:				
Financial liabilities				
Financial liabilities at FVPL:				
Designated at FVPL:				
Segregated fund liabilities*	P6,600,718	P–	P5,329,542	P11,930,260
Derivative liabilities	–	114,991	–	114,991
	P6,600,718	P114,991	P5,329,542	P12,045,251
Assets for which fair values are disclosed:				
Financial Assets				
HTM investment	P23,633,287	P61,559	P–	P23,694,846
Loans and receivables:				
Receivables from customers	–	–	326,920,669	326,920,669
Unquoted debt securities	–	–	5,801,152	5,801,152
	P23,633,287	P61,559	P332,721,821	P356,416,667
Non-financial Assets				
Investment properties***				
Land	P–	P–	P36,107,990	P36,107,990
Buildings and improvements	–	–	6,025,335	6,025,335
	P–	P–	P42,133,325	P42,133,325
Liabilities for which fair values are disclosed:				
Financial liabilities				
Financial liabilities at amortized cost:				
Deposit liabilities:				
Time deposits	P–	P–	P56,211,592	P56,211,592
Bills payables	–	–	17,576,640	17,576,640
Long term debts:				
Subordinated debt	–	–	10,597,838	10,597,838
Unsecured term loan	–	–	1,517,999	1,517,999
Notes payable	–	–	502,089	502,089
Other liabilities:				
Payable to landowners	–	–	1,250,418	1,250,418
Tenants' rental deposits	–	–	315,488	315,488
Advance rentals	–	–	88,140	88,140
	P–	P–	P88,060,204	P88,060,204

* Excludes cash component

** Excludes unquoted available-for-sale securities

*** Based on the fair values from appraisal reports which are different from their carrying amounts which are carried at cost.

December 31, 2014 (Audited)				
	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	₱3,802,179	₱2,329,099	₱—	₱6,131,278
Derivative assets	—	65,391	71,160	136,551
Private debt securities	218,193	—	—	218,193
Equity securities	210,674	160	—	210,834
Designated at FVPL:				
Segregated fund assets*	5,386,302	—	5,268,468	10,654,770
	₱9,617,348	₱2,394,650	₱5,339,628	₱17,351,626
AFS investments:				
Government securities	₱25,983,779	₱11,161,671	₱—	₱37,145,450
Other debt securities	21,377,038	2,331,118	—	23,708,156
Equity securities**	2,074,200	—	—	2,074,200
	₱59,052,365	₱15,887,439	₱5,339,628	₱80,279,432
Non-financial assets				
Property, plant and equipment***				
Land and land improvements	₱—	₱—	₱16,832,987	₱16,832,987
Plant buildings and building improvements	—	—	11,602,275	11,602,275
Machineries and equipment	—	—	10,044,263	10,044,263
	₱—	₱—	₱38,479,525	₱38,479,525
Liabilities measured at fair value:				
Financial liabilities				
Financial liabilities at FVPL:				
Designated at FVPL:				
Segregated fund liabilities*	₱5,308,303	₱—	₱5,346,467	₱10,654,770
Derivative liabilities	—	44,903	—	44,903
	₱5,308,303	₱44,903	₱5,346,467	₱10,699,673
Assets for which fair values are disclosed:				
Financial Assets				
HTM investment	₱20,584,890	₱3,983,878	₱—	₱24,568,768
Loans and receivables:				
Receivables from customers	—	—	316,486,735	316,486,735
Unquoted debt securities	—	—	6,013,057	6,013,057
	₱20,584,890	₱3,983,878	₱322,499,792	₱347,068,560
Non-financial Assets				
Investment properties***				
Land	₱—	₱—	₱36,107,990	₱36,107,990
Buildings and improvements	—	—	6,025,335	6,025,335
	₱—	₱—	₱42,133,325	₱42,133,325
Liabilities for which fair values are disclosed:				
Financial liabilities				
Financial liabilities at amortized cost:				
Deposit liabilities:				
Time deposits	₱—	₱—	₱52,296,115	₱52,296,115
Bills payables	—	—	18,683,205	18,683,205
Long term debts:				
Subordinated debt	—	—	10,593,485	10,593,485
Unsecured term loan	—	—	1,337,684	1,337,684
Bonds payable	5,048,551	—	—	5,048,551
Notes payable	—	—	502,089	502,089
Other liabilities:				
Payable to landowners	—	—	2,226,042	2,226,042
Tenants' rental deposits	—	—	323,236	323,236
Advance rentals	—	—	42,500	42,500
	₱5,048,551	₱—	₱86,004,356	₱91,052,907

* Excludes cash component

** Excludes unquoted available-for-sale securities

*** Based on the fair values from appraisal reports which are different from their carrying amounts which are carried at cost.

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

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

Instruments included in Level 3 include those for which there is currently no active market. In applying the discounted cash flow analysis to determine the fair value of financial liabilities designated at FVPL, the Group used discount rates ranging from 1.33% to 3.72% as of December 31, 2014.

As of March 31, 2015 and December 31, 2014, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of level 3 fair value measurements.

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

	March 31, 2015 (Unaudited)	December 31, 2014 (Audited)
	<i>(In Thousands)</i>	
Financial assets		
Balance at beginning of period	₱5,339,628	₱5,545,916
Add acquisition arising from purchase of investments	—	—
Add total gain (loss) recorded in profit or loss	48,746	(206,288)
Balance at end of period	₱5,388,374	₱5,339,628
Nonfinancial assets		
Balance at beginning of period	₱38,470,528	₱37,834,527
Additions during the period	810,613	1,190,262
Depreciation and amortization	(407,909)	(1,631,635)
Net carrying value of disposed/transferred assets and other adjustments	(393,707)	1,077,374
Balance at end of the period	₱38,479,525	₱38,470,528
Financial liabilities		
Balance at beginning of period	₱5,268,468	₱5,380,053
Less total loss (gain) recorded in profit and loss	77,999	(111,585)
Balance at end of period	₱5,346,467	₱5,268,468

Sensitivity of the fair value measurement to changes in unobservable inputs:

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

* The sensitivity analysis is performed only on the fixed income portion of the Note, thus are based on assumptions that if changed may cause the value to fall out of range

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

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

32. Capital Management

The main thrust of the Group's capital management policy is to ensure that the Group complies with externally imposed capital requirements, maintains a good credit standing and has a sound capital ratio to be able to support its business and maximize the value of its shareholders equity. The Group is also required to maintain debt-to-equity ratios to comply with certain loan agreements and covenants in 2015 and 2014.

The Group's dividend declaration is dependent on the availability of earnings and operating requirements. The Group manages its capital structure and makes adjustment to it, in light of changes in economic conditions. To maintain or adjust capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes in 2015 and 2014.

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

The table below shows the leverage ratios of the Group:

	March 31, 2015 (Unaudited)	December 31, 2014 (Audited)
	<i>(In Thousands, except ratios)</i>	
Total liabilities	₱523,898,862	₱534,111,014
Total equity	166,179,601	162,722,194
Total liabilities and equity	₱690,078,463	₱696,833,208
Debt ratio	0.76:1	0.76:1
Debt-to-equity ratio	3.15:1	3.28:1

33. Commitments and Contingencies

There were no changes in the Group's commitments and contingencies from those disclosed in the December 31, 2014 annual consolidated financial statements.

34. Seasonality of Interim Operations

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

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

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

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

35. Events After the Reporting Date

PNB successfully closed and signed a USD150.0 million 3 year syndicated term loan facility with a large group of international and regional banks on April 24, 2015. Standard Chartered Bank acted as the sole Coordinating Bank, Mandated Lead Arranger and Bookrunner and fully underwrote the USD150.0 million Facility.

The Facility was launched at USD150.0 million and attracted total commitments of USD220.0 million at close of syndication, representing an oversubscription of 1.5 times with lending commitments received from 10 regional and international banks. CTBC Bank Co., Ltd. Singapore, ING Bank N.V., Manila Branch, KDB Asia Limited / The Korea Development Bank and United Overseas Bank Limited joined Standard Chartered Bank as sub-underwriters (together, the Mandated Lead Arrangers and Bookrunners) and The Hongkong and Shanghai Banking Corporation Limited further joined the Facility as a Mandated Lead Arranger at close of senior syndication.

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

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

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

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

LT GROUP, INC. AND SUBSIDIARIES

SELECTED EXPLANATORY NOTES

As at March 31, 2015 and December 31, 2014

And for the Three Months Ended March 31, 2015 and 2014

(As required under Par. 7 (d) Selected Explanatory Notes Required Under SRC Rule 68, as Amended 2011)

- i.) The Company's interim consolidated financial reports are in compliance with Generally Accepted Accounting Principles. The same accounting policies and methods of computation are followed in the interim financial statements as compared with the most recent annual financial statements.

The Company's interim consolidated financial statements have been prepared in accordance with Philippine Accounting Standards (PAS) 34, *Interim Financial Reporting*, under the Philippine Financial Reporting Standards (PFRS).

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

Beverage Segment is affected by seasonality of operations.

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

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

The material items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size, or incidents are included in the Management discussion and analysis of the report.

- iv.) Nature and amount of changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years, if those changes have a material effect in the current interim period

Not Applicable. There were no changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years.

- v.) Issuances, repurchases, and repayments of debt and equity securities.

There were no issuances, repurchases and repayments of debt and equity securities.

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

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

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

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

- viii.) Material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period;

On May 12, 2015, the Board of Directors of LTG approved the declaration and distribution of cash dividends of ₱0.15 per share to all stockholders of record as of May 27, 2015. The dividends will be paid on or before June 10, 2015.

- ix.) The effect of changes in the composition of the issuer during the interim period, including business combinations, acquisition or disposal of subsidiaries and long-term investments, restructurings, and discontinuing operations.

In 2014, the Group acquired interest in VMC through direct common shares purchased and convertible notes. As of March 31, 2015, the Group effectively owns VMC 23.5% inclusive of the convertible notes and 20.17% through direct common shares.

- x.) Changes in contingent liabilities or contingent assets since the last annual balance sheet date.

Not Applicable. The Company has no contingent liabilities or assets.

- xi.) Existence of material contingencies and any other events or transactions that are material to an understanding of the current interim period.

Banking

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

Beverage

ABI maintains a legal department whose main function is to pursue collection cases and handle litigation arising from labor disputes. As of March 31, 2015, ABI does not have any significant legal proceedings either against it or in pursuit of another party besides those arising from the ordinary course of business.

Distilled Spirits

In the ordinary course of business, TDI is contingently liable for lawsuits and claims, which are either pending with the courts or are being contested, the outcomes of which are not presently

determinable. In the opinion of the Group's management and legal counsel, the eventual liability under these lawsuits and claims, if any, would not have a material or adverse effect on the Group's financial position and results of operations.

Trademark Infringement Suit

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

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

On July 25, 2012, the Mandaluyong RTC issued its decision in favor of TDI and dismissing the instant complaint for trademark infringement and unfair competition for lack of merit. GSMI filed a Motion for Reconsideration with the Mandaluyong RTC on September 3, 2012. On October 5, 2012, the Mandaluyong RTC denied the Motion for Reconsideration of GSMI. GSMI filed an appeal with the Court of Appeals (CA). On August 15, 2013, the CA rendered a decision in favor of GSMI ordering TDI to recall all gin products bearing the Ginebra brand name, cease and desist from using GINEBRA in any of its gin products, pay GSMI 50% of the gross sales of GINEBRA KAPITAN and ₱2 million as exemplary fees. TDI filed its appeal on October 18, 2013. On November 22, 2013, the CA sustained its decision in favor of GSMI.

On December 18, 2013, the Company filed a petition before the Supreme Court questioning the decision of the CA. As of March 31, 2015, the Company is still awaiting decision of the Supreme Court.

Opposition to Registration of Brand Name

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

GSMI sought for the reconsideration of this April 23, 2008 Decision of the BLA, which motion was however denied in a Resolution dated March 4, 2009. From this denial, GSMI filed an appeal memorandum with the Office of the Director General of the IPO raising as an issue, among others, the damage it would sustain with the registration of the mark GINEBRA KAPITAN.

On September 24, 2013, the Office of the Director General of IPO promulgated a Decision affirming the ruling of the BLA of the IPO, which in effect gave due course to the application that was filed by TDI for the registration of the aforesaid brand name. GSMI thereafter filed a

Petition for Review with the Court of Appeals, seeking for the reversal of said September 24, 2013 Decision.

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

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

DENR-Administrative Proceedings

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

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

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

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

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

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

In September 2011, the local government of Pulpandan granted AAC a permit to repair the damaged water line and to operate the alcohol and storage facilities. It also allowed AAC to remove and transfer its new distillery columns, which were to be used for its previous expansion plans, to ADI's plant in Batangas where expansion will now instead be pursued. AAC's water line is already repaired. AAC also paid the permit to rehabilitate the plant. To date, AAC is still on shutdown.

Realty Tax Assessment Case

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

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

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

The Municipal Treasurer replied on February 28, 2012 defending his authority and duty to issue a warrant of levy.

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

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

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

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

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

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

On May 28, 2013, the CBAA granted AAC's appeal which essentially allowed AAC to question the deficiency tax assessment without paying the said tax under protest. On November 26, 2013, the LBAA decided in favor of AAC by declaring as null and void the Notice of Assessment of

the Provincial Assessor being contrary to law. The LBAA ruled that the Provincial Assessor is “declared devoid of authority to increase the valuation and assessment of the properties subject to the questioned Notices of Assessment and Statement of Real Property Tax due”.

On January 13, 2014, the Municipality of Pulupandan filed a Motion for Reconsideration for the decision of LBAA which declares the Notice of Assessment and Statement of Real Property Tax due null and void. On March 11, 2014, AAC filed an Opposition to the Motion for Reconsideration filed by the Municipality of Pulupandan for lack of merit and that the LBAA decision dated November 26, 2013 be sustained.

On March 19, 2014 the Provincial Legal Officer as counsel of the Provincial Assessor’s Office wrote a letter to the counsel of the company saying that its Office and Office of the Provincial Assessor have complied with the decision of the LBAA and considered the Notices void for having been issued ultra vires and thereby taking no further action on the said Notices of Assessment. To date, AAC has not received any reply from the LBAA on the intervenors’ Motion for Reconsideration.

Property Development

Eton is a respondent in Civil Case No. Q-10-66785 entitled “Kingston Tuscani Enterprise & Development Corporation, Cristeta Babaison, et al. vs. Paramount Holding Equities and Eton Properties Philippines, Inc.” pending before the Regional Trial Court of Quezon City, Branch 100.

The case involves the Eton’s property in Quezon City covered by Transfer Certificate of Title (TCT) No. 62821 located at the corner of EDSA and Quezon Avenue, Quezon City. The plaintiffs filed a complaint seeking to annul Eton’s title alleging that it overlaps with TCT No. 300828. Plaintiffs also alleged that the signature of the then Register of Deeds on Eton’s title was forged.

In its Answer, the defendants, including Eton raised the defense that the property was acquired through public bidding from the Land Bank of the Philippines where Paramount was the highest bidder at Php1.030 Billion and which sale was approved by the President of the Philippines then. Further, there was no adverse claim or notice of lis pendens, encumbrance, or annotation of any overlapping claim on Eton’s title. Based on an investigation conducted into the plaintiffs’ title, it appeared that the technical descriptions of TCT No. 300828 overlapped several titled properties when plotted. It was also found by the NBI that plaintiff’s title was not regularly issued and, upon further examination, the technical description overlapped other titled properties located in Aurora Boulevard, and Manga Street, among others, showing that the plaintiffs’ property was located elsewhere when plotted.

Additionally, defendants challenged the standing of the plaintiffs as not being the real parties in interest and subsequently requested the Court for a hearing on its affirmative defenses raised in its Motion to Dismiss.

After due hearing, the Court, on December 14, 2014 issued a Resolution dismissing the complaint against the Company.

Tobacco

Sandiganbayan case against Tan Companies

On June 6, 2011, a motion was submitted by the Government seeking to include PMFTC and its directors/officers as additional defendants in the forfeiture case pending before the Sandiganbayan against Mr. Lucio C. Tan, FTC, et al. since 1987. The Government claims that by transferring the assets owned by FTC to PMFTC as a result of the business combination, the FTC assets have been removed beyond the reach of the Government and the court. The Sandiganbayan denied this motion with finality on August 2011, ruling that they are not necessary or indispensable parties under the law. In a decision in June 2012, the Sandiganbayan also dismissed the forfeiture case against all the defendants for failure of the Government to prove that the assets that formed the subject of the case were ill-gotten wealth. The Government's motion for reconsideration was likewise denied in September 2012. The Government is currently appealing this decision to the Supreme Court.

Annex “B”

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

Management Discussion and Analysis of
Financial Condition and Results of Operations

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

The financial statements are filed as part of this Form 17-Q

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

RESULTS OF OPERATIONS

LT Group, Inc. (LTG) posted consolidated net income of ₱2.1 billion for the quarter ended March 31, 2015, lower by ₱82 million from the ₱2.2 billion reported for the same period last year.

The consolidated net income attributable to equity holders of LTG remained flat at ₱1.6 billion. The drop in the tobacco segment's net income from ₱576 million in 2014 to ₱409 million in 2015 was offset by the improvement in the operating results of the other four segments. The distilled spirits segment realized an income of ₱75 million for the quarter ended March 31, 2015, a reversal of the ₱11 million net loss reported in the same period of 2014. The beverage and property development segments' net income have also increased by ₱38 million and ₱22 million, respectively. LTG's share in net income for the banking segment improved slightly from ₱747 million in 1Q14 to ₱754 million in 1Q15.

Consolidated revenues amounted to ₱13.1 billion for the quarter ended March 31, 2015, 1.9% higher than the ₱12.9 billion recognized in 2014 on account of the increased revenues in the beverage and property development segment.

Cost of sales increased slightly by 1.2% from ₱6.1 billion for quarter ended March 31, 2014 to ₱6.2 billion recorded for the same period in 2015, primarily attributable to higher cost of sales of the beverage segment mainly due to the effect of higher excise taxes and raw material costs. The property development segment reported a 12% decline in cost of sales as a result of lower booked sales from real estate development projects.

Operating expenses amounted to ₱6.2 billion in 1Q15 and ₱5.9 billion in 1Q14 or a slight increase of 3.8%. This was as a result of increased general and administrative expenses by 4.7%, from ₱5.3 billion in 2014 to ₱5.5 billion in 2015, partially offset by the decrease of 3% in selling expenses which amounted to ₱650 million in 2014 to ₱630 million in 2015.

Banking

The banking segment's net income remained flat at ₱1.4 billion for the quarters ended March 31, 2015 and 2014.

Interest income from banking operations was at ₱5.2 billion in 2015, 3.3% lower than the ₱5.4 billion earned last year, as 2014 included a non-recurring interest income from the redemption of non-performing assets. Net service fees and commission income were maintained at ₱0.6 billion for the quarters ended March 31, 2015 and 2014.

Interest expense was at ₱1.0 billion for the quarters ended March 31, 2015 and 2014.

Miscellaneous income improved by 49.2% due to higher income from premiums-net of reinsurance and referral and recovery from charged-off assets.

Operating expenses increased by 5.1% primarily due to higher compensation and benefits and taxes and licenses paid.

Beverage

The beverage segment's net income grew by 14.4% to ₱301 million for the quarter ended March 31, 2015 from ₱263 million in the same period last year.

Revenues of the beverage segment were higher by 3.9% to ₱3.5 billion in 2015 from ₱3.4 billion in 2014. Cobra energy drink accounts for the biggest share of revenues at close to 35% with over 70% market share. Revenues from Absolute and Summit water, Vitamilk soymilk and commercial packaging were higher year-on-year.

Operating expenses decreased slightly by 2.7% to ₱578 million in 2015 from ₱594 million in 2014 on account of lower advertising and promotional expenses and taxes and licenses.

Distilled Spirits

The distilled spirits segment posted a net income of ₱75 million for the quarter ended March 31, 2015, a turnaround from the net loss of ₱11 million reported in the same period last year.

TDI continues to increase marketing efforts to improve sales especially on its flagship product, Tanduay Five Years. Net revenues generated were flat at ₱3.0 billion in 2015 and 2014 as increase in selling prices was offset by lower volumes in the first quarter.

Cost of sales decreased slightly by 1.3% to ₱2.4 billion in the current period as against ₱2.5 billion in the same period last year primarily due to lower alcohol costs which offset the increase in excise taxes. Consequently, gross profit margin increased from 17.1% to 19.2%.

Operating expenses increased by 2.7% from ₱408 million in 2014 to ₱419 million in 2015 due to higher selling expenses to higher freight, personnel and repairs and maintenance expenses.

Property Development

The property development segment reported a net income of ₱50.9 million for the quarter ended March 31, 2015 significantly higher than last year's ₱28.8 million. Gross profit likewise increased by 113% or ₱153.7 million compared to the same period last year due to higher leasing revenues. During the first quarter of 2015, Eton almost doubled its leasing revenues from the Centris Cyberpod Three, a twin-tower BPO office building in Eton Centris which started turning over to tenants in 2014.

The property segment's selling expenses were 68% lower at ₱10.8 million in 2015 compared to the ₱33.8 million for the same period last year. This was a result of lower real estate sales recognized for the first quarter of 2015. General and administrative expenses increased by 68% or ₱61 million due to higher expenses for taxes and licenses and other fees.

Tobacco

The tobacco segment's net income was ₱411 million for the quarter ended March 31, 2015, 28.9% lower than the ₱578 million of the same period last year on account of lower equity in net earnings from PMFTC (FTC's 49.6% owned associate) from ₱480 million last year to ₱415 million in 2015. PMFTC has been able to stabilize its market share at over 70% despite the illicit trade in cigarettes.

FINANCIAL CONDITION

The Company's consolidated total assets as of March 31, 2015 amounted to ₱690.1 billion, a decrease of 1.0% from ₱696.8 billion as of December 31, 2014. This was mainly on account of the ₱13.9 billion or 4.1% decrease in current assets offset by the increase in noncurrent assets by 2.0% or ₱7.2 billion.

The decrease in consolidated current assets by 4.1% from ₱340.1 billion as of December 31, 2014 to ₱326.2 billion was due to the 6.5% reduction in the current portion of loans and receivables, mainly on account of the banking segment's HDMF bonds booked under time loan-unquoted which matured in February. The current portion of loans and receivables of the banking segment decreased by 7.3% from ₱129.5 billion in December 31, 2014 to ₱120.0 billion as of March 31, 2015. The decrease in cash and cash equivalents by 2.2% was on account of the banking segment's decrease in due from other banks and cash and other cash items. Financial assets at fair value through profit or loss of the banking segment decreased by 10.0%, mainly due to the sale of various investment securities. There was a 33.1% increase in current available for sale investments due to the acquisition of various securities.

The 2.0% increase in total noncurrent assets was mainly due to the movements in the loans and receivables account and available for sale securities. Loans and receivables-net of current portion went up by 2.2% from ₱187.4 billion in December 31, 2014 to ₱191.5 billion as of March 31, 2015. Noncurrent AFS increased by 4.5% on account of the various acquisition of securities. Deferred tax assets decreased by 11.2% mainly due to the banking segment's adjustments on temporary differences. Investment properties likewise decreased by 18% mainly due to depreciation charges.

Consolidated total liabilities decreased slightly by 1.9% to ₱523.9 billion as of March 31, 2015 from ₱534.1 billion as of December 31, 2014. This was on account of the decrease in total current liabilities by 2.6% from ₱469.1 billion in December 31, 2014 to ₱456.9 billion in the current period, partially offset by the increase in noncurrent liabilities of 3.2% from ₱65.0 billion to ₱67.0 billion.

Short-term debts and long-term debts current decreased from ₱5.8 billion to ₱0.8 billion on account of the distilled spirits segment's payment of the ₱5.0 billion bonds payable which matured in February 2015. Current deposit liabilities decreased by ₱3.8 billion due lower demand and savings deposits. Current portion of bills and acceptances payable also declined by 17.2% and 10.2%, respectively mainly due to the settlement of the banking segment's currently maturing bills and acceptances payable and other liabilities. Other current liabilities declined from ₱18 billion in 2014 to ₱16 billion in March 31, 2015 due to the banking segment's settlement of its various other current liabilities. Financial liabilities at fair value through profit or loss increased to ₱12 billion mainly on account of the banking segment's reclassification of these accounts to current.

The increase in the noncurrent liabilities was on account of the increase in the bills and acceptances payable noncurrent of the banking segment from ₱12.4 billion as of December 31, 2014 to ₱13.9 billion as of March 31, 2015 and increase in other noncurrent liabilities from ₱12.6 billion as of December 31, 2014 to ₱14.0 billion as of March 31, 2015. This was partially offset by the decrease in the noncurrent deposit liabilities from ₱23.5 billion as of December 31, 2014 to ₱22.7 billion as of March 31, 2015.

LT Group's consolidated total equity grew 2.1% to ₱166.2 billion as of March 31, 2015, on account of the increase in retained earnings by 3.5% coming from the net earnings during the period and increase in other comprehensive income.

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

1.) Revenue

Revenues for March 31, 2015 amounted to ₱13.1 billion, 1.9% lower from last year's ₱12.9 billion.

2.) Net Income

Consolidated Net Income for the quarter ended March 31, 2015 amounted to ₱2.1 billion lower by 3.7% from last period's ₱2.2 billion.

3.) Current Ratio

Current ratio decreased from 0.73:1 in December 2014 to 0.71:1 in March 2015.

4.) Debt to Equity Ratio

Debt-to-equity ratio declined from 3.28:1 in December 2014 to 3.15:1 in March 2015.

5.) Earnings/ (Loss) Per Share

LTGI's earnings per share attributable to holders of the parent company for March 2015 and March 2014 is ₱0.15.

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

Debt to equity ratio – Total Liabilities / Total Equity

Current ratio – Current assets / Current Liabilities

Earnings per share – Net Income attributable to holders of parent company / Common shares outstanding

Trends, Uncertainties or Contingencies That Will Affect Liquidity in the Next Twelve Months:

- (i) There are no other trends or any known demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in the Group's increasing or decreasing liquidity in any material way. The Group is not in default or breach of any note, loan, lease or other indebtedness or financing arrangement requiring it to make payments. The Company does not have any liquidity problems.
- (ii) There are no events that will trigger direct or contingent financial obligation that is material to LTG, including any default or acceleration of an obligation.
- (iii) There are no known material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of LTG with unconsolidated entities or other persons created during the reporting period.
- (iv) The Group has on-going and planned capital expenditure projects as follow:

Distilled spirits

ADI completed a 2-megawatt (MW) Solar Power plant in Batangas. This project is the Lucio Tan Group's first venture into renewable green energy. ADI has been a staunch advocate of sustainable energy since the 1990s, and the company is making greater strides as it invests in solar power and contributes even more to carbon footprint reduction. By venturing into solar power, ADI is strengthening its commitment to mitigate the effects of climate change. This will benefit ADI as effective leverage against rising cost of electricity and disruptive brown-outs, zero fuel cost and utilizes free, clean and renewable energy from the sun, favorable government incentives such as feed-in-tariff at ₱9.68/kWh which will be available until March 31, 2015 and 30% tax break for purchase / import of solar power system.

Beverage

In response to the growing market demand for healthier beverage options, ABI has started the construction of a soy milk production facility in Cabuyao scheduled to be operational in the first quarter of 2016.

In 2014, ABI completed the construction of its new Head Office building at the Cabuyao complex. The LEED-certified office building currently houses the majority of administrative and support staff previously located in Allied Banking Center, Makati. LEED, or Leadership in Energy & Environmental Design, is a certification that provides independent verification of a building's green features, allowing for the design, construction, operation and maintenance of resource-efficient, high-performing, healthy, cost-effective buildings.

- (v) The company has no known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales, revenue or income from continuing operations.
- (vi) There are no significant elements of income or loss that did not arise from the Company's continuing operations.
- (vii) The causes for any material change from period to period which shall include vertical and horizontal analyses of any material item;

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

1. Financial assets at fair value through profit or loss – H- (10%)
2. Available for sale investments - current – H- 33%
3. Loans and receivables - current – H- (7%)
4. Inventories – H-(5%)
5. Deferred income tax assets- H- (11%)
6. Financial liabilities at fair value through profit or loss – current – H- 11%
7. Bills and acceptances payable - current – H- (17%)
8. Short-term and long-term debts-current – H- (86%)
9. Accounts payable and accrued expense – H- (10%)
10. Income tax payable – H- 23%
11. Due to related parties – H- (30%)
12. Other current liabilities- H- (11%)
13. Financial liabilities at fair value through profit or loss - noncurrent – H- 114%
14. Bills and acceptances payable – noncurrent – H- 12%
15. Other noncurrent liabilities – H - 11%
16. Other comprehensive income – H - 16%

- 17. Beverage revenue - H-6%
- 18. Property Development Revenue – H- 20%
- 19. Equity in net earnings of associates – H- 6%
- 20. General and administrative expenses – H-5%
- 21. Finance costs – H – (29%)
- 22. Finance income – H- (35%)
- 23. Foreign exchange gains – H- (30%)
- 24. Provision for income tax - deferred – H - (357%)

(viii) There are no seasonal aspects that have a material effect on the financial condition or results of operations of the Company.

LT GROUP, INC. and SUBSIDIARIES
AGING OF ACCOUNTS RECEIVABLE
As of March 31, 2015 (Unaudited)
(In thousands)

TYPE OF ACCOUNTS RECEIVABLE		TOTAL	CURRENT	31-60 days	61-90 days	91-120 days	over 120 days
(a) Trade Receivable		339,824,051	6,693,300	2,253,980	1,319,802	123,963,105	205,593,864
Less: Allowance for Doubtful Accounts		15,613,682	-	-	-	-	15,613,682
NET TRADE RECEIVABLE	P	324,210,369	6,693,300	2,253,980	1,319,802	123,963,105	189,980,182
(b) Non-Trade Receivables		2,225,373	255,462	61,472	79,265	15,758	1,813,416
Less: Allowance for Doubtful Accounts		641,340	-	-	-	-	641,340
NET NON-TRADE RECEIVABLE	P	1,584,033	255,462	61,472	79,265	15,758	1,172,076
NET RECEIVABLES	P	325,794,402	6,948,762	2,315,452	1,399,067	123,978,863	191,152,258

ACCOUNTS RECEIVABLE DESCRIPTION	NATURE OF DESCRIPTION	COLLECTION PERIOD
Accounts Receivable - Trade	Sale of liquor, beer products, beverages and cigarettes, finance receivables and lease contract receivables	30 to 90 days
Accounts Receivable - Non-Trade	Downpayment on various suppliers, advances to affiliates, officers and employees, other receivables	-

LT GROUP, INC. and Subsidiaries
FINANCIAL SOUNDNESS INDICATORS

	31-Mar-15	31-Dec-14
CURRENT RATIO	0.71	0.73
DEBT TO EQUITY RATIO	3.15	3.28
ASSET TO EQUITY RATIO	4.15	4.28
	31-Mar-15	31-Mar-14
INTEREST RATE COVERAGE RATIO	48.92	35.53
SOLVENCY RATIO	0.25	0.13
PROFITABILITY RATIOS:		
PROFIT MARGIN	0.12	0.13
RETURN ON ASSET (ROA)	0.003	0.002
RETURN ON EQUITY (ROE)	0.013	0.014