



108122016003173

**SECURITIES AND EXCHANGE COMMISSION**

SEC Building, EDSA, Greenhills, Mandaluyong City, Metro Manila, Philippines
Tel: (632) 726-0931 to 39 Fax: (632) 725-5293 Email: mis@sec.gov.ph

Barcode Page

The following document has been received:

Receiving Officer/Encoder : Jojit Licudine
Receiving Branch : SEC Head Office
Receipt Date and Time : August 12, 2016 03:34:15 PM
Received From : Head Office

Company Representative

Doc Source

Company Information

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

Document Information

Document ID	108122016003173
Document Type	17-Q (FORM 11-Q: QUARTERLY REPORT/FS)
Document Code	17-Q
Period Covered	June 30, 2016
No. of Days Late	0
Department	CFD
Remarks	

COVER SHEET

SEC Registration Number

P	W	-	0	0	0	0	0	3	4	3
---	---	---	---	---	---	---	---	---	---	---

Company Name

L	T		G	R	O	U	P	,		I	N	C	.		(	A		S	u	b	s	i	d	i	a	r	y		o	f
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)

1	1	t	h		F	l	o	o	r	,		U	n	i	t		3		B	e	n	c	h						
T	o	w	e	r	,		3	0	t	h		S	t	.		c	o	r	n	e	r		R	i	z	a	l		
D	r	i	v	e		C	r	e	s	c	e	n	t		P	a	r	k		W	e	s	t		5				
B	o	n	i	f	a	c	i	o		G	l	o	b	a	l		C	i	t	y	,								
T	a	g	u	i	g		C	i	t	y																			

Form Type

1	7	Q	
---	---	---	--

Department requiring the report

S	E	C	
---	---	---	--

Secondary License Type, If Applicable

N	/	A	
---	---	---	--

COMPANY INFORMATION

Company's Email Address

info@ltg.com.ph

Company's Telephone Number/s

808-1266

Mobile Number

N/A

No. of Stockholders

376

Annual Meeting
Month/Day

June 21

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 City

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 June 30, 2016
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 June 30, 2016 (with comparative figures as of December 31, 2015 and for the period June 30, 2015) 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
August 12, 2016


JOSE GABRIEL D. OLIVES
Chief Finance Officer
August 12, 2016

Annex “A”

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

Interim Condensed Consolidated Financial
Statements

As at June 30, 2016 and December 31, 2015
And for the Six Months and Quarters Ended
June 30, 2016 and 2015

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

Interim Condensed Consolidated Financial Statements
As of June 30, 2016 and December 31, 2015
and for the six months and quarters ended June 30, 2016 and 2015

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

INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS
(Amounts in Thousands)

	June 30, 2016 (Unaudited)	December 31, 2015 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	P164,984,461	P137,556,341
Financial assets at fair value through profit or loss (Notes 5 and 19)	5,150,888	9,663,734
Available for sale (AFS) investments (Note 6)	6,631,897	2,915,170
Loans and receivables (Note 7)	154,584,719	172,140,625
Due from related parties (Note 20)	1,594,997	1,593,034
Inventories (Note 8)	14,859,539	14,024,047
Other current assets (Note 9)	9,623,044	8,841,923
	357,429,545	346,734,874
Assets of disposal group classified as held for sale (Note 35)	–	23,526,757
Total Current Assets	357,429,545	370,261,631
Noncurrent Assets		
Loans and receivables - net of current portion (Note 7)	248,048,816	206,782,709
AFS investments (Note 6)	69,366,455	66,649,517
Held-to-maturity (HTM) investments	23,253,680	23,096,473
Investment in associates and a joint venture (Note 10)	13,953,435	11,761,290
Property, plant and equipment (Note 11):		
At appraised values	39,719,466	39,538,145
At cost	5,610,799	5,299,731
Investment properties (Note 11)	21,746,579	22,231,525
Deferred income tax assets (Note 27)	569,574	551,237
Other noncurrent assets (Notes 12 and 21)	3,260,089	3,380,244
Total Noncurrent Assets	425,528,893	379,290,871
TOTAL ASSETS	P782,958,438	P749,552,502
LIABILITIES AND EQUITY		
Current Liabilities		
Deposit liabilities (Note 13)	P500,145,810	P436,362,854
Financial liabilities at fair value through profit or loss (Notes 14 and 19)	482,805	126,075
Bills and acceptances payable (Note 15)	18,609,545	5,836,839
Short-term and long-term debts - current (Note 17)	1,868,630	1,876,015
Accounts payable and accrued expenses (Note 16)	17,761,744	17,079,820
Income tax payable	555,198	294,581
Due to related parties (Note 20)	41,839	46,770
Other current liabilities (Note 18)	16,318,343	13,249,643
	555,783,914	474,872,597
Liabilities of disposal group classified as held for sale (Note 35)	–	21,452,621
Total Current Liabilities (Carried Forward)	555,783,914	496,325,218

(Forward)

	June 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Total Current Liabilities (Brought Forward)	₱555,783,914	₱496,325,218
Noncurrent Liabilities		
Deposit liabilities - net of current portion (Note 13)	25,912,603	39,793,338
Financial liabilities at fair value through profit or loss (Notes 14 and 19)	104,982	9,118
Bills and acceptances payable (Note 15)	12,563,966	19,915,383
Long-term debts - net of current portion (Note 17)	3,922,676	10,706,431
Accrued retirement benefits (Note 21)	3,791,406	3,900,926
Deferred income tax liabilities	1,149,283	1,182,976
Other noncurrent liabilities (Note 18)	4,413,554	7,961,017
Total Noncurrent Liabilities	51,858,470	83,469,189
Total Liabilities	607,642,384	579,794,407
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
Other equity reserves	804,095	804,095
Reserves of disposal group classified as held for sale	—	335,000
Other comprehensive income, net of deferred income tax effect	3,510,035	3,116,572
Retained earnings	63,320,817	59,855,195
Shares of the Company held by subsidiaries	(12,519)	(22,464)
	132,410,048	128,876,018
Non-controlling interests (Note 1)	42,906,006	40,882,077
Total Equity	175,316,054	169,758,095
TOTAL LIABILITIES AND EQUITY	₱782,958,438	₱749,552,502

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Amounts in Thousands, Except for Basic/Diluted Earnings Per Share)
FOR THE SIX MONTHS AND QUARTER ENDED JUNE 30, 2016 AND 2015

	Six Months Ended June 30		For the Quarter Ending June 30	
	2016	2015	2016	2015
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
REVENUE (Notes 3 and 22)				
Banking	₱14,287,960	₱12,773,690	₱7,132,597	₱6,584,028
Beverage	7,250,728	6,565,929	3,814,232	3,360,702
Distilled spirits	7,046,095	5,588,386	3,957,010	2,612,571
Property development	1,311,350	1,248,537	656,947	604,081
	29,896,133	26,176,542	15,560,786	13,161,382
COST OF SALES (Notes 3 and 22)	13,908,080	12,057,629	7,386,873	5,967,372
GROSS INCOME	15,988,053	14,118,913	8,173,913	7,194,010
EQUITY IN NET EARNINGS OF ASSOCIATES (Note 10)	1,496,240	591,785	487,727	84,596
	17,484,293	14,710,698	8,661,640	7,278,606
OPERATING EXPENSES				
Selling expenses (Note 23)	1,303,157	1,209,994	679,383	580,139
General and administrative expenses (Note 24)	11,727,793	9,820,420	5,933,916	4,727,310
	13,030,950	11,030,414	6,613,299	5,307,449
OPERATING INCOME	4,453,343	3,680,284	2,048,341	1,971,157
OTHER INCOME (CHARGES)				
Finance costs (Notes 17 and 25)	(97,668)	(115,345)	(7,292)	(39,582)
Finance income (Notes 4, 7 and 25)	13,704	47,996	649	34,400
Foreign exchange gains	807,926	575,825	408,359	285,240
Others - net (Note 26)	2,741,685	2,152,950	1,512,541	1,473,491
	3,465,647	2,661,426	1,914,257	1,753,549
INCOME BEFORE INCOME TAX	7,918,990	6,341,710	3,962,598	3,724,706
PROVISION FOR INCOME TAX (Note 27)				
Current	2,279,545	1,255,400	1,024,909	775,083
Deferred	50,787	(45,411)	99,266	(147,610)
	2,330,332	1,209,989	1,124,175	627,473
NET INCOME FROM CONTINUING OPERATIONS	5,588,658	5,131,721	2,838,423	3,097,233
NET INCOME FROM DISCONTINUED OPERATIONS	384,064	201,110	320,080	96,600
NET INCOME	₱5,972,722	₱5,332,831	₱3,158,503	₱3,193,833
Net Income Attributable To:				
Equity holders of the parent company	₱4,561,648	₱3,572,843	₱2,333,035	₱1,986,170
Non-controlling interests	1,411,074	1,759,988	825,468	1,207,663
	₱5,972,722	₱5,332,831	₱3,158,503	₱3,193,833
Basic/Diluted Earnings Per Share (Note 29)	₱0.42	₱0.33	₱0.22	₱0.18

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

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

**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF
COMPREHENSIVE INCOME**

(Amounts in Thousands)

FOR THE SIX MONTHS ENDED JUNE 30, 2016 AND 2015

	Six Months Ended June 30		For the Quarter Ending June 30	
	2016	2015	2016	2015
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
NET INCOME	₱5,972,722	₱5,332,831	₱3,158,503	₱3,193,833
OTHER COMPREHENSIVE INCOME (LOSS)				
<i>Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:</i>				
Accumulated translation adjustment	(163,130)	146,774	304,510	167,190
Net changes in fair value of AFS financial assets, net of deferred income tax effect	1,386,887	146,006	351,421	(1,195,680)
	1,223,757	292,780	655,931	(1,028,490)
<i>Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:</i>				
Re-measurement gains (losses) on defined benefit plans, net of deferred income tax effect	(217,439)	(106,367)	(155,580)	(103,505)
	(217,439)	(106,367)	(155,580)	(103,505)
OTHER COMPREHENSIVE INCOME (LOSS) -				
Net of income tax effect	1,006,318	186,413	500,351	(1,131,995)
TOTAL COMPREHENSIVE INCOME	₱6,979,040	₱5,519,244	₱3,658,854	₱2,061,838
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Equity holders of the Company	₱4,955,111	₱3,822,411	₱2,727,277	₱1,217,410
Noncontrolling interests	2,023,929	1,696,833	931,577	844,428
	₱6,979,040	₱5,519,244	₱3,658,854	₱2,061,838

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

LT GROUP, INC.

(a Subsidiary of Tangent Holdings Corporation)

AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED JUNE 30, 2016 AND 2015

(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	Preferred shares of Subsidiaries Issued to Parent Company	Reserves of Disposal Group Classified as Held for Sale	Other Comprehensive Income (Loss), Net of Deferred Income Tax Effect	Other Equity Reserves	Retained Earnings	Shares of the Company Held by Subsidiaries	Total			
BALANCES AT DECEMBER 31, 2014	₱10,821,389	₱35,906,231	₱18,060,000	₱–	₱4,582,667	₱790,136	₱54,079,986	(₱12,518)	₱124,227,891	₱38,494,303		₱162,722,194
Net income for the period	–	–	–	–	–	–	3,572,843	–	3,572,843	1,759,988		5,332,831
Other comprehensive income (loss)	–	–	–	–	249,568	–	–	–	249,568	(63,155)		186,413
Total comprehensive income (loss) for the period	–	–	–	–	249,568	–	3,572,843	–	3,822,411	1,696,833		5,519,244
Cash dividends declared and paid	–	–	–	–	–	–	(1,623,208)	–	(1,623,208)	–		(1,623,208)
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	–	–	–	–	(650,661)	–	650,661	–	–	–		–
BALANCES AT JUNE 30, 2015	₱10,821,389	₱35,906,231	₱18,060,000	₱–	₱4,181,574	₱790,136	₱56,680,282	(₱12,518)	₱126,427,094	₱40,191,136		₱166,618,230
BALANCES AT DECEMBER 31, 2015	₱10,821,389	₱35,906,231	₱18,060,000	₱335,000	₱3,116,572	₱804,095	₱59,855,195	(₱22,464)	₱128,876,018	₱40,882,077		₱169,758,095
Net income for the period	–	–	–	–	–	–	4,561,648	–	4,561,648	1,411,074		5,972,722
Other comprehensive income	–	–	–	–	393,463	–	–	–	393,463	612,855		1,006,318
Total comprehensive income for the period	–	–	–	–	393,463	–	4,561,648	–	4,955,111	2,023,929		6,979,040
Cash dividends declared and paid	–	–	–	–	–	–	(1,623,208)	–	(1,623,208)	–		(1,623,208)
Sale of disposal group	–	–	–	(335,000)	–	–	–	9,945	(325,055)	–		(325,055)
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	–	–	–	–	–	–	527,182	–	527,182	–		527,182
BALANCES AT JUNE 30, 2016	₱10,821,389	₱35,906,231	₱18,060,000	₱–	₱3,510,035	₱804,095	₱63,320,817	(₱12,519)	₱132,410,048	₱42,906,006		₱175,316,054

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2016 AND 2015

(Amounts in Thousands)

	Six Months Ended June 30	
	2016	2015
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax from continuing operations	₱7,918,990	₱6,341,710
Income before income tax from discontinued operations	384,064	221,071
Income before income tax	8,303,054	6,562,781
Adjustments for:		
Depreciation and amortization (Note 11)	1,751,434	1,463,381
Provision (reversal) of losses	749,069	(385,175)
Gain on disposal of:		
Other assets (Notes 11 and 26)	(813,432)	(424,327)
Equity in net earnings of an associate (Note 10)	(1,496,240)	(591,785)
Finance costs (Note 17)	97,668	115,345
Finance income	(13,704)	(47,996)
Gain on disposal of investment	(384,064)	—
Movement in accrued retirement benefits (Note 21)	(109,520)	120,686
Operating income before changes in working capital	8,084,265	6,812,910
Decrease (increase) in:		
Financial assets at fair value through profit or loss	4,512,846	2,543,585
Receivables - net	(29,536,961)	(22,793,971)
Inventories	(835,492)	(48,864)
Other assets	(852,565)	(416,734)
Increase (decrease) in:		
Deposit liabilities	49,902,221	10,889,732
Accounts payable and accrued expenses	2,687,140	(1,311,341)
Financial liabilities at fair value through profit or loss	452,594	1,602,592
Other liabilities	2,851,261	(61,777)
Cash used in operations	37,265,309	(2,783,869)
Dividends received	1,250,638	887,398
Interest received	5,091,395	47,996
Income taxes paid, including creditable withholding and final taxes	(2,208,770)	(1,251,950)
Net cash from (used in) operating activities	41,398,572	(3,100,425)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of:		
AFS investments (Note 6)	(5,209,908)	(37,145,869)
HTM investments (Note 6)	(157,207)	(964,907)
Property, plant and equipment (Note 11)	(324,539)	(2,464,435)
Investment properties (Note 11)	(77,671)	(42,722)
Other assets (Note 11)	(1,818,534)	(31,279)
Proceeds from sale of:		
AFS (Note 6)	55,389	19,905,059
Other assets (Note 11)	138,181	2,062,813
Net cash used in investing activities	(7,394,289)	(18,681,340)

(Forward)

	Six Months Ended June 30	
	2016	2015
	(Unaudited)	(Unaudited)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from bill and acceptance payable	₱5,421,289	₱5,640,002
Proceeds (payment) of short term debts	(7,385)	850,000
Payments of long term debts (Note 17)	(6,783,755)	(5,359,211)
Payment of advances to affiliates (Note 20)	(6,894)	—
Movement in other noncurrent liabilities	(3,547,463)	—
Dividends paid	(1,622,949)	—
Payment of finance cost	(2,103,142)	(99,569)
Net cash used in financing activities	(8,650,299)	1,031,222
NET DECREASE IN CASH AND CASH EQUIVALENTS	25,353,984	(20,750,543)
NET MOVEMENT IN CASH IN DISPOSAL GROUP		
CLASSIFIED AS HELD FOR SALE	2,074,136	—
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	137,556,341	147,275,490
CASH AND CASH EQUIVALENTS AT END OF PERIOD		
(Note 4)	₱164,984,461	₱126,524,947

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 Tanduay Distillers, Inc. (TDI), a producer of distilled spirits, through a share swap with Tangent Holdings Corporation ("Tangent" or the "Parent Company"). The share swap resulted in LTG wholly owning TDI and Tangent increasing its ownership in LTG to 97.0%. On November 10, 1999, the Philippine SEC approved the change in the Company's corporate name from "Asian Pacific Equity Corporation" to "Tanduay Holdings, Inc.". On September 24, 2012, LTG's stockholders approved the amendment in its Articles of Incorporation and By-Laws to reflect the change in its corporate name from "Tanduay Holdings, Inc." to "LT Group, Inc." which was approved by the Philippine SEC on September 28, 2012. The Company's primary purpose is to engage in the acquisition by purchase, exchange, assignment, gift or otherwise; and to hold, own and use for investment or otherwise; and to sell, assign, transfer, exchange, lease, let, develop, mortgage, enjoy and dispose of, any and all properties of every kind and description and wherever situated, as to and to the extent permitted by law.

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

As of June 30, 2016 and December 31, 2015, 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 investments, 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 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 Philippine Accounting Standards (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, 2015 annual consolidated financial statements.

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

Basis of Consolidation

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

	Percentage of Ownership						Country of Incorporation
	June 30, 2016		December 31, 2015		June 30, 2015		
	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 Philippines, Inc.	—	99.9	—	99.9	—	99.9	Philippines
Waterich Resources Corporation	—	99.9	—	99.9	—	99.9	Philippines
Packageworld, Inc.	—	99.9	—	99.9	—	99.9	Philippines
AB Nutribev Inc. ⁽²⁾	—	99.9	—	99.9	—	99.9	Philippines
Asia Pacific Beverages Pte. Ltd. ⁽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		99.6		99.6		99.3	Philippines
Belton Communities, Inc. (BCI)	—	99.6	—	99.6	—	99.3	Philippines
Eton City, Inc. (ECI)	—	99.6	—	99.6	—	99.3	Philippines
FirstHomes, Inc. (FHI)	—	99.6	—	99.6	—	99.3	Philippines
Eton Properties Management Corporation (EPMC)	—	99.6	—	99.6	—	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
	June 30, 2016		December 31, 2015		June 30, 2015		
	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) ⁽⁷⁾	—	—	—	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 June 30, 2016 and December 31, 2015, 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.

⁽⁷⁾ Beginning December 18, 2015, assets and liabilities of PLII as of June 30, 2016 and December 31, 2014 have been reclassified as disposal group classified as held for sale and the results of its operations for the six months ended June 30, 2016 and 2015 have been reclassified as discontinued operations, following the approval of PNB's BOD disposing 51.00% of its ownership interest in PLII to Allianz SE (see Note 35).

Changes in Accounting Policies and Disclosures

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after January 1, 2016. The nature and impact of each new standard and amendment is described below:

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

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

- PAS 27, *Separate Financial Statements - Equity Method in Separate Financial Statements* (Amendments). The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of PFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to PFRS. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments have no impact on the interim condensed consolidated financial statements. However, in the separate financial statements, the Company will continue to account for its investments in associates and joint venture using the cost method.
- PFRS 11, *Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations* (Amendments). The amendments to PFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. The Group will consider these amendments have no impact to the Group's operations.

- PFRS 14, *Regulatory Deferral Accounts*. PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. PFRS 14 is effective for annual periods beginning on or after January 1, 2016. Since the Group is an existing PFRS preparer, this standard would not apply.
- Amendments to PAS 1, *Presentation of Financial Statements - Disclosure Initiative*
The amendments to PAS 1 clarify, rather than significantly change, existing PAS 1 requirements. The amendments clarify:
 - The materiality requirements in PAS 1
 - That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
 - That entities have flexibility as to the order in which they present the notes to financial statements
 - That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

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

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

Annual Improvements to PFRSs (2012-2014 cycle)

The Annual Improvements to PFRSs (2012-2014 cycle) are effective for annual periods beginning on or after January 1, 2016 and have no material impact on the Group. They include:

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations - Changes in Methods of Disposal*. The amendment is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.
- PFRS 7, *Financial Instruments: Disclosures - Servicing Contracts*. PFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments.
- PFRS 7 - *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*. This amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim

financial report unless they provide a significant update to the information reported in the most recent annual report.

- PAS 19, *Employee Benefits - Regional Market Issue Regarding Discount Rate*. This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.
- PAS 34, *Interim Financial Reporting - Disclosure of Information "Elsewhere in the Interim Financial Report"*. The amendment is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).

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 consolidated financial statements when these become effective.

Deferred

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The Philippine SEC and the FRSC have deferred the effectivity of this interpretation until the final Revenue standard is issued by the IASB and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date once locally adopted.
- Amendments to PFRS 10 and PAS 28 - *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*. These amendments address an acknowledged inconsistency between the requirements in PFRS 10 and those in PAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. On January 13, 2016, the FRSC postponed the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures. The Group will consider these amendments for future sale or contribution of assets of the Group to its associates and joint venture.

Effective in 2018

- PFRS 9, *Financial Instruments*. In July 2014, the final version of PFRS 9, *Financial Instruments*, was issued. PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous

versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of PFRS 9 is permitted if the date of initial application is before February 1, 2015.

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

- International Financial Reporting Standard (IFRS) 15, *Revenue from Contracts with Customers*. IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date once adopted locally.

Effective in 2019

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

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

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

The Group is currently assessing the impact of PFRS 16.

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

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 and other insurance services. The Group conducts its banking business through PNB and its consolidated subsidiaries.
- Distilled Spirits, which is involved in manufacturing, compounding, bottling, importing, buying and selling of rum, spirit beverages, and liquor products. The Group conducts its distilled spirits business through TDI and its consolidated subsidiaries.
- Beverage, which is engaged in brewing and soft drinks and bottled water manufacturing in the Philippines. It also operates other plants, which includes commercial glass division and corrugated cartons and metal closures production facility, to support the requirements of its brewing, bottled water and non-beer products operations. The Group conducts its beverage business through ABI and its consolidated subsidiaries.
- Tobacco, which is a supplier and manufacturer of cigarettes, casings, tobacco, packaging, labels and filters. The Group conducts its tobacco business through FTC's interest in PMFTC.
- Property Development, which is engaged in ownership, development, leasing and management of residential properties, including but not limited to, all kinds of housing projects, commercial, industrial, urban or other kinds of real property; acquisition, purchasing, development and selling of subdivision lots. The Group conducts its property development business through Eton and its consolidated subsidiaries.
- Others, consist of various holding companies (LTG, Paramount, Saturn, Shareholdings, TBI and Bank Holding Companies) that provide financing for working capital and capital expenditure requirements of the operating businesses of the Group.

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

The Group's assets are located mainly in the Philippines. The Group operates and derives principally all of its revenue from domestic operations. The Group's banking segment operates in key cities in the USA, Canada, Western Europe, Middle East and Asia. The distribution of assets and revenues of the banking segment outside the Philippines constitute 8.0% and 3.8% as of December 31, 2015, and 4.7% and 4.2% as of December 31, 2014 of the Group's consolidated assets and revenues, respectively.

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

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

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

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

The Group's distilled spirits segment derives revenue from two major distributors which averaged 83%, 89% and 94% of the total segment revenue in 2016, 2015 and 2014, 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 six months ended June 30, 2016:

	Banking	Beverage	Distilled Spirits	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
	(In Thousands)						
Segment revenue:							
External customers	₱14,287,960	₱7,250,728	₱7,046,095	₱–	₱1,311,350	₱–	₱29,896,133
Inter-segment	68,840	511,608	30,746	–	–	(611,194)	–
	14,356,800	7,762,336	7,076,841	–	1,311,350	(611,194)	29,896,133
Cost of sales	2,654,038	5,410,060	5,799,191	–	610,204	(565,413)	13,908,080
Gross profit	11,702,762	2,352,276	1,277,650	–	701,146	(45,781)	15,988,053
Equity in net earnings of associates	–	–	–	1,400,115	–	96,125	1,496,240
	11,702,762	2,352,276	1,277,650	1,400,115	701,146	50,344	17,484,293
Selling expenses	–	863,505	413,690	–	30,432	(4,470)	1,303,157
General and administrative expenses	10,574,096	439,068	300,470	61,525	284,735	67,899	11,727,793
Operating income	1,128,666	1,049,703	563,490	1,338,590	385,979	(13,085)	4,453,343
Finance costs	–	(23,175)	(4,342)	–	(148,501)	78,350	(97,668)
Finance income	–	2,353	44	27,448	7,312	(23,453)	13,704
Foreign exchange gains (losses) – net	807,310	–	(108)	–	748	(24)	807,926
Others - net	3,918,937	4,168	339	70,139	(15,239)	(1,236,659)	2,741,685
Income before income tax	5,854,913	1,033,049	559,423	1,436,177	230,299	(1,194,871)	7,918,990
Provision for income tax	1,819,721	311,835	115,408	(19,325)	96,879	5,814	2,330,332
Segment profit from:							
Continuing operations	4,035,192	721,214	444,015	1,455,502	133,420	(1,200,685)	5,588,658
Discontinued operations	384,064	–	–	–	–	–	384,064
Segment profit	₱4,419,256	₱721,214	₱444,015	₱1,455,502	₱133,420	(1,200,685)	₱5,972,722
Depreciation and amortization expense	₱660,487	₱774,339	₱215,903	₱5,699	₱80,191	₱10,107	₱1,746,726
Segment profit attributable to:							
Equity holders of the Company	3,021,715	721,214	437,102	1,449,389	132,913	(1,200,685)	4,561,648
Non-controlling interests	1,397,541	–	6,913	6,113	507	–	1,411,074

Other financial information of the operating segments as of June 30, 2016 is as follows:

	Banking	Beverage	Distilled Spirits	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
	<i>(In Thousands)</i>						
Assets:							
Current assets	₱316,824,208	₱12,247,150	₱10,745,082	₱8,844,926	₱14,497,579	(₱5,729,400)	₱357,429,545
Noncurrent assets	382,809,970	13,285,440	6,735,354	13,427,302	13,286,499	(4,015,672)	425,528,893
	₱699,634,178	₱25,532,590	₱17,480,436	₱22,272,228	₱27,784,078	(₱9,745,072)	₱782,958,438
Liabilities:							
Current liabilities	₱553,683,972	₱3,561,593	₱2,380,592	₱305,766	₱6,509,943	(₱10,657,952)	₱555,783,914
Noncurrent liabilities	47,955,245	1,307,525	527,515	91,756	5,211,846	(3,235,417)	51,858,470
	₱601,639,217	₱4,869,118	₱2,908,107	₱397,522	₱11,721,789	(₱13,893,369)	₱607,642,384
Investments in associate and a joint venture	₱1,274,073	₱12,073	₱—	₱11,099,360	₱—	₱1,567,929	₱13,953,435
Equity attributable to:							
Equity holders of the Company	95,412,673	20,663,472	14,446,296	21,874,706	16,062,289	(36,049,388)	132,410,048
Non-controlling interests	2,582,288	—	126,033	—	—	40,197,685	42,906,006
Short-term debts	—	1,400,000	100,000	—	—	(100,000)	1,400,000
Long-term debts	3,494,908	—	—	—	2,096,398	(1,200,000)	4,391,306

For the six months ended June 30, 2015:

	Banking	Beverage	Distilled Spirits	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
	<i>(In Thousands)</i>						
Segment revenue:							
External customers	₱12,773,690	₱6,565,929	₱5,588,386	₱–	₱1,248,537	₱–	₱26,176,542
Inter-segment	–	534,142	62,481	–	–	(596,623)	–
	12,773,690	7,100,071	5,650,867	–	1,248,537	(596,623)	26,176,542
Cost of sales	2,334,451	5,176,146	4,567,241	–	653,296	(673,505)	12,057,629
Gross profit	10,439,239	1,923,925	1,083,626	–	595,241	76,882	14,118,913
Equity in net earnings of associates	–	–	–	419,815	–	171,970	591,785
	10,439,239	1,923,925	1,083,626	419,815	595,241	248,852	14,710,698
Selling expenses	–	771,683	424,561	–	16,706	(2,956)	1,209,994
General and administrative expenses	8,598,259	427,405	342,406	54,201	338,133	60,016	9,820,420
Operating income	1,840,980	724,837	316,659	365,614	240,402	191,792	3,680,284
Finance costs	–	(6,829)	(47,510)	–	(63,280)	2,275	(115,345)
Finance income	–	9,183	2,966	45,789	48,682	(58,624)	47,996
Foreign exchange gains (losses) - net	575,193	–	(1,545)	–	288	1,889	575,825
Others - net	2,277,226	19,582	5,526	19,693	(24,467)	(144,610)	2,152,950
Income before income tax	4,693,399	746,773	276,096	431,096	201,625	(7,278)	6,341,711
Provision for income tax	790,145	222,989	96,608	6,151	87,747	6,349	1,209,989
Segment profit from:							
Continuing operations	3,903,254	523,784	179,488	424,945	113,877	(13,627)	5,131,721
Discontinuing operations	201,110	–	–	–	–	–	201,110
Segment profit	₱4,104,364	₱523,784	₱179,488	₱424,945	₱113,878	(13,627)	₱5,332,832
Depreciation and amortization expense	₱552,443	₱831,086	₱216,640	₱5,683	₱74,359	₱8,755	₱1,688,966
Segment profit attributable to:							
Equity holders of the Company	2,345,809	523,784	180,837	423,160	113,080	(13,827)	3,572,843
Non-controlling interests	1,758,555	–	(1,149)	1,785	797	–	1,759,988

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

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
	<i>(In Thousands)</i>						
Assets:							
Current assets	₱331,611,312	₱10,040,792	₱11,368,663	₱9,975,983	₱14,774,964	(₱7,510,083)	₱370,261,631
Noncurrent assets	334,920,597	6,667,777	13,294,019	12,602,442	11,322,217	483,819	379,290,871
	₱666,531,909	₱16,708,569	₱24,662,682	₱22,578,425	₱26,097,181	(₱7,026,264)	₱749,552,502
Liabilities:							
Current liabilities	₱494,826,886	₱2,044,210	₱3,443,633	₱319,367	₱7,045,991	(₱11,354,869)	₱496,325,218
Noncurrent liabilities	79,378,819	536,539	1,278,930	113,459	3,122,295	(960,853)	83,469,189
	₱574,205,705	₱2,580,749	₱4,722,563	₱432,826	₱10,168,286	(₱12,315,722)	₱579,794,407
Investments in associates and a joint venture	₱—	₱—	₱19,900	₱10,289,586	₱—	₱1,451,804	₱11,761,290
Equity attributable to:							
Equity holders of the Company	50,946,819	14,008,783	19,940,119	22,047,721	15,897,492	6,035,084	128,876,018
Non-controlling interests	41,379,385	119,037	—	97,878	31,403	(745,626)	40,882,077
Short-term debts	—	350,000	1,400,000	—	—	(350,000)	1,400,000
Long-term debts	9,986,426	—	—	—	1,196,020	—	11,182,446

4. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	June 30, 2016 (Unaudited)	December 31, 2015 (Audited)
	(In Thousands)	
Cash and other cash items	P13,299,799	P17,555,206
Cash equivalents:		
Due from <i>Bangko Sentral ng Pilipinas</i> (BSP)	94,048,519	81,363,444
Due from other banks	27,193,310	18,287,308
Interbank loans receivable and securities held under agreements to resell	30,442,833	20,350,383
	P164,984,461	P137,556,341

- a. Cash and other cash items consist of cash on hand and in banks and short term investments. Cash in banks earn interest at bank deposit rates. Short term investments represent money market placements made for varying periods depending on the immediate cash requirements of the Group.
- b. Due from BSP is composed of interest-bearing short-term placements with BSP and a demand deposit account to support the regular operations of PNB.
- c. Securities held under agreements to resell represent overnight placements with the BSP where the underlying securities cannot be sold or repledged. The interest rate applicable is fixed by the BSP through a memorandum.
- d. Interest earned on cash and other cash items and cash equivalents are presented under "Finance income" and "Banking revenue", respectively (see Note 25).

5. Financial Assets at Fair Value through Profit or Loss

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

	June 30, 2016 (Unaudited)	December 31, 2015 (Audited)
	(In Thousands)	
Financial assets at fair value through profit or loss (FVPL):		
Held for trading:		
Government securities	P1,155,919	P4,039,612
Private debt securities	205,160	199,922
Derivative assets (Note 19)	412,940	181,348
Equity securities	105,086	143,800
	1,879,105	4,564,682
Designated at FVPL		
Segregated fund assets	3,254,389	—
Unit investment trust fund	17,394	5,099,052
	P5,150,888	P9,663,734

6. Available for Sale Investments

Available for sale investments consist of:

	June 30, 2016 (Unaudited)	December 31, 2015 (Audited)
	<i>(In Thousands)</i>	
Government securities	₱37,833,089	₱45,802,968
Other debt securities	36,531,259	22,252,980
Equity securities:		
Quoted	1,383,228	1,329,564
Unquoted	1,199,831	1,177,924
	76,947,407	70,563,436
Allowance for impairment losses	(949,055)	(998,749)
	75,998,352	69,564,687
Noncurrent portion	(69,366,455)	(66,649,517)
	₱6,631,897	₱2,915,170

7. Loans and Receivables

Loans and receivables consist of:

	June 30, 2016 (Unaudited)	December 31, 2015 (Audited)
	<i>(In Thousands)</i>	
Finance receivables	₱404,028,002	₱380,207,907
Trade receivables	12,580,921	12,288,478
Other receivables	2,416,157	2,404,704
	419,025,080	394,901,089
Allowance for credit losses	(16,391,545)	(15,977,755)
	402,633,535	378,923,334
Noncurrent portion	(248,048,816)	(206,782,709)
	₱154,584,719	₱172,140,625

Finance Receivables

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

	June 30, 2016 (Unaudited)	December 31, 2015 (Audited)
	<i>(In Thousands)</i>	
Receivables from customers:		
Loans and discounts	₱360,740,847	₱335,352,183
Customers' liabilities on acceptances, letters of credit and trust receipts	8,224,170	11,079,224
Bills purchased	3,597,915	3,858,750
(Forward)		

	June 30, 2016 (Unaudited)	December 31, 2015 (Audited)
	<i>(In Thousands)</i>	
Credit card receivables	₱5,954,064	₱5,439,554
Finance lease receivables	3,605,804	3,686,790
	382,122,800	359,416,501
Unquoted debt securities	7,416,665	4,245,069
Other receivables:		
Accounts receivable	7,318,106	8,374,156
Accrued interest receivable	3,703,358	5,150,502
Sales contract receivables	4,974,697	4,428,062
Miscellaneous	442,695	429,924
	16,438,856	18,382,644
	405,978,321	382,044,214
Unearned interest and other deferred income	(1,950,319)	(1,836,307)
	404,028,002	380,207,907
Allowance for credit losses	(16,347,373)	(15,934,483)
	387,680,629	364,273,424
Noncurrent portion	(247,618,908)	(206,430,391)
	₱140,061,721	₱157,843,033

Trade receivables

Trade receivables consist of:

	June 30, 2016 (Unaudited)	December 31, 2015 (Audited)
	<i>(In Thousands)</i>	
Consumer goods	₱10,070,598	₱9,383,633
Contract receivables	2,499,457	2,875,514
Lease receivables	10,866	29,331
	12,580,921	12,288,478
Allowance for credit losses	(32,032)	(32,032)
	12,548,889	12,256,446
Less noncurrent portion of contract receivables	(429,908)	(352,318)
	₱12,118,981	₱11,904,128

8. Inventories

Inventories consist of:

	June 30, 2016 (Unaudited)	December 31, 2015 (Audited)
	<i>(In Thousands)</i>	
At Cost:		
Consumer goods:		
Alcohol	₱3,266,438	₱2,387,930
Beverage	1,942,785	1,887,224
	5,209,223	4,275,154
Real estate inventories:		
Condominium and residential units for sale	4,101,099	3,978,857
Subdivision land under development	3,360,166	3,370,090
Land held for future development	1,275,316	1,137,156
	8,736,581	8,486,103
Fuel, materials and supplies	261,390	613,024
	14,207,194	13,374,281
At NRV - Materials and supplies	652,345	649,766
	₱14,859,539	₱14,024,047

9. Other Current Assets

Other current assets consist of:

	June 30, 2016 (Unaudited)	December 31, 2015 (Audited)
	<i>(In Thousands)</i>	
Creditable withholding taxes	₱4,083,510	₱3,409,032
Advances to suppliers	1,284,071	985,053
Input VAT	995,394	802,637
Excise tax	989,861	959,654
Prepaid expenses	620,743	468,587
Advances to contractors	390,720	326,188
Stationeries, office supplies and stamps on hand	224,950	300,156
Deferred rent	174,613	161,592
Miscellaneous cash and other cash items	154,373	103,668
Deferred charges	8,656	271,257
Deferred reinsurance premiums	—	287,139
Others	696,153	766,960
	₱9,623,044	₱8,841,923

10. Associates and Joint Ventures

Investments in Associates and Joint Ventures

The Group has the power to participate in the financial and operating policy decisions in PMFTC and VMC, a 49.6%-owned and a 30.17%-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 ventures are accounted for using equity method of accounting.

	June 30, 2016 (Unaudited)	December 31, 2015 (Audited)
	<i>(In Thousands)</i>	
PMFTC	₱10,438,859	₱10,289,585
VMC	2,208,431	1,451,805
PLII	1,274,073	—
Joint Venture with Ayala Land, Inc.	20,000	—
ABI Pascual Holdings	12,072	19,900
	₱13,953,435	₱11,761,290

Investment in PMFTC

On February 25, 2010, FTC and PMPMI combined their respective domestic business operations by transferring selected assets and liabilities to PMFTC in accordance with the provisions of the Asset Purchase Agreement (APA) between FTC and its related parties and PMPMI. The establishment of PMFTC allows FTC and PMPMI to benefit from their respective, complementary brand portfolios as well as cost synergies from the resulting integration of manufacturing, distribution and procurement, and the further development and advancement of tobacco growing in the Philippines. FTC and PMPMI hold equal economic interest in PMFTC. Since PMPMI manages the day-to-day operations and has majority members of the BOD, it has control over PMFTC. FTC considers PMFTC as an associate.

As a result of FTC's divestment of its cigarette business to PMFTC, FTC initially recognized the investment amounting to ₱13.5 billion, representing the fair value of the net assets contributed by FTC, net of unrealized gain of ₱5.1 billion. The transaction was accounted for similar to a contribution in a joint venture based on Standing Interpretations Committee (SIC) Interpretation 13, Jointly Controlled Entities-Non-Monetary Contributions by Venturers, where FTC recognized only that portion of the gain or loss which is attributable to the interests of PMPMI amounting to ₱5.1 billion in 2010. The portion attributable to FTC is being recognized once the related assets and liabilities are realized, disposed or settled. FTC recognized the gain of around ₱293.0 million each year starting 2011 and an outright loss of ₱2.0 billion in 2010, which are included in the "Equity in net earnings" in these periods. Further, as a result of the transfer, portion of the revaluation increment on FTC's property, plant and equipment amounting to ₱1.9 billion was transferred to retained earnings.

Investment in VMC

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.

In 2015, portion of the convertible notes amounting to ₱124.1 million was converted to shares of stock of VMC resulting to an increase in LTG's ownership interest to 22.5% as of December 31, 2015. The difference of ₱17.6 million between the sum of the consideration for the additional 2.3% ownership interest amounting to ₱124.1 million and the share in fair value of net assets of VMC at the date of the conversion amounting to ₱141.7 million was recognized as part of the equity in net earnings of VMC in 2015.

On February 18, 2016, the Group purchased 131,863,677 shares of VMC at a price of ₱5.0 per share. This resulted in increase in the Group's effective ownership in VMC at 30.17%.

Investment in PLII

Investment of the Group represents 24.86% effective ownership in PNB Life (see Note 37).

Joint Venture with Ayala Land, Inc.

Investment of the Group pertains to the joint venture with Ayala Land, Inc. to develop a 35-hectare township project along C-5, which spans portions of Pasig City and Quezon City. The work on the master plan is ongoing and this project will provide the group with opportunities to further increase its product offerings.

Investment in Joint Venture

Total assets, liabilities and capital deficiency of ABI Pascual Holdings amounted to ₱105.8 million, ₱42.8 million and ₱63.0 million, respectively, as of June 30, 2016 and ₱71.5 million, ₱164.8 million and ₱93.3 million, respectively, as of December 31, 2015.

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

Additions to property, plant and equipment amounted to ₱2,159 million while retirement and disposals amounted to ₱214 million for the six months ended June 30, 2016.

Additions to investment properties amounted to ₱423 million while retirement and disposals amounted to ₱955 million for the six months ended June 30, 2016.

12. Other Noncurrent Assets

Other noncurrent assets consist of:

	June 30, 2016 (Unaudited)	December 31, 2015 (Audited)
	<i>(In Thousands)</i>	
Software costs	₱1,252,132	₱1,131,041
Deferred input VAT	488,061	378,486
Deferred reinsurance premiums	476,180	499,148
Net retirement plan assets (Note 21)	260,912	255,716
Refundable and security deposits	245,403	160,510
Goodwill	163,735	163,735
Deferred charges	129,974	129,974
Chattel properties - net	22,581	2,107
Other investments	20,695	19,861
Deposit for future investments	—	348,511
Receivable from SPV - net	—	500
Others	200,416	290,655
	₱3,260,089	₱3,380,244

13. Deposit Liabilities

Deposit liabilities consists of:

	June 30, 2016 (Unaudited)	December 31, 2015 (Audited)
	<i>(In Thousands)</i>	
Demand	₱114,858,730	₱113,168,584
Savings	338,171,343	302,476,256
Time	73,028,340	60,511,352
	526,058,413	476,156,192
Presented as noncurrent	(25,912,603)	(39,793,338)
Presented as current	₱500,145,810	₱436,362,854

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

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

	June 30, 2016 (Unaudited)	December 31, 2015 (Audited)
	<i>(In Thousands)</i>	
Derivative liabilities (Note 19)	₱587,787	₱135,193
	587,787	135,193
Presented as noncurrent	(104,982)	(9,118)
Presented as current	₱482,805	₱126,075

15. Bills and Acceptances Payable

Bills and acceptance payable consists of:

	June 30, 2016 (Unaudited)	December 31, 2015 (Audited)
	<i>(In Thousands)</i>	
Bills payable to:		
BSP and local banks	₱23,267,350	₱17,580,304
Foreign banks	7,096,111	7,676,238
Others	50,918	150,864
	30,414,379	25,407,406
Acceptances outstanding	759,132	344,816
	31,173,511	25,752,222
Presented as noncurrent	(12,563,966)	(19,915,383)
Presented as current	₱18,609,545	₱5,836,839

16. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of:

	June 30, 2016 (Unaudited)	December 31, 2015 (Audited)
	<i>(In Thousands)</i>	
Trade payables	₱8,355,147	₱8,785,564
Nontrade payables	540,538	377,087
Accrued expenses:		
Interest	2,182,483	2,085,701
Projects development costs	1,818,433	1,932,508
Taxes and licenses	1,184,400	374,908
Purchase of materials and supplies	770,562	759,244
PDIC insurance premiums	544,006	470,701
Advertising and promotional expenses	150,210	284,281
Rent and utilities payable	135,959	103,043
Information technology-related expenses	5,475	194,974
Retention payable	638,343	690,714
Output value added tax	178,140	661,368
Due to government agencies	47,477	275,757
Other payables	1,210,571	83,970
	₱17,761,744	₱17,079,820

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 June 30, 2016. As of June 30, 2016 and December 31, 2015, outstanding unsecured short term debts amounted to ₱1.40 billion. The loans are subject to annual interest rates ranging from 3.3% to 3.5%, 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

	June 30, 2016 (Unaudited)	December 31, 2015 (Audited)
	<i>(In Thousands)</i>	
Subordinated debts	₱3,494,908	₱9,986,427
Unsecured term loan	427,768	720,004
Notes payable	468,630	476,015
	4,391,306	11,182,446
Less current portion	(468,630)	(476,015)
	₱3,922,676	₱10,706,431

The Group 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 June 30, 2016, the Group has complied with the covenants related to its long-term debts.

18. Other Liabilities

	June 30, 2016 (Unaudited)	December 31, 2015 (Audited)
	<i>(In Thousands)</i>	
Insurance contract liabilities	₱4,227,675	₱4,719,336
Bills purchased - contra (Note 7)	3,247,612	3,418,002
Customers deposits	1,537,996	1,426,649
Managers' checks and demand drafts outstanding	1,488,015	937,799
Provisions (Note 33)	1,004,693	1,168,011
Payable to landowners	992,923	1,732,923
Reserve for unearned premiums	954,729	1,191,405
Deposit on lease contracts	901,463	854,817
Other dormant credits	784,284	753,338
Due to Treasurer of the Philippines	419,052	438,943
Tenants' rental deposits	360,366	306,524
Margin deposits and cash letters of credit	331,710	182,640
Payment order payable	244,545	407,196
Advanced rentals	50,620	207,470
Transmission liability	30,791	24,976
Others	4,155,423	3,440,631
	20,731,897	21,210,660
Presented as noncurrent	(4,413,554)	(7,961,017)
Presented as current	₱16,318,343	₱13,249,643

19. Derivative Financial Instruments

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

	June 30, 2016 (Unaudited)	December 31, 2015 (Audited)
	<i>(In Thousands)</i>	
Balance at beginning of period	₱46,155	₱91,648
Changes in fair value	934,178	(583,375)
Settlements	(1,155,158)	537,882
Balance at end of period	(₱174,825)	₱46,155

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:

		Six Months Ended June 30	
		2016	2015
		(Unaudited)	(Unaudited)
		<i>(In Thousands)</i>	
Associate	Purchases of inventories	₱449,602	₱550,044
	Dividend income	1,250,638	887,398
Entities Under Common Control	Banking revenue - interest on loans and receivables	88,480	94,312
	Sales of consumer products	13,051	13,280
	Rent income	41,325	28,332
	Freight and handling	1,858	2,890
	Cost of banking services - interest expense on deposit liabilities	(60,601)	(66,449)
	Cost of sales and services	(23,505)	(5,028)
	Management and professional fee	(174,745)	(233,834)
	Rent expense	(21,164)	(14,802)

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

			Outstanding Balance	
			June 30, 2016 (Unaudited) <i>(In Thousands)</i>	December 31, 2015 (Audited)
Financial Statement Account	Terms and Conditions			
Parent Company	Due to related parties	On demand; non-interest bearing	(P41,839)	(P41,975)
Associate	Other receivables - dividends	30 to 90 days terms; non-interest bearing	211,166	228,017
	Trade receivables	30 to 90 days terms; non-interest bearing	12,875	17,771
	Account payable and other liabilities	30 to 60 days terms; non-interest bearing	(3,773)	(4,990)
	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	22,497,168	18,168,623
	Trade receivables	30 to 60 days terms; non-interest bearing	12,088	9,469
	Due from related parties	On demand; non-interest bearing	1,594,997	1,593,034
	Advances to suppliers	30 to 60 days terms; non-interest bearing	–	47,401
Entities Under Common Control	Deposit liabilities	With annual rates ranging from 0.38% to 1.73% and maturity ranging from 30 days to one (1) year	(9,201,065)	(7,418,850)
	Account payable and other liabilities	30 to 90 days terms; non-interest bearing	(294,608)	(160,393)
	Due to related parties	On demand; non-interest bearing	–	(4,795)
	Other payables	30 to 90 days terms; non-interest bearing	–	(4,339)

As of June 30, 2016 and December 31, 2015, 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:

	June 30, 2016 (Unaudited)	December 31, 2015 (Audited)
	<i>(In Thousands)</i>	
Net retirement plan assets:		
FTC	₱233,056	₱227,524
AAC	19,011	19,347
LTG	8,845	8,845
	₱260,912	₱255,716
Accrued retirement benefits:		
PNB	₱2,788,044	₱2,955,003
ABI and subsidiaries	904,389	861,051
TDI and ADI	40,833	37,931
Eton	58,140	46,941
	₱3,791,406	₱3,900,926

Transactions with Retirement Plans

Management of the retirement funds of the banking segment is handled by the PNB Trust Banking Group (TBG). As of June 30, 2016 and December 31, 2015, 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 June 30, 2016 and December 31, 2015, 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:

	Six Months Ended June 30	
	2016 (Unaudited)	2015 (Unaudited)
	<i>(In Thousands)</i>	
Sale of consumer goods	₱14,296,823	₱12,154,315
Banking revenue	14,287,960	12,773,690
Real estate sales	679,956	713,213
Rental income	631,394	535,324
	₱29,896,133	₱26,176,542

Sale of consumer goods consists of:

	Six Months Ended June 30	
	2016 (Unaudited)	2015 (Unaudited)
	<i>(In Thousands)</i>	
Gross sales	₱14,962,317	₱12,748,851
Less sales returns, discounts and allowances	665,494	594,536
	₱14,296,823	₱12,154,315

Banking revenue consists of:

	Six Months Ended June 30	
	2016 (Unaudited)	2015 (Unaudited)
	<i>(In Thousands)</i>	
Interest income on:		
Loans and receivables	₱9,379,814	₱8,205,682
Trading and investment securities	2,192,594	1,682,770
Deposits with banks and others	177,293	539,440
Interbank loans receivable	36,070	16,255
	11,785,771	10,444,147
Trading and securities gains	731,047	352,309
Service fees and commission income	1,771,142	1,977,234
	₱14,287,960	₱ 12,773,690

Cost of sales and services consists of:

	Six Months Ended June 30	
	2016	2015
	(Unaudited)	(Unaudited)
	<i>(In Thousands)</i>	
Cost of consumer goods sold:		
Materials used and changes in inventories	₱7,390,542	₱6,116,424
Taxes and licenses	779,781	691,350
Depreciation and amortization (Note 11)	609,462	639,118
Fuel and power	413,357	396,220
Personnel costs	357,681	337,446
Communication, light and water	334,692	318,985
Management, consulting, and professional fees	312,106	244,551
Repairs and maintenance	230,793	226,652
Freight and handling	59,717	58,640
Others	178,767	117,378
	10,666,898	9,146,764
Cost of banking services	2,630,978	2,257,569
Cost of real estate sales	486,006	538,939
Cost of rental income	124,198	114,357
Cost of sales and services	₱13,908,080	₱12,057,629

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

Cost of banking services consist of:

	Six Months Ended June 30	
	2016	2015
	(Unaudited)	(Unaudited)
	<i>(In Thousands)</i>	
Interest expense on:		
Deposit liabilities	₱1,727,002	₱1,392,468
Bills payable and other borrowings	576,395	547,833
Services fees and commission expense	327,581	317,268
	₱2,630,978	₱2,257,569

23. Selling Expenses

	Six Months Ended June 30	
	2016	2015
	(Unaudited)	(Unaudited)
	<i>(In Thousands)</i>	
Advertising and promotions	₱574,214	₱486,543
Depreciation and amortization (Note 11)	322,544	319,110
Freight and handling	181,194	196,001
Management, consulting and professional fees	61,129	56,191
Personnel costs	60,711	64,587
Repairs and maintenance	25,806	23,726

(Forward)

	Six Months Ended June 30	
	2016	2015
	(Unaudited)	(Unaudited)
	<i>(In Thousands)</i>	
Commissions	₱17,190	₱6,128
Materials and consumables	10,492	16,247
Others	49,877	41,461
	₱1,303,157	₱1,209,994

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

	Six Months Ended June 30	
	2016	2015
	(Unaudited)	(Unaudited)
	<i>(In Thousands)</i>	
Personnel costs	₱4,767,086	₱4,614,626
Taxes and licenses	1,078,327	1,261,398
Provision for losses (reversal)	749,069	(385,175)
Depreciation and amortization (Notes 11 and 12)	746,670	660,735
Occupancy	693,246	698,285
Insurance	572,949	552,965
Policyholder benefits and claim benefits	451,229	397,108
Marketing expenses	447,316	238,528
Management, consulting and professional fees	379,248	382,483
Information technology	207,404	220,489
Travel and transportation	176,139	116,637
Materials and consumables	167,319	73,189
Communication, light and water	121,416	116,228
Repairs and maintenance	105,076	99,138
Outside services	82,574	83,928
Litigation expenses	30,474	95,196
Others	952,251	594,662
	₱11,727,793	₱9,820,420

25. Finance Costs and Finance Income

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

	Six Months Ended June 30	
	2016	2015
	(Unaudited)	(Unaudited)
	<i>(In Thousands)</i>	
Finance costs (Note 17):		
Short-term debts	₱16,226	₱41,263
Bonds payable and amortization of bond issue costs	—	47,510
Unsecured term loan and notes payable	81,442	26,572
Finance costs	₱97,668	₱115,345

(Forward)

	Six Months Ended June 30	
	2016	2015
	(Unaudited)	(Unaudited)
	<i>(In Thousands)</i>	
Finance income:		
Cash and other cash items (Note 4)	₱8,970	₱31,441
Interest-bearing contracts receivable (Note 7)	4,734	16,555
	₱13,704	₱47,996

26. Other Income (Charges) - net

	Six Months Ended June 30	
	2016	2015
	(Unaudited)	(Unaudited)
	<i>(In Thousands)</i>	
Net gains on sale or exchange of assets	₱813,432	₱424,327
Recoveries	672,093	140,480
Premiums - net of reinsurance	594,069	530,936
Rental income (Note 11)	123,900	201,230
Processing and referral fees	1,687	65,791
Collection from Ever Gotesco insurance claim	–	703,796
Others	536,504	86,390
	₱2,741,685	₱2,152,950

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:

	Six Months Ended June 30	
	2016	2015
	(Unaudited)	(Unaudited)
	<i>(In Thousands)</i>	
RCIT/MCIT	₱1,756,120	₱1,018,718
Final tax	523,425	236,682
Provision for current income tax	₱2,279,545	₱1,255,400

28. Equity

Capital Stock

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

	June 30, 2016	December 31, 2015
	(Unaudited)	(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:

	Six Months Ended June 30	
	2016	2015
	(Unaudited)	(Unaudited)
	<i>(In Thousands)</i>	
Net income attributable to equity holders of the Company	₱4,561,648	₱3,572,843
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	₱0.42	₱0.33

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 - Watch list
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 June 30, 2016 and December 31, 2015, 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 June 30, 2016 and December 31, 2015, the carrying values of the Group's financial assets and liabilities approximate their respective fair values, except for the following financial instruments:

	June 30, 2016 (Unaudited)		December,31,2015 (Audited)	
	Carrying Value	Fair Market Value	Carrying Value	Fair Market Value
	(In Thousands)			
Financial Assets:				
Loans and receivables:				
Receivables from customers	₱370,692,000	₱373,332,801	₱349,139,278	₱351,626,538
Unquoted debt securities	3,800,000	3,935,064	625,803	648,046
	₱374,492,000	₱377,267,865	₱349,765,081	₱352,274,584
Financial Liabilities:				
Financial liabilities at amortized cost:				
Deposit liabilities -				
Time deposits	₱73,028,340	₱73,331,691	₱60,511,353	₱60,762,710
Bills payables	30,414,379	29,967,315	25,407,406	25,033,940
Long term debts:				
Subordinated debt	3,494,908	3,584,230	9,986,427	10,241,659
Unsecured term loan	427,768	427,768	720,004	720,004
Notes payable	468,630	463,073	476,015	470,370
Other liabilities:				
Payable to landowners	992,923	1,038,912	1,723,923	1,803,770
Tenants' rental deposits	360,366	413,573	306,524	351,781
Advance rentals	50,620	45,549	207,470	186,687
	₱109,237,934	₱109,272,111	₱99,339,122	₱99,570,921

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

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

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

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

Loans and receivables - For loans with fixed interest rates, fair values are estimated by discounted cash flow methodology, using the Group's current market lending rates for similar types of loans. For loans with floating interest rates, with repricing frequencies on a quarterly basis, the Group assumes that the carrying amount approximates fair value. Where the repricing frequency is beyond three months, the fair value of floating rate loans is determined using the discounted cash flow methodologies. The discount rate used in estimating the fair value of loans and receivables is 2.75% in 2015 for peso-denominated receivables. For foreign currency-denominated receivables, discount rate used is 1.5% in 2015.

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

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

Time deposit liabilities and subordinated debt including designated at FVPL - Fair value is determined using the discounted cash flow methodology. The discount rate used in estimating the fair values of the subordinated debt and time deposits ranges from 2.68% to 3.80% and from 2.66% to 3.77% as of June 30, 2016 and December 31, 2015, respectively.

Unsecured term loans, notes payable, payable to landowners, tenants' rental deposits and advance rentals - Fair values are estimated using the discounted cash flow method based on the discounted value of future cash flows using the applicable risk-free rates for similar types of instruments. The discount rates used range from 2.66% to 3.92% and from 2.67% to 3.89% as of June 30, 2016 and December 31, 2015, 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:

	June 30, 2016 (Unaudited) ⁶			
	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	P774,829	P381,090	P—	P1,155,919
Derivative assets	—	412,940	—	412,940
Private debt securities	204,986	174	—	205,160
Equity securities	105,086	—	—	105,086
Designated at FVPL:	—	—	—	—
Segregated fund assets*	—	—	—	—
	P1,084,901	P794,204	P—	P1,879,105
AFS investments:				
Government securities	P28,002,455	P9,830,634	P—	P37,833,089
Other debt securities	35,482,747	1,048,512	—	36,531,259
Equity securities**	—	—	—	—
	P63,485,202	P10,879,146	P—	P74,364,348
Non-financial assets				
Property, plant and equipment***				
Land and land improvements	P—	P—	P19,253,238	P19,253,238
Plant buildings and building improvements	—	—	13,750,867	13,750,867
Machineries and equipment	—	—	6,534,040	6,534,040
	P—	P—	P39,538,145	P39,538,145

June 30, 2016 (Unaudited) ⁶				
	Level 1	Level 2	Level 3	Total
(In Thousands)				
Liabilities measured at fair value:				
Financial liabilities				
Financial liabilities at FVPL:				
Designated at FVPL:				
Segregated fund liabilities*	P—	P—	P—	P—
Derivative liabilities	—	587,787	—	587,787
	P—	P587,787	P—	P587,787
Assets for which fair values are disclosed:				
Financial Assets				
HTM investment	P21,153,595	P61,559	P—	P21,215,154
Loans and receivables:				
Receivables from customers	—	—	373,332,801	373,332,801
Unquoted debt securities	—	—	3,935,064	3,935,064
	P21,153,595	P61,559	P377,267,865	P398,483,019
Non-financial Assets				
Investment properties***				
Land	P—	P—	P30,136,203	P30,136,203
Buildings and improvements	—	—	8,517,345	8,517,345
	P—	P—	P38,653,548	P38,653,548
Liabilities for which fair values are disclosed:				
Financial liabilities				
Financial liabilities at amortized cost:				
Deposit liabilities:				
Time deposits	P—	P—	P73,331,691	P73,331,691
Bills payables	—	—	29,967,315	29,967,315
Long term debts:				
Subordinated debt	—	—	3,584,230	3,584,230
Unsecured term loan	—	—	427,768	427,768
Notes payable	—	—	463,073	463,073
Other liabilities:				
Payable to landowners	—	—	1,038,912	1,038,912
Tenants' rental deposits	—	—	413,573	413,573
Advance rentals	—	—	45,549	45,549
	P—	P—	P109,272,111	P109,272,111

* 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, 2015 (Audited)			
	Level 1	Level 2	Level 3	Total
	(In Thousands)			
Assets measured at fair value:				
Financial Assets				
Financial assets at FVPL:				
Held-for-trading:				
Government securities	P2,707,811	P1,331,801	P—	P4,039,612
Derivative assets	—	118,016	63,332	181,348
Private debt securities	143,800	—	—	143,800
Equity securities	199,752	170	—	199,922
Designated at FVPL:				
Segregated fund assets*	—	17,261	—	17,261
Segregated fund assets*	—	—	—	—
	P3,051,363	P1,467,248	P63,332	P4,581,943
AFS investments:				
Government securities	P33,499,835	P11,760,562	P—	P45,260,397
Other debt securities	21,614,280	638,700	—	22,252,980
Equity securities**	560,272	93,659	—	653,931
	P55,674,387	P12,492,921	P—	P68,167,308
Non-financial assets				
Property, plant and equipment***				
Land and land improvements	P—	P—	P19,253,238	P19,253,238
Plant buildings and building improvements	—	—	13,750,867	13,750,867
Machineries and equipment	—	—	6,534,040	6,534,040
	P—	P—	P39,538,145	P39,538,145
Liabilities measured at fair value:				
Financial liabilities				
Financial liabilities at FVPL:				
Designated at FVPL:				
Segregated fund liabilities*	P7,945,084	P—	P5,780,237	P13,725,321
Derivative liabilities	—	135,193	—	135,193
	P7,945,084	P135,193	P5,780,237	P13,860,514
Assets for which fair values are disclosed:				
Financial Assets				
HTM investment	P18,661,871	P5,887,982	P—	P24,549,853
Loans and receivables:				
Receivables from customers	—	—	351,626,538	351,626,538
Unquoted debt securities	—	—	648,046	648,046
Assets of disposal group classified as held for sale	1,336,814	1,336,814	—	2,673,628
	P19,998,685	P7,224,796	P352,274,584	P379,498,065
Non-financial Assets				
Investment properties***				
Land	P—	P—	P30,136,203	P30,136,203
Buildings and improvements	—	—	8,517,345	8,517,345
	P—	P—	P38,653,548	P38,653,548
Liabilities for which fair values are disclosed:				
Financial liabilities				
Financial liabilities at amortized cost:				
Deposit liabilities:				
Time deposits	P—	P—	P60,762,710	P60,762,710
Long term debts:				
Subordinated debt	—	—	10,241,659	10,241,659
Bills payable	—	—	25,033,940	25,033,940
Unsecured term loan	—	—	720,004	720,004
Notes payable	—	—	470,370	470,370
Other liabilities:				
Payable to landowners	—	—	1,803,770	1,803,770
Tenants' rental deposits	—	—	351,781	351,781
Advance rentals	—	—	186,687	186,687
	P—	P—	P99,570,921	P99,570,921

* Excludes cash component

** Excludes unquoted available-for-sale securities

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

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 1.26% to 3.25% as of December 31, 2015.

As of June 30, 2016 and December 31, 2015, 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:

	June 30, 2016 (Unaudited)	December 31, 2015 (Audited)
	<i>(In Thousands)</i>	
Financial assets		
Balance at beginning of year	P5,843,569	P5,339,628
Add total gain (loss) recorded in profit or loss	(5,778,843)	503,941
Balance at end of year	P64,726	P5,843,569
Nonfinancial assets		
Balance at beginning of year	P39,538,145	P38,470,525
Additions during the year	4,479,000	3,525,605
Revaluation decrement during the year	–	(528,159)
Depreciation and amortization	(1,735,379)	(1,290,186)
Net carrying value of disposed/transferred assets and other adjustments	(1,787,000)	(639,640)
Balance at end of the year	P40,494,766	P39,538,145
Financial liabilities		
Balance at beginning of year	P5,780,237	P5,346,467
Less total loss (gain) recorded in profit and loss	(5,780,237)	433,770
Balance at end of year	P–	P5,780,237

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

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

* 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 2016 and 2015.

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 2016 and 2015.

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:

	June 30, 2016 (Unaudited)	December 31, 2015 (Audited)
	<i>(In Thousands, except ratios)</i>	
Total liabilities	₱607,642,384	₱579,794,407
Total equity	175,316,054	169,758,095
Total liabilities and equity	₱782,958,438	₱749,552,502
Debt ratio	0.78:1	0.77:1
Debt-to-equity ratio	3.47:1	3.42:1

33. Commitments and Contingencies

There were no changes in the Group's commitments and contingencies as of June 30, 2016 from those disclosed in the December 31, 2015 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. Assets and Liabilities of Disposal Group Classified as Held for Sale

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

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

As of December 31, 2015, PLII was classified as disposal group held for sale and as discontinued operation. On June 6, 2016, the Banking segment of the Group sold its 51% equity interest in PLII for a total consideration of ₱3,050 million. Gain on sale recognized as part of net income from discontinued operation attributable to equity holders of the Parent Company amounted to ₱287 million, net of related taxes amounting to ₱378 million.

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

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

The results of operation of PLII are presented below:

	Five Months Ended May 31, 2016* (Unaudited)	Six Months Ended June 30, 2015 (Unaudited)
	(In Thousands)	
Interest Income on		
Loans and receivables	₱7,610	₱9,691
Trading and investment securities	195,605	215,351
Deposits with banks and others	3,161	300
	206,376	225,342
Total Interest Income	206,376	225,342
Net Service Fees and Commission Expense	(67,591)	(155,266)
Net insurance premiums	508,770	1,063,703
Net insurance benefits and claims	441,090	815,260
Net Insurance premiums	67,680	248,443
Other Income (Charges)		
Trading and investment securities gains - net	1,800	17,625
Foreign exchange gains (losses) - net	(876)	4,355
Miscellaneous	80,667	65,076
Total Operating Income	288,056	405,575

(Forward)

	Five Months Ended May 31, 2016* (Unaudited)	Six Months Ended June 30, 2015 (Unaudited)
	(In Thousands)	
Operating Expenses		
Compensation and fringe benefits	₱71,741	₱110,867
Taxes and license	16,759	24,261
Provision for impairment, credit and other losses	4,704	—
Depreciation and amortization	4,708	5,496
Occupancy and equipment-related costs	7,609	6,350
Miscellaneous	39,692	37,530
Total Operating Expenses	145,213	184,504
Income from Discontinued Operations Before		
Income Tax	142,843	221,071
Provision for income tax	21,049	19,961
Net Income from Discontinued Operations	₱121,794	₱201,110
Attributable to:		
Equity holders of the Company	₱97,435	₱160,888
Non-controlling interests	24,359	40,222
	₱121,794	₱201,110

*The net assets of PLII were sold on June 6, 2016 based on results of operations as of this date.

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

Assets	
Cash and other cash items	₱642,544
Financial assets at fair value through profit or loss	
Segregated fund assets	13,634,687
AFS investments	
Government securities	2,485,902
Private debt securities	3,604,065
Equity securities	1,378,686
HTM investments	
Government securities	1,269,398
Other receivables	
Accounts receivable	277,479
Accrued interest receivable	101,925
Sales contract receivable	57,806
Property and equipment - net	29,546
Other assets	44,719
Assets of disposal group classified as held for sale	₱23,526,757
Liabilities	
Financial liabilities at fair value through profit or loss	
Segregated fund liabilities	₱13,725,321
Accrued taxes, interest and other expenses	161,817
Other liabilities	
Insurance contract liabilities	6,837,144
Accounts payable	74,303
Retirement benefit liability	21,822
Withholding taxes payable	10,139
Miscellaneous liabilities	622,075
Liabilities of disposal group classified as held for sale	₱21,452,621

Reserves	
Net unrealized gain on AFS investments	₱617,649
Remeasurement losses on retirement plan	(24,412)
Reserves of disposal group classified as held for sale	₱593,237
Attributable to:	
Equity holders of the Company	₱335,000
Non-controlling interests	258,237
	₱593,237

36. 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 Hong Kong and Shanghai Banking Corporation Limited further joined the Facility as a Mandated Lead Arranger at close of senior syndication.

37. 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.

38. 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 June 30, 2016 and December 31, 2015

And for the Six Months Ended June 30, 2016 and 2015

(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 12, 2016 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 April 28, 2016. The dividends was paid on May 6, 2016.

- 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 April 12, 2016 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 April 28, 2016. The dividends was paid on May 6, 2016.

- 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 June 30, 2016, the Group effectively owns VMC 30.9% inclusive of the convertible notes and 30.2% 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 June 30, 2016, 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 either are 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 that 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. In 2014, the Company filed a motion for reconsideration with the Court of Appeals. But such motion was denied. On September 29, 2015 the Company filed another petition for review before the Supreme Court. The Company is currently awaiting for the Supreme Court's resolution as of March 8, 2016.

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.

On August 22, 2014, TDI filed a Motion for Reconsideration with the Court of Appeals. On November 13, 2014, the Court of Appeals sustained its decision dated July 23, 2014. On December 12, 2014, TDI filed a Petition for Review with the Supreme Court to reverse the decision of Court of Appeals and reinstate the findings of IPO. TDI is currently awaiting Supreme Court's decision as of March 8, 2016.

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 has also obtained the necessary permit to rehabilitate the plant. To date, AAC has completed the rehabilitation of the plant and has started commercial operations in the first semester of 2016.

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 Pulpandan 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 Pulpandan 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

Kingston Tuscani, et al. vs. Paramount Holdings and Eton Properties

The Company 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."

The case involves the Company'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 seek the annulment of the Company's title alleging that it overlaps with TCT No. 300828. Plaintiffs also allege that the signature of the then Register of Deeds on the Company's title is a forgery.

In its Answer, the defendants, including the Company 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 ₱1.03 Billion and which sale was approved by the President of the Philippines then. Further, there is no adverse claim or notice of lis pendens, encumbrance, or annotation of any overlapping claim on the Company's title. Based on an investigation conducted into the plaintiffs' title, it appeared that the technical descriptions of TCT No. 300828 overlap 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 overlaps 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. The plaintiffs filed a Motion for Reconsideration which was denied by the Court on October 13, 2015. Thereafter the plaintiffs filed a Notice of Appeal of the Court's Order on November 11, 2015.

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. On October 29, 2014, FTC received a resolution from the Supreme Court requiring it to submit its memorandum, which was subsequently filed on January 30, 2015.

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) recorded a consolidated net income of ₱6.0 billion for the first half ending June 30, 2016, 12.0% higher than the ₱5.3 billion reported for the same period last year.

The consolidated net income attributable to equity holders of LTG was ₱4.6 billion for 1H16, 27.7% higher than the ₱3.6 billion reported in 1H15. This was due to the combined positive results of all the business segments. The banking segment's net income showed an improvement of 7.7% from ₱4.1 billion in 1H15 to ₱4.4 billion in the same period of 2016. LTG's share in the net income of the banking segment was at ₱2.5 billion in 1H16 from ₱2.3 billion in 1H15. The tobacco segment's net income increased by ₱1.0 billion from ₱425 million in 2015 to ₱1.5 billion in 2016. The beverage segment's net income of ₱721 million in 1H16 was up 37.6% compared to the reported income of ₱524 million in the same period last year. The distilled spirits segment's net income for the period ended June 30, 2016 was ₱444 million, 148.0% higher than the previous period of ₱179 million. Property development segment's net income grew by 17% from ₱113 million in 1H15 to ₱133 million in 1H16. Equity in net earnings from our stake in VMC contributed ₱96 million. As of June 30, 2016, LTG's stake in VMC stood at 30.2%.

Consolidated revenues amounted to ₱29.9 billion for the period ended June 30, 2016, a 14.2% growth from the ₱26.2 billion realized in 2015 on account of the higher revenues in the banking, distilled spirits, beverages and property development segments.

Cost of sales and services increased by 15.4% from ₱12.1 billion for the period ended June 30, 2015 to ₱13.9 billion recorded for the same period in 2016, primarily attributable to higher interest expense on deposit liabilities, bills payables and others and increased cost of sales of the distilled spirits and beverage segments mainly due to higher volume sold, coupled with the increase in excise taxes for alcoholic beverages. The property development segment reported a 6.6% decline in cost of sales as a result of lower booked sales from real estate development projects.

Operating expenses amounted to ₱13.0 billion in 1H16 from ₱11.0 billion in 1H15, an increase of 18.1%. This was as a result of increased general and administrative expenses by 19.4%, from ₱9.8 billion in 2015 to ₱11.7 billion in 2016. Selling expenses amounted to ₱1.3 billion in 2016, 7.7% higher than the ₱1.2 billion incurred in 2015.

SEGMENT OPERATIONS

Banking

The banking segment reported net income of ₱4.4 billion for the period ended June 30, 2016, 7.7% higher than the ₱4.1 billion recorded for the same period in 2015.

Net interest income from banking operations was at ₱9.5 billion in 2016, a 13.1% growth from the ₱8.4 billion earned in 2015. This was on account of higher interest income from loans and trading and investment securities.

Net service fees and commission income was slightly lower from the previous period of ₱1.7 billion to ₱1.4 billion due to lower deposit-related service charges and fees and commission income.

Miscellaneous income increased by 70.0% to ₱5.8 billion, due to higher gains from ROPA sales, mark-to-market gain on trading and investment securities and net forex gain on revaluation.

Operating expenses incurred were 23.0% higher primarily due to the increase in personnel costs and taxes and licenses paid.

Beverage

The beverage segment's net income increased by 37.6% to ₱721 million for the period ended June 30, 2016 from ₱524 million in 2015.

Absolute and Summit water, Tanduay Ice, Vitamilk soymilk and commercial packaging continue to drive the growth in revenues of the beverage segment. Revenues realized were 9.3% higher from ₱7.1 billion in 1H15 to ₱7.8 billion in 1H16.

Operating expenses increased by 8.7% to ₱1.3 billion in 2016 from ₱1.2 billion in 2015 on account of higher depreciation, advertising and promotional expenses and taxes and licenses paid.

Distilled Spirits

The distilled spirits segment's net income of ₱444 million for the period ended June 30, 2016 was significantly higher than the net income of ₱179 million reported in the same period last year. This was primarily due to the contribution from the bioethanol operations and higher income from the liquor business.

Net revenues were higher by 25.2% to ₱7.1 billion in 1H16 compared to 1H15's ₱5.7 billion mainly on account of bioethanol sales.

Cost of sales increased by 27.0% to ₱5.8 billion in the current period as against ₱4.6 billion in the same period last year primarily due to costs related to bioethanol sales, and higher alcohol costs and increase in excise taxes for liquor sales. Consequently, gross profit margin decreased from 19.2% to 18.1%.

Operating expenses slightly decreased by 6.9% from ₱767 million in 2015 to ₱714 million in 2016 due to lower transportation expenses, personnel cost and fuel and oil.

Property Development

The property development segment reported a net income of ₱133 million for the first six months of 2016, higher than the ₱113 million for the same period last year. Gross profit increased by 17.8% or ₱106 million as compared to the same period last year. The improvement in the gross profit rate from 47.7% in 2015 to 53.5% in 2016 was on account of the higher contribution from rental income which has higher margins.

Rental revenue for the first half of 2016 was ₱631 million representing a 17.9% growth over the same period in 2015, as lease contracts were renewed at higher rental rates for the BPO offices.

General and administrative expenses decreased by 15.8% or ₱53 million primarily as a result of the decrease in taxes and licenses, as the 2015 included expenses relating to its application for increase in capital with the SEC. Finance charges increased by ₱85 million or 134.7% as the company discontinued the capitalization of borrowing costs on loans attributable to projects that were already completed during the period.

Tobacco

The tobacco segment's net income was ₱1.5 billion for the period ended June 30, 2016, 242.6% higher than the ₱425 million earned last year on account of the increase in equity in net earnings from PMFTC (FTC's 49.6% owned associate) from ₱420 million last year to ₱1.4 billion in the current period. This was as a result of the change in sales mix in favor of premium priced Marlboro.

FINANCIAL CONDITION

The Company's consolidated Total Assets as of June 30, 2016 amounted to ₱783.0 billion, an increase of 4.5% from ₱749.6 billion as of December 31, 2015. This was mainly on account of the increase in Noncurrent Assets by 12.2% or ₱46.2 billion, partially offset by the decrease in Current Assets of ₱12.8 billion or 3.5%.

The decrease in the consolidated Current Assets by 3.5% from ₱370.3 billion as of December 31, 2015 to ₱357.4 billion was primarily due to the sale of the bank's 51% stake in the life insurance business to Allianz. There was a drop in Current Loans and Receivables by ₱17.6 billion due to the collection of various loans and reclassification of accounts to noncurrent. Financial Assets at Fair Value through Profit or Loss declined by ₱4.5 billion, mainly due to the banking segment's lower levels of FXTN. This was significantly offset by the higher Cash and Cash Equivalents by 19.9% or ₱27.4 billion which was on account of the banking segment's increased levels of due from BSP, due from other banks, interbank loans receivable and securities held under agreement to resell. There was a 127.5% increase in Current Available For Sale Investments due to various acquisitions and increases in the fair value of securities by the bank. Other current assets and inventories increased by 8.8% and 6.0%, respectively. Inventories and other current assets were higher on account of increased levels in inventory and miscellaneous asset levels by the distilled spirits, beverage and property development segments.

The 12.2% increase in Total Noncurrent Assets was mainly due to the movements in the Loans and Receivables and Investment in Associates and Joint Venture accounts. Loans and Receivables-net of current portion went up by 20.0% from ₱206.8 billion in December 31, 2015 to ₱248.0 billion as of June 30, 2016. Investment in Associates and a Joint Venture went up by ₱2.2 billion or 18.6% due to the additional investment in VMC in February 2016, equity in net earnings from these investments and Investment in insurance business with Allianz which is now an associate.

Consolidated Total Liabilities increased by 4.8% to ₱607.6 billion as of June 30, 2016 from ₱579.8 billion as of December 31, 2015. This was on account of the increase in Total Current Liabilities by 12.0% from ₱496.3 billion in December 31, 2015 to ₱555.8 billion as of the end of the current period, offset by the decrease in Noncurrent Liabilities of 37.9% from ₱83.5 billion to ₱51.9 billion. Current portion of the banking segment's Deposit Liabilities amounted to ₱500.1 billion as of June 30, 2016, 14.6% higher than December 31, 2015. Current portion of Bills and Acceptances Payable increased by 218.8% mainly due to the reclassification of currently maturing bills and acceptances payable by the banking segment and increase in the transactions with the local banks. Other current liabilities increased by ₱3.3 billion due to the banking segments higher levels of various liabilities. Income Tax Payable was higher by 88.5% as the group had higher income as of June 30, 2016. Financial Liabilities at Fair Value through Profit or Loss increased to ₱0.5 billion mainly on account of the banking segment's higher derivative liabilities. This was offset significantly by the transfer of liabilities from the bank's sale of a 51% stake in the life insurance business. Current Portion of Due to Related Parties decreased by 10.5% due to the settlements in 2016.

The decline in the Noncurrent Liabilities was on account of the decrease in the Deposit Liabilities (noncurrent) of the banking segment from ₱39.8 billion as of December 31, 2015 to ₱25.9 billion as of June 30, 2016, decrease in the Other Noncurrent Liabilities of the banking segment by 44.6% or ₱3.5 billion, lower Noncurrent Bills and Acceptances Payable of ₱7.4 billion or 36.9% and payment of long-term debt of PNB. This was offset by the increase in Noncurrent Financial Liabilities at Fair Value Through Profit or Loss of the banking segment to ₱105.0 million or 11 times higher than the ₱9.1 million as of December 31, 2015.

LT Group's consolidated Total Equity grew 3.3% to ₱175.3 billion as of June 30, 2016, on account of the increase in Retained Earnings by 5.8% coming from the net earnings during the period.

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

1.) Revenue

Revenues for June 30, 2016 amounted to ₱29.9 billion, 14.2% higher from last year's ₱26.2 billion.

2.) Net Income

Consolidated Net Income for the period ended June 30, 2016 amounted to ₱6.0 billion higher by 12.0% from last period's ₱5.3 billion.

3.) Current Ratio

Current ratio decreased from 0.75:1 in December 2015 to 0.65:1 in June 2016.

4.) Debt to Equity Ratio

Debt-to-equity ratio increased from 3.42:1 in December 2015 to 3.47:1 in June 2016

5.) Earnings/ (Loss) Per Share

LTG's earnings per share attributable to holders of the parent company for the period ending June 2016 is ₱0.42 and for the period ending June 2015 at ₱0.33.

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:

Beverage

In response to the growing market demand for healthier beverage options, ABI is constructing a soy milk production facility in Cabuyao scheduled to be operational in the second half of 2016.

In May 27, 2016, ABI signed a joint venture agreement with Heineken International B.V. (HEINEKEN), under the agreement, a new joint venture company, AB Heineken Philippines, Inc. will be formed. HEINEKEN will be driving further premiumisation of the brand portfolio. The two breweries which ABI currently owns in Cabuyao and El Salvador will be upgraded so that they can brew HEINEKEN brands. Meantime, ABI will start to distribute Heineken and Tiger in the Philippines.

To capitalize on the growth momentum in the bottled water segment, ABI invested in two additional lines during the later part of 2015. The new lines are being commissioned and are projected to commence full operations by October 2016 and is expected to boost capacity by about 65%.

- (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. Cash and cash equivalents – H, 20%
2. Financial assets at fair value through profit or loss - current – H, (47%)

3. Available-for-sale investments - current – H, 128%
4. Loans and receivables-current – H, (10%)
5. Inventories – H, 6%
6. Other current assets – H, 9%
7. Assets of disposal group classified as held for sale – H, (100%)
8. Loans and receivables-noncurrent – H, 20%
9. Investment in associates and joint venture – H, 19%
10. Property, plant and equipment at cost – H, 6%
11. Deposit liabilities - current – H, 15%
12. Financial liabilities at fair value through profit or loss - current – H, 283%
13. Bills and acceptances payable - current – H, 219%
14. Income tax payable – H, 88%
15. Current portion of due to related parties – H, (11%)
16. Other current liabilities – H, 26%
17. Liabilities of disposal group classified as held for sale – H, (100%)
18. Deposit liabilities - noncurrent – H, (35%)
19. Financial liabilities at fair value through profit or loss - noncurrent – H, 1051%
20. Bills and acceptances payable - noncurrent – H, (37%)
21. Long term debts net of current portion – H, (63%)
22. Other noncurrent liabilities – H, (45%)
23. Other comprehensive income – H, 13%
24. Reserves of disposal group classified as held for sale – H, (100%)
25. Shares of the company held by the subsidiaries – H, (44%)
26. Retained earnings – H, 6%
27. Banking revenue – H, 12%
28. Beverage revenue – H, 10%
29. Distilled spirits revenue – H, 26%
30. Property development revenue – H, 5%
31. Cost of sales and services – H, 15%
32. Equity in net earnings of associates – H, 153%
33. Selling expenses – H, 8%
34. General and administrative expenses – H, 19%
35. Finance cost – H, (15%)
36. Finance income – H, (71%)
37. Foreign exchange gains – H, 40%
38. Others-net – H, 27%
39. Provision for income tax – current – H, 82%
40. Provision for income tax – deferred – H, (212%)
41. Net income from continuing operations – H, 9%
42. Net income from discontinued operations – H, 91%
43. Net income – H, 12%
44. Net income attributable to equity holders of the Company – H, 28%
45. Net income attributable to noncontrolling interests – H, (20%)

The causes for these material changes in the balance sheet and income statement accounts are all explained in the Management's Discussion and Analysis (MDA) - Results of Operations and Financial Condition above.

- (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 LOANS AND RECEIVABLE
As of June 30, 2016 (Unaudited)
(In thousands)

TYPE OF ACCOUNTS RECEIVABLE		TOTAL	up to 12 months	1 year to 3 years	Over 3 years to 5 years	Over 5 years	Past due and items in litigation
(a) Finance Receivable		405,978,321	140,046,639	77,111,598	50,522,018	128,165,099	10,132,967
Less: Unearned interest and other deferred income		1,950,319	-	-	-	1,950,319	-
Less: Allowance for credit losses		16,347,373	-	-	-	6,613,106	9,734,267
NET FINANCE RECEIVABLES	P	387,680,629	140,046,639	77,111,598	50,522,018	119,601,674	398,700
(b) Trade Receivables		12,580,921	11,791,029	-	-	-	789,892
Less: Allowance for credit losses		32,032	-	-	-	-	32,032
NET TRADE RECEIVABLES	P	12,548,889	11,791,029	-	-	-	757,860
(c) Other Receivables		2,416,157	2,404,017	-	-	-	12,140
Less: Allowance for credit losses		12,140	-	-	-	-	12,140
NET OTHER RECEIVABLES		2,404,017	2,404,017	-	-	-	-
NET LOANS AND RECEIVABLES	P	402,633,535	154,241,685	77,111,598	50,522,018	119,601,674	1,156,560

LOANS AND RECEIVABLE DESCRIPTION	NATURE OF DESCRIPTION	COLLECTION PERIOD
Finance Receivables	Pertain to receivables of the banking segment (see note 7)	less than 1 year to over 5 years
Trade Receivables	Sale of liquor, beer products, beverages and cigarettes, lease contract receivables	30 to 120 days
Other Receivables	Downpayment on various suppliers, officers and employees and other receivables	-

LT GROUP, INC. and Subsidiaries
FINANCIAL SOUNDNESS INDICATORS

	30-Jun-16	31-Dec-15
CURRENT RATIO	0.64	0.75
DEBT TO EQUITY RATIO	3.47	3.42
ASSET TO EQUITY RATIO	4.47	4.42
	30-Jun-16	30-Jun-15
INTEREST RATE COVERAGE RATIO	99.97	70.58
SOLVENCY RATIO	1.26	0.41
PROFITABILITY RATIOS:		
PROFIT MARGIN	0.15	0.14
RETURN ON ASSET (ROA)	0.014	0.010
RETURN ON EQUITY (ROE)	0.069	0.057