COVER SHEET

SEC Registration Number

PW-00000343

Company Name

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

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

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

Form Type	Department requiring the report	Secondary License Type, If Applicable
17Q	SEC	N/A

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number/s	Mobile Number
info@ltg.com.ph	808-1266	N/A

No. of Stockholders	Annual Meeting Month/Day	Fiscal Year Month/Day
377	June 21	December 31

CONTACT PERSON INFORMATION

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

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Jose Gabriel D. Olives	josegabriel.olives@ltg. com.ph	N/A	N/A

Contact Person's Address

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

NOTE 1 : *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.*

2 : *All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.*

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended March 31, 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
   11/F Unit 3 Bench Tower, 30th St. Corner Rizal drive
   Crescent Park West 5 Bonifacio Global City Taguig City
   Postal Code 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

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

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

    Yes [/]   No [ ]

12. Indicate by check mark whether the registrant:

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

    Yes [/] No [ ]

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

    Yes [/] No [ ]

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

The unaudited interim condensed financial statements of LT Group, Inc. (the Company) and its subsidiaries as of and for the period ended March 31, 2016 (with comparative figures as of December 31, 2015 and for the period March 31, 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
May 12, 2016

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

Annex "A"

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

Interim Condensed Consolidated Financial Statements
As at March 31, 2016 and December 31, 2015
And for the Three Months Ended
March 31, 2016 and 2015

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

Interim Condensed Consolidated Financial Statements
As at March 31, 2016 and December 31, 2015
and for the three months ended March 31, 2016 and 2015

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

INTERIM CONSOLIDATED BALANCE SHEETS
(Amounts in Thousands)

	March 31, 2016 (Unaudited)	December 31, 2015 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	**₱159,270,615**	₱137,556,341
Financial assets at fair value through profit or loss (Notes 5 and 19)	**6,667,286**	9,663,734
Available for sale (AFS) investments (Note 6)	**6,165,996**	2,915,170
Loans and receivables (Note 7)	**156,442,139**	172,140,625
Due from related parties (Note 20)	**1,591,155**	1,593,034
Inventories (Note 8)	**14,350,953**	14,024,047
Other current assets (Note 9)	**8,588,451**	8,841,923
	353,076,595	346,734,874
Assets of disposal group classified as held for sale (Note 35)	**24,123,527**	23,526,757
Total Current Assets	**377,200,122**	370,261,631
Noncurrent Assets		
Loans and receivables - net of current portion (Note 7)	**220,237,938**	206,782,709
AFS investments (Note 6)	**65,452,603**	66,649,517
Held-to-maturity (HTM) investments	**22,953,593**	23,096,473
Investment in associates and a joint venture (Note 10)	**12,772,602**	11,761,290
Property, plant and equipment (Note 11):		
At appraised values	**39,760,063**	39,538,145
At cost	**5,393,631**	5,299,731
Investment properties (Note 11)	**22,094,595**	22,231,525
Deferred income tax assets (Note 27)	**472,496**	551,237
Other noncurrent assets (Note 12)	**3,245,649**	3,380,244
Total Noncurrent Assets	**392,383,170**	379,290,871
TOTAL ASSETS	**₱769,583,292**	₱749,552,502

LIABILITIES AND EQUITY		
Current Liabilities		
Deposit liabilities (Note 13)	**₱466,214,531**	₱436,362,854
Financial liabilities at fair value through profit or loss (Notes 14 and 19)	**369,396**	126,075
Bills and acceptances payable (Note 15)	**6,836,366**	5,836,839
Short-term and long-term debts - current (Note 17)	**1,876,015**	1,876,015
Accounts payable and accrued expenses (Note 16)	**16,270,830**	17,079,820
Income tax payable	**401,301**	294,581
Due to related parties (Note 20)	**40,942**	46,770
Other current liabilities (Note 18)	**15,146,406**	13,249,643
	507,155,787	474,872,597
Liabilities of disposal group classified as held for sale (Note 35)	**22,087,137**	21,452,621
Total Current Liabilities (Carried Forward)	**529,242,924**	496,325,218

	March 31, 2016	December 31, 2015
Total Current Liabilities (Brought Forward)	**₱529,242,924**	₱496,325,218
Noncurrent Liabilities		
Deposit liabilities - net of current portion (Note 13)	**24,185,171**	39,793,338
Financial liabilities at fair value through profit or loss (Notes 14 and 19)	**88,988**	9,118
Bills and acceptances payable (Note 15)	**21,605,877**	19,915,383
Long-term debts - net of current portion (Note 17)	**10,571,113**	10,706,431
Accrued retirement benefits (Note 21)	**3,888,814**	3,900,926
Deferred income tax liabilities (Note 27)	**1,166,730**	1,182,976
Other noncurrent liabilities (Note 18)	**5,631,676**	7,961,017
Total Noncurrent Liabilities	**67,138,369**	83,469,189
Total Liabilities	**596,381,293**	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	**354,734**	335,000
Other comprehensive income, net of deferred income tax effect	**2,831,776**	3,116,572
Retained earnings	**62,348,091**	59,855,195
Shares of the Company held by subsidiaries	**(22,464)**	(22,464)
	131,103,852	128,876,018
Non-controlling interests (Notes 1 and 28)	**42,098,147**	40,882,077
Total Equity	**173,201,999**	169,758,095
TOTAL LIABILITIES AND EQUITY	**₱769,583,292**	₱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 CONSOLIDATED STATEMENTS OF INCOME

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

	Three Months Ended March 31	
	2016 (Unaudited)	2015 (Unaudited)
REVENUE (Note 22)		
Banking	**₱7,155,363**	₱6,189,662
Beverage	**3,436,496**	3,205,227
Distilled spirits	**3,089,085**	2,975,815
Property development	**654,403**	644,456
	14,335,347	13,015,160
COST OF SALES AND SERVICES (Note 22)	**6,521,207**	6,090,257
GROSS INCOME	**7,814,140**	6,924,903
EQUITY IN NET EARNINGS OF ASSOCIATES (Note 10)	**1,008,513**	507,189
	8,822,653	7,432,092
OPERATING EXPENSES		
Selling expenses (Note 23)	**623,774**	629,855
General and administrative expenses (Note 24)	**5,793,877**	5,093,110
	6,417,651	5,722,965
OPERATING INCOME	**2,405,002**	1,709,127
OTHER INCOME (CHARGES)		
Finance costs (Note 25)	**(90,376)**	(75,763)
Finance income (Note 25)	**13,055**	13,596
Foreign exchange gains - net	**399,567**	290,585
Others - net (Note 26)	**1,229,144**	679,460
	1,551,390	907,878
INCOME BEFORE INCOME TAX	**3,956,392**	2,617,005
PROVISION FOR INCOME TAX (Note 27)		
Current	**1,254,636**	480,317
Deferred	**(48,479)**	102,199
	1,206,157	582,516
NET INCOME FROM CONTINUING OPERATIONS	**2,750,235**	2,034,489
NET INCOME FROM DISCONTINUED OPERATIONS (Note 35)	**63,984**	104,510
NET INCOME	**₱2,814,219**	₱2,138,999
NET INCOME ATTRIBUTABLE TO:		
Equity holders of the Company	**₱2,228,613**	₱1,586,674
Non-controlling interests	**585,606**	552,325
	₱2,814,219	₱2,138,999
Basic/Diluted Earnings Per Share (Note 29)	**₱0.21**	₱0.15

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

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

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in Thousands)

	Three Months Ended March 31	
	2016 **(Unaudited)**	2015 (Unaudited)
NET INCOME	**₱2,814,219**	₱2,138,999
OTHER COMPREHENSIVE INCOME (LOSS)		
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:		
Translation adjustments	**(467,640)**	(20,416)
Net changes in fair value of AFS financial assets, net of deferred income tax effect	**1,035,466**	639,915
	567,826	619,499
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:		
Revaluation increment on property, plant and equipment, net of deferred income tax effect	**–**	701,771
Re-measurement losses on defined benefit plans, net of deferred income tax effect	**(61,859)**	(2,862)
	(61,859)	698,909
OTHER COMPREHENSIVE INCOME - Net of income tax effect	**629,685**	1,318,408
TOTAL COMPREHENSIVE INCOME	**₱3,443,904**	₱3,457,407
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:		
Equity holders of the Company	**₱2,227,834**	₱2,605,002
Noncontrolling interests	**1,216,070**	852,405
	₱3,443,904	₱3,457,407

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

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

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2016 AND 2015
(Amounts in Thousands)

	Attributable to Equity Holders of the Company (Notes 1 and 28)										
	Capital Stock	Capital in Excess of Par	Preferred shares of Subsidiaries Issued to Parent Company	Other Equity Reserves	Reserves of Disposal Group Classified as Held for Sale	Other Comprehensive Income (Loss), Net of Deferred Income Tax Effect	Retained Earnings	Shares of the Company Held by Subsidiaries	Total	Non-controlling Interests (Notes 1 and 28)	Total
BALANCES AT DECEMBER 31, 2014	**₱10,821,389**	**₱35,906,231**	**₱18,060,000**	**₱790,136**	–	**₱4,582,667**	**₱54,079,986**	**(₱12,518)**	**₱124,227,891**	**₱38,494,303**	**₱162,722,194**
Net income for the period	–	–	–	–	–	–	**1,586,674**	–	**1,586,674**	**552,325**	**2,138,999**
Other comprehensive income	–	–	–	–	–	**1,018,328**	–	–	**1,018,328**	**300,080**	**1,318,408**
Total comprehensive income for the period	–	–	–	–	–	**1,018,328**	**1,586,674**	–	**2,605,002**	**852,405**	**3,457,407**
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	–	–	–	–	–	**(284,898)**	**284,898**	–	–	–	–
BALANCES AT MARCH 31, 2015	**₱10,821,389**	**₱35,906,231**	**₱18,060,000**	**₱790,136**	**₱–**	**₱5,316,097**	**₱55,951,558**	**(₱12,518)**	**₱126,832,893**	**₱39,346,708**	**₱166,179,601**
BALANCES AT DECEMBER 31, 2015	**₱10,821,389**	**₱35,906,231**	**₱18,060,000**	**₱804,095**	**₱335,000**	**₱3,116,572**	**₱59,855,195**	**(₱22,464)**	**₱128,876,018**	**₱40,882,077**	**₱169,758,095**
Net income for the period	–	–	–	–	–	–	**2,228,613**	–	**2,228,613**	**585,606**	**2,814,219**
Other comprehensive income	–	–	–	–	–	**(779)**	–	–	**(779)**	**630,464**	**629,685**
Total comprehensive income for the period	–	–	–	–	–	**(779)**	**2,228,613**	–	**2,227,834**	**1,216,070**	**3,443,904**
Reserves disposal group classified as held for sale	–	–	–	–	**19,734**	**(19,734)**	–	–	–	–	–
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	–	–	–	–	–	**(264,283)**	**264,283**	–	–	–	–
BALANCES AT MARCH 31, 2016	**₱10,821,389**	**₱35,906,231**	**₱18,060,000**	**₱804,095**	**₱354,734**	**₱2,831,776**	**₱62,348,091**	**(₱22,464)**	**₱131,103,852**	**₱42,098,147**	**₱173,201,999**

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

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

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)

	Three Months Ended March 31	
	2016 (Unaudited)	2015 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax from:		
Continuing operations	**₱3,956,392**	₱2,617,005
Discontinued operations (Note 35)	**77,128**	114,465
Income before income tax	**₱4,033,520**	₱2,731,470
Adjustments for:		
Depreciation and amortization	**869,222**	859,550
Loss (gain) on disposal of other assets (Note 26)	**198,412**	347,501
Equity in net earnings of associates (Note 10)	**(1,008,513)**	(507,189)
Finance costs (Note 25)	**90,376**	75,763
Movements in accrued retirement benefits (Note 21)	**(73,971)**	(1,322,103)
Finance income (Note 25)	**(13,055)**	(13,596)
Provision for losses	**–**	365,463
Operating income before changes in working capital	**4,095,991**	2,587,503
Decrease (increase) in:		
Financial assets at fair value through profit or loss	**2,996,448**	(1,899,087)
Receivables	**2,202,134**	2,042,480
Inventories	**(326,906)**	(1,499,647)
Other assets	**255,351**	(2,832,677)
Increase (decrease) in:		
Deposit liabilities	**14,243,510**	8,691,818
Financial liabilities at fair value through profit or loss	**323,191**	301,827
Accounts payable and accrued expenses	**(796,453)**	(1,839,378)
Other liabilities	**(400,345)**	2,594,497
Cash generated from operations	**22,592,921**	8,096,692
Dividends received	**618,263**	963,007
Interest received	**54,178**	20,846
Income taxes paid, including creditable withholding and final taxes	**(1,161,060)**	(547,418)
Net cash from operating activities	**22,104,302**	8,533,127
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of:		
AFS investments (Note 6)	**(34,058,861)**	(27,419,896)
Property, plant and equipment (Note 11)	**(896,919)**	(1,296,144)
Investment properties (Note 11)	**(151,191)**	(295,439)
Other assets	**(1,652,101)**	(2,719)
Proceeds from sale of:		
AFS investments (Note 6)	**32,696,493**	23,424,148
Other assets (Note 11)	**1,136,434**	1,293,874
Proceeds from disposal of held-to-maturity investments	**142,880**	–
Net cash used in investing activities	**(2,783,265)**	(4,296,176)

(Forward)

	Three Months Ended March 31	
	2016	2015
	(Unaudited)	(Unaudited)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from (payments of) bill and acceptance payable	**₱2,690,021**	(₱6,689,173)
Payments of long term debts (Note 17)	**(135,318)**	(625,306)
Proceeds from issuance of shares to non-controlling interests arising from stock rights offering of the banking segment	**–**	2,250,981
Payment of due to affiliates (Note 20)	**(5,828)**	(2,046,620)
Payment of finance cost	**(102,913)**	(106,944)
Net cash generated from (used in) financing activities	**2,445,962**	(7,217,062)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**21,766,999**	(2,980,111)
NET MOVEMENT IN CASH IN DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE (Note 35)	**(52,725)**	–
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**137,556,341**	188,319,662
CASH AND CASH EQUIVALENTS AT END OF PERIOD (Note 4)	**₱159,270,615**	₱185,339,551

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

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 March 31, 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

<u>Basis of Preparation</u>

The interim condensed consolidated financial statements have been prepared under the historical cost basis, except for financial assets and liabilities at fair value through profit or loss (FVPL), AFS financial assets, land and land improvements, plant buildings and building improvements, and machineries and equipment that have been measured at fair value. The interim condensed consolidated financial statements are presented in Philippine peso (Peso), the functional 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 interim condensed consolidated financial statements and accompanying notes. The estimates and assumptions used in the accompanying interim condensed consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the interim condensed consolidated financial statements. Actual results could differ from such estimates.

Basis of Consolidation

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

	Percentage of Ownership						
	March 31, 2016		December 31, 2015		March 31, 2015		Country of
	Direct	**Indirect**	Direct	Indirect	Direct	Indirect	Incorporation
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							Philippines
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 Corp. [(2)]	**–**	**99.9**	–	99.9	–	99.9	Philippines
Asia Pacific Bev PTE[(3)]	**–**	**99.9**	–	99.9	–	99.9	Singapore
Tobacco							
Shareholdings, Inc.	**97.7**	**–**	97.7	–	97.7	–	Philippines
Fortune Tobacco Corporation (FTC)	**82.7**	**16.9**	82.7	16.9	82.7	16.9	Philippines
Property Development							
Saturn Holdings, Inc.	**100.0**	**–**	100.0	–	100.0	–	Philippines
Paramount Landequities, Inc. (Paramount) and subsidiaries	**100.0**	**–**	100.0	–	100.0	–	Philippines
Eton Properties Philippines, Inc.		**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
Philippine National Bank (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						
	March 31, 2016		December 31, 2015		March 31, 2015		Country of
	Direct	**Indirect**	Direct	Indirect	Direct	Indirect	Incorporation
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 (Hong Kong) 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	–	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 ₱1.00 per value per share.*

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

(4) *As of December 31, 2015 and 2014, the Bank Holding Companies consist of 27 entities with aggregate direct ownership interest of 59.83% in PNB, of which 20 companies are incorporated in the Philippines and seven (7) companies are incorporated in the British Virgin Islands (see Note 23).*

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

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

(7) *Beginning December 18, 2015, assets and liabilities of PNB LII as of March 31, 2016 and December 31, 2015 have been reclassified as disposal group classified as held for sale and the results of its operations for the three months ended March 31, 2016 and 2015 have been reclassified as discontinued operations, following the approval of PNB's BOD disposing 51.00% of its ownership interest in PNB LII 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 assessed that 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 have no 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 March 31, 2016
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 interim condensed 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 90%, 89% and 94% of the segment's total revenue in 2015, 2014 and 2013, respectively. The other segments of the Group have no significant customer, which contributes 10% or more of their segment revenues.

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

For the three months ended March 31, 2016:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
				(In Thousands)			
Segment revenue:							
External customers	**₱7,155,363**	**₱3,089,085**	**₱3,436,496**	**₱–**	**₱654,403**	**₱–**	**₱14,335,347**
Inter-segment	–	**17,687**	**259,022**	–	–	**(276,709)**	–
	7,155,363	**3,106,772**	**3,695,518**	–	**654,403**	**(276,709)**	**14,335,347**
Cost of sales and services	**1,316,506**	**2,600,222**	**2,575,158**	–	**318,291**	**(288,970)**	**6,521,207**
Gross profit	**5,838,857**	**506,550**	**1,120,360**	–	**336,112**	**12,261**	**7,814,140**
Equity in net earnings of associates	–	–	–	**912,988**	–	**95,525**	**1,008,513**
	5,838,857	**506,550**	**1,120,360**	**912,988**	**336,112**	**107,786**	**8,822,653**
Selling expenses	–	**219,902**	**389,477**	–	**14,395**	–	**623,774**
General and administrative expenses	**5,176,439**	**190,679**	**223,871**	**29,557**	**138,821**	**34,510**	**5,793,877**
Operating income	**662,418**	**95,969**	**507,012**	**883,431**	**182,896**	**73,276**	**2,405,002**
Finance costs	–	**(3,338)**	**(11,673)**	–	**(75,365)**	–	**(90,376)**
Finance income	–	**23**	**1,236**	**15,034**	**4,916**	**(8,154)**	**13,055**
Foreign exchange gains (loss) – net	**404,998**	**(1,075)**	–	–	**698**	**(5,054)**	**399,567**
Others – net	**2,448,312**	**6,183**	**5,396**	**28,718**	**(2,631)**	**(1,256,834)**	**1,229,144**
Income before income tax	**3,515,728**	**97,762**	**501,971**	**927,183**	**110,514**	**(1,196,766)**	**3,956,392**
Provision for (benefit from) income tax	**1,009,550**	**16,142**	**151,765**	**(22,021)**	**48,938**	**1,783**	**1,206,157**
Segment profit from:							
Continuing operations	**2,506,178**	**81,620**	**350,206**	**949,204**	**61,576**	**(1,198,549)**	**2,750,235**
Discontinued operations	**63,984**	–	–	–	–	–	**63,984**
Segment profit	**₱2,570,162**	**₱81,620**	**₱350,206**	**₱949,204**	**₱61,576**	**(₱1,198,549)**	**₱2,814,219**
Depreciation and amortization expense	**₱307,085**	**₱140,986**	**₱373,244**	**₱2,869**	**₱39,985**	**₱5,054**	**₱869,223**
Segment profit attributable to:							
Equity holders of the Company	**1,432,098**	**80,356**	**350,206**	**945,217**	**61,342**	**(640,606)**	**2,228,613**
Non-controlling interests	**1,138,064**	**1,264**	–	**3,987**	**234**	**(557,943)**	**585,606**

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

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
				(In Thousands)			
Assets:							
Current assets	**₱336,736,108**	**₱9,584,694**	**₱11,760,364**	**₱9,936,770**	**₱13,960,404**	**(₱4,778,218)**	**₱377,200,122**
Noncurrent assets	**348,385,722**	**6,775,658**	**13,294,848**	**13,536,274**	**13,287,808**	**(2,897,140)**	**392,383,170**
	₱685,121,830	**₱16,360,352**	**₱25,055,212**	**₱23,473,044**	**₱27,248,212**	**(₱7,675,358)**	**₱769,583,292**
Liabilities:							
Current liabilities	**₱526,399,400**	**₱1,622,687**	**₱3,450,673**	**₱306,660**	**₱7,075,620**	**(₱9,612,116)**	**₱529,242,924**
Noncurrent liabilities	**63,136,938**	**527,592**	**1,310,546**	**87,834**	**4,182,148**	**(2,106,689)**	**67,138,369**
	₱589,536,338	**₱2,150,279**	**₱4,761,219**	**₱394,494**	**₱11,257,768**	**(₱11,718,805)**	**₱596,381,293**
Investments in associates and a joint venture	**₱–**	**₱–**	**₱19,901**	**₱11,205,372**	**₱–**	**₱1,547,329**	**₱12,772,602**
Equity attributable to:							
Equity holders of the Company	**53,068,043**	**14,089,764**	**20,293,993**	**22,976,685**	**15,958,807**	**4,716,560**	**131,103,852**
Non-controlling interests	**42,517,449**	**120,309**	**–**	**101,865**	**31,637**	**(673,113)**	**42,098,147**
Short-term debts	**–**	**100,000**	**1,400,000**	**–**	**–**	**(100,000)**	**1,400,000**
Long-term debts	**9,990,680**	**–**	**–**	**–**	**1,056,448**	**–**	**11,047,128**

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

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
				(In Thousands)			
Segment revenue:							
External customers	₱6,189,662	₱2,975,815	₱3,205,227	₱–	₱644,456	₱–	₱13,015,160
Inter-segment	–	14,714	296,990	–	–	(311,704)	–
	6,189,662	2,990,529	3,502,217	–	644,456	(311,704)	13,015,160
Cost of sales and services	1,148,973	2,417,722	2,509,956	–	354,265	(340,659)	6,090,257
Gross profit	5,040,689	572,807	992,261	–	290,191	28,955	6,924,903
Equity in net earnings of associates	–	–	–	414,508	–	92,681	507,189
	5,040,689	572,807	992,261	414,508	290,191	121,636	7,432,092
Selling expenses	–	241,044	377,994	–	10,817	–	629,855
General and administrative expenses	4,509,479	177,945	200,244	26,065	157,039	22,338	5,093,110
Operating income	531,210	153,818	414,023	388,443	122,335	99,298	1,709,127
Finance costs	–	(46,742)	(2,656)	–	(27,490)	1,125	(75,763)
Finance income	–	1,348	206	13,797	13,276	(15,031)	13,596
Foreign exchange gains (losses) – net	290,595	(209)	–	–	298	(99)	290,585
Others – net	843,499	4,492	14,564	10,002	(25,242)	(167,854)	679,460
Income before income tax	1,665,304	112,707	426,137	412,242	83,177	(82,561)	2,617,005
Provision for income tax	382,354	38,153	125,510	1,013	32,257	3,229	582,516
Segment profit from:							
Continuing operations	1,282,950	74,554	300,627	411,229	50,920	(85,790)	2,034,489
Discontinued operations	104,510	–	–	–	–	–	104,510
Segment profit	₱1,387,460	₱74,554	₱300,627	₱411,229	₱50,920	(₱85,790)	₱2,138,999
Depreciation and amortization expense	₱316,448	₱131,255	₱407,163	₱2,702	₱36,891	₱4,321	₱898,780
Segment profit attributable to:							
Equity holders of the Company	837,385	74,386	300,627	409,502	50,564	(85,790)	1,586,674
Non-controlling interests	550,074	168	–	1,727	356	–	552,325

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

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
				(In Thousands)			
Assets:							
Current assets	₱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:

	March 31, 2016 (Unaudited)	December 31, 2015 (Audited)
	(In Thousands)	
Cash and other cash items	**₱13,160,672**	₱17,555,206
Cash equivalents:		
Due from *Bangko Sentral ng Pilipinas* (BSP)	**79,951,761**	81,363,444
Due from other banks	**22,541,903**	18,287,308
Interbank loans receivable and securities held under agreement to resell	**43,616,279**	20,350,383
	₱159,270,615	₱137,556,341

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 22).

5. Financial Assets at Fair Value through Profit or Loss

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

	March 31, 2016 (Unaudited)	December 31, 2015 (Audited)
	(In Thousands)	
Financial assets at fair value through profit or loss (FVPL):		
Held for trading:		
Government securities	**₱1,129,940**	₱4,039,612
Private debt securities	**282,991**	199,922
Derivative assets (Note 19)	**376,496**	181,348
Equity securities	**153,411**	143,800
	1,942,838	4,564,682
Designated at FVPL:		
Unit investment trust fund	**4,724,448**	5,099,052
	₱6,667,286	₱9,663,734

6. Available for Sale Investments

Available for sale investments consist of:

	March 31, 2016 (Unaudited)	December 31, 2015 (Audited)
	(In Thousands)	
Government securities	**₱42,583,296**	₱45,802,968
Other debt securities	**27,441,725**	22,252,980
Equity securities:		
Quoted	**1,589,515**	1,329,564
Unquoted	**1,023,843**	1,177,924
	72,638,379	70,563,436
Allowance for impairment losses	**(1,019,780)**	(998,749)
	71,618,599	69,564,687
Noncurrent portion	**(65,452,603)**	(66,649,517)
	₱6,165,996	₱2,915,170

7. Loans and Receivables

Loans and receivables consist of:

	March 31, 2016 (Unaudited)	December 31, 2015 (Audited)
	(In Thousands)	
Finance receivables	**₱377,540,169**	₱380,207,907
Trade receivables	**12,777,126**	12,288,478
Other receivables	**2,315,429**	2,404,704
	392,632,724	394,901,089
Allowance for credit losses	**(15,952,647)**	(15,977,755)
	376,680,077	378,923,334
Noncurrent portion	**(220,237,938)**	(206,782,709)
	₱156,442,139	₱172,140,625

Finance Receivables

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

	March 31, 2016 (Unaudited)	December 31, 2015 (Audited)
	(In Thousands)	
Receivables from customers:		
Loans and discounts	**₱335,519,335**	₱335,352,183
Customers' liabilities on acceptances, letters of credit and trust receipts	**9,417,336**	11,079,224
Bills purchased	**3,602,325**	3,858,750

(Forward)

	March 31, 2016 (Unaudited)	December 31, 2015 (Audited)
	(In Thousands)	
Credit card receivables	**₱5,540,958**	₱5,439,554
Finance lease receivables	**3,684,405**	3,686,790
	357,764,359	359,416,501
Unquoted debt securities	**4,356,543**	4,245,069
Other receivables:		
Accounts receivable	**7,479,166**	8,374,156
Accrued interest receivable	**5,109,379**	5,150,502
Sales contract receivables	**4,412,635**	4,428,062
Miscellaneous	**432,862**	429,924
	17,434,042	18,382,644
	379,554,944	382,044,214
Unearned interest and other deferred income	**(2,014,775)**	(1,836,307)
	377,540,169	380,207,907
Allowance for credit losses	**(15,909,375)**	(15,934,483)
	361,630,794	364,273,424
Noncurrent portion	**(219,795,942)**	(206,430,391)
	₱141,834,852	₱157,843,033

Trade receivables

Trade receivables consist of:

	March 31, 2016 (Unaudited)	December 31, 2015 (Audited)
	(In Thousands)	
Consumer goods	**₱9,906,604**	₱9,383,633
Contract receivables	**2,869,459**	2,875,514
Lease receivables	**1,063**	29,331
	12,777,126	12,288,478
Allowance for credit losses	**(32,032)**	(32,032)
	12,745,094	12,256,446
Less noncurrent portion of contract receivables	**(441,996)**	(352,318)
	₱12,303,098	₱11,904,128

8. Inventories

Inventories consist of:

	March 31, 2016 (Unaudited)	December 31, 2015 (Audited)
	(In Thousands)	
At Cost:		
Consumer goods:		
Alcohol	**₱2,444,177**	₱2,387,930
Beverage	**1,894,328**	1,887,224
	4,338,505	4,275,154

	March 31, 2016 (Unaudited)	December 31, 2015 (Audited)
	(In Thousands)	
Real estate inventories:		
Condominium and residential units for sale	**₱4,238,280**	₱3,978,857
Subdivision land under development	**3,197,679**	3,370,090
Land held for future development	**1,275,316**	1,137,156
	8,711,275	8,486,103
Fuel, materials and supplies	**723,885**	613,024
	13,773,665	13,374,281
At NRV - Materials and supplies	**577,288**	649,766
	₱14,350,953	₱14,024,047

9. Other Current Assets

Other current assets consist of:

	March 31, 2016 (Unaudited)	December 31, 2015 (Audited)
	(In Thousands)	
Creditable withholding taxes (CWT)	**₱3,808,828**	₱3,409,032
Advances to suppliers	**1,260,547**	985,053
Excise tax	**993,508**	959,654
Input VAT	**920,580**	802,637
Prepaid expenses	**509,744**	468,587
Advances to contractors	**357,451**	326,188
Stationeries, office supplies and stamps on hand	**175,913**	300,156
Deferred rent	**166,714**	161,592
Miscellaneous cash and other cash items	**120,287**	103,668
Deferred charges	**9,193**	271,257
Deferred reinsurance premiums	**–**	287,139
Others	**265,686**	766,960
	₱8,588,451	₱8,841,923

10. Subsidiaries, Associates and Joint Venture

Investments in Associates and a Joint Venture

The Group has the power to participate in the financial and operating policy decisions in PMFTC and VMC, a 49.6%-owned and a 30.5%-owned associate, respectively, which do not constitute control or joint control. The Group also has 50.0% interest in ABI Pascual Holdings Private Limited (ABI Pascual Holdings), which is a joint controlled entity. The Group's investments in its associates and joint venture are accounted for using equity method of accounting.

	March 31, 2016 (Unaudited)	December 31, 2015 (Audited)
	(In Thousands)	
PMFTC	**₱10,584,311**	₱10,289,585
VMC	**2,168,391**	1,451,805
ABI Pascual Holdings	**19,900**	19,900
	₱12,772,602	₱11,761,290

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

	March 31, 2016 (Unaudited)	December 31, 2015 (Audited)
	(In Thousands)	
Acquisition cost	**₱13,483,541**	₱13,483,541
Accumulated equity in net earnings:		
Balance at beginning of year	**(3,221,410)**	(2,499,984)
Equity in net earnings	**912,988**	974,543
Less cash dividends	**(618,262)**	(1,695,969)
Balance at end of year	**(2,926,684)**	(3,221,410)
Accumulated share in other comprehensive income	**27,454**	27,454
	₱10,584,311	₱10,289,585

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

	March 31, 2016 (Unaudited)	December 31, 2015 (Audited)
	(In Thousands)	
Balance at beginning of year	**₱740,528**	₱616,441
Additions	**621,061**	124,087
Balance at end of year	**1,361,589**	740,528
Accumulated equity in net earnings:		
Balance at beginning of year	**593,874**	379,443
Equity in net earnings	**95,525**	196,838
Excess of fair value of net assets of associate over cost of investment	**–**	17,593
Balance at end of year	**689,399**	593,874
Balance of convertible note	**117,403**	117,403
	₱2,168,391	₱1,451,805

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 30.12%.

Investment in a Joint Venture
Total assets, liabilities and capital deficiency of ABI Pascual Holdings amounted to ₱71.5 million, ₱164.8 million and ₱93.3 million, respectively, as of December 31, 2015 and ₱54.2 million, ₱146.3 million and ₱92.1 million, respectively, as of December 31, 2014. In 2015 and 2014, ABI Pascual Holdings incurred net losses of ₱4.1 million and ₱23.1 million, respectively. The Group recognized share in net loss of ABI Pascual Holdings to the extent of the carrying value of the investment amounting to ₱20.1 million in 2013. As at December 31, 2013, the Group's share in losses which has not been equity accounted for amounted to ₱14.4 million. In 2014, the Group determined that its advances to ABI Pascual Foods amounting to ₱95.2 million to support its operations represent the Group's long-term interest in ABI Pascual Holdings and its subsidiary that, in substance, form part of the Group's net investment in the joint venture. The Group's share in loss of the joint venture in 2015 and 2014 amounted to ₱2.1 million and ₱46.1 million, respectively.

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

Additions to property, plant and equipment amounted to ₱896.9 million while retirement and disposals amounted to ₱78.5 million for the three-month period ended March 31, 2016.

Additions to investment properties amounted to ₱151.1 million while retirement and disposals amounted to ₱418.3 million for the three-month period ended March 31, 2016.

12. Other Noncurrent Assets

Other noncurrent assets consist of:

	March 31, 2016 (Unaudited)	December 31, 2015 (Audited)
	(In Thousands)	
Software costs	**₱1,142,551**	₱1,131,041
Deferred reinsurance premiums	**555,448**	499,148
Deposit for future investments	**348,511**	348,511
Net retirement plan assets (Note 21)	**261,628**	255,716
Refundable and security deposits	**241,248**	160,510
Goodwill	**163,735**	163,735
Deferred charges	**129,974**	129,974
Other investments	**37,524**	19,861
Deferred input VAT	**32,615**	378,486
Chattel properties – net	**24,252**	2,107
Receivable from SPV – net	**–**	500
Others – net	**308,163**	290,655
	₱3,245,649	₱3,380,244

13. Deposit Liabilities

Deposit liabilities consists of:

	March 31, 2016 (Unaudited)	December 31, 2015 (Audited)
	(In Thousands)	
Demand	**₱100,779,786**	**₱113,168,584**
Savings	**325,474,899**	**302,476,256**
Time	**64,145,017**	**60,511,352**
	490,399,702	**476,156,192**
Presented as noncurrent	**(24,185,171)**	**(39,793,338)**
Presented as current	**₱466,214,531**	**₱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:

	March 31, 2016 (Unaudited)	December 31, 2015 (Audited)
	(In Thousands)	
Derivative liabilities (Note 19)	**₱458,384**	₱135,193
Presented as noncurrent	**(88,988)**	(9,118)
Presented as current	**₱369,396**	₱126,075

15. Bills and Acceptances Payable

Bills and acceptance payable consists of:

	March 31, 2016 (Unaudited)	December 31, 2015 (Audited)
	(In Thousands)	
Bills payable to:		
BSP and local banks	**₱20,064,666**	₱17,580,304
Foreign banks	**7,414,821**	7,676,238
Others	**72,951**	150,864
	27,552,438	25,407,406
Acceptances outstanding	**889,805**	344,816
	28,442,243	25,752,222
Presented as noncurrent	**(21,605,877)**	(19,915,383)
Presented as current	**₱6,836,366**	₱5,836,839

16. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of:

	March 31, 2016 (Unaudited)	December 31, 2015 (Audited)
	(In Thousands)	
Trade payables	**₱8,352,896**	₱8,785,564
Nontrade payables	**213,387**	377,087
Accrued expenses:		
Interest	**2,182,483**	2,085,701
Projects development costs	**1,818,433**	1,932,508
Taxes and licenses	**1,133,801**	374,908
Purchase of materials and supplies	**770,562**	759,244
PDIC insurance premiums	**303,256**	470,701
Rent and utilities payable	**185,368**	103,043
Advertising and promotional expenses	**150,210**	284,281
Information technology-related expenses	**5,475**	194,974
Retention payable	**698,474**	690,714
Due to government agencies	**33,293**	275,757
Output value added tax	**75,137**	661,368
Other payables	**348,055**	83,970
	₱16,270,830	₱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 March 31, 2016. As of March 31, 2016 and December 31, 2015, outstanding unsecured short term debts amounted to ₱1,400.0 million. 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

	March 31, 2016 (Unaudited)	December 31, 2015 (Audited)
	(In Thousands)	
Subordinated debts	**₱9,990,680**	₱9,986,427
Unsecured term loan	**580,433**	720,004
Notes payable	**476,015**	476,015
	11,047,128	11,182,446
Less current portion	**(476,015)**	(476,015)
	₱10,571,113	₱10,706,431

On February 13, 2015, the Group paid its Bonds Payable amounting to ₱5,000.0 million. As of March 31, 2016, the Group has complied with the covenants related to its long-term debts.

18. Other Liabilities

	March 31, 2016 (Unaudited)	December 31, 2015 (Audited)
	(In Thousands)	
Insurance contract liabilities	**₱4,389,152**	₱4,719,336
Bills purchased - contra (Note 7)	**3,325,964**	3,418,002
Provisions (Note 33)	**1,923,441**	1,168,011
Payable to landowners	**1,518,658**	1,732,923
Customers deposits	**1,504,726**	1,426,649
Managers' checks and demand drafts outstanding	**1,083,037**	937,799
Reserve for unearned premiums	**989,766**	1,191,405
Deposit on lease contracts	**881,941**	854,817
Other dormant credits	**739,108**	753,338
Payment order payable	**700,122**	407,196
Due to Treasurer of the Philippines	**419,102**	438,943
Tenants' rental deposits	**335,041**	306,524
Margin deposits and cash letters of credit	**284,009**	182,640
Advanced rentals	**116,620**	207,470
Transmission liability	**28,032**	24,976
Others	**2,539,363**	3,440,631
	20,778,082	21,210,660
Presented as noncurrent	**(5,631,676)**	(7,961,017)
Presented as current	**₱15,146,406**	₱13,249,643

19. Derivative Financial Instruments

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

	March 31, 2016 (Unaudited)	December 31, 2015 (Audited)
	(In Thousands)	
Balance at beginning of year	**₱46,155**	₱91,648
Changes in fair value	**(80,198)**	(583,375)
Settlements	**(47,845)**	537,882
	(₱81,888)	₱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 interim consolidated statements of income include the following revenue and other income-related (costs and other expenses) account balances arising from transactions with related parties:

		Three Months Ended March 31	
		2016 (Unaudited)	2015 (Unaudited)
		(In Thousands)	
Associate	Dividend income	**₱618,263**	**₱442,897**
	Purchases of inventories	**274,935**	**–**
	Banking revenue - interest on loans and receivables	**58,863**	**27,920**
	Sales of consumer products	**627**	**13,963**
	Rent income	**10,948**	**4,514**
Entities Under Common Control	Freight and handling	**(754)**	**(975)**
	Cost of banking services - interest expense on deposit liabilities	**(45,597)**	**(23,461)**
	Cost of sales and services	**(14,247)**	**(26,296)**
	Management and professional fee	**(45,253)**	**(57,077)**
	Rent expense	**(22,065)**	**(9,263)**

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

	Financial Statement Account	Terms and Conditions	Outstanding Balance **March 31, 2016 (Unaudited)**	 December 31, 2015 (Audited)
			(In Thousands)	
Parent Company	Due to related parties	On demand; non-interest bearing	**(₱40,942)**	(₱41,975)
Associate	Other receivables - dividends	30 to 90 days terms; non-interest bearing	**208,510**	228,017
	Trade receivables	30 to 90 days terms; non-interest bearing	**–**	17,771
	Account payable and other liabilities	30 to 60 days terms; non-interest bearing	**–**	(4,990)
Entities Under Common Control	Finance Receivables	Loans with interest rates ranging from 0.5% to 16.5% and maturity terms ranging from one (1) month to 25 years; Collateral includes bank deposit hold-out, real estate and chattel mortgages	**27,231,567**	18,168,623
	Trade receivables	30 to 60 days terms; non-interest bearing	**7,558**	9,469
	Due from related parties	On demand; non-interest bearing	**1,591,155**	1,593,034
	Advances to suppliers	30 to 60 days terms; non-interest bearing	**–**	47,401
	Deposit liabilities	With annual rates ranging from 0.38% to 1.73% and maturity ranging from 30 days to one (1) year	**(7,804,398)**	(7,418,850)
	Account payable and other liabilities	30 to 90 days terms; non-interest bearing	**(35,560)**	(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 March 31, 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:

	March 31, 2016 (Unaudited)	December 31, 2015 (Audited)
	(In Thousands)	
Net retirement plan assets:		
FTC	**₱233,056**	₱227,524
AAC	**19,727**	19,347
LTG	**8,845**	8,845
	₱261,628	₱255,716
Accrued retirement benefits:		
PNB	**₱2,907,626**	₱2,955,003
ABI and subsidiaries	**890,719**	861,051
TDI and ADI	**40,315**	37,931
Eton	**50,154**	46,941
	₱3,888,814	₱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 March 31, 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 March 31, 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:

	Three Months Ended March 31	
	2016 (Unaudited)	2015 (Unaudited)
	(In Thousands)	
Banking revenue	**₱7,155,363**	₱6,189,662
Sale of consumer goods	**6,525,581**	6,181,042
Real estate sales	**345,687**	386,500
Rental income	**308,716**	257,956
	₱14,335,347	₱13,015,160

Banking revenue consists of:

	Three Months Ended March 31	
	2016 (Unaudited)	2015 (Unaudited)
	(In Thousands)	
Interest income on:		
Loans and receivables	**₱4,627,514**	₱4,009,214
Trading and investment securities	**1,073,726**	798,882
Deposits with banks and others	**83,727**	297,650
Interbank loans receivable	**9,427**	7,414
	5,794,394	5,113,160
Trading and securities gains	**343,016**	206,696
Service fees and commission income	**1,017,953**	869,806
	₱7,155,363	₱6,189,662

Sale of consumer goods consists of:

	Three Months Ended March 31	
	2016 (Unaudited)	2015 (Unaudited)
	(In Thousands)	
Gross sales	**₱6,842,389**	₱6,575,246
Less sales returns, discounts and allowances	**316,808**	394,204
	₱6,525,581	₱6,181,042

Cost of sales and services consists of:

	Three Months Ended March 31	
	2016 (Unaudited)	2015 (Unaudited)
	(In Thousands)	
Cost of consumer goods sold:		
Materials used and changes in inventories	**₱3,343,249**	₱2,981,403
Taxes and licenses	**356,360**	338,845

(Forward)

	Three Months Ended March 31	
	2016	2015
	(Unaudited)	(Unaudited)
Depreciation and amortization	**₱323,009**	₱350,468
Outside services	**170,204**	163,802
Fuel and power	**164,789**	196,134
Personnel costs	**162,700**	204,749
Communication, light and water	**154,628**	162,283
Repairs and maintenance	**91,175**	112,956
Freight and handling	**27,794**	30,682
Others	**104,763**	45,696
	4,898,671	4,587,018
Cost of banking services	**1,304,245**	1,148,974
Cost of real estate sales	**259,047**	299,611
Cost of rental income	**59,244**	54,654
Cost of sales and services	**₱6,521,207**	₱6,090,257

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

Cost of banking services consist of:

	Three Months Ended March 31	
	2016	2015
	(Unaudited)	(Unaudited)
	(In Thousands)	
Interest expense on:		
Deposit liabilities	**₱833,670**	₱697,249
Bills payable and other borrowings	**298,900**	267,297
Services fees and commission expense	**171,675**	184,428
	₱1,304,245	₱1,148,974

23. **Selling Expenses**

	Three Months Ended March 31	
	2016	2015
	(Unaudited)	(Unaudited)
	(In Thousands)	
Advertising and promotions	**₱274,903**	₱267,834
Depreciation and amortization	**147,629**	139,480
Freight and handling	**83,918**	105,638
Personnel costs	**31,152**	33,593
Management, consulting and professional fees	**28,366**	28,039
Repairs and maintenance	**14,699**	12,708
Materials and consumables	**6,666**	11,169
Commissions	**7,613**	4,275
Others	**28,828**	27,119
	₱623,774	₱629,855

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

24. General and Administrative Expenses

	Three Months Ended March 31	
	2016 (Unaudited)	2015 (Unaudited)
	(In Thousands)	
Personnel costs	**₱2,374,598**	₱2,316,825
Taxes and licenses	**773,702**	645,033
Depreciation and amortization	**364,563**	373,916
Occupancy	**336,598**	334,394
Outside services	**313,644**	196,407
Insurance	**286,840**	270,221
Marketing expenses	**249,019**	72,812
Management, consulting and professional fees	**191,992**	153,580
Provision for losses	**104,624**	159,231
Information technology	**92,412**	112,503
Travel and transportation	**82,710**	66,193
Materials and consumables	**80,627**	33,621
Repairs and maintenance	**56,523**	25,645
Communication, light and water	**13,814**	48,730
Litigation expenses	**7,687**	53,633
Others	**464,524**	230,366
	₱5,793,877	₱5,093,110

25. Finance Costs and Finance Income

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

	Three Months Ended March 31	
	2016 (Unaudited)	2015 (Unaudited)
	(In Thousands)	
Finance costs (Note 17):		
Short-term debts	**₱15,011**	₱2,656
Bonds payable and amortization of bond issue costs	**–**	46,742
Unsecured term loan and notes payable	**75,365**	26,365
Finance costs	**₱90,376**	₱75,763
Finance income:		
Cash and other cash items (Note 4)	**₱8,553**	₱8,907
Interest-bearing contracts receivable (Note 7)	**4,502**	4,689
	₱13,055	₱13,596

26. **Other Income (Charges) - net**

	Three Months Ended March 31	
	2016 (Unaudited)	2015 (Unaudited)
	(In Thousands)	
Recoveries	**₱512,646**	₱68,090
Net gains on sale or exchange of assets	**198,412**	107,064
Rental income	**79,391**	81,633
Processing and referral fees	**1,084**	27,233
Others	**437,611**	395,440
	₱1,229,144	₱679,460

27. **Income Taxes**

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

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

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

Provision for current income tax consists of:

	Three Months Ended March 31	
	2016 Unaudited)	2015 (Unaudited)
	(In Thousands)	
RCIT/MCIT	**₱1,159,670**	₱353,377
Final tax	**94,966**	126,940
Provision for current income tax	**₱1,254,636**	₱480,317

28. Equity

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

	March 31, 2016 (Unaudited)	December 31, 2015 (Audited)
Number of shares		
Authorized capital stock at ₱1 par value:	**25,000,000,000**	25,000,000,000
	(In Thousands)	
Issued capital stock at ₱1 par value:		
At beginning and end of the period	**₱10,821,389**	₱10,821,389

29. Basic/Diluted Earnings Per Share

Basic/diluted earnings per share were calculated as follows:

	Three Months Ended March 31	
	2016 (Unaudited)	2015 (Unaudited)
	(In Thousands)	
Net income attributable to equity holders of the Company	**₱2,228,613**	₱1,586,674
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	**₱0.21**	₱0.15

There are no potential commons shares with dilutive effect on the basic earnings per share for the three-month ended March 31, 2016 and 2015, respectively.

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.

<u>Credit Risk</u>
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.

<u>Standard</u>

- CRR 6 - Satisfactory
  These are loans receivables to borrowers whose ability to service all debt and meet financial obligations remains unquestioned, but with somewhat lesser capacity than in CRR 5 accounts.

- CRR 7 - Average
  These are loans receivables to borrowers having ability to repay the loan in the normal course of business activity, although may not be strong enough to sustain a major setback.

- CRR 8 - Fair
  These are loans receivables to borrowers possessing the characteristics of borrowers rated as CRR7 with slightly lesser quality in financial strength, earnings, performance and/or outlook.

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 is 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.

<u>Liquidity Risk and Funding Management</u>

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

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

Interest rate risk

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

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

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

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

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 is still collectible. Lastly, "Impaired financial assets" are those that are long-outstanding and have been provided with allowance for doubtful accounts.

Liquidity Risk and Funding Management
Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from the Group's inability to meet its obligations when they come due without incurring unacceptable losses or costs.

The Group's objective is to maintain a balance between continuity of funding and sourcing flexibility through the use of available financial instruments. The Group manages its liquidity profile to meet its working and capital expenditure requirements and service debt obligations. As part of the liquidity risk management program, the Group regularly evaluates and considers the maturity of its financial assets (e.g., trade receivables, other financial assets) and resorts to short-term borrowings whenever its available cash or matured placements is not enough to meet its daily working capital requirements. To ensure availability of short-term borrowings, the Group maintains credit lines with banks on a continuing basis.

The Group relies on budgeting and forecasting techniques to monitor cash flow concerns. The Group also keeps its liquidity risk minimum by prepaying, to the extent possible, interest bearing debt using operating cash flows.

Market Risks
The Group's operating, investing, and financing activities are directly affected by changes in foreign exchange rates and interest rates. Increasing market fluctuations in these variables may result in significant equity, cash flow and profit volatility risks for the Group. For this reason, the Group seeks to manage and control these risks primarily through its regular operating and financing activities.

Management of financial market risk is a key priority for the Group. The Group generally applies sensitivity analysis in assessing and monitoring its market risks. Sensitivity analysis enables management to identify the risk position of the Group as well as provide an approximate quantification of the risk exposures. Estimates provided for foreign exchange risk, cash flow interest rate risk, price interest rate risk and equity price risk are based on the historical volatility for each market factor, with adjustments being made to arrive at what the Group considers to be reasonably possible.

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

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

Interest rate risk

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

31. Fair Values of Financial Instruments

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

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

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

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

As of March 31, 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:

	March 31, 2015		December, 31, 2015	
	Carrying Value	**Fair Market Value**	Carrying Value	Fair Market Value
		(In Thousands)		
Financial Assets:				
Loans and receivables:				
Receivables from customers	**₱347,149,183**	**₱344,542,539**	₱349,139,278	₱351,626,538
Unquoted debt securities	**737,276**	**3,032,534**	625,803	648,046
	₱347,886,459	**₱347,575,073**	₱349,765,081	₱352,274,584
Financial Liabilities:				
Financial liabilities at amortized cost:				
Deposit liabilities -				
Time deposits	**₱64,145,017**	**₱65,768,847**	₱60,511,353	₱60,762,710
Bills payable	**27,552,438**	**27,147,442**	25,407,406	25,033,940

	March 31, 2015		December, 31, 2015	
	Carrying Value	Fair Market Value	Carrying Value	Fair Market Value
Long term debts:				
Subordinated debt	**9,990,680**	**10,213,380**	9,986,427	10,241,659
Unsecured term loan	**580,433**	**580,433**	720,004	720,004
Notes payable	**476,015**	**476,015**	476,015	470,370
Other liabilities:				
Payable to landowners	**1,518,658**	**1,588,998**	1,723,923	1,803,770
Tenants' rental deposits	**335,041**	**384,508**	306,524	351,781
Advance rentals	**116,620**	**104,938**	207,470	186,687
	₱104,714,902	**₱106,264,561**	₱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 as of March 31, 2016 and December 31, 2015 for peso-denominated receivables. For foreign currency-denominated receivables, discount rate used is 1.5% as of March 31, 2016 and December 31, 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 March 31, 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 March 31, 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:

	March 31, 2016			
	Level 1	**Level 2**	**Level 3**	**Total**
		(In Thousands)		
Assets measured at fair value:				
Financial Assets				
Financial assets at FVPL:				
Held-for-trading:				
Government securities	**₱877,267**	**₱252,673**	**₱–**	**₱1,129,940**
Derivative assets	**–**	**314,496**	**62,000**	**376,496**
Private debt securities	**185,803**	**97,188**	**–**	**282,991**
Equity securities	**153,241**	**170**	**–**	**153,411**
	₱1,216,311	**₱664,527**	**₱62,000**	**₱1,942,838**
AFS investments:				
Government securities	**₱33,591,955**	**₱8,462,320**	**₱–**	**₱42,054,275**
Other debt securities	**25,444,302**	**1,997,423**	**–**	**27,441,725**
Equity securities**	**800,804**	**–**	**–**	**800,804**
	₱59,837,061	**₱10,459,743**	**₱–**	**₱70,296,804**
Non-financial assets				
Property, plant and equipment***				
Land and land improvements	**₱–**	**₱–**	**₱19,253,238**	**19,253,238**
Plant buildings and building improvements	**–**	**–**	**13,750,867**	**13,750,867**
Machineries and equipment	**–**	**–**	**6,534,040**	**6,534,040**
	₱–	**₱–**	**₱39,538,145**	**₱39,538,145**
Liabilities measured at fair value:				
Financial liabilities				
Financial liabilities at FVPL:				
Designated at FVPL:				
Segregated fund liabilities*	**₱8,191,438**	**₱–**	**₱5,780,237**	**₱13,971,675**
Derivative liabilities	**–**	**458,384**	**–**	**458,384**
	₱8,191,438	**₱458,384**	**₱5,780,237**	**₱14,430,059**
Assets for which fair values are disclosed:				
Financial Assets				
HTM investment	**₱18,661,871**	**₱5,887,982**	**₱–**	**₱24,549,853**
Loans and receivables:				
Receivables from customers	**–**	**–**	**344,542,539**	**344,542,539**
Unquoted debt securities	**–**	**–**	**3,032,534**	**3,032,534**
	₱18,661,871	**₱5,887,982**	**₱347,575,073**	**₱372,124,926**

	March 31, 2016			
	Level 1	**Level 2**	**Level 3**	**Total**
		(In Thousands)		
Non-financial Assets				
Investment properties***				
Land	**₱–**	**₱–**	**₱30,136,203**	**₱30,136,203**
Buildings and improvements	**–**	**–**	**8,517,345**	**8,517,345**
	₱–	**₱–**	**₱38,653,548**	**₱38,653,548**
Liabilities for which fair values are disclosed:				
Financial liabilities				
Financial liabilities at amortized cost:				
Deposit liabilities:				
Time deposits	**₱–**	**₱–**	**₱65,768,847**	**₱65,768,847**
Bills payables	**–**	**–**	**27,147,442**	**27,147,442**
Long term debts:				
Subordinated debt	**–**	**–**	**10,213,380**	**10,213,380**
Unsecured term loan	**–**	**–**	**580,433**	**580,433**
Notes payable	**–**	**–**	**476,015**	**476,015**
Other liabilities:				
Payable to landowners	**–**	**–**	**1,588,998**	**1,588,998**
Tenants' rental deposits	**–**	**–**	**384,508**	**384,508**
Advance rentals	**–**	**–**	**104,938**	**104,938**
	₱–	**₱–**	**₱106,264,561**	**₱106,264,561**

* *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			
	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	₱2,707,811	₱1,331,801	₱–	₱4,039,612
Derivative assets	–	118,016	63,332	181,348
Private debt securities	143,800	–	–	143,800
Equity securities	199,752	170	–	199,922
Designated at FVPL:				
Investment in UITFs	–	17,261	–	17,261
Segregated fund assets*	–	–	–	–
	₱3,051,363	₱1,467,248	₱63,332	₱4,581,943
AFS investments:				
Government securities	₱33,499,835	₱11,760,562	₱–	₱45,260,397
Other debt securities	21,614,280	638,700	–	22,252,980
Equity securities**	560,272	93,659	–	653,931
	₱55,674,387	₱12,492,921	₱–	₱68,167,308
Assets of disposal group classified as held for sale:				
Financial assets at FVPL:				
Segregated fund assets	₱7,854,450	₱–	₱5,780,237	₱13,634,687
AFS investments:				
Government securities	2,485,902	–	–	2,485,902
Private debt securities	3,604,065	–	–	3,604,065
Equity securities	1,378,686	–	–	1,378,686
	₱15,323,103	₱–	₱5,780,237	₱21,103,340
Non-financial assets				
Property, plant and equipment***				
Land and land improvements	₱–	₱–	₱19,253,238	₱19,253,238
Plant buildings and building improvements	–	–	13,750,867	13,750,867
Machineries and equipment	–	–	6,534,040	6,534,040
	₱–	₱–	₱39,538,145	₱39,538,145
Liabilities measured at fair value:				
Financial liabilities				
Financial liabilities at FVPL:				
Designated at FVPL:				

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
		(In Thousands)		
Segregated fund liabilities*	₱7,945,084	₱–	₱5,780,237	₱13,725,321
Derivative liabilities	–	135,193	–	135,193
	₱7,945,084	₱135,193	₱5,780,237	₱13,860,514
Assets for which fair values are disclosed:				
Financial Assets				
HTM investment	₱18,661,871	₱5,887,982	₱–	₱24,549,853
Loans and receivables:				
Receivables from customers	–	–	351,626,538	351,626,538
Unquoted debt securities	–	–	648,046	648,046
	₱18,661,871	₱5,887,982	₱352,274,584	₱376,824,437
Non-financial Assets				
Investment properties***				
Land	₱–	₱–	₱30,136,203	₱30,136,203
Buildings and improvements	–	–	8,517,345	8,517,345
	₱–	₱–	₱38,653,548	₱38,653,548
Liabilities for which fair values are disclosed:				
Financial liabilities				
Financial liabilities at amortized cost:				
Deposit liabilities:				
Time deposits				
Bills payables	–	–	60,762,710	60,762,710
Long term debts:				
Subordinated debt	–	–	10,241,659	10,241,659
Unsecured term loan	–	–	25,033,940	25,033,940
(Forward)				
Bonds payable	₱–	₱–	₱720,004	₱720,004
Notes payable	–	–	470,370	470,370
Forward				
Other liabilities:				
Payable to landowners	–	–	1,803,770	1,803,770
Tenants' rental deposits	–	–	351,781	351,781
Advance rentals	–	–	186,687	186,687
	₱–	₱–	₱99,570,921	₱99,570,921

* *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 March 31, 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:

	March 31, 2016	December 31, 2015
	(In Thousands)	
Financial assets		
Balance at beginning of year	**₱5,843,569**	₱5,339,628
Add total gain (loss) recorded in profit or loss	**(1,332)**	503,941
Balance at end of year	**₱5,842,237**	₱5,843,569
Nonfinancial assets		
Balance at beginning of year	**₱39,538,145**	₱38,470,525
Additions during the year	**413,220**	3,525,605
Revaluation decrement during the year	**(132,040)**	(528,159)
Depreciation and amortization	**(322,547)**	(1,290,186)
Net carrying value of disposed/transferred assets and other adjustments	**41,367**	(639,640)
Balance at end of the year	**₱39,538,145**	₱39,538,145
Financial liabilities		
Balance at beginning of year	**₱5,780,237**	₱5,346,467
Less total loss recorded in profit and loss	–	433,770
Balance at end of year	**₱5,780,237**	₱5,780,237

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

		2015	
Structured Investments	**Significant Unobservable Input**	**Range of Input***	**Sensitivity of the Input to Fair Value****
Peso-denominated	**Bank CDS Levels**	**47.28 - 93.27bps**	**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 for the three-month ended March 31, 2016 and the year ended December 31, 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 for the three-month ended March 31, 2016 and the year ended December 31, 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:

	March 31, 2016	December 31, 2015
	(In Thousands, except ratios)	
Total liabilities	**₱596,381,293**	₱579,794,407
Total equity	**173,201,999**	169,758,095
Total liabilities and equity	**₱769,583,292**	₱749,552,502
Debt ratio	**0.77:1**	0.77:1
Debt-to-equity ratio	**3.44:1**	3.42:1

33. Commitments and Contingencies

There were no changes in the Group's commitments and contingencies 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 influences 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 PNB LII and will have management control over the new joint venture company;
- The new joint venture company will operate under the name of "Allianz PNB Life Insurance, Inc.";
- A 15-year distribution agreement which will provide Allianz an exclusive access to the more than 660 branches nationwide of PNB.

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

PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, requires assets and liabilities of PNB LII, together with the results of operations, to be classified separately from continuing operations. As a result, the Group reclassified all the assets and liabilities of PNB LII to 'Assets of disposal group classified as held for sale' and 'Liabilities of disposal group classified as held for sale', respectively, as of March 31, 2016 and December 31, 2015.

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

The results of operation of PNB LII are presented below:

	Three Months Ended March 31	
	2016 (Unaudited)	2015 (Unaudited)
	(In Thousands)	
Interest Income on		
Loans and receivables	**₱4,960**	₱4,517
Trading and investment securities	**112,930**	105,015
Deposits with banks and others	**1,565**	103
	119,455	109,635
Interest Expense on		
Bills payable and other borrowings	**–**	–
Net Interest Income	**119,455**	109,635
Net Service Fees and Commission Expense	**(33,053)**	(77,454)
Net insurance premiums	**309,119**	688,638
Net insurance benefits and claims	**268,870**	(540,295)
Net Insurance premiums	**40,249**	148,343
Other Income (Charges)		
Trading and investment securities gains - net	**1,579**	1,618
Foreign exchange gains (losses) - net	**(1,902)**	1,843
Miscellaneous	**42,645**	54,471
Total Operating Income	**168,973**	57,932
Operating Expenses		
Compensation and fringe benefits	**43,380**	52,693
Taxes and licenses	**12,829**	17,949
Provision for impairment, credit and other losses	**4,704**	–
Depreciation and amortization	**₱2,801**	₱2,645
Occupancy and equipment-related costs	**4,047**	4,760
Miscellaneous	**24,084**	18,539
Total Operating Expenses	**91,845**	96,586
Income from Discontinued Operations Before Income Tax	**77,128**	114,465
Provision for income tax		
Regular	**1,460**	1,271
Final	**11,684**	8,685
	13,144	9,956
Net Income from Discontinued Operations	**₱63,984**	₱104,510
Attributable to:		
Equity holders of the Company	**₱51,187**	₱84,099
Non-controlling interests	**12,797**	20,411
	₱63,984	₱104,510

The major classes of assets and liabilities of PNB LII classified as disposal group held for sale for the three-month ended as of March 31, 2016 and year ended as of December 31, 2015 are as follows:

	March 31, 2016 (Unaudited)	December 31, 2015 (Audited)
Assets		
Cash and other cash items	**₱695,269**	₱642,544
Financial assets at fair value through profit or loss		
Segregated fund assets	**13,953,428**	13,634,687
AFS investments		
Government securities	**2,573,074**	2,485,902
Private debt securities	**3,706,994**	3,604,065
Equity securities	**1,401,106**	1,378,686
HTM investments		
Government securities	**1,250,332**	1,269,398
Other receivables		
Accounts receivable	**293,930**	277,479
Accrued interest receivable	**89,881**	101,925
Sales contract receivable	**79,894**	57,806
Property and equipment – net	**31,434**	29,546
Other assets	**48,185**	44,719
Assets of disposal group classified as held for sale	**₱24,123,527**	₱23,526,757
Liabilities		
Financial liabilities at fair value through profit or loss		
Segregated fund liabilities	**₱13,971,675**	₱13,725,321
Accrued taxes, interest and other expenses	**56,349**	161,817
Other liabilities		
Insurance contract liabilities	**6,979,810**	6,837,144
Accounts payable	**92,515**	74,303
Retirement benefit liability	**13,375**	21,822
Withholding taxes payable	**7,862**	10,139
Miscellaneous liabilities	**965,551**	622,075
Liabilities of disposal group classified as held for sale	**₱22,087,137**	₱21,452,621

36. **Events After the Reporting Date**

There are no subsequent events after the reporting date that will significantly affect the interim consolidated financial statements.

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 March 31, 2016 and December 31, 2015
And for the Three Months Ended March 31, 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 cyclicality 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 will be 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 will be 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 March 31, 2015, the Group effectively owns VMC 23.5% inclusive of the convertible notes and 20.17% through direct common shares.

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

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

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

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

Beverage
ABI maintains a legal department whose main function is to pursue collection cases and handle litigation arising from labor disputes. As of March 31, 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 GSMIs 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 TDIs 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 Pulupandan 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 Pulupandan 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 Pulupandan 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 plans to start the commercial within 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 120^{th} period expired on February 18, 2011.

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

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

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

On August 24, 2011, the LBAA ordered AAC to pay 50% of the alleged tax deficiency in cash and put up a surety bond for the remaining 50%. AAC filed a motion for reconsideration on August 30, 2011. On July 20, 2012, LBAA denied the motion for reconsideration of AAC. On

September 18, 2012, AAC filed an appeal with the Central Board of Assessment Appeals (CBAA) questioning the LBAA order.

On May 28, 2013, the CBAA granted AAC's appeal which essentially allowed AAC to question the deficiency tax assessment without paying the said tax under protest.On November 26, 2013, the LBAA decided in favor of AAC by declaring as null and void the Notice of Assessment of the Provincial Assessor being contrary to law. The LBAA ruled that the Provincial Assessor is "declared devoid of authority to increase the valuation and assessment of the properties subject to the questioned Notices of Assessment and Statement of Real Property Tax due".

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

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

Property Development

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) posted consolidated net income of ₱2.8 billion for the quarter ended March 31, 2016, 31.6% higher than the ₱2.1 billion reported for the same period last year.

The consolidated net income attributable to equity holders of LTG was ₱2.2 billion for 1Q16, 40.5% better than the ₱1.6 billion in 1Q15. This was on account of the improvement in the operating results of all the business segments. The banking segment's net income grew by 85.3% from ₱1.4 billion for the quarter ended March 31, 2015 to ₱2.6 billion in the same period of 2016. LTG's share in net income for the banking segment improved from ₱753 million in 1Q15 to ₱1.4 billion in 1Q16. The tobacco segment's net income increased by ₱538 million from ₱411 million in 2015 to ₱949 million in 2016. The beverage segment's net income of ₱350 million in 1Q16 was up 16.3% compared to the reported income of ₱301 million in the same period last year. Distilled spirits and property development segments' net income were ₱82 million and ₱62 million, respectively for 1Q16, an increase of 9.3% and 21.6%, respectively, versus the incomes recorded for the same period last year. Equity in net earnings from our stake in VMC contributed ₱96 million. As of March 31, 2016, LTG's stake in VMC stood at 30.2%.

Consolidated revenues amounted to ₱14.3 billion for the quarter ended March 31, 2016, 10.1% higher than the ₱13.0 billion recognized in 2015 on account of the increased revenues in the banking, beverage, distilled spirits and property development segment.

Cost of sales and services increased by 7.1% from ₱6.1 billion for quarter ended March 31, 2015 to ₱6.5 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 the effect of higher excise taxes and raw material costs. The property development segment reported a 10.2% decline in cost of sales as a result of lower booked sales from real estate development projects.

Operating expenses amounted to ₱6.4 billion in 1Q16 and ₱5.7 billion in 1Q15 or an increase of 12.1%. This was as a result of increased general and administrative expenses by 13.8%, from ₱5.1 billion in 2015 to ₱5.8 billion in 2016, partially offset by the decrease of 1.0% in selling expenses, which amounted to ₱630 million in 2015 as against ₱624 million in 2016.

SEGMENT OPERATIONS

Banking

The banking segment's net income was ₱2.6 billion for the quarter ended March 31, 2016, 85.3% higher than the ₱1.4 billion recorded for the same period in 2015.

Interest income from banking operations was at ₱5.8 billion in 2016, 13.3% higher than the ₱5.1 billion earned last year, mainly on account of higher interest income from loans and investment securities.

Interest expense was at ₱1.1 billion for the quarter ended March 31, 2016, up 15.2% from ₱0.9 billion in same period of 2015 resulting to a net interest income of ₱4.6 billion, 12.9% higher year-on-year.

Net service fees and commission income improved from the previous period of ₱715 million to ₱846 million in the current period due to higher service charges, fees and commission income from loan, trade, deposit and underwriting and securities dealership transactions.

Miscellaneous income improved by 138.8% to ₱3.2 billion, due to higher gains on ROPA sale, mark-to market gain on trading and investment securities and net forex gain on revaluation.

Operating expenses increased by 14.8% primarily due to higher marketing expenses, professional fees and contractual services and taxes and licenses paid.

Beverage

The beverage segment's net income grew by 16.3% to ₱350 million for the quarter ended March 31, 2016 from ₱301 million in the same period last year.

Revenues of the beverage segment were higher by 5.5% to ₱3.7 billion in 2016 from ₱3.5 billion in 2015. This was driven by the continued growth in revenues of Absolute and Summit water, Tanduay Ice, Vitamilk soymilk and commercial packaging.

Operating expenses increased by 6.1% to ₱613 million in 2016 from ₱578 million in 2015 on account of higher depreciation, advertising and promotional expenses and taxes and licenses paid.

Distilled Spirits

The distilled spirits segment posted a net income of ₱82 million for the quarter ended March 31, 2016, a 9.3% increase from the net income of ₱75 million reported in the same period last year.

Net revenues were slightly higher by 3.9% to ₱3.1 billion in 1Q16 compared to 1Q15's ₱3.0 billion as the contribution of bioethanol offset the lower revenues from distilled spirits due to lower volumes.

Cost of sales increased by 7.5% to ₱2.6 billion in the current period as against ₱2.4 billion in the same period last year primarily due to higher alcohol costs and increase in excise taxes. Consequently, gross profit margin decreased from 19.2% to 16.3%.

Operating expenses slightly decreased by 1.9% from ₱419 million in 2015 to ₱411 million in 2016 due to lower travel and transportation expenses, personnel cost and fuel and oil.

Property Development

The property development segment reported a net income of ₱62 million for the first three months of 2016, higher than the ₱51 million for the same period last year. Gross profit likewise increased by 6% or ₱46 million as compared to the same period last year. The improvement in the gross profit rate from 45.0% during the first three months of 2015 to 51.3% in 2016 was attributable to higher rental revenue.

Rental revenue for the first quarter of 2016 accounted for ₱309 million or 47.2% of revenues, representing 19.8% growth over the same period in 2015, as the lease contracts were renewed at higher rental rates for the BPO offices.

General and administrative expenses decreased by 11.6% or ₱18 million primarily as a result of the decrease in taxes & licenses, as the first quarter of 2015 included expenses relating to its application for increase in capital with the SEC. Finance charges increased by ₱48 million or 174% 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 ₱949 million for the quarter ended March 31, 2016, 130.9% higher than the ₱411 million of the same period last year on account of the increase in equity in net earnings from PMFTC (FTC's 49.6% owned associate) from ₱415 million last year to ₱913 million in 2016. PMFTC has been able to stabilize its market share at over 70% despite the challenge from illicit trade in cigarettes.

<u>FINANCIAL CONDITION</u>

The Company's consolidated Total Assets as of March 31, 2016 amounted to ₱769.6 billion, an increase of 2.7% from ₱749.6 billion as of December 31, 2015. This was mainly on account of the increase in Current Assets by 1.9% or ₱6.3 billion and increase in Noncurrent Assets of ₱13.1 billion or 3.5%.

The increase in consolidated Current Assets by 1.9% from ₱370.3 billion as of December 31, 2014 to ₱392.4 billion was primarily due to the higher Cash and Cash Equivalents by 15.8% or ₱21.7 billion which was on account of the banking segment's increased levels of securities held under agreement to resell, due from other banks and interbank loans receivable. There was a 111.5% increase in Current Available For Sale Investments due to the various acquisitions and increases in the fair value of securities by the bank. This was offset by the drop in Current Loans and Receivables by ₱15.7 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 ₱3.0 billion, mainly due to the banking segments lower levels of FXTN.

The 3.5% increase in Total Noncurrent Assets was mainly due to the movements in the Loans and Receivables account and Investment in Associates and a Joint Venture. Loans and Receivables-net of current portion went up by 6.5% from ₱206.8 billion in December 31, 2015 to ₱220.2 billion as of March 31, 2016. Investment in Associates and a Joint Venture went up by ₱1.0 billion or 8.6% due to the additional investment in VMC by end of February 2016.

Consolidated Total Liabilities increased by 2.9% to ₱596.4 billion as of March 31, 2016 from ₱579.8 billion as of December 31, 2015. This was on account of the increase in Total Current Liabilities by 6.6% from ₱496.3 billion in December 31, 2015 to ₱529.2 billion as of the end of the current period offset by the decrease in Noncurrent Liabilities of 19.6% from ₱83.5 billion to ₱67.1 billion.

Current portion of the banking segment's Deposit Liabilities amounted to ₱466.2 billion as of March 31, 2016, 6.8% higher than December 31, 2015. Other current liabilities increased by ₱2.2 billion due to the banking segments higher levels of various liabilities. Current portion of Bills and Acceptances Payable increased by 17.1% mainly due to the reclassification of currently maturing bills and acceptances payable by the banking segment's. Financial Liabilities at Fair Value through Profit or Loss increased to ₱0.4 billion mainly on account of the banking segment's higher derivative liabilities. Income Tax Payable was higher by 36.2% as the group have higher income as of March 31, 2016. This was offset by the decrease in Accounts Payable and Accrued Expenses to ₱16.3 billion or 6.2% lower than ₱17.3 billion as of December 31, 2015 due to the various settlement made by the different segments in the first quarter of 2016. Current Portion of Due to Related Parties decreased by 12.5% 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 ₱24.2 billion as of December 31, 2015 and decrease in the Other Noncurrent Liabilities of the banking segment by 29.3% or ₱2.3 billion. This was offset by the increase in Bills and Acceptances Payable (noncurrent) from ₱19.9 billion as of December 31, 2015 to ₱21.6 billion as of March 31, 2016. Financial Liabilities at Fair Value Through Profit or Loss of the banking segment increased to ₱89.0 million or 875.96% higher than the ₱9.0 million as of December 31, 2015.

LT Group's consolidated Total Equity grew 2.0% to ₱173.2 billion as of March 31, 2016, on account of the increase in Retained Earnings by 4.2% coming from the net earnings during the period.

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

1.) Revenue

Revenues for March 31, 2016 amounted to ₱14.3 billion, 10.1% higher from last year's ₱13.0 billion.

2.) Net Income

Consolidated Net Income for the quarter ended March 31, 2016 amounted to ₱2.8 billion higher by 31.6% from last period's ₱2.1 billion.

3.) Current Ratio

Current ratio decreased from 0.75:1 in December 2015 to 0.71:1 in March 2016.

4.) Debt to Equity Ratio

Debt-to-equity ratio increased from 3.42:1 in December 2015 to 3.45:1 in March 2016

5.) Earnings/ (Loss) Per Share

LTGI's earnings per share attributable to holders of the parent company for March 2016 is ₱0.21 and March 2015 is ₱0.15.

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

Debt to equity ratio = Total Liabilities / Total Equity
Current ratio = Current assets / Current Liabilities
Earnings per share = Net Income attributable to holders of parent company / Common shares outstanding

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

(i) There are no other trends or any known demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in the Group's increasing or decreasing liquidity in any material way. The Group is not in default or breach of any note, loan, lease or other indebtedness or financing arrangement requiring it to make payments. The Company does not have any liquidity problems.

(ii) There are no events that will trigger direct or contingent financial obligation that is material to LTG, including any default or acceleration of an obligation.

(iii) There are no known material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of LTG with unconsolidated entities or other persons created during the reporting period**.**

(iv) The Group has on-going and planned capital expenditure projects as follow:

Distilled spirits

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

ISO 9001:2008 Quality Management System Certification
Last July 21, 2014, Tanduay Cabuyao Plant successfully passed the ISO 9001:2008 Certification Audit while the Negros Plant was certified last December 31, 2014. This was an achievement for Tanduay since the Company was able to certify 2 plants in a year. ISO 9001:2008 specifies requirements for a quality management system where an organization needs to demonstrate its ability to consistently provide product that meets customer and applicable statutory and regulatory requirements and aims to enhance customer satisfaction through the effective application of the system including processes for continues improvement of the system and the assurance of conformity to customer and applicable statutory and regulatory requirements.

Beverage

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

International Bottled Water Association Membership

ABI's bottled water plant in Cabuyao has been a member of the International Bottled Water Association (IBWA) since it started its bottled water business in 1992. IBWA in reference to U.S. FDA regulations of the Code of Federal Regulations prescribes the Good Manufacturing Practices for Processing and Bottling of Bottled Drinking Water. This includes specific design and performance requirements for determining whether the facilities, methods, practices, and controls used in the processing, bottling, holding and shipping of bottled drinking water are in conformance with or are operated or administered in conformity with good manufacturing practice to assure that bottled drinking water is safe and has been processed, bottled, held and transported under sanitary conditions.

ISO 9001:2008 Quality Management System Certification

ISO is a standard setting body that provides requirements, specifications, guidelines or characteristics that ensure that products and services are safe, reliable and are of good quality. To be ISO 9001:2008 certified, an organization must demonstrate its ability to consistently provide product that meets customer and applicable statutory and regulatory requirements. In 2013, ABI's brewery and bottled water plant in Cabuyao, IPI's Cabuyao manufacturing facility and WRC's plant received ISO 9001:2008 Quality Management System certification.

(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, 16%
2. Financial assets at fair value through profit or loss - current – H, (31%)
3. Available-for-sale investments - current – H, 112%
4. Loans and receivables-current – H, (9%)
5. Loans and receivables-noncurrent – H, 7%
6. Investment in associates and joint venture – H, 9%
7. Deferred income tax assets- H, (14%)
8. Deposit liabilities – current – H, 7%
9. Financial liabilities at fair value through profit or loss – current – H, 193%
10. Bills and acceptances payable - current – H, 17%
11. Accounts payable and accrued expenses – H, (6%)
12. Income tax payable- H, 36%
13. Current portion of due to related parties – H, (12%)
14. Other current liabilities – H, 17%
15. Deposit liabilities – noncurrent – H, (39%)
16. Financial liabilities at fair value through profit or loss - noncurrent – H, 876%
17. Bills and acceptances payable - noncurrent – H, 8%
18. Other noncurrent liabilities- H, (29%)
19. Other comprehensive income – H, (9%)
20. Reserves of disposal group classified as held for sale – H, 6%
21. Banking revenue – H, 16%
22. Beverage revenue – H, 7%
23. Cost of sales and services – H, 7%

24. Equity in net earnings of associate – H, 99%
25. General and administrative expenses – H, 14%
26. Finance cost – H, 19%
27. Foreign exchange gains – H, 38%
28. Others-net – H, 81%
29. Provision for income tax – current – H, 161%
30. Provision for income tax – deferred – H, (147%)
31. Net income from continuing operations – H, 35%
32. Net income from discontinued operations – H, (39%)
33. Net income- H, 32%
34. Net income attributable to equity holders of the Company – H, 40%
35. Net income attributable to noncontrolling interests – H, 6%

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 March 31, 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		379,554,944	130,931,608	72,092,737	47,233,758	119,823,386	9,473,455
Less: Unearned interest and other deferred income		2,014,775	-	-	-	2,014,775	-
Less: Allowance for credit losses		15,909,375	-	-	-	6,435,920	9,473,455
NET FINANCE RECEIVABLES	P	361,630,794	130,931,608	72,092,737	47,233,758	111,372,691	-
(b) Trade Receivables		12,777,126	11,974,915	-	-	-	802,211
Less: Allowance for credit losses		32,032	-	-	-	-	32,032
NET TRADE RECEIVABLES	P	12,745,094	11,974,915	-	-	-	770,179
(c) Other Receivables		2,316,329	2,304,189	-	-	-	12,140
Less: Allowance for credit losses		12,140	-	-	-	-	12,140
NET OTHER RECEIVABLES		2,304,189	2,304,189	-	-	-	-
NET LOANS AND RECEIVABLES	P	376,680,077	145,210,712	72,092,737	47,233,758	111,372,691	770,179

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

	31-Mar-16	31-Dec-15
CURRENT RATIO	0.71	0.75
DEBT TO EQUITY RATIO	3.44	3.42
ASSET TO EQUITY RATIO	4.44	4.42

	31-Mar-16	31-Mar-15
INTEREST RATE COVERAGE RATIO	54.39	48.92
SOLVENCY RATIO	0.29	0.25
PROFITABILITY RATIOS:		
PROFIT MARGIN	0.16	0.12
RETURN ON ASSET (ROA)	0.005	0.003
RETURN ON EQUITY (ROE)	0.023	0.017