COVER SHEET

SEC Registration Number

P W - 0 0 0 0 0 3 4 3

COMPANY NAME

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

PRINCIPAL OFFICE *(No. / Street / Barangay / City / Town / Province)*

11th Fl., 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
17-A	SEC	N/A

COMPANY INFORMATION

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

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
376	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 City

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-A

ANNUAL REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SECTION 141 OF CORPORATION CODE OF THE PHILIPPINES

1. For the calendar year ended **December 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. **Philippines**
   Province, Country or other jurisdiction of incorporation or organization

6. (SEC Use Only)
   Industry Classification Code:

7. **11th Floor Unit 3 Bench Tower, 30th St. corner Rizal drive Crescent Park West 5 Bonifacio Global City Taguig City** — **1634**
   Address of principal office — Postal Code

8. **(632) 808-1266**
   Registrant's telephone number, including area code

9. **N/A**
   Former name, former address, and former fiscal year, if changed since last report.

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, P1.00 par value	**10,821,388,889**

11. Are any or all of these securities listed on a Stock Exchange?

Yes [✓] No [ ]

Philippine Stock Exchange **Common Stock - 10,821,388,889 shares**

12. Check whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Section 11 of the Revised Securities Act (RSA) and RSA Rule 11(a)-1 thereunder and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding 12 months (or for such shorter period that 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 [ ]

13. Aggregate market value of the voting stock held by non-affiliates of the registrant ₱34,854,617,902 as of December 31, 2016

14. Not applicable

DOCUMENTS INCORPORATED BY REFERENCE

PART I – BUSINESS AND GENERAL INFORMATION

Item 1. Business

Corporate History

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

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

As of December 31, 2016 and 2015, LTG was 74.36%-owned by its ultimate parent company, Tangent, which was 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.

The Company has interests in the following businesses:

- **Distilled Spirits**—the Company conducts its distilled spirits business through its 100%-owned subsidiary TDI. TDI is the third-largest distilled spirits producer in the Philippines according to Nielsen Philippines, with an approximate 24% share of the Philippine spirits market in 2016.

- **Beverages**— the Company conducts its beverage business through its 99.9%-owned subsidiary, Asia Brewery, Inc. (ABI). ABI is one of the Philippines' leading beverage manufacturers, producing energy drinks, bottled water, and soymilk. The company conducts its alcoholic beverage business through ABI's 50% stake in AB Heineken Philippines Inc. (ABHP)

- **Tobacco**—the Company conducts its tobacco business through its 99.6% ownership in Fortune Tobacco Corporation (FTC), which in turn owns 49.6% of PMFTC. PMFTC is the leading tobacco manufacturer and distributor in the Philippines with an estimated 71% market share in the year 2016.

- **Banking**—the Company conducts its banking business through Philippine National Bank (PNB). PNB is a universal bank currently listed in the Philippine Stock Exchange (PSE). The Company's indirect ownership is approximately 56.47%. PNB is the Philippines' fourth largest private commercial bank in terms of total assets in 2016.

- **Property Development**— the Company conducts its property development business through Paramount Landequities, Inc. and Saturn Holdings, Inc., with an effective indirect ownership of 99.6% in Eton Properties Philippines, Inc. (Eton). Eton has a diverse portfolio of property development projects in various areas throughout the Philippines, primarily in Metro Manila and surrounding areas, and access to the large land bank of the Tan Companies. Eton's project portfolio mainly comprises residential real estate projects (including large-scale township projects. Eton also develops and leases out commercial properties to retail and BPO tenants.

Description of Subsidiaries

Distilled Spirits

Tanduay Distillers, Inc. (TDI)

TDI was incorporated in the Philippines on May 10, 1988 and is primarily engaged in, operates, conducts, and maintains the business of manufacturing, compounding, bottling, importing, exporting, buying, selling or otherwise dealing in, at wholesale and retail, such finished goods as rhum, brandy, whiskey, gin and other liquor products, and any and all equipment, materials, supplies used and/or employed in or related to the manufacture of such finished goods.

The following companies are majority owned by TDI:

- **Asian Alcohol Corporation (AAC) – 95%**
  AAC is a domestic corporation registered with the Philippine Securities and Exchange Commission (SEC) on September 27, 1973. The company is primarily involved in the manufacture of ethyl alcohol and to market, sell, distribute, and generally deal in any or all of such liquids or products.

- **Absolut Distillers, Inc. (ADI) – 96%**
  ADI was incorporated in the Philippines on September 14, 1990, to engage in, operate, conduct and maintain the business of manufacturing, distilling, importing, exporting, buying, selling or otherwise deal in chemicals including but not limited to alcohol, molasses, bioethanol, biogas and biomass for renewable energy at wholesale and retail and to engage in the business of generating, transmitting and or distributing renewable energy derived from solar power for lighting and power purposes.

- **Tanduay Brands International, Inc. (TBI) – 100%**
  On May 6, 2003, TBI was incorporated in the Philippines to handle the marketing of TDI's products for the export market. TBI has not yet started commercial operations as of December 31, 2016. On December 20, 2016, LTG sold its 100% ownership interest in TBI to TDI through an execution of a Deed of Sale.

Beverage

Asia Brewery, Incorporated (ABI)

ABI. was incorporated in the Philippines on March 28, 1979. The company is primarily engaged in the business of manufacturing, selling, importing, exporting and assembly of all kinds of products, supplies, dies, tools, appliances, plants and machineries.

The following companies are 100%-owned by ABI:

- **Agua Vida Systems, Inc. (AVSI)**
  AVSI was incorporated in the Philippines on August 15, 1994. Its primary business is the distribution and refilling of purified water and water dispensers for use primarily in homes and offices.

- **Waterich Resources Corporation (WRC)**
  WRC was incorporated in the Philippines on September 25, 1997. Its primary business is the toll manufacturing for ABI of *Absolute Pure Distilled Drinking Water* and *Summit Water*.

- **Packageworld, Inc. (PWI)**
  PWI was incorporated in the Philippines on January 15, 1998. Its primary business is the production and distribution of packaging materials for alcoholic and non-alcoholic beverages and bottled water.

- **Interbev Philippines, Inc. (IPI)**
  IPI was incorporated in the Philippines on April 28, 2003. Its primary business is the production and distribution of *Cobra* and *Sunkist carbonated soft drinks.*

- **AB Nutribev Corp. (ABNC)**
  AVNI was incorporated in the Philippines on April 22, 2014 and manufacturing operations is scheduled to commence in the first half of 2016. Its primary business is the manufacturing and trading of of dairy and soy milk-based beverages.

- **Asia Pacific Beverages Pte. Ltd. (APBPL)**
  APBL was incorporated on August 21, 2014 under the laws of Singapore. It was established as an investment holding company for business opportunities in the region.

In February 2012, ABI, in partnership with Corporation Empresarial Pascual S. L. of Spain, also formed ABI Pascual Holdings Pte. Ltd., a jointly controlled entity organized and domiciled in Singapore. In November of that year, the joint venture established ABI Pascual Foods Incorporated, an operating company in the Philippines engaged in the marketing and distribution of yogurt products in the country.

In May 2016, ABI and Heineken International B.V. (HIBV) of the Netherlands partnered to form AB Heineken Philippines Inc., a jointly controlled corporation in the business of manufacturing, purchasing, importing, exporting, selling and distribution, of alcoholic beverages, non-alcoholic beer, malt-based beverages and related products of the aforementioned beverages. In November 2016, ABI transferred its alcoholic beverage business to ABHP when it commenced commercial operations. Brands controlled by ABHP include ABI-developed brands, Beer na Beer, Colt 45, Brew Kettle, and Tanduay Ice, and HIBV's Heineken and Tiger.

Tobacco

Fortune Tobacco Corporation (FTC)

FTC was incorporated in the Philippines on April 29, 1965. The Company was organized primarily to engage in cigarette manufacturing, selling, importing and exporting. FTC achieved market success early on and was responsible for introducing some of the most successful local cigarette brands in the Philippines, including the *Fortune*, *Champion* and *Hope* menthol brands. Prior to the creation of PMFTC, FTC was the largest domestic tobacco business in the Philippines.

FTC currently has an effective 49.6% stake in PMFTC, the business combination between the Philippine operations of Philip Morris International and the operations of FTC. The brands currently produced by PMFTC include the FTC brands and Philip Morris' Marlboro.

Banking

Philippine National Bank (PNB)

PNB was incorporated in the Philippines on July 22, 1916. PNB is the country's first universal bank and the fourth largest private local commercial bank in terms of assets as of December 31, 2016. PNB has celebrated its Centennial Year of serving the Filipino people in July 2016. For 100 years, PNB stands proud as an institution of stability and security for many Filipinos. With its century of banking history and experience, PNB is poised to move forward to becoming a more dynamic, innovative and service-focused bank, providing service excellence to Filipinos all over the world. PNB provides a full range of banking and other financial services to diversified customer bases including government entities, large corporate, middle market, SME and retail customers, with PNB having the distinction of being one of the only five authorized Government depository banks in the Philippines. The current PNB is a result of the merger between PNB and Allied Banking Corp., which was completed on February 9, 2013.

The following companies are owned by PNB:

				Percentage of Ownership			
				2016		2015	
Subsidiaries	**Nature of Business**	**Country of Incorporation**	**Functional Currency**	**Direct**	**Indirect**	Direct	Indirect
PNB Savings Bank (PNBSB)*	Banking	Philippines	Php	**100.00**	–	100.00	–
PNB Capital and Investment Corporation (PNB Capital)	Investment	- do -	Php	**100.00**	–	100.00	–
PNB Forex, Inc. (PNB Forex)	FX trading	- do -	Php	**100.00**	–	100.00	–
PNB Holdings Corporation (PNB Holdings)	Investment	- do -	Php	**100.00**	–	100.00	–
PNB General Insurers Inc.(PNB Gen)	Insurance	- do -	Php	**65.75**	**34.25**	65.75	34.25
PNB Securities, Inc. (PNB Securities)	Securities Brokerage	- do -	Php	**100.00**	–	100.00	–
PNB Corporation Guam	Remittance	USA	USD	**100.00**	–	100.00	–
PNB International Investments Corporation (PNB IIC)	Investment	- do -	USD	**100.00**	–	100.00	–
PNB Remittance Centers, Inc. (PNB RCI) [(a)]	Remittance	- do -	USD	–	**100.00**	–	100.00
PNB Remittance Co. (Nevada) [(b)]	Remittance	-do-	USD	–	**100.00**	–	100.00
PNB RCI Holding Co. Ltd. [(b)]	Holding Company	- do -	USD	–	**100.00**	–	100.00
Allied Bank Philippines (UK) Plc (ABUK)*	Banking	United Kingdom	GBP	**100.00**	–	100.00	–
PNB Europe PLC	Banking	- do -	GBP	**100.00**	–	100.00	–
PNB Remittance Co. (Canada) [(c)]	Remittance	Canada	CAD	–	**100.00**	–	100.00
PNB Global Remittance & Financial Co. (HK) Ltd. (PNB GRF)	Remittance	Hong Kong	HKD	**100.00**	–	100.00	–
Allied Commercial Bank (ACB)* [(d)]	Banking	People's Republic of China	USD	**99.04**	–	99.04	–
PNB-IBJL Leasing and Finance Corporation (PILFC)[(e)]	Leasing/Financing	Philippines	Php	**75.00**	–	75.00	–
PNB-IBJL Equipment Rentals Corporation[(f)]	Rental	- do -	Php	–	**75.00**	–	75.00
Allianz-PNB Life Insurance, Inc. (APLII) (formerly PNB LII) *[(g)]	Insurance	- do -	Php	**44.00**	–	80.00	–
Allied Leasing and Finance Corporation (ALFC) *	Rental	- do -	Php	**57.21**	–	57.21	–
Allied Banking Corporation (Hong Kong) Limited (ABCHKL) *	Banking	Hong Kong	HKD	**51.00**	–	51.00	–
ACR Nominees Limited *	Banking	- do -	HKD	–	**51.00**	–	51.00
Oceanic Holding (BVI) Ltd.*	Holding Company	British Virgin Islands	USD	**27.78**	–	27.78	–

** Subsidiaries acquired as a result of the merger with ABC*

[(a)] *Owned through PNB IIC*

[(b)] *Owned through PNB RCI*

[(c)] *Owned through PNB RCI Holding Co. Ltd.*

[(d)] *Purchase of additional shares was approved by BSP and China Banking Regulatory Commission on June 4, 2014 and November 12, 20015, respectively. On November 27, 2015, PNB purchased 8.63% ownership interest from individual stockholders.*

[(e)] *Formerly Japan-PNB Leasing*

[(f)] *Formerly Japan-PNB Equipment Rentals Corporation. Owned through PILFC*

[(g)] *As of December 31, 2015, APLII was classified as a disposal group held for sale and as a discontinued operation. The acquisition of the shares of APLII by Allianz SE was completed on June 6, 2016. As of December 31, 2016, the Group owns 44.0% interest in APLII and is presented as investment in an associate in the consolidated balance sheet..*

Bank Holding Companies
On February 11, 2013, LTG's Board of Directors (BOD) approved the acquisition of indirect ownership in the merged PNB through the investment in the 27 holding companies which have collective ownership interest in PNB of 59.83% (collectively referred to as "Bank Holding Companies"). LTG's acquisition was effected by way of subscription to the increase in authorized capital shares of 22 Bank Holding Companies direct buy-out of shares of 5 Bank Holding Companies. In various dates in 2013, upon approval of the SEC for the increase in capital stock of certain Bank Holding Companies, LTG has acquired between 80% to 100% ownership of these Bank Holding Companies. As of December 31, 2016, LTG obtained majority ownership over the Bank Holding Companies which collectively own 56.47% of PNB.

The following are the 27 bank holding companies:

1. Allmark Holdings Corp.
2. Dunmore Development Corp.
3. Kenrock Holdings Corp.
4. Leadway Holdings, Inc.
5. Multiple Star Holdings Corp.
6. Pioneer Holdings & Equities, Inc.
7. Donfar Management Ltd.
8. Fast Return Enterprises Ltd.
9. Mavelstone International Ltd.
10. Uttermost Success Ltd.
11. Ivory Holdings, Inc.
12. Merit Holdings & Equities Corp.
13. True Success Profits Ltd.
14. Key Landmark Investments Ltd.
15. Fragile Touch Investments Ltd.
16. Caravan Holdings Corp.
17. Solar Holdings Corp.
18. All Seasons Realty Corp.
19. Dynaworld Holdings Inc.
20. Fil-Care Holdings Inc.
21. Kentwood Development Corp.
22. La Vida Development Corp.
23. Profound Holdings Inc.
24. Purple Crystal Holdings, Inc.
25. Safeway Holdings & Equities Inc.
26. Society Holdings Corp.
27. Total Holdings Corp.

Property Development
Saturn Holdings, Inc. (Saturn)
Saturn Holdings, Inc. was incorporated in the Philippines on February 18, 1997. Saturn's primary purpose is to engage in the purchase, retention, possession or in any other manner to acquire legally constituted within or outside the Philippines and to issue shares of stocks, bonds, or other obligations for the payment of articles or properties acquired by the corporation or for other legal consideration, all to the extent permitted by law.

Paramount Landequities, Inc. (Paramount)
Paramount was incorporated in the Philippines on July 25, 1988. Its primary purpose is that of a real estate development company.

Eton Properties Philippines, Inc. (ETON)
Eton was incorporated and registered in the Philippines on April 2, 1971 under the name "Balabac Oil Exploration & Drilling Co., Inc." to engage in oil exploration and mineral development projects in the Philippines. It became a holding company on August 19, 1996 and included real estate development and oil exploration as its secondary purposes. However, on February 21, 2007, the Company changed its name to Eton Properties Philippines, Inc. with real estate development as its primary business.

The following companies are 100%-owned by ETON:

- **Belton Communities, Inc. (BCI)**
  BCI was incorporated and registered with the SEC on November 5, 2007 and is engaged in real estate development.

- **Eton City, Inc. (ECI)**
  ECI was incorporated and registered with the SEC on October 8, 2008 and is engaged in real estate development.

- **FirstHomes, Inc. (FHI)**
  On October 15, 2010, FHI was incorporated and registered with Philippine SEC as a wholly-owned subsidiary of Eton and is engaged in real estate development.

- **Eton Properties Management Corporation (EPMC)**
  EPMC was incorporated and registered with the SEC on September 29, 2011 to manage, operate, lease, in whole or in part, real estate of all kinds, including buildings, houses, apartments and other structures of the Corporation or of other persons provided that they shall not engage as property manager of a real estate investment trust. EPMC has started its commercial operations in 2016.

Products

Distilled Spirits
Rum Products
1. Tanduay Five Years Fine Dark Rhum
2. Tanduay Rhum 65 Fine Dark Rhum ("Rhum 65")
3. Tanduay E.S.Q. Fine Dark Rhum ("E.S.Q.")
4. Tanduay White Premium Rhum
5. Tanduay Superior Dark Rhum
6. Tanduay Five Years Light
7. Boracay Rum
8. Tanduay Asian Rum Gold
9. Tanduay Asian Rum Silver
10. Tanduay 1854 Rhum
11. Tanduay Select

Gin Products
1. London Gin
2. Gin Kapitan
3. Gin Kapitan Light

Brandy Products
1. Compañero Light Brandy

Vodka Products
1. Cossack Vodka Red
2. Cossack Vodka Blue
3. Mardi Gras Vodka Schnapps

Whiskey Products
1. Embassy Whiskey

Cocktails
1. Tanduay Cocktails

Medicinal Wine
1. Vino Agila

Beverage

Energy Drinks
1. Cobra

Bottled Water
1. Absolute Pure Distilled Drinking Water
2. Summit Natural Drinking Water

Others
1. Vitamilk
2. Sunkist carbonated soft drinks
3. Nestea ready-to-drink ice tea
4. Coco Fresh Coconut Water
5. Creamy Delight Yogurt
6. Barista's Best ready-to-drink Coffee Latte

Commercial Glass

ABHP products sold in the market include:

Beer
1. Colt 45 Malt Liquor
2. Beer na Beer
3. Manila Beer
4. Manila Beer Light
5. Asahi Super Dry
6. Brew Kettle
7. Heineken
8. Tiger

Alcopop
1. Tanduay Ice
2. Tanduay Black
3. Tanduay Ice Zero
4. Tanduay Ice Signature Vodka Lemonade
5. Tanduay Ice Signature Vodka Cranberry

Tobacco

FTC has no products in the market but its associate, PMFTC has the following cigarette products:
1. Marlboro
2. Fortune
3. Jackpot
4. Champion
5. Hope
6. Philip Morris
7. More
8. Others include Bowling Gold, Miller, Stork, Boss, Plaza, Mark, Chesterfield, Winter, L&M, Next, Peak, Ice, Evergreen, Forum, Maverick, Liberty and Baron

Banking

PNB provides a full range of banking and financial services to large corporate, middle-market, small medium enterprises (SMEs) and retail customers, including OFWs, as well as to the Philippine National Government, national government agencies (NGAs), local government units (LGUs) and GOCCs in the Philippines. PNB's principal commercial banking activities include the following:

1. Deposit taking
2. Lending
3. Trade financing
4. Foreign exchange dealings
5. Bills discounting
6. Fund transfers/remittance servicing
7. Asset management
8. Treasury operations
9. Comprehensive trust services
10. Retail banking
11. Other related financial services

Property Development

Completed Developments:

High-rise

1. Eton Baypark Manila
2. Eton Parkview Greenbelt
3. Eton Emerald Lofts
4. Eton Residences Greenbelt
5. One Archers Place
6. Belton Place
7. 8 Adriatico

Mid-rise

1. The Manors at North Belton Communities

Residential Subdivisions

1. South Lake Village at Eton City
2. Riverbend at Eton City
3. West Wing Residences at North Belton Communities

Commercial

1. Centris Walk
2. Centris Walk Extension
3. Centris Steel Parking
4. Centris Station
5. Green Podium

BPO Office

1. Cyberpod Centris One
2. Cyberpod Centris Two
3. Cyberpod Centris Three
4. Eton Cyberpod Corinthian

Events Venue

1. Elements at Centris

Ongoing Developments:

Hi-rise
1. Eton Tower Makati

Residential Subdivisions
1. 68 Roces
2. Tierra Bela
3. West Wing Residences at Eton City
4. West Wing Villas

Commercial
1. Village Walk
2. WestEnd Square

Hotel
1. Mini Suites at Eton Tower Makati

Distribution method of the products

Distilled Spirits

As of December 31, 2016, TDI served more than 215,000 points of sale throughout the Philippines through ten (10) exclusive distributors, who in turn may work with a large number of sub-distributors. TDI has generally maintained good business relationships with its distributors since 1988. As of December 31, 2016, TDI's distributors operated 48 sales offices and 84 warehouses located throughout the Philippines. TDI employs in-house sales staffs who provide general administrative support to TDI's distributors. TDI's products are transported from the production facilities to distributors' warehouses by third party transportation companies for the account of the distributors.

Beverage

ABI markets, sells and distributes its products throughout the Philippines through 13 exclusive major distributors. As of December 31, 2016, ABI's exclusive distributors had a network of 47 sales offices, 21 warehouses and 43 depots**.** This extensive network assures product availability to ABI consumers and also provides ABI expeditious nationwide placement of new products. ABI's products are transported to distributors' warehouses by third party transportation companies, with the costs for the account of such distributors.

Tobacco

FTC had no selling activities in 2016. PMFTC, however, distributes directly to approximately 210,000 points of sale throughout the Philippines. PMFTC segments its distribution into two separate channels:

(i) key accounts—including hypermarkets and supermarkets, tobacconists, convenience stores and gasoline stations; and
(ii) general trade—including sari-sari stores, market stalls, kiosks and eateries.

Banking

PNB, through its Head Office and 675 domestic branches/offices and 73 overseas branches, representative offices, remittance centers and subsidiaries, provides a full range of banking and financial services to large corporate, middle-market, small medium enterprises (SMEs) and retail customers, including OFWs, as well as to the Philippine National Government, national government agencies (NGAs), local government units (LGUs) and GOCCs in the Philippines. PNB's principal commercial banking activities include deposit-taking, lending, trade financing, foreign exchange dealings, bills discounting, fund transfers/remittance servicing, asset management, treasury operations, comprehensive trust services, retail banking and other related financial services.

Its banking activities are undertaken through the following groups within the Bank, namely:

Institutional Banking Sector
The Bank's Institutional Banking Sector (IBS) is responsible for credit relationships with large corporate, middle-market and SME customers as well as with GOCC and financial institutions.

Retail Banking Sector
The Retail Banking Group (RBS) principally focuses on retail deposit products (i.e., current accounts, savings accounts and High Cost accounts) and services. While the focal point is the generation of low cost funding for the Bank's operations, the RBS also concentrates on the cross- selling of consumer finance products, trust products, fixed income products, credit cards and bancassurance products to existing customers and referred customers by transforming its domestic branch distribution channels into a sales-focused organization.

Consumer Finance
The Bank's consumer financing business is seen to be a major contributor to its revenue stream in the medium term. PNB Savings Bank (PNBSB) serves as the consumer arm of PNB. Strategic initiatives have been undertaken to put in place the proper infrastructure to support PNBSB's business growth. To further propel consumer loans growth, a number of marketing campaigns, aimed at generating business and increasing product awareness, were initiated.

Treasury Sector
The Treasury Sector primarily manages the liquidity and regulatory reserves of the Bank and risk positions on interest rates and foreign exchange borne out from the daily inherent operations in deposit taking and lending and from proprietary trading. This includes an oversight on risk positions of its foreign branches and subsidiaries.

Global Filipino Banking Group
The Global Filipino Banking Group covers the Bank's overseas offices which essentially provide convenient and safe remittance services to numerous OFWs abroad and full banking services in selected jurisdictions. It also provides consumer financing through the *Pangarap* Loan and Own a Philippine Home Loan which are available to OFWs.

Trust Banking Group
The Bank, through its Trust Banking arm provides a full range of Trust, Agency, and Fiduciary products and services designed to serve a broad spectrum of market segments. Its personal trust products and services include personal management trust, investment management, estate planning, guardianship, and life insurance trust. Corporate trust services and products include corporate trusteeship, securitization, portfolio management, administration of employee benefit plans, pension and retirement plans, and trust indenture services. Trust agency services include such roles as bond registrar, collecting and paying agent, loan facility agent, escrow agent, share transfer agent, and receiving bank.

Property Development
The Company markets its projects to residential market segments, office locators and commercial tenants through internal and external sales and marketing channels. For its leasing business, the Company employs a dedicated team who coordinates with business entities for leasing opportunities in the company's various projects.

<u>Status of any publicly-announced new product or services</u>

<u>Beverage</u>
In 2016, ABI started the distribution of Heineken and Tiger in the Philippines. It also introduced new variants of its Tanduay Ice brand – Tanduay Ice Vodka Cranberry and Tanduay Ice Vodka Lemonade.

<u>Banking</u>
The Bank has launched the following products and services in 2016:

- Corporate Bills Payment
- ATM Switch Migration
- PNB-Meralco ADA Facility
- One-Time Password (OTP) for online credit card transactions
- Use of Lendr of SSS Loan Applications
- UITF ATM Facility
- PNB Mobile Banking App
- Collection Solution for Electric Cooperatives
- EMV Upgrade

<u>Tobacco</u>
In 2016, the following were the product innovations and upgrades:

1. Marlboro Ruby Burst
2. Firm Filter for Marlboro
3. Fortune Tribal blend upgrade
4. Fortune Tribal & Core packaging upgrade

There were no publicly-announced new projects for distilled spirits and property development segment.

<u>Competitive business condition/position in the industry</u>

<u>Distilled Spirits</u>
Since 2014, demand for imported liquor in the Philippines has been gaining double digit growth year on year. In 2016, total imported liquor grew by 12% in value and 20% in volume. Whereas, local spirits recovered by 3% in volume and 6% in value.

Slowly but surely, TDI is now at 24% market share. GSM led the spike in 2016, occupying 28% market share. While EDI, though still dominant continued its downward trend in 2016, it is now at 41%.

TDI is continuously reenergizing its portfolio, the Tanduay 5 Years brand remains the top priority. With the growing middle class and sophistication of liquor drinkers in the Philippines as evidenced by the continuous uptrend of imported spirits, several TDI contemporary yet value for money products are also being prepared for 2017 launch to cater to the emerging consumer segments.

<u>Beverage</u>
ABI competes against leading Philippine and international beverage brands across all of its product categories. Its main competitors for each product category include the following:

- Energy drinks - ABI competes with Pepsico's *Sting* energy drink, Coca-Cola's *Samurai* energy drink, *Extra Joss*, *Lipovitan* and others;
- Bottled water - ABI's main competitors are Philippine Spring Water Resources' *Nature's Spring* and Coca-Cola's *VIVA!* Mineral water and *Wilkins*, among others; and
- Soymilk - ABI competes with *Vitasoy*, *Lactasoy* and *Soyfresh*.

ABI, through its stake in ABHP, competes against the following alcoholic beverage brands:

- Beer - ABHP competes mainly with *San Miguel Beer*, *San Mig Light*, *Red Horse Beer*, *San Miguel Premium All-Malt Beer* and *Gold Eagle Beer*, all of which are brands of the San Miguel Corporation; and
- Alcopop - ABHP's main competitors include *Antonov*, *Vodka Ice, Smirnoff* and *Infinit*.

Tobacco

Competition in the tobacco industry is usually among leading Philippine and international cigarette brands across all product categories. PMFTC's primary competitors are JTI, which offers a number of well-known international brands such as *Winston*, *Camel* and *Mevius* and BAT, which offers international brands such as *Lucky Strike*, and Mighty Corporation, which offers a portfolio of Philippine brands including *Mighty* and *Marvels*.

Banking

In the Philippines, the Bank faces competition in all its principal areas of business, from both Philippine (private and government-owned) and foreign banks, as well as finance companies, mutual funds and investment banks. The competition that the Bank faces from both domestic and foreign banks was in part a result of the liberalization of the banking industry with the entry of foreign banks under Republic Act (R.A.) 7721 in 1994 and R.A. 10641 in 2014, as well as, the recent mergers and consolidations in the banking industry. As of the latest available data from the BSP, there were 42 universal and commercial banks, of which 17 are private domestic banks, 3 are government banks and 22 are branches or subsidiaries of foreign banks. Some competitor banks have greater financial resources, wider networks and greater market share than PNB. Said banks also offer a wider range of commercial banking services and products; have larger lending limits; and stronger balance sheets than PNB. To maintain its market position in the industry, the Bank offers diverse products and services, invests in technology, leverages on the synergies within the Lucio Tan Group of Companies and with its Government customers, as well as builds on relationships with the Bank's other key customers.

The Bank also faces competition in its operations overseas. In particular, the Bank's stronghold in the remittance business in 16 countries in North America, Europe, the Middle East and Asia is being challenged by competitor banks and non-banks. As of December 31, 2016, the Bank has a distribution network of 675 branches and offices and 1,051 ATMs nationwide. The Bank is the fourth largest local private commercial bank in the Philippines in terms of local branches and the fourth largest in terms of consolidated total assets, net loans and receivables, capital and deposits. In addition, it has the widest international footprint among Philippine banks spanning Asia, Europe, the Middle East and North America with its overseas branches, representative offices, remittance centers and subsidiaries.

Property Development

Location is the main differentiator for Eton's projects. As showcased in its various developments, location played a major role in land development. All of the Company's residential, township, commercial centers and BPO offices are set in prime locations in the country's major cities and growth areas, offering more value for communities surrounding the project, outsourcing firms and office locators and retail tenants. Ayala Land, Megaworld, Filinvest Land and Robinsons Land are the Company's main competitors.

Raw Materials and Principal Suppliers

Distilled Spirits

- **Alcohol**
  TDI uses ethyl alcohol, which is distilled from sugarcane molasses. TDI obtains most of its ethyl alcohol from its two subsidiaries – AAC and ADI and other suppliers. Manapla Distillery which is owned by Victorias Milling Company, is also one of the alcohol suppliers of TDI.

  Alcohol is delivered directly to the plant by tanker. The quality of alcohol is checked prior to acceptance. In 2016, alcohol accounted for 25% of product cost while excise tax accounted for 36% of the total costs. The tax is paid upon withdrawal of the full goods from the production sites. With the temporary shutdown of AAC's operations, TDI increased its importation of alcohol from Pakistan & Indonesia.

  The distillery companies obtain their molasses from sugar mills and traders. Major suppliers are Victorias Milling Corporation, Binalbagan Sugar Company, LYL Marketing, Shuurmans & Van Ginneken Phils., Inc., Grandcane Company, Inc., and Tate & Lyle Corp.

- **Sugar**
  This is added when deemed necessary to enhance the taste and aroma of a particular product.

- **Water**
  The plants use significant amounts of demineralized water for blending liquor products. The water is supplied by the local utility. Each plant has its own water storage and demineralization facilities.

- **Flavoring Agents**
  For some products, essences and other flavoring agents are added to attain the desired color, flavor and aroma as well as to reinforce the natural quality of rum as derived from molasses and ageing in oak barrels.

- **Bottles**
  TDI's liquor products are packaged in glass bottles. Glass bottles account for approximately 21% of cost of goods sold for TDI's products. The cost is managed in part by recycling the bottles. TDI maintains a network of secondhand bottle dealers across the nation that retrieve the bottles from the market and sell them back to TDI. The cost of the secondhand bottles including the cost of cleaning is 68% lower than the cost of purchasing new bottles.

- **Caps**
  All products are sealed with tamper-proof resealable aluminum caps, which average at 2% of total product cost.

- **Labels**
  The labels being used are made from imported base coated paper. Label cost accounts for 1% of product cost.

There are no long-term purchase commitments as purchases are made through purchase orders on a per need basis from a list of accredited suppliers.

Beverage
ABI's energy drinks consist of a base of flavor concentrate, which is diluted with water and sweetened with sugar. Carbon dioxide is then added to provide carbonation. ABI's energy drink concentrates are sourced primarily from well-known international suppliers. Sugar is procured from third-party and related party local suppliers including Victorias Milling Corporation, generally under supply contracts of up to one year. ABI also purchases carbon dioxide and other additives from local producers. Water is sourced from sources near ABI's production plants.

The main raw materials for beer products include water, barley, hops and yeast. Great emphasis is placed on water quality as water is the primary ingredient in the beer brewing process. Water is sourced primarily from sites near the brewery and undergoes several purifying steps to ensure it meets standards. Barley, hops and yeast are sourced primarily from suppliers located in the United States, Europe and China. In November 2016, ABI transferred its beer manufacturing operations to its associate, ABHP.

ABI manufactures the majority of the bottles used for its beverage products. These are manufactured at ABI's Cabuyao plant in Laguna. Bottling and packaging materials, including aluminum closures, crowns and corrugated cartons are produced by ABI's subsidiary, Packageworld, which purchases any required raw materials from multiple suppliers in the Philippines and internationally.

Tobacco

FTC's main source of income is dividends from PMFTC.

FTC has no long-term purchase commitments as purchases are made through purchase orders on a per need basis from a list of accredited suppliers.

With the expiration of the CMA between FTC and JTI, the Company no longer buys raw materials.

Banking

This is not applicable for banks.

Property Development
The Company has a wide network of suppliers, both local and foreign.

Dependence on one or two major customers

Distilled Spirits
TDI markets, sells, and distributes its products throughout the Philippines. In the year ended December 31, 2016, sales volume in the Visayas and Mindanao regions accounted for approximately 51% and 45% of TDI's gross sales volume, respectively. In the same period, sales volume in Metro Manila and Luzon accounted for 0.005% and 4% of TDI's gross sales volume, respectively. TDI attributes its leading position in the distilled spirits products to strong brand equity, utilization of diverse marketing channels and an established sales and distribution network.

AAC and ADI sell majority of its alcohol to TDI. Although TDI buys most of its alcohol from AAC and ADI, it has a network of secondary suppliers locally and abroad.

Beverage
ABI has stable relationships with its 13 exclusive major distributors and its financial well being is not dependent on only one or two major customers.

Tobacco
PMFTC directly sells its products primarily to local wholesalers, which then sell products to retailers or directly to adult consumers. These wholesalers are typically family-owned and operated local stores, such as sari-sari stores, that are also a source of goods for smaller traditional retailers such as kiosks, eateries and sidewalk vendors. Such stores and vendors often sell cigarettes to adult consumers by the stick as opposed to selling by the pack. Due to their presence across a wide network of localities and their financial capacity, these wholesalers offer a means for manufacturers such as PMFTC to reach a large number of retailers and customers without having to sell to each individual point of sale.

Banking
PNB offers a wide range of financial services in the Philippines. The Bank has foreign operations and has a stronghold in the remittance business in 16 countries in North America, Europe, the Middle East and Asia thus, its financial well being is not dependent on only one or two major customers.

Property Development
The Company has a wide customer base and is not dependent on one or a limited number of customers.

Transactions with and/or dependence on related parties

The Company has various transactions with its subsidiaries and associates and other related parties. These are enumerated in detail in Note 22 of the Notes to Consolidated Financial Statements.

Patents, trademarks, licenses, franchises, concessions, royalty agreements or labor contracts

Distilled Spirits
All product names, devices and logos used by TDI are registered with or are covered by a pending Application for Registration with the Intellectual Property Office of the Philippines.

The Group also has current Environmental Compliance Certificate issued by the DENR and a license to operate from the Bureau of Food and Drugs. All products currently being produced are registered with the Bureau of Food and Drugs and the BIR.

TDI has an existing agreement with London Birmingham Distillers, Ltd. London, England for the use of the Barcelona and London Gin brands.

TDI has existing labor supply contracts with one (1) manpower agency and two (2) labor cooperative covering its three plants.

Beverage
ABI has caused the registration with the Philippine Intellectual Property Office of a variety of marks including "Asia Brewery, Inc.," the ABI logo, *Cobra Energy Drink, 100 Plus, Absolute Pure Distilled Drinking Water, Summit Water, Creamy Delight,* and *Barista's Best*. These exclusive distribution licenses are registered with the IPO and the equivalent regulatory agencies in various other countries.

Under the terms of the business combination between ABI and HIBV, the intellectual property rights of the following ABI-developed brands were transferred to ABHP: *Colt 45*, *Beer na Beer*, *Tanduay Ice, Manila Beer Light, Brew Kettle,* and *Red Oak.* ABHP holds licenses for the Heineken and Tiger trademarks from HIBV.

ABI and its subsidiaries have existing license agreements with Switzerland's Nestle, the U.S.'s Sunkist Growers, Inc. and Thailand's Green Spot Company Limited for the manufacture and distribution of Nestea, Sunkist and Vitamilk, respectively.

Tobacco
Under the terms of the business combination, both FTC and PMPMI transferred the intellectual property rights to their local brands to PMFTC. PMI has licensed its international trademarks to PMFTC for so long as the business combination exists and for which PMFTC makes regular royalty payments.

Banking
The Bank's operations are not dependent on any patents, trademarks, copyrights, franchises, concessions, and royalty agreements.

Property Development
The trademark of the following names and devices were approved by the Intellectual Property Office (IPO) as follows: a) in 2008, Eton City, Eton corporate name and device; The Eton Residences Greenbelt; Eton Baypark Manila; Eton Centris; and the Move-In Ready labels; b) in 2009, IPO approved the trademark of The Makati of the South and Eton Emerald Lofts; c) in 2011, the IPO approved the trademarks of the following names and devices: Centris Walk, Eton Tower Makati, Riverbend, Eton Parkview Greenbelt, South Lake Village, Eton Cyberpod, Centris Station, 8 Adriatico, Belton Pace, E-Life, West Wing Villas, Green Podium, Aurora Heights Residences, West Wing Residences, One Archers Place and 68 Roces; d) in 2012, the IPO approved the trademarks of the following names and devices: West Wing Tropics, One Centris Place, and Ascent; (e) in 2016, the IPO approved the trademark of The Mini Suites and Eton WestEnd Square.

These trademarks shall be valid for a period of ten (10) years from notice of approval.

The Company has also applied for the trademark of the name and device of Station Alley at Centris Station which is still pending with the IPO.

Need for any government approval of principal products

Distilled Spirits & Beverages
The approval of the Bureau of Food & Drugs and Bureau of Internal Revenue is required before selling and/or advertising a new product. In addition, all new products must be registered with the BIR prior to production.

Tobacco
The company files with the BIR its Manufacturer's declaration for the production of its products.

Banking
Generally, e-banking products and services require Bangko Sentral ng Pilipinas (BSP) approval. New deposit products require notification to the BSP. The Bank has complied with the aforementioned BSP requirements.

Property Development
The Company complies with all government agencies in securing licenses to sell, development permits, Environmental Compliance Certificate (ECC) and all other mandated requirements of the industry.

Effect of existing or probable governmental regulations on the business

Distilled Spirits
The increase in value-added and excise taxes will affect manufacturing costs, which may require increase in selling prices. Higher selling prices can lower volume of sales.

The foreign alcohol market, coupled with new technologies on alcohol production and lower tariffs, can make the price of imported alcohol cheaper than those produced locally.

With comprehensive review of the Clean Water Act Law through its Implementing Rules and Regulations (IRR), the government had recognized and exempted distilleries with liquid fertilization program from the mandatory discharge fees.

Beverage

Regulatory decisions or changes in the legal and regulatory requirements in a number of areas related to the beverage industry may have adverse effect on ABI's business. In particular, governmental bodies may subject ABI to actions such as product recall, seizure of products and other sanctions, any of which could have an adverse effect on ABI's sales. Any of these and other legal or regulatory changes could materially and adversely affect ABI's financial condition and results of operations.

ABI's products are subject to value added taxes ("VAT"). Any increases in VAT may reduce the overall consumption of ABI's products. Beer and other alcoholic beverages, including alcopop products such as Tanduay Ice, are subject to an excise tax in addition to VAT. Any increases in the rate and scope of excise taxes imposed by the taxing authorities may likewise reduce consumption.

There is no guarantee that the increased taxes can be shouldered by ABI; subsequently, it may be passed on by ABI to its consumers, which may result in lower demand for its products and have an adverse effect on ABI's business, financial condition and results of operations.

Tobacco

On December 19, 2012, President Benigno Aquino III signed R.A. 10351 into law which modified the applicable excise tax rates on alcohol and tobacco products, including cigarettes effective January 1, 2013.

During the first year of R.A. 10351's implementation, high-priced cigarettes will be taxed at a rate of ₱25.00 per pack and low-priced cigarettes will be taxed at ₱12.00 per pack. In the second year, the rates were increased to ₱27.00 and ₱17.00 per pack, respectively. In 2015, the high priced cigarettes were taxed at ₱28.00 per pack and the low-priced cigarettes at ₱21.00 per pack. Said rates were increased in 2016 to ₱29.00 and ₱25.00 per pack, respectively. In 2017, a unitary tax rate of ₱30.00 per pack will be implemented. In 2018 and every year thereafter, R.A. 10351 will impose a 4% excise tax rate increase.

Banking

The Philippines' banking industry is highly regulated by the BSP (Bangko Sentral ng Pilipinas). The bank through its compliance division ensures adoption and adherence to recent regulatory pronouncements and rulings.

Property Development

The Company strictly complies with and adheres to existing and probable government regulations.

Research and development activities

The research and development activities of the Group for the past three years did not amount to a significant percentage of revenues.

Costs and effects of compliance with environmental laws

Distilled Spirits

TDI regards occupational health and safety as one of its most important corporate and social responsibilities and it is TDI's corporate policy to comply with existing environmental laws and regulations. TDI maintains various environmental protection systems which have been favorably cited by the environmental regulators. Since TDI's operations are subject to a broad range of health, safety and environmental laws and regulations, TDI convenes a quarterly strategic meeting among its department leaders to review, discuss and develop goals surrounding health, safety and environmental compliance and awareness.

Environmental Management Facilities

TDI places critical importance on environmental protection. To further this aim, TDI invests in facilities which it believes will reduce the impact of its operations on the environment, as well as reduce its operating costs. On November 22, 2012, the Federation of Philippine Industries named Tanduay as the most outstanding company in the Philippines in relation to its optimum use and recycling of resources.

Bottle Recycling

A major component of TDI's operations is the retrieval of secondhand bottles and the reuse of these bottles in TDI's production process. The cost of a used bottle, including washing costs, is approximately 61% less than the cost of a new bottle. Apart from the reduced cost, TDI also benefits from the reduced waste produced from reusing bottles, as a bottle can be reused on average three to four times. TDI relies on a nationwide network of junk shops throughout the Philippines for purchasing second hand bottles. Repurchasing bottles also helps TDI in marketing its products, as customers can sell their bottles after consuming the contents. TDI has also invested in automated bottle washing facilities in all its bottling plants.

Bottling Plants

TDI has invested significant resources by installing wastewater treatment facilities in all its bottling plants that screen, collect and neutralize all wastes from the bottling process before these are discharged. The wastes generally emanate from the bottle washing process that uses certain chemicals to thoroughly clean the bottles. Philippine regulatory agencies such as the DENR and Laguna Lake Development Authority (LLDA) conduct annual inspections of TDI's wastewater treatment process. TDI's plant in Laguna has been given satisfactory "Blue" ratings by the LLDA while the Negros plant has been granted a five year discharge permit by the DENR.

Distillation Plants

TDI's wastewater is collected in lagoons where it undergoes a treatment process to minimize adverse effects on the environment. Treated wastewater, along with other distillery wastes, is also usable as liquid fertilizer.

<u>Beverage</u>

ABI regards occupational health and safety as one of its important corporate and social responsibilities. ABI's policy is to comply with existing environmental laws and regulations. ABI has made significant investments in its physical facilities to comply with its environmental policy, including investments in environmental protection systems, such as wastewater treatment which have been cited favorably by environmental regulators. Since ABI's operations are subject to a broad range of safety, health and environmental laws and regulations, ABI convenes a quarterly strategic program among its department leaders to review, discuss and develop goals surrounding health, safety and environmental compliance and awareness. ABI has also appointed a safety compliance officer for its operations and facilities, who is shared with TDI.

<u>Tobacco</u>

PMFTC's goal is to manufacture quality products while recognizing performance in environmental, health and safety (EHS) as an integral part of the business. Therefore, PMFTC is committed to reduce the environmental impact of its activities and promote the sustainability of the environment (upon which it depends), to prevent occupational injuries and illnesses in the workplace by addressing any foreseeable hazards while improving and protecting its physical assets, and to comply with all laws and regulations related to EHS.

PMFTC has continuously allocated significant investments in EHS improvements and upgrades in its Batangas factory, Marikina facilities and tobacco threshing plant in Ilocos province. Rigorous monitoring and reporting systems are put in place in parallel to training to all employees, resulting in the successful certification by SGS S.A. of the Batangas factory as compliant in accordance with ISO 9000 (Quality), ISO 14000 (Environment), OSHA 18000 (Occupational Health) since 2007.

Banking
This is not applicable to banks.

Property Development
The Company's development plans provide for full compliance with environmental safety and protection in accordance with law. The Company provides the necessary sewage systems and ecological enhancements such as open space landscaping with greenery.

The Company complies with the various government approvals such as ECC, development permit and licenses to sell, among others, and incurs expenses for complying with the environment laws. This consists mainly of payments of government regulatory fees which are standard in the industry and are minimal.

Human Resources and Labor Matters
LTG had 11 administrative and 5 regular monthly employees as of December 31, 2016. The total workforce of the Group inclusive of contractual employees was as follows:

Distilled Spirits	1,474
Beverage	3,876
Tobacco	56
Banking	8,357
Property development	371
Total	14,134

Distilled Spirits
With the exception of the Cagayan De Oro Plant, all regular daily employees of the TDI plants have separately formed a labor union. On April 1, 2013, TDI closed its Quiapo plant and paid retrenchment benefits to the 153 affected employees. TDI-Cabuyao has a Collective Bargaining Agreement (CBA) with the NAGKAKAISANG LAKAS MANGGAGAWA NG TDI-FSM, which is effective from August 1, 2014 to July 31, 2017. TDI Negros has a CBA with the Labor Union of Tanduay Employees (LUTE) effective from June 2012 to June 2017.

AAC has no existing Union and CBA after the end of its retrenchment program in 2010 due to the shutdown of operations.

As of December 31, 2016, ADI had 212 employees. ADI's registered labor union is Absolut Distillers, Inc. Employees Union-Olalia-KMU. It was effective on May 1, 2013 and shall be automatically renewed for another term of five (5) years upon expiration on April 30, 2020.

TDI and ADI expect to maintain its average number of employees in the next (12) twelve months while AAC hired 206 new employees when it resumed normal operations in February 2016.

There are no supplemental benefits or incentive arrangements that the Group has or will have with its employees.

Beverage
As of December 31, 2016, approximately out of the 3,876 (including contractual employees) ABI and its subsidiaries directly employed 1,906 people, of which about 80% were employed in manufacturing and logistics, 16% had general and administrative functions, 3% were in sales and distribution, and 1% were in marketing.

In addition, ABI and its subsidiaries generally employ a number of outsourced laborers from third-party service providers. ABI contracts with these manpower and services firms for the supply of additional laborers.

ABI is party to a collective bargaining agreement (CBA) for its employees at its Cabuyao plant. The CBA was signed on July 14, 2016, and is effective until December 31, 2018.

ABI believes that its relations with both its unionized and non-unionized employees are good. ABI has not experienced any work stoppages due to industrial disputes since 1999.

Tobacco
FTC had 56 regular monthly employees as of December 31, 2016. Effective January 1, 2012, FTC ceased to have daily (regular or casual) employees because of the business combination of FTC and PMPMI effective on February 25, 2010. The operations of FTC and the manufacturing of cigarettes were all transferred to PMFTC, the new company.

Banking
The total employees of the Bank as of December 31, 2016 is 8,357 wherein 3,921 were classified as Bank officers and 4,436 as rank and file employees.

The Bank shall continue to pursue selective and purposive hiring strictly based on business requirements. The Bank has embarked on a number of initiatives to improve operational efficiency. Foremost among these initiatives are the upgrade of its Systematics core banking system and the new branch banking system which are expected to bring about a gradual reduction in the number of employees in the support group, upon full implementation.

With regard to the Collective Bargaining Agreement (CBA), the Bank's regular rank and file employees are represented by two (2) existing unions under the merged bank, namely: Allied Employee Union (ABEU) and Philnabank Employees Association (PEMA).

The Bank has not suffered any strikes, and the Management of the Bank considers its relations with its employees and the Union as harmonious and mutually beneficial.

Property Development
The Company had 371 and 372 employees at the close of the calendar year December 31, 2016 and 2015, respectively. The breakdown of the Company employees as of December 31, 2015, according to type are as follows:

Executive	20
Managers	70
Supervisors	119
Rank and File	162
Total	371

The Company will continue to hire qualified and competent employees for the next twelve months to support its plans and programs to achieve revenue, growth and efficiency targets. The Company's employees do not belong to any labor union or federation.

At present, its employees receive compensation and benefits in accordance with the Labor Code of the Philippines.

Major risk/s and Procedures Being Taken to Address the Risks

Distilled Spirits

Market / Competitor Risk

TDI's core consumer base for its products are lower-income consumers. Customers are classified into "economy" and "standard" markets, with monthly income levels of up to ₱10,000 and ₱100,000, respectively. According to the 2006 Philippine National Statistics Coordination Board (NSCB) Family Expenditure Survey and a 2009 Usage, Attitude and Image Survey conducted by the Philippine Survey Research Council, this consumer base comprises approximately 80% of the Philippine population and likewise accounts for approximately 90% of liquor consumption. The preferences of these consumers change for various reasons driven largely by demographics, social trends in leisure activities and health effects. Entry of new competitive and substitute products to address these customers' preferences may adversely affect the business prospects of TDI if it does not adapt or respond to these changes.

In addition, the market of TDI is highly sensitive to price changes given the purchasing power and disposable income of their customers. Any adverse change in the economic environment of the Philippines may affect the purchasing power of the consumers and adversely affect TDI's financial position and performance.

TDI responds to customer preferences by continuing to monitor market trends and consumer needs to identify potential opportunities. Its existing product portfolio covers all major liquor categories and price ranges enabling it to respond quickly to any change in consumer preference. Development of new products and brands is continuously being undertaken to address the current and emerging requirements of the customers.

Raw Material Supply Risk

The main raw materials that TDI uses for the production of its liquor products, such as molasses, distilled alcohol, sugar and flavoring agents, are commodities that are subject to price volatility caused by changes in global supply and demand, weather conditions, agricultural uncertainty or governmental controls. A shortage in the local supply of molasses and the volatility in its price may adversely affect the operations and financial performance of TDI.

TDI addresses this risk by regularly monitoring its molasses and alcohol requirements. At the start of each annual sugar milling season, TDI normally negotiates with major sugar millers for the purchase in advance of the mill's molasses output at agreed upon prices and terms. It also imports raw materials in the event that the local supply is not sufficient or if prices are not favorable. Furthermore, TDI's parent company owns a 30.2% stake in Victorias Milling Company, Inc. (VMC) as of December 31, 2016. VMC is the largest sugar producer in the Philippines and currently TDI's major supplier of molasses.

Furthermore, the acquisition of AAC and ADI was designed to control alcohol cost and minimize the chances of a shortage in supply. Adequate storage facilities have been constructed to enable TDI to buy and stock molasses at the time when sugar centrals are at their production peaks. To address any disruption in supply from AAC and ADI, TDI maintains a network of local and foreign alcohol suppliers.

Credit Risk
TDI relies on 10 exclusive distributors for the sale of its liquor products. Any disruption or deterioration in the credit worthiness of these distributors may adversely affect their ability to satisfy their obligations to TDI.

The operations and financial condition of distributors are monitored daily and directly supervised by TDI's sales and marketing group. Credit dealings with these distributors for the past twenty years have been generally satisfactory and TDI does not expect any deterioration in credit worthiness. The ten distributors also a have a wide range of retail outlets and there are no significant concentration of risk with any counterparty.

Trademark Infringement Risk
TDI's image and sales may be affected by counterfeit products with inferior quality. Its new product development efforts may also be hampered by the unavailability of certain desired brand names. TDI safeguards its brand names, trademarks and other intellectual property rights by registering them with the IPO and in all countries where it sells or plans to sell its products. Brand names for future development are also being registered in advance of use to ensure that these are available once TDI decides to use them. Except for companies belonging to the LT Group, TDI also does not license any third party to use its brand names and trademarks.

The risk of counterfeiting is constantly being monitored and legal action is undertaken against any violators. The use of tamper proof caps is also seen as a major deterrent to counterfeiting.

Regulatory Risk
TDI is subject to extensive regulatory requirements regarding production, distribution, marketing, advertising and labeling both in the Philippines and in the countries where it distributes its products. Specifically in the Philippines, these include the Bureau of Food and Drugs, Department of Environment and Natural Resources, Bureau of Internal Revenue and Intellectual Property Office.

Decisions and changes in the legal and regulatory environment in the domestic market and in the countries in which it operates or seeks to operate could limit its business activities or increase its operating costs. The government may impose regulations such as increases in sales or specific taxes which may materially and adversely affect TDI's operations and financial performance.

To address regulatory risks like the imposition of higher excise taxes, TDI would increase its selling prices and make efforts to reduce costs. Other regulatory risks are managed through close monitoring and coordination with the regulatory agencies on the application and renewal of permits. TDI closely liaises with appropriate regulatory agencies to anticipate any potential problems and directional shifts in policy. TDI is a member of the Distilled Spirits Association of the Philippines which acts as the medium for the presentation of the industry position in case of major changes in regulations.

Safety, health and environmental laws risk
The operation of TDI's existing and future plants are subject to a broad range of safety, health and environmental laws and regulations. These laws and regulations impose controls on air and water discharges, on the storage, handling, employee exposure to hazardous substances and other aspects of the operations of these facilities and businesses. TDI has incurred, and expects to continue to incur, operating costs to comply with such laws and regulations. The discharge of hazardous substances or other pollutants into the air, soil or water may cause TDI to be liable to third parties, the Philippine government or to the local government units with jurisdiction over the areas where TDI's facilities are located. TDI may be required to incur costs to remedy the damage caused by such discharges or pay fines or other penalties for non-compliance.

There is no assurance that TDI will not become involved in future litigation or other proceedings or be held responsible in any such future litigation or proceedings relating to safety, health and environmental matters, the costs of which could be material. Clean-up and remediation costs of the sites in which its facilities are located and related litigation could materially and adversely affect TDI's cash flow, results of operations and financial condition.

It is the policy of TDI to comply with existing environmental laws and regulations. A major portion of its investment in physical facilities was allocated to environmental protection systems which have been favorably cited as compliant by the environmental regulators.

Counterfeiting risk

TDI's success is partly driven by the public's perception of its various brands. Any fault in the processing or manufacturing, either deliberately or accidentally, of the products may give rise to product liability claims. These claims may adversely affect the reputation and the financial performance of TDI.

The risk of counterfeiting is constantly being monitored and legal action is undertaken against any violators. The use of tamper proof caps also helps prevent counterfeiting. All brand names, devices, marks and logos are registered in the Philippines and foreign markets.

The Quality Program of TDI ensures that its people and physical processes strictly comply with prescribed product and process standards. It has a Customer Complaint System that gathers, analyzes and corrects all defects noted in its products. Employees are directed to be observant of any defects in the Company's products on display in sales outlets and buy the items with defects and surrender these to TDI for reprocessing.

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.

<u>Beverage</u>

Market / Competitor Risk

The substantial majority of ABI's customers in the Philippines belong to the lower socio-economic classes, where discretionary income is limited. Accordingly, the market for beverages such as energy drinks, beer and other ABI products in the Philippines is price elastic. If ABI raises the prices of its products, sales volumes will likely decline, and the decline may not be offset by the increase in prices, which may result in a lower level of net sales.

The ability of ABI to successfully launch new products and maintain demand for its existing products depends on the acceptance of these products by consumers, as well as the purchasing power of consumers. Consumer preferences may shift because of a variety of reasons, including changes in demographic and social trends or changes in leisure activity patterns.

To address such risks, ABI expects younger consumers to be a key driver of the demand for ABI's products and its growth, notably for energy drinks and alcopops. ABI plans to focus its product development and marketing efforts in these segments on such consumers. ABI intends to use marketing channels such as social media to improve product communication with its target customers.

In addition, ABI has the most diverse beverage portfolio in the Philippines and is one of the few beverage companies in the Philippines with a well-established and leading presence across multiple segments in the beverage industry. ABI believes that its ability to offer a strong portfolio of brands across multiple categories is a key competitive advantage and allows for significant leverage over its distributors.

Raw Material Supply Risk
The manufacture of ABI's products depends on raw materials that ABI sources from third parties, including sugar and other critical raw materials such as hops and barley, which are primarily sourced from abroad. These raw materials are subject to price volatility caused by changes in global supply and demand, foreign exchange rate fluctuations, weather conditions and governmental controls.

ABI addresses this risk by actively monitoring the availability and prices of raw materials. ABI may also shift to alternative raw materials used in the production of its products.

Regulatory Risk
Regulatory decisions or changes in the legal and regulatory requirements in a number of areas related to the beverage industry may have adverse effect on ABI's business. Governmental bodies may subject ABI to actions such as product recall, seizure of products and other sanctions, any of which could have an adverse effect on ABI's sales. Also, any increases in excise taxes or VAT may reduce overall consumption and demand for ABI's products, as consumers prioritize basic necessities in view of higher living costs. ABI would employ an increase in its selling prices and make efforts to reduce costs to address such risks. Close monitoring and coordination with the regulatory agencies on the application and renewal of permits are implemented to manage other regulatory risks.

Safety, health and environmental laws risk
Various environmental laws and regulations govern the operations of ABI including the management of solid wastes, water and air quality, toxic substances and hazardous wastes at ABI's breweries. Non-compliance with the legal requirements or violations of prescribed standards and limits under these laws could expose ABI to potential liabilities, including both administrative penalties in the form of fines and criminal liability. Violations of environmental laws could also result in the suspension and/or revocation of permits or licenses held by ABI or required suspension or closure of operations. Strict compliance with environmental laws and regulations will be implemented by ABI to address the risk.

<u>Tobacco</u>
The tobacco or cigarette industry generally has the following risks:

Market / Competitor Risk
PMFTC competes primarily on the basis of product quality, brand recognition, brand loyalty, taste, innovation, packaging, service, marketing, advertising and price. Although PMFTC has historically been able to maintain its leadership position in the Philippine tobacco market, the Company believes that the market landscape is constantly evolving, and market players can gain or lose market share very quickly.

The competitive environment and PMFTC's competitive position can be significantly influenced by erosion of consumer confidence, competitors' introduction of lower-priced products or innovative products, as well as product regulation that diminishes the ability to differentiate tobacco products.

To address the risk, PMFTC employs improvement in product penetration and distribution channels that will further strengthen its leadership position in the Philippine cigarette market. In addition, PMFTC will continue to focus on consumer research to assess adult consumer insight, trends, behavior and preferences in order to develop marketing campaigns that improve customer engagement. The continued integration of FTC and PMPMI will also help in further improvements in sales productivity and efficiency. A unified sales force for all products under PMFTC's control would allow it to more effectively drive product penetration and sales.

Regulatory Risk
Tax regimes, including excise taxes, sales taxes and import duties, can disproportionately affect the retail price of manufactured cigarettes versus other tobacco products. The Company believes that general increases in cigarette taxes are expected to continue to have an adverse impact on PMFTC's sales of cigarettes, such as a possible decline in the overall sales volume of its products or a shift in adult consumer preferences from manufactured cigarettes to other tobacco products, from purchases of high-end tobacco products to low-end products, from purchases of local tobacco products to legal cross-border purchases of lower priced products, or the purchases of illicit products, whether counterfeit or deemed contraband items.

PMFTC closely liaises with appropriate regulatory agencies to anticipate any potential problems and directional shifts in policy. PMFTC is a member of the Philippine Tobacco Institute which acts as the medium for the presentation of the industry position in case of major changes in regulations.

Safety, health and environmental laws risk
PMFTC's existing and future operations are subject to a broad range of safety, health and environmental laws and regulations. These laws and regulations impose controls on air and water discharges, on storage, handling, employee exposure to hazardous substances and other aspects of the operations of PMFTC's facilities. Failure to properly manage the environmental risks and the operational, health and safety laws and regulations to which PMFTC is subject could also have a negative impact on its reputation.
It is the policy of the company to comply with existing environmental laws and regulations. PMFTC expects to incur operating costs to comply with such laws and regulations. PMFTC has continuously allocated significant investment in environmental, health and safety improvements and upgrades.

Counterfeiting risk
The risk of counterfeiting is constantly being monitored and legal action will be undertaken against any violators. All brand names, marks and logos are registered in the Philippines and foreign markets.

<u>Banking</u>
PNB's Board of Directors have the ultimate responsibility and play a pivotal role in bank governance through their focus on two (2) factors that will ultimately determine the success of the bank: responsibility for the bank's strategic objectives and assurance that such will be executed by choice of talents. A sound, robust and effective enterprise risk management system coupled with global best practices were recognized as a necessity and are the prime responsibility of the Board and senior management. The approach to risk is founded on strong corporate governance practices that are intended to strengthen the enterprise risk management of PNB, while positioning PNB Group to manage the changing regulatory environment in an effective and efficient manner.

Strong independent oversight has been established at all levels within the group. The bank's Board of Directors has delegated specific responsibilities to various board committees which are integral to the PNB's risk governance framework and allow executive management, through management committees, to evaluate the risks inherent in the business and to manage them effectively.

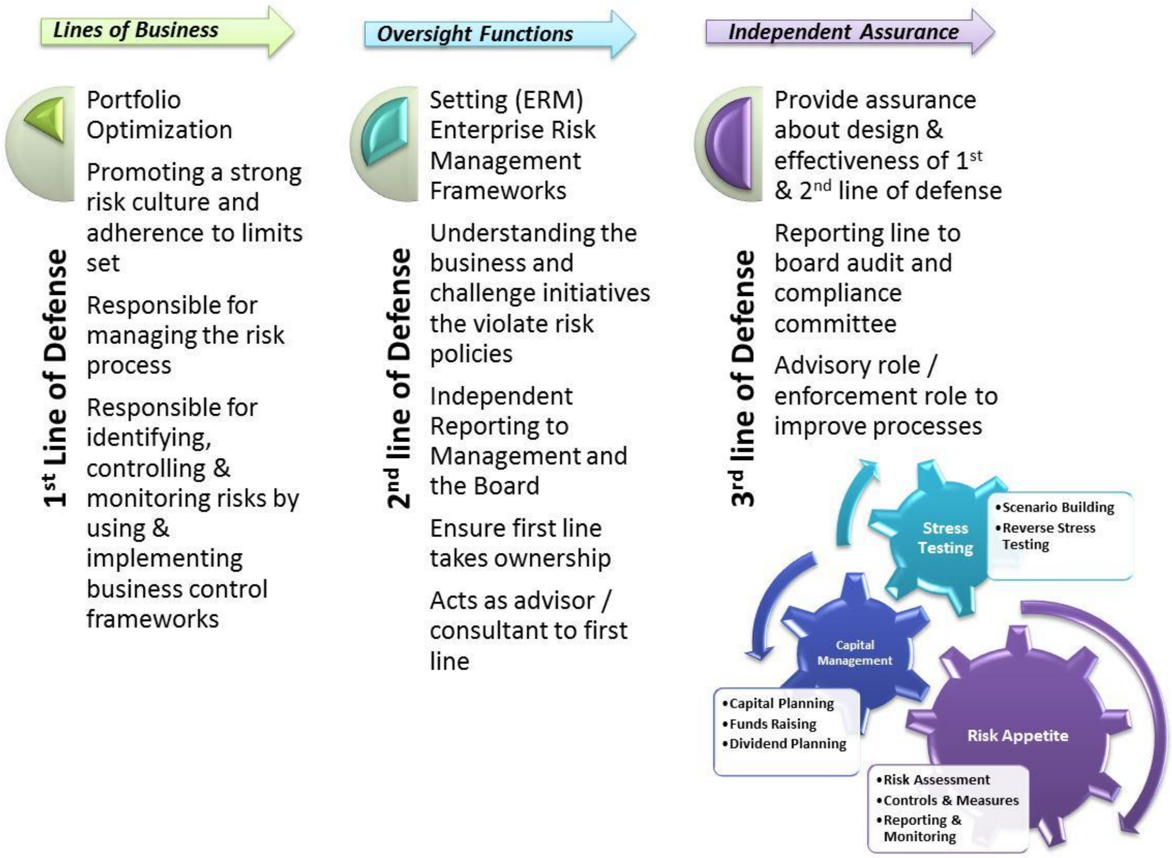
Board of Directors

- Board Policy Committee (BPC) [1]
- Executive Committee (ExCom) [1]
- Corporate Governance Committee
- Board Audit and Compliance Committee
- Risk Oversight Committee
- Trust Committee
- Board Oversight – Domestic & Foreign Offices/Subs Committee (BDFOS)
- Board Oversight Related Party Transaction Committee (BRPTC)
- Board Information Technology Governance Committee (BITGC)

Figure 1: Board Level Committees

The approach to managing risk is outlined in the bank's Enterprise Risk Management (ERM) Framework which creates the context for setting policies and standards, and establishing the right practices throughout the PNB Group. It defines the risk management processes and sets out the activities, tools, and organizational structure to ensure material risks are identified, measured, monitored and managed.

Since 2006 the ERM Framework, with regular reviews and updates, has served PNB well and has been resilient through economic cycles. The organization has placed a strong reliance on this risk governance framework and the three lines-of-defense model (see Figure), which are fundamental to PNB's aspiration to be world-class at managing risk.



While the first line of defense in risk management lies primarily on the bank's risk taking units as well as the bank's support units, the Risk Management Group is primarily responsible for the monitoring of risk management functions to ensure that a robust risk-oriented organization is maintained.

The risk management framework of the Bank is under the direct oversight of the Chief Risk Officer (CRO) who reports directly to the Risk Oversight Committee. The CRO is supported by Division Heads with specialized risk management functions to ensure that a robust organization is maintained. The Risk Management Group is independent from the business lines and organized into the following divisions: Credit Risk Division, BASEL and ICAAP Implementation Division, Market & ALM Division, Operational Risk Division, Information Security / Technology Risk Management, Trust and Fiduciary Risk Division and Business Intelligence & Warehouse Division.

Each division monitors the implementation of the processes and procedures that support the policies for risk management applicable to the organization. These board approved policies, clearly define the kinds of risks to be managed, set forth the organizational structure and provide appropriate training necessary to manage and control risks.

The bank's governance policies also provide for the validation, audits & compliance testing, to measure the effectiveness and suitability of the risk management structure. RMG also functions as the Secretariat to the Risk Oversight Committee which meets monthly to discuss the immediate previous month's total risk profile according to the material risks defined by the bank in its ICAAP document.

Further, each risk division engages with all levels of the organization among its business and support groups. This ensures that the risk management and monitoring is embedded at the moment of origination.
The risk management system and the directors' criteria for assessing its effectiveness are revisited on an annual basis and limit settings are discussed with the Business Units and presented to the Risk Oversight Committee for endorsement for final Board Approval.

In line with the integration of the BSP required ICAAP (internal capital adequacy assessment process) and risk management processes, PNB currently monitors 9 Material Risks (three for Pillar 1 and six for Pillar 2). These material risks are as follows:

Pillar 1 Risks:
Credit Risk (includes Counterparty and Country Risks)
Market Risk
Operational Risk

Pillar 2 Risks:
Credit Concentration Risk
Interest Rate Risk in Banking Book (IRRBB)
Liquidity Risk
Reputational / Customer Franchise Risk
Strategic Business Risk
Cyber Security Risk

Pillar 1 Risk Weighted Assets are computed based on the guidelines set forth in BSP Circular No. 538 using the Standard Approach for Credit and Market Risks and Basic Indicator Approach for Operational Risks. Discussions that follow below are for Pillar 1 Risks with specific discussions relating to Pillar 2 risks mentioned above:

Risk Categories and Definitions

We broadly classify and define risks into the following categories, and manage the risks according to their characteristics. These are monitored accordingly under the enterprise ICAAP 2016 program:

Risk Category	Risk Definition	Risk Monitoring Process	Risk Management Tools
Credit Risk (including Credit Concentration Risks and Counterparty Risks)	Credit risk is the risk to earnings or capital that arises from an obligor/s, customer/s or counterparty's failure to perform and meet the terms of its contract. Credit Concentration Risk is part of credit risk that measures the risk concentration to any single customer or group of closely-related customers with the potential threat of losses which are substantial enough to affect the financial soundness of a financial institution (BSP Circular 414)	Loan Portfolio Analysis Credit Dashboards Credit Review Credit Model Validation	Trend Analysis (Portfolio / Past Due and NPL Levels Regulatory and Internal Limits Stress Testing Rapid Portfolio Review CRR Migration Movement of Portfolio Concentrations and Demographics Review Large Exposure Report Counterparty Limits Monitoring Adequacy of Loan Loss Reserves Review Specialized Credit Monitoring (Power, Real Estate)
Market Risk	Market risk is the risk to earnings or capital arising from adverse movements in factors that affect the market value of financial instruments, products and transactions in an institution's overall portfolio, both on or off balance sheet and contingent financial contracts. Market risk arises from market-making, dealing and position taking in interest rate, foreign exchange, equity, and commodities market.	Value at Risk Utilization Results of Marking to Market Risks Sensitivity/Duration Report Exposure to Derivative/Structured Products	VAR Limits Stop Loss Limits Management Triggers Duration Report ROP Exposure Limit Limit to Structured Products 30-day AFS Holding Period Exception Report on Traders' Limit Exception Report on Rate Tolerance
Liquidity Risk	Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from an FI's inability to meet its obligations when they come due.	Funding Liquidity Plan Liquidity Ratios Large Fund Providers MCO Liquid Gap Analysis	MCO Limits Liquid Assets Monitoring Stress testing Large Fund Provider Analysis Contingency Planning
Interest Rate Risk in the Banking Books (IRBB)	Interest rate risk is the current and prospective risk to earnings or capital arising from movements in interest rates. The amount at risk is a function of the magnitude and direction of interest rate changes and the size and maturity structure of the mismatch position. (BSP Circ 510, dated 03 Feb 2006)	Interest Rate Gap Analysis Earnings at Risk Measurement Duration based Economic Value of Equity	EAR Limits Balance Sheet Profiling Repricing Gap Analysis Duration based Economic Value of Equity Stress Testing

Operational Risk	Operational Risk refers to the risk of loss resulting from inadequate or failed internal processes, people and systems; or from external events. This definition includes Legal Risk, but excludes Strategic and Reputational Risk. Operational Risk is inherent in all activities, products and services, and cuts across multiple activities and business lines within the financial institution and across the different entities in a banking group or conglomerate where the financial institution belongs. (BSP Circular 900)	Risk Identification Risk Measurement Risk Evaluation (i.e. Analysis of Risk) Risk Management (i.e. Monitor, Control or Mitigate Risk) Monitoring of Pillar II Risks fall under the purview of Operational Risk Management: Risk Identification - Risk Maps Risk Measurement and Analysis - ICAAP Risk Assessment	Internal Control Board Approved Operating Policies and Procedures Manuals Board Approved Product Manuals Loss Events Report (LER) Risk and Control Self-Assessment (RCSA) Key Risk Indicators (KRI) Business Continuity Management (BCM) Statistical Analysis
Included in the Operational Risks:			
Reputational Risk (Customer Franchise Risk)	Reputational risk is the current and prospective impact on earnings or capital arising from negative public opinion. Customer franchise risk is defined as the failure to find, attract, and win new clients, nurture and retain those the Bank already has, and entice former clients back into the fold as well as the failure to meet client's expectation in delivering the Bank's products and services.	Risk Identification Risk Measurement Risk Measurement Risk Evaluation (i.e. Analysis of Risk) Risk Management (i.e. Monitor, Control or Mitigate Risk) Monitoring of Pillar II Risks fall under the purview of Operational Risk Management: Risk Identification – Risk Maps Risk Measurement and Analysis – ICAAP Risk Assessment Major Factors considered: Products Technology People Policies and Processes Stakeholders (including customer and regulators)	Account Closures Report Service Desk Customer Issues Report/Customer Complaints Monitoring Report Mystery Caller/Shopper Evaluation/ Risk Mitigation of negative media coverage Public Relations Campaign Review of Stock Price performance Fraud Management Program
Strategic Business Risks	Strategic business risk is the current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes.		Management Profitability Reports – Budgets vs Actuals Benchmarking vis-a-vis Industry, Peers Economic Forecasting Annual Strategic Planning Exercise
Cyber Security Risk	Cyber Risk is the current and prospective impact on earnings, reputation, customer franchise, and/or capital arising from information security threats of attack on the bank's digital footprint through (not limited to) the following: Breaches in data security Sabotage on online (web-based) activities (Ransomware, DDOS, etc) Common threats (spam, phishing, malware, spoofing viruses, spoofing, etc) Scams and Frauds (Social engineering, identify thefts, email scams, etc.		Risk Asset Register Incident Reporting Management Information Security Policy Formulation Risk Assessment Information Security Management System Implementation Continuous infosec / cyber risk awareness campaigns Network Security Protection Limits on Access Privileges, Scanning of outbound and inbound digital traffic

Regulatory Capital Requirements under BASEL II – Pillar 1

The bank's Capital Adequacy Ratio as of end of December 2016 stands at 16.65% on a consolidated basis while the bank's Risk Weighted Assets (RWA) as of end 2016 amounted to P504,101 million composed of P461,275 million (Credit Risk Weighted Assets-CRWA), P2,753 million (Market Risk Weighted Assets-MRWA) and), P40,073 million (Operational Risk Weighted Assets-ORWA).

The Bank's total regulatory requirements for the four (4) quarters for 2016 are as follows:

Consolidated	**Weighted Exposures (Quarters 2016)**			
(Amounts in Php million)	As of Dec 31	As of Sept 30	As of June 30	As of Mar 31
CRWA	461,274.99	447,846.23	450,360.19	423,718.80
MRWA	2,752.61	1,833.28	4,759.11	2,587.81
ORWA	40,073.47	40,073.47	40,073.47	40,073.47
Total Risk-Weighted Asset	**504,101.07**	**489,752.98**	**495,192.77**	**466,380.08**
Common Equity Tier 1 Ratio	15.80%	16.65	16.50	16.91
Capital Conservation Buffer	9.80%	10.65	10.500	10.91
Tier 1 Capital Ratio	15.80%	16.65	16.50	16.91
Total Capital Adequacy Ratio	**16.65%**	**17.53%**	**17.34%**	**17.77%**

Credit Risk-Weighted Assets as of December 31, 2016 (In Million Pesos)

The Bank adopts the standardized approach in quantifying the risk-weighted assets. Credit risk exposures are risk weighted based on third party credit assessments of Fitch, Moody's, Standard & Poor's and PhilRatings agencies. The ratings of these agencies are mapped in accordance with the BSP's standards. The following are the consolidated credit exposures of the Bank and the corresponding risk weights:

In Php Millions	Exposure, Net of Specific Provision	Exposures covered by Credit Risk Mitigants*	Net Exposure	0%	20%	50%	75%	100%	150%
Cash & Cash Items	11,770		11,770	11,504	266				
Due from BSP	127,397		127,397	127,397					
Due from Other Banks	25,897		25,897		16,421	7,848		1,628	
Financial Asset at FVPL	33		33					33	
Available for Sale	68,384	11,232	57,153	11,134	9,349	18,259		18,410	
Held to Maturity (HTM)	24,516	6,290	18,226	6,811		11,150		265	
Unquoted Debt Securities	3,277		3,277			2,731		546	
Loans & Receivables	414,784	21,636	393,148	2,749	41,376	9,650	25,016	313,005	1,352
Loans and Receivables Arising from Repurchase Agreements, Securities Lending and Borrowing Transactions	2,742		2,742	2,742					
Sales Contracts Receivable	5,748		5,748					5,103	645
Real & Other Properties Acquired	9,921		9,921						9,921
Other Assets	32,171		32,171					32,171	
Total On-Balance Sheet Asset	726,640	39,158	687,482	162,337	67,412	49,638	25,016	371,161	11,918
Total Risk Weighted Asset - On-Balance Sheet				-	13,482	24,819	18,762	371,161	17,877

In Php Millions	Exposure, Net of Specific Provision	Exposures covered by Credit Risk Mitigants*	Net Exposure	0%	20%	50%	75%	100%	150%
Total Risk Weighted Asset - Off-Balance Sheet Asset				0	0	32	173	12,848	0
Counterparty Risk Weighted Asset in Banking Book				0	305	1,317	0	0	0
Counterparty Risk Weighted Asset in Trading Book				0	31	246	0	221	0

* Credit Risk Mitigants used are cash, guarantees and warrants.

Market Risk-Weighted Assets as of December 31, 2016

The Bank's regulatory capital requirements for market risks of the trading portfolio are determined using the standardized approach ("TSA"). Under this approach, interest rate exposures are charged both for specific risks and general market risk. The general market risk charge for trading portfolio is calculated based on the instrument's coupon and remaining maturity with risk weights ranging from 0% for items with very low market risk (i.e., tenor of less than 30 days) to a high of 12.5% for high risk-items (i.e., tenor greater than 20 years) while capital requirements for specific risk are also calculated for exposures with risk weights ranging from 0% to 8% depending on the issuer's credit rating. On the other hand, equities portfolio are charged 8% for both specific and general market risk while FX exposures are charged 8% for general market risks only.

Capital Requirements by Market Risk Type under Standardized Approach

Amount in Millions	Capital Charge (a)	Adjusted Capital Charge b= a*125% 1/ (b)	Market Risk Weighted Exposures c= b*10 2/ (c)
Interest Rate Exposures	128.085	160.107	1,601.068
Specific Risk	30.709	38.386	383.860
General Market Risk	97.376	121.72	1,217.28
Equity Exposures	4.351	5.439	54.387
Foreign Exchange Exposures	87.772	109.715	1,097.151
Total	220.208	275.261	2,752.606

Notes:
1/ Capital charge is multiplied by 125% to be consistent with BSP required minimum CAR of 10%, which is 25% higher than the Basel minimum of 8%.
2/ Adjusted capital charge is multiplied by 10 (i.e. the reciprocal of the minimum capital ratio of 10%)

The following are the Bank's exposure with assigned market risk capital charge.

Interest Rate Exposures consist of specific risk and general market risk.

Specific Risk
Specific Risk which reflects the type of issuer of the held for trading (HFT) portfolio is P30.709million, of 71% is contributed by the securities with 1.6% risk weight issued by Republic of the Philippines (ROP) with tenor over 2 years while 29% is attributable to securities rated below BBB- and unrated securities with 8% riskweight.

ROPs compose 84% of the portfolio with applicable risk weight ranging from 0.25% and 1.6% depending on the tenor of the securities. On the other hand, the Bank's holdings in Peso denominated government securities which is estimated at 8% of the portfolio have zero risk weight. The remaining portfolio with applicable 8% risk weight consists of all other debt securities/derivatives that are issued by other entities and rated between AAA and BBB- (1%) as well as those rated below BBB- and unrated securities (7%)

Part IV.1a INTEREST RATE EXPOSURES – SPECIFIC RISK (Amounts in Php million)	Positions	Risk Weight					
		0.00%	0.25%	1.0%	1.60%	8.00%	Total
PHP-denominated debt securities issued by the Philippine National Government (NG) and BSP	Long	62.190					
	Short	62.190					
FCY-denominated debt securities issued by the Philippine NG/BSP	Long		1,247.145		1,308.327		
	Short				40.435		
Debt securities/derivatives with credit rating of AAA to BBB-issued by other entities	Long				8.285		
	Short						
All other debt securities/derivatives that are below BBB- and unrated	Long						
	Short					112.418	
Subtotal	Long	62.190	1,247.145		1,316.612	112.418	
	Short	62.190	0.0		40.435		
Risk Weighted Exposures [Sum of long and short positions times the risk weight]		0.0	0.003	0.0	21.713	8.993	30.709
Specific Risk Capital Charge for Credit-Linked Notes and Similar Products							
Specific Risk Capital Charge for Credit Default Swaps and Total Return Swaps							
SPECIFIC RISK CAPITAL CHARGE FOR DEBT SECURITIES AND DEBT DERIVATIVES		0.0	0.003	0.0	21.713	8.993	30.709

General Market Risk - Peso

The Bank's total General Market Risk of its Peso debt securities and interest rate derivative exposure is P4.462million. In terms of weighted positions, the greater portion (57%) of the Bank's capital charge comes from the Over 1 month to 3 months bucket at P2.508million as well as Over 7years to 10 years bucket (32%) at P1.419million or a combined capital charge of P3.927million. The remaining weighted positions (10%) are sparsely distributed over the remaining buckets.

Currency: PESO								
PART IV.1d GENERAL MARKET RISK (Amounts in Php million)								
Zone	Times Bands		Debt Securities & Debt Derivatives/Interest Rate Derivatives		Risk Weight	Weighted Positions		
	Coupon 3% or more	Coupon less than 3%	Total Individual Positions					
			Long	Short		Long	Short	
1	1 month or less	1 month or less	11,222.445	1,248.400	0.00%	-	-	
	Over 1 month to 3 months	Over 1 month to 3 months	1,254.127	-	0.20%	2.508	-	
	Over 3 months to 6 months	Over 3 months to 6 months	2.981	2.981	0.40%	0.012	0.012	
	Over 6 months to 12 months	Over 6 months to 12 months	1.019	0.491	0.70%	0.007	0.003	
2	Over 1 year to 2 years	Over 1.0 year to 1.9 years	2.100	-	1.25%	0.026	-	
	Over 2 years to 3 years	Over 1.9 years to 2.8 years	2.732	-	1.75%	0.048	-	
	Over 3 years to 4 years	Over 2.8 years to 3.6 years	-	-	2.25%	-	-	
3	Over 4 years to 5 years	Over 3.6 years to 4.3 years	3.014	-	2.75%	0.083	-	
	Over 5 years to 7 years	Over 4.3 years to 5.7 years	0.817	0.817	3.25%	0.027	0.027	
	Over 7 years to 10 years	Over 5.7 years to 7.3 years	37.844	-	3.75%	1.419	-	
	Over 10 years to 15 years	Over 7.3 years to 9.3 years	5.137	-	4.50%	0.231	-	
	Over 15 years to 20 years	Over 9.3 years to 10.6 years	13.715	13.715	5.25%	0.720	0.720	
	Over 20 years	Over 10.6 years to 12 years	1.117	-	6.00%	0.067	-	
		Over 12 years to 20 years	-	-	8.00%	-	-	
		Over 20 years	1.117	1.117	12.50%	-	-	
Total			12,547.047	1,266.404		5.148	0.762	
Overall Net Open Position								4.386
Vertical Disallowance								.076
Horizontal Disallowance								-
TOTAL GENERAL MARKET RISK CAPITAL CHARGE								4.462

General Market Risk - US Dollar

The capital charge on the Bank's General Market Risk from dollar-denominated exposures is P89.188million. The exposure is concentrated under the Over 7 to 10 years buckets with risk weight of 3.75% and corresponding capital charge of at P45.184 million. The balance is distributed across the other time buckets up to Over 20 years with capital charge ranging from P0.532 million to P2.783 million.

Currency: USD								
PART IV.1d GENERAL MARKET RISK (Amounts in Php million)								
Zone	Times Bands		Debt Securities & Debt Derivatives/Interest Rate Derivatives		Risk Weight	Weighted Positions		
	Coupon 3% or more	Coupon less than 3%	Total Individual Positions					
			Long	Short		Long	Short	
1	1 month or less	1 month or less	10,624.459	11649.22	0.00%	-	-	
	Over 1 month to 3 months	Over 1 month to 3 months	9,841.445	10627.111	0.20%	19.683	21.254	
	Over 3 months to 6 months	Over 3 months to 6 months	695.864	0	0.40%	2.783	-	
	Over 6 months to 12 months	Over 6 months to 12 months	76.054	0	0.70%	0.532	-	
2	Over 1 year to 2 years	Over 1.0 year to 1.9 years	-	0	1.25%	-	-	
	Over 2 years to 3 years	Over 1.9 years to 2.8 years	32.931	0	1.75%	0.576	-	
	Over 3 years to 4 years	Over 2.8 years to 3.6 years	2,778.848	2739.5942	2.25%	62.524	61.641	
3	Over 4 years to 5 years	Over 3.6 years to 4.3 years	-	0	2.75%	-	-	
	Over 5 years to 7 years	Over 4.3 years to 5.7 years	-	0	3.25%	-	-	
	Over 7 years to 10 years	Over 5.7 years to 7.3 years	1,204.917	0	3.75%	45.184	-	
	Over 10 years to 15 years	Over 7.3 years to 9.3 years	6,485.441	6447.5734	4.50%	291.845	290.141	
	Over 15 years to 20 years	Over 9.3 years to 10.6 years	-	0	5.25%	-	-	
	Over 20 years	Over 10.6 years to 12 years	33.330	12.574468	6.00%	2.000	0.754	
		Over 12 years to 20 years	-	0	8.00%	-	-	
		Over 20 years	-	0	12.50%	-	-	
Total			31,773.290	31,476.073		425.1	373.8	
Overall Net Open Position								51.338
Vertical Disallowance								37.222
Horizontal Disallowance								0.629
TOTAL GENERAL MARKET RISK CAPITAL CHARGE								89.188

General Market Risk – Third currencies

The Bank is likewise exposed to various third currencies contracts most of them are in less than 30 days thus carries a 0% risk weight. The combined general market risk charge for contracts in Singapore Dollar (SGD) and Hongkong Dollar (HK) is P3.725million with risk weight ranging from 0.20% and 0.40%.

PART IV.1d GENERAL MARKET RISK (Amounts in Php million)										
Currency	Time Bands	Total Debt Securities & Debt Derivatives/Interest Rate Derivatives			Weighted Positions		Overall Net Open Position	Vertical dis allowance	Horizontal dis allowance within	Total General Market risk capital charge
		Long	Short	Risk Weight	Long	Short				
SGD	1 month or less	-	17.178	0.00%	-	-		-	-	
	Over 1 months to 3 months	-	173.980	0.20%	-	0.348		-	-	
TOTAL		-	191.158				0.348	-	-	0.348
HKD	1 month or less	373.435	1,907.951	0.00%	-	-				
	Over 1 months to 3 months	-	297.826	0.20%	-	0.596				
	Over 3 months to 6 months	-	695.428	0.40%	-	2.782				
	Over 6 months to 12 months			0.70%	-					
		373.435	2,901.205				3.377	-	-	3.377
Total										3.725

Equity Exposures

The Bank's holdings are in the form of common stocks traded in the Philippine Stock Exchange, with 8% risk weight both for specific and general market risk. The Bank's capital charge for equity weighted positions is P4.351million or total risk-weighted equity exposures of P54.387million.

Item	Nature of Item	Positions	Stock Markets Philippines (Amounts in Php million)
A.1	Common Stocks	Long	27.194
		Short	
A.10	TOTAL	Long	27.194
		Short	-
B.	Gross (long plus short) positions (A.10)		27.194
C.	Risk Weights		8%
D.	Specific risk capital (B. times C.)		2.175
E.	Net long or short positions		27.194
F.	Risk Weights		8%
G.	General market risk capital charges (E. times F.)		2.175
H.	Total Capital Charge For Equity Exposures (sum of D. and G.)		4.351
I.	Adjusted Capital Charge For Equity Exposures (H. times 125%)		5.439
J.	TOTAL RISK-WEIGHTED EQUITY EXPOSURES (I. X 10)		54.387

Foreign Exchange Exposures

The Bank's exposure to Foreign Exchange (FX) Risk carries a capital charge of P1,097.251 million. This includes P370million arising from exposure in Non-Deliverable Forwards (NDF)s) which carries a 4% risk weight while P724.251million is from Foreign Exchange Exposures with 8% risk weight in FX assets and FX liabilities in USD, and third currencies not limited to JPY, CHF, GBP, EUR, CAD, AUD, SGD and other minor currencies.

Part IV. 3 FOREIGN EXCHANGE EXPOSURES (as of Dec 31, 2016)						
	Closing Rate USD/PHP:					47.118
Nature of Item	Currency	In Million USD Equivalent				In Million Pesos
		Net Long/(Short) Position (excluding options)		Net Delta-Weighted Positions of FX Options	Total Net Long/(Short) Positions	Total Net Long/(Short) Position
		Banks	Subsidiaries /Affiliates			
		1	2	3	4=1+2+3	5
Currency						
A.1 U.S. Dollar	USD	(14.266)	0.271		(13.995)	-695.822
A.2 Japanese Yen	JPY	0.233	-		0.233	11.605
A.3 Swiss Franc	CHF	0.144	-		0.144	7.166
A.4 Pound Sterling	GBP	(0.572)	-		(0.572)	-28.429
A.5 Euro	EUR	0.822	-		0.822	40.866
A.6 Canadian Dollar	CAD	0.079	-		0.079	3.917
A.7 Australian Dollar	AUD	0.091	-		0.091	4.510
8 Singapore Dollar	SGD	0.093	-		0.093	4.641
A. 9 Foreign currencies not separately specified above		0.628		-		0.628
A. 10 Sum of net long positions						103.912
A.11 Sum of net short positions						724.251
B. Overall net open positions 1/						724.251
Risk Weight						8%

Total Capital Charge for Foreign Exchange Exposures (B. times C.)	57.940
Adjusted Capital Charge for Foreign Exchange Exposures (D. times 125%)	72.425
Total Risk-Weighted Foreign Exchange Exposures, Excluding Incremental Risk-Weighted Foreign Exchange Exposures Arising From NDF Transactions (E. times 10)	724.251
Incremental Risk-Weighted Foreign Exchange Exposures Arising From NDF Transactions (Part IV.3a, Item F)	372.90
Total Risk-Weighted Foreign Exchange Exposures (Sum of F. and G.)	1,097.251
1/ Overall net open position shall be the greater of the absolute value of the sum of the net long position or the sum of net short position.	

Operational Risk – Weighted Assets

The Bank uses the Basic Indicator Approach in quantifying the risk-weighted assets for Operational Risk. Under the Basic Indicator Approach, the Bank is required to hold capital for operational risk equal to the average over the previous three years of a fixed percentage (15% for this approach) of positive annual gross income (figures in respect of any year in which annual gross income was negative or zero are excluded).

(Amounts in Php Million) Consolidated as of Dec 31, 2016	Gross Income	Capital Requirement (15% x Gross Income)
2013 (Year 3)	18,172	2,726
2014 (Year 2)	22,061	3,309
2015 (last year)	23,884	3,583
Average for 3 years		3,206
Adjusted Capital Charge	Average x 125%	4,007
Total Operational Risk weighted Asset		40,073

Property Development

Competitor Risk

The Philippine real estate development industry is highly competitive with respect to township developments in Metro Manila and high rise condominiums.

Eton believes that it is a strong competitor in the mid- and high-end markets due to the quality of its products and materials used in construction and finishing. In addition, the Company believes that the prime locations of its developments allow it to effectively compete in the market. On the other hand, the Company has access, through its holdings and holdings of its affiliates, to one of the most extensive land banks in the Philippines, comprising properties strategically located in the prime areas of Metro Manila and its periphery.

Market Risk

A portion of the demand for the Company’s properties is expected to come from OFWs, expatriate Filipinos and former Filipino residents who have returned to the Philippines (Balikbayans), which exposes the Company to risk relating to performance of the economies of the countries where these potential customers are based.

The Company has grouped the development of its residential projects around three brands targeted across three main customer segments: the Company brand, Eton which caters to the high-end segment; Belton brand aimed for middle-income customers; and the First Homes brand for customers in the affordable market segment. The Company believes that this clear branding strategy allows it to focus its marketing efforts and resources around each of the three brands efficiently, while providing the flexibility to adapt to changing demand and supply conditions in each segment.

Regulatory Risk

The Company operates in a highly regulated environment and it is affected by the development and application of regulations in the Philippines. The development of condominium projects, subdivision and other residential projects is subject to a wide range of government regulations, which, while varying from one locality to another, typically include zoning considerations as well as the requirements to procure a variety of environmental and construction-related permits.

The Company closely monitors all government regulatory requirements and institute measures to strictly comply with them.

Credit Risk

The Company is exposed to risks associated with its in-house financing activities, including the risk of customer default, and that it may not be able to sustain its in-house financing program. In cases where the Company provides in-house financing, it charges customers interest rates that are substantially higher than comparable rates for bank financing and which also provide for upward adjustments of the interest charged if bank financing rates also move upward. As a result, and particularly during periods when interest rates are relatively high, the Company faces the risk that a great number of customers who utilize the Company's in-house financing facilities will default on their payment obligations, which would require the Company to incur expenses, such as those relating to sales cancellations and evictions of occupants.

The Company intends to leverage its ties with PNB by developing financial solutions for its real estate customers. In particular, the Company believes that this partnership with PNB will allow the Company to more quickly and efficiently and present financing solutions to its customers and to streamline the loan application process for the end-buyer of its properties.

Financial Risk

Fluctuations in interest rates, changes in Government borrowing patterns and Government regulations could have a material adverse effect in the Company's and its customers' ability to obtain financing. Higher interest rates make it more expensive for the Company to borrow funds to finance its ongoing projects or to obtain financing for new projects. In addition, the Company's access to capital and its cost of financing are also affected by restrictions, such as single borrower limits, imposed by Bangko Sentral of the Philippines (BSP) on bank lending. These could materially and adversely affect the Company's business, financial condition and results of operations.

In order to reduce its earnings volatility and diversify its revenue streams, the Company has targeted to derive approximately 35-40% of its revenues from recurring sources within the next five years, primarily through rentals from its BPO properties and retail malls. The Company believes this will complement the Company's overall growth strategy by providing recurring cash flows to support its developmental capital expenditure requirements and driving demand for its master-planned community residential offerings.

Item 2. Properties

Distilled Spirits

TDI and its subsidiaries own the following real estate properties:

Location	Area (sqm)	Present Use
Owned by TDI		
Quiapo, Manila*	26,587	Office
Makati City	71	Investment/Condo
Talisay, Neg. Occ.	3,813	Bottle Storage
Davao City	3,000	Investment
Owned by AAC		
Pulupandan, Neg. Occ.	119,082	Distillation Plant
San Mateo, Rizal	11,401	Investment
Talisay, Batangas	139,299	Investment
Tanza, Cavite	67,507	Investment
Owned by ADI		
Ayala Ave., Makati City	89	Investment/Condo
Lian, Batangas	91,722	Distillation Plant

The following are the leased properties of TDI and its subsidiaries:

Location	Present Use	Area (sqm)	Monthly Rental	Lease Expiry Date
Leased by TDI				
Cabuyao, Laguna	Production Plant	188,202	1,875,812	2016
Pinamucan, Batangas	Land rental	18,522	350,000	2016
Calaca, Batangas	Tank rental		555,915	2016
Murcia, Neg. Occ.	Production Plant	29,583	650,000	2016
El Salvador, Mis. Or.	Production Plant	108,843	106,293	2016
Leased by ADI				
Lian, Batangas	Distillation Plant	50,000	50,000	2021
	Totals	**395,150**	**3,588,020**	

Except for the Distillation Plant in Lian Batangas, all lease contracts have a term of one year, renewable at the end of the lease term.

The plant and equipment are located at the following areas:

Location	Condition
Cabuyao plant	In good condition
Murcia plant	In good condition
El Salvador plant	In good condition

AAC has its distillery plant at Pulupandan, Negros Occidental and owns the buildings, machinery and equipment and other structures in it. AAC has alcohol, molasses and alcohol ageing storage facilities at Pulupandan. Office furniture and fixtures and office equipment are found in its offices in Bacolod and Pulupandan. Lands owned by AAC are located in Pulupandan and Cebu. The Plant and equipment located in Negros plant and the storage facilities are all in good condition.

ADI on the other hand owns a distillery plant in Lian, Batangas. In 2015, a two(2) megawatt solar power generating facility was inaugurated in ADI plant. Likewise, a 100 kiloliters per day (KLPD) Dehydration Plant started its operation, that is composed of Classical Twin Bed Molecular Sieves which removes water from rectified spirit that is produced by the Distillation Section. All transportation equipment owned by ADI are in good condition. There are no mortgage or lien or encumbrance over the properties and there are no limitations as to its ownership and usage.

Beverage

ABI and its subsidiaries own the following real estate properties:

Location	Area (sqm)	Present Use
Owned by ABI		
Bacoor, Cavite	459	Investment property
Cabuyao, Laguna	302	Investment property
Camarines Norte	3,215	Investment property
Owned by IPI		
Toril, Davao City	75,734	Production Plant

The following are the leased properties of ABI and its subsidiaries:

Location	Present Use	Area (sqm)	Monthly Rental	Lease Term
Leased by ABI				
Ayala Ave., Makati City	Head Office	1,677	943,048	Jul 1, 2015 to Jun 30, 2017
Cabuyao, Laguna	Production Plant	542,989	1,562,563	Apr 1, 2015 to Mar 31, 2018
El Salvador, Mis. Or.*	Production Plant	1,063,103	238,360	Jan 1, 2013 to Dec 31, 2017
Leased by IPI				
San Fernando, Pampanga	Production Plant	85,000	630,000	Jan 1, 2015 to Dec 31, 2017
Leased by PWI				
Cabuyao, Laguna	Production Plant	82,600	533,867	Jan 1, 2016 to Dec 31, 2016
	Totals	**1,775,369**	**3,907,838**	

All lease contracts are renewable at the end of the lease term.

In addition to monthly rentals, ABI pays Real Property Taxes on the El Salvador, Misamis Oriental Plant.

The plant and equipment are located at the following areas:

Location	Condition
Cabuyao plant	In good condition
El Salvador plant	In good condition
Davao plant	In good condition
Pampanga plant	In good condition

Tobacco

The following comprises properties of FTC:

LOCATION	AREA (sq. m)	Present Use
Brgy. Punta, Calamba, Laguna	49,701	Investment
Bacoor, Cavite	132,294	Investment
Balagtas, Int.Malate, Manila	496	Investment
Brgy. Niugan, Cabuyao, Laguna	469,758	Investment
Cabuyao, Laguna	17,438	Investment
Dna Natividad, Quezon Ave., Quezon City	800	Investment
Dna. Natividad, Quezon Ave., Quezon City	1,626	Investment
Dna. Natividad, Quezon Ave., Quezon City	800	Investment
Dna. Natividad, Quezon Ave., Quezon City	1,118	Investment
Concepcion, Marikina	313	Investment
Tagdalit St., Brgy.Manresa, Quezon City	5,165	Warehouse Bldg.
Mandaue City	1,025	Investment
Baybay, Roxas City	2,396	Investment
Baybay, Roxas City	80	Investment
Filinvest Homes, Pagsanjan Cainta, Rizal	474	Investment
Marikina Greenheights, Brgy. Nangka	225	Investment
Antipolo, Rizal	400	Investment
Bo. Mayamot, Antipolo, Rizal	311	Investment
Pasay City	2,222	Investment

FTC leases its office located in Brgy. Kapitolyo, Pasig with a montly rental of P100,000 and lease contract will expire on December 31, 2019.

All properties are in good condition and are not covered by any existing mortagages, liens or encumbrances.

Banking

PNB's corporate headquarters, the PNB Financial Center, is housed in a sprawling modern eleven (11)-storey building complete with all amenities, located at a well-developed reclaimed area of 99,999 square meters of land on the southwest side of Roxas Boulevard, Pasay City, Metro Manila, bounded on the west side by the Pres. Diosdado P. Macapagal Boulevard and on the north side by the World Trade Center building. The PNB Financial Center is located in a property where bustling cultural, financial and tourism activities converge. It also houses PNB's domestic subsidiaries. Some office spaces are presently leased to various companies/private offices. The said property is in good condition and has no liens and encumbrances.

Disclosed in Exhibit I of PNB's 17A is the list of Bank-owned properties as of December 31, 2016.

The Bank leases the premises occupied by some of its branches. Lease contracts are generally for periods ranging from 1 to 25 years and are renewable upon mutual agreement of both parties under certain terms and conditions.

Disclosed in Exhibit II of PNB's 17A is the list of Bank's branches that are under lease as of December 31, 2016.

The Bank does not have any current plans to acquire any property within the next 12 months.

Information related to Property and Equipment is shown under Note 11 of the Audited Financial Statements of the Bank and its Subsidiaries.

Property Development

The Company's investment properties consist of:

Description	Location
Buildings	*Eton Centris, Quezon Ave., Cor. EDSA, Diliman, Quezon City;* *Eton Cyberpod Corinthian, Ortigas Ctr., Pasig City*
Office condominium unit	*6th Floor, Sagittarius Condominium, H. V. dela Costa Street, Salcedo Village, Makati City*
Residential unit	*Ocean Villa, Ternate, Cavite*
Land	*Ternate, Cavite;* *EDSA Cor. Quezon Avenue, Diliman, Quezon City;* *Meralco Avenue, Brgy. Ugong, Pasig City* *F. Ortigas Jr. Ave. Cor. Ruby Road, Ortigas Center, Pasig City* *Roxas Blvd. Cor. Cuneta Avenue., San Rafael, Pasay City* *Corta Street, Addition Hills, San Juan, Metro Manila* *Brgy. Malitlit, Sta. Rosa City, Laguna, Mactan Island Cebu, Loyola Heights, Quezon City*

The above properties are owned by the Company. These properties are in good condition and are not covered by any existing mortgage, liens or encumbrances.

The Company also entered into a lease agreement with third parties for the lease of parcels of land where one of the Parent Company's projects is located. The annual rental expense, recognized as part of the cost of rental income amounted to ₱39.40 million and ₱39.31 in 2016 and 2015, respectively.

The lease agreement shall be for a period of 20 years commencing on January 1, 2011 and renewable for another 20 years at the option of the lessee, with the lease payment subject to an annual escalation fee of 5%. Total annual rental payment amounted to ₱16.6 million in 2016 and ₱15.8 million in 2015.

The Company's real estate properties consist of :

<u>ETON PROPERTIES PHILIPPINES, INC.</u>	
Eton Baypark Manila	*Corner Roxas Boulevard and Kalaw Street, Manila City*
Eton Parkview Greenbelt	*Gamboa St., Greenbelt, Makati City*
Eton Residences Greenbelt	*Legaspi St., Greenbelt, Makati City*
Eton Emerald Lofts	*Corner of Emerald Avenue, Sapphire and Garnet Streets, Ortigas Center, Pasig City*
One Archer's Place	*Taft Avenue beside De La Salle University, Manila City*
68 Roces	*Don Alejandro Roces Avenue, Quezon City*
Belton Place	*Yakal St., Makati City*
8 Adriatico	*Pedro Gil corner Bocobo Extension, Manila City*
Eton Tower Makati	*Corner Dela Rosa and V.A. Rufino Streets (formerly Herrera Street) in Legazpi Village, Makati City*
Eton Centris	*Eton Centris, Quezon Ave., Cor. EDSA, Diliman, Quezon City*
First Homes Makati	*Pasong Tamo cor. Malugay St., Makati City*
Land	*Manggahan, Pasig City*

<u>BELTON COMMUNITIES, INC.</u>	
NBC Manors	*Quirino Highway, Quezon City*
West Wing Residences @ Eton City	*Eton City, Sta. Rosa, Laguna*
West Wing Residences @ NBC	*Quirino Highway, Quezon City*
West Wing Villas @ NBC	*Quirino Highway, Quezon City*

<u>ETON CITY INC.</u>	
South Lake Village	*Sta. Rosa, Laguna*
Riverbend	*Sta. Rosa, Laguna*
Riverbend 2 - Tierra Bela	*Sta. Rosa, Laguna*
Village Walk	*Sta. Rosa, Laguna*

Eton Emerald Lofts, NBC Manors and West Wing Residences at NBC are under a joint venture arrangement with the Company as the project developer. The Company acts as both land owner and developer with respect to its remaining properties. All properties listed above are in good condition and are not covered by any material existing mortgage, liens or encumbrances.

The Company's property and equipment, which consist of transportation equipment, furniture, fixtures and equipment, and leasehold improvements, are mainly used in operations and are located in the main office in Allied Bank Center, 6754 Ayala Avenue, Makati City, Metro Manila, Philippines.

Currently, the Company entered into a renewable cancellable lease agreement with PNB, which generally provides for a fixed monthly rent for the Company's office spaces. The Company has determined that all significant risks and rewards of ownership of these properties are retained by the lessor. Thus, the Company considers these lease agreements as operating leases. Rental expense recognized by the Company included under "Outside services" amounted to ₱11.7 million in 2016 and 2015.

The term of the lease commenced on March 1, 2016 and expired on February 28, 2018. The renewal of the lease shall be upon approval of the bank.

Item 3. Legal Proceedings

Distilled Spirits

In the ordinary course of business, TDI is contingently liable for lawsuits and claims, which are either pending with the courts or are being contested, the outcomes of which are not presently determinable. In the opinion of the Group's management and legal counsel, the eventual liability under these lawsuits and claims, if any, would not have a material or adverse effect on the Group's financial position and results of operations.

Trademark Infringement Suit

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

On November 11, 2003, the Court of Appeals issued a 60-day TRO versus the Mandaluyong RTC, effectively allowing TDI to resume making and selling Ginebra Kapitan. The Court of Appeals however subsequently affirmed the Mandaluyong RTC TRO on January 9, 2004. On January 28, 2004, the Company filed a motion for reconsideration with the Court of Appeals. The Court of Appeals denied the TDI motion for reconsideration on July 2, 2004. On Dec. 28, 2004, TDI then filed a petition for review on certiorari before the Supreme Court. On Aug. 17, 2009, the Supreme Court reversed the decision of the Court of Appeals and nullified the writ of preliminary injunction issued by the Mandaluyong RTC. GSMI filed a motion for reconsideration but the Supreme Court denied the 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 December 31, 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 December 31, 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 started the commercial operations in May 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.

Beverage

ABI maintains a legal department whose main function is to pursue collection cases and handle litigation arising from labor disputes. As of December 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.

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.

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.

Property Development

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

The Company is one of the appellees in CA G.R. No. CV-106191 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 Php1.03 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 elevated the case with the Court of Appeals where the case remains pending.

Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

PART II - OPERATIONAL AND FINANCIAL INFORMATION

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

(a) Market Price of and Dividends on Registrant's Common Equity and Related Stockholder Matters.

1. Market Information

The principal market for the registrant's common equity is the Philippine Stock Exchange.

STOCK PRICES

	CLOSE	HIGH	LOW
2014			
1st Quarter	17.44	19.90	14.82
2nd Quarter	14.76	18.90	13.98
3rd Quarter	15.64	17.30	14.58
4th Quarter	12.14	15.86	12.00
2015			
1st Quarter	16.30	16.92	12.24
2nd Quarter	13.92	16.98	13.20
3rd Quarter	10.08	15.96	10.00
4th Quarter	15.00	15.24	9.79
2016			
1st Quarter	15.60	16.78	13.70
2nd Quarter	15.92	16.22	13.18
3rd Quarter	15.30	17.98	15.20
4th Quarter	12.56	15.92	12.48
2017			
1st Quarter	16.02	17.00	12.00
April 6, 2017*	15.66	15.98	15.60

*Latest practicable trading date

2. Holders

The number of shareholders of record as of December 31, 2016 was 376. Common shares outstanding as of December 31, 2016 were 10,821,388,889. The top 20 stockholders as of December 31, 2016 are as follows:

Stockholders' Name	No. of Common Shares Held	% to Total
Tangent Holdings Corp.	8,046,318,193	74.3557
PCD Nominee Corporation (Non-Filipino)	1,487,938,327	13.7500
PCD Nominee Corporation (Filipino)	529,533,585	4.8934
Dragon Castle Holdings Ltd.	198,535,900	1.8347
Hinner Resources Ltd.	157,195,600	1.4526
Advance Goal Ltd.	152,812,600	1.4121
Absolute Classic Ltd.	95,811,000	0.8854
Conqueror Vision Ltd.	81,913,000	0.7570
Conway Equities, Inc.	35,000,000	0.3234
Pan Asia Securities Corp.	19,690,900	0.1820
Goldlabel Equities Corp.	5,039,800	0.0466
All Seasons Realty Corp.	4,974,794	0.0460
Dragonstar Management Corp.	1,773,900	0.0164
Kentron Holdings & Equities Corp.	569,800	0.0053
Luys Securities Co., Inc.	501,000	0.0046
Jaime C. Qua	360,800	0.0033
Mandarin Securities Corp.	358,000	0.0033
Atlas Agricultural & Mercantile & Dev.	299,475	0.0028
Honorio Poblador Jr.	295,230	0.0027
Donald J.D. Nye	272,250	0.0025

***** LTG has no preferred shares.

3. Dividends

a.) Dividend declarations

On May 12, 2015 the BOD of LTG approved the declaration and distribution of cash dividends of ₱0.15 per share to all stockholders of record as of May 27, 2015. The dividends were paid on June 2, 2015.

On April 12, 2016 the BOD 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 were paid on May 6, 2016.

On March 14, 2017 the BOD of LTG approved the declaration and distribution of cash dividends of ₱0.15 per share to all stockholders of record as of March 29, 2017. The dividends will be paid on April 7, 2017.

b.) Restrictions that limit the ability to pay dividends on common equity or that are likely to happen in the future.

a. "To declare dividends out of the surplus profits when such profit shall, in the opinion of the directors, warrant the same." (par. 3, Article V (Duties of directors, Amended By-Laws).

b. " In lieu of closing the stock transfer book of the Corporation, The Board of Directors may fix in advance an appropriate date consistent with the relevant regulations as may have been issued by the Securities and Exchange Commission and/or the Philippine Stock Exchange, preceding the date of any annual or special meeting of the stockholders or the date for the allotment or rights, or the date when any change or conversion or exchange of capital stock shall go into effect, or a date in connection with obtaining the consent of stockholders for any purpose, as record date for the determination of the stockholders entitled to vote, to notice at any such meeting and adjournment thereof, or to any such allotment of rights, or to give such consent, as the case may be notwithstanding any transfer of any stock on the books of the Corporation after such record date fixed as aforesaid, provided, however, that for purposes of declaring dividends, The Board of Directors may fix in advance a date to be determined in accordance with law, for the payment or distribution of such dividend as a record date for the determination of stockholders entitled to such dividend."(par C, Article XIX(Transfer of Stock, Amended By-Laws).

4. Recent Sales of Unregistered Securities (For the Past Three Years)

There was no recorded sale of unregistered securities during the past three years.

ITEM 6. Management's Discussion and Analysis or Plan of Operation

RESULTS OF OPERATIONS

The following discussion and analysis of the Group's financial condition and results of operations should be read in conjunction with the consolidated financial statements as at December 31, 2016, 2015 and 2014 included in this report.

2016 vs 2015

CONSOLIDATED RESULTS OF OPERATIONS

(In millions)	2016	2015
Revenue	₱57,800	₱51,473
Cost of Sales	26,127	22,003
Equity in Net Earnings of Associates	2,712	1,189
Operating Expenses	27,915	23,359
Operating Income	6,470	7,300
Other income-net	6,466	4,917
Income Before Income Tax	12,936	12,218
Total Net Income	12,089	9,497
Net Income Attributable to Equity Holders of the Parent Company	9,390	6,599

LT Group, Inc.'s (LTG) posted consolidated net income of ₱12.1 billion for the year ended December 31, 2016, 27.3% higher than the previous period of ₱9.5 billion.

LTG's net income attributable to equity holders was ₱9.4 billion for 2016, an increase of 42.3% from the last year's ₱6.6 billion. The banking segment contributed ₱4.14 billion, which accounted for 44% of total net income attributable to equity holders of LTG. The banking segment's income included a ₱1.28 billion gain from the sale of property to Eton (an LTG subsidiary) in the first quarter of this year, LTG's share of the gain at ₱725 million was eliminated. This resulted to the banking segment's net contribution at ₱3.42 billion. The tobacco business contributed ₱2.58 billion, followed by the beverage segment at ₱1.75 billion or 19%. Distilled spirits and the property development segments net income amounted to ₱908 million or 10% and ₱390 million or 4%, respectively. Equity in net earnings from our stake in VMC provided ₱142 million or 2% of total. As of December 31, 2016 LTG's stake in VMC stood at 30.17%.

Consolidated revenues amounted to ₱57.8 billion for the year ended December 31, 2016, 12.3% higher than the previous period of ₱51.5 billion. The banking segment's revenues were higher by 9.4% largely due to higher interest income on loans receivable and improved tradings gains and favorable foreign exchange transactions. Property segment's revenues were higher by 14.8% due to higher residential and leasing revenues. Beverage and distilled spirits segments' revenues were higher by 5.3% and 24.2%, respectively, for the year ended December 31, 2016.

Cost of sales and services increased by 18.7% from ₱22.0 billion for the year ended December 31, 2015 to ₱26.1 billion in the current period. This is mainly due to higher interest expense on deposit liabilities, bills payables and others.

Consolidated operating expenses were at ₱27.9 billion in 2016 and ₱23.4 billion in 2015 as selling and general and administrative expenses increased by 6.8% and 20.8%, respectively. Higher selling expenses were mainly on account of the increase in advertising and promotional expenses of the distilled spirits and beverage segment while general and administrative expenses increased mainly due to the banking segment's higher provisioning, marketing and other expenses.

SEGMENT OPERATIONS

Banking

The banking segment reported a net income of ₱7.4 billion in 2016, an improvement of 9.1% from the ₱6.8 billion earned in the same period last year.

Net interest income from banking operations increased by 10.9% to ₱19.5 billion this year, mainly on account of higher booked loans and receivables. Net interest margin was flat at 3.1%.

Net service fees and commission income dropped from ₱3.6 billion in the previous period to ₱2.7 billion in the current period due to lower income from deposit-related fees and service fee expenses were 27.6% higher.

Miscellaneous income increased by 65.5% on account of higher trading and foreign exchange gains recognized this year, higher gain on sale on ROPAs and the recognition of re-measurement gain from the Bank's stake in Allianz PNB Life Insurance, Inc.

Operating expenses were higher by 22.9% to ₱23.2 billion in 2016 from ₱18.9 billion on account of expenses incurred for higher provisioning, marketing expenses, migration to a more secure EMV chip for its ATM and POS terminals, higher compensation, and debit and credit cards.

Beverage

The beverage segment net income reached ₱1.76 billion in 2016, 59.7% higher than the ₱1.1 billion earned in 2015. This is inclusive of the ₱594 million extraordinary income recognized from the revaluation of the beer assets. Excluding the extraordinary income, ABI's net income would have settled at ₱1.12 billion, 2% increase over 2015's net income.

The results of operations of the beverage group were significantly impacted by the transfer of ABI's alcoholic beverage segment to its 50.0%-owned associate, ABHP in November 2016.

Excluding the beer and alcopop business, net revenues were at ₱11.9 billion in 2016, increased by 4.0% from the ₱11.4 billion in 2015. The higher revenues from bottled water were partially offset by lower revenues from packaging, specifically commercial bottles, as some of the Company's capacity was utilized in producing returnable glass bottles for the soymilk business. Cobra energy drinks was flat year-on-year.

Gross profit margin was 34% in 2016, slightly lower than the 35% in 2015 on account of the product mix sold. Operating expenses were 11.9 higher y-o-y as they spent more on advertising and marketing expenses.

Distilled Spirits

The distilled spirits segment reported a net income of ₱908 million for 2016, a significant improvement from the ₱422 million in the same period last year.

Net revenues were higher by 23.9% to ₱15.0 billion in 2016. This was on account of the start of bioethanol operation this year. Also, sales volume of liquor had a slight increase of 2% from the growth in sales of its flagship product, Tanduay Rhum Five Years.

Cost of sales increased from ₱9.8 billion in 2015 to ₱12.3 billion in 2016 due to higher prices of alcohol. Likewise, gross profit margin dropped to 18% from 19% in 2015 due to lower margins for liquor.

Operating expenses remained at ₱1.6 billion for years 2016 and 2015.

Property development

Eton reported of ₱390 million for the year ended 2016. This is 24.6% higher than last year's net income after tax for the same period of ₱313 million. Growth in net income after tax can be traced to the 14.1% or ₱183.4 million improvement in gross profit. Another factor that contributed to the higher net income is the increase in percentage of completion of previously sold units.

Rental revenue for the year also increased by 9% from ₱1.17 billion to ₱1.28 billion during the same period in 2015, as the lease contracts were renewed at higher rental rates, especially for the Company's BPO offices.

Other Charges increased by 83.8% compared to the same period last year. This is mainly due to the increase in finance charges by ₱181.91 million or 103.5% as the Company recognized its borrowing costs as expense in the period incurred. Likewise, additional interest expense was incurred relating to the new bank loans obtained by the Company in 2016 and from outstanding payable to landowners for land acquisitions made during the last quarter of 2015 and the first quarter of 2016.

Provision for income tax decreased from ₱250 million in 2015 to ₱212 million in 2016 due to the timing difference in the taxable income as against the reported income.

Tobacco

The tobacco segment posted a net income of ₱2.6 billion for the year ended December 31, 2016, 149.2% higher than the ₱1.0 billion recognized in 2015. This was mainly on account of higher equity in net earnings from PMFTC of ₱2.6 billion for 2016, 165.9% more than last year's ₱975 million. The higher income of PMFTC were mainly attributed to the favorable change in the mix of sales as volume of premium priced Marlboro was 25% higher year-on-year as customers continued to trade up with the narrowing of price gaps.

2015 vs 2014

CONSOLIDATED RESULTS OF OPERATIONS

(In millions)	2015	2014
Revenue	₱51,473	₱48,286
Cost of Sales	22,002	21,632
Equity in Net Earnings of Associates	1,189	895
Operating Expenses	23,359	23,393
Operating Income	7,300	4,156
Other income-net	4,917	4,801
Income Before Income Tax	12,218	8,957
Total Net Income	9,497	6,472
Net Income Attributable to Equity Holders of the Parent Company	6,599	4,410

LT Group, Inc.'s (LTG) consolidated net income reached ₱9.5 billion for the year ended December 31, 2015, 46.7% higher than the previous period's ₱6.5 billion.

LTG's net income attributable to equity holders was ₱6.6 billion for 2015, 49.6% higher than the previous period's ₱4.4 billion. The banking segment contributed ₱3.72 billion, which accounted for 56% of total net income attributable to equity holders of LTG. The beverage segment accounted for ₱ 1.1 billion or 17%, followed by the tobacco segment at ₱1.0 billion or 16%. Distilled spirits and the property development segments amounted to ₱422 million or 6% and ₱312 million or 5%, respectively. Equity in net earnings from our stake in VMC provided ₱214 million or 3% of total. As of December 31, 2015 LTG's stake in VMC stood at 22.59%.

Consolidated revenues amounted to ₱51.5 billion for the year ended December 31, 2015, 6.6% higher than the previous period of ₱48.3 billion. The banking segment's revenues were higher by 9.9% largely due to higher interest income on loans and service fee revenues. Property segment's revenues was higher by 8.8% due to higher leasing revenues. Beverage and distilled spirits segments' revenues were relatively flat at ₱10.4 billion and ₱12.0 billion, respectively, for the year ended December 31, 2015.

Cost of sales and services increased slightly by 1.7% from ₱21.6 billion for the year ended December 31, 2014 to ₱22.0 billion in 2015. This is mainly due to higher interest expense on deposit liabilities, bills payables and others.

Consolidated operating expenses were flat at ₱23.4 billion in 2015 and 2014.

SEGMENT OPERATIONS

Banking

The banking segment reported a net income of ₱6.8 billion in 2015, an improvement of 14.8% from the ₱5.9 billion earned in the same period last year.

Interest income from banking operations increased by 5.6% to ₱21.7 billion this year, mainly on account of higher income from loans. Interest expense was up by 5.0% from ₱3.9 billion in 2014 to ₱4.1 billion in 2015, resulting to a net interest income of ₱17.6 billion, 5.7% higher year-on-year.

Net service fees and commission income improved from ₱2.6 billion in the previous period to ₱3.6 billion in the current period due to higher service charges and fees on deposits and loans, arranger's fees, underwriting and securities dealership fees and Bancassurrance fees.

Miscellaneous income dropped by 34.6% on account of lower trading and foreign exchange gains recognized this year. In 2014, there was a ₱730 million gain recorded from the sale of VMC shares to LTG.

Operating expenses declined by 8.6% to ₱18.4 billion in 2015 from ₱20.2 billion, mainly on account of the reversal of the allowance for probable loss of ₱974 million on the National Steel Corporation case and lower depreciation expense.

Beverage

The beverage sector's net sales from continuing operations were fairly stable at ₱11.4 billion in 2015, compared to the 10.9 billionin revenues from continuing operations earned in the previous year. The continuous growth in bottled water and commercial glass sales and the traction in new products propped up revenues and offset the decline in energy drink sales. Despite lower sales versus the previous year, Cobra upheld its market leadership with over 70% market share and maintained its status as the segment's flagship product. Bottled water sustained its growth momentum despite intense competition from lower-priced brands and was the second biggest contributor to the segment's sales.

Cost of sales increased slightly by 3.6%, from ₱7.1 billion in 2014 to ₱7.4 billion in 2015. Gross profit margin slightly improved to 35.2% in 2015 from 34.6% in 2014.

Selling expenses slightly decreased by 5.2% to ₱1.2 billion from ₱1.3 billion in the previous year. The decrease was mainly attributed to lower depreciation, repairs and advertising expenses. General and administrative expenses likewise decreased from ₱750 million in 2014 to ₱748 million in 2015. Total operating expenses declined by 3.4% to ₱2.0 billion from₱2.1 billion in 2014.

All these translated to operating income from continuing operations of ₱2.0 billion in 2015, or a 17.5% increase from last year's ₱1.7 billion. Other income increased by ₱46 million due to lower share in net loss by ₱44 million recognized from the operations of its joint venture.

Resulting net income from continuing operations was at ₱1.4 billion in 2015 or a 21.4% improvement over the ₱1.2 billion earned in 2014.

Beer and alcopop volumes were adversely affected by R.A. 10351 mandating annual increases in excise taxes on beer and distilled spirits, which prompted increases in alcoholic beverage prices, dampening overall demand for the segment's alcoholic offerings. Net loss from the alcoholic beverage segment for 2015 was at ₱350 million, compared to net loss ₱72 million in losses incurred for the segment in 2014.

The beverage segment's net income was fairly stable at ₱1.1 billion for both 2015 and 2014.

Distilled Spirits
The distilled spirits segment reported a net income of ₱422 million for 2015, a significant improvement from the ₱101 million in the same period last year.

Net revenues were slightly higher by 0.6% to ₱12.1 billion in 2015. This was on account of the increase in selling prices offsetting the 3% decline in volumes for 2015.

Cost of sales and operating expenses remained at ₱9.8 billion and ₱1.6 billion, respectively, for years 2015 and 2014.

Other charges were lower by 92.6% to ₱30 million in 2015 from ₱404 million in 2014, due to lower interest expenses with the payment of the ₱5.0 billion bonds in February 2015.

Property development
The property development segment reported a net income of ₱313 million for the year ended 2015, significantly higher than last year's net income of ₱120 million. Gross profit likewise increased by 88% or ₱610 million compared to the same period last year. Consequently, overall gross profit rate improved from 30.5% in 2014 to 52.5% in 2015. The increase in gross profit as well as gross profit rate for the year was mainly due to higher leasing revenues generated by Cyberpod Centris Three, a new BPO office building in Eton Centris.

Other income and charges decreased by 224.7% compared to the same period last year. The reduction in other income and charges was mainly due to the increase in finance charges as Eton stopped the capitalization of borrowing costs on loans attributable to projects that were already completed during the period.

Provision for income tax increased from ₱82 million in 2014 to ₱250 million in 2015 due to the higher net income posted during the period.

Tobacco
The tobacco segment posted a net income of ₱1.0 billion for the year ended December 31, 2015, 602.7% higher than the ₱148 million recognized in 2014. This was mainly on account of higher equity in net earnings from PMFTC of ₱975 million for 2015, 89.3% more than last year's ₱515 million. The illicit trade in the cigarette industry continues to affect PMFTC's profitability.

FINANCIAL CONDITION

2016
The Company's consolidated Total Assets as of December 31, 2016 amounted to ₱829.1 billion, 10.6% higher than the ₱749.6 billion as of December 31, 2015. This was mainly on account of the increase in Current Assets by 9.3% or ₱34.5 billion and in Noncurrent Assets of ₱45.0 billion or 11.9%.

The increase in the consolidated Current Assets by 9.3% from ₱370.3 billion as of December 31, 2015 to ₱404.8 billion was primarily due to higher Cash and Cash Equivalents by 27.0% or ₱37.1 billion which was on account of the banking segment's increased levels of Due from BSP, Due from Other Banks and Interbank Loans Receivables. There was an increase in Current Loans and Receivables by ₱17.7 billion as the bank was able to book more loans this year. Current Available for Sale Investments were higher by 190.7% due to reclassification from noncurrent portion, various acquisitions and increases in the fair value of securities by the bank. Other Current Assets increased by 19.9% on account of increased levels in miscellaneous asset by the distilled spirits, beverage and property development segments. Due from related parties increased by 20.7% due to various advances made during the year. This was significantly offset by the the sale of the bank's 51% stake in the life insurance business to Allianz of which recorded assets of disposal group classified as held for sale as of December 31, 2015 was ₱23.5 billion. Financial Assets at Fair Value through Profit or Loss declined by ₱3.2 billion, mainly due to the banking segment's lower levels of FXTN. Inventories were lower on account of decreased levels in inventory by the beverage and property development segments.

The 11.9% increase in Total Noncurrent Assets was mainly due to the movements in the Loans and Receivables, Investment in Associates and Joint Ventures and Investment Properties accounts. Loans and Receivables-net of current portion went up by 20.2% from ₱206.8 billion in December 31, 2015 to ₱248.6 billion as of December 31, 2016 as the bank was able to book more loans in 2016. Investment in Associates and Joint Ventures went up by ₱5.1 billion or 43.0% due to the additional investment in VMC in February 2016, Equity in net earnings from these investments, Investment in the life insurance business with Allianz which is now an associate and Investment in ABHPI. Investment properties amounted to ₱28.2 billion as of December 31, 2016, 26.9% higher than 2015 level primarily due to reclassification of banking properties to investment properties as it revised its plans for these assets. Held to maturity investments by the bank were higher by ₱1.0 billion. Deferred income tax assets and other noncurrent assets were higher by 158.4% and 10.3%, respectively due to various timing difference tax adjustments and higher levels of other noncurrent assets by the various subsidiaries. This was offset by the decrease in the Noncurrent Available for Sale Investment by ₱6.5 billion by the banking segment due reclassification of some investments to current. Property, plant and equipment decreased to ₱36.1 billion (at appraised values) and ₱5.2 billion (at cost) from the ₱39.5 billion (at appraised) and ₱5.3 billion (at cost) level in December 31, 2015 primarily due to the reclassifications of various properties by the banking segment to investment properties.

Consolidated Total Liabilities increased by 12.2% to ₱650.5 billion as of December 31, 2016 from ₱579.8 billion as of December 31, 2015. This was on account of the increase in Total Current Liabilities by 13.2% from ₱496.3 billion in December 31, 2015 to ₱578.1 billion as of the end of the current period, offset by the decrease in Noncurrent Liabilities of 13.2% from ₱83.5 billion to ₱72.4 billion. Current portion of the banking segment's Deposit Liabilities amounted to ₱515.6 billion as of December 31, 2016, 18.2% higher than December 31, 2015. Current portion of Bills and Acceptances Payable increased by 329.5% mainly due to the reclassification of currently maturing bills and acceptances payable by the banking segment and increase in the transactions with the local banks. Other Current Liabilities increased by ₱4.1 billion due to the banking segments higher levels of various liabilities. Short-term Debts was higher by 25.0% or ₱350.0 million due to the availment of loan by the beverage segment. Financial Liabilities at Fair Value through Profit or Loss increased to ₱0.2 billion mainly on account of the banking segment's higher derivative liabilities. Due to related parties increased by 22.0% on account of additional payable recorded during the year. This was offset significantly by the transfer of liabilities from the bank's sale of the 51% stake in the life insurance business. Liabilities of disposal group classified as held for sale as of December 31, 2015 was ₱21.5 billion.

The decline in the Noncurrent Liabilities was on account of the decrease in the Other Noncurrent Liabilities of the banking segment by 32.0% or ₱2.5 billion, lower Noncurrent Bills and Acceptances Payable of ₱9.1 billion or 45.7% and payment of the long-term debt of PNB. This was offset by the increase in Deposit liabilities of the banking segment by ₱6.0 billion and Deferred Income Tax Liabilities by 11.9% on account of the various tax adjustment booked in 2016.

LT Group's consolidated Total Equity grew 5.2% to ₱178.6 billion as of December 31, 2016, on account of the increase in Retained Earnings by 14.7% coming from the net earnings during the period.

2015

The Company's consolidated Total Assets as of December 31, 2015 amounted to ₱749.6 billion, an increase of 7.6% from ₱696.8 billion as of December 31, 2014. This was mainly on account of the increase in Current Assets by 8.9% or ₱6.6 billion and increase in Noncurrent Assets of ₱22.6 billion or 6.3%.

The increase in consolidated Current Assets by 8.9% from ₱340.1 billion as of December 31, 2014 to ₱370.3 billion was primarily due to the improvement in the Current Loans and Receivables by ₱28.8 billion and reclassification of the various assets of PNB Life totalling ₱23.5 billion to Assets of Disposal Group Classified as Held for Sale and others assets of the banking segment. Other Current Assets increased by 12.1% from ₱7.9 billion as of December 31, 2014 to ₱8.8 billion due to the banking segment's higher creditable withholding taxes and other assets. Inventories went up by 8.4% to ₱14.0 billion in 2015 from ₱12.9 billion in 2014. Financial Assets at Fair Value through Profit or Loss declined by ₱13.1 billion, mainly due to the banking segments reclassification of PNB Life's assets. Most of PNB Life's assets were Financial Assets at Fair Value through Profit or Loss. This was partially offset by the decrease in Cash and Cash Equivalents by 6.6% or ₱9.7 billion which was on account of the banking segment's lower Due from Bangko Sentral ng Pilipinas, Interbank Loans and Receivables and Cash and Other Cash Items. There was a 22.8% decrease in Current Available For Sale Investments due to the reclassification of various securities by the bank. The decrease in Due from Related Parties of 11.4% or ₱204 million compared to December 31, 2014 was due to the collection from a related party.

The 6.3% increase in Total Noncurrent Assets was mainly due to the movements in the Loans and Receivables account and Available For Sale Securities. Loans and Receivables-net of current portion went up by 10.3% from ₱187.4 billion in December 31, 2014 to ₱206.8 billion as of December 31, 2015. Noncurrent AFS increased by 11.0% on account of various acquisitions of securities. Property, plant and equipment increased by 5.6% compared to end-2014 due to the reclassifications made by the banking segment from investment properties. Investment properties decreased by 18.3% mainly due to sales of various properties and reclassifications to banking premises or property plant and equipment during 2015. Other noncurrent assets decreased by 7.8% from ₱3.7 billion as of December 31, 2014 to ₱3.4 billion as of December 31, 2015.

Consolidated Total Liabilities increased by 8.6% to ₱579.8 billion as of December 31, 2015 from ₱ 534.1 billion as of December 31, 2014. This was on account of the increase in Total Current Liabilities by 5.8% from ₱469.1 billion in December 31, 2014 to ₱496.3 billion as of the end of the current period and increase in Noncurrent Liabilities of 28.5% from ₱65.0 billion to ₱83.5 billion.

Current portion of the banking segment's Deposit Liabilities amounted to ₱436.4 billion as of end-2015, 6.1% higher than December 31, 2014. Accounts Payable and Accrued Expenses were slightly higher by 7.6% due to the accrual of various liabilities of the different segments. Financial Liabilities at Fair Value through Profit or Loss decreased to ₱0.1 billion mainly on account of the banking segment's reclassification of PNB Life's liabilities as a one-line item liabilities of the Disposal Group Held For Sale. Most of PNB Life's liabilities were financial liabilities at fair value through profit or loss. Current portion of Short-Term Debts and Long-Term Debts decreased from ₱5.8 billion to ₱1.9 billion as the distilled spirits segment's paid its ₱5.0 billion bonds payable which matured in February 2015. Current portion of Bills and Acceptances Payable decreased by 12.1% mainly due to the settlement of the banking segment's currently maturing bills and acceptances payable and other liabilities. Income Tax Payable, Current Portion of Due to Related Parties and Other Current Liabilities decreased by 9.7%, 6.2% and 27.8%, respectively due to various settlements in 2015.

The increase in the Noncurrent Liabilities was on account of the increase in the Bills and Acceptances payable (noncurrent) of the banking segment from ₱12.4 billion as of December 31, 2014 to ₱19.9 billion as of December 31, 2015 and increase in the Noncurrent Deposit Liabilities by 69.6% or ₱16.3 billion. This was offset by the decrease in Other Noncurrent Liabilities from ₱12.6 billion as of

December 31, 2014 to ₱8.0 billion as of December 31, 2015. Financial Liabilities at Fair Value through Profit or Loss, Long-Term Debts Net of Current Portion and Deferred Income Tax Liabilities decreased by 63.2%, 5.2% and 12.7%, respectively due to various settlements and adjustments in 2015.

LT Group's consolidated Total Equity grew 4.3% to ₱169.8 billion as of December 31, 2015, on account of the increase in Retained Earnings by 10.7% coming from the net earnings for the year 2015 and increase in Other Comprehensive Income.

KEY PERFORMANCE INDICATORS

LTG uses the following major performance measures. The analyses are based on comparisons and measurements on financial data of the current period against the same period of the previous year. The discussion on the computed key performance indicators can be found in the "Results of Operations" in the MD&A above.

1.) **Gross Profit Ratio**

Gross profit ratio in 2016 was 54.8% versus 57.3% in 2015.

2.) **Return on Equity**

Consolidated Net Income Attributable to Equity Holders of the Parent Company for 2016 amounted to ₱9.4 billion; higher by 42.3% from last year's ₱6.6 billion. Ratio of net income to equity is 6.9% in 2016 and 5.1% in 2015.

3.) **Current Ratio**

Current Ratio for 2016 is 0.70:1 while last year's was 0.75:1.

4.) **Debt-to-equity ratio**

Debt-to-equity ratio for 2016 is 3.64:1 as compared to last year's 3.42:1.

5.) **Earnings per share**

Earnings per share attributable to holders of the parent company for 2016 is ₱0.87 and ₱0.61 in 2015.

The manner by which LTG calculates the indicators above is as follows:

Gross profit ratio = Gross profit/Net sales
Return on Equity = Net Income Attributable to Equity Holders of the LTG/Stockholders equity
Current Ratio = Current assets/Current liabilities
Debt-to-equity ratio = Total liabilities/Total equity
Earnings per share = Net income attributable to holders of the parent company/weighted average number of shares

OTHER MATTERS

(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 follows:

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 ₱8.69/kWh income tax holiday 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

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 (V) analyses showed the following material changes as of and for the years ended December 31, 2016 and 2015:

1. Cash and cash equivalents – H, 27%
2. Financial assets at fair value through profit or loss – H, (33%)
3. Available-for-sale investments - current – H, 191%
4. Loans and receivables-current – H, 10%
5. Due from related parties – H, 21%
6. Inventories – H, (8%)
7. Other current assets – H, 20%
8. Assets of disposal group classified as held for sale – H, (100%)
9. Loans and receivables-noncurrent – H, 20%
10. Available-for-sale investments - noncurrent – H, (10%)
11. Investment in associates and joint ventures – H, 43%
12. Property, plant and equipment – at cost – H, (9%)
13. Investment properties – H, 27%
14. Deferred income tax assets- H, 158%
15. Other noncurrent assets- H, 10%
16. Deposit liabilities – current – H, 18%
17. Financial liabilities at fair value through profit or loss – current – H, 85%
18. Bills and acceptances payable - current – H, 329%
19. Short-term and long-term debts-current – H, 25%
20. Current portion of due to related parties – H, 22%
21. Other current liabilities – H, 31%
22. Liabilities of disposal group classified as held for sale – H, (100%)
23. Deposit liabilities – noncurrent – H, 15%
24. Financial liabilities at fair value through profit or loss - noncurrent – H, (100%)
25. Bills and acceptances payable - noncurrent – H, (46%)
26. Long-term debt – net of current portion – H, (52%)
27. Other noncurrent liabilities- H, (32%)
28. Other comprehensive income – H, (40%)
29. Reserves of disposal group classified as held for sale – H, (100%)
30. Shares of the company held by the subsidiaries – H, (44%)
31. Retained earnings- H, 15%
32. Banking revenue – H, 9%
33. Beverage revenue – H, 5%

34. Distilled spirits revenue – H, 24%
35. Property development revenue – H, 15%
36. Cost of sales – H, 19%
37. Equity in net earnings of associate – H, 128%
38. Selling expenses – H, 7%
39. General and administrative expenses – H, 21%
40. Foreign exchange gains – H, 16%
41. Others-net – H, 36%
42. Provision for income tax – deffered – H, (252%)
43. Net income from continuing operations – H, 13%
44. Net income from discontinued operations – H, 16,633%
45. Net income- H, 27%

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 LTG.

A. <u>Information on Independent Accountant and other Related Matters</u>

(1) <u>External Audit Fees and Services</u>

<u>a.) Audit and Audit-Related Fees</u>

1. The audit of the Group's annual financial statements or services that are normally provided by the external auditor in connection with statutory and regulatory filings or engagements for 2016 and 2015.

<u>LT Group, Inc.</u>
Yr. 2016- ₱ 1,500,000
Yr. 2015- ₱ 1,500,000

<u>Tanduay Brands International, Inc.</u>
Yr. 2016- ₱ 45,000
Yr. 2015- ₱ 60,000

<u>Distilled Spirits</u>
Yr. 2016- ₱ 2,980,000
Yr. 2015- ₱ 2,980,000

<u>Beverage</u>
Yr. 2016- ₱ 5,045,000
Yr. 2015- ₱ 4,795,000

<u>Tobacco</u>
Yr. 2016- ₱ 600,000
Yr. 2015- ₱ 600,000

<u>Banking</u>
Yr. 2016- ₱14,174,000
Yr. 2015- ₱14,582,000

Property Development
Yr. 2016- ₱ 2,400,000
Yr. 2015- ₱ 2,240,000

Other assurance and related services by the external auditor that are reasonably related to the performance of the audit or review of the registrants' financial statements:

none

b.) Tax Fees
none

c.) All Other Fees

Yr. 2016
LT Group, Inc. and its subsidiaries incurred ₱6,490,000 during the year 2016 for its quarterly review of financial statements.

d.) The audit committee's approval policies and procedures for the above services:

Upon recommendation and approval of the audit committee, the appointment of the external auditor is being confirmed in the annual stockholders' meeting. On the other hand, financial statements should be approved by the Board of Directors before these are released**.**

Item 7. Financial Statements

The consolidated financial statements and schedules listed in the accompanying Index to Financial Statements and Supplementary Schedules are filed as part of this Form 17-A.

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There are no changes in and disagreements with accountants on any accounting and financial disclosures during the past two years ended December 31, 2016 or during any subsequent interim period.

PART III – CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers

1. Directors

Name	Age	Citizenship	Business Experience/Other Directorship within the Last five (5) years	Position/Term of Office/Period Served
Lucio C. Tan	82	Filipino	Chairman of Philippine Airlines, Inc., Asia Brewery Inc., Eton Properties Philippines, Inc., **MacroAsia Corp.,** Fortune Tobacco Corp., PMFTC Inc., Grandspan Development Corp., Himmel Industries Inc., Lucky Travel Corp., **PAL Holdings, Inc.,** Air Philippines Corporation, Tanduay Distillers, Inc., The Charter House, Inc., AlliedBankers Insurance Corp., Absolut Distillers, Inc., Progressive Farms, Inc., Foremost Farms, Inc. and Basic Holdings Corp.; Director of **Philippine National Bank**	Chairman/ 1Year/ 2 July 1999 to present
Carmen K. Tan	75	Filipino	Director of Asia Brewery, Inc., The Charter House, Inc., Foremost Farms, Inc., Philippine Airlines, Inc., **PAL Holdings, Inc.,** Air Philippines Corporation, Fortune Tobacco Corp., Himmel Industries, Inc., Lucky Travel Corp., Progressive Farms, Inc., **MacroAsia Corp.** and PMFTC Inc.	Director/ 1 Year/ 05 May 2010 to present
Harry C. Tan	70	Filipino	Director of Eton Properties Philippines, Inc., PAN Asia Securities, Inc., Lucky Travel Corp., The Charter House, Inc., Fortune Tobacco Corp., Century Park Hotel, Landcom Realty Corp., Asia Brewery Inc., AlliedBankers Insurance Corp., Absolut Distillers, Inc., Basic Holdings Corp., Foremost Farms, Inc., Himmel Industries Inc., PMFTC Inc., **Philippine National Bank,** Progressive Farms, Inc., Grandspan Development Corp. and Tanduay Distillers, Inc.	Director/ 1 Year/ 28 May 2008 to present

Michael G. Tan	50	Filipino	Director/Chief Operating Officer of Asia Brewery, Inc., Director of Allied Bankers Insurance Corp., Air Philippines Corporation, Eton Properties Philippines, Inc., PMFTC Inc., Lucky Travel Corp., **Philippine National Bank,** Absolut Distillers, Inc., Philippine Airlines, Inc., **MacroAsia Corp.** and **Victorias Milling Company, Inc.**; Director/Treasurer of **PAL Holdings, Inc.** and Air Philippines Corporation	President/ 1 Year/ 05 May 2010 to present (Director since 21 February 2003)
Lucio K. Tan, Jr.	50	Filipino	Director/President of Tanduay Distillers, Inc. and Eton Properties Philippines, Inc.; Director/EVP of Fortune Tobacco Corp.; Director of AlliedBankers Insurance Corp., Philippine Airlines, Inc., **Philippine National Bank**, **PAL Holdings, Inc.**, **MacroAsia Corp.**, PMFTC Inc., Lucky Travel Corp., Air Philippines Corp., Absolut Distillers, Inc., Asia Brewery, Inc., Foremost Farms, Inc., Himmel Industries, Inc., Progressive Farms, Inc., The Charter House, Inc., Grandspan Development Corporation and Shareholdings, Inc.	Director / 1 Year/ 21 February 2003 to present
Joseph T. Chua	60	Filipino	Chairman of J.F. Rubber Philippines, Watergy Business Solutions, Inc., and Cavite Business Resources, Inc.; Director/President and Chief Operating Officer of **MacroAsia Corp.**; Managing Director of Goodwind Development Corporation (Guam); Director/President of MacroAsia Airport Services Corporation, MacroAsia Air Taxi Services, MacroAsia Catering Services, Inc., MacroAsia Properties Development Corp. and MacroAsia Mining Corporation; Director/OIC of Eton Properties Philippines, Inc.; Director of Lufthansa Technik Philippines, Inc., Bulawan Mining, Air Philippines Corporation, **PAL Holdings, Inc.,** Philippine Airlines, Inc.; and Board of Advisor of **Philippine National Bank**, Asia Brewery Inc., and Tanduay Distillers, Inc.	Director / 1 Year/ 09 June 2014 to present

Juanita Tan Lee	74	Filipino	Director of Eton Properties Philippines, Inc.; Director/Corporate Secretary of Asia Brewery, Inc., Fortune Tobacco Corp.; Corporate Secretary of Absolut Distillers, Inc., The Charter House, Inc., Foremost Farms, Inc., Grandspan Development Corp., Himmel Industries, Inc., Landcom Realty Corp., Lucky Travel Corp., PMFTC Inc., Progressive Farms, Inc. and Tanduay Distillers, Inc., and Assistant Corporate Secretary of Basic Holdings Corp.	Director/ 1 Year/ 02 May 2012 to present Assistant Corporate Secretary/ 1 Year/ 13 September 2000 to 17 September 2012 Treasurer/ 1 year/ 08 April 2014 to present
Peter Y. Ong	69	Filipino	Director and the Treasurer of Merit Holdings & Equities Corporation, Director of Fortune Tobacco Corporation, AlliedBankers Insurance Corporation, Allied Leasing and Finance Corporation and Solar Holdings Corporation. He is also a consultant of Philippine Airlines, Inc., Former President of Air Philippines Corporation, Former Senior Vice President for Production of Fortune Tobacco Corporation and Former Director of Allied Savings Bank.	Director / 1 Year/ 18 August 2014 to present
Washington Z. Sycip	95	Filipino-American	Founder of SyCip Gorres Velayo & Co.; Chairman Emeritus of the Board of Trustees and Governors of the Asian Institute of Management; Chairman of Cityland Development Corp., Lufthansa Technik Philippines, Inc., STEAG State Power, Inc. and State Properties Corporation; Independent Director of Asian Eye Institute, **Belle Corporation**, Lopez Holdings Corp., Commonwealth Foods, Inc., First Philippine Holdings, Corp., Highlands Prime Inc., **Metro Pacific Investments Corp.**, Philippine Equity Management Inc., Philippine Hotelier, Inc., Philamlife, Inc., Realty Investment Inc., The PHINMA Group, State Land, Inc., and Century Properties Group Inc.; and Director of Philippine Airlines, Inc., MacroAsia Corp., **PAL Holdings, Inc.** and **Philippine National Bank**.	Director/ 1 year/ 09 July 2013 to present

Antonino L. Alindogan, Jr.	78	Filipino	Chairman of An-Cor Holdings, Inc.; Chairman/President of Landrum Holdings, Inc.; Independent Director of Philippine Airlines, Inc., Eton Properties Philippines, Inc., Asia Brewery Inc., Tanduay Distillers, Inc. and **PAL Holdings, Inc.**	Independent Director; Audit Committee Chairman/ 1 year/ 31 July 2012 to present
Wilfrido E. Sanchez	79	Filipino	Tax Counsel of Quiason Makalintal Barot Torres Ibarra &Sison Law Offices; Vice Chairman of Center for Leadership & Change, Inc.; Independent Director of Adventure International Tours, Inc., Amon Trading Corp., EEI Corporation, Grepalife Asset Management Corp., Grepalife Fixed Income Fund Corp., **House of Investments, Inc**., JVR Foundation, Inc., Kawasaki Motor Corp., Magellan Capital Holdings, Corp., Omico Corporation; PETNET, Inc., PETPLANS, Inc., Transnational Diversified Corp., Transnational Diversified Group, Inc., Transnational Financial Services, Inc., and Universal Rubina Corp.; Independent Director of Eton Properties Philippines, Inc. and **Rizal Commercial Banking Corporation**	Independent Director/ 1 year/ 31 July 2012 to present
Florencia G. Tarriela	69	Filipino	Chairman of **Philippine National Bank**, PNB Global Remittance & Financial Co., HK Ltd.; Trustee/Advisor/Director of Foundation for Filipino Entrepreneurship, Inc., Summer Institute of Linguistics, and Tulay sa Pagunlad, Inc.; Columnist of Manila Bulletin	Independent Director/ 1 year/ 09 August 2012 to present
Robin C. Sy	81	Filipino	President of Asian Shipping Corporation, Independent Non-executive Director of Dynamic Holdings Limited, Honorary President of Federation of Filipino-Chinese Chamber of Commerce and Industry, Inc., Former Director of Air Philippines Corporation and Zuma Holdings and Management Corporation.	Independent Director / 1 Year/ 18 August 2014 to present

2. Executive Officers

Name/Position	Age	Citizenship	Current Affiliations and Business Experiences in the last 5 years	Term of Office/ Period Served
Lucio C. Tan/ Chairman	82	Filipino	See above	1 Year/ 2 July 1999 to present
Juanita Tan Lee/ Treasurer	74	Filipino	See above	1 Year/ 08 April 2014 to present
Michael G. Tan/ President	50	Filipino	See above	1 Year/ 05 May 2010 to present
Ma. Cecilia L. Pesayco/ Corporate Secretary	64	Filipino	Corporate Secretary of PNB Savings Bank and East Silverlane Realty and Development Corp., Trustmark Holdings Corporation, Zuma Holdings and Management Corporation, Tanduay Distillers, Inc., Asia Brewery, Inc., **PAL Holdings, Inc.** and Air Philippines Corp.; Former Corporate Secretary of Allied Banking Corp. and Eton Properties Philippines, Inc.	1 Year/ 31 March 1998 to present
Jose Gabriel D. Olives/ Chief Financial Officer	70	Filipino	Former Senior Vice President – Finance & Chief Financial Officer of Philippine Airlines, Inc., and Former Chief Finance Officer of Asia Brewery, Inc.	1 Year/ 09 August 2012 to present
Nestor C. Mendones/ Deputy Chief Financial Officer	62	Filipino	Senior Vice President-Finance and Chief Finance Officer of Tanduay Distillers, Inc.	1 Year/ 09 August 2012 to present
Marivic T. Moya/ Assistant Corporate Secretary	56	Filipino	Corporate Secretary of MacroAsia Catering Services Inc., MacroAsia Airport Services Corp., and Watergy Business Solutions Inc., Director and Coporate Secretary of MacroAsia Properties Development Corp., MacroAsia Air Taxi Services, Inc., and MacroAsia Mining Corp.(2000-Present), and Cavite Business Resources, Inc.	1 Year/ 09 June 2014 to present

Independent Directors and their qualifications:

1. Antonino L. Alindogan, Jr., elected as Independent Director since July 31, 2012.

   Term of office – 1 year
   Period served – 3 years

   Educational attainment:
   Bachelor of Science in Commerce major in Accounting, De La Salle College (Magna Cum Laude)
   Certified Public Accountant

   Positions held in the last 5 years:
   - Landrum Holdings, Inc. – Chairman
   - An-Cor Holdings, Inc. – Chairman
   - Eton Properties Philippines, Inc. – Independent Director
   - PAL Holdings, Inc. – Independent Director
   - Philippine Airlines, Inc. – Independent Director

2. Wilfrido E. Sanchez, elected as an Independent Director since July 31, 2012.

   Term of office – 1 year
   Period served – 3 years

   Educational attainment:
   Bachelor of Arts, Ateneo de Manila University
   Bachelor of Laws, Ateneo de Manila University
   Master of Laws, Yale Law School

   Positions held in the last 5 years:
   - Quiason Makalintal Barot Torres & Ibarra Law Offices – Tax Counsel
   - Adventure International Tours, Inc. – Director
   - Amon Trading Corp. – Director
   - Center for Leadership and Change, Inc. – Vice Chairman/Director
   - EEI Corporation – Director
   - Eton Properties Philippines, Inc. – Independent Director
   - House of Investments, Inc. –Director
   - JVR Foundation, Inc. – Director
   - Kawasaki Motor Corp. – Director
   - Magellan Capital Holdings Corp. – Director
   - PETNET, Inc. – Director
   - PETPLANS, Inc. – Director
   - Rizal Commercial Banking Corp. – Independent Director
   - Transnational Diversified Corp. – Director
   - Transnational Financial Services, Inc. - Director
   - Universal Robina Corp. – Independent Director

3. Florencia G. Tarriela, elected as Independent Director since August 9, 2012.

Term of office – 1 year
Period served – 3 years

Educational Attainment:

BSBA major in Economics, University of the Philippines
Master of Arts in Economics, University of California, Los Angeles (UCLA), USA (topped the Master's Comprehensive Exams and completed the M.A. Degree with an "A" average in three Quarters)

Positions held in the last 5 years:

- Philippine National Bank – Chairman
- PNB Global Remittance & Financial Co., HK Ltd. – Chairman
- Manila Bulletin - "Business Options" – Columnist
- Foundation for Filipino Entrepreneurship, Inc. (FFEI) – Trustee
- Summer Institute of Linguistics – Adviser
- Tulay sa Pagunlad, Inc. – Director
- Bank Administration Institute of the Philippines – Life Sustaining Member
- Financial Executive Institute – Life Sustaining Member

4. Robin C. Sy, elected as Independent Director since June 9, 2013.

Term of office – 1 year
Period served – 2 year

Positions held in the last 5 years:

- Asian Shipping Corporation – President
- Dynamic Holdings Limited – Independent Director
- Federation of Fil-Chinese Chamber of Commerce and Industry – Honorary President

The Independent Directors are duly qualified and suffer from no disqualification under Section 11(5) of the Code of Corporate Governance. Independent director refers to a person other than an officer or employee of the corporation, its parent or subsidiaries, or any other individual having any relationship with the corporation, which would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. This means that apart from the director's fees and shareholdings, he should be independent of management and free from any business or other relationship which could materially interfere with the exercise of his independent judgment (SEC Memorandum Circular No. 2, Code of Corporate Governance).

3. Significant Employees

While all of the employees of the Group are valued for their contribution to the Group, none are expected to contribute significantly more than any of the others.

4. Family Relationship

Dr. Lucio C. Tan, Chairman, is the brother of Mr. Harry C. Tan. He is also the father of Mr. Lucio K. Tan, Jr. and Mr. Michael G. Tan and the father-in-law of Mr. Joseph T. Chua. Ms. Carmen K. Tan is the wife of Mr. Lucio C. Tan, the mother of Mr. Lucio K. Tan, Jr. and the mother-in-law of Mr. Joseph T. Chua.

5. Involvement in Certain Legal Proceedings during the past 5 years

The Directors and Executive Officers of LTG are not involved in any bankruptcy petition by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time; any conviction by final judgment in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses; being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities; and being found by a domestic or foreign court of competent jurisdiction (in a civil action), the Commission or comparable foreign body, or a domestic or foreign Exchange or other organized trading market or self-regulatory organization, to have violated a securities or commodities law or regulation, and the judgment has not been reversed, suspended, or vacated.

Item 10. Executive Compensation

The following compensation was given to officers and directors for the reporting year.

Summary Compensation Table

Annual Compensation

	Year	**Salary**	**Bonus**	**Others***
Four (4) most highly compensated executive officers (see below)	2017 (Estimate)	₱7,854,000	₱654,500	₱3,162,500
	2016	7,140,000	595,000	2,875,000
	2015	6,980,000	595,000	2,805,000
All other officers and directors as a group unnamed	2017 (Estimate)	2,640,000	220,000	8,244,500
	2016	2,400,000	200,000	7,495,000
	2015	2,619,150	218,263	7,695,000

* Others – includes per diem of directors

The following constitute LTG’s four (4) most highly compensated executive officers (on a consolidated basis):

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

a) Standard Arrangements – The Directors of LTG receive a Director's allowance of P30,000.00 a month and a per diem of P25,000.00 for every board meeting and P15,000.00 for every committee meeting attended. Other than the stated allowance and the per diem of the Directors, there are no other standard arrangements to which the Directors of LTG are compensated, or are to be compensated, directly or indirectly, for any services provided as a Director, including any additional amounts payable for Committee participation or special assignments, for the last completed fiscal year and the ensuing year.

b) Other Arrangements – None

c) Employment contract or compensatory plan or arrangement – None

Warrants and Options Outstanding: Repricing

a.) There are no outstanding warrants or options held by LTG's CEO, the named executive officers, and all officers and directors as a group.

b.) This is not applicable since there are no outstanding warrants or options held by LTG's CEO, executive officers and all officers and directors as a group.

Item 11. Security Ownership of Certain Record and Beneficial Owners and Management as of December 31, 2016.

1. Security Ownership of Certain Record and Beneficial Owners of more than 5%

Title of Class	Name and Address of Record Owner and relationship with Issuer	Name of Beneficial Ownership and relationship with Record Owner	Citizenship	No. of Shares	Percent of Class
Common	Tangent Holdings Corporation (THC) Unit 3, 11/F, Bench Tower, 30th Street corner Rizal Drive, Crescent Park West, Bonifacio Global City, Taguig City Controlling Stockholder	Lucio C. Tan Majority Shareholder	Filipino	8,046,318,193/ Record Owner	74.36%

Each shareholder of the Company is entitled to vote only to the extent of the number of shares registered in his/her/its name. The Board of Directors of THC, comprised of Dr. Lucio C. Tan, Ms. Carmen K. Tan and Messrs. Harry C. Tan, Lucio K. Tan, Jr., and Michael G. Tan, has the right to vote or direct the voting or disposition of LTG's shares held by THC.

2. Security Ownership of Management

Title of Class	Name of Beneficial owner	Amount and Nature of Beneficial Ownership	Citizenship	Percent of Beneficial Ownership
Common	Lucio C. Tan	2,200 R (direct)	Filipino	Nil
Common	Harry C. Tan	3,300 R (direct)	Filipino	Nil
Common	Carmen K. Tan	2,200 R (direct)	Filipino	Nil
Common	Lucio K. Tan Jr.	1,100 R (direct)	Filipino	Nil
Common	Michael G. Tan	1,100 R (direct)	Filipino	Nil
Common	Joseph T. Chua	2,200 R (direct)	Filipino	Nil
Common	Juanita Tan Lee	1,100 R (direct)	Filipino	Nil
Common	Washington Z. Sycip	1,000 R (direct)	American	Nil
Common	Wilfrido E. Sanchez	1,000 R (direct)	Filipino	Nil
Common	Florencia G. Tarriela	1,000 R (direct)	Filipino	Nil
Common	Antonino L. Alindogan Jr.	1,000 R (direct)	Filipino	Nil
Common	Peter Y. Ong	1,100 R (direct)	Filipino	Nil
Common	Robin C. Sy	1,000 R (direct)	Filipino	Nil
Common	Ma. Cecilia L. Pesayco	2,200 R (direct)	Filipino	Nil
N/A	Jose Gabriel D. Olives	None N/A	Filipino	N/A
N/A	Nestor C. Mendones	None N/A	Filipino	N/A
N/A	Marivic T. Moya	None N/A	Filipino	N/A

Security ownership of all directors and officers as a group unnamed is 21,500 representing 0% of LTG's total outstanding capital stock.

*There are no additional shares which the listed beneficial and record owners has the right to acquire within 30 days from any warrants, options, rights and conversion privileges or similar obligations or otherwise.

3. Voting Trust Holders of 5% or more

There are no voting trust holders of 5% or more of the common shares.

4. Changes in Control

None

Item 12. Certain Relationships and Related Transactions

In addition to Note 22 of the Notes to the Consolidated Financial Statements on pages 190 to 196 the following are additional relevant related party disclosures:

(1) The Group's noted related parties are Victorias Milling Co., Inc. (VMC) and Tangent Holdings Corporation (THC). Transactions with these related parties are necessary in the normal course of the Group's business. Though substantial in amount, they are still under normal trade practice. There are no special risks or contingencies since the usual business risks like problem in quality, failure to deliver when needed and price of product, which is dependent on the cost efficiency of suppliers.

a.) Business purpose of the arrangements:

We do business with related parties to avoid the risk of material shortages, unfair pricing and stronger ties, which is based on trust and confidence. There is also better coordination with the suppliers on the quality, production scheduling and pricing considerations.

b.) Identification of the related parties transaction business and nature of the relationship:

1. VMC – supplier of sugar and molasses
2. THC – advances

c.) Transaction prices are based on terms that are no less favorable than those arranged with third parties.

d.) Transactions have been fairly evaluated since we adhere to industry standards and practices.

e.) There are no other ongoing contractual or other commitments as a result of the arrangements. There are no long term supplier's contract. The Group can source out from outside suppliers if they are more favorable.

(2) Not applicable – there are no parties that fall outside the definition "related parties" with whom the Group or its related parties have a relationship that enables the parties to negotiate terms of material transactions that may not be available from other, more clearly independent parties on an arm's length basis**.**

The effects of the related party transactions on the financial statements have been identified in Note 22 of the Notes to Consolidated Financial Statements.

PART IV – CORPORATE GOVERNANCE

Item 13. Corporate Governance

Please refer to attached 2016 Consolidated Changes in the Annual Corporate Governance Report (ACGR).

PART V - EXHIBITS AND SCHEDULES

Item 14. Exhibits and Reports on SEC Form 17-C

a. Exhibits - see accompanying Index to Exhibits (page 80)

The other exhibits, as indicated in the Index to Exhibits are either not applicable to the Group or require no answer

b. Reports on SEC Form 17-C

SEC Form 17-C (Current Reports), which has been filed during the year, is no longer filed as part of the exhibits.

LIST OF ITEMS REPORTED UNDER SEC FORM 17-C
(FOR THE PERIOD OF JULY 2016 TO DECEMBER 2016)

Date of Report	Subject Matter Disclosed
August 12, 2016	Official Media Release of LTG for August 12, 2016 – LTG's Net Income at Php 4.56 Billion for the First Half of 2016
November 11, 2016	Official Media Release of LTG for November 11, 2016 – LTG's 9-month 2016 result Net Income at PhP6.25 Billion.
December 29, 2016	Amended By-Laws of LT Group, Inc.
December 29, 2016	Amended Articles of Incorporation and Amended By-Laws of Tanduay Distillers, Inc., a subsidiary of LT Group, Inc.

SIGNATURES

Pursuant to the requirements of Section 17 of the Securities Regulation Code (SRC) and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned thereunto duly authorized in the City of Makati on APR 0 6 2017.

By:

Lucio C. Tan
Principal Executive Officer

Nestor C. Mendones
Deputy Chief Financial Officer

Michael G. Tan
Principal Operating Officer

Susan T. Lee
Principal Accounting Officer

Jose Gabriel D. Olives
Principal Financial Officer

Ma. Cecilia L. Pesayco
Corporate Secretary

SUBSCRIBED AND SWORN to before me this ____ day of APR 0 6 2017 Makati City 2017 affiants exhibiting to me their Passport numbers, as follows:

NAMES	PASSPORT NO.	DATE OF ISSUE	PLACE OF ISSUE
Lucio C. Tan	EC0015255	1/17/2014	Manila, Philippines
Michael G. Tan	EC0229876	2/6/2014	Manila, Philippines
Jose Gabriel D. Olives	EC0224969	2/6/2014	Manila, Philippines
Nestor C. Mendones	EC3602105	3/6/2015	NCR East, Philippines
Ma. Cecilia L. Pesayco	EC8362602	7/20/2016	Manila, Philippines
Susan T. Lee	EC4659506	7/16/2015	Manila, Philippines

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Book No. II
Series of 2017

ELVIN S. SALINDO
Notary Public until 31 December 2018
19th/F BDO Plaza, 8737 Paseo de Roxas, Makati City
PTR No. 5913572, Makati City, 04 January 2017
IBP No. 1056174, Makati, 04 January 2017
Roll No. 65645, Commission No. M-23

LT GROUP, INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES
SEC FORM 17-A

* These schedules which are required by part IV(e) of SRC Rule 68, have been omitted because they are either not required, not applicable or the information required to be presented is included in the Consolidated Financial Statements.

LT GROUP, INC.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **LT Group, Inc.** is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for each of the three years ended December 31, 2016, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

Signed under oath by the following:

Lucio C. Tan
Chairman and Chief Executive Officer

Michael G. Tan
President

Jose Gabriel D. Olives
Chief Financial Officer

Signed this 14th day of March 2017

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

REPUBLIC OF THE PHILIPPINES)
CITY OF MAKATI)

BEFORE ME, personally appeared the following persons on March 14, 2017

Name	Passport No.	Date Issue	Place of Issue
Lucio C. Tan	EC0015255	1/17/2014	Manila, Philippines
Michael G. Tan	EC0229876	2/6/2014	Manila, Philippines
Jose Gabriel D. Olives	EC0224969	2/6/2014	Manila, Philippines

Known to me and to me known to be the same persons who executed the foregoing instrument, and acknowledged that he executed the same as his free act and deed for the use and purpose hereinabove set forth.

This instrument consisting of two (2) pages, including this whereon the acknowledgement is written, has been signed by the party on each and every page thereof.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal, this day of MAR 14 2017 2017 at Makati City Philippines

ELVIN S. SALINDO
Notary Public until 31 December 2018
19th/F BDO Plaza, 8737 Paseo de Roxas, Makati City
PTR No. 5913572, Makati City, 04 January 2017
IBP No. 1056174, Makati, 04 January 2017
Roll No. 65645, Commission No. M-23

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LT GROUP, INC.

CERTIFICATE ON THE COMPILATION SERVICES FOR THE PREPARATION OF THE FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

I hereby certify that I am the Certified Public Accountant who performed the compilation services related to the preparation and presentation of financial information of **LT Group, Inc. and Subsidiaries** (the Group) as at December 31, 2016 and 2015, in accordance with Philippine Financial Reporting Standards, as required by accounting and auditing standards.

In discharging this responsibility, I hereby declare that I am the **Financial Reporting Manager** of the Group.

Furthermore, in my compilation services for preparation of the Consolidated Financial Statements and notes to the Consolidated Financial Statements, I was not assisted by or did not avail of the services of Sycip Gorres Velayo & Co., which is the external auditor who rendered the audit opinion for the said Consolidated Financial Statements and notes to the Consolidated Financial Statements.

I hereby declare, under penalties of perjury and violation of the Revised Accountancy Law, that my statements are true and correct.

Abinadab G. Bañares
Abinadab G. Bañares
Financial Reporting Manager
CPA Certificate No. 0124114
valid until August 13, 2018
BOA Accreditation No. 0723
valid until August 13, 2019

March 14, 2017

SUBSCRIBED AND SWORN to before this MAR 14 2017 at Makati City affiant exhibiting to me his PRC License No. 0124114 valid until August 13, 2018.

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ELVIN S. SALINDO
Notary Public until 31 December 2018
19th/F BDO Plaza, 8737 Paseo de Roxas, Makati City
PTR No. 5913572, Makati City, 04 January 2017
IBP No. 1056174, Makati, 04 January 2017
Roll No. 65645, Commission No. M-23

COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

P	W	-	0	0	0	0	0	3	4	3

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
ACFS	SEC	N/A

COMPANY INFORMATION

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

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
376	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 City

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.*

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
LT Group, Inc.
11th Floor, Unit 3 Bench Tower
30th St. corner Rizal Drive Crescent Park West 5
Bonifacio Global City, Taguig City

Opinion

We have audited the consolidated financial statements of LT Group, Inc. (a subsidiary of Tangent Holdings Corporation) and its subsidiaries (the Group), which comprise the consolidated balance sheets as at December 31, 2016 and 2015, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2016, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2016 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

Key Audit Matters

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

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

Accounting for the disposal of Allianz-PNB Life Insurance, Inc. (APLII) and the remaining interest in APLII

In 2016, the Group's subsidiary, Philippine National Bank (PNB), completed the sale of its 51% ownership interest in APLII for a consideration amounting to US$66.0 million (₱3.1 billion). Pursuant to the sale of APLII, PNB also entered into a distribution agreement with APLII where PNB will allow APLII to have exclusive access to the distribution network of PNB and its subsidiary, PNB Savings Bank, for over a period of 15 years (the Exclusive Distribution Rights). Both the share purchase agreement and the distribution agreement have provisions referring to one another, making the distribution agreement an integral component of the sale transaction. Accordingly, the purchase consideration of US$66.0 million (₱3.1 billion) was allocated between the 51% ownership interest in APLII and the Exclusive Distribution Rights. The sale of the 51% ownership interest in APLII resulted in the loss of control of PNB. Under PFRSs, PNB is required to remeasure the remaining interest in APLII to its fair value at date of disposal. The accounting for the disposal of 51% ownership interest in APLII and the remaining interest in APLII is significant to our audit because of the amounts involved in the transaction and the significant judgment of the management for the valuation of the 51% interest in APLII, the Exclusive Distribution Rights and the remaining interest in APLII. PNB engaged a third party valuer in determining the fair values of the shares of APLII and the Exclusive Distribution Rights. The disclosures related to the disposal of APLII are included in Notes 11 and 37 to the consolidated financial statements.

Audit Response

We read the key agreements related to the disposal of APLII, that is, the share purchase agreement and the distribution agreement. Likewise, we also reviewed the accounting for the consideration received and the allocation made between the 51% interest in APLII and the Exclusive Distribution Rights. We considered the competence, capabilities and objectivity of the valuer engaged by PNB to perform the valuation. We performed an understanding of the valuation techniques used by the valuer. We involved our internal specialist to assist us in evaluating the valuation methodology and the data and valuation multiples used by the third party valuer. For key assumptions related to the valuation of the 51% ownership interest in APLII, we compared the data and the valuation multiples used to available market or industry data. We also compared the discount rate and growth rate used on future cash flows to publicly available data on market participants that are comparable to the business of APLII. For key assumptions related to the valuation of the Exclusive Distribution Rights, we compared the data and valuation multiples, that is, number of customers and number of branches used in the valuation to available market or industry data and to the internal data of PNB.

Adequacy of allowance for credit losses of loans and receivables

The Group's loans and receivables from PNB are significant as they represent 24% of the total assets of the Group. The Group determines the allowance for credit losses on individual basis for individually significant loans and receivables, and collectively, for loans and receivables that are not individually significant such as consumer loans and credit card receivables. We considered the impairment of loans and receivables as a key audit matter because it involves significant management judgment in determining the allowance for credit losses. The determination of the recoverable amount of loans and receivables involves various assumptions and factors including the financial condition of the borrower, timing of expected future cash flows, probability of collections, observable market prices and expected net selling prices of the collateral. The disclosures related to allowance for credit losses on loans and receivables are included in Notes 3 and 8 to the consolidated financial statements.

Audit Response

We obtained an understanding of the specific and collective impairment process and tested the related controls over impairment data and calculations. For loans and receivables subjected to specific impairment test, we obtained an understanding of the basis for measuring the impairment. We selected samples of individually impaired loans and inquired of the latest developments about the borrowers. We tested the key inputs to the impairment calculation by assessing whether the forecasted cash flows are based on the borrower's current financial condition; inspecting recent appraisal reports to determine the fair value of collateral held; and checking whether the discount rates used are based on the original effective interest rate or the last repriced rate. For loans and receivables subjected to collective impairment test, we tested inputs in the historical loss and net flow rate models, such as, for consumer loans, agreeing the past due aging reports per consumer loan product type while for business loans, agreeing the groupings of business loans based on their internal credit risk ratings to the Group's records and subsidiary ledgers. We examined whether the assumptions and parameters in the collective impairment calculation, such as historical losses of default and recovery rate, are based on historical data. We also reperformed the calculation of historical loss rates.

Valuation of net retirement benefits liability

The Group has defined benefit retirement plans covering all of its permanent employees. We consider this as a key audit matter because the valuation of the benefits liability involves a significant level of management judgment. The valuation also requires the assistance of an external actuary whose calculation involves the use of certain assumptions, such as prospective salary increases, employee turnover rates, and discount rates that could have a material impact on the valuation of the benefits expense and liability. The relevant disclosures are included in Note 23 to the consolidated financial statements.

Audit Response

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

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2016, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2016 are expected to be made available to us after the date of this auditor's report.

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

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern.

If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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

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

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

SYCIP GORRES VELAYO & CO.

Martin C. Guantes

Martin C. Guantes
Partner
CPA Certificate No. 88494
SEC Accreditation No. 0325-AR-3 (Group A),
August 25, 2015, valid until August 24, 2018
Tax Identification No. 152-884-272
BIR Accreditation No. 08-001998-52-2015,
February 27, 2015, valid until February 26, 2018
PTR No. 5908704, January 3, 2017, Makati City

March 14, 2017

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

CONSOLIDATED BALANCE SHEETS
(Amounts in Thousands)

	December 31	
	2016	2015
ASSETS		
Current Assets		
Cash and cash equivalents (Note 5)	**₱174,676,789**	₱137,556,341
Financial assets at fair value through profit or loss (Notes 6 and 21)	**6,441,511**	9,663,734
Available-for-sale investments (Notes 7 and 17)	**8,473,221**	2,915,170
Loans and receivables (Notes 8 and 17)	**189,812,938**	172,140,625
Due from related parties (Note 22)	**1,922,467**	1,593,034
Inventories (Note 9)	**12,849,799**	14,024,047
Other current assets (Note 10)	**10,600,399**	8,841,923
	404,777,124	346,734,874
Assets of disposal group classified as held for sale (Note 37)	**–**	23,526,757
Total Current Assets	**404,777,124**	370,261,631
Noncurrent Assets		
Loans and receivables - net of current portion (Notes 8 and 17)	**248,621,351**	206,782,709
AFS investments (Notes 7 and 17)	**60,128,678**	66,649,517
Held-to-maturity investments (Notes 7 and 10)	**24,102,594**	23,096,473
Investments in associates and joint ventures (Note 11)	**16,817,351**	11,761,290
Property, plant and equipment (Note 12):		
At appraised values	**36,104,048**	39,538,145
At cost	**5,170,574**	5,299,731
Investment properties (Note 13)	**28,217,373**	22,231,525
Deferred income tax assets - net (Note 29)	**1,424,159**	551,237
Other noncurrent assets (Note 14)	**3,727,772**	3,380,244
Total Noncurrent Assets	**424,313,900**	379,290,871
TOTAL ASSETS	**₱829,091,024**	₱749,552,502
LIABILITIES AND EQUITY		
Current Liabilities		
Deposit liabilities (Note 15)	**₱515,554,099**	₱436,362,854
Financial liabilities at fair value through profit or loss (Notes 16 and 21)	**232,832**	126,075
Bills and acceptances payable (Note 17)	**25,068,268**	5,836,839
Accounts payable and accrued expenses (Note 18)	**17,291,277**	17,079,820
Income tax payable	**282,025**	294,581
Short-term debts (Note 19)	**1,750,000**	1,400,000
Current portion of long-term debts (Note 19)	**466,946**	476,015
Due to related parties (Note 22)	**57,054**	46,770
Other current liabilities (Notes 20 and 38)	**17,364,001**	13,249,643
	578,066,502	474,872,597
Liabilities of disposal group classified as held for sale (Note 37)	**–**	21,452,621
Total Current Liabilities (Carried Forward)	**578,066,502**	496,325,218

	December 31	
	2016	2015
Total Current Liabilities (Brought Forward)	**₱578,066,502**	₱496,325,218
Noncurrent Liabilities		
Deposit liabilities - net of current portion (Note 15)	**45,866,133**	39,793,338
Financial liabilities at fair value through profit or loss (Notes 16 and 21)	**–**	9,118
Bills and acceptances payable (Note 17)	**10,817,679**	19,915,383
Long-term debts - net of current portion (Note 19)	**5,101,801**	10,706,431
Net retirement benefits liability (Note 23)	**3,899,342**	3,900,926
Deferred income tax liabilities - net (Note 29)	**1,323,121**	1,182,976
Other noncurrent liabilities (Note 20)	**5,411,870**	7,961,017
Total Noncurrent Liabilities	**72,419,946**	83,469,189
Total Liabilities	**650,486,448**	579,794,407
Equity		
Attributable to equity holders of the Company (Notes 1, 7, 12, 23, 24, 30 and 36):		
Capital stock	**10,821,389**	10,821,389
Capital in excess of par	**35,906,231**	35,906,231
Preferred shares of subsidiaries issued to Parent Company	**18,060,000**	18,060,000
Other equity reserves	**804,095**	804,095
Reserves of disposal group classified as held for sale (Note 37)	**–**	335,000
Other comprehensive income, net of deferred income tax effect	**1,878,006**	3,116,572
Retained earnings	**68,640,783**	59,855,195
Shares of stock of the Company held by subsidiaries	**(12,519)**	(22,464)
	136,097,985	128,876,018
Non-controlling interests (Notes 1, 7, 12 and 30)	**42,506,591**	40,882,077
Total Equity	**178,604,576**	169,758,095
TOTAL LIABILITIES AND EQUITY	**₱829,091,024**	₱749,552,502

See accompanying Notes to Consolidated Financial Statements.

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

CONSOLIDATED STATEMENTS OF INCOME
(Amounts in Thousands, Except for Basic/Diluted Earnings Per Share)

	Years Ended December 31		
	2016	2015 (As re-presented, Note 37)	2014 (As re-presented, Note 37)
REVENUE (Note 24)			
Banking	**₱29,111,818**	₱26,600,160	₱24,210,181
Beverage	**10,932,326**	10,386,308	9,877,681
Distilled spirits	**14,904,343**	12,002,266	11,919,131
Property development	**2,851,514**	2,484,453	2,278,600
	57,800,001	51,473,187	48,285,593
COST OF SALES AND SERVICES (Note 24)	**26,126,881**	22,002,882	21,632,083
GROSS INCOME	**31,673,120**	29,470,305	26,653,510
EQUITY IN NET EARNINGS OF ASSOCIATES (Note 11)	**2,711,540**	1,188,974	894,555
	34,384,660	30,659,279	27,548,065
OPERATING EXPENSES			
Selling expenses (Note 25)	**2,351,522**	2,202,441	2,398,394
General and administrative expenses (Note 26)	**25,563,084**	21,156,533	20,994,127
	27,914,606	23,358,974	23,392,521
OPERATING INCOME	**6,470,054**	7,300,305	4,155,544
OTHER INCOME (CHARGES) - Net			
Foreign exchange gains - net	**1,535,217**	1,322,400	1,347,704
Finance costs (Note 27)	**(202,490)**	(202,518)	(454,855)
Finance income (Note 27)	**106,426**	110,376	119,041
Others - net (Note 28)	**5,026,447**	3,686,974	3,789,575
	6,465,600	4,917,232	4,801,465
INCOME BEFORE INCOME TAX	**12,935,654**	12,217,537	8,957,009
PROVISION FOR INCOME TAX (Note 29)			
Current	**2,535,861**	2,490,527	2,266,825
Deferred	**(361,393)**	238,292	409,818
	2,174,468	2,728,819	2,676,643
NET INCOME FROM CONTINUING OPERATIONS	**10,761,186**	9,488,718	6,280,366
NET INCOME FROM DISCONTINUED OPERATIONS (Note 37)	**1,327,970**	7,936	191,840
NET INCOME	**₱12,089,156**	₱9,496,654	₱6,472,206

(Forward)

	Years Ended December 31		
	2016	2015 (As re-presented, Note 37)	2014 (As re-presented, Note 37)
NET INCOME ATTRIBUTABLE TO:			
Equity holders of the Company	**₱9,390,407**	₱6,599,035	₱4,410,230
Non-controlling interests	**2,698,749**	2,897,619	2,061,976
	₱12,089,156	₱9,496,654	₱6,472,206
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Company (Note 31)	**₱0.87**	₱0.61	₱0.41
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Company from Continuing Operations (Note 31)	**₱0.86**	₱0.58	₱0.39

See accompanying Notes to Consolidated Financial Statements.

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in Thousands)

	Years Ended December 31		
	2016	2015 (As re-presented, Note 37)	2014 (As re-presented, Note 37)
NET INCOME	**₱12,089,156**	₱9,496,654	₱6,472,206
OTHER COMPREHENSIVE INCOME (LOSS)			
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:			
Net changes in fair value of AFS investments (Note 7)	**(723,853)**	(1,098,424)	551,055
Income tax effect	**8,686**	3,311	1,383
	(715,167)	(1,095,113)	552,438
Translation adjustments	**302,754**	662,775	(275,448)
Net other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods	**(412,413)**	(432,338)	276,990
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:			
Re-measurement gains on defined benefit plans (Note 23)	**(423,766)**	(50,010)	(1,047,515)
Income tax effect	**20,179**	7,679	(53,628)
	(403,587)	(42,331)	(1,101,143)
Share in re-measurement gain on defined benefit plans of an associate (Note 11)	**63,642**	–	–
Revaluation increment (decrement) on property, plant and equipment (Note 12)	**390,727**	(518,611)	–
Income tax effect	**(117,218)**	158,448	–
	273,509	(360,163)	–
Net other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods	**(66,436)**	(402,494)	(1,101,143)
OTHER COMPREHENSIVE LOSS, NET OF TAX	**(478,849)**	(834,832)	(824,153)
TOTAL COMPREHENSIVE INCOME	**₱11,610,307**	₱8,661,822	₱5,648,053
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Equity holders of the Company	**₱9,170,228**	₱6,266,724	₱3,816,532
Non-controlling interests	**2,440,079**	2,395,098	1,831,521
	₱11,610,307	₱8,661,822	₱5,648,053

See accompanying Notes to Consolidated Financial Statements.

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014
(Amounts in Thousands)

	Attributable to Equity Holders of the Company (Notes 1, 7, 12, 24, 30 and 36)																	
							Other Comprehensive Income (Loss)											
	Capital Stock	Capital in Excess of Par	Deposit for Future Stock Subscription	Preferred Shares of Subsidiaries Issued to Parent Company	Other Equity Reserves	Reserves of Disposal Group Classified as Held for Sale	Cumulative Translation Adjustments	Net Changes in AFS Investments (Note 7)	Re-measurement Gains (Losses) on Defined Benefit Plans (Note 23)	Revaluation Increment on Property Plant and Equipment (Note 12)	Revaluation Increment on Property Plant and Equipment Transferred to Associate (Notes 2, 11 and 12)	Re-measurement Gains on Defined Benefit Plans of an Associate (Note 11)	Total Other Comprehensive Income (Loss), Net of Deferred Income Tax Effect	Retained Earnings	Shares of Stock of the Company Held by Subsidiaries	Total	Non-controlling Interests (Notes 1, 7, 12 and 30)	Total
BALANCES AT DECEMBER 31, 2013	**₱10,821,389**	**₱35,906,231**	**₱6,048,534**	**₱7,405,000**	**₱790,136**	**₱–**	**₱299,243**	**(₱875,973)**	**(₱823,855)**	**₱6,378,188**	**₱1,065,858**	**₱27,338**	**₱6,070,799**	**₱50,505,944**	**(₱12,518)**	**₱117,535,515**	**₱32,235,085**	**₱149,770,600**
Net income for the year	–	–	–	–	–	–	–	–	–	–	–	–	–	4,410,230	–	4,410,230	2,061,976	6,472,206
Other comprehensive income (loss)	–	–	–	–	–	–	(155,545)	125,559	(563,712)	–	–	–	(593,698)	–	–	(593,698)	(230,455)	(824,153)
Total comprehensive income (loss) for the year	–	–	–	–	–	–	(155,545)	125,559	(563,712)	–	–	–	(593,698)	4,410,230	–	3,816,532	1,831,521	5,648,053
Issuance of preferred shares of subsidiaries	–	–	(6,048,534)	10,655,000	–	–	–	–	–	–	–	–	–	–	–	4,606,466	–	4,606,466
Capital contribution of non-controlling interest	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	4,427,697	4,427,697
Cash dividends declared	–	–	–	–	–	–	–	–	–	–	–	–	–	(1,730,622)	–	(1,730,622)	–	(1,730,622)
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	–	–	–	–	–	–	–	–	–	(596,649)	(297,785)	–	(894,434)	894,434	–	–	–	–
BALANCES AT DECEMBER 31, 2014	**10,821,389**	**35,906,231**	–	**18,060,000**	**790,136**	–	**143,698**	**(750,414)**	**(1,387,567)**	**5,781,539**	**768,073**	**27,338**	**4,582,667**	**54,079,986**	**(12,518)**	**124,227,891**	**38,494,303**	**162,722,194**
Net income for the year	–	–	–	–	–	–	–	–	–	–	–	–	–	6,599,035	–	6,599,035	2,897,619	9,496,654
Other comprehensive income (loss)	–	–	–	–	–	–	379,660	(348,779)	(3,029)	(360,163)	–	–	(332,311)	–	–	(332,311)	(502,521)	(834,832)
Total comprehensive income (loss) for the year	–	–	–	–	–	–	379,660	(348,779)	(3,029)	(360,163)	–	–	(332,311)	6,599,035	–	6,266,724	2,395,098	8,661,822
Stock issue cost	–	–	–	–	–	–	–	–	–	–	–	–	–	(213)	–	(213)	–	(213)
Acquisition of shares of subsidiaries from the Controlling Shareholders	–	–	–	–	14,502	–	–	–	–	–	–	–	–	–	–	14,502	–	14,502
Acquisition of non-controlling interest	–	–	–	–	(543)	–	–	–	–	–	–	–	–	–	–	(543)	–	(543)
Acquisition of shares by subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	–		(9,946)	(9,946)	–	(9,946)
Cash dividends declared	–	–	–	–	–	–	–	–	–	–	–	–	–	(1,622,397)	–	(1,622,397)	(7,324)	(1,629,721)
Reserves disposal group classified as held for sale	–	–	–	–	–	335,000	–	(348,786)	13,786	–	–	–	(335,000)	–	–	–	–	–
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	–	–	–	–	–	–	–	–	–	(501,001)	(297,783)	–	(798,784)	798,784	–	–	–	–
BALANCES AT DECEMBER 31, 2015 (CARRIED FORWARD)	**10,821,389**	**35,906,231**	–	**18,060,000**	**804,095**	**335,000**	**523,358**	**(1,447,979)**	**(1,376,810)**	**4,920,375**	**470,290**	**27,338**	**3,116,572**	**59,855,195**	**(22,464)**	**128,876,018**	**40,882,077**	**169,758,095**

(Forward)

	Attributable to Equity Holders of the Company (Notes 1, 7, 12, 24, 30 and 36)																	
							Other Comprehensive Income (Loss)											
	Capital Stock	Capital in Excess of Par	Deposit for Future Stock Subscription	Preferred Shares of Subsidiaries Issued to Parent Company	Other Equity Reserves	Reserves of Disposal Group Classified as Held for Sale	Cumulative Translation Adjustments	Net Changes in AFS Investments (Note 7)	Re-measurement Gains (Losses) on Defined Benefit Plans (Note 23)	Revaluation Increment on Property Plant and Equipment (Note 12)	Revaluation Increment on Property Plant and Equipment Transferred to Associate (Notes 2, 11 and 12)	Re-measurement Gains on Defined Benefit Plans of an Associate (Note 11)	Total Other Comprehensive Income (Loss), Net of Deferred Income Tax Effect	Retained Earnings	Shares of Stock of the Company Held by Subsidiaries	Total	Non-controlling Interests (Notes 1, 7, 12 and 30)	Total
BALANCES AT DECEMBER 31, 2015 (BROUGHT FORWARD)	**₱10,821,389**	**₱35,906,231**	**₱–**	**₱18,060,000**	**₱804,095**	**₱335,000**	**₱523,358**	**(₱1,447,979)**	**(₱1,376,810)**	**₱4,920,375**	**₱470,290**	**₱27,338**	**₱3,116,572**	**₱59,855,195**	**(₱22,464)**	**₱128,876,018**	**₱40,882,077**	**₱169,758,095**
Net income for the year	–	–	–	–	–	–	–	–	–	–	–	–	–	9,390,407	–	9,390,407	2,698,749	12,089,156
Other comprehensive income (loss)	–	–	–	–	–	–	170,965	(523,918)	(204,377)	273,509	–	63,642	(220,179)	–	–	(220,179)	(258,670)	(478,849)
Total comprehensive income (loss) for the year	–	–	–	–	–	–	170,965	(523,918)	(204,377)	273,509	–	63,642	(220,179)	9,390,407	–	9,170,228	2,440,079	11,610,307
Sale of disposal group	–	–	–	–	–	(335,000)	–	–	–	–	–	–	–	–	9,945	(325,055)	(271,814)	(596,869)
Cash dividends declared	–	–	–	–	–	–	–	–	–	–	–	–	–	(1,623,206)	–	(1,623,206)	(543,751)	(2,166,957)
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	–	–	–	–	–	–	–	–	–	(720,604)	(297,783)	–	(1,018,387)	1,018,387	–	–	–	–
BALANCES AT DECEMBER 31, 2016	**₱10,821,389**	**₱35,906,231**	**₱–**	**₱18,060,000**	**₱804,095**	**₱–**	**₱694,323**	**(₱1,971,897)**	**(₱1,581,187)**	**₱4,473,280**	**₱172,507**	**₱90,980**	**₱1,878,006**	**₱68,640,783**	**(₱12,519)**	**₱136,097,985**	**₱42,506,591**	**₱178,604,576**

See accompanying Notes to Consolidated Financial Statements.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)

	Years Ended December 31		
	2016	2015 (As re-presented, Note 37)	2014 (As re-presented, Note 37)
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax from continuing operations	**₱12,935,654**	₱12,217,537	₱8,957,009
Income (loss) before income tax from discontinued operations (Note 37)	**1,385,397**	(97,757)	204,015
Income before income tax	**14,321,051**	12,119,780	9,161,024
Adjustments for:			
Depreciation and amortization (Notes 12, 13 and 14)	**3,657,358**	3,452,518	3,554,992
Provision for losses (Note 8)	**3,218,905**	865,889	2,207,864
Gain on disposal of:			
Other noncurrent assets (Notes 12, 13 and 28)	**(1,823,200)**	(1,562,020)	(1,889,744)
AFS investments (Notes 7 and 28)	**–**	(2,928)	(245,216)
Equity in net earnings of associates (Note 11)	**(2,711,540)**	(1,188,974)	(894,555)
Share in losses of joint venture (Notes 10 and 28)	**438,961**	2,067	46,043
Mark-to-market gain on financial assets at fair value through profit or loss (Note 28)	**(62,955)**	42,383	32,351
Gain on remeasurement of retained interest (Note 28)	**(1,644,339)**	–	–
Gain on sale of disposal group (Note 37)	**(834,535)**	–	–
Gain on investment in an associate arising from contribution of non-monetary assets (Note 28)	**(1,056,240)**	–	–
Gain on sale of brands (Note 37)	**(46,300)**	–	–
Finance costs (Note 27)	**202,490**	202,518	454,855
Finance income (Note 27)	**(106,426)**	(110,376)	(119,041)
Dividend income (Note 28)	**(53,729)**	(22,464)	(10,912)
Movement in accrued retirement benefits (Note 23)	**(362,683)**	83,058	2,081,913
Operating income before changes in working capital	**13,136,818**	13,881,451	14,379,574
Decrease (increase) in:			
Financial assets at fair value through profit or loss	**3,284,668**	(1,019,884)	(10,255,769)
Receivables	**(64,624,296)**	(49,118,548)	(44,955,219)
Inventories	**1,174,248**	(2,299,582)	(2,656,906)
Other current assets	**(1,781,349)**	(125,447)	(2,247,938)
Increase (decrease) in:			
Deposit liabilities	**85,264,040**	41,296,083	8,718,031
Financial liabilities at fair value through profit or loss	**97,639**	2,956,106	2,787,130
Accounts payable and accrued expenses	**211,457**	1,515,018	(4,285,023)
Other current and noncurrent liabilities	**2,984,382**	(2,337,872)	3,752,493
Cash generated from (used in) operations	**39,747,607**	4,747,325	(34,763,627)
Dividends received (Notes 11, 22 and 28)	**53,729**	1,718,432	3,371,564
Interest received	**106,426**	94,872	143,541
Interest paid	**(202,490)**	(202,518)	(454,855)
Income taxes paid, including creditable withholding and final taxes	**(2,244,451)**	(2,903,245)	(3,160,488)
Net cash from (used in) operating activities	**37,460,821**	3,454,866	(34,863,865)

(Forward)

		Years Ended December 31	
	2016	2015 (As re-presented, Note 37)	2014 (As re-presented, Note 37)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of:			
Held to maturity investments	**(₱937,948)**	(₱1,470,378)	(₱571,602)
Investment properties (Note 13)	**(6,246,875)**	(540,417)	(2,608,825)
Property, plant and equipment (Note 12)	**(2,028,339)**	(5,036,289)	(2,534,580)
Software (Note 14)	**(426,881)**	(124,176)	(419,809)
AFS investments (Note 7)	**–**	(15,078,720)	(65,693,182)
Shares and convertible notes of an associate (Note 11)	**–**	–	(772,864)
Investment in a joint venture	**112,746**	–	–
Return of investment from a joint venture (Note 11)	**–**	27,157	–
Proceeds from sale of:			
Disposal group classified as held for sale (Note 37)	**3,050,850**	–	–
AFS investments (Note 7)	**247,621**	1,502,928	63,499,326
Other assets (Notes 12 and 13)	**3,504,533**	8,320,764	2,434,543
Advances extended to affiliates	**(329,433)**	–	–
Net cash used in investing activities	**(3,053,726)**	(12,399,131)	(6,666,993)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from availment of:			
Short-term debts (Note 19)	**350,000**	1,100,000	–
Bill and acceptance payable (Note 17)	**10,133,725**	6,702,164	2,000,841
Long-term debts (Note 19)	**1,500,000**	–	500,000
Payments of:			
Long-term debts (Note 19)	**(6,775,520)**	(5,000,000)	(1,623,537)
Finance cost	**(338,179)**	(802,545)	(402,750)
Due to related parties (Note 22)	**–**	(3,089)	(2,684,943)
Proceeds from sale of non-controlling interest (Note 30)	**–**	102,623	–
Dividends paid (Note 30)	**(2,166,957)**	(1,629,721)	(1,730,622)
Advances from affiliates (Note 22)	**10,284**	–	–
Capital contribution of noncontrolling interest (Note 30)	**–**	–	4,427,697
Acquisition of non-controlling interest (Note 30)	**–**	(601,772)	–
Net cash from (used in) financing activities	**2,713,353**	(132,340)	486,686
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**37,120,448**	(9,076,605)	(41,044,172)
CASH FROM DISPOSAL GROUP RECLASSIFIED AS PART OF ASSETS HELD FOR SALE (Note 37)	**–**	(642,544)	–
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**137,556,341**	147,275,490	188,319,662
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	**₱174,676,789**	₱137,556,341	₱147,275,490

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Thousands, Except for Par Value Per Share and Basic/Diluted Earnings per Share)

1. **Corporate Information, Corporate Restructuring, and Authorization for Issue of the Consolidated Financial Statements**

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

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

As of December 31, 2016 and 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.

Capital-Raising of LTG
On October 26, 2011, LTG's Board of Directors (BOD) approved a capital-raising exercise via the two-tranche Placing and Subscription Transaction involving (i) the sale by Tangent of 398,138,889 shares in LTG to the public at an offer price of ₱4.22 each (the "Placing Tranche") and (ii) the subscription at a price equivalent to the offer price offered to the public at the Placing Tranche, as maybe adjusted to account for the expenses of the Placing Tranche (the "Subscription Tranche").

The capital-raising exercise in 2011 was intended to fund LTG's expansion of its distilled spirits segment's plant capacity, increase in operational efficiency and rationalization of operations, and at the same time offer the investing public the opportunity to participate in LTG's growth. In December 2011, Tangent sold the said shares, thereby reducing its ownership interest in LTG from 97% to 86%. In accordance with the Subscription Tranche, Tangent agreed to subscribe to 398,138,889 new common shares from LTG's unissued capital stock for a total consideration of ₱1,639.4 million. On May 2, 2012, LTG's BOD and stockholders approved the conversion of the deposit for future stock subscription into issued common shares of LTG, which resulted to an increased ownership of Tangent in LTG, from 86% to 87% as of that date.

On July 27, 2012, LTG's BOD and stockholders approved the amendments in the Articles of Incorporation to reflect the increase in LTG's authorized capital stock from ₱5.0 billion divided into 5,000,000,000 shares with a par value of ₱1.00 per share to ₱25.0 billion divided into 25,000,000,000 shares with a par value of ₱1.00 per share. On the same date, LTG's BOD and stockholders also approved the issuance of 5,000,000,000 shares to Tangent in support of the increase in authorized capital stock and the waiver of rights/public offering in relation to the said shares to be issued to Tangent. On September 28, 2012, upon approval by the Philippine SEC of the increase in authorized capital stock, Tangent increased its ownership interest to 95.25%.

In December 2012, Tangent sold 508,544,100 shares to the public, thus, decreasing its ownership interest to 89.59% as of December 31, 2012.

On September 24, 2012, LTG's stockholders approved the two-tranche Placing and Subscription Transaction involving the sale by Tangent of up to, but not exceeding 3,000,000,000 common shares of LTG registered in its name to investors by way of a follow-on offering at a placing price to be determined through a book building exercise to be hereafter conducted (the "Placing Tranche") and the subsequent subscription by Tangent using the proceeds of the Placing Tranche (net of expenses incurred in the Placing Tranche) to new shares of LTG in an amount equivalent to the number of shares sold during the Placing Tranche at an issue price equivalent to the placing price (the "Subscription Tranche"). The total number of the shares subject of the Placing Tranche shall be determined based on investor demand as determined through a book building exercise, provided the same shall not exceed 3,000,000,000 shares and the total number of subscription shares shall not exceed the shares sold in the Placing Tranche. The BOD of LTG was granted authority to determine such other terms and conditions of the transaction as may be most beneficial to LTG, including (but not limited to) the timing of the same and total funds to be raised therefrom. Further, the subscription shares shall be listed with the PSE.

In April 2013, Tangent sold 1,840,000,000 shares to the public and agreed to subscribe to the same number of shares newly issued by LTG. The entire proceeds from the sale of LTG's shares was used by Tangent as payment for the subscription to new shares amounting to ₱36.6 billion, net of stock issuance costs (see Note 30). As a result of the Placing and Subscription Transaction, Tangent's ownership in LTG decreased to 74.36%.

Corporate Restructuring

Consolidation of Businesses under LTG

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

a. Consolidation of the beverage business and acquisition of Asia Brewery, Incorporated (ABI)

   On May 24, 2012, ABI's BOD approved the subscription to 400,000,000 shares of Interbev Philippines, Inc. (Interbev) at ₱1.00 par value per share by way of conversion of ABI advances to equity investment in Interbev. On the same date, ABI's BOD approved the acquisition of 125,000,000 shares of Packageworld, Inc. (Packageworld) at ₱1.00 par value per share through cash infusion. Effective June 29, 2012, upon approval by the Philippine SEC of Interbev's and Packageworld's application for the increase in capital stock, ABI became a stockholder of Interbev and Packageworld with 80.0% and 33.3% ownership interests, respectively. On June 24, 2012 and July 19, 2012, ABI's BOD approved the resolutions to buy out 100.0% of the outstanding shares of Waterich Resources Corporation (Waterich) and the remaining ownership interests in Interbev and Packageworld owned by the Controlling Shareholders, respectively. To effect the buyout transactions, ABI and the Controlling Shareholders executed the deeds of sale of shares of Waterich on June 24, 2012 and the deeds of assignment of ABI's advances to Packageworld and Interbev on July 25, 2012. Thus, Waterich, Interbev and Packageworld became wholly-owned subsidiaries of ABI.

On July 19, 2012, ABI's BOD authorized ABI to issue 800,000,000 shares to LTG from its authorized but unissued capital stock and 1,000,000,000 shares from the proposed increase in its authorized capital stock with par value of ₱1.00 per share. In August 2012, ABI issued the remaining authorized but unissued capital stock to LTG, thus, making ABI an 80.0%-owned subsidiary. On October 10, 2012, the Philippine SEC approved ABI's application to increase its authorized capital stock, thus, increasing LTG's ownership interest in ABI to 90.0%. In December 2012, LTG acquired the shares of ABI which are owned by Shareholdings, Inc. (Shareholdings), a company belonging to the Controlling Shareholders, and certain stockholders, thus, increasing LTG's ownership interest in ABI to 99.99%.

b. Acquisition of Fortune Tobacco Corporation (FTC)

On July 31, 2012, LTG's BOD approved the acquisition of at least 83.0% of FTC through a cash subscription to 1,646,489,828 shares at its par value of ₱1.00 per share. FTC has 49.6% ownership in PMFTC, Inc. (PMFTC), a company incorporated and domiciled in the Philippines which operates the combined businesses contributed by FTC and Philip Morris Philippines Manufacturing, Inc. (PMPMI) (see Note 11).

On September 26, 2012, LTG subscribed to 346,489,828 new shares of FTC with a par value of ₱1.00 per share, which was paid in cash by LTG in the amount of ₱346.5 million resulting in 49.5% interest of LTG in FTC.

On September 28, 2012, LTG subscribed in cash an additional 1,300,000,000 common shares of FTC with a par value of ₱1.00 per share, which was issued to LTG on October 10, 2012 upon approval of the Philippine SEC of FTC's application to increase its authorized capital stock. Thus, LTG increased its direct ownership interest in FTC to 82.32% while diluting ownership interest of Shareholdings in FTC from 98.0% to 17.33%.

On October 30, 2012, LTG's BOD approved the acquisition of up to 100% of equity interests in FTC.

In February 2013, LTG increased its effective ownership interest in FTC to 99.58% through the following:

- acquired subscription rights to 453,500,000 shares of Shareholdings, which represents 90.70% ownership interest in Shareholdings or equivalent to 15.71% indirect ownership interest in FTC;
- assumed certain liabilities of Shareholdings from Controlling Shareholders amounting to ₱1.5 billion, which was used as payment for the subscription of 1,500,000,000 shares out of the unissued capital stock of Shareholdings thereby increasing the ownership interest in Shareholdings to 97.68% (equivalent to 1.21% indirect ownership in FTC);
- acquired additional 0.34% direct ownership interest in FTC through purchase of FTC's 104,330,633 outstanding shares held by the Controlling Shareholders.

c. Acquisition of Eton Properties Philippines, Inc. (Eton)

Prior to restructuring in 2012, Paramount Landequities, Inc. (Paramount) and Saturn Holdings, Inc. (Saturn) have ownership interest of 55.07% and 42.39%, respectively, in Eton, a listed company incorporated and registered with the Philippine SEC and is primarily engaged in real estate development.

On September 17, 2012, LTG's BOD approved the assumption by LTG of certain liabilities of Paramount from Step Dragon Co. Ltd. and Billinge Investments Ltd., BVI-based companies, and Saturn from Penick Group Ltd., also a BVI-based company, amounting to ₱1,350.8 million and ₱521.3 million, respectively.

On September 25, 2012 and September 26, 2012, LTG subscribed to 1,350,819,487 common shares of Paramount and 490,000,000 common shares of Saturn, respectively, with a par value of ₱1.00 per share and will be issued to LTG out of an increase in Paramount's and Saturn's authorized capital stock. LTG paid the subscription in full by way of conversion into equity of LTG's advances to Paramount and Saturn amounting to ₱1,350.8 million and ₱490.0 million, respectively. On the same dates, Paramount and Saturn filed its application for increase in authorized capital with the Philippine SEC in order to accommodate LTG's investment.

Upon the Philippine SEC's approval on October 10, 2012, Paramount and Saturn became subsidiaries of LTG with 98.18% and 98.99% ownership interests, respectively, thus, giving LTG a 96.03% effective ownership in Eton.

On October 30, 2012, LTG entered into deeds of sale of shares with the Controlling Shareholders of Paramount and Saturn for the remaining issued and outstanding shares of the said companies. Thus, Paramount and Saturn became wholly owned subsidiaries of LTG.

On December 8, 2012, Paramount made a tender offer to buy back shares of Eton traded in the PSE resulting in the increase in its ownership interest from 55.07% to 56.86%, thus, increasing LTG's effective ownership interest in Eton to 99.25%.

On September 30, 2015, upon approval by the Philippine SEC of the increase in authorized capital stock of Eton from 5,000,000,000 common shares to 8,000,000,000 common shares with a par value of 1.00 per share, at least 25% of the increase in authorized capital stock or 750,000,000 common shares have been subscribed by Saturn and Paramount resulting in the increase of ownership interest to 56.9% and 42.7%, respectively, thus LTG's effective ownership interest in Eton increased from 99.25% to 99.6% in 2015.

d. Merger of Philippine National Bank (PNB) and Allied Banking Corporation (ABC) and acquisition of Bank Holding Companies.

On March 6, 2012, PNB held a Special Stockholders' Meeting approving the amended terms of the Plan of Merger of PNB with ABC. Under the approved amended terms, the merger was effected via a share-for-share exchange with PNB as the surviving entity. PNB issued to ABC shareholders 130 PNB common shares for every ABC common share and 22,763 PNB common shares for every ABC preferred share. As of January 17, 2013, PNB received all the necessary approvals from the Philippine SEC and foreign regulatory agencies to effectuate the merger. On February 9, 2013, PNB completed its planned merger with ABC (the merger of PNB and ABC is referred to herein as "Merged PNB") as approved and confirmed by the BOD of PNB and ABC on January 22 and January 23, 2013, respectively.

The merger of PNB and ABC was accounted for using the pooling of interests method by the Company since both entities are under the common control of Mr. Tan.

On February 11, 2013, LTG's BOD approved the acquisition of indirect ownership interest in the Merged PNB through the investment in the 27 holding companies which have collective ownership interest in the Merged PNB of 59.83% (collectively referred to as "Bank Holding Companies"). LTG's acquisition of the Bank Holding Companies was effected by way of subscription to the increase in authorized shares of the Bank Holding Companies and acquisition of the Bank Holding Companies' shares owned by the Controlling Shareholders. On November 8, 2013, LTG obtained the requisite regulatory approval from the Hongkong Monetary Authority (HKMA) to become a majority shareholder controller of ABC (Hongkong) Limited (ABCHK) and the HKMA took note of the plan of LTG to acquire or increase its shareholdings in PNB up to 59.83%.

In various dates in February, March and December 2013, upon approval of the Philippine SEC for the increase in authorized capital stock of certain Bank Holding Companies, LTG acquired between 80% to 100% ownership of these Bank Holding Companies. The transactions were consummated through conversion of LTG's advances from the Bank Holding Companies in exchange for the shares acquired.

As of December 31, 2016 and 2015, LTG indirectly owns 56.47% of PNB through the 59.83% collective ownership of the Bank Holding Companies.

These business combinations were accounted for using the pooling-of-interests method. Accordingly, LTG recognized the net assets of the acquired subsidiaries equivalent to their carrying values.

Authorization for Issue of the Consolidated Financial Statements
The consolidated financial statements as at December 31, 2016 and 2015 and for each of the three years in the period ended December 31, 2016 were authorized for issue by the BOD on March 14, 2017.

2. Summary of Significant Accounting and Financial Reporting Policies

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

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

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

	Percentage of Ownership						Country of Incorporation
	2016		2015		2014		
	Direct	**Indirect**	Direct	Indirect	Direct	Indirect	
Distilled Spirits							
TDI and subsidiaries	**100.0**	**–**	100.0	–	100.0	–	Philippines
Absolut Distillers, Inc. (ADI)	**–**	**95.0**	–	95.0	–	95.0	Philippines
Asian Alcohol Corporation (AAC)	**–**	**96.0**	–	96.0	–	96.0	Philippines
Tanduay Brands International, Inc. (TBI)[1]	**–**	**100.0**	100.0	–	100.0	–	Philippines
Beverages							
ABI and subsidiaries	**99.9**	**–**	99.9	–	99.9	–	Philippines
Agua Vida Systems, Inc.	**–**	**99.9**	–	99.9	–	99.9	Philippines
Interbev	**–**	**99.9**	–	99.9	–	99.9	Philippines
Waterich	**–**	**99.9**	–	99.9	–	99.9	Philippines
Packageworld	**–**	**99.9**	–	99.9	–	99.9	Philippines

(Forward)

	Percentage of Ownership						
	2016		2015		2014		Country of
	Direct	**Indirect**	Direct	Indirect	Direct	Indirect	Incorporation
AB Nutribev Corp.[2]	**–**	**99.9**	–	99.9	–	99.9	Philippines
Asia Pacific Beverage Pte Ltd [3]	**–**	**99.9**	–	99.9	–	99.9	Singapore
Tobacco							
Shareholdings	**97.7**	**–**	97.7	–	97.7	–	Philippines
FTC	**82.7**	**16.9**	82.7	16.9	82.7	16.9	Philippines
Property Development							
Saturn	**100.0**	**–**	100.0	–	100.0	–	Philippines
Paramount and subsidiaries	**100.0**	**–**	100.0	–	100.0	–	Philippines
Eton	**–**	**99.6**	–	99.6	–	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 (Note 22) [4]	**80-100**	**–**	**80-100**	–	80-100	–	Various
PNB and Subsidiaries[5]	**–**	**56.5**	–	56.5	–	56.5	Philippines
PNB Capital and Investment Corporation (PNB Capital)	**–**	**56.5**	–	56.5	–	56.5	Philippines
PNB Securities, Inc. (PNB Securities)	**–**	**56.5**	–	56.5	–	56.5	Philippines
PNB Forex, Inc.	**–**	**56.5**	–	56.5	–	56.5	Philippines
PNB Holdings Corporation (PNB Holdings)	**–**	**56.5**	–	56.5	–	56.5	Philippines
PNB General Insurers, Inc. (PNB Gen)	**–**	**56.5**	–	56.5	–	56.5	Philippines
PNB Corporation - Guam (PNB Guam)	**–**	**56.5**	–	56.5	–	56.5	United States of America (USA)
PNB International Investments Corporation (PNB IIC)	**–**	**56.5**	–	56.5	–	56.5	USA
PNB Remittance Centers, Inc. (PNB RCI)	**–**	**56.5**	–	56.5	–	56.5	USA
PNB RCI Holding Co. Ltd.	**–**	**56.5**	–	56.5	–	56.5	USA
PNB Remittance Co. (Canada)	**–**	**56.5**	–	56.5	–	56.5	Canada
PNB Europe PLC	**–**	**56.5**	–	56.5	–	56.5	United Kingdom
PNB Global Remittance & Financial Co. (HK) Ltd. (PNB GRF)	**–**	**56.5**	–	56.5	–	56.5	Hong Kong
PNB Italy SpA (PISpA) [6]	**–**	**–**	–	–	–	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)	**–**	**55.9**	–	55.9	–	50.8	Republic of China
Allianz-PNB Life Insurance, Inc. (APLII) (formerly PNB LII) [7]	**–**	**24.8**	–	45.2	–	45.2	Philippines
Allied Leasing and Finance Corporation (ALFC)	**–**	**32.3**	–	32.3	–	32.3	Philippines
Allied Banking Corporation (Hongkong) Limited (ABCHKL)	**–**	**28.8**	–	28.8	–	28.8	Hong Kong
ACR Nominees Limited	**–**	**28.8**	–	28.8	–	28.8	Hong Kong
Oceanic Holdings (BVI) Ltd. (OHBVI)	**–**	**15.7**	–	15.7	–	15.7	USA

(1) *Incorporated on May 6, 2003 to handle the marketing of TDI's products in the export market, TBI has not yet started commercial operations. On December 20, 2016, the Parent Company sold its 100% ownership interest in TBI to TDI through an execution of a Deed of Sale.*

(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, 2016 and 2015, the Bank Holding Companies consist of 27 entities with aggregate direct ownership interest of 59.83% in PNB, of which 20 companies are incorporated in the Philippines and seven (7) companies are incorporated in the British Virgin Islands (see Note 22).*

Subsidiaries are entities over which the Company has control. Specifically, the Group controls an investee if and only if the Group has:

- power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- exposure, or rights, to variable returns from its involvement with the investee, and
- the ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee
- rights arising from other contractual arrangements
- the Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included or excluded in the consolidated financial statements from the date the Group gains control or until the date the Group ceases to control the subsidiary.

Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. Adjustments, where necessary, are made to ensure consistency with the policies adopted by the Group.

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

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

Non-controlling interest shares in losses even if the losses exceed the non-controlling equity interest in the subsidiary.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognizes assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interest and the cumulative translation differences recorded in equity; recognizes the fair value of the consideration received, the fair value of any investment retained, and any surplus or deficit in profit or loss; and reclassifies the parent's share of components previously recognized in other comprehensive income (OCI) to profit or loss or retained earnings, as appropriate.

(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 APLII as of December 31, 2015 have been reclassified as disposal group classified as held for sale and the results of its operations for each of the three years ended December 31, 2016 have been reclassified as discontinued operations, following the approval of PNB's BOD disposing 51.00% of its ownership interest in APLII to Allianz SE (see Note 37).*

Business Combination and Goodwill

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

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

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group as an acquirer shall report in its consolidated financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the Group as an acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognized as of that date. During the measurement period, the Group as an acquirer shall also recognize additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period ends as soon as the Group as an acquirer receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. However, the measurement period shall not exceed one year from the acquisition date.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with Philippine Accounting Standards (PAS) 39, *Financial Instruments: Recognition and Measurement* either in profit or loss or as a charge to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity. Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the fair values of net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (CGU) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

A CGU to which goodwill has been allocated shall be tested for impairment annually, and whenever there is an indication that the unit may be impaired, by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit. If the recoverable amount of the unit exceeds the carrying amount of the unit, the unit and the goodwill allocated to that unit shall be regarded as not impaired. If the carrying amount of the unit exceeds the recoverable amount of the unit, the Group shall recognize the impairment loss. Impairment losses relating to goodwill cannot be reversed in subsequent periods.

The Group performs its impairment test of goodwill on an annual basis every December 31 or earlier whenever events or changes in circumstances indicate that goodwill may be impaired.

Common control business combinations
Where there are business combinations involving entities that are ultimately controlled by the same ultimate parent (i.e., Controlling Shareholders) before and after the business combination and that the control is not transitory ("business combinations under common control"), the Group accounts for such business combinations in accordance with the guidance provided by the Philippine Interpretations Committee Q&A No. 2011-02, PFRS 3.2 *Common Control Business Combinations*. The purchase method of accounting is used, if the transaction was deemed to have substance from the perspective of the reporting entity. In determining whether the business combination has substance, factors such as the underlying purpose of the business combination and the involvement of parties other than the combining entities such as the non-controlling interest, shall be considered. In cases where the transaction has no commercial substance, the business combination is accounted for using the pooling of interest method.

In applying the pooling-of-interests method, the Group follows the Philippine Interpretations Committee Q&A No. 2012-01, PFRS 3.2 - *Application of the Pooling of Interest Method for Business Combinations of Entities under Common Control in Consolidated Financial Statements*, which provides the following guidance:

- The assets and liabilities of the combining entities are reflected in the consolidated financial statements at their carrying amounts. No adjustments are made to reflect fair values, or recognize any new assets or liabilities, at the date of the combination. The only adjustments that are made are those adjustments to harmonize accounting policies.
- No new goodwill is recognized as a result of the combination. The only goodwill that is recognized is any existing goodwill relating to either of the combining entities. Any difference between the consideration paid or transferred and the equity acquired is reflected within equity as other equity reserve, i.e., either contribution or distribution of equity.
- The consolidated statement of income reflects the results of the combining entities for the full year, irrespective of when the combination took place.
- As a policy, comparatives are presented as if the entities had always been combined.

<u>Changes in Accounting Policies and Disclosures</u>
The accounting policies adopted are consistent with those of the previous financial year, except that the Group has adopted the following new accounting pronouncements starting January 1, 2016. Adoption of these pronouncements did not have any significant impact on the Group's financial position or performance, unless as otherwise indicated.

- 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*, clarify that the exemption in PFRS 10 from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity that measures all of its subsidiaries at fair value. They also 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 parent is consolidated. The amendments also allow an investor (that is not an investment entity and has an investment entity associate or joint venture) to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries when applying the equity method.

- Amendments to PAS 27, *Separate Financial Statements*, *Equity Method in Separate Financial Statements*, 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.

- Amendments to PFRS 11, *Joint Arrangements*, *Accounting for Acquisitions of Interests in Joint Operations*, require a joint operator that is accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business (as defined by PFRS 3), to 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.

- PFRS 14, *Regulatory Deferral Accounts*, is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of income 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. Since the Group is an existing PFRS preparer, this standard would not apply.

- Amendments to PAS 1, *Presentation of Financial Statements*, *Disclosure Initiative*, are intended to assist entities in applying judgment when meeting the presentation and disclosure requirements in PFRSs. They clarify the following:

  a. That entities shall not reduce the understandability of their financial statements by either obscuring material information with immaterial information; or aggregating material items that have different natures or functions
  b. That specific line items in the statement of income and other comprehensive income and the statement of financial position may be disaggregated

c. That entities have flexibility as to the order in which they present the notes to financial statements
d. That the share of other comprehensive income 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.

- Amendments to PAS 16, *Property, Plant and Equipment* and PAS 38, *Intangible Assets, Clarification of Acceptable Methods of Depreciation and Amortization*, clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets.

- Amendments to PAS 16 and PAS 41, *Agriculture: Bearer Plants*, change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, will apply.

Annual Improvements to PFRS (2012 - 2014 cycle) are effective for annual periods beginning on or after January 1, 2016. Except as otherwise stated, the Group does not expect these amendments to have a significant impact on the Group's consolidated financial statements.

- Amendment to PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations, Changes in Methods of Disposal*, is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.

- Amendment to PFRS 7, *Financial Instruments: Disclosures, Servicing Contracts*, requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement 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.

- Amendment to PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*, is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.

- Amendment to PAS 19, *Employee Benefits, Discount Rate: Regional Market Issue*, 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.

- Amendment to PAS 34, *Interim Financial Reporting, Disclosure of Information 'Elsewhere in the Interim Financial Report*', is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).

New Accounting Standards, Amendments to
<u>Existing Standards and Interpretation Effective Subsequent to December 31, 2016</u>
The standards, amendments and interpretation which have been issued but not yet effective as at December 31, 2016 are disclosed below. The Group intends to adopt these standards, amendments and interpretation, if applicable, when they become effective.

Effective in 2017

- Amendment to PFRS 12, *Clarification of the Scope of the Standard (Part of Annual Improvements to PFRS 2014 - 2016 Cycle*), clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale. The Group will consider these amendments.

- Amendments to PAS 7, *Statement of Cash Flows, Disclosure Initiative*, require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendments, entities are not required to provide comparative information for preceding periods. Early application of the amendments is permitted. The Group is assessing the potential effect of the amendments on its consolidated financial statements.

- Amendments to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses*, clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

  Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. Early application of the amendments is permitted. The Group is currently assessing the effect of these amendments on its consolidated financial statements.

Effective in 2018

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

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

- Amendments to PFRS 4, *Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4*, address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the forthcoming insurance contracts standard. They allow entities to choose between the overlay approach and the deferral approach to deal with the transitional challenges. The overlay approach gives all entities that issue insurance contracts the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before the new insurance contracts standard is issued. On the other hand, the deferral approach gives entities whose activities are predominantly connected with insurance an optional temporary exemption from applying PFRS 9 until the earlier of application of the forthcoming insurance contracts standard or January 1, 2021.

  The overlay approach and the deferral approach will only be available to an entity if it has not previously applied PFRS 9. The amendments are not applicable to the Group since it does not have activities that are predominantly connected with insurance or issue insurance contracts.

- PFRS 9, *Financial Instruments*, reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The Group is currently assessing the impact of adopting this standard.

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

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018. The Group is currently assessing the impact of the new revenue standard.

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (*Part of Annual Improvements to PFRS 2014 - 2016 Cycle*), clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. The amendments should be applied retrospectively, with earlier application permitted. The Group is currently assessing the impact of the new revenue standard.

- Amendments to PAS 40, *Investment Property*, *Transfers of Investment Property*, clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

- Philippine Interpretation based on International Financial Reporting Interpretations Committee (IFRIC) 22, *Foreign Currency Transactions and Advance Consideration* clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The interpretation may be applied on a fully retrospective basis. Entities may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

Effective in 2019

- PFRS 16, *Leases*, will no longer require lessees to classify their leases as either 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 lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or 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.

Entities may early adopt PFRS 16 but only if they have also adopted PFRS 15. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs. The Group is currently assessing the impact of PFRS 16 and plans to adopt the new standard on the required effectivity date.

Deferred effectivity

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

The Group continues to assess the impact of the above new and amended accounting standards and interpretations effective subsequent to 2016 on the Group's consolidated financial statements in the period of initial application. Additional disclosures required by these amendments will be included in the consolidated financial statements when these amendments are adopted.

Significant Accounting Policies Applicable to the Group

<u>Current versus Non-Current Classification</u>
The Group presents assets and liabilities in the consolidated balance sheet based on current/ non-current classification. An asset as current when it is:

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

All other assets are classified as non-current.

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

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

Investments in Associates and Joint Ventures

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

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

Where necessary, adjustments are made to the financial statements of the associates and joint ventures to bring the accounting policies used in line with those used by the Group.

For additional acquisitions resulting to a significant influence over an associate whose original investments were previously held at fair value through other comprehensive income, the changes in fair value previously recognized are reversed through equity reserves to bring the asset back to its original cost. The difference between the sum of consideration and the share of fair value of net assets at date the investment becomes an associate is recognized as goodwill which is retained in the carrying value of the investment or a gain in consolidated net income under "Equity in net earnings of associates".

Upon loss of significant influence over the associate or upon loss of joint control on the jointly controlled entity, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associates and joint ventures upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized either in profit or loss or other comprehensive income in the consolidated statement of comprehensive income.

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

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

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

Assets and liabilities of disposal group classified as held for sale are presented separately in the consolidated balance sheet.

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

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

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

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the consolidated statement of income.

<u>Fair Value Measurement</u>
The Group measures certain financial instruments and nonfinancial assets at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortized cost and investment properties carried at cost are disclosed in Note 34.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability

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

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

A fair value measurement of a non-financial asset takes into account a market participants' ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest Level of input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest Level of input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest Level of input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest Level of input that is significant to the fair value measurement as a whole) at the end of each reporting period.

External valuers are involved for valuation of significant assets, such as properties and AFS investments. Involvement of external valuers is decided upon annually by the respective segment management after discussion with and approval by the audit committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Management decides, after discussions with the Group's external valuers, which valuation techniques and inputs to use for each case.

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

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of fair value hierarchy, as explained above.

Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of acquisition, and that are subject to an insignificant risk of change in value.

For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items (COCI), amounts due from BSP and other banks, interbank loans receivable and securities held under agreements to resell that are convertible to known amounts of cash, with original maturities of three months or less from dates of placements and that are subject to an insignificant risk of changes in fair value.

Financial Instruments

Date of recognition

Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on settlement date. Derivatives are recognized on trade date basis (i.e., the date that the Group commits to purchase or sell). Deposits, amounts due to banks and customers and loans are recognized when cash is received by the Group or advanced to the borrowers.

Initial recognition of financial instruments

All financial instruments are initially recognized at fair value. Except for financial instruments at FVPL, the initial measurement of financial instruments includes transaction costs. The Group classifies its financial assets in the following categories: financial assets at FVPL, HTM investments, AFS investments, and loans and receivables. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date. Financial liabilities are classified into financial liabilities at FVPL and other financial liabilities at amortized cost.

Reclassification of financial assets
The Group may choose to reclassify a non-derivative trading financial asset out of the held-for-trading (HFT) category if the financial asset is no longer held for purposes of selling it in the near term and only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the Group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the HFT or AFS investments categories if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

The Group may also reclassify certain AFS investments to HTM investments when there is a change of intention and the Group has the ability to hold the financial instruments to maturity.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortized cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates (EIR) for financial assets reclassified to loans and receivables and HTM categories are determined at the reclassification date. Further increases in estimates of cash flows adjust the EIR prospectively.

'Day 1' difference
Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in the consolidated statement of income in "Trading and investment securities gains" unless it qualifies for recognition as some other type of asset. In cases where data is not observable, the difference between the transaction price and model value is only recognized in the consolidated statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' difference amount.

Derivatives recorded at FVPL
The Group has subsidiaries in the banking segment that are counterparties to derivative contracts, such as currency forwards, currency swaps, interest rate swaps and warrants. These derivatives are entered into as a service to customers and as a means of reducing or managing their respective foreign exchange and interest rate exposures, as well as for trading purposes. Such derivative financial instruments are initially recorded at fair value on the date at which the derivative contract is entered into and are subsequently remeasured at fair value. Any gains or losses arising from changes in fair values of derivatives are taken directly to the consolidated statement of income and are included in "Trading and investment securities gains" under "Revenue - banking" account. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Embedded derivatives
The Group's banking segment has certain derivatives that are embedded in host financial (such as structured notes, debt investments, and loans receivables) and non-financial (such as purchase orders and service agreements) contracts. These embedded derivatives include credit default swaps (which are linked either to a single reference entity or a basket of reference entities); conversion options in loans receivables; call options in certain long-term debt, and foreign-currency derivatives in debt instruments, purchase orders and service agreements. Embedded derivatives are bifurcated from their host contracts and carried at fair value with fair value changes being reported through profit or loss, when the entire hybrid contracts (composed of both the host contract and the embedded derivative) are not accounted for as financial assets at FVPL, when their economic risks and characteristics are not closely related to those of their respective host contracts, and when a separate

instrument with the same terms as the embedded derivative would meet the definition of a derivative. The Group assesses whether embedded derivatives are required to be separated from the host contracts when the Group first becomes a party to the contract. Reassessment of embedded derivatives is only done when there are changes in the contract that significantly modifies the contractual cash flows.

Other financial assets or financial liabilities held-for-trading
Other financial assets or financial liabilities held for trading (classified as "Financial assets at FVPL" or "Financial liabilities at FVPL") are recorded in the consolidated balance sheet at fair value. Changes in fair value relating to the held-for-trading positions are recognized in "Trading and investment securities gains". Interest earned or incurred is recorded in "Interest income" or "Interest expense", respectively, while dividend income is recorded in "Miscellaneous income" when the right to receive payment has been established.

Included in this classification are debt and equity securities which have been acquired principally for the purpose of selling or repurchasing in the near term.

Designated financial assets or financial liabilities at FVPL
Financial assets or financial liabilities classified in this category are designated by management on initial recognition when any of the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or
- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Designated financial assets and financial liabilities at FVPL are recorded in the consolidated balance sheet at fair value. Changes in fair value are recorded in "Trading and investment securities gains" under "Revenue - banking" account. Interest earned or incurred is recorded in "Interest income" or "Interest expense", respectively, while dividend income is recorded in "Others" according to the terms of the contract, or when the right of payment has been established.

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

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

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

After initial measurement, the “Loans and receivable”, “Due from BSP”, “Due from other banks”, “Interbank loans receivable”, “Securities held under agreements to resell” and “Receivable from SPV” are subsequently measured at amortized cost using the effective interest method, less allowance for credit losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in “Interest income” in the consolidated statement of income. The losses arising from impairment are recognized in “Provision for impairment and credit losses” in the consolidated statement of income.

AFS investments
AFS investments are those which are designated as such or do not qualify to be classified as “Financial assets at FVPL”, “HTM investments” or “Loans and receivables”. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. They include debt and equity instruments.

After initial measurement, AFS investments are subsequently measured at fair value. The effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency-denominated AFS debt securities, is reported in the consolidated statement of income. The unrealized gains and losses arising from the fair valuation of AFS investments are excluded, net of tax, from reported income and are reported as “Net changes in fair value of AFS investments” in the consolidated statement of comprehensive income.

The losses arising from impairment of AFS investments are recognized as “Provision for impairment and credit losses” in the consolidated statement of income. The impairment assessment would include an analysis of the significant or prolonged decline in fair value of the investments below its cost. The Group treats “significant” generally as 20% or more and “prolonged” as greater than 12 months for quoted equity securities.

When the security is disposed of, the cumulative gain or loss previously recognized in other comprehensive income is recognized as “Trading and investment securities gains” under the “Banking revenue” while recognized in profit or loss for the other operating segments in the consolidated statement of income. Interest earned on holding AFS debt investments are reported as ‘Interest income’ using the EIR. Dividends earned on holding AFS equity investments are recognized in the consolidated statement of income as “Others” when the right of the payment has been established.

HTM investments
HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Group’s management has the positive intention and ability to hold to maturity. Where the Group sells other than an insignificant amount of HTM investments, the entire category would be tainted and would have to be reclassified as AFS investments. Once tainted, the Group is prohibited from classifying investments under HTM for at least the following two financial years. After initial measurement, these HTM investments are subsequently measured at amortized cost using the effective interest method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in “Interest income” in the consolidated statement of income. The losses arising from impairment of such investments are recognized in the consolidated statement of income under “Provision for impairment, credit and other losses”.

Other financial liabilities
Issued financial instruments or their components, which are not designated at FVPL, are classified as deposit liabilities, bills and acceptances payable, accounts payable and accrued expenses, short-term and long-term debts and other appropriate financial liability accounts, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

After initial measurement, other financial liabilities not qualified as and not designated at FVPL are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

<u>Derecognition of Financial Assets and Liabilities</u>
Financial asset
A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained the risk and rewards of the asset but has transferred control over the asset.

Where the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control over the asset, the asset is recognized to the extent of the Group’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liability
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of income.

<u>Impairment of Financial Assets</u>
The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include

indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets at amortized cost
For financial assets carried at amortized costs such as loans and receivables, HTM investments, due from BSP and other banks, interbank loans receivable, securities held under agreements to resell and receivable from SPV, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

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

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

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

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

Restructured loans
Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR. The difference between the recorded value of the original loan and the present value of the restructured cash flows, discounted at the original EIR, is recognized in "Provision for impairment and credit losses" in the consolidated statement of income.

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

In the case of debt instruments classified as AFS investments, impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of "Interest income" in the consolidated statement of income. If subsequently, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

Offsetting of Financial Instruments
Financial instruments are offset and the net amount reported in the consolidated balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Group assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Group and all of the counterparties.

Other Current Assets
Prepayments are expenses paid in advance and recorded as asset before they are utilized. This account comprises mainly of prepaid importation charges and excise tax, prepaid rentals and insurance premiums and other prepaid items, and creditable withholding tax. Prepaid rentals and insurance premiums and other prepaid items are apportioned over the period covered by the payment and charged to the appropriate accounts in the consolidated statement of income when incurred.

Prepaid importation charges are applied to respective asset accounts, i.e., inventories and equipment, as part of their direct cost once importation is complete. Prepaid excise taxes are applied to inventory as part of its cost once related raw material item is consumed in the production. Creditable withholding tax is deducted from income tax payable on the same year the revenue was recognized.

Prepayments that are expected to be realized for no more than 12 months after the reporting period are classified as current assets, otherwise, these are classified as other noncurrent assets.

Property, Plant and Equipment

Property, plant and equipment, other than land and land improvements, plant buildings and building improvements, and machineries and equipment, are stated at cost less accumulated depreciation and amortization and any impairment in value.

The initial cost of property, plant and equipment consists of its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use and any estimated cost of dismantling and removing the property, plant and equipment item and restoring the site on which it is located to the extent that the Group had recognized the obligation of that cost. Such cost includes the cost of replacing part of the property, plant and equipment if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of property, plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are expensed in the consolidated statement of income as incurred. Borrowing costs incurred during the construction of a qualifying asset is likewise included in the initial cost of property, plant and equipment.

Land and land improvements, plant buildings and building improvements, and machineries and equipment are stated at revalued amounts based on a valuation performed by professionally qualified, accredited and independent appraisers. Revaluation is made every three to five years such that the carrying amount does not differ materially from that which would be determined using fair value at the end of reporting period. For subsequent revaluations, the accumulated depreciation at the date of revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals the revalued amount. Any resulting increase in the asset’s carrying amount as a result of the revaluation is credited directly to “Revaluation increment on property, plant and equipment, net of related deferred income tax effect” (presented as part of “Other comprehensive income” in the equity section of the consolidated balance sheet). Any resulting decrease is directly charged against any related revaluation increment to the extent that the decrease does not exceed the amount of the revaluation increment in respect of the same asset. Further, the revaluation increment of depreciable property, plant and equipment is transferred to retained earnings as the asset is used by the Group. The amount of the revaluation increment transferred would be the difference between the depreciation and amortization based on the revalued carrying amount of the asset and depreciation and amortization based on the asset’s original cost. In case the asset is retired or disposed of, the related remaining revaluation increment is transferred directly to retained earnings. Transfers from revaluation increment to retained earnings are not made through profit or loss.

As discussed in Note 1, certain assets and liabilities of FTC were transferred by the Group as capital contribution to PMFTC. Such properties transferred include revaluation increment on depreciable property, plant and equipment amounting to ₱4.6 billion. Thus, the carrying value of the net assets transferred to PMFTC, including the revaluation increment, plus the fair value adjustment at the date of transfer, was deemed as the historical cost of such assets for PMFTC.

Upon transfer in 2010, the Group realized through retained earnings portion of its share in the net appraisal increase from the previous revaluation of FTC’s property, plant and equipment amounting to ₱1.9 billion and transferred the unrealized portion amounting to ₱1.9 billion to “Revaluation increment on property, plant and equipment transferred to an associate, net of related deferred income tax effect” in the consolidated balance sheet and consolidated statement of changes in equity.

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets' original cost.

Construction in progress consists of properties in the course of construction for production or administrative purposes, which are carried at cost less any recognized impairment loss. This includes cost of construction and equipment, and other direct costs. Construction in progress is not depreciated until such time that the relevant assets are completed and put into operational use.

Returnable containers (i.e., returnable bottles and crates) are stated at cost less accumulated depreciation and any impairment in value. Cost of manufactured containers comprises materials used and applicable allocation of fixed and variable labor and overhead cost. Amortization of returnable containers is included under "Selling expenses" account in the consolidated statement of comprehensive income.

Deposit value for the containers loaned to customer is included as part of "Trade payable" under "Accounts payable and accrued expenses" account in the consolidated balance sheet.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

Depreciation and amortization are computed using the straight-line method over the following estimated useful lives of the assets:

	Number of Years
At Appraisal Values:	
Land improvements	5 - 15
Plant buildings and building improvements	8 - 50
Machineries and equipment	5 - 30
At Cost:	
Office and administration buildings	20 - 40
Leasehold improvements	3 - 30 or lease term, whichever is shorter
Transportation equipment	2 - 5
Returnable containers	5 - 7
Furniture, fixtures and other equipment	3 - 20

The estimated useful lives and depreciation and amortization method are reviewed periodically to ensure that the periods and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

Depreciation or amortization of an item of property, plant and equipment begins when it becomes available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation or amortization ceases at the earlier of the date that the item is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with PFRS 5 and the date the item is derecognized.

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

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

Investment Properties

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

a. entry of judgment in case of judicial foreclosure;
b. execution of the Sheriff's Certificate of Sale in case of extra-judicial foreclosure; or
c. notarization of the Deed of Dacion in case of payment in kind (*dacion en pago*).

Expenditures incurred after the investment properties have been put into operations, such as repairs and maintenance costs, are normally charged against current operations in the period in which the costs are incurred.

Subsequent to initial recognition, depreciable investment properties are stated at cost less accumulated depreciation and any accumulated impairment in value.

Depreciation is calculated on a straight-line basis using the estimated useful life from the time of acquisition of the investment properties.

The estimated useful life of the depreciable investment properties which generally include building and improvements ranges from five to 50 years.

Investment properties are derecognized when they have either been disposed of or when the investment properties are permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the consolidated statement of income in "Others" in the year of retirement or disposal.

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

Other Properties Acquired

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

The Group applies the cost model in accounting for other properties acquired. Depreciation is computed on a straight-line basis over the estimated useful life of five years. The estimated useful life and the depreciation method are reviewed periodically to ensure that the period and the method of depreciation are consistent with the expected pattern of economic benefits from items of other properties acquired.

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

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

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

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

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

Impairment of Noncurrent Nonfinancial Assets
Property, plant and equipment, investment properties, other properties, investments in associates and joint ventures, and software costs
At each reporting date, the Group assesses whether there is any indication that its nonfinancial assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Group makes a formal estimate of recoverable amount. Recoverable amount is the higher of an asset's (or cash-generating units') fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the cash-generating unit to which it belongs. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or cash-generating unit).

An impairment loss is charged to operations or to the revaluation increment for assets carried at revalued amount, in the year in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of accumulated depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation or amortization expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Goodwill
Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount of the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated (or to the aggregate carrying amount of a group of cash-generating units to which the goodwill relates but cannot be allocated), an impairment loss is recognized immediately in the consolidated statement of income. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods. The Group performs its annual impairment test of goodwill at the end of the reporting period.

Revenue
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The Group assesses its revenue arrangement against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as principal in all its revenue arrangements except for their brokerage transactions. Refer to the significant accounting policies generally applicable to the consumer products, banking and property development for the specific recognition criteria that must also be met before revenue is recognized.

Costs and Expenses
Costs and expenses are recognized in the consolidated statement of income when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably.

Selling and general and administrative expenses
Selling expenses are costs incurred to sell or distribute merchandise, it includes advertising and promotions and freight and handling, among others. General and administrative expenses constitute costs of administering the business. Selling and general and administrative expenses are expensed as incurred.

Taxes and licenses
Taxes and licenses include all other taxes, local and national, including gross receipts taxes (GRT), documentary stamp taxes, real estate taxes, licenses and permit fees and are recognized as costs and expenses when incurred.

Retirement Benefits
The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

- service cost
- net interest on the net defined benefit liability or asset
- re-measurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

Re-measurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Re-measurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations).

The Group's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Employee leave entitlement
Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled wholly before twelve months after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period.

<u>Borrowing Costs</u>
Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalization of borrowing costs commences when the activities necessary to prepare the asset for intended use are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the asset is available for their intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognized. Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, as well as exchange differences arising from foreign currency borrowings used to finance these projects, to the extent that they are regarded as an adjustment to interest costs. All other borrowing costs are expensed as incurred.

Debt Issue Costs
Issuance, underwriting and other related expenses incurred in connection with the issuance of debt instruments (other than debt instruments designated at FVPL) are deferred and amortized over the terms of the instruments using the effective interest method. Unamortized debt issuance costs are included in the measurement of the related carrying value of the debt instruments in the consolidated balance sheet.

Leases
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

a. there is a change in contractual terms, other than a renewal or extension of the arrangement;
b. a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
c. there is a change in the determination of whether fulfillment is dependent on a specified asset; or
d. there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

The Group as lessor
Finance leases, where the Group transfers substantially all the risks and benefits incidental to ownership of the leased item to the lessee, are included in the consolidated balance sheet under 'Loans and receivables' account. A lease receivable is recognized at an amount equivalent to the net investment (asset cost) in the lease. All income resulting from the receivable is included in 'Interest income' in the consolidated statement of income.

Leases where the Group does not transfer substantially all the risks and benefits of the ownership of the asset are classified as operating leases. Fixed lease payments for noncancellable lease are recognized in consolidated statement of income on a straight-line basis over the lease term. Any difference between the calculated rental income and amount actually received or to be received is recognized as deferred rent in the consolidated balance sheet. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Variable rent is recognized as income based on the terms of the lease contract.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized under "Other income" account in the consolidated statement of income.

The Group as lessee
Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments and included in "Property, plant and equipment" account with the corresponding liability to the lessor included in "Other liabilities" account. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to "Interest expense".

Capitalized leased assets are depreciated over the shorter of the estimated useful lives of the assets or the respective lease terms, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Fixed lease payments for noncancellable lease are recognized as an expense in the consolidated statement of income on a straight-line basis over the lease term while the variable rent is recognized as an expense based on terms of the lease contract.

Foreign Currency-denominated Transaction and Translation

The Group's consolidated financial statements are presented in Philippine peso, which is also LTG's functional currency. Each of the subsidiaries determines its own functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded by the individual entities in the Group in their respective functional currencies at the foreign exchange rates prevailing at the dates of the transactions. Outstanding monetary assets and liabilities denominated in foreign currencies are translated using the closing foreign exchange rate prevailing at the reporting date. All differences are charged to profit or loss in the consolidated statement of income.

Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the dates of initial transactions. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

FCDU and Overseas Subsidiaries

As of reporting date, the assets and liabilities of foreign subsidiaries, with functional currencies other than the functional currency of the Group, are translated into the presentation currency of the Group using the closing foreign exchange rate prevailing at the reporting date, and their respective income and expenses are translated at the monthly weighted average exchange rates for the year. The exchange differences arising on the translation are recognized in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation shall be recognized in profit or loss.

Taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the end of reporting period.

Deferred income tax

Deferred income tax is recognized on all temporary differences at the end of reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits from excess of minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences, carryforward benefits of unused tax credits from excess of MCIT over RCIT and unused NOLCO can be utilized. Deferred income tax liabilities are recognized for all taxable temporary differences.

Deferred income tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or loss nor taxable profit or loss.

Deferred income tax liabilities are not provided on non-taxable temporary differences associated with investments in domestic subsidiaries, associates and interest in joint ventures. With respect to investments in other subsidiaries, associates and interests in joint ventures, deferred income tax liabilities are recognized except when the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting period and are recognized to the extent that it has become probable that sufficient future taxable profits will allow the deferred income tax assets to be recovered. It is probable that sufficient future taxable profits will be available against which a deductible temporary difference can be utilized when there are sufficient taxable temporary difference relating to the same taxation authority and the same taxable entity which are expected to reverse in the same period as the expected reversal of the deductible temporary difference. In such circumstances, the deferred income tax asset is recognized in the period in which the deductible temporary difference arises.

Deferred income taxes relating to items recognized directly in OCI are also recognized in OCI and not in the consolidated statement of income.

Deferred income tax assets and deferred income tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of reporting period.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Provisions and Contingencies

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. When the Group expects a provision or loss to be reimbursed, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain and its amount is estimable. The expense relating to any provision is presented in the consolidated statement of income, net of any reimbursement.

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the consolidated financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the consolidated financial statements.

<u>Equity</u>
Capital stock is measured at par value for all shares issued by the Group. When the Group issue more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax.

Capital in excess of par is the portion of the paid-in capital representing excess over the par or stated value.

Preferred shares of subsidiaries issued to Parent Company are owned equity instruments by the Bank Holding Companies that are issued to Tangent (see Note 30).

Other equity reserves include effect of transactions with non-controlling interest and equity adjustments arising from business combination under common control and other group restructuring transactions.

Other comprehensive income (loss) comprises items of income and expense (including items previously presented under the consolidated statement of changes in equity) that are not recognized in the consolidated statement of income for the year in accordance with PFRS. Other comprehensive income (loss) of the Group includes cumulative translation adjustments, net changes in fair values of AFS investments, re-measurement gains (losses) on defined benefit plans, revaluation increment in property, plant and equipment and share in other comprehensive income of associates.

Retained earnings represent the cumulative balance of net income or loss, dividend distributions, prior period adjustments, effects of the changes in accounting policies and other capital adjustments. Unappropriated retained earnings represent that portion which can be declared as dividends to stockholders after adjustments for any unrealized items which are considered not available for dividend declaration. Appropriated retained earnings represent that portion which has been restricted and therefore is not available for any dividend declaration.

Treasury shares are owned equity instruments that are reacquired. Where any member of the Group purchases the Company's capital stock (presented as "Shares of the Company held by subsidiaries"), the consideration paid, including any directly attributable incremental costs (net of related taxes), is deducted from equity until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transactions costs and the related income tax effect, is included in equity attributable to the equity holders of the Group.

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

Earnings Per Share
Basic earnings per share (EPS) is computed by dividing net income for the period attributable to common shareholders by the weighted average number of common shares outstanding during the period after giving retroactive effect to stock dividends declared and stock rights exercised during the period, if any.

Diluted EPS is calculated by dividing the aggregate of net income attributable to common shareholders by the weighted average number of common shares outstanding during the period adjusted for the effects of any dilutive shares.

Dividends on Common Shares
Cash dividends on common shares are recognized as a liability and deducted from equity when approved by the BOD of the Company. Stock dividends are treated as transfers from retained earnings to capital stock. Dividends for the year that are approved after the end of reporting period are dealt with as a non-adjusting event after the end of reporting period.

Events after the Reporting Period
Events after the end of reporting period that provides additional information about the Group's position at the end of reporting period (adjusting event) are reflected in the consolidated financial statements. Events after the end of reporting period that are not adjusting events, if any, are disclosed when material to the consolidated financial statements.

Segment Reporting
The Group's operating segments are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on operating segments is presented in Note 4 to the consolidated financial statements.

Significant Accounting Policies Generally Applicable to Banking

Banking Revenue
Interest income
For all financial instruments measured at amortized cost and interest-bearing financial instruments classified as FVPL and AFS investments, interest income is recorded at the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses. The adjusted carrying amount is calculated based on the original EIR. The change in carrying amount is recorded as interest income. Once the recorded value of a financial asset or group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original EIR applied to the new carrying amount.

Service fees and commission income
The Group earns fee and commission income from diverse range of services it provides to its customers. Fee income can be divided into the following three categories:

- *Fee income earned from services that are provided over a certain period of time*
  Fees earned for the provision of services over a period of time are accrued over that period. These fees include investment fund fees, custodian fees, fiduciary fees, commission income, credit-related fees, trust fees, portfolio and other management fees, and advisory fees.

However, commitment fees for loans that are likely to be drawn down are deferred (together with any incremental costs) and recognized as an adjustment to the EIR of the loan.

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

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

- *Fee income from providing transaction services*
  Fees arising from negotiating or participating in the negotiation of a transaction for a third party - such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses - are recognized on completion of the underlying transaction.

  Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria. These fees include underwriting fees, corporate finance fees, remittance fees, brokerage fees, deposit-related and other credit-related fees. Loan syndication fees are recognized in the consolidated statement of income when the syndication has been completed and the Group retains no part of the loans for itself or retains part at the same EIR as for the other participants.

Interchange fee and revenue from rewards redeemed
'Interchange fees' are taken up as income under 'Service fees and commission income' upon receipt from member establishments of charges arising from credit availments by the Group's cardholders. These discounts are computed based on certain agreed rates and are deducted from amounts remitted to the member establishments.

The Group operates a loyalty points program which allows customers to accumulate points when they purchase from member establishments using the issued card of the Group. The points can then be redeemed for free products subject to a minimum number of points being redeemed. Consideration received is allocated between the discounts earned, interchange fee and the points earned, with the consideration allocated to the points equal to its fair value. The fair value is determined by applying statistical analysis. The fair value of the points issued is deferred and recognized as revenue when the points are redeemed. The deferred balance is included under "Other liabilities" in the consolidated balance sheet.

Commissions earned on credit cards
Commissions earned are taken up as income upon receipt from member establishments of charges arising from credit availments by credit cardholders. These commissions are computed based on certain agreed rates and are deducted from amounts remittable to member establishments.

Purchases by the credit cardholders, collectible on installment basis, are recorded at the cost of the items purchased plus certain percentage of cost. The excess over cost is credited to "Unearned and other deferred income" account and is shown as a deduction from "Loans and receivables" in the consolidated balance sheet. The unearned and other deferred income is taken up to income over the installment terms and is computed using the effective interest method.

Commission earned on reinsurance
Reinsurance commissions are recognized as revenue over the period of the contracts. The portion of the commissions that relates to the unexpired periods of the policies at the end of the reporting period is accounted for as "Other liabilities" in the consolidated balance sheet.

Dividend income
Dividend income is recognized when the Group's right to receive payment is established.

Trading and investment securities gains - net
Trading and investment securities gains - net includes results arising from trading activities and all gains and losses from changes in fair value of financial assets and financial liabilities at FVPL and gains and losses from disposal of AFS investments.

Income on direct financing leases and receivables financed
Income of the Group on loans and receivables financed is recognized using the effective interest method.

Unearned discounts included under "Unearned and other deferred income" which are amortized over the term of the note or lease using the effective interest method consist of:

- transaction and finance fees on finance leases and loans and receivables financed with long-term maturities; and
- excess of the aggregate lease rentals plus the estimated residual value of the leased equipment over its cost.

Premiums revenue
Gross insurance written premiums comprise the total premiums receivable for the whole period cover provided by contracts entered into during the accounting period. Premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior periods. Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method except for the marine cargo where the provision for unearned premiums pertains to the premiums for the last two months of the year. The portion of the premiums written that relate to the unexpired periods of the policies at end of reporting period are accounted for as provision for unearned premiums and presented as part of "Other liabilities" in the consolidated balance sheet. The related reinsurance premiums ceded that pertain to the unexpired periods at the end of the reporting periods are accounted for as deferred reinsurance premiums shown as part of "Other noncurrent assets" in the consolidated balance sheet. The net changes in these accounts between end of the reporting periods are credited to or charged against the consolidated statement of income for the period.

Other income
Income from sale of services is recognized upon rendition of the service. Income from sale of properties is recognized upon completion of the earning process and the collectibility of the sales price is reasonably assured.

<u>Insurance Product Classification</u>
Insurance contracts are those contracts where the Group (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Group determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

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

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant.

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

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

Repurchase and Reverse Repurchase Agreements

Securities sold under agreements to repurchase at a specified future date ('repos') are not derecognized from the consolidated balance sheet. The corresponding cash received, including accrued interest, is recognized in the consolidated balance sheet as a loan to the Group, reflecting the economic substance of such transaction.

Conversely, securities purchased under agreements to resell at a specified future date ('reverse repos') are not recognized in the consolidated balance sheet. The Group is not permitted to sell or repledge the securities in the absence of default by the owner of the collateral. The corresponding cash paid, including accrued interest, is recognized on the consolidated balance sheet as "Securities held under agreements to resell", and is considered a loan to the counterparty. The difference between the purchase price and resale price is treated as interest income and is accrued over the life of the agreement using the effective interest method.

Financial Guarantees

In the ordinary course of business, the Group gives financial guarantees consisting of letters of credit, letters of guarantees, and acceptances. Financial guarantees are initially recognized in the financial statements at fair value under "Other liabilities". Subsequent to initial recognition, the Group's liabilities under such guarantees are each measured at the higher of the initial fair value less, when appropriate, cumulative amortization calculated to recognize the fee in the consolidated statement of income in "Service fees and commission income", over the term of the guarantee, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the consolidated statement of income in "Provision for impairment and credit losses". Any financial guarantee liability remaining is recognized in the consolidated statement of income in 'Service fees and commission income', when the guarantee is discharged, cancelled or has expired.

Policy Loans

Policy loans included under loans and receivables are carried at their unpaid balances plus accrued interest and are fully secured by the policy values on which the loans are made.

Reinsurance
The Group cedes insurance risk in the normal course of business. Reinsurance assets represent balances due from reinsurance companies. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contract. When claims are paid, such reinsurance assets are reclassified to "Accounts receivable".

Ceded reinsurance arrangements do not relieve the Group from its obligations to policyholders.

The Group also assumes reinsurance risk in the normal course of business for insurance contracts. Premiums and claims on assumed reinsurance are recognized as income and expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to ceding companies. Amounts payable are estimated in a manner consistent with the associated reinsurance contract.

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

Reinsurance assets or liabilities are derecognized when the contractual rights are extinguished or expired or when the contract is transferred to another party.

When the Group enters into a proportional treaty reinsurance agreement for ceding out its insurance business, the Group initially recognizes a liability at transaction price. Subsequent to initial recognition, the portion of the amount initially recognized as a liability which is presented as "Other liabilities" in the consolidated balance sheet will be withheld and recognized as Funds held for reinsurers and included as part of the "Other liabilities" in the consolidated balance sheet. The amount withheld is generally released after a year.

Deferred Acquisition Cost (DAC)
Commission and other acquisition costs incurred during the financial period that vary with and are related to securing new insurance contracts and/or renewing existing insurance contracts, but which relates to subsequent financial periods, are deferred to the extent that they are recoverable out of future revenue margins. All other acquisition costs are recognized as an expense when incurred.

Subsequent to initial recognition, these costs are amortized. Amortization is charged to the consolidated statement of income. The unamortized acquisition costs are shown as "Deferred acquisition costs" in the assets section of the consolidated balance sheet.

An impairment review is performed at each end of the reporting period or more frequently when an indication of impairment arises. The carrying value is written down to the recoverable amount and the impairment loss is charged to the consolidated statement of income. The DAC is also considered in the liability adequacy test for each reporting period.

Residual Value of Leased Assets and Deposits on Finance Leases
The residual value of leased assets, which approximates the amount of guaranty deposit paid by the lessee at the inception of the lease, is the estimated proceeds from the sale of the leased asset at the end of the lease term. At the end of the lease term, the residual value of the leased asset is generally applied against the guaranty deposit of the lessee when the lessee decides to buy the leased asset.

Nonlife Insurance Contract Liabilities
Provision for unearned premiums
The proportion of written premiums, gross of commissions payable to intermediaries, attributable to subsequent periods or to risks that have not yet expired is deferred as provision for unearned premiums. Premiums from short-duration insurance contracts are recognized as revenue over the

period of the contracts. The portion of the premiums written that relate to the unexpired periods of the policies at the end of reporting period are accounted for as provision for unearned premiums and presented as part of "Insurance contract liabilities" in the liabilities section of the consolidated balance sheet. The change in the provision for unearned premiums is taken to the consolidated statement of income in the order that revenue is recognized over the period of risk. Further provisions are made to cover claims under unexpired insurance contracts which may exceed the unearned premiums and the premiums due in respect of these contracts.

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

Liability Adequacy Test
Liability adequacy tests on life insurance contracts are performed annually to ensure the adequacy of the insurance contract liabilities. In performing these tests, current best estimates of future contractual cash flows, claims handling and policy administration expenses are used. Any deficiency is immediately charged against profit or loss initially by establishing a provision for losses arising from the liability adequacy tests.

For nonlife insurance contracts, liability adequacy tests are performed at the end of each reporting date to ensure the adequacy of insurance contract liabilities, net of related DAC assets. The provision for unearned premiums is increased to the extent that the future claims and expenses in respect of current insurance contracts exceed future premiums plus the current provision for unearned premiums.

Fiduciary Activities
Assets and income arising from fiduciary activities together with related undertakings to return such assets to customers are excluded from the financial statements where the Group acts in a fiduciary capacity such as nominee, trustee or agent.

Significant Accounting Policies Generally Applicable to Consumer Products

Sale of Consumer Goods
Revenue from the sale of goods is recognized when goods are delivered to and accepted by customers. Revenue is measured at fair value of the consideration received or receivable, excluding discounts, returns and value-added tax (VAT).

Cost of Consumer Goods Sold
Cost of consumer goods sold is recognized as expense where the related goods are sold.

Consumer Goods Inventories
Inventories are valued at the lower of cost and net realizable value (NRV). Costs incurred in bringing the inventory to its present location and condition are accounted for as follows:

Finished goods and work in process include direct materials, direct labor, and manufacturing overhead costs. Raw materials include purchase cost. The cost of these inventories is determined using the following:

	Distilled Spirits	Beverage	Tobacco
Finished goods	Moving-average	Weighted-average	Moving-average
Work in process	Moving-average	Weighted-average	First-in first-out
Raw materials and materials and supplies	Moving-average	Moving-average	First-in first-out

NRV of finished goods is the estimated selling price less the estimated costs of marketing and distribution. NRV of work in process is the estimated selling price less estimated costs of completion and the estimated costs necessary to make the sale. For raw materials and materials and supplies, NRV is current replacement cost.

Significant Accounting Policies Generally Applicable to Property Development

Property Development Revenue and Cost Recognition

Real estate sales

The percentage-of-completion method is used to recognize income from sales of projects where the Group has material obligations under the sales contract to complete the project after the property is sold, the equitable interest has been transferred to the buyer, construction is beyond preliminary stage (i.e., engineering, design work, construction contracts execution, site clearance and preparation, excavation and the building foundation are finished), and the costs incurred or to be incurred can be measured reliably. Under this method, revenue is recognized as the related obligations are fulfilled, measured principally on the basis of the estimated completion of a physical proportion of the contract work.

When a sale of real estate does not meet the requirements for income recognition, the sale is accounted for under the deposit method. Under this method, revenue is not recognized and the receivable from the buyer is not recorded. The real estate inventory continues to be reported in the Group's consolidated balance sheet as part of real estate inventories and the deposit as part of liabilities as "Customers' deposits".

Rental income

Rental income under noncancellable and cancellable leases on investment properties is recognized in the consolidated statement of income on a straight-line basis over the lease term, or based on a certain percentage of the gross revenue of the tenants, as provided under the terms of the lease contract.

Charges and expenses recoverable from tenants

Income arising from expenses recharged to tenants in "Other income" account is recognized in the period in which the compensation becomes receivable.

Cost of Real Estate Sales

Cost of real estate sales is recognized consistent with the revenue recognition method applied. Cost of subdivision land and condominium units sold before the completion of the development is determined on the basis of the acquisition cost of the land plus its full development costs, which include estimated costs for future development works, as determined by the Group's in-house technical staff.

The cost of inventory recognized in profit or loss on disposal is determined with reference to the specific costs incurred on the property, allocated to saleable area based on relative size and takes into account the percentage of completion used for revenue recognition purposes.

Cost of Rental Income
Cost of rental income is recognized in relation to the leasing activities of the Group. This includes general, administrative and selling expenses allocated to the leasing activities, rental expense on the property leased to tenants and depreciation of the investment properties.

Real Estate Inventories
Property acquired or being constructed for sale in the ordinary course of business, rather than to be held for rental or capital appreciation, is held as inventory and is measured at the lower of cost and NRV. Cost includes: (a) land cost; (b) amounts paid to contractors for construction; (c) borrowing costs, planning and design costs, costs of site preparation, professional fees, property transfer taxes, construction overheads and other related costs.

NRV is the estimated selling price in the ordinary course of the business, based on market prices at the reporting date, less estimated costs of completion and the estimated costs of sale.

Customers' Deposits including Excess of Collections over Recognized Receivables
Customers' deposits represent payments from buyers of property development segment which will be applied against the related contracts receivables. This account also includes the excess of collections over the recognized contracts receivables, which is based on the revenue recognition policy of the Group.

Security Deposits
Security deposits, included in the "Other current liabilities" and "Other noncurrent liabilities" accounts in the liabilities section of the consolidated balance sheet, are measured initially at fair value and are subsequently measured at amortized cost using the effective interest method.

The difference between the cash received and its fair value is deferred, included in the "Other noncurrent liabilities" account in the consolidated balance sheet, and amortized using the straight-line method under the "Rental income" account in the consolidated statement of income.

Commissions
Commissions paid to sales or marketing agents on the sale of pre-completed real estate units are initially deferred and recorded as prepaid commissions when recovery is reasonably expected and charged to expense in the period in which the related revenue is recognized as earned. Accordingly, when the percentage of completion method is used, commissions are recognized in the consolidated statement of income in the period the related revenue is recognized.

3. Significant Judgments, Accounting Estimates and Assumptions

The preparation of the consolidated financial statements requires the Group to exercise judgments, make accounting estimates and use assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the accounting estimates to change. The effects of any change in accounting estimates are reflected in the consolidated financial statements as they become reasonably determinable.

Accounting estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effects on amounts recognized in the consolidated financial statements:

Disposal of APLII

In 2016, the Bank completed the sale of its 51% ownership interest in APLII for a consideration amounting to US$66.0 million (₱3.1 billion). Pursuant to the sale of APLII, the Bank also entered into a distribution agreement with APLII where the Bank will allow APLII to have exclusive access to the distribution network of the Bank over a period of 15 years [the Exclusive Distribution Rights (EDR)].

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

Determination of functional currency

Judgment is exercised in assessing various factors in determining the functional currency of each entity within the Group, including prices of goods and services, competition, cost and expenses and other factors including the currency in which financing is primarily undertaken by each entity.

Additional factors are considered in determining the functional currency of a foreign operation, including whether its activities are carried as an extension of that of a parent company rather than being carried out with significant autonomy.

Each entity within the Group, based on the relevant economic substance of the underlying circumstances, have determined their functional currency to be Peso except for the following entities with functional currency other than the Peso:

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

Assessment of control over the entities for consolidation

The Group has majority-owned subsidiaries discussed in Note 2. Management concluded that the Group controls these majority-owned subsidiaries arising from voting rights and, therefore, consolidates the entity in its consolidated financial statements. In addition, the Group accounts for its investments in OHBVI as a subsidiary although the Group, through PNB, holds less than 50.00% of OHBVI's issued share capital. Management concluded that the Group has the ability to control the relevant activities and to affect its returns in OHBVI on the basis of PNB's combined voting rights of 70.56% arising from its direct ownership of 27.78% and assigned voting rights of 42.78% by certain stockholders to the Group.

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

Classification of transfer of beer segment as discontinued operations
The Group classified the transfer of its beer segment as discontinued operations in accordance with PFRS 5, effective November 15, 2016, based on the joint venture agreement signed on May 27, 2016 in respect of the establishment of AB HPI to manage its beer segment. The beer segment met the criteria of a component of an entity that has been disposed of to be classified as discontinued operations as of December 31, 2016 since it represents a separate major line of business or geographical area of operations (see Note 37).

Classification of financial instruments
The Group exercises judgment in classifying financial instruments in accordance with PAS 39. The Group classifies a financial instrument, or its components, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the Group's consolidated balance sheet.

The Group's Bank Holding Companies have redeemable preferred shares which can be redeemed at the option of the Bank Holding Companies after seven years from the date of issuance. The Group classified these redeemable preferred shares amounting to ₱18.1 billion as equity as of December 31, 2016 and 2015 (see Note 30).

Revenue recognition on real estate sales
Selecting an appropriate revenue recognition method for a particular real estate sale transaction requires certain judgments based on, among others, the buyer's commitment on the sale which may be ascertained through the significance of the buyer's initial investment and stage of completion of the project. Based on the judgment of the Group, the percentage-of-completion method is appropriate in recognizing revenue on real estate sale transactions in 2016, 2015 and 2014.

Operating lease commitments - the Group as lessor
The Group has entered into commercial property leases on its investment properties and certain motor vehicles and items of machinery.

The Group has determined, based on an evaluation of the terms and conditions of the lease agreements (i.e., the lease does not transfer ownership of the asset to the lessee by the end of the lease term, the lessee has no option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option is exercisable and the lease term is not for the major part of the asset's economic life), that it retains all the significant risks and rewards of ownership of these properties and so accounts for these leases as operating leases (see Note 38).

Operating lease commitments - the Group as lessee
Currently, the Group has land lease agreements with several non-related and related parties. Based on an evaluation of the terms and conditions of the arrangements, management assessed that there is no transfer of ownership of the properties by the end of the lease term and the lease term is not a major part of the economic life of the properties. Thus, the Group does not acquire all the significant

risks and rewards of ownership of these properties, thus, accounts for the lease agreements as operating leases (see Note 38).

Classification of properties
The Group determines whether a property is classified as real estate inventory, investment property or owner-occupied property. In making its judgment, the Group considers whether the property generates cash flow largely independent of the other assets held by an entity.

Real estate inventory comprises of property that is held for sale in the ordinary course of business. Principally, this is residential property that the Group develops and intends to sell before or on completion of construction. Investment property comprises land and buildings (principally offices, commercial and retail property) which are not occupied substantially for use by, or in the operations of the Group, nor for sale in the ordinary course of business, but are held primarily to earn rental income and for capital appreciation. Owner-occupied properties classified and presented as property, plant and equipment, generate cash flows that are attributable not only to property but also to the other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions cannot be sold separately as of the financial reporting date, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgment.

Determination of fair value of financial instruments
Where the fair values of financial assets and financial liabilities recorded in the consolidated balance sheet cannot be derived from active markets, they are determined using valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives.

Determination of fair value of financial assets not quoted in an active market
The Group classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's length basis.

The Group has AFS investments in unquoted equity securities. As of December 31, 2016 and 2015, management assessed that the fair value of these instruments cannot be measured reliably since the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed. Therefore, the instruments are measured at cost less any impairment in value.

As of December 31, 2016 and 2015, investment in unquoted shares of stock amounted to ₱1.3 billion and ₱1.2 billion, respectively (see Note 7).

Bifurcation of embedded derivatives
Where a hybrid instrument is not classified as financial assets at FVPL, the Group evaluates whether the embedded derivative should be bifurcated and accounted for separately. This includes assessing whether the embedded derivative has a close economic relationship to the host contract.

Classification of bank's product
The Group classified its unit-linked products as insurance contracts due to the significant insurance risk at issue. All of the Group's products are classified and treated as insurance contracts.

<u>Estimates and Assumptions</u>
The key assumptions concerning the future and other key sources of estimation uncertainties at the end of reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

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

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

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

Estimation of allowance for credit losses on loans and receivables
The Group reviews its impaired loans and receivables at each reporting date to assess whether additional provision for credit losses should be recorded in the consolidated statement of income. The Group determines the allowance for credit losses on individual basis for individually significant loans and receivables, and collectively, for loans and receivables that are not individually significant such as consumer loans and credit card receivables. The determination of the recoverable amount of loans and receivables involves various assumptions and factors including the financial condition of the borrower, timing of expected future cash flows, probability of collections, observable market prices and expected net selling prices of the collateral. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

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

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

Net retirement plan assets as of December 31, 2016 and 2015 amounted to ₱276.9 million and ₱255.7 million, respectively. Net retirement benefits liability amounted to ₱3.9 billion as of December 31, 2016 and 2015 (see Notes 14 and 23).

Revenue and cost recognition on real estate sales
The Group's revenue and cost recognition policies on real estate sales require management to make use of estimates and assumptions that may affect the reported amounts of revenue and costs. The Group's revenue and cost of real estate sales are recognized based on the percentage of completion which is measured principally on the basis of the estimated completion of a physical proportion of the contract work.

The Group recognized revenue from real estate sales amounting to ₱1.6 billion, ₱1.3 billion and ₱1.5 billion and cost of real estate sales amounting to ₱1.1 billion, ₱1.0 billion and ₱1.3 billion in 2016, 2015 and 2014, respectively (see Note 24).

Impairment of AFS financial assets
The computation for the impairment of AFS financial assets requires an estimation of the present value of the expected future cash flows and the selection of an appropriate discount rate. An impairment issue arises when there is an objective evidence of impairment, which involves significant judgment. In making this judgment, the Group evaluates the financial health of the issuer, among others. In the case of AFS equity instruments, the Group expands its analysis to consider changes in the issuer's industry performance, legal and regulatory framework, and other factors that affect the recoverability of the Group's investments. Further, the impairment assessment would include an analysis of the significant or prolonged decline in fair value of the investments below its cost. The Group treats "significant" generally as 20% or more and "prolonged" as greater than 12 months for quoted equity securities.

As of December 31, 2016 and 2015, the carrying value of the Group's AFS financial assets amounted to ₱68.6 billion and ₱69.6 billion, respectively, net of allowance for impairment losses on AFS equity investments amounting to ₱944.1 million and ₱998.7 million, respectively (see Note 7).

Fair values of structured debt instruments and derivatives
The fair values of structured debt instruments and derivatives that are not quoted in active markets are determined using valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are reviewed before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices.

To the extent practicable, models use only observable data, however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments. Refer to Note 34 for information on the fair values of these instruments.

Valuation of insurance contracts
Estimates have to be made both for the expected ultimate cost of claims reported at reporting date and for the expected ultimate cost of IBNR at the reporting date. It can take a significant period of time before the ultimate claim costs can be established with certainty. Nonlife insurance contract liabilities are not discounted for the time value of money.

The main assumption underlying the estimation of the claims provision is that a company's past claims development experience can be used to project future claims development and hence ultimate claims costs. Historical claims development is mainly analyzed by accident years as well as by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development.

Measurement of NRV of inventories
The Group's estimates of the NRV of its consumer goods inventories and materials and supplies are based on the most reliable evidence available at the time the estimates are made, of the amount that the inventories are expected to be realized. These estimates consider the fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period. A new assessment is made of NRV in each subsequent period. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is a clear evidence of an increase in NRV because of change in economic circumstances, the amount of the write-down is reversed so that the new carrying amount is the lower of the cost and the revised NRV.

With respect to the Group's real estate inventories, the Group adjusts the cost of its real estate inventories to NRV based on its assessment of the recoverability of cost of the inventories. NRV for completed real estate inventories is assessed with reference to market conditions and prices existing at the reporting date and is determined by the Group in the light of recent market transactions. NRV in respect of real estate inventories under construction is assessed with reference to market prices at the reporting date for similar completed property, less estimated costs to complete construction and less estimated costs to sell. The amount and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized.

The Group's inventories carried at cost as of December 31, 2016 and 2015 amounted to ₱12.3 billion and ₱13.4 billion, respectively. Certain materials and supplies amounting to ₱0.5 billion and ₱0.6 billion as of December 31, 2016 and 2015, respectively, are carried at NRV (see Note 9).

Valuation of property, plant and equipment under revaluation basis
The Group's land and land improvements, plant buildings and building improvements, and machineries and equipment are carried at revalued amounts, which approximate their fair values at the date of the revaluation, less any subsequent accumulated depreciation and amortization and accumulated impairment losses. The valuations of property, plant and equipment are performed by independent appraisers. Revaluations are made every three to five years to ensure that the carrying amounts do not differ materially from those which would be determined using fair values at the end of reporting period.

Property, plant and equipment at appraised values amounted to ₱36.1 billion and ₱39.5 billion as of December 31, 2016 and 2015, respectively (see Note 12).

Estimation of useful lives of property, plant and equipment and investment properties
The Group estimates the useful lives and residual values of property, plant and equipment and investment properties based on internal technical evaluation and experience with similar assets. Estimated useful lives and residual values of property, plant and equipment and investment properties are reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical and commercial obsolescence and other limits on the use of the assets. It is possible, however, that future results of operations could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. A reduction in the estimated useful life of any item of property and equipment and investment properties would increase the recorded depreciation expenses and decrease the

carrying value of property, plant and equipment and investment properties. In 2016 and 2015, there were no significant changes made in the useful lives and residual values of the property, plant and equipment and investment properties (see Notes 12 and 13).

The total carrying amount of depreciable property, plant and equipment as of December 31, 2016 and 2015 amounted to ₱25.2 billion and ₱24.9 billion, respectively (see Note 12). The carrying amount of depreciable investment properties as of December 31, 2016 and 2015 amounted to ₱7.4 billion and ₱6.6 billion, respectively (see Note 13).

Assessment of impairment of nonfinancial assets and estimation of recoverable amount
The Group assesses at the end of each reporting period whether there is any indication that the nonfinancial assets listed below may be impaired. If such indication exists, the entity shall estimate the recoverable amount of the asset, which is the higher of an asset's fair value less costs to sell and its value-in-use. In determining fair value less costs to sell, an appropriate valuation model is used, which can be based on quoted prices or other available fair value indicators.

In estimating the value-in-use, the Group is required to make an estimate of the expected future cash flows from the cash generating unit and also to choose an appropriate discount rate in order to calculate the present value of those cash flows.

Determining the recoverable amounts of the nonfinancial assets listed below, which involves the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the use of estimates and assumptions that can materially affect the consolidated financial statements. Future events could indicate that these nonfinancial assets are impaired. Any resulting impairment loss could have a material adverse impact on the financial condition and results of operations of the Group.

The preparation of estimated future cash flows involves significant judgment and estimations. While the Group believes that its assumptions are appropriate and reasonable, significant changes in these assumptions may materially affect its assessment of recoverable values and may lead to future additional impairment changes under PFRSs.

Assets that are subject to impairment testing when impairment indicators are present (such as obsolescence, physical damage, significant changes to the manner in which the asset is used, worse than expected economic performance, a drop in revenues or other external indicators) are as follows:

	2016	2015
	(In Thousands)	
Other current assets (except miscellaneous cash and other cash items and held to maturity investments) (Note 10)	**₱10,344,336**	₱8,670,082
Investments in associates and joint ventures (Note 11)	**16,817,351**	11,761,290
Property, plant and equipment (Note 12)	**41,274,622**	44,837,876
Investment properties (Note 13)	**28,217,373**	22,231,525
Other noncurrent assets (except refundable and security deposits, goodwill and net retirement plan assets) (Note 14)	**3,014,149**	2,800,283

Impairment of goodwill
The Group determines whether goodwill is impaired on an annual basis every December 31, or more frequently, if events or changes in circumstances indicate that it may be impaired. This requires an estimation of the value in use of the CGU to which the goodwill is allocated. Estimating value in

use requires management to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Management determined that the goodwill amounting to ₱163.7 million as of December 31, 2016 and 2015 is not impaired (see Note 14).

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

Provision for legal claims amounted to ₱1.3 billion and ₱898.7 million as of December 31, 2016 and 2015, respectively (see Note 38).

Recognition of deferred income tax assets
The Group reviews the carrying amounts of the deferred income tax assets at the end of each reporting period and adjusts the balance of deferred income tax assets to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. The Group's assessment on the recognition of deferred income tax assets on deductible temporary differences is based on the level and timing of forecasted taxable income of the subsequent reporting periods. This forecast is based on the Group's past results and future expectations on revenues and expenses as well as future tax planning strategies. However, there is no assurance that the Group will generate sufficient future taxable income to allow all or part of the deferred income tax assets to be utilized.

The Group has NOLCO, excess MCIT over and other deductible temporary differences, which relate to certain subsidiaries that have a history of losses and may not be used to offset taxable income elsewhere in the Group. The subsidiaries neither have any taxable temporary difference nor was any tax planning opportunities available that could partly support the recognition of these NOLCO, excess MCIT over RCIT and other deductible temporary differences as deferred income tax assets. On this basis, the Group has determined that it cannot recognize the deferred income tax assets on these NOLCO, excess MCIT over RCIT and other deductible temporary differences totaling to ₱5.8 billion and ₱4.7 billion as of December 31, 2016 and 2015, respectively (see Note 29).

4. Segment Information

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

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

- Banking, provides full range of banking and other financial services to corporate, middle-market and retail customers, the National Government (NG), local government units (LGUs) and government-owned and controlled corporations (GOCCs) and various government agencies, including deposit-taking, lending, bills discounting, foreign exchange dealing, investment banking, fund transfers or remittance servicing and full range of retail banking and trust services and other insurance services. The Group conducts its banking business through PNB and its consolidated subsidiaries.

- Distilled Spirits, which is involved in manufacturing, compounding, bottling, importing, buying and selling of rum, spirit beverages, liquor and bioethanol products. The Group conducts its distilled spirits business through TDI and its consolidated subsidiaries.

- Beverage, which is engaged in brewing and soft drinks and bottled water manufacturing in the Philippines. It also operates other plants, which includes commercial glass division and corrugated cartons and metal closures production facility, to support the requirements of its brewing, bottled water 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, and Bank Holding Companies) that provide financing for working capital and capital expenditure requirements of the operating businesses of the Group.

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

The Group's assets are located mainly in the Philippines. The Group operates and derives principally all of its revenue from domestic operations. The Group's banking segment operates in key cities in the USA, Canada, Western Europe, Middle East and Asia. The distribution of assets and revenues of the banking segment outside the Philippines constitute 10.5% and 3.6% as of December 31, 2016, respectively, and 8.0% and 3.8% as of December 31, 2015 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 84%, 90% and 89% of the segment's total revenue in 2016, 2015 and 2014, respectively. The other segments of the Group have no significant customer which contributes 10% or more of their segment revenues.

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

For the year ended December 31, 2016:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
				(In Thousands)			
Segment revenue:							
External customers	**₱29,111,818**	**₱14,904,343**	**₱10,932,326**	**₱–**	**₱2,851,514**	**₱–**	**₱57,800,001**
Inter-segment	**190,274**	**109,385**	**917,651**	**–**	**–**	**(1,217,310)**	**–**
	29,302,092	**15,013,728**	**11,849,977**	**–**	**2,851,514**	**(1,217,310)**	**57,800,001**
Cost of sales and services	**5,722,739**	**12,293,366**	**7,818,988**	**–**	**1,342,857**	**(1,051,069)**	**26,126,881**
Gross profit	**23,579,353**	**2,720,362**	**4,030,989**	**–**	**1,508,657**	**(166,241)**	**31,673,120**
Equity in net earnings of associates	**–**	**–**	**–**	**2,593,261**	**–**	**118,279**	**2,711,540**
	23,579,353	**2,720,362**	**4,030,989**	**2,593,261**	**1,508,657**	**(47,962)**	**34,384,660**
Selling expenses	**–**	**999,866**	**1,310,612**	**–**	**52,848**	**(11,804)**	**2,351,522**
General and administrative expenses	**23,215,141**	**551,755**	**907,564**	**152,630**	**628,773**	**107,221**	**25,563,084**
Operating income	**364,212**	**1,168,741**	**1,812,813**	**2,440,631**	**827,036**	**(143,379)**	**6,470,054**
Foreign exchange gains - net	**1,487,740**	**364**	**–**	**27,417**	**4,251**	**15,445**	**1,535,217**
Finance costs	**–**	**(10,967)**	**(48,789)**	**–**	**(357,700)**	**214,966**	**(202,490)**
Finance income	**–**	**159**	**20,807**	**70,136**	**55,871**	**(40,547)**	**106,426**
Others - net	**6,427,747**	**14,664**	**(189,206)**	**50,537**	**71,811**	**(1,349,106)**	**5,026,447**
Income before income tax	**8,279,699**	**1,172,961**	**1,595,625**	**2,588,721**	**601,269**	**(1,302,621)**	**12,935,654**
Provision for (benefit from) income tax	**1,517,029**	**265,459**	**548,815**	**(3,579)**	**211,760**	**(365,016)**	**2,174,468**
Segment profit (loss) from:							
Continuing operations	**6,762,670**	**907,502**	**1,046,810**	**2,592,300**	**389,509**	**(937,605)**	**10,761,186**
Discontinued operations	**619,563**	**–**	**708,407**	**–**	**–**	**–**	**1,327,970**
	₱7,382,233	**₱907,502**	**₱1,755,217**	**₱2,592,300**	**₱389,509**	**(₱937,605)**	**₱12,089,156**
Segment profit attributable to:							
Equity holders of the Company	**₱7,344,112**	**₱898,192**	**₱1,755,217**	**₱2,581,412**	**₱388,029**	**(₱3,576,555)**	**₱9,390,407**
Non-controlling interests	**38,121**	**9,310**	**–**	**10,888**	**1,480**	**2,638,950**	**2,698,749**
Depreciation and amortization expense	**1,393,334**	**529,743**	**1,538,972**	**11,477**	**163,644**	**20,188**	**3,657,358**

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

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
				(In Thousands)			
Assets:							
Current assets	**₱376,639,685**	**₱11,281,760**	**₱11,899,140**	**₱10,107,420**	**₱12,774,195**	**(₱17,925,076)**	**₱404,777,124**
Noncurrent assets	**364,245,652**	**7,159,081**	**15,017,583**	**13,362,146**	**16,415,790**	**8,113,648**	**424,313,900**
	₱740,885,337	**₱18,440,841**	**₱26,916,723**	**₱23,469,566**	**₱29,189,985**	**(₱9,811,428)**	**₱829,091,024**
Liabilities:							
Current liabilities	**₱575,558,848**	**₱2,463,592**	**₱4,019,000**	**₱317,324**	**₱6,816,393**	**(₱11,108,655)**	**₱578,066,502**
Noncurrent liabilities	**68,358,018**	**651,039**	**1,113,781**	**92,136**	**6,043,487**	**(3,838,515)**	**72,419,946**
	₱643,916,866	**₱3,114,631**	**₱5,132,781**	**₱409,460**	**₱12,859,880**	**(₱14,947,170)**	**₱650,486,448**
Investments in associates and joint ventures	**₱2,532,754**	**₱–**	**₱1,643,304**	**₱11,049,385**	**₱–**	**₱1,591,908**	**₱16,817,351**
Equity attributable to:							
Equity holders of the Company	**94,319,311**	**15,196,522**	**21,783,942**	**23,060,106**	**16,330,105**	**(34,592,001)**	**136,097,985**
Non-controlling interests	**2,649,162**	**129,688**	**–**	**–**	**–**	**39,727,741**	**42,506,591**
Additions to noncurrent assets:							
Property, plant and equipment	**2,133,146**	**612,136**	**1,987,832**	**3,946**	**29,258**	**2,693**	**4,769,011**
Investment properties	**681,510**	**–**	**–**	**–**	**389,314**	**1,466**	**1,072,290**
Short-term debts	**–**	**–**	**1,750,000**	**–**	**–**	**–**	**1,750,000**
Long-term debts	**3,497,798**	**–**	**–**	**–**	**4,070,949**	**(2,000,000)**	**5,568,747**

For the year ended December 31, 2015:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
				(In Thousands)			
Segment revenue:							
External customers	₱26,600,160	₱12,002,266	₱10,386,308	₱–	₱2,484,453	₱–	₱51,473,187
Inter-segment	10,150	115,079	1,011,781	–	–	(1,137,010)	–
	26,610,310	12,117,345	11,398,089	–	2,484,453	(1,137,010)	51,473,187
Cost of sales and services	4,807,242	9,831,228	7,384,452	–	1,179,549	(1,199,589)	22,002,882
Gross profit	21,803,068	2,286,117	4,013,637	–	1,304,904	62,579	29,470,305
Equity in net earnings of associates	–	–	–	974,543	–	214,431	1,188,974
	21,803,068	2,286,117	4,013,637	974,543	1,304,904	277,010	30,659,279
Selling expenses	–	939,453	1,234,028	–	42,382	(13,422)	2,202,441
General and administrative expenses	18,449,228	653,396	744,400	141,260	588,292	579,957	21,156,533
Operating income	3,353,840	693,268	2,035,209	833,283	674,230	(289,525)	7,300,305
Foreign exchange gains - net	1,207,840	1,609	–	95,618	3,746	13,587	1,322,400
Finance costs	–	(57,969)	(2,439)	–	(175,787)	33,677	(202,518)
Finance income	–	154	19,572	92,549	50,830	(52,729)	110,376
Others – net	3,393,380	28,066	6,386	71,785	10,620	176,737	3,686,974
Income before income tax	7,955,060	665,128	2,058,728	1,093,235	563,639	(118,253)	12,217,537
Provision for income tax	1,543,789	243,043	609,464	53,229	250,358	28,936	2,728,819
Segment profit (loss) from:							
Continuing operations	6,411,271	422,085	1,449,264	1,040,006	313,281	(147,189)	9,488,718
Discontinued operations	357,931	–	(349,995)	–	–	–	7,936
	₱6,769,202	₱422,085	₱1,099,269	₱1,040,006	₱313,281	(₱147,189)	₱9,496,654
Segment profit attributable to:							
Equity holders of the Company	₱3,673,284	₱427,930	₱1,099,269	₱1,035,563	₱312,091	₱50,898	₱6,599,035
Non-controlling interests	3,095,918	(5,845)	–	4,443	1,190	(198,087)	2,897,619
Depreciation and amortization expense	1,168,620	551,339	1,549,879	11,975	151,693	19,012	3,452,518

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

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
				(In Thousands)			
Assets:							
Current assets	₱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
Additions to noncurrent assets:							
Property, plant and equipment	4,166,428	559,956	1,860,257	22,337	31,552	6,788	6,647,318
Investment properties	505,262	–	–	–	1,464,695	(366,238)	1,603,719
Short-term debts	–	350,000	1,400,000	–	–	(350,000)	1,400,000
Long-term debts	9,986,426	–	–	–	1,196,020	–	11,182,446

For the year ended December 31, 2014:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
				(In Thousands)			
Segment revenue:							
External customers	₱24,210,181	₱11,919,131	₱9,877,681	₱–	₱2,278,600	₱–	₱48,285,593
Inter-segment	735,384	101,386	1,033,901	–	–	(1,870,671)	–
	24,945,565	12,020,517	10,911,582	–	2,278,600	(1,870,671)	48,285,593
Cost of sales and services	4,378,367	9,819,049	7,130,795	–	1,582,589	(1,278,717)	21,632,083
Gross profit	20,567,198	2,201,468	3,780,787		696,011	(591,954)	26,653,510
Equity in net earnings of associates	–	–	–	515,112	–	379,443	894,555
	20,567,198	2,201,468	3,780,787	515,112	696,011	(212,511)	27,548,065
Selling expenses	–	957,664	1,301,587	–	155,052	(15,909)	2,398,394
General and administrative expenses	18,693,960	665,807	750,396	356,238	427,417	100,309	20,994,127
Operating income	1,873,238	577,997	1,728,804	158,874	113,542	(296,911)	4,155,544
Foreign exchange gains - net	1,342,196	(1,883)		6,599	(1,154)	1,946	1,347,704
Finance costs	–	(418,214)	(11,892)	–	(49,317)	24,568	(454,855)
Finance income	–	99	18,516	108,825	42,037	(50,436)	119,041
Others – net	4,038,751	15,506	(24,702)	205,733	96,882	(542,594)	3,789,575
Income before income tax	7,254,185	173,505	1,710,726	480,031	201,990	(863,427)	8,957,009
Provision for income tax	1,620,442	72,790	516,522	331,676	82,125	53,089	2,676,643
Segment profit (loss) from:							
Continuing operations	5,633,743	100,715	1,194,204	148,355	119,865	(916,516)	6,280,366
Discontinued operations	264,164	–	(72,324)	–	–	–	191,840
	₱5,897,907	₱100,715	₱1,121,880	₱148,355	₱119,865	(₱916,516)	₱6,472,206
Segment profit attributable to:							
Equity holders of the Company	₱3,117,161	₱99,668	₱1,121,880	₱147,731	₱118,966	(₱195,176)	₱4,410,230
Non-controlling interests	2,780,746	1,047	–	624	899	(721,340)	2,061,976
Depreciation and amortization expense	1,137,939	539,345	1,675,598	10,983	174,001	17,126	3,554,992

5. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	2016	2015
	(In Thousands)	
Cash and other cash items	**₱14,865,706**	₱17,555,206
Cash equivalents:		
Due from *Bangko Sentral ng Pilipinas* (BSP)	**127,337,860**	81,363,444
Due from other banks	**22,709,805**	18,287,308
Interbank loans receivable	**9,763,418**	20,350,383
	₱174,676,789	₱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. Cash equivalents represent money market placements made for varying periods depending on the immediate cash requirements of the Group.

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

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

6. Financial Assets at Fair Value through Profit or Loss

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

	2016	2015
	(In Thousands)	
Held for trading:		
Government securities	**₱1,313,400**	₱4,039,612
Equity securities	**54,609**	199,922
Derivative assets (Notes 21 and 33)	**419,122**	181,348
Private debt securities	**196,757**	143,800
	1,983,888	4,564,682
Designated at FVPL -		
Unit investment trust fund	**4,457,623**	5,099,052
	₱6,441,511	₱9,663,734

a. As of December 31, 2016 and 2015, unrealized loss on government and private debt securities amounted to ₱66.9 million and ₱261.5 million, respectively. In 2016 and 2015, the effective interest rates range from 2.75% to 10.63% and from 2.13% to 10.63%, respectively, for the government securities, and from 5.5% to 7.38% and from 4.80% to 7.38%, respectively, for the private debt securities.

b. The carrying amount of equity securities includes unrealized loss of ₱21.5 million and ₱53.4 million as of December 31, 2016 and 2015, respectively.

c. On various dates in 2014, the Group invested in PNB Institutional Money Market Fund which is a money market unit investment trust fund (UITF). The investment is subject to a minimum holding period of 30 days. Mark-to-market gains on financial assets at FVPL amounted to ₱63.0 million and ₱99.1 million in 2016 and 2015, respectively (see Note 28). Realized gains from redemption of investment presented under finance income amounted to ₱21.9 million in 2016 and ₱22.4 million in 2015 (see Notes 27 and 28).

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

Available-for-Sale Investments

	2016	2015
	(In Thousands)	
Government securities (Note 17)	**₱38,367,465**	₱45,802,968
Other debt securities	**28,841,070**	22,252,980
Equity securities:		
Quoted	**1,072,405**	1,329,564
Unquoted	**1,265,071**	1,177,924
	69,546,011	70,563,436
Allowance for impairment losses	**(944,112)**	(998,749)
	68,601,899	69,564,687
Noncurrent portion	**(60,128,678)**	(66,649,517)
	₱8,473,221	₱2,915,170

a. As of December 31, 2016 and 2015, the fair value of the AFS investments in the form of government and private bonds pledged to fulfill its collateral requirements with securities sold under repurchase agreements transactions with foreign banks amounted to ₱9.8 billion and ₱8.5 billion, respectively (see Note 17). The counterparties have an obligation to return the securities to PNB once the obligations have been settled. In case of default, the foreign banks have the right to hold the securities and sell them as settlement of the repurchase agreement.

b. Included in AFS investments are pledged securities for the Surety Bond with fair value of ₱800.0 million issued by PNB Gen. As of December 31, 2015, the carrying value of these pledged securities amounted to ₱873.0 million. As of December 31, 2016, a compromise agreement on the settlement of loans has been made and said Surety Bond was no longer renewed by PNB Gen.

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

d. No impairment loss has been recognized on unquoted debt securities for the years ended December 31, 2016, 2015 and 2014.

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

	2016	2015
Peso-denominated	**1.31% to 5.93%**	1.03% to 5.62%
Foreign-currency denominated	**1.29% to 5.30%**	1.10% to 5.39%

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

	2016	2015
	(In Thousands)	
Balance at beginning of year	**(₱2,256,729)**	(₱1,161,616)
Net changes in fair value of AFS investments during the year*:		
Fair value changes during the year on AFS investments	**649,259**	(313,048)
Realized gains**(Note 24)	**(1,364,426)**	(782,065)
	(715,167)	(1,095,113)
Balance at end of year	**(₱2,971,896)**	(₱2,256,729)
Attributable to:		
Equity holders of the Company***	**(₱1,623,111)**	(₱1,099,193)
Non-controlling interests	**(1,348,785)**	(1,157,536)
	(₱2,971,896)	(₱2,256,729)

* *Net of deferred income tax effect amounting to ₱0.3 million and ₱2.9 million in 2016 and 2015, respectively.*
** *Included in "Trading and securities gains" under "Banking revenue".*
*** *Including accumulated fair value gain amounting to ₱348,786 as at December 31, 2015 in disposal group.*

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

	2016	2015
	(In Thousands)	
Balances at beginning of year	**₱998,749**	₱929,881
Provisions during the year	**15,856**	32,995
Disposals, transfers and others	**(70,493)**	68,638
Transfer to disposal group classified as held for sale (Note 37)	**–**	(32,765)
Balances at end of year	**₱944,112**	₱998,749

Held-to-Maturity Investments
As of December 31, 2016 and 2015, HTM investments of the Group consist of government securities and private debt securities amounting to ₱24.1 billion and ₱23.1 billion, respectively.

As of December 31, 2016 and 2015, the fair value of the HTM investments in the form of Republic of the Philippines bonds pledged to fulfill its collateral requirements with securities sold under repurchase agreements transactions with counterparties amounted to ₱15.3 billion and ₱7.5 billion, respectively (see Note 17).

Reclassification of Financial Assets
On March 3 and March 5, 2014, the Group reclassified certain AFS investments with fair values of ₱15.9 billion and ₱6.8 billion, respectively, back to its original classification, as HTM investments, as management has established that it continues to have the positive intention and ability to hold these securities to maturity. The reclassification was approved by the BOD of PNB on February 28, 2014. The previous fair valuation gains amounting to ₱2.7 billion that have been recognized in OCI shall be amortized to profit or loss over the remaining life of the HTM investments using effective interest rates ranging from 3.60% to 5.64%.

As of December 31, 2016, the carrying values and fair values of the Group's reclassified investment securities amounted to ₱20.1 billion and ₱21.4 billion, respectively. As of December 31, 2015, the carrying values and fair values of the reclassified investment securities amounted to ₱20.3 billion and ₱21.8 billion, respectively. Had these securities not been reclassified as HTM, the additional mark-to-market loss that would have been recognized by the Group in the statements of comprehensive income amounts to ₱0.3 billion in 2016 and ₱0.8 billion in 2015.

8. Loans and Receivables

Loans and receivables consist of:

	2016	2015
	(In Thousands)	
Finance receivables (Notes 17 and 22)	**₱441,252,395**	₱380,207,907
Trade receivables	**12,703,799**	12,288,478
Other receivables	**1,784,649**	2,404,704
	455,740,843	394,901,089
Allowance for credit losses	**(17,306,554)**	(15,977,755)
	438,434,289	378,923,334
Noncurrent portion	**(248,621,351)**	(206,782,709)
	₱189,812,938	₱172,140,625

Finance Receivables

	2016	2015
	(In Thousands)	
Receivables from customers:		
Loans and discounts	**₱389,916,109**	₱335,352,183
Customers' liabilities on acceptances, letters of credit and trust receipts	**10,716,781**	11,079,224
Bills purchased (Note 20)	**3,622,690**	3,858,750
Credit card receivables	**7,102,207**	5,439,554
Finance lease receivables	**3,049,375**	3,686,790
	414,407,162	359,416,501
Unquoted debt securities	**6,972,710**	4,245,069
Other receivables:		
Accounts receivable	**9,527,554**	8,374,156
Accrued interest receivable	**3,884,739**	5,150,502
Sales contract receivables	**7,449,020**	4,428,062
Miscellaneous	**501,674**	429,924
	21,362,987	18,382,644
	442,742,859	382,044,214
Unearned and other deferred income	**(1,490,464)**	(1,836,307)
	441,252,395	380,207,907
Allowance for credit losses	**(17,253,410)**	(15,934,483)
	423,998,985	364,273,424
Noncurrent portion	**(247,950,622)**	(206,430,391)
	₱176,048,363	₱157,843,033

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

As of December 31, 2015, the balance of these receivables amounted to ₱3.7 billion while the transferred liabilities amounted to ₱3.4 billion (₱1.8 billion is included under "Bills payable to BSP and local banks" and ₱1.6 billion is included under "Accrued interest payable"). The excess of the transferred receivables over the transferred liabilities is fully covered by an allowance for credit losses amounting to ₱0.3 billion as of December 31, 2015.

In 2016, the Group applied the transferred liabilities against the principal and interest components of the transferred receivables. As of December 31, 2016, the remaining receivables amounted to ₱0.3 billion, which is fully covered by an allowance.

b. Unquoted debt securities

Unquoted debt instruments include the zero-coupon notes received by PNB from Special Purpose Vehicle (SPV) Companies on October 15, 2004, at the principal amount of ₱803.5 million (Tranche A Note) payable in five years and at the principal amount of ₱3.4 billion (Tranche B Note) payable in eight years in exchange for the outstanding loans receivable from National Steel Corporation (NSC) of ₱5.3 billion. The notes are secured by a first ranking mortgage and security interest over the NSC Plant Assets. In 2016, PNB obtained additional non-resident unquoted debt investments amounting to ₱3.4 billion. These investments are zero-rated bonds issued by Chinese financial institutions. As of December 31, 2016 and 2015, the notes are carried at their recoverable values amounting to ₱3.3 billion and ₱0.6 billion, respectively.

c. Finance lease receivable

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

	2016	2015
	(In Thousands)	
Gross investment in finance lease receivables		
Due within one year	**₱1,177,612**	₱1,428,528
Due beyond one year but not over five years	**1,127,371**	1,498,041
Due beyond five years	**36,500**	47,900
	2,341,483	2,974,469
Residual value of leased equipment		
Due within one year	**249,923**	225,590
Due beyond one year but not over five years	**457,969**	486,731
	707,892	712,321
Total finance lease receivable	**₱3,049,375**	₱3,686,790

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

	2016	2015 (As re-presented, Note 37)	2014 (As re-presented, Note 37)
Receivable from customers and sales contract receivables	**₱19,454,187**	₱17,080,888	₱14,705,383
Unquoted debt securities	**51,160**	63,478	521,555
	₱19,505,347	₱17,144,366	₱15,226,938

As of December 31, 2016 and 2015, 75.2% and 82.8%, respectively, of the total receivable from customers of the Group were subject to interest repricing. Remaining receivables carry annual fixed interest rates ranging from 2.3% to 8.8% in 2016, from 1.1% to 7.0% in 2015 and from 2.5% to 9.0% in 2014 for foreign currency-denominated receivables, and from 1.00% to 35.0% in 2016, from 0.5% to 15.3% in 2015 and 0.03% to 23.0% in 2014 for peso-denominated receivables.

Sales contract receivables bear fixed interest rate per annum ranging from 5.0% to 21.0% and from 3.3% to 21.0% in 2016 and 2015, respectively. Interest income accrued on impaired loans and receivable of the Group amounted to ₱103.7 million in 2016, ₱217.0 million in 2015 and ₱274.8 million in 2014.

Trade receivables

Trade receivables consist of:

	2016	2015
	(In Thousands)	
Consumer goods	**₱10,897,219**	₱9,383,633
Contract receivables	**1,777,640**	2,875,514
Lease receivables	**28,940**	29,331
	12,703,799	12,288,478
Allowance for credit losses	**(41,904)**	(32,032)
	12,661,895	12,256,446
Noncurrent portion of contract receivables	**(670,729)**	(352,318)
	₱11,991,166	₱11,904,128

a. Trade receivables on consumer goods pertain to receivables from various customers of distilled spirits, beverages and tobacco segments, which are noninterest-bearing and generally have 30 to 90 days' terms.

b. Contracts receivables of the property development segment consist of revenues recognized to date based on percentage of completion less collections received from the respective buyers. Interest income from interest-bearing contracts receivables amounted to ₱27.0 million, ₱34.6 million and ₱24.7 million in 2016, 2015 and 2014, respectively (see Note 27).

c. The Group assigned certain contracts receivables to Banco de Oro Unibank, Inc. (BDO) on a with recourse basis. The total assigned contracts receivables amounted to ₱133.4 million as of December 31, 2015 (see Note 19).

Other Receivables

Other receivables are due and demandable and include accrued interest receivable pertaining to interest earned on cash and cash equivalents and unpaid utility charges to tenants and receivables from sale of various assets.

Movements of Allowance for Credit Losses

Details and movements of allowance for credit losses, determined using individual and collective assessment follow:

	December 31, 2016			
	Finance Receivables	**Trade Receivables**	**Other Receivables**	**Total**
	(In Thousands)			
Balance at beginning of year	**₱15,934,483**	**₱32,032**	**₱11,240**	**₱15,977,755**
Provisions during the year (Note 26)	**3,212,694**	**6,211**	**–**	**3,218,905**
Accounts charged off, transfers and others	**(1,893,767)**	**3,661**	**–**	**(1,890,106)**
Balance at end of year	**₱17,253,410**	**₱41,904**	**₱11,240**	**₱17,306,554**

	December 31, 2015			
	Finance Receivables	Trade Receivables	Other Receivables	Total
	(In Thousands)			
Balance at beginning of year	₱12,129,459	₱54,813	₱5,514	₱12,189,786
Provisions during the year (Note 26)	860,163	–	5,726	865,889
Accounts charged off, transfers and others	2,944,861	(22,781)	–	2,922,080
Balance at end of year	₱15,934,483	₱32,032	₱11,240	₱15,977,755

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

	2016	2015
	(In Thousands)	
Individual assessment		
Finance receivables:		
Receivable from customers	**₱1,957,409**	₱487,496
Unquoted debt securities	**81,457**	(166,627)
Other receivables	**(247,889)**	69,304
Trade receivables from customers of consumer goods and other receivables	**6,211**	5,726
	1,797,188	395,899
Collective assessment		
Finance receivables:		
Receivables from customers	**1,563,020**	434,960
Other receivables	**(141,303)**	35,030
	1,421,717	469,990
	₱3,218,905	₱865,889

9. Inventories

Inventories consist of:

	2016	2015
	(In Thousands)	
At Cost:		
Consumer goods:		
Alcohol	**₱2,695,689**	₱2,387,930
Beverage	**1,923,260**	1,887,224
	4,618,949	4,275,154
Real estate inventories:		
Condominium and residential units for sale	**1,326,758**	3,978,857
Subdivision land under development	**4,288,514**	3,370,090
Land held for future development	**1,111,274**	1,137,156
	6,726,546	8,486,103
Fuel, materials and supplies	**1,004,372**	613,024
	12,349,867	13,374,281
At NRV - Materials and supplies	**499,932**	649,766
	₱12,849,799	₱14,024,047

Allowance for inventory obsolescence on materials and supplies amounted to ₱6.3 million, and ₱7.0 million as of December 31, 2016 and 2015, respectively.

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

	2016	2015
	(In Thousands)	
Finished goods	**₱690,076**	₱729,321
Work in process	**1,080,555**	1,008,228
Raw materials	**2,848,318**	2,537,605
	₱4,618,949	₱4,275,154

Cost of consumer goods inventories recognized as expenses under cost of sales amounted to ₱10.9 billion, ₱12.2 billion and ₱11.9 billion in 2016, 2015 and 2014, respectively (see Note 24).

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

	2016	2015
	(In Thousands)	
Balance at beginning of year	**₱8,486,103**	₱7,248,823
Construction/development costs incurred	**1,787,274**	2,208,321
Transfer to investment property	**(2,457,805)**	(80,236)
Borrowing costs capitalized (Note 19)	**–**	61,856
Disposals (recognized as cost of real estate sales, Note 24)	**(1,089,026)**	(952,661)
Balance at end of year	**₱6,726,546**	₱8,486,103

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

10. Other Current Assets

	2016	2015
	(In Thousands)	
Creditable withholding taxes (CWT)	**₱4,857,363**	₱3,409,032
Advances to suppliers	**2,198,733**	985,053
Input VAT	**998,003**	802,637
Excise tax (Note 38)	**934,066**	959,654
Prepaid expenses	**488,837**	468,587
Miscellaneous cash and other cash items	**256,063**	103,668
Stationeries, office supplies and stamps on hand	**274,904**	300,156
Deferred rent	**180,566**	161,592
Deferred charges	**9,095**	271,257
Advances to contractors	**1,315**	326,188
Deferred reinsurance premiums	**–**	287,139
Held-to-maturity investments	**–**	68,173
Others	**401,454**	698,787
	₱10,600,399	₱8,841,923

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

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

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

d. Prepaid expenses include prepaid importation charges amounting to ₱57.8 million and ₱72.9 million as of December 31, 2016 and 2015, respectively. Prepaid importation charges pertain to the purchases of raw materials by the distilled spirits and beverage businesses.

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

11. Investment in Associates and Joint Ventures

Investments in Associates and Joint Ventures

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

	Ownership		Amount	
	2016	2015	**2016**	2015
			(In Thousands)	
Associates:				
PMFTC	**49.6%**	49.6%	**₱10,382,799**	₱10,289,585
VMC	**30.2%**	22.5%	**2,238,494**	1,451,805
AB HPI	**50.0%**	–	**1,575,348**	–
APLII	**44.0%**	–	**2,532,754**	–
Joint Ventures:				
ABI Pascual Holdings	**50.0%**	50.0%	**67,956**	19,900
AEDC	**50.0%**	–	**20,000**	–
			₱16,817,351	₱11,761,290

Investment in PMFTC

Details of investment in PMFTC are as follows:

	2016	2015	2014
		(In Thousands)	
Acquisition cost	**₱13,483,541**	₱13,483,541	₱13,483,541
Accumulated equity in net earnings:			
Balance at beginning of year	**(3,221,410)**	(2,499,984)	153,454
Equity in net earnings	**2,587,224**	974,543	515,112
Cash dividends (Note 22)	**(2,555,576)**	(1,695,969)	(3,168,550)
Balance at end of year	**(3,189,762)**	(3,221,410)	(2,499,984)
Accumulated share in other comprehensive income	**89,020**	27,454	27,454
	₱10,382,799	₱10,289,585	₱11,011,011

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

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

Details of the carrying values of the contributed assets are indicated below *(in thousands)*:

Cash	₱33,090
Inventories	19,084,092
Property, plant and equipment	8,432,235
Other current assets	4,382,894
Trade and other payable	(2,707,797)
Loans payable	(19,000,000)
Deferred income tax liability	(1,818,551)
	₱8,405,963

Also, as a result of the transaction, FTC has obtained the right to sell (put option) its interest in PMFTC to PMPMI, except in certain circumstances, during the period from February 25, 2015 through February 24, 2018, at an agreed-upon value. On December 10, 2013, the BOD of LTG approved the waiver by FTC of its rights under the Exit Rights Agreement entered into with PMI and confirmed the execution of the Termination Agreement.

Summarized financial information of PMFTC, based on its financial statements as of December 31, are set out below:

	2016	2015
	(In Thousands)	
Current assets	**₱39,548,169**	₱41,833,272
Noncurrent assets	**30,055,095**	31,592,808
Current liabilities	**29,538,232**	20,760,591
Noncurrent liabilities	**8,024,478**	21,944,755
Equity	**32,040,554**	30,720,734

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

	2016	2015	2014
		(In Thousands)	
Revenue	**₱112,429,500**	₱115,220,990	₱98,384,104
Costs and expenses	**(105,770,205)**	(113,274,083)	(97,819,499)
Income before income tax	**6,659,295**	1,946,907	564,605
Provision for income tax	**(1,949,921)**	(533,067)	(116,876)
Net income	**4,709,374**	1,413,840	447,729
Other comprehensive income (loss)	**124,125**	96,932	(93,233)
Total comprehensive income	**₱4,833,499**	₱1,510,772	₱354,496
Group's share of income for the year	**₱2,587,224**	₱974,543	₱515,112

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

	2016	2015
	(In Thousands)	
Acquisition cost:		
Balance at beginning of year	**₱740,528**	₱616,441
Additions	**660,297**	124,087
Balance at end of year	**1,400,825**	740,528
Accumulated equity in net earnings:		
Balance at beginning of year	**593,874**	379,443
Equity in net earnings	**77,185**	196,838
Excess of fair value of net assets of associate over cost of investment	**47,131**	17,593
Balance at end of year	**718,190**	593,874
Share in remeasurement gain on defined benefit plans	**2,076**	–
Balance of convertible notes	**117,403**	117,403
	₱2,238,494	₱1,451,805

In 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.

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. In 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 20.2% as of December 31, 2014. The cost-based approach was applied in accounting for the step acquisition of VMC as an associate. Accordingly, LTG reclassified the original cost of its AFS investments to investment in an associate and derecognized the net changes in fair value of AFS investments amounting to ₱238.2 million. 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 became an associate amounting to ₱833.5 million was recognized as part of the equity in net earnings of VMC in 2014.

In 2015, a portion of the convertible notes amounting to ₱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 15, 2016, VMC approved the acquisition of its own shares. The sale agreement had been executed on February 18, 2016 and led to the acquisition of 300.0 million treasury shares. This resulted in an increase in the Parent Company's percentage of ownership from 22.5% to 25.1%. On the same date, the Group, through FTC, acquired additional shares of stock of VMC amounting to ₱660.3 million resulting to an increase in the Group's effective ownership in VMC to 30.2%.

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

	2016	2015
	(In Thousands)	
Current assets	**₱2,317,150**	₱2,896,521
Noncurrent assets	**6,460,726**	5,660,979
Current liabilities	**682,111**	581,440
Noncurrent liabilities	**2,993,433**	1,816,696
Equity	**5,102,332**	6,159,364

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

	2016	2015	2014
		(In Thousands)	
Revenue	**₱5,195,381**	₱5,034,302	₱1,352,346
Costs and expenses	**(4,296,953)**	(3,440,352)	(965,718)
Income before income tax	**898,428**	1,593,950	386,628
Provision for income tax	**(249,141)**	(483,712)	(120,357)
Net income	**649,287**	1,110,238	266,271
Other comprehensive income (loss)	**(53)**	2,648	–
Total comprehensive income	**₱649,234**	₱1,112,886	266,271
Group's share of income for the year	**₱196,069**	₱250,399	₱53,787

Investment in AB HPI

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

On May 30, 2016, the Group, through ABI, purchased 500 shares of stock of AB HPI for a consideration amounting to ₱5.0 million. On November 15, 2016, the Group purchased additional 782,400 common shares out of the proposed increase in the authorized capital stock of AB HPI for a consideration of ₱782.4 million. The Group's subscription to AB HPI represents 50% ownership interest.

In accordance with the Shareholders' Agreement entered into by the Group and Heineken, the Group sold nonmonetary assets, (i.e., inventories, returnable containers and brands), to AB HPI for a total consideration of ₱782.4 million. The nonmonetary assets were sold at their carrying amounts, except for the brands which resulted to a gain from fair valuation amounting to ₱46.3 million.

The Group's subscription to AB HPI's capital stock and sale of nonmonetary assets to AB HPI is viewed as linked-transaction and is accounted for as contribution of nonmonetary assets to an associate. As a result, the Group recognized the investment amounting to ₱1,843.6 million representing 50% of the fair value of AB HPI's net assets. The transaction was accounted for in accordance with PFRS 10, paragraph 25, where the Group recognized the gain arising from the contribution of nonmonetary assets amounting to ₱1,056.2 million in full (see Note 37).

Details of the investment in an associate as of December 31, 2016 are as follows (in thousands):

Subscription to capital stock	₱787,400
Gain on investment in an associate arising from contribution of non-monetary assets in exchange for shares of stocks	1,056,240
Share in net loss of an associate	(268,292)
Ending balance	₱1,575,348

Summarized financial information of AB HPI, based on its PFRSs financial statements, as of December 31, 2016 are as follows (in thousands):

Current assets	₱2,046,764
Noncurrent assets	2,905,148
Current liabilities	920,850
Noncurrent liabilities	880,384
Total capital deficiency	3,150,678

Summarized statements of income of AB HPI for the year ended December 31, 2016 are as follows (in thousands):

Revenue	₱341,790
Costs and expenses	(878,374)
Loss before income tax	536,584
Provision for income tax	–
Net loss	536,584
Other comprehensive loss	18
Total comprehensive loss	₱536,602
Group's share of loss for the year	₱268,292

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

- Allianz SE will acquire 12,750 shares representing 51% stockholdings of APLII and will have management control over the new joint venture company;
- The new joint venture company will operate under the name of "Allianz-PNB Life Insurance, Inc.";
- A 15-year distribution agreement which will provide Allianz an exclusive access to the branch network of PNB and PNB Savings Bank.

The sale of APLII was completed on June 6, 2016 for a total consideration of US$66.0 million (₱3.1 billion). Pursuant to the sale of APLII, PNB also entered into a distribution agreement with APLII where PNB will allow APLII to have exclusive access to the distribution network of PNB and its subsidiary, PNB Savings Bank, over a period of 15 years. Both the share purchase agreement and distribution agreement have provisions referring to one another, making the distribution agreement an integral component of the sale transaction. Accordingly, the purchase consideration of US$66.0 million (₱3.1 billion) was allocated between the sale of the 51% interest in APLII and the Exclusive Distribution Rights (EDR) amounting to US$44.9 million (₱2.1 billion) and US$21.1 million (₱1.0 billion), respectively.

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

The Group recognized gain on sale of the 51% interest in APLII amounting to ₱400.3 million, net of taxes and transaction costs amounting to ₱276.7 million and ₱153.3 million, respectively. The deferred revenue amounting to ₱976.2 million allocated to the EDR was presented as "Other deferred revenue" and will be amortized to income over 15 years from date of sale (see Note 20). Amortization amounting to ₱36.5 million was recognized in 2016 (see Note 28). Prior to the sale of shares to Allianz SE, PNB acquired additional 15% stockholdings from the minority shareholders for a consideration amounting to ₱292.4 million between June 2, 2016 and June 5, 2016.

Consequently, PNB accounted for its remaining 44% ownership interest in APLII as an associate. At the date of loss of control, PNB's investment in APLII was remeasured to ₱2.7 billion based on the fair value of its retained equity. PNB recognized gain on remeasurement amounting to ₱1.6 billion in the 2016 consolidated statement of income.

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

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

Summarized financial information of APLII as of December 31, 2016 are as follows:

Current assets	₱14,812,452
Noncurrent assets	9,602,162
Current liabilities	14,287,861
Noncurrent liabilities	7,995,855
Equity	2,130,898

Summarized statements of income of APLII for the seven months ended December 31, 2016 are as follows (in thousands):

Revenue	₱1,164,407
Costs and expenses	(1,022,543)
Income before income tax	141,864
Provision for income tax	(29,762)
Net income	112,102
Other comprehensive loss	(556,044)
Total comprehensive income	(₱443,942)
Group's share of comprehensive income for the period	(₱195,334)

Investment in ABI Pascual Holdings
On February 15, 2012, ABI and Corporation Empresarial Pascual, S. L. (CEP), an entity organized and existing under the laws of Spain, agreed to form ABI Pascual Holdings, a jointly controlled entity organized and domiciled in Singapore. In accordance with the Agreement, ABI and CEP (the "venturers") will hold 50% interest in ABI Pascual Holdings. Further, the arrangement requires unanimous agreement for financial and operating decisions among venturers.

On November 21, 2012, ABI Pascual Holdings created ABI Pascual Foods Incorporated (ABI Pascual Foods), an operating company, incorporated and domiciled in the Philippines, that will develop a business of marketing and distributing certain agreed products. As part of the joint venture agreement, the venturers also agreed to execute a product distribution agreement.

As of December 31, 2012, ABI has an investment in ABI Pascual Holdings amounting to ₱20.1 million, while ABI Pascual Holdings has an investment in ABI Pascual Foods amounting to ₱40.2 million. The joint venture has started operations in September 2013.

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

	2016	2015
	(In Thousands)	
Current assets	**₱164,783,352**	₱70,080,249
Noncurrent assets	**1,173,950**	1,140,975
Current liabilities	**29,617,526**	163,760,511
Noncurrent liabilities	**2,361,086**	1,351,514
Total equity (capital deficiency)	**133,978,690**	(93,890,801)

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

	2016	2015	2014
		(In Thousands)	
Revenue	**₱184,512**	₱124,247	₱93,591
Costs and expenses	**(131,941)**	(128,969)	(116,678)
Income before income tax	**52,571**	(4,722)	(23,087)
Provision for income tax	**(2,612)**	–	–
Net income (loss)	**49,959**	(4,722)	(23,087)
Other comprehensive income (loss)	**104**	2,916	–
Total comprehensive income	**₱50,063**	(₱1,806)	(₱23,087)
Group's share of income for the year	**₱24,665**	(₱2,067)	(₱46,043)

Disclosures on Subsidiary with Material Non-controlling Interest

Following is the financial information of PNB, which has material non-controlling interests of 43.53% as of and for the years ended December 31:

	2016	2015	2014
		(In Thousands)	
Accumulated balances of material non-controlling interest	**₱38,202,847**	₱38,103,827	₱35,600,617
Net income allocated to material non-controlling interest	**3,235,013**	2,860,406	2,507,994
Total comprehensive income allocated to material non-controlling interest	**2,976,343**	2,503,210	2,328,509

As discussed in Note 1, on February 9, 2013, PNB acquired 100% of the voting common stock of ABC. PNB accounted the business combination with ABC under the acquisition method of PFRS 3. In the LTG consolidated financial statements, the merger of PNB and ABC and the acquisition of PNB through the Bank Holding Companies are accounted for under the pooling-of-interests method. Thus, the summarized financial information of PNB below is based on the amounts in the consolidated financial statements of PNB prepared under the pooling-of-interests method before the Group's inter-company eliminations.

Statements of Comprehensive Income:

	2016	2015 (As re-presented, Note 37)	2014 (As re-presented, Note 37)
		(In Thousands)	
Revenue	**₱29,302,092**	₱26,610,310	₱24,945,565
Cost of services	**(5,722,738)**	(4,807,242)	(4,378,367)
General and administrative expenses	**(23,215,141)**	(18,449,228)	(18,693,960)
Foreign exchange gains - net	**1,487,740**	1,207,840	1,342,196
Other income - net	**6,427,747**	3,393,380	4,038,751
Income before income tax	**8,279,700**	7,955,060	7,254,185
Provision for income tax	**(1,517,030)**	(1,543,789)	(1,620,442)
Net income from continuing operations	**6,762,670**	6,411,271	5,633,743
Net income from discontinued operations	**619,563**	357,931	264,164
Net income	**7,382,233**	6,769,202	5,897,907
Other comprehensive income (loss)	**(594,234)**	1,380,871	(463,460)
Total comprehensive income	**₱6,787,999**	₱8,150,073	₱5,434,447
Net income attributable to:			
Equity holders of the Parent Company	**₱4,705,162**	₱3,673,284	₱3,117,161
Non-controlling interests	**2,677,071**	3,095,918	2,780,746
Total comprehensive income attributable to:			
Equity holders of the Parent Company	**4,369,598**	5,454,974	2,855,444
Non-controlling interests	**2,418,401**	2,695,099	2,579,003

Balance Sheets:

	2016	2015
	(In Thousands)	
Current assets	**₱363,527,807**	₱331,611,312
Noncurrent assets	**377,357,531**	334,920,597
Current liabilities	**575,558,848**	494,826,885
Noncurrent liabilities	**68,358,018**	79,378,820
Equity attributable to:		
Equity holders of the Parent Company	**54,750,476**	50,946,819
Non-controlling interest	**42,217,996**	41,379,385

Statements of Cash Flows:

	2016	2015	2014
		(In Thousands)	
Operating	**₱28,108,324**	(₱2,263,547)	(₱61,400,140)
Investing	**3,482,266**	(10,634,340)	(542,830)
Financing	**2,823,720**	5,275,983	17,168,222
Net increase (decrease) in cash and cash equivalents	**₱34,414,310**	(₱7,621,904)	(₱44,774,748)

12. **Property, Plant and Equipment**

December 31, 2016

	At Appraised Values				At Cost						
	Land and Land Improvements	**Plant Buildings and Building Improvements**	**Machineries and Equipment**	**Subtotal**	**Office and Administration Buildings and Improvements**	**Transportation Equipment**	**Returnable Containers**	**Furniture, Fixtures and Other Equipment**	**Construction in Progress**	**Subtotal**	**Total**
					(In Thousands)						
Cost											
Balance at beginning of year	**₱20,206,827**	**₱19,976,979**	**₱24,508,145**	**₱64,691,951**	**₱4,340,393**	**₱1,791,570**	**₱7,120,021**	**₱10,061,063**	**₱1,121,978**	**₱24,435,025**	**₱89,126,976**
Additions/transfers (Note 13)	**1,366**	**1,171,957**	**1,068,927**	**2,242,250**	**269,152**	**161,169**	**473,441**	**1,369,699**	**253,300**	**2,526,761**	**4,769,011**
Disposals/transfers/others (Notes 13 and 28)	**(3,266,019)**	**(1,584,068)**	**937,824**	**(3,912,263)**	**189,614**	**(29,277)**	**(4,369,742)**	**(529,745)**	**(1,168,832)**	**(5,907,982)**	**(9,820,245)**
Balance at end of year	**16,942,174**	**19,564,868**	**26,514,896**	**63,021,938**	**4,799,159**	**1,923,462**	**3,223,720**	**10,901,017**	**206,446**	**21,053,804**	**84,075,742**
Accumulated Depreciation, Amortization and Impairment Losses											
Balance at beginning of year	**953,589**	**6,226,112**	**17,974,105**	**25,153,806**	**3,514,582**	**1,521,638**	**6,053,838**	**8,045,236**	**–**	**19,135,294**	**44,289,100**
Depreciation and amortization	**141,787**	**569,268**	**863,188**	**1,574,243**	**265,234**	**138,244**	**460,267**	**848,363**	**–**	**1,712,108**	**3,286,351**
Disposals/transfers/others (Notes 13 and 28)	**12,621**	**(306,347)**	**483,567**	**189,841**	**(188,225)**	**(28,944)**	**(3,948,694)**	**(798,309)**	**–**	**(4,964,172)**	**(4,774,331)**
Balance at end of year	**1,107,997**	**6,489,033**	**19,320,860**	**26,917,890**	**3,591,591**	**1,630,938**	**2,565,411**	**8,095,290**	**–**	**15,883,230**	**42,801,120**
Net Book Value	**₱15,834,177**	**₱13,075,835**	**₱7,194,036**	**₱36,104,048**	**₱1,207,568**	**₱292,524**	**₱658,309**	**₱2,805,727**	**₱206,446**	**₱5,170,574**	**₱41,274,622**

December 31, 2015

	At Appraised Values				At Cost						
	Land and Land Improvements	Plant Buildings and Building Improvements	Machineries and Equipment	Subtotal	Office and Administration Buildings and Improvements	Transportation Equipment	Returnable Containers	Furniture, Fixtures and Other Equipment	Construction in Progress	Subtotal	Total
					(In Thousands)						
Cost											
Balance at beginning of year	₱17,733,967	₱19,982,538	₱27,125,256	₱64,841,761	₱3,944,254	₱1,718,288	₱6,628,513	₱9,241,275	₱386,422	₱21,918,752	₱86,760,513
Additions/transfers (Note 13)	2,270,088	736,586	518,931	3,525,605	179,355	88,292	505,223	1,204,136	1,144,707	3,121,713	6,647,318
Disposals/transfers/others (Note 28)	202,772	(742,145)	(3,136,042)	(3,675,415)	216,784	(15,010)	(13,715)	(384,348)	(409,151)	(605,440)	(4,280,855)
Balance at end of year	20,206,827	19,976,979	24,508,145	64,691,951	4,340,393	1,791,570	7,120,021	10,061,063	1,121,978	24,435,025	89,126,976
Accumulated Depreciation, Amortization and Impairment Losses											
Balance at beginning of year	909,980	8,380,263	17,080,993	26,371,236	3,330,800	1,398,039	5,480,748	7,733,768	−	17,943,355	44,314,591
Depreciation and amortization	23,519	591,716	839,602	1,454,837	181,337	138,217	573,090	611,059	–	1,503,703	2,958,540
Disposals/transfers/others (Note 28)	20,090	(2,745,867)	53,510	(2,672,267)	2,445	(14,618)	–	(299,591)	–	(311,764)	(2,984,031)
Balance at end of year	953,589	6,226,112	17,974,105	25,153,806	3,514,582	1,521,638	6,053,838	8,045,236	–	19,135,294	44,289,100
Net Book Value	₱19,253,238	₱13,750,867	₱ 6,534,040	₱39,538,145	₱825,811	₱269,932	₱1,066,183	₱2,015,827	₱1,121,978	₱5,299,731	₱44,837,876

Revaluation of Land and Land Improvements, Plant Buildings and Machineries and Equipment
The corresponding fair values of land and land improvements, plant buildings and building improvements, and machineries and equipment are determined based on valuation performed by Philippine SEC-accredited and independent appraisers. The fair value of the land was determined using the market data approach based on available market evidence and the fair values for land improvements, plant buildings, and machineries and equipment were derived using the depreciated replacement cost. The dates of the latest appraisal valuations were December 31, 2016 and 2011 (see Note 34). Movements in revaluation increment, net of deferred income tax effect, are as follows:

	2016	2015
	(In Thousands)	
Revaluation increment on the property, plant and equipment, net of deferred income tax effect:		
Balance at beginning of year	**₱7,249,395**	₱8,121,362
Net revaluation increase (decrease)	**273,509**	(360,163)
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	**(720,604)**	(511,804)
Balance at end of year	**₱6,802,300**	₱7,249,395
Attributable to:		
Equity holders of the Company	**₱4,473,280**	₱4,920,375
Non-controlling interests	**2,329,020**	2,329,020
	₱6,802,300	₱7,249,395

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

	2016	2015
	(In Thousands)	
Cost		
Land and land improvements	**₱7,367,949**	₱9,514,421
Plant buildings and improvements	**13,773,131**	15,082,717
Machineries and equipment	**28,406,332**	20,145,218
	49,547,412	44,742,356
Accumulated depreciation		
Plant buildings and improvements	**(5,937,751)**	(5,124,987)
Machineries and equipment	**(19,098,833)**	(10,435,503)
	(25,036,584)	(15,560,490)
	₱24,510,828	₱29,181,866

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

	2016	2015 (As re-presented, Note 37)	2014 (As re-presented, Note 37)
	(In Thousands)		
Continuing operations:			
Cost of sales and services (Note 24)	**₱1,078,798**	₱997,229	₱1,060,426
Selling expenses (Note 25)	**491,555**	481,492	523,903
General and administrative expenses (Note 26)	**1,320,606**	1,019,248	1,050,626
Discontinued operations (Note 37)	**395,392**	460,571	443,612
	₱3,286,351	₱2,958,540	₱3,078,567

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

Out of the total additions in 2016 and 2015, ₱86.6 million and ₱78.1 million remain to be unpaid as of December 31, 2016 and 2015, respectively.

Certain property and equipment of the Group with carrying amount of ₱178.5 million and ₱180.8 million are temporarily idle as of December 31, 2016 and 2015, respectively.

Borrowing Costs
Unamortized capitalized borrowing costs amounted to ₱12.5 million and ₱13.2 million as of December 31, 2016 and 2015, respectively. The average capitalization rate used to determine the amount of borrowing costs eligible for capitalization was 4.5% in 2015. There was no borrowing cost capitalized in 2016.

13. Investment Properties

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

	December 31, 2016				
	Land	**Buildings and Improvements**	**Residential Unit**	**Construction in Progress**	**Total**
Cost					
Balance at beginning of year	**₱18,703,010**	**₱9,714,260**	**₱7,620**	**₱290,804**	**₱28,715,694**
Additions	**667,914**	**24,846**	–	**379,530**	**1,072,290**
Transfers	**2,618,975**	**1,016,505**	–	**1,541,805**	**5,177,285**
Disposals	–	**(241,343)**	–	–	**(241,343)**
Balance at end of year	**21,989,899**	**10,514,268**	**7,620**	**2,212,139**	**34,723,926**
Accumulated Depreciation and Impairment Losses					
Balance at beginning of year	**3,382,883**	**3,093,666**	**7,620**	–	**6,484,169**
Depreciation	–	**261,027**	–	–	**261,027**
Provision for impairment losses	**810**	**1,890**	–	–	**2,700**
Disposals	–	**(241,343)**	–	–	**(241,343)**
Balance at end of year	**3,383,693**	**3,115,240**	**7,620**	–	**6,506,553**
Net Book Value	**₱18,606,206**	**₱7,399,028**	**₱–**	**₱2,212,139**	**₱28,217,373**

	December 31, 2015				
	Land	Buildings and Improvements	Residential Unit	Construction in Progress	Total
Cost					
Balance at beginning of year	₱23,541,887	₱10,064,779	₱7,620	₱138,979	₱33,753,265
Additions	1,339,183	218,252	–	46,284	1,603,719
Transfers	(2,217,654)	–	–	105,541	(2,112,113)
Disposals	(3,960,406)	(568,771)	–	–	(4,529,177)
Balance at end of year	18,703,010	9,714,260	7,620	290,804	28,715,694
Accumulated Depreciation and Impairment Losses					
Balance at beginning of year	3,248,922	3,298,790	7,620	–	6,555,332
Depreciation	–	369,803	–	–	369,803
Provision for impairment losses	133,961	(309,718)	–	–	(175,757)
Disposals	–	(265,209)	–	–	(265,209)
Balance at end of year	3,382,883	3,093,666	7,620	–	6,484,169
Net Book Value	₱15,320,127	₱6,620,594	₱–	₱290,804	₱22,231,525

The Group's investment properties consist of parcels of land for appreciation, residential and condominium units for lease and for sale, and real properties foreclosed or acquired in settlement of loans which are all valued at cost. Foreclosed investment properties still subject to redemption period by the borrowers amounted to ₱155.4 million and ₱150.0 million as of December 31, 2016 and 2015, respectively. The Group is exerting continuing efforts to dispose these properties.

In 2015, investment properties with carrying value of ₱2.2 billion were converted as branches and head offices of PNB's subsidiaries and were transferred to property, plant and equipment (see Note 12). In 2016, the Group reclassified certain properties from "property, plant and equipment" to "Investment property" with aggregate carrying amount of ₱4.7 billion. These properties mainly consist of the office spaces in the Allied Bank Center in Makati City leased out and land in Buendia, Makati City being held for future development.

As of December 31, 2016 and 2015, the Group's "Construction in progress" under the "Investment property" account pertains to the contruction of building intended for leasing and which is expected to be completed in 2017.

Out of the total additions in 2015, ₱1,063.3 million remain to be unpaid as of December 31, 2015.

Fair Values of Investment Properties

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

	2016	2015
	(In Thousands)	
Land	**₱24,971,630**	₱30,136,203
Buildings and improvements	**8,810,139**	8,517,345
	₱33,781,769	₱38,653,548

The fair value of investment properties of the Group was determined using various acceptable valuation approaches and both observable and unobservable inputs (see Note 34).

Rent Income and Direct Operating Expenses of Investment Properties

Rental income and direct operating expenses arising from the investment properties of property development segment amounted to ₱1,278.5 million and ₱253.8 million in 2016, ₱1,172.5 million and ₱226.9 million in 2015, and ₱740.3 million and ₱278.9 million in 2014, respectively (see Note 24).

Rental income of the banking segment on its investment properties is presented under “Other income (charges)” (see Note 28).

Depreciation of investment properties charged to operations follows:

	2016	2015	2014
		(In Thousands)	
Cost of rental income (Note 24)	**₱137,457**	₱130,493	₱145,680
General and administrative expenses (Note 26)	**123,570**	239,310	169,509
	₱261,027	₱369,803	₱315,189

14. Other Noncurrent Assets

Other noncurrent assets consist of:

	2016	2015
	(In Thousands)	
Software costs	**₱1,448,022**	₱1,131,041
Deferred input VAT	**420,831**	378,486
Deposit for future investments	**334,060**	348,511
Deferred reinsurance premiums	**302,916**	499,148
Net retirement plan assets (Note 23)	**276,870**	255,716
Refundable and security deposits	**273,018**	160,510
Deferred charges	**251,682**	129,974
Goodwill	**163,735**	163,735
Chattel properties - net	**36,585**	2,107
Other investments	**22,201**	19,861
Receivable from SPV - net	**500**	500
Others - net	**197,352**	290,655
	₱3,727,772	₱3,380,244

a. Movements in software costs are as follows:

	2016	2015
	(In Thousands)	
Balance at beginning of year	**₱1,131,041**	₱667,364
Additions	**420,205**	587,390
Other adjustments	**6,756**	462
Amortization (Note 26)	**(109,980)**	(124,175)
Balance at end of year	**₱1,448,022**	₱1,131,041

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

c. Refundable deposits consist principally of amounts paid by the property development segment to its utility providers for service applications and guarantee deposit to Makati Commercial Estate Association for plans processing, monitoring fee and development charge of the Group’s projects. These refundable deposits amounting to ₱154.8 million and ₱145.4 million as of December 31, 2016 and 2015, respectively, will be refunded upon termination of the service contract and completion of the projects’ construction.

d. The Group recognized goodwill which pertains mainly to ADI and Eton amounting to ₱144.7 million and ₱19.0 million, respectively. As of December 31, 2016 and 2015, the Group performed its annual impairment testing of goodwill related to its CGUs, ADI and Eton.

The recoverable amount of ADI is determined based on value-in-use calculations using cash flow projections from financial budgets approved by management covering a five-year period. The projected cash flows have been updated to reflect the increase in demand for products based on TDI's projected sales volume increase, selling price increase and cost and expenses increase. The pre-tax discount rate applied to the cash flow projection is 9.7% in 2016 and 2015. The growth rate used to extrapolate the cash flows of until beyond the five-year period is 6.2% as of December 31, 2016 and 6.0% as of December 31, 2015. Management assessed that this growth rate is comparable with the average growth for the industry in which ADI operates. Management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of ADI to exceed its recoverable amount, which is based on value-in-use. As of December 31, 2016 and 2015, the recoverable amount of ADI is higher than its carrying value.

e. As of December 31, 2016 and 2015, accumulated depreciation on chattel mortgage properties acquired by PNB in settlement of loans amounted to ₱79.1 million and ₱36.5 million, respectively.

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

   As of December 31, 2016 and 2015, receivable from SPV represents fully provisioned subordinated notes received by PNB from Golden Dragon Star Equities and its assignee, OPII, relative to the sale of the first pool and second pool of its NPAs in December 2006 and March 2007, respectively. The asset sale and purchase agreements (ASPA) between PNB, Golden Dragon Star Equities and OPII for the sale of the NPAs were executed on December 19, 2006. OPII was specifically organized to hold, manage, service and resolve the non-performing assets sold to Golden Dragon Star Equities. OPII has been financed through the issuance of equity securities and subordinated debt securities. Collection from OPII in 2016, 2015 and 2014 amounting to ₱500.0 million, ₱353.0 million, and ₱27.0 million, respectively are recorded part of "Other income (charges)" (see Note 28).

15. **Deposit Liabilities**

	2016	2015
	(In Thousands)	
Demand	**₱112,532,681**	₱113,168,584
Savings	**368,798,751**	302,476,256
Time	**80,088,800**	60,511,352
	561,420,232	476,156,192
Presented as noncurrent	**(45,866,133)**	(39,793,338)
Presented as current	**₱515,554,099**	₱436,362,854

Of the total deposit liabilities of the Group, ₱19.9 billion and ₱23.8 billion are non-interest bearing as of December 31, 2016 and 2015, respectively. Annual interest rates of the deposit liabilities follow:

	2016	2015	2014
Foreign-currency denominated deposit liabilities	**0.00% to 3.71%**	0.00% to 2.25%	0.02% to 2.26%
Peso-denominated deposit liabilities	**0.00% to 6.23%**	0.05% to 5.00%	0.05% to 6.11%

On March 29, 2012, BSP issued Circular No. 753 which provides for the unification of the statutory and liquidity reserve requirement, non-remuneration of the unified reserve requirement, exclusion of vault cash and demand deposits as eligible forms of reserve requirement compliance, and reduction in the unified reserve requirement ratios.

BSP issued Circular Nos. 830 and 832 last March 27, 2014 and May 8, 2014, respectively, to approve the one-point percentage increase in the reserve requirements of universal and commercials banks. Under existing BSP regulations, non-FCDU deposit liabilities of PNB and PNB Savings Bank are subject to reserves equivalent to 20.00% and 8.00%, respectively. As of December 31, 2016 and 2015, available reserves booked under "Due from BSP" amounted to ₱89.0 billion and ₱74.3 billion, respectively.

Long-term Negotiable Certificates of Time Deposits
Time deposit of the Group includes the following Long-term Negotiable Certificates of Time Deposits (LTNCDs):

Issue Date	Maturity Date	Face Value (*In Thousands*)	Carrying Value (*In Thousands*)	Coupon Rate	Interest Repayment Terms
December 6, 2016	June 6, 2022	₱5,380,000	₱5,343,041	3.25%	Quarterly
December 12, 2014	June 12, 2020	7,000,000	6,958,411	4.13%	Quarterly
October 21, 2013	April 22, 2019	4,000,000	3,981,365	3.25%	Quarterly
August 5, 2013	February 5, 2019	5,000,000	4,979,615	3.00%	Quarterly
November 18, 2011	February 17, 2017	3,100,000	3,094,836	5.18%	Quarterly

Other significant terms and conditions of the above LTNCDs follow:

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

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

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

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

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

e. Subject to the "Events of Default" in the Terms and Conditions, the LTNCDs cannot be pre-terminated at the instance of any CD Holder before Maturity Date. In the case of an event of default, none of the CD Holders may accelerate the CDs on behalf of other CD Holders, and a CD Holder may only collect from PNB to the extent of his holdings in the CDs. However, PNB may, subject to the General Banking Law of 2000, Section X233.9 of the Manual of Regulations for Banks, Circular No. 304 Series of 2001 of the BSP and other related circulars and issuances, as may be amended from time to time, redeem all and not only part of the outstanding CDs on any Interest Payment Date prior to Maturity Date, at an Early Redemption Amount equal to the Issue Price plus interest accrued and unpaid up to but excluding the Early Redemption Date.

f. The LTNCDs are insured by the PDIC up to a maximum amount of ₱0.5 million subject to applicable laws, rules and regulations, as the same may be amended from time to time.

g. Each Holder, by accepting the LTNCDs, irrevocably agrees and acknowledges that: (a) it may not exercise or claim any right of set-off in respect of any amount owed to it by PNB arising under or in connection with the LTNCDs; and (b) it shall, to the fullest extent permitted by applicable law, waive and be deemed to have waived all such rights of set-off.

Interest expense on deposit liabilities presented under "Cost of banking services" amounted to ₱3.8 billion, ₱3.0 billion and ₱2.9 billion in 2016, 2015 and 2014, respectively (see Note 24).

In 2016, 2015 and 2014, interest expense on LTNCDs of the Group includes amortization of transaction costs amounting to ₱25.3 million, ₱16.9 million and ₱22.8 million, respectively. Unamortized transaction costs of the LTNCDs amounted to ₱97.9 million and ₱85.8 million as of December 31, 2016 and 2015, respectively.

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

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

	2016	2015
	(In Thousands)	
Derivative liabilities (Notes 21 and 33)	**₱232,832**	₱135,193
Less noncurrent portion	**–**	9,118
Current portion	**₱232,832**	₱126,075

17. Bills and Acceptances Payable

Bills and acceptances payable consist of:

	2016	2015
	(In Thousands)	
Bills payable to:		
BSP and local banks (Note 22)	**₱26,575,782**	₱17,580,304
Foreign banks	**7,632,548**	7,676,238
Others	**18,277**	150,864
	34,226,607	25,407,406
Acceptances outstanding	**1,659,340**	344,816
	35,885,947	25,752,222
Less noncurrent portion	**10,817,679**	19,915,383
Current portion	**₱25,068,268**	₱5,836,839

Annual interest rates are shown below:

	2016	2015	2014
Foreign currency-denominated borrowings	**0.05% to 2.00%**	0.01% to 2.50%	0.03% - 2.50%
Peso-denominated borrowings	**0.63%**	0.38% to 0.63%	0.63% - 2.00%

PNB's bills payable to BSP includes the transferred liabilities from Maybank Philippines, Inc. (Maybank) amounting to ₱1.8 billion as of December 31, 2015 which were applied against the principal component of the transferred receivables in May 2016 (see Note 8).

Bills payable to foreign banks consist of various repurchase agreements and a three-year syndicated borrowing, with carrying value of ₱7.4 billion and ₱7.0 billion as of December 31, 2016 and 2015, respectively.

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

- The lenders agree to provide PNB with a term loan facility of up to US$150.00 million (₱7.5 billion). PNB must repay all utilized loans at April 24, 2018, the final maturity date, which is three years from the agreement date.

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

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

- PNB may voluntarily prepay whole or any part of any loan outstanding and in integral multiples of US$1.0 million (₱49.7 million), subject to prior notice of the Agent for not less than 15 business days. Prepayment shall be made on the last day of an interest period applicable to the loan. Mandatory prepayment may occur if a change of control or credit rating downgrade occurs. In this case, the lenders may cancel the facility and declare all outstanding loans, together with accrued interest, immediately due and demandable.

As of December 31, 2016 and 2015, PNB has complied with the above debt covenants.

As of December 31, 2016 and 2015, the unamortized transaction cost of the syndicated borrowing amounted to ₱32.7 million and ₱54.9 million, respectively.

As of December 31, 2016, bills payable with a carrying amount of ₱20.6 billion is secured by a pledge of certain AFS investments with carrying value and fair value of ₱10.0 billion and ₱9.8 billion, respectively, and HTM investments with carrying value and fair value of ₱14.5 billion and ₱15.3 billion, respectively (see Note 7).

As of December 31, 2015, bills payable with a carrying amount of ₱12.8 billion is secured by a pledge of certain AFS with carrying value and fair value of ₱8.5 billion and HTM investments with carrying value and fair value of ₱7.0 billion and ₱7.5 billion, respectively (see Note 7).

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

a. Each party represents and warrants to the other that it is duly authorized to execute and deliver the Agreement, and to perform its obligations and has taken all the necessary action to authorize such execution, delivery and performance;
b. The term or life of this borrowing is up to three years;
c. Some borrowings bear a fixed interest rate while others have floating interest rate;
d. PNB has pledged its AFS and ATM investments, in form of ROP Global bonds, in order to fulfill its collateral requirement;
e. Haircut from market value ranges from 15.00% to 25.00% depending on the tenor of the bond;
f. Certain borrowings are subject to margin call up to US$ 1.4 million; and
g. Substitution of pledged securities is allowed if one party requested and the other one so agrees.

Interest expense on bills payable is included under "Cost of banking services" amounting to ₱1.0 billion in 2016 and 2015 and ₱0.9 billion in 2014 (see Note 24).

18. **Accounts Payable and Accrued Expenses**

Accounts payable and accrued expenses consist of:

	2016	2015
	(In Thousands)	
Trade payables	**₱9,913,554**	₱8,785,564
Nontrade payables	**281,765**	377,087
Accrued expenses:		
Project development costs	**1,663,547**	1,932,508
Purchase of materials and supplies and others	**946,185**	759,244
Taxes and licenses	**613,023**	374,908
Interest	**591,310**	2,085,701
Rent and utilities payable	**542,631**	103,043
PDIC insurance premiums	**517,148**	470,701
Advertising and promotional expenses	**415,536**	284,281
Information technology-related expenses	**122,039**	194,974
Retention payable	**658,346**	690,714
Output value added tax	**522,422**	661,368
Due to government agencies	**353,234**	275,757
Other payables	**150,537**	83,970
	₱17,291,277	₱17,079,820

Trade Payables
Trade payables are non-interest bearing and are normally settled on 30 to 60 days terms. Trade payables arise mostly from trade purchases of the banking group and purchases of inventories, which include raw materials and indirect materials (i.e., packaging materials) and supplies, for use in manufacturing and other operations.

Trade payables also include importation charges related to raw materials purchases, as well as occasional acquisitions of production equipment and spare parts.

Accrued Project Development Costs
Accued project development costs represent costs incurred by the Property Development segment in the development and construction of real estate projects.

Accrued Expenses
Other accrued expenses consist of accruals for commission, outside services, fuel and oil, and professional fees which are individually not significant as to amounts.

Retention Payable
Retention payable is the amount deducted from the total billing of the contractor which will be paid upon completion of the contracted services of Eton.

Other Payables
Other payables include cash bond payable to haulers as security for inventories and payable other than to suppliers of raw materials which include, but not limited to advertising and freight companies.

19. **Short-term and Long-term Debts**

Short-term Debts

As of December 31, 2016 and 2015, outstanding unsecured short-term debts amounted to ₱1,750 million and ₱1,400 million, respectively. The loans are subject to annual interest rates ranging from 3.3% to 3.5% in 2016 and 2015, are payable lump-sum on various dates within one year and subject to renewal upon agreement by the Group and counterparty banks. In 2015, the Group obtained additional short-term loans from BDO amounting to ₱1.1 billion which are payable in lump-sum after 60 days.

Long-term Debts

	2016	2015
	(In Thousands)	
Subordinated debts	**₱3,497,798**	₱9,986,427
Unsecured term loan	**1,604,003**	720,004
Notes payable	**466,946**	476,015
	5,568,747	11,182,446
Current portion	**(466,946)**	(476,015)
Noncurrent portion	**₱5,101,801**	₱10,706,431

PNB's Subordinated Debts

5.875% ₱3.5 Billion Subordinated Notes

On May 9, 2012, PNB's BOD approved the issuance of unsecured subordinated notes of ₱3.5 billion that qualify as Lower Tier 2 capital. EIR on this note is 6.04%.

Significant terms and conditions of the subordinated notes follow:

(1) The 2012 Notes bear interest at the rate of 5.88% per annum from and including May 9, 2012 to but excluding May 9, 2022. Interest will be payable quarterly in arrears on the 9th of August, November, February and May of each year, commencing on May 9, 2012, unless the 2012 Notes are redeemed at a redemption price equal to 100% of the principal amount on May 10, 2017, Call Option Date.

(2) Each noteholder, by accepting the 2012 Notes, irrevocably agrees and acknowledges that it may not exercise or claim any right of set-off in respect of any amount owed by PNB arising under or in connection with the 2012 Notes.

In a resolution dated January 26, 2017, the BSP Monetary Board approved the request of PNB to exercise its call option on the ₱3.5 billion Subordinated Notes, subject to compliance of relevant regulations. The 2012 Notes will be redeemed on May 10, 2017 at an amount equal to the aggregate issue price of the Notes plus accrued and unpaid interest thereon up to but excluding May 10, 2017 (Call Option Amount). The Call Option Amount shall be paid to all noteholders on record as of April 25, 2017. No transfers shall be allowed from April 25 to May 9, 2017.

6.75% ₱6.5 Billion Subordinated Notes

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

Significant terms and conditions of the subordinated notes follow:

(1) The 2011 Notes bear interest at the rate of 6.75% per annum from and including June 15, 2011 to but excluding June 15, 2021. Interest will be payable quarterly in arrears on the 15th of September, December, March and June of each year, commencing on June 15, 2011, unless the 2011 Notes are redeemed at a redemption price equal to 100% of the principal amount on June 16, 2016, Call Option Date.

(2) Each noteholder, by accepting the 2011 Notes, irrevocably agrees and acknowledges that it may not exercise or claim any right of set-off in respect of any amount owed by PNB arising under or in connection with the 2011 Notes.

On June 16, 2016, PNB exercised its call option and paid ₱6.5 billion to all noteholders as of June 1, 2016.

As of December 31, 2016 and 2015, the unamortized transaction cost of subordinated debt amounted to ₱2.2 million and ₱13.6 million respectively. In 2016, 2015 and 2014, amortization of transaction costs amounting to ₱11.4 million, ₱16.9 million, and ₱15.8 million, respectively, were charged to "Cost of banking services" in the consolidated statements of income (see Note 24).

TDI's ₱5.0 billion bonds payable

On November 24, 2009, TDI's and LTG's BOD approved and confirmed the issuance of the retail bonds amounting to ₱5.0 billion due in 2015 at 8.6% per annum, payable quarterly, to be used for general corporate purposes, including debt refinancing. On February 12, 2010, TDI completed the bond offering and issued the Retail Bonds with an aggregate principal amount of ₱5.0 billion, which matured and were redeemed on February 13, 2015.

The bond provides that TDI may at any time purchase any of the bonds at any price in the open market or by tender or by contract at any price, without any obligation to purchase bonds pro-rata from all bondholders and the bondholders shall not be obliged to sell. Any bonds so purchased shall be redeemed and cancelled and may not be re-issued.

Unsecured term loans of Eton

On January 28, 2013, Eton entered into an unsecured term loan agreement with BDO amounting to ₱2.0 billion to finance the construction of Eton projects. The term loan bears a nominal interest rate of 5.53% and will mature on January 26, 2018. Principal repayments will start one year from the date of availment and are due annually while interest payments are due quarterly starting April 28, 2014. Effective on October 28, 2013, Eton and BDO agreed to the new interest rate of 4.75%.

In 2016, Eton entered into an unsecured term loan agreement with Asia United Bank (AUB) amounting to ₱1.5 billion, to finance the construction of Eton's projects. The term loan bears a nominal interest rate of 5% and will mature on September 28, 2023. Principal repayments will commence two years from the date of availment and are due quarterly while interest payments are due quarterly starting December 28, 2016.

Notes payable of Eton

Notes payable include various notes from BDO which arose from the assignment of the Groups' contract receivables on a with recourse basis in 2013 and 2012 (see Note 8). These notes bear interest based on Philippine Dealing System Treasury Fixing (PDSTF) rate for one year plus 1.5% net of gross receipts tax. In 2016 and 2015, interest rates ranged from 5.10% to 6.66%, subject to annual repricing. Interest is due monthly in arrears during the first two years of the term and thereafter, interest shall be collected with the principal covering the term of three years or the term of the contracts to sell, whichever comes first. In 2016, the outstanding notes payable were fully paid by the Group.

Interest on loans payable from general borrowings capitalized as part of investment properties amounted to ₱30.0 million in 2014 and real estate inventories amounted to ₱61.9 million and ₱163.4 million in 2015 and 2014, respectively. Capitalization rates were 4.5% in 2015 and 5% in 2014, respectively. The Group stopped capitalizing interest on loans payable as contruction of projects involved in the loans are substantially done as of December 31, 2016.

Finance costs
Interest recognized in profit or loss on short-term and long-term debts, except for subordinated debts, are presented under “Finance costs” in the consolidated statements of income (see Note 27). Interest costs from subordinated debts are included in the “Cost of banking services” (see Note 24).

Compliance with debt covenants
As of December 31, 2016 and 2015, the Group has complied with the covenants of its long-term debts.

20. **Other Liabilities**

	2016	2015
	(In Thousands)	
Insurance contract liabilities	**₱4,581,800**	₱4,719,336
Bills purchased - contra (Note 8)	**3,260,308**	3,418,002
Payable to landowners	**3,250,573**	1,732,923
Provisions (Note 38)	**1,300,290**	1,168,011
Managers’ checks and demand drafts outstanding	**1,174,872**	937,799
Reserve for unearned premiums	**1,075,732**	1,191,405
Other deferred revenue (Note 12)	**939,672**	–
Due to other banks	**923,777**	461,100
Other dormant credits	**918,217**	753,338
Customers’ deposits	**892,286**	1,426,649
Deposit on lease contracts	**805,377**	854,817
Accounts payable - electronic money	**791,223**	556,618
Due to Treasurer of the Philippines	**543,002**	438,943
Tenants’ rental deposits	**428,785**	306,524
Miscellaneous tax securities	**300,226**	–
Payment order payable	**292,336**	407,196
Margin deposits and cash letters of credit	**174,206**	182,640
Advanced rentals	**167,203**	207,470
Transmission liability	**31,732**	24,976
Others	**924,254**	2,422,913
	22,775,871	21,210,660
Presented as noncurrent	**(5,411,870)**	(7,961,017)
Presented as current	**₱17,364,001**	₱13,249,643

<u>Payables to Landowners</u>
In September 2012, Eton executed a ₱556.8 million promissory note, subject to interest rate of PDSTF 3 years +1.00%, to a landowner in relation to its purchase of land located in Makati City with total purchase price of ₱742.4 million. In 2015, the promissory was fully paid.

In November 2012, Eton executed a promissory note to a landowner amounting to ₱740.0 million, subject to interest rate of PDSTF 3 years +0.50%, in relation to its purchase of land located in Quezon City with total purchase price of ₱1.0 billion. The promissory note is due on the third year from its execution date. In November 2015, the promissory note was extended and was subsequently settled in February 2016.

In various dates in 2014, Eton executed a ₱992.9 million promissory note, subject to interest rate of PDSTF 3 years +0.50%, to various landowners in relation to its purchase of land located in Laguna with total purchase price of ₱1.3 billion. The promissory note is due on the third year of its execution date.

Interest expense recognized related to these promissory notes amounted to ₱55.3 million in 2015 (nil in 2016 and 2014), net of capitalized portion amounting to nil, ₱52.6 million and ₱81.5 million in 2016, 2015 and 2014, respectively (see Notes 12, 13 and 27).

Customers' Deposits

Customers' deposits represent payments from buyers of residential units which will be applied against the corresponding contracts receivables which are recognized based on the revenue recognition policy of the Group. This account includes the excess of collections over the recognized receivables amounting to ₱0.9 billion and ₱1.4 billion as of December 31, 2016 and 2015, respectively.

Deposits and Other Deferred Credits

Other liabilities of the property development segment include tenants' rental deposits, advance rentals and other deferred credits. Security deposits pertain to the amounts paid by the tenants at the inception of the lease which is refundable at the end of the lease term. Advance rentals pertain to deposits from tenants which will be applied against receivables either at the beginning or at the end of lease term depending on the lease contract. Deferred credits represent the excess of the principal amount of the security deposits over its fair value. Amortization of deferred credits is included in "Rental income" in the consolidated statement of income (see Note 14).

Banking Segment Liabilities

Other liabilities of the banking segment include insurance contract liabilities, accounts payable, bills purchased - contra, managers' checks and demand drafts outstanding, margin deposits and cash letters of credit.

21. Derivative Financial Instruments

The tables in the next page show the fair values of derivative financial instruments entered into by the Group, recorded as derivative assets or derivative liabilities (included under "Financial assets and liabilities at FVPL") , together with the notional amounts. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding as of December 31, 2016 and 2015 and are not indicative of either market risk or credit risk (amounts in thousands, except average forward rate).

	December 31, 2016				December 31, 2015			
	Assets	**Liabilities**	**Average Forward Rate**	**Notional Amount***	Assets	Liabilities	Average Forward Rate	Notional Amount*
				(In Thousands)				
Freestanding derivatives:								
Currency forwards								
BUY:								
USD	**₱99**	**₱3,766**	**₱49.99**	**₱200,498**	₱42	₱5,210	₱47.37	₱155,521
EUR	**94**	**48**	**1.05**	**979**	122	–	1.09	898
GBP	**–**	**160**	**1.23**	**2,595**	–	168	1.36	1,104
CAD	**277**	**–**	**0.74**	**1,861**	–	170	0.72	1,385
HKD	**630**	**–**	**0.13**	**412,710**	–	66	7.75	13,012
SELL:								
USD	**46,155**	**10,601**	**49.85**	**382,664**	66,932	–	47.31	374,421
JPY	**45,957**	**504**	**0.01**	**16,524,949**	–	86,305	0.39	4,492,495
GBP	**5,227**	**–**	**1.24**	**9,550**	455	139	1.49	5,700
EUR	**740**	**–**	**1.05**	**4,000**	4	11	1.10	2,200
CAD	**873**	**258**	**0.74**	**1,861**	520	34	0.72	3,444
SGD	**–**	**361**	**0.69**	**5,573**	411	190	1.41	4,600
AUD	**483**	**–**	**0.74**	**450**	–	149	0.72	450
HKD	**–**	**1,032**	**0.13**	**144,748**	86	184	7.75	63,733
Interest rate swaps (Php)	**257,042**	**216,102**	**–**	**–**	49,444	42,567	–	–
Warrants	**61,545**	**–**	**–**	**–**	63,332	–	–	–
	₱419,122	**₱232,832**			₱181,348	₱135,193		

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

a. As of December 31, 2016 and 2015, PNB holds 306,405 shares of ROP Warrants Series B1 at their fair value of US$1.2 million (₱56.7 million) and US$1.3 million (₱64.6 million), respectively.

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

	2016	2015
	(In Thousands)	
Balance at beginning of year		
Derivative assets	**₱181,348**	₱136,551
Derivative liabilities	**135,193**	44,903
	46,155	91,648
Changes in fair value		
Currency forwards and spots*	**(723,245)**	(571,666)
Interest rate swaps and warrants**	**25,174**	(11,709)
	(698,071)	(583,375)
Availments	**838,206**	537,882
Balance at end of year		
Derivative assets	**419,122**	181,348
Derivative liabilities	**232,832**	135,193
	₱186,290	₱46,155

** Presented as part of "Foreign exchange gains".*
*** Recorded under "Trading and investment securities gains"*

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

22. **Related Party Transactions**

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

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

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

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

	Nature	2016	2015	2014
			(In Thousands)	
Associates	Dividend income	**₱2,555,576**	₱1,695,969	₱3,168,550
	Purchases of inventories	**1,793,767**	1,203,300	812,405
	Sales	**423,335**	–	–
	Lease	**4,388**	–	–
Entities Under Common Control	Banking revenue - interest on loans and receivables	**388,599**	337,899	153,707
	Sales of consumer products	**26,752**	24,519	21,011
	Interest income on loans and advances	**12,853**	22,613	16,806
	Rent income	**30,647**	27,861	30,942
	Other income	**150,599**	136,908	52,938
	Freight and handling	**(15,004)**	(4,716)	(7,772)
	Purchases of inventories	**(123,426)**	–	(160,914)
	Cost of banking services - interest expense on deposit liabilities	**(25,807)**	(23,461)	(14,898)
	Cost of sales and services	**(38,901)**	(26,296)	(25,864)
	Management and professional fees	**(263,142)**	(527,279)	(335,016)
	Outside services	**(62,865)**	(59,400)	(57,150)
	Rent expense	**(27,890)**	(58,710)	(31,054)
Key Management	Short-term employee benefits	**(636,114)**	(716,317)	(588,709)
	Post-employment benefits	**(72,891)**	(62,633)	(62,097)

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

	Financial Statement Account	Terms and Conditions	Amount/Volume 2016	Amount/Volume 2015	Outstanding Balance 2016	Outstanding Balance 2015
			(In Thousands)			
Parent Company	Due to related parties	On demand; non-interest bearing	**₱–**	₱–	**(₱41,975)**	(₱41,975)
	Due from related parties	On demand; non-interest bearing	**320,000**	–	**320,000**	–
Associates	Other receivables - dividends	30 to 90 days terms; non-interest bearing	**2,555,576**	1,695,969	**337,810**	228,017
	Trade receivables	- do -	**423,335**	17,590	**234,825**	17,771
	Account payable and other liabilities	30 to 60 days terms; non-interest bearing	**1,793,767**	1,203,300	**(24,078)**	(4,990)
Entities Under Common Control	Finance receivables	Secured by hold-out on deposits, government securities, real estate and mortgage trust indenture; Unimpaired; With interest rates ranging from 2.82% to 6.00% with maturity terms ranging from 90 days to 12 years and payment terms of ranging from monthly to quarterly payments	**388,599**	337,899	**17,226,371**	18,168,623
	Trade receivables	- do -	**26,752**	24,519	**12,986**	9,469
	Other receivables	- do -	**150,599**	136,908	**–**	–
	Due from related parties	On demand; non-interest bearing	**9,433**	204,356	**1,602,467**	1,593,034
	Advances to suppliers	- do -	**20,659**	269	**26,742**	47,401
	Deposit liabilities	With annual rates ranging from 0.38% to 1.73% and maturity ranging from 30 days to one year	**225,851**	23,461	**(7,644,701)**	(7,418,850)
	Account payable and other liabilitites	30 to 90 days terms; non-interest bearing	**123,426**	–	**(283,819)**	(330,434)
	Due to related parties	On demand; non-interest bearing	**10,284**	3,089	**(15,079)**	(4,795)
	Other payables	30 to 90 days terms; non-interest bearing	**197**	673,566	**(4,142)**	(4,339)

As of December 31, 2016 and 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.

Other terms and conditions related to the above related party balances and transactions are as follows:

Transactions with Tangent, parent company

- On April 12, 2016 and May 12, 2015, LTG declared cash dividends of ₱0.15 per share to all stockholders of record as of April 28, 2016 and May 27, 2015, respectively, of which ₱1.2 billion were paid to Tangent.

Transactions with Associates

- Dividend income from PMFTC amounted to ₱2.6 billion in 2016, ₱1.7 billion in 2015 and ₱3.2 billion in 2014 (see Note 11). Dividends receivable from PMFTC as of December 31, 2016 and 2015 are presented as part of nontrade receivables.

- The Group purchases raw materials from VMC.

- ABI entered into an operating lease agreement with AB HPI to lease portions of its two breweries, in Cabuyao, Laguna and El Salvador, Misamis Oriental, subject to the terms and conditions of an asset lease agreement signed last November 15, 2016. The lease has a fixed yearly increase as specified in the contract. As of December 31, 2016, the related rent receivable for the lease of land amounted to ₱4.4 million.

- ABI sold inventories to AB HPI aside from the nonmonetary assets sold on November 15, 2016, including work in progress, amounting to ₱423.3 million.

Transactions with Entities under Common Control

- Due to related parties include cash advances provided to the Group to support its working capital requirements.

- Several subsidiaries of the Group entered into management services agreements with Basic Holdings Corporation for certain considerations. Management fees are recorded under “Outside services” in “Cost of goods sold” and “Professional fees” in the “General and administrative expenses”.

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

- Several entities under common control maintain peso and foreign currency denominated deposits and short-term and long-term loans with PNB. Interest income and financing charges related to these transactions are reported under “Banking revenue” and “Cost of banking services”, respectively (see Note 24).

23. **Retirement Benefits**

The Group has funded, noncontributory defined benefit retirement plans, administered by a trustee, covering all of its permanent employees. As of December 31, 2016 and 2015, the Group is in compliance with Article 287 of the Labor Code, as amended by Republic Act No. 7641.

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

	2016	2015
	(In Thousands)	
Net retirement plan assets:		
FTC	**₱233,604**	₱227,524
TDI	**20,836**	–
AAC	**13,038**	19,347
LTG	**9,392**	8,845
	₱276,870	₱255,716
Accrued retirement benefits:		
PNB	**₱3,138,824**	₱2,955,003
ABI and subsidiaries	**682,396**	861,051
TDI and ADI	**22,004**	37,931
Eton	**56,118**	46,941
	₱3,899,342	₱3,900,926

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

Net retirement plan assets:

	2016			2015			2014		
	Defined Benefit Obligations	**Fair Value of Plan Assets**	**Net Retirement Plan Assets**	Define d Benefit Obligations	Fair Value of Plan Assets	Net Retirement Plan Assets	Defined Benefit Obligations	Fair Value of Plan Assets	Net Retirement Plan Assets
					(In Thousands)				
Beginning balance	**₱161,701**	**(₱417,417)**	**(₱255,716)**	₱131,057	(₱395,175)	(₱264,118)	₱75,033	(₱318,826)	(₱243,793)
Change in status of retirement plan	**96,347**	**(82,267)**	**14,080**	18,453	(11,392)	7,061	102,970	(81,708)	21,262
Net retirement benefits cost in profit or loss:									
Current service cost	**17,832**	**–**	**17,832**	29,759	–	29,759	18,037	–	18,037
Net interest cost	**9,126**	**(21,674)**	**(12,548)**	4,107	(15,112)	(11,005)	7,673	(10,726)	(3,053)
Curtailment gain	**–**	**–**	**–**	(12,523)	–	(12,523)	–	–	–
	26,958	**(21,674)**	**5,284**	21,343	(15,112)	6,231	25,710	(10,726)	14,984
Contributions	**–**	**(2,252)**	**(2,252)**	–	(5,084)	(5,084)		(1,201)	(1,201)
Benefits paid	**(2,820)**	**2,820**	**–**	(3,642)	3,642	–	(16,757)	16,757	–
Re-measurement losses (gains) in other comprehensive income - actuarial changes arising from changes in:									
Financial assumptions	**(38,796)**	**–**	**(38,796)**	–	–	–	–	–	–
Demographic assumptions	**(851)**	**–**	**(851)**	–	–	–	–	–	–
Experience adjustments	**(14,091)**	**15,472**	**1,381**	(5,510)	5,704	194	(55,899)	529	(55,370)
	(53,738)	**15,472**	**(38,266)**	(5,510)	5,704	194	(55,899)	529	(55,370)
Ending balance	**₱228,448**	**(₱505,318)**	**(₱276,870)**	₱161,701	(₱417,417)	(₱255,716)	₱131,057	(₱395,175)	(₱264,118)

Accrued retirement benefits:

	2016			2015			2014		
	Defined Benefit Obligations	**Fair Value of Plan Assets**	**Accrued Retirement Benefits**	Defined Benefit Obligations	Fair Value of Plan Assets	Accrued Retirement Benefits	Defined Benefit Obligations	Fair Value of Plan Assets	Accrued Retirem ent Benefits
					(In Thousands)				
Beginning balance	**₱9,666,274**	**(₱5,765,348)**	**₱3,900,926**	₱9,290,310	(₱5,514,049)	₱3,776,261	₱7,992,151	(₱3,645,889)	₱4,346,262
Change in status of retirement plan	**(96,347)**	**82,267**	**(14,080)**	(18,453)	11,392	(7,061)	(102,968)	81,708	(21,260)
Net retirement benefits cost in profit or loss:									
Current service cost	**701,627**	**–**	**701,627**	889,132	–	889,132	561,720	–	561,720
Net interest cost	**377,343**	**(190,977)**	**186,366**	343,297	(165,172)	178,125	281,403	(86,831)	194,572
Past service cost	**–**	**–**	**–**	7,529	–	7,529	45,767	–	45,767
	1,078,970	**(190,977)**	**887,993**	1,239,958	(165,172)	1,074,786	888,890	(86,831)	802,059
Contributions	**–**	**(1,123,041)**	**(1,123,041)**	–	(996,283)	(996,283)	–	(2,447,710)	(2,447,710)
Benefits paid from plan assets	**(728,330)**	**650,142**	**(78,188)**	(527,023)	527,023	–	(593,393)	593,393	–
Benefits paid directly from book reserves	**–**	**–**	**–**	(23)	–	(23)	–	–	–
Others	**–**	**–**	**–**	69,366	34,084	103,450	–	–	–
Re-measurement losses (gains) in other comprehensive income - actuarial changes arising from changes in:									
Financial assumptions	**302,114**	**–**	**302,114**	(471,608)	(69)	(471,677)	124,093	–	124,093
Demographic assumptions	**–**	**–**	**–**	485	–	485	–	–	–
Experience adjustments	**(28,864)**	**52,482**	**23,618**	83,262	337,726	420,988	981,537	(8,720)	972,817
	273,250	**52,482**	**325,732**	(387,861)	337,657	(50,204)	1,105,630	(8,720)	1,096,910
Ending balance	**₱10,193,817**	**(₱6,294,475)**	**₱3,899,342**	₱9,666,274	(₱5,765,348)	₱3,900,926	₱9,290,310	(₱5,514,049)	₱3,776,261

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

	2016	2015
	(In Thousands)	
Cash and cash equivalents	**₱3,165,371**	₱2,184,326
Receivables	**2,007,993**	1,813,219
Equity investments:		
Financial institutions	**711,701**	1,694,001
Other	**55,613**	39,466
Investments in government securities	**663,788**	442,391
Others	**195,327**	9,362
Fair value of plan assets	**₱6,799,793**	₱6,182,765

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

	2016	2015
Cash and cash equivalents	**47%**	35%
Receivables	**29%**	29%
Equity investments	**11%**	26%
Investments in government securities	**10%**	7%
Others	**3%**	1%
Fair value of plan assets	**100%**	100%

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

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

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

	2016	2015	2014
Discount rate	**4%-5%**	4%-5%	5%-6%
Future salary increases	**5%-10%**	5%-10%	5%-10%

As of December 31, 2016, the discount and future salary increase rates are 4-5% and 5-10%, respectively.

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

	2016		2015	
	Increase (Decrease)	**Increase (Decrease) in Present Value of Defined Benefit Obligations**	Increase (Decrease)	Increase (Decrease) in Present Value of Defined Benefit Obligations
Discount rates	**+0.5%**	**(₱865,242)**	+0.5%	(₱774,421)
	-0.5%	**1,014,972**	-0.5%	901,270

	2016		2015	
	Increase (Decrease)	**Increase (Decrease) in Present Value of Defined Benefit Obligations**	Increase (Decrease)	Increase (Decrease) in Present Value of Defined Benefit Obligations
Future salary increases	**+1.0%**	**₱1,028,578**	+1.0%	**₱920,284**
	-1.0%	**(886,617)**	-1.0%	**(794,886)**

Full actuarial valuations were performed to test the sensitivity of the defined benefit obligation to a 1% increment in salary increase rate, 0.5% decrement in the discount rate and a 10% improvement in the employee turnover rate. The results also provide a good estimate of the sensitivity of the defined benefit obligation to a 1% decrement in salary increase rate, 0.5% increment in the discount rate and a 10% increase in the employee turnover rate but with reverse impact.

The Group employs asset-liability matching strategies to maximize investment returns at the least risk to reduce contribution requirements while maintaining a stable retirement plan. Retirement plans are invested to ensure that liquid funds are available when benefits become due, to minimize losses due to investment pre-terminations and maximize opportunities for higher potential returns at the least risk.

The current plan asset of the Group is allocated to cover benefit payments in the order of their proximity to the present time. Expected benefit payments are projected and classified into short-term or long-term liabilities. Investment instruments that would match the liabilities are identified. This strategy minimizes the possibility of the asset-liability match being distorted due to the Group's failure to contribute in accordance with its general funding strategy.

Shown below is the maturity analysis of the undiscounted benefit payments of the Group:

	2016	2015
	(In Thousands)	
One year and less	**₱365,206**	₱347,360
More than one year up to five years	**1,769,646**	1,728,105
More than five years up to 10 years	**3,894,954**	3,905,062
More than 10 years up to 15 years	**5,886,466**	5,729,414
More than 15 years	**59,397,929**	48,508,346

The Group expects to contribute ₱1.6 billion to the defined benefit pension plan in 2017 The average duration of the defined benefit obligations at the end of the reporting period range from 17 to 24 years as of December 31, 2016 and 14 to 21 years as of December 31, 2015.

Transactions with Retirement Plans

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

24. **Revenue and Cost of Sales and Services**

Revenue consists of:

	2016	2015 (As re-presented, Note 37)	2014 (As re-presented, Note 37)
		(In Thousands)	
Banking revenue (Note 5)	**₱29,111,818**	₱26,600,160	₱24,210,181
Sale of consumer goods	**25,836,669**	22,388,574	21,796,812
Real estate sales	**1,573,067**	1,311,914	1,538,260
Rental income	**1,278,447**	1,172,539	740,340
	₱57,800,001	₱51,473,187	₱48,285,593

Banking revenue consists of:

	2016	2015 (As re-presented, Note 37)	2014 (As re-presented, Note 37)
		(In Thousands)	
Interest income on:			
Loans and receivables	**₱19,505,347**	₱17,144,366	₱15,226,938
Trading and investment securities (Note 21)	**4,026,594**	3,742,036	2,992,864
Deposits with banks and others	**597,500**	785,414	1,919,443
Interbank loans receivable	**33,862**	36,747	19,218
	24,163,303	21,708,563	20,158,463
Trading and securities gains - net	**1,378,557**	578,698	633,072
Service fees and commission income	**3,569,958**	4,312,899	3,418,646
	₱29,111,818	₱26,600,160	₱24,210,181

Sale of consumer goods consists of:

	2016	2015 (As re-presented, Note 37)	2014 (As re-presented, Note 37)
		(In Thousands)	
Gross sales	**₱27,810,969**	₱23,886,547	₱23,250,047
Less sales returns, discounts and allowances	**1,974,300**	1,497,973	1,453,235
	₱25,836,669	₱22,388,574	₱21,796,812

Cost of sales and services consists of:

	2016	2015 (As re-presented, Note 37)	2014 (As re-presented, Note 37)
		(In Thousands)	
Cost of consumer goods sold:			
Materials used and changes in inventories (Note 9)	**₱10,859,240**	₱12,203,739	₱11,944,515
Taxes and licenses	**3,800,493**	11,370	7,458
Depreciation and amortization (Note 12)	**1,078,798**	997,229	1,060,426

(Forward)

	2016	2015 (As re-presented, Note 37)	2014 (As re-presented, Note 37)
		(In Thousands)	
Outside services	**₱843,531**	₱479,231	₱460,288
Fuel and power	**642,949**	564,609	653,862
Communication, light and water	**653,102**	558,525	513,582
Personnel costs	**531,912**	621,224	568,842
Repairs and maintenance	**408,766**	340,108	354,469
Freight and handling	**148,005**	100,366	76,308
Others	**134,522**	212,418	174,808
	19,101,318	16,088,819	15,814,558
Cost of banking services	**5,682,707**	4,734,514	4,234,936
Cost of real estate sales	**1,089,026**	952,661	1,303,734
Cost of rental income	**253,830**	226,888	278,855
Cost of sales and services	**₱26,126,881**	₱22,002,882	₱21,632,083

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

Cost of banking services consist of:

	2016	2015 (As re-presented, Note 37)	2014 (As re-presented, Note 37)
		(In Thousands)	
Interest expense on:			
Deposit liabilities (Note 15)	**₱3,770,558**	₱2,987,670	₱2,894,689
Bills payable and other borrowings (Note 19)	**997,621**	1,029,995	856,926
Services fees and commission expense	**914,528**	716,849	483,321
	₱5,682,707	₱4,734,514	₱4,234,936

25. **Selling Expenses**

	2016	2015 (As re-presented, Note 37)	2014 (As re-presented, Note 37)
		(In Thousands)	
Advertising and promotions	**₱1,019,650**	958,441	1,054,238
Depreciation and amortization (Note 12)	**491,555**	481,492	523,903
Freight and handling	**380,180**	379,732	369,263
Outside services	**128,990**	112,307	119,341
Personnel costs	**98,626**	96,728	91,418
Materials and consumables	**79,428**	20,176	25,786
Repairs and maintenance	**52,922**	44,728	51,505
Commissions	**40,183**	22,730	138,877
Travel and transportation	**19,408**	12,616	16,599
Others	**40,580**	73,491	7,464
	₱2,351,522	₱2,202,441	₱2,398,394

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

26. General and Administrative Expenses

	2016	2015 (As re-presented, Note 37)	2014 (As re-presented, Note 37)
		(In Thousands)	
Personnel costs	**₱9,175,493**	₱8,799,535	₱7,944,923
Provision for credit losses (Note 8)	**3,218,905**	865,889	1,734,502
Taxes and licenses	**2,403,784**	2,219,798	2,216,654
Depreciation and amortization (Notes 12, 13 and 14)	**1,554,156**	1,382,733	1,381,371
Occupancy	**1,552,248**	1,451,117	1,483,130
Outside services	**1,471,963**	1,306,491	1,181,840
Insurance	**1,156,159**	1,089,782	964,466
Marketing and promotional	**1,064,993**	814,767	708,999
Management, consulting and professional fees	**993,847**	800,381	800,322
Information technology	**499,319**	489,036	407,074
Travel and transportation	**350,788**	281,787	278,840
Materials and consumables	**300,719**	206,490	244,477
Repairs and maintenance	**224,325**	192,775	185,178
Litigation	**97,097**	262,551	229,886
Communication, light and water	**58,481**	272,827	243,063
Freight and handling	**45,727**	81,855	76,366
Fuel and oil	**31,065**	36,751	66,519
Provision for (reversal of) legal cases and other losses - net (Notes 12, 14 and 38)	**401,553**	(292,643)	473,362
Others	**962,462**	894,611	373,155
	₱25,563,084	₱21,156,533	₱20,994,127

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

27. Finance Costs and Finance Income

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

	2016	2015	2014
		(In Thousands)	
Finance costs (Note 19):			
Unsecured term loan and notes payable (Note 20)	**₱161,992**	₱144,549	₱36,641
Bonds payable	**38,473**	55,957	402,750
Amortization of bond issue costs	**2,025**	2,012	15,464
	₱202,490	₱202,518	₱454,855
Finance income:			
Cash and other cash items (Notes 5 and 6)	**₱76,132**	₱71,345	₱91,371
Interest-bearing contracts receivable (Note 8)	**26,984**	34,618	24,670
AFS investments (Note 7)	**3,310**	4,413	3,000
	₱106,426	₱110,376	₱119,041

28. **Other Income (Charges)**

	2016	2015 (As re-presented, Note 37)	2014 (As re-presented, Note 37)
		(In Thousands)	
Net gains on sale or exchange of assets	**₱1,823,200**	₱1,562,020	₱1,889,744
Gain on remeasurement of a previously held interest (Note 11)	**1,644,339**	–	–
Recoveries from charged off assets	**729,594**	592,181	117,520
Recovery from insurance claims (Note 38)	**630,198**	709,160	–
Rental income and dues (Note 13)	**460,224**	565,083	805,235
Mark-to-market gain on financial assets designated at FVPL	**62,955**	99,084	–
Dividend income	**53,729**	22,464	32,351
Referral, processing and trust fees	**2,811**	2,382	97,715
Share in net losses of associates and a joint venture (Note 11)	**(438,961)**	(2,067)	(46,043)
Gain on disposal of AFS investments	**–**	2,928	245,216
Gain on retirement	**–**	12,523	10,912
Others (Note 12)	**58,358**	121,216	636,925
	₱5,026,447	₱3,686,974	₱3,789,575

a. Net gains on sale or exchange of assets include sale of investment properties of the banking segment in 2016, 2015 and 2014 amounting to ₱1,496.5 million, ₱1,435.8 million and ₱1,072.7 million, respectively.

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

29. **Income Taxes**

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

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

FCDU offshore income (income from non-residents) is tax-exempt while gross onshore income (income from residents) is generally subject to 10% income tax. In addition, interest income on deposit placement with other FCDUs and offshore banking units (OBUs) is taxed at 7.50%. 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% income tax.

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

	2016		2015	
	Net Deferred Income Tax Assets(1)	**Net Deferred Income Tax Liabilities(2)**	Net Deferred Income Tax Assets(3)	Net Deferred Income Tax Liabilities(4)
		(In Thousands)		
Recognized directly in the consolidated statements of income:				
Deferred income tax assets on:				
Allowance for impairment loss on:				
Receivables	**₱5,142,623**	**₱11,502**	₱4,854,631	₱14,035
Inventories	**–**	**3,740**	–	1,681
Property, plant and equipment	**–**	**48,383**	–	54,725
Accumulated depreciation on investment properties	**611,940**	**–**	603,158	–
Unrealized losses on:				
Inventories on hand	**–**	**–**	–	1,868
Sale of property to a subsidiary	**384,523**	**–**	–	4,529
Difference between tax and book basis of accounting for real estate and banking transactions	**105,247**	**–**	17,180	–
Net retirement benefits liabilities	**54,593**	**241,550**	26,595	258,683
Deferred rent expense	**44,192**	**–**	37,384	–
Advance rentals	**27,350**	**–**	26,005	–
Accrued expenses	**18,505**	**11,053**	34,328	11,095
Reserve for unearned premiums	**7,498**	**–**	–	–
Unamortized past service cost	**4,224**	**15,003**	–	1,140
Gain on sale of asset	**–**	**6,678**	–	–
Provision for losses	**–**	**3,372**	–	–
NOLCO	**–**	**–**	94,914	13,240
Excess MCIT	**18,445**	**–**	16,042	–
Reserves and others	**38,601**	**1,087**	43,746	1,187
	6,457,741	**342,368**	5,753,983	362,183
Deferred income tax liabilities on:				
Revaluation increment on property, plant and equipment	**(2,398,472)**	**(830,472)**	(2,641,023)	(562,197)
Fair value gain on investment properties	**(1,448,798)**	–	(1,593,081)	–
Unrealized foreign exchange gains	**(666,382)**	**(15,789)**	(579,661)	(31,519)
Gain on remeasurement of a previously held interest	**(160,272)**	–	–	–
Net changes in fair values of FVPL financial assets	**(105,646)**	**(20,357)**	–	(24,370)
Deferred rental income	**(47,434)**	**(1,676)**	(29,958)	–
Difference between tax and book basis of accounting for real estate transactions	**(31,613)**	**–**	(47,006)	–
Net retirement plan assets	–	**(86,352)**	–	(87,192)
Borrowing cost capitalized to property, plant, and equipment	–	**(15,306)**	–	(16,760)
Excess of fair values over carrying values of property, plant and equipment acquired through business combination	–	–	–	(33,472)

(Forward)

	2016		2015	
	Net Deferred Income Tax Assets[(1)]	**Net Deferred Income Tax Liabilities[(2)]**	Net Deferred Income Tax Assets[(3)]	Net Deferred Income Tax Liabilities[(4)]
		(In Thousands)		
Temporary difference associated with investments in disposal group classified as held for sale	**₱–**	**₱–**	(₱91,299)	₱–
Others	**(157,426)**	**(38,568)**	(208,205)	(309,110)
	(5,016,043)	**(1,008,520)**	(5,190,233)	(1,064,620)
	1,441,698	**(666,152)**	563,750	(702,437)
Recognized directly in equity:				
Deferred income tax assets on:				
Re-measurement losses on retirement benefits	**–**	**–**	–	19,365
Deferred income tax liabilities on:				
Re-measurement gains on defined benefit plans	**(17,539)**	**(48,131)**	(12,513)	(4,554)
Change in AFS	**–**	**(9,032)**	–	(2,895)
Revaluation increment on property, plant and equipment	**–**	**(599,806)**	–	(492,455)
	(17,539)	**(656,969)**	(12,513)	(499,904)
	(17,539)	**(656,969)**	(12,513)	(480,539)
	₱1,424,159	**(₱1,323,121)**	₱551,237	(₱1,182,976)

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

b. Provision for current income tax consists of:

	2016	2015 (As re-presented, Note 37)	2014 (As re-presented, Note 37)
		(In Thousands)	
RCIT	**₱2,020,769**	₱1,900,395	₱1,545,964
MCIT	**9,002**	14,272	23,962
Final tax	**506,090**	575,860	696,899
Provision for current income tax	**₱2,535,861**	₱2,490,527	₱2,266,825

c. As of December 31, 2016 and 2015, the Group has not recognized deferred income tax assets on certain deductible temporary differences such as NOLCO, excess MCIT and other items based on the assessment that sufficient taxable profit will not be available to allow the deferred income tax assets to be utilized as follows:

	2016	2015
	(In Thousands)	
Allowance for credit losses	**₱2,288,791**	₱1,813,269
Net retirement benefits liability	**952,686**	786,600
NOLCO	**711,195**	802,203
Unamortized past service cost	**666,118**	631,977
Accrued expenses	**648,784**	426,911
Unearned income	**122,269**	112,500
Derivative liabilities	**69,593**	40,503
Allowance for inventory obsolescence	**18,314**	18,314
Excess MCIT	**13,930**	38,456
Others	**159,208**	59,703

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

Year Incurred	Amount	Applied	Expired	Balance	Expiry Year
2013	₱616,862	(₱611,075)	(₱5,787)	₱–	2016
2014	231,270	–	–	231,270	2017
2015	314,584	–	–	314,584	2018
2016	165,341	–	–	165,341	2019
	₱1,328,057	(₱611,075)	(₱5,787)	₱711,195	

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

Year Incurred	Amount	Applied	Expired	Balance	Expiry Year
2013	₱32,173	₱–	(₱32,173)	₱–	2016
2014	8,053	–	–	8,053	2017
2015	14,272	–	–	14,272	2018
2016	10,050	–	–	10,050	2019
	₱64,548	₱–	(₱32,173)	₱32,375	

d. A reconciliation of the Group's provision for income tax computed based on income before income tax at the statutory income tax rates to the provision for income tax shown in the consolidated statements of income is as follows:

	2016	2015	2014
		(In Thousands)	
Provision for income tax at statutory income tax rate from:			
Continuing operations	**₱3,880,696**	₱3,665,261	₱2,687,103
Discontinued operations	**415,619**	(29,327)	61,205
	4,296,315	3,635,934	2,748,308
Adjustments resulting from:			
NOLCO and other deductible temporary differences for which no deferred income tax assets were recognized in current year	**284,487**	2,683	349,209
Application of NOLCO and other deductible temporary differences for which no deferred income tax assets were recognized in prior years	**(333,810)**	(153,656)	(665,685)
Nontaxable gain on remeasurement	**(493,302)**	–	–
Nontaxable gain on investment in an associate arising from contribution of non-monetary assets	**(316,872)**	–	–
Nontaxable income	**(126,066)**	(553,381)	(861,891)
Difference of itemized deduction against 40% of taxable income	**(1,965)**	(30,229)	(4,685)
Income subjected to final tax	**(618,319)**	(700,972)	–
Equity in net earnings of associates	**(813,462)**	(356,692)	(154,534)
Non-deductible expenses	**354,889**	779,439	1,278,096
Provision for income tax	**₱2,231,895**	₱2,623,126	₱2,688,818

	2016	2015	2014
		(In Thousands)	
Provision for income tax from continuing operations	**₱2,174,468**	₱2,728,819	₱2,676,643
Provision for (benfit from) income tax from discontinued operations	**57,427**	(105,693)	12,175
Provision for income tax	**₱2,231,895**	₱2,623,126	₱2,688,818

30. **Equity**

Capital Stock

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

Authorized capital stock at ₱1 par value	
At beginning and end of year	25,000,000,000 shares
Issued capital stock at ₱1 par value:	
At beginning and end of year	₱10,821,388,889

a. Capital stock is held by a total of 376 stockholders as of December 31, 2016 and 2015.

b. Track record of registration:

Date	Number of Shares Licensed	Issue/Offer Price
August 1948	100,000	₱1.00
November 1958	500,000	1.00
December 1961	1,000,000	1.00
March 1966	2,000,000	1.00
March 1966	6,000,000	1.00
October 1995	247,500,000	1.00
October 2011	398,138,889	4.22
April 2013	1,840,000,000	20.50

c. In April 2013, LTG issued 1,840.0 million shares for ₱37.7 billion, where excess over par value amounting to ₱35.9 billion was recorded as capital in excess of par. Stock issue costs amounting to ₱1.1 billion were charged against capital in excess of par in 2013. Other offering-related expenses amounting to ₱59.0 million were charged directly to “General and administrative expenses”.

Retained Earnings and Dividends

a. On April 8, 2014, LTG’s BOD and stockholders, respectively, approved the declaration and distribution of cash dividends of ₱0.16 per share or a total of ₱1,731.4 million to all shareholders of record as of July 3, 2014 and to be paid out not later than May 22, 2014.

b. On May 12, 2015, LTG’s BOD and stockholders, respectively, approved the declaration and distribution of cash dividends of ₱0.15 per share or a total of ₱1,623.2 million to all stockholders of record as of May 27, 2015 and to be paid not later than June 10, 2015.

c. On April 12, 2016, LTG’s BOD and stockholders, respectively, approved the declaration and distribution of cash dividends of ₱0.15 per share or a total of ₱1,623.2 million to all shareholders of record as of April 28, 2016 and to be paid out not later than May 6, 2016.

d. Retained earnings include undistributed earnings amounting to ₱55.7 billion in 2016, ₱47.0 billion in 2015 and ₱42.1 billion in 2014, representing accumulated earnings of subsidiaries and equity in net earnings of associates and joint ventures, which are not available for dividend declaration until received in the form of dividends from the combining entities and associates.

   Retained earnings are further restricted for the payment of dividends to the extent of the cost of the shares held in treasury (shares of stock of the company held by subsidiaries), unrealized foreign exchange gains except those attributable to cash and cash equivalents, fair value adjustment or gains arising from mark-to-market valuation, deferred income tax assets recognized that reduced the income tax expense and increased net income and retained earnings, and other unrealized gains or adjustments as of December 31, 2016 and 2015.

Preferred shares of subsidiaries issued to Parent Company
On March 20, 2013, the respective BOD's and stockholders of various Bank Holding Companies approved the increase in their authorized capital stocks comprising of common shares and preferred shares with par value of ₱1.00 per share. The preferred shares were subscribed by Tangent through conversion of its advances into invesments in certain Bank Holding Companies (see Note 22). Upon approval of the SEC of the increase in authorized capital stock of Bank Holding Companies on various dates in October, November and December 2013, preferred shares amounting to ₱7.4 billion presented under "Preferred shares of subsidiary issued to Parent Company" were issued to Tangent. Unissued preferred shares amounting to ₱6.0 billion which are pending approval of the SEC are presented under "Deposit for future stock subscription" as of December 31, 2013. Upon approval of the SEC on various dates in 2014, the remaining preferred shares of ₱6.0 billion and additional conversion of advances to preferred shares during the year of ₱4.7 billion were issued to Tangent. As of December 31, 2016 and 2015, preferred shares of the subsidiary issued to the Parent Company amounted to ₱18.1 billion.

The preferred shares have the following features: non-voting, non-cumulative and non-participating as to dividends, non-redeemable for a period of seven years from the issuance and redeemable at the option of the Bank Holding Companies after seven years from the issuance thereof.

Other Equity Reserves
Other equity reserves consist of:

	2016	2015
	(In Thousands)	
Equity adjustments arising from business combination under common control (Note 1)	**₱445,113**	₱445,113
Equity adjustments from sale of the Company's shares of stock held by a subsidiary	**193,212**	193,212
Effect of transaction with non-controlling interest	**66,658**	66,658
Effect of sale of a subsidiary to Company	**99,655**	99,655
Effect of sale of direct interest in a subsidiary	**(543)**	(543)
	₱804,095	₱804,095

Shares Held by Subsidiaries
Shares held by subsidiaries include 4.9 million shares owned by All Seasons amounting to ₱12.5 million as of December 31, 2016 and 2015 and 76.5 million shares owned by Saturn amounting to ₱150.9 million as of December 31, 2011. On July 25, 2012, the shares of stocks owned by Saturn were sold to Tangent at ₱4.50 per share. As a result, the excess of the selling price over the cost of the treasury shares amounting to ₱193.2 million is presented as an addition to other equity reserves.

Non-controlling Interests

Below are the changes in non-controlling interests:

	2016	2015	2014
		(In Thousands)	
Balance as of January 1	**₱40,882,077**	₱38,494,303	₱32,235,085
Net income attributable to non-controlling interests	**2,698,749**	2,897,619	2,061,976
Share in other comprehensive income, net of deferred income tax effect:			
Net changes in AFS financial assets (Note 7)	**(191,249)**	(746,334)	426,879
Cumulative translation adjustments	**131,789**	283,115	(119,903)
Remeasurement gains (losses) on defined benefit plans (Notes 2 and 23)	**(199,210)**	(39,302)	(537,431)
Dividends received	**(543,751)**	(7,324)	–
Capital contribution of non-controlling interest during the year	**–**	–	4,427,697
Effect of changes in ownership interest (Note 37)	**(271,814)**	–	–
Balance as of December 31	**₱42,506,591**	₱40,882,077	₱38,494,303

Capital contribution of non-controlling interest in 2014 pertains to the gross proceeds from PNB's stock right offering of common shares following the closure of the offer period on February 3, 2014. A total of 162,931,262 PNB Right shares were issued to its stockholders at a proportion of 15 Rights shares for every 100 existing common shares held as of the record date at the offer price of ₱17 per Right share.

The offer raised gross proceeds of ₱11.6 billion for PNB, out of which LTG and the non-controlling shareholders of PNB subscribed ₱6.9 billion and ₱4.4 billion, respectively, net of stock issue cost. Part of the proceeds was used as capital injection to PNB Savings Bank (PNB SB) to build and refocus PNB SB's lending business. The offer also strengthened PNB SB's capital position under BASEL III standards effective January 1, 2014.

31. Basic/Diluted Earnings Per Share

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

Basic/diluted earnings per share were calculated as follows:

	2016	2015 (As re-presented, Note 37)	2014 (As re-presented, Note 37)
		(In Thousands)	
Net income attributable to equity holders of the Company	**₱9,390,407**	₱6,599,035	₱4,410,230
Divided by weighted-average number of shares	**10,821,389**	10,821,389	10,821,389
Basic/diluted EPS for net income attributable to equity holders of the Company	**₱0.87**	₱0.61	₱0.41

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

	2016	2015 (As re-presented, Note 37)	2014 (As re-presented, Note 37)
		(In Thousands)	
Net income from continuing operations attributable to equity holders of the Company	**₱9,342,679**	₱6,312,690	₱4,198,899
Divided by weighted-average number of shares	**10,821,389**	10,821,389	10,821,389
Basic/diluted EPS for net income from continuing operations attributable to equity holders of the Company	**₱0.86**	₱0.58	₱0.39

There are no potential common shares with dilutive effect on the basic earnings per share in 2016, 2015 and 2014.

32. Financial Risk Management Objectives and Policies

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

Financial Risk Management Objectives and Policies of the Banking Segment

Risk Management Strategies

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

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

- Credit Risk
- Market Risk
- Liquidity Risk
- Operational Risk
- 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
- Interest Rate Risk in Banking Book (IRRBB)
- Business Risk
- Strategic Risk
- Compliance Risk

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

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

The Risk Management Group (RMG) provides the legwork for the ROC in its role of formulating the risk management strategy, the development and maintenance of the internal risk management framework, and the definition of the governing risk management principles. The RMG provides assistance to the Assets and Liabilities Committee (ALCO) on capital management and the Board Policy Committee on the management of regulatory capital.

The mandate of the RMG involves:

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

<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 the banking segment's Executive Committee. Credit risk assessment of individual borrower is performed by the business sector and remedial sector. Risk management is embedded in the entire credit process, i.e., from credit origination to remedial management (if needed).

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

- Documented credit policies and procedures: sound credit granting process, risk asset acceptance criteria, target market and approving authorities;
- System for administration and monitoring of exposure;
- Pre-approval review of loan proposals;
- Post approval review of implemented loans;
- Work out system for managing problem credits;
- Regular review of the sufficiency of valuation reserves;
- Monitoring of the adequacy of capital for credit risk via the Capital Adequacy Ratio (CAR) report;
- Monitoring of breaches in regulatory and internal limits;

- Credit risk management dashboard;
- Diversification;
- Internal risk rating system for corporate accounts;
- Credit scoring for retail accounts; and
- Active loan portfolio management undertaken to determine the quality of the loan portfolio and identify the following:
  a. portfolio growth
  b. movement of loan portfolio (cash releases and cash collection for the month)
  c. loss rate
  d. recovery rate
  e. trend of nonperforming loans (NPLs)
  f. concentration risk (per classified account, per industry, clean exposure, large exposure, contingent exposure, currency, security, facility, demographic, etc.)

The banking segment collects data on risk rating of loan borrowers with an asset size of ₱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 consolidated balance sheet.

Unit-linked financial assets
The banking segment issues unit-linked insurance policies. In the unit-linked business, the policy holder bears the investment risk in the assets held in the unit-linked funds as the policy benefits are directly linked to the values of the assets in the fund. Therefore, the banking segment has no material credit risk on unit-linked financial assets.

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

The main types of collateral obtained are as follows:

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

The disposal of the foreclosed properties is handled by the Asset Management Sector which adheres to the general policy of disposing assets at the highest possible market value.

The banking segment's management regularly monitors the market value of the collateral and requests additional collateral in accordance with the underlying agreement. The existing market value of the collateral is considered during the review of the adequacy of the allowance for credit losses. Generally,collateral is not held over loans and advances to banks except for reverse repurchase agreements.

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

Maximum exposure to credit risk after collateral held or other credit enhancements
An analysis of the maximum exposure to credit risk after taking into account any collateral held or other credit enhancements for the Group's banking segment is shown below:

	2016			
	Gross Maximum Exposure	**Fair Value of Collateral**	**Net Exposure**	**Financial Effect of Collateral**
	(In Millions)			
Securities held under agreements to resell	**₱1,972**	**₱1,969**	**₱4**	**₱1,969**
Loans and receivables:				
Receivable from customers*:				
Business loans	**345,154**	**275,990**	**276,725**	**68,430**
Consumers	**41,225**	**24,792**	**28,464**	**12,761**
GOCCs and National Government Agencies (NGAs)	**19,897**	**25,595**	**3,089**	**16,808**
LGUs	**7,336**	**1,053**	**6,806**	**529**
Fringe benefits	**588**	**743**	**292**	**296**
Unquoted debt securities	**6,973**	**2,789**	**4,126**	**2,789**
Other receivables	**21,040**	**10,746**	**15,157**	**5,883**
	₱444,185	**₱343,677**	**₱334,663**	**₱109,465**

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

	2015			
	Gross Maximum Exposure	Fair Value of Collateral	Net Exposure	Financial Effect of Collateral
	(In Millions)			
Securities held under agreements to resell	₱14,550	₱14,516	₱34	₱14,516
Loans and receivables:				
Receivable from customers*:				
Business loans	290,095	251,693	232,050	58,046
Consumers	33,616	46,756	15,652	17,964
GOCCs and National Government Agencies (NGAs)	23,038	27,561	3,941	19,097
LGUs	7,793	1,431	7,051	742
Fringe benefits	552	830	247	305
Unquoted debt securities	4,245	3,435	810	3,435
Other receivables	19,102	8,554	14,857	4,245
	₱392,991	₱354,776	₱274,642	₱118,350

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

The maximum credit risk, without taking into account the fair value of any collateral and netting agreements, is limited to the amounts on the balance sheet plus commitments to customers such as unused commercial letters of credit, outstanding guarantees and others as disclosed in Note 38 to the financial statements.

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

a. Limit per Client or Counterparty
For loans and receivables, the banking segment sets an internal limit for group exposures which is equivalent to 100.00% of the single borrower's limit (SBL) for loan accounts with credit risk rating (CRR) 1 to CRR 5 or 50% of SBL if rated below CRR 5. For trading and investment securities, the Group limits investments to government issues and securities issued by entities with high-quality investment ratings.

b. Geographic Concentration
The table below shows the banking segment's credit risk exposures, before taking into account any collateral held or other credit enhancements, categorized by geographic location:

	2016	2015
	(In Millions)	
Philippines	**₱598,849**	₱521,193
Asia (excluding the Philippines)	**49,359**	44,699
USA and Canada	**19,821**	6,813
Other European Union Countries	**7,012**	7,365
Oceania	**3,594**	–
United Kingdom	**2,454**	1,316
Middle East	**39**	14
	₱681,128	₱581,400

c. Concentration by Industry
The table below show the industry sector analysis of the banking segment's financial assets at amounts before taking into account the fair value of the loan collateral held or other credit enhancements:

	2016			
	Loans and receivables*	**Trading and investment securities**	**Other financial assets*** **	**Total**
	(In Millions)			
Primary target industry:				
Financial intermediaries	**₱60,774**	**₱10,066**	**₱30,507**	**₱101,347**
Electricity, gas and water	**63,359**	**–**	**9**	**63,367**
Wholesale and retail	**49,858**	**4,772**	**5**	**54,635**
Manufacturing	**38,352**	**7,250**	**1**	**45,603**
Transport, storage and communication	**40,987**	**497**	**–**	**41,484**

(Forward)

	2016			
	Loans and receivables*	**Trading and investment securities**	**Other financial assets*** **	**Total**
Public administration and defense	**₱23,290**	**₱–**	**₱–**	**₱23,290**
Agriculture, hunting and forestry	**5,971**	**–**	**–**	**5,971**
Secondary target industry:				
Government	**626**	**63,321**	**129,310**	**193,257**
Real estate, renting and business activities	**67,321**	**6,815**	**50**	**74,186**
Construction	**18,250**	**100**	**1**	**18,351**
Others**	**58,533**	**609**	**495**	**59,637**
	₱427,321	**₱93,430**	**₱160,378**	**₱681,128**

* *Loans and receivables exclude residual value of the leased asset.*
** *Others include the following sectors - Other community, social and personal services, private household, hotel and restaurant, education, mining and quarrying, and health and social work.*
*** *Other financial assets include the following financial assets: 'Due from BSP', 'Due from other banks', 'Interbank loans receivable', 'Securities held under agreements to resell' and other financial assets booked under 'Other Assets'.*

	2015			
	Loans and receivables*	Trading and investment securities	Other financial assets***	Total
		(In Millions)		
Primary target industry:				
Financial intermediaries	₱38,776	₱8,420	₱24,088	₱71,284
Electricity, gas and water	49,527	1,800	3	51,330
Wholesale and retail	50,575	–	6	50,581
Manufacturing	40,697	31	–	40,728
Transport, storage and communication	28,873	1	1	28,875
Public administration and defense	25,294	–	–	25,294
Agriculture, hunting and forestry	5,996	–	–	5,996
Secondary target industry:				
Government	626	72,458	95,913	168,997
Real estate, renting and business activities	43,751	5,489	28	49,268
Construction	11,517	–	–	11,517
Others**	69,380	7,885	265	77,530
	₱365,012	₱96,084	₱120,304	₱581,400

* *Loans and receivables exclude residual value of the leased asset.*
** *Others include the following sectors - Other community, social and personal services, private household, hotel and restaurant, education, mining and quarrying, and health and social work.*
*** *Other financial assets include the following financial assets: 'Due from BSP', 'Due from other banks', 'Interbank loans receivable', 'Securities held under agreements to resell' and other financial assets booked under 'Other Assets'.*

The internal limit of the banking segment based on the Philippine Standard Industry Classification (PSIC) sub-industry is 12% for priority industry, 8% for regular industry and 30% for power industry, versus total loan portfolio.

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

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

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.

<u>Sub-standard Grade</u>

- CRR 9 - Marginal
- These are performing loans receivables from borrowers not qualified as CRRs 1-8. The borrower is able to withstand normal business cycles, although any prolonged unfavorable economic and/or market period would create an immediate deterioration beyond acceptable levels.

- CRR 10 - Watchlist
  This rating includes borrower where the credit exposure is not at risk of loss at the moment but the performance of the borrower has weakened and, unless present trends are reversed, could eventually lead to losses.

- CRR 11 - Special Mention
  These are loans that have potential weaknesses that deserve management's close attention. These potential weaknesses, if left uncorrected, may affect the repayment of the loan and thus increase credit risk to the banking segment.

- CRR 12 - Substandard
  These are loans or portions thereof which appear to involve a substantial and unreasonable degree of risk to PNB because of unfavorable record or unsatisfactory characteristics.

- CRR 13 - Doubtful
  These are loans or portions thereof which have the weaknesses inherent in those classified as CRR 12 with the added characteristics that existing facts, conditions and values make collection or liquidation in full highly improbable and in which substantial loss is probable.

- CRR 14 - Loss
  These are loans or portions thereof which are considered uncollectible or worthless.

The banking segment is using the Credit Scoring for evaluating borrowers with assets size below ₱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.

The table below shows the banking segment's receivable from customers, gross of allowance for credit losses and unearned and other deferred income, for each CRR as of December 31, 2016 and 2015, but net of residual values of leased assets.

	2016			
	Neither Past Due nor Individually Impaired	**Past Due and not Individually Impaired**	**Individually Impaired**	**Total**
	(In Millions)			
Rated Receivable from Customers				
1 - Excellent	**₱9,427**	**₱1**	**₱–**	**₱9,428**
2 - Super Prime	**50,660**	**–**	**–**	**50,660**
3 - Prime	**81,566**	**–**	**–**	**81,566**
4 - Very Good	**46,455**	**–**	**–**	**46,455**
5 - Good	**28,223**	**–**	**–**	**28,223**
6 - Satisfactory	**37,119**	**34**	**–**	**37,153**
7 - Average	**26,039**	**5**	**–**	**26,044**
8 - Fair	**21,057**	**–**	**–**	**21,057**
9 - Marginal	**5,856**	**–**	**–**	**5,856**
10 - Watchlist	**44,136**	**5**	**–**	**44,141**
11 - Special Mention	**2,786**	**79**	**149**	**3,014**
12 - Substandard	**777**	**484**	**611**	**1,872**
13 - Doubtful	**6**	**113**	**414**	**533**
14 - Loss	**3**	**656**	**3,502**	**4,161**
	354,110	**1,377**	**4,676**	**360,163**
Unrated Receivable from Customers				
Business Loans	**37,549**	**803**	**27**	**38,379**
Consumers	**8,026**	**465**	**568**	**9,059**
LGUs	**7,196**	**10**	**131**	**7,337**
GOCCs and NGAs	**561**	**12**	**–**	**573**
Fringe Benefits	**178**	**–**	**–**	**178**
	53,510	**1,290**	**726**	**55,526**
	₱407,620	**₱2,667**	**₱5,402**	**₱415,689**

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

(Forward)

	2015			
	Neither Past Due nor Individually Impaired	Past Due and not Individually Impaired	Individually Impaired	Total
Unrated Receivable from Customers				
Business Loans	₱15,144	₱151	₱46	₱15,341
Consumers	7,944	1,399	32	9,375
LGUs	7,697	27	65	7,789
GOCCs and NGAs	2,455	–	47	2,502
Fringe Benefits	519	11	26	556
	33,759	1,588	216	35,563
	₱348,722	₱3,271	₱4,935	₱356,928

Under PFRS 7, a financial asset is past due when a counterparty has failed to make a payment when contractually due. The table below shows the aging analysis of the banking segment of past due but not impaired loans and receivables per class.

	2016				2015			
	Less than 30 days	**31 to 90 days**	**More than 90 days**	**Total**	Less than 30 days	31 to 90 days	More than 90 days	Total
				(In Millions)				
Consumers	**₱236**	**₱20**	**₱583**	**₱839**	₱172	₱96	₱1,184	₱1,452
Business loans	**118**	**160**	**1,529**	**1,807**	60	11	1,712	1,783
LGUs	**–**	**–**	**10**	**10**	–	–	27	27
Fringe benefits	**–**	**–**	**12**	**12**	1	–	9	10
Total	**₱354**	**₱180**	**₱2,134**	**₱2,668**	₱233	₱107	₱2,932	₱3,272

Trading and Investment Securities and Other Financial Assets

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

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

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

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

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

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

	December 31, 2016					
	Rated					
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal	Unrated[6/]	Total
			(In Millions)			
Due from BSP[1/]	**₱–**	**₱–**	**₱127,338**	**₱127,338**	**₱–**	**₱127,338**
Due from other banks	**5,051**	**6,462**	**10,580**	**22,093**	**617**	**22,710**
Interbank loans receivables	**4,929**	**1,867**	**996**	**7,792**	**–**	**7,792**
Securities held under agreements to resell	**–**	**–**	**1,972**	**1,972**	**–**	**1,972**
Financial assets at FVPL:						
Held-for-trading:						
Government securities	**–**	**–**	**949**	**949**	**364**	**1,313**
Derivative assets[2/]	**44**	**28**	**10**	**82**	**338**	**420**
Private debt securities	**–**	**–**	**–**	**–**	**121**	**121**
Equity securities	**–**	**–**	**27**	**27**	**27**	**54**
Investment in Unit Investment Trust Funds (UITFs)	**–**	**–**	**6**	**6**	**–**	**6**
AFS investments[5/]:						
Government securities	**1,548**	**–**	**36,202**	**37,750**	**84**	**37,834**
Private debt securities	**4,299**	**2,880**	**4,964**	**12,143**	**16,697**	**28,840**
Quoted equity securities	**–**	**–**	**54**	**54**	**440**	**494**
Unquoted equity securities	**17**	**–**	**1**	**18**	**154**	**172**
HTM investments						
Government securities	**100**	**–**	**22,842**	**22,942**	**1,233**	**24,175**
Loans and receivables:						
Unquoted debt securities[3/]	**–**	**–**	**–**	**–**	**3,285**	**3,285**
Others[4/]	**–**	**–**	**–**	**–**	**18,208**	**18,208**

[1/] *'Due from BSP' is composed of interest-earning short-term placements with the BSP and a demand deposit account to support the regular operations of PNB.*
[2/] *Derivative assets represent the value of credit derivatives embedded in host contracts issued by financial intermediaries and the mark-to-market valuation of freestanding derivatives (see Note 21).*
[3/] *Unquoted debt securities represent investments in bonds and notes issued by financial intermediaries, government and private entities that are not quoted in the market, net of allowances.*
[4/] *Loans and receivables - Others is composed of accrued interest receivable, accounts receivable, sales contracts receivable and other miscellaneous receivables, net of allowances (see Note 8)*
[5/] *AFS investments are presented net of allowances (see Note 7).*
[6/] *As of December 31, 2016, financial assets that are unrated are neither past due nor impaired.*

	December 31, 2015					
	Rated					
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal	Unrated[6/]	Total
	(In Millions)					
Due from BSP[1/]	₱–	₱–	₱–	₱–	₱81,363	₱81,363
Due from other banks	5,974	3,771	7,701	17,446	842	18,288
Interbank loans receivables	1,814	3,525	461	5,800	–	5,800
Securities held under agreements to resell	–	–	–	–	14,550	14,550
Financial assets at FVPL:						
Held-for-trading:						
Government securities	–	–	3,723	3,723	245	3,968
Private debt securities	–	–	113	113	31	144
Derivative assets[2/]	12	11	35	58	123	181
Equity securities	–	–	–	–	200	200
Investment in Unit Investment Trust Funds (UITFs)	–	–	–	–	17	17
AFS investments[5/]:						
Government securities	1,829	–	28,626	30,455	14,806	45,261
Private debt securities	3,321	397	10,939	14,657	7,596	22,253
Quoted equity securities	–	–	203	203	451	654
Unquoted equity securities	–	–	1	1	173	174
HTM investments						
Government securities	94	5	23,133	23,232	–	23,232
Loans and receivables:						
Unquoted debt securities[3/]	–	–	75	75	550	625
Others[4/]	–	–	–	–	15,923	15,923

[1/] *'Due from BSP' is composed of interest-earning short-term placements with the BSP and a demand deposit account to support the regular operations of PNB.*
[2/] *Derivative assets represent the value of credit derivatives embedded in host contracts issued by financial intermediaries and the mark-to-market valuation of freestanding derivatives (see Note 21).*
[3/] *Unquoted debt securities represent investments in bonds and notes issued by financial intermediaries, government and private entities that are not quoted in the market, net of allowances.*
[4/] *Loans and receivables - Others is composed of accrued interest receivable, accounts receivable, sales contracts receivable and other miscellaneous receivables, net of allowances (see Note 8)*
[5/] *AFS investments are presented net of allowances (see Note 7).*
[6/] *As of December 31, 2015, financial assets that are unrated are neither past due nor impaired.*

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

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

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

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

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

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

b. Collective assessment

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

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

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

See Notes 7 and 8 for more detailed information on the allowance for credit losses on loans and receivables and other financial assets.

Liquidity Risk and Funding Management

The Banking segment's liquidity management involves maintaining funding capacity to accommodate fluctuations in asset and liability levels due to changes in the banking segment's business operations or unanticipated events created by customer behavior or capital market conditions. The banking segment seeks to ensure liquidity through a combination of active management of liabilities, a liquid asset portfolio composed substantially of deposits in primary and secondary reserves, and the securing of money market lines and the maintenance of repurchase facilities to address any unexpected liquidity situations.

Liquidity risk is monitored and controlled primarily by a gap analysis of maturities of relevant assets and liabilities reflected in the maximum cumulative outflow (MCO) report, as well as an analysis of available liquid assets. The MCO focuses on a 12-month period wherein the 12-month cumulative outflow is compared to the acceptable MCO limit set by the BOD. Furthermore, an internal liquidity ratio has been set to determine sufficiency of liquid assets over deposit liabilities.

Liquidity is monitored by the banking segment on a daily basis through the Treasury Group. Likewise, the RMG monitors the static liquidity via the MCO under normal and stressed scenarios.

The table below shows the banking segment's financial assets and financial liabilities' liquidity information which includes coupon cash flows categorized based on the expected date on which the asset will be realized and the liability will be settled. For other assets, the analysis into maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date or if earlier, the expected date the assets will be realized.

	2016					
	Up to 1 Month	**More than 1 Month to 3 Months**	**More than 3 Months to 6 Months**	**More than 6 Months to 1 Year**	**Beyond 1 year**	**Total**
			(In Millions)			
Financial Assets						
COCI	**₱11,015**	**₱–**	**₱–**	**₱–**	**₱–**	**₱11,015**
Due from BSP and other banks	**150,054**	**–**	**–**	**–**	**–**	**150,054**
Interbank loans receivable	**6,488**	**1,006**	**150**	**151**	**–**	**7,795**
Securities held under agreements to resell	**1,973**	**–**	**–**	**–**	**–**	**1,973**
Financial assets at FVPL:						
Held-for-trading:						
Government securities	**1,318**	**–**	**–**	**–**	**–**	**1,318**
Equity securities	**55**	**–**	**–**	**–**	**–**	**55**
Private debt securities	**121**	**–**	**–**	**–**	**–**	**121**
Derivative assets:						
Gross contractual receivable	**23,135**	**603**	**363**	**97**	**945**	**25,143**
Gross contractual payable	**(23,027)**	**(603)**	**(360)**	**(82)**	**(652)**	**(24,724)**
	108	**–**	**3**	**15**	**293**	**419**
Designated at FVPL:						
Investment in UITFs	**6**	**–**	**–**	**–**	**–**	**6**
AFS investments:						
Government securities	**445**	**1,360**	**833**	**952**	**44,484**	**48,074**
Private debt securities	**216**	**181**	**312**	**608**	**33,527**	**34,844**
Equity securities	**–**	**–**	**–**	**–**	**666**	**666**
HTM investments:						
Government securities	**187**	**188**	**268**	**639**	**42,326**	**43,608**
Loans and receivables:						
Receivables from customers	**51,282**	**61,017**	**22,992**	**21,983**	**322,823**	**480,097**
Unquoted debt securities	**58**	**2,732**	**3**	**3**	**4,211**	**7,007**
Other receivables	**7,747**	**690**	**1,609**	**330**	**12,234**	**22,610**
Other assets	**459**	**1**	**2**	**20**	**86**	**568**
Total financial assets	**₱231,532**	**₱67,175**	**₱26,172**	**₱24,701**	**₱460,650**	**₱810,230**
Financial Liabilities						
Deposit liabilities:						
Demand	**₱117,329**	**₱–**	**₱–**	**₱–**	**₱–**	**₱117,329**
Savings	**291,611**	**31,169**	**12,960**	**18,754**	**15,869**	**370,363**
Time	**23,862**	**17,471**	**8,226**	**6,372**	**33,651**	**89,582**
Financial liabilities at FVPL:						
Derivative liabilities:						
Gross contractual payable	**4,267**	**1,032**	**338**	**97**	**795**	**6,529**
Gross contractual receivable	**(4,259)**	**(1,028)**	**(336)**	**(85)**	**(589)**	**(6,297)**
	8	**4**	**2**	**12**	**206**	**232**
Bills and acceptances payable	**14,828**	**1,108**	**4,390**	**5,075**	**12,967**	**38,368**
Subordinated debt		**51**	**51**	**103**	**4,425**	**4,630**
Accrued interest payable and accrued other expenses payable	**586**	**233**	**248**	**620**	**–**	**1,687**
Other liabilities	**19,115**	**57**	**58**	**12**	**1,483**	**20,725**
Total financial liabilities	**₱467,339**	**₱50,093**	**₱25,935**	**₱30,948**	**₱68,601**	**₱642,916**

	2015					
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	Total
			(In Millions)			
Financial Assets						
COCI	₱15,221	₱–	₱–	₱–	₱–	₱15,221
Due from BSP and other banks	99,654	–	–	–	–	99,654
Interbank loans receivable	5,384	416	2	–	–	5,802
Securities held under agreements to resell	14,583	–	–	–	–	14,583
Financial assets at FVPL:						
Held-for-trading:						
Government securities	3,979	–	–	–	–	3,979
Equity securities	200	–	–	–	–	200
Private debt securities	144	–	–	–	–	144
Derivative assets:						
Gross contractual receivable	16,818	2,059	28	41	349	19,295
Gross contractual payable	(16,753)	(2,040)	(19)	(27)	(275)	(19,114)
	65	19	9	14	74	181
Designated at FVPL:						
Investment in UITFs	17	–	–	–	–	17
AFS investments:						
Government securities	1,059	521	952	1,001	56,959	60,492
Private debt securities	184	534	307	12	27,717	28,754
Equity securities	–	–	–	–	828	828
HTM investments:						
Government securities	180	181	259	678	38,629	39,927
Loans and receivables:						
Receivables from customers	66,383	52,578	14,540	22,197	271,348	427,046
Unquoted debt securities	–	1	7	77	4,179	4,264
Other receivables	2,726	574	1,452	346	14,761	19,859
Other assets	128	2	1	1	51	183
Total financial assets	₱209,907	₱54,826	₱17,529	₱24,326	₱414,546	₱721,134
Financial Liabilities						
Deposit liabilities:						
Demand	₱110,030	₱–	₱–	₱–	₱–	₱110,030
Savings	260,880	25,251	11,251	5,732	13,746	316,860
Time	14,064	9,319	6,450	3,815	27,445	61,093
Financial liabilities at FVPL:						
Derivative liabilities:						
Gross contractual payable	5,543	2,891	255	41	284	9,014
Gross contractual receivable	(5,500)	(2,830)	(246)	(27)	(275)	(8,878)
	43	61	9	14	9	136
Bills and acceptances payable	4,075	1,437	90	538	20,204	26,344
Subordinated debt	–	161	161	103	10,103	10,528
Accrued interest payable and accrued other expenses payable	1,019	159	18	23	1,565	2,784
Other liabilities	16,995	336	397	127	1,433	19,288
Total financial liabilities	₱407,106	₱36,724	₱18,376	₱10,352	₱74,505	₱547,063

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. Both the Parametric models and Historical Simulation models were validated by an external independent validator. Volatilities used in the parametric are updated on a daily basis and are based on historical data for a rolling 261-day period while yields and prices in the historical VaR approach are also updated daily. The RMG reports the VaR utilization and breaches to limits to the risk taking personnel on a daily basis and to the ALCO and ROC on a monthly basis. All risk reports discussed in the ROC meeting are noted by the banking segment's BOD. The VaR figures are back-tested to validate the robustness of the VaR model. Results of backtesting on a rolling one year period are also reported to the ROC. Below are the objectives and limitations of the VaR methodology, VaR assumptions/parameters, backtesting, stress testing and VaR limits.

a. Objectives and limitations of the VaR methodology

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

b. VaR assumptions/parameters

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

c. Backtesting

   The validity of the assumptions underlying the banking segment's VaR models can only be checked by appropriate backtesting procedures. Backtesting is a formal statistical framework that consists of verifying that actual losses are within the projected VaR approximations. The banking segment adopts both the clean backtesting and dirty backtesting approaches approach in backtesting. Clean backtesting, consists of comparing the VaR estimates with some hypothetical P&L values of the portfolio, having kept its composition unchanged. In this case, the same portfolio is repriced or marked-to-market at the end of the time interval and the hypothetical P&L is then compared with the VaR. The other method, called dirty backtesting, consists of comparing the VaR estimates with the actual P&L values at the end of the time horizon. This method, however, may pose a problem if the portfolio has changed drastically because of trading activities between the beginning and the end of the time horizon since VaR models assume that the portfolio is "frozen" over the horizon. The Parent Company uses the regulatory 3-zone (green, yellow and red) boundaries in evaluating the backtesting results. For the years 2016 and 2015, the number of observations which fell outside the VaR is within the allowable number of exceptions in the green and yellow zones to conclude that there is no problem with the quality and accuracy of the VaR models at 99.00% confidence level. Nonetheless, closer monitoring and regular review of the model's parameters and assumptions are being conducted.

d. Stress Testing
To complement the VaR approximations, the baking segment conducts stress testing on a quarterly basis, the results of which are being reported to the banking segment's BOD. Scenarios used in the conduct of stress test are event driven and represent the worst one-off event of a specific risk factor. Results of stress testing are analyzed in terms of the impact to earnings and capital.

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

Trading Portfolio	**Foreign Exchange***	**Interest Rate**	**Equities Price**	**Total VaR****
		(In Millions)		
December 31, 2016	**₱1.65**	**₱77.87**	**₱1.39**	**₱80.91**
Average Daily	**3.35**	**161.09**	**4.73**	**169.17**
Highest	**12.09**	**444.55**	**9.14**	**465.79**
Lowest	**0.62**	**34.67**	**1.33**	**36.62**
December 31, 2015	1.99	296.83	8.81	307.63
Average Daily	3.67	306.33	8.99	318.99
Highest	14.52	420.79	10.5	392.93
Lowest	0.92	144.96	7.19	170.35

** FX VaR is the bankwide foreign exchange risk*
*** The high and low for the total portfolio may not equal the sum of the individual components as the highs and lows of the individual trading portfolios may have occurred on different trading days*

The table below shows the interest rate VaR for AFS investments:

	2016	2015
	(In Millions)	
End of year	**₱1,399**	₱1,303
Average Daily	**1,262**	1,250
Highest	**1,575**	1,444
Lowest	**859**	798

Structural Market Risk of the Banking Segment

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

Interest rate risk

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

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

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

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

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

	December 31, 2016					
	Up to 1 Month	More than 1 to 3 Months	More than 3 to 6 Months	More than 6 to 12 months	Beyond 1 year	Total
			(In Millions)			
Financial Assets*						
Due from BSP and other banks	**₱57,092**	**₱3,964**	**₱1,552**	**₱149**	**₱191**	**₱62,948**
Interbank loans receivable	**6,483**	**1,159**	**–**	**149**	**–**	**7,791**
Receivable from customers and other receivables - gross**	**112,590**	**69,562**	**13,940**	**3,331**	**66,612**	**266,035**
Total financial assets	**₱176,165**	**₱74,685**	**₱15,492**	**₱3,629**	**₱66,803**	**₱336,774**
Financial Liabilities*						
Deposit liabilities:						
Savings	**₱87,934**	**₱30,744**	**₱19,342**	**₱26,084**	**₱14,472**	**₱178,576**
Time	**22,628**	**11,628**	**8,195**	**6,214**	**11,328**	**59,993**
Bills and acceptances payable	**11,917**	**13,623**	**5,417**	**1,085**	**3,844**	**35,886**
Total financial liabilities	**₱122,479**	**₱55,995**	**₱32,954**	**₱33,383**	**₱29,644**	**₱274,455**
Repricing gap	**₱53,685**	**₱18,689**	**(₱17,462)**	**(₱29,754)**	**₱37,160**	**₱62,318**
Cumulative gap	**53,685**	**72,374**	**54,912**	**25,158**	**62,318**	**–**

**Financial instruments that are not subject to repricing/rollforward were excluded.*

***Receivable from customers excludes residual value of leased assets.*

	December 31, 2015					
	Up to 1 Month	More than 1 to 3 Months	More than 3 to 6 Months	More than 6 to 12 months	Beyond 1 year	Total
			(In Millions)			
Financial Assets*						
Due from BSP and other banks	₱23,069	₱2,140	₱442	₱415	₱227	₱26,293
Interbank loans receivable	5,251	158	391	–	–	5,800
Receivable from customers and other receivables - gross**	119,503	54,698	7,568	2,524	51,382	235,675
Total financial assets	₱147,823	₱56,996	₱8,401	₱2,939	₱51,609	₱267,768
Financial Liabilities*						
Deposit liabilities:						
Savings	₱82,042	₱26,460	₱18,737	₱19,105	₱12,365	₱158,709
Time	19,330	8,793	6,358	3,958	3,099	41,538
Bills and acceptances payable	3,850	1,081	1,006	1,141	18,674	25,752
Total financial liabilities	₱105,222	₱36,334	₱26,101	₱24,204	₱34,138	₱225,999
Repricing gap	₱42,601	₱20,662	(₱17,700)	(₱21,265)	₱17,471	₱41,769
Cumulative gap	42,601	63,263	45,563	24,298	41,769	–

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

The following table sets forth, for the year indicated, the impact of changes in interest rates on the banking segment's repricing gap for the years ended December 31:

	2016		2015	
	Income Before Income Tax	**Equity**	Income Before Income Tax	Equity
		(In Millions)		
+50bps	**₱410**	**₱410**	₱358	₱358
-50bps	**(410)**	**(410)**	(358)	(358)
+100bps	**820**	**820**	716	716
-100bps	**(820)**	**(820)**	(716)	(716)

As one of the long-term goals in the risk management process, the banking segment has has also implemented the adoption of the economic value approach in measuring the impact of the interest rate risk in the banking books to complement the earnings at risk approach using the modified duration approach. Cognizant of this requirement, the Parent Company has undertaken the initial activities such as identification of the business requirement and design of templates for each account and the inclusion of this requirement in the Asset Liability Management business requirement definition.

Foreign currency risk

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

Foreign currency liabilities generally consist of foreign currency deposits in PNB's FCDU books, accounts made in the Philippines or which are generated from remittances to the Philippines by Filipino expatriates and overseas Filipino workers who retain for their own benefit or for the benefit of a third party, foreign currency deposit accounts with PNB and foreign currency-denominated borrowings appearing in the regular books of PNB.

Foreign currency deposits are generally used to fund PNB's foreign currency-denominated loan and investment portfolio in the FCDU. Banks are required by the BSP to match the foreign currency liabilities with the foreign currency assets held through FCDUs. In addition, the BSP requires a 30.00% liquidity reserve on all foreign currency liabilities held through FCDUs. Outside the FCDU, PNB has additional foreign currency assets and liabilities in its foreign branch network.

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

The table below summarizes the banking segment's exposure to foreign exchange rate risk. Included in the table are the financial assets and liabilities at carrying amounts, categorized by currency (amounts in Philippine peso equivalent).

	December 31, 2016			December 31, 2015		
	USD	**Others**	**Total**	USD	Others	Total
			(In Millions)			
Assets						
COCI and due from BSP	**₱2,440**	**₱365**	**₱2,805**	₱2442	₱368	₱2,810
Due from other banks	**6,964**	**12,843**	**19,807**	8,864	8,879	17,743
Interbank loans receivable and securities held under agreements to resell	**2,466**	**1,650**	**4,116**	2309	1,207	3,516
Financial assets at FVPL	**–**	**–**	**–**	–	31	31
Loans and receivables	**13,444**	**697**	**14,141**	17,533	509	18,042
AFS investments	**1,877**	**1,959**	**3,836**	484	943	1,427
HTM investments	**8**	**–**	**8**	3		3
Other assets	**93**	**82**	**175**	47	49	96
Total assets	**₱27,292**	**₱17,596**	**₱44,888**	₱31,682	₱11,986	43,668
Liabilities						
Deposit liabilities	**₱9,857**	**₱3,680**	**₱13,537**	₱9,778	₱3,355	₱13,133
Bills and acceptances payable	**4,932**	**226**	**5,158**	2,968	292	3,260
Accrued taxes, interest and other expenses	**41**	**106**	**147**	1,592	39	1,631
Other liabilities	**1,070**	**520**	**1,590**	678	409	1,087
Total liabilities	**15,900**	**4,532**	**20,432**	15,016	4,095	19,111
Net Exposure	**₱11,392**	**₱13,064**	**₱ 24,456**	₱16,666	₱7,891	₱24,557

Information relating to the banking segment's currency derivatives is contained in Note 21.

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

Risk Management Strategies

The Group's principal financial instruments comprise of short-term and long-term debts and COCI. The main purpose of these financial instruments is to ensure adequate funds for the Group's operations and capital expansion. Excess funds are invested in available-for-sale financial assets with a view to liquidate these to meet various operational requirements when needed. The Group has various other financial assets and financial liabilities such as receivables and accounts payable and accrued expenses which arise directly from its operations.

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

Credit Risk

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

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

Concentration risk

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

- Distilled spirits segment's annual sales pertain mainly to two trusted parties with sales to them comprising about 84% of the total segment revenue.
- Beverage segment annual sales pertain mainly to 13 parties with sales to them comprising about 100% of the total beverage sales.
- Tobacco and property development segments are not exposed to concentration risk because it has diverse base of counterparties.

Credit quality per class of financial assets

"Standard grade" accounts consist of financial assets from trusted parties with good financial condition. "Substandard grade" accounts, on the other hand, are financial assets from other counterparties with relatively low defaults. The Group did not regard any financial asset as "high grade" in view of the erratic cash flows or uncertainty associated with the financial instruments. "Past due but not impaired" are items with history of frequent default, nevertheless, the amount due are still collectible. Lastly, "Impaired financial assets" are those that are long-outstanding and have been provided with allowance for doubtful accounts.

The tables below show the credit quality of financial assets and an aging analysis of past due but not impaired accounts of the Group except for the banking segment:

December 31, 2016:

	Neither past due nor impaired		**Past due but not impaired**					
	Standard Grade	**Sub-standard Grade**	**31 to 60 days**	**61 to 90 days**	**91 to 120 days**	**Over 120 Days**	**Impaired Financial Assets**	**Total**
					(In Millions)			
Loans and receivables:								
Cash, cash equivalents and other cash items	**₱3,779**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱3,779**
Trade receivables	**3,106**	**–**	**3,354**	**1,445**	**3,486**	**648**	**665**	**12,704**
Other receivables	**1,595**	**4**	**4**	**11**	**2**	**152**	**17**	**1,785**
Due from related parties	**1,922**	**–**	**–**	**–**	**–**	**–**	**–**	**1,922**
Refundable deposits	**8**	**–**	**5**	**142**	**–**	**–**	**–**	**155**
Financial assets at FVPL	**4,451**	**–**	**–**	**–**	**–**	**–**	**–**	**4,451**
AFS investments	**2,205**	**–**	**–**	**–**	**–**	**–**	**–**	**2,205**
	₱17,066	**₱4**	**₱3,363**	**₱1,598**	**₱3,488**	**₱800**	**₱682**	**₱27,001**

December 31, 2015:

	Neither past due nor impaired		Past due but not impaired					
	Standard Grade	Sub-standard Grade	31 to 60 days	61 to 90 days	91 to 120 days	Over 120 Days	Impaired Financial Assets	Total
				(In Millions)				
Loans and receivables:								
Cash, cash equivalents and other cash items	₱2,331	₱–	₱–	₱–	₱–	₱–	₱–	₱2,331
Trade receivables	3,004	–	3,245	1,398	3,373	625	643	12,288
Other receivables	2,149	5	5	15	1	207	23	2,405
Due from related parties	1,594	–	–	–	–	–	–	1,594
Refundable deposits	145	–	–	–	–	–	–	145
Financial assets at FVPL	5,082	–	–	–	–	–	–	5,082
AFS investments	2,222	–	–	–	–	–	–	2,222
	₱16,527	₱5	₱3,250	₱1,413	₱3,374	₱832	₱666	₱26,067

Liquidity Risk and Funding Management

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

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

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

The following tables show the maturity profile of the Group's other financial liabilities (undiscounted amounts of principal and related interest) as well as the financial assets used for liquidity management (in millions):

	2016			2015		
	Less than one year	**1 to less than 3 years**	**Total**	Less than one year	1 to less than 3 years	Total
Cash and other cash items	**₱3,779**	**₱–**	**₱3,779**	₱2,331	₱–	₱2,331
Trade receivables	**12,704**	**–**	**12,704**	12,288	–	12,288
Other receivables	**1,769**	**15**	**1,785**	2,384	21	2,405
Due from related parties	**1,387**	**536**	**1,922**	1,150	444	1,594
Refundable deposits	**155**	**–**	**155**	145	–	145
Financial assets at FVPL	**4,451**	**–**	**4,451**	5,082	–	5,082
AFS investments	**–**	**2,205**	**2,205**	–	2,222	2,222
	₱24,245	**₱2,756**	**₱27,001**	₱23,380	₱2,687	₱26,067
Short term debts	**₱1,750**	**₱–**	**₱1,750**	₱1,400	₱–	₱1,400
Accounts payable and other liabilities*	**6,855**	**–**	**6,855**	6,550	–	6,550
Long-term debts	**1,171**	**433**	**1,604**	526	194	720
Due to related parties	**–**	**–**	**–**		–	–
Other liabilities	**608**	**1,238**	**1,846**	798	1,626	2,424
	₱10,384	**₱1,671**	**₱12,055**	₱9,274	₱1,820	₱11,094

**Excluding non-financial liabilities amounting to ₱78.18 million and ₱128.2 million as of December 31, 2016 and 2015, respectively.*

Market Risks of the Group other than the Banking Segment

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

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

Equity price risk

Equity price risk is the risk that the fair value of equities will decrease as a result of changes in the levels of equity indices and value of individual stocks. In 2016, 2015 and 2014, changes in fair value of equity instruments held as AFS equity instruments due to a reasonable possible change in equity interest, with all other variables held constant, will increase profit by ₱44.2 million, ₱42.1 million and ₱39.7 million, respectively, if equity prices will increase by 5.2%. An equal change in the opposite direction would have decrease equity by the same amount.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates would unfavorably affect future cash flows from financial instruments. As of December 31, 2016 and 2015, the Group's long-term debts are not exposed to the risk in changes in market interest rates since the debts are issued at fixed rates. Fixed rate financial instruments are subject to fair value interest rate risk while floating rate financial instruments are subject to cash flow interest rate risk. Repricing of floating rate financial instruments is mostly at interval of three months or six months.

Foreign currency risk

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

33. **Offsetting of Financial Assets and Financial Liabilities**

The amendments to PFRS 7, which is effective January 1, 2013, require the Group to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreements or similar arrangements. The effects of these arrangements are disclosed in the succeeding tables.

Financial assets

Financial assets recognized at end of reporting period by type	Gross carrying Amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in the consolidated balance sheet [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria: Financial instruments	Fair value of Financial collateral	Net exposure [c-d]
December 31, 2016						
	[a]	**[b]**	**[c]**	**[d]**		**[e]**
			(In Thousands)			
Derivative assets (Notes 6 and 21)	**₱28,500,758**	**(₱28,152,954)**	**₱347,804**	**₱199,855**	**₱–**	**₱147,949**
Securities sold under agreements to repurchase (Note 8)	**1,972,310**	**–**	**1,972,310**	**–**	**1,968,603***	**3,707**
	₱30,473,068	**(₱28,152,954)**	**₱2,320,114**	**₱199,855**	**₱1,968,603**	**₱151,656**

** Included in bills and acceptances payable in the consolidated balance sheets.*

Financial assets recognized at end of reporting period by type	Gross carrying Amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in the consolidated balance sheet [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria: Financial instruments	Fair value of Financial collateral	Net exposure [c-d]
December 31, 2015						
	[a]	[b]	[c]	[d]		[e]
			(In Thousands)			
Derivative assets (Notes 6 and 21)	₱14,550,000	₱–	₱14,550,000	₱–	₱14,516,223*	₱33,777

** Included in bills and acceptances payable in the consolidated balance sheets.*

Financial liabilities

Financial assets recognized at end of reporting period by type	**Gross carrying Amounts (before offsetting)**	**Gross amounts offset in accordance with the offsetting criteria**	**Net amount presented in the consolidated balance sheet [a-b]**	**Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria: Financial instruments**	**Fair value of Financial collateral**	**Net exposure [c-d]**
December 31, 2016						
	[a]	**[b]**	**[c]**	**[d]**		**[e]**
			(In Thousands)			
Derivative liabilities (Notes 16 and 21)	**₱15,217,658**	**(₱15,449,106)**	**(₱231,448)**	**₱273,191**	**₱–**	**₱–**
Securities sold under agreements to repurchase (Note 8)*	**20,635,171**	**–**	**20,635,171**	**–**	**24,657,929**	**–**
Total	**₱35,852,829**	**(₱15,449,106)**	**₱20,403,723**	**₱273,191**	**₱24,657,929**	**₱–**

** Included in bills and acceptances payable in the consolidated balance sheets.*

December 31, 2015						
Financial assets recognized at end of reporting period by type	Gross carrying Amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in the consolidated balance sheet [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure [c-d]
				Financial instruments	Fair value of Financial collateral	
	[a]	[b]	[c]	[d]		[e]
			(In Thousands)			
Derivative liabilities (Notes 16 and 21)	₱216,636	₱–	₱216,636	₱465	₱250,830	₱–
Securities sold under agreements to repurchase (Note 17)*	12,806,499	–	12,806,499	–	15,941,143	–
Total	₱13,023,135	₱–	₱13,023,135	₱465	₱16,191,973	₱–

** Included in bills and acceptances payable in the consolidated balance sheets.*

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

34. Fair Value Measurement

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

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

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

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

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

	December 31, 2016		December, 31, 2015	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
	(In Thousands)			
Financial Assets:				
Loans and receivables:				
Receivables from customers	**₱406,505,998**	**₱412,208,402**	₱349,139,278	₱351,626,538
Unquoted debt securities	**3,285,222**	**3,305,345**	625,803	648,046
	₱409,791,220	**₱415,513,747**	₱349,765,081	₱352,274,584
Financial Liabilities:				
Financial liabilities at amortized cost:				
Deposit liabilities -				
Time deposits	**₱84,364,874**	**₱86,098,591**	₱60,511,353	₱60,762,710
Bills payables	**34,226,607**	**38,468,732**	25,407,406	25,033,940
Long term debts:				
Subordinated debt	**3,497,797**	**3,551,484**	9,986,427	10,241,659
Unsecured term loan	**4,070,949**	**3,712,316**	720,004	720,004
Notes payable	**–**	**–**	476,015	470,370
Other liabilities:				
Payable to landowners	**3,250,573**	**3,186,369**	1,723,923	1,803,770
Tenants' rental deposits	**428,785**	**390,791**	306,524	351,781
Advance rentals			207,470	186,687
	₱129,839,585	**₱135,408,283**	₱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.

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 2.70% to 6.75% and 2.66% to 3.77% as of December 31, 2016 and 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 1.89% to 3.88% as of December 31, 2016 and from 2.67% to 3.89% as of December 31, 2015, respectively.

Fair value hierarchy

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

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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

	December 31, 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	**₱1,300,293**	**₱13,107**	**₱–**	**₱1,313,400**
Derivative assets	**–**	**357,577**	**61,545**	**419,122**
Private debt securities	**188,773**	**7,984**	**–**	**196,757**
Equity securities	**54,609**	**–**	**–**	**54,609**
Designated at FVPL:				
Investment in UITFs	**–**	**4,457,623**	**–**	**4,457,623**
	₱1,543,675	**₱4,836,291**	**₱61,545**	**₱6,441,511**
AFS investments:				
Government securities	**₱34,416,112**	**₱3,418,446**	**₱–**	**₱37,834,558**
Private debt securities	**26,177,419**	**2,663,651**	**–**	**28,841,070**
Equity securities**	**571,296**	**73,746**	**–**	**645,042**
	₱61,164,827	**₱6,155,843**	**₱–**	**₱67,320,670**
Non-financial assets				
Property, plant and equipment***				
Land and land improvements	**₱–**	**₱–**	**₱15,834,177**	**₱15,834,177**
Plant buildings and building improvements	**–**	**–**	**13,075,835**	**13,075,835**
Machineries and equipment	**–**	**–**	**7,194,036**	**7,194,036**
	₱–	**₱–**	**₱36,104,048**	**₱36,104,048**
Liabilities measured at fair value:				
Financial liabilities				
Financial liabilities at FVPL:				
Designated at FVPL:				
Derivative liabilities	**₱–**	**₱232,832**	**₱–**	**₱232,832**
	₱–	**₱232,832**	**₱–**	**₱232,832**

(Forward)

	December 31, 2016			
	Level 1	**Level 2**	**Level 3**	**Total**
		(In Thousands)		
Assets for which fair values are disclosed:				
Financial Assets				
HTM investment	**₱21,010,056**	**₱3,164,423**	**₱–**	**₱24,174,479**
Loans and receivables:				
Receivables from customers	**–**	**–**	**396,257,262**	**396,257,262**
Unquoted debt securities	**–**	**–**	**3,253,457**	**3,253,457**
	₱21,010,056	**₱3,164,423**	**₱399,510,719**	**₱423,685,198**
Non-financial Assets				
Investment properties***				
Land	**₱–**	**₱–**	**₱24,971,630**	**₱24,971,630**
Buildings and improvements	**–**	**–**	**8,810,139**	**8,810,139**
	₱–	**₱–**	**₱33,781,769**	**₱33,781,769**
Liabilities for which fair values are disclosed:				
Financial liabilities				
Financial liabilities at amortized cost:				
Deposit liabilities:				
Time deposits	**₱–**	**₱–**	**₱86,181,252**	**₱86,181,252**
Long term debts:				
Subordinated debt	**–**	**–**	**3,551,484**	**3,551,484**
Bills payable	**–**	**–**	**34,226,607**	**34,226,607**
Unsecured term loan	**–**	**–**	**1,604,003**	**1,604,003**
Other liabilities:				
Payable to landowners	**–**	**–**	**3,186,369**	**3,186,369**
Tenants' rental deposits	**–**	**–**	**393,496**	**393,496**
Advance rentals	**–**	**–**	**59,255**	**59,255**
	₱–	**₱–**	**₱129,202,466**	**₱129,202,466**

* *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
	₱3,051,363	₱1,467,248	₱63,332	₱4,581,943
AFS investments:				
Government securities	₱33,499,835	₱11,760,562	₱–	₱45,260,397
Private debt securities	21,614,280	638,700	–	22,252,980
Equity securities**	560,272	93,659	–	653,931
	₱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

(Forward)

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
		(In Thousands)		
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*	₱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
Assets of disposal group classified as held for sale	1,336,814	1,336,814	–	2,673,628
	₱19,998,685	₱7,224,796	₱352,274,584	₱379,498,065
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	₱–	₱–	₱60,762,710	₱60,762,710
Long term debts:				
Subordinated debt	–	–	10,241,659	10,241,659
Bills payable	–	–	25,033,940	25,033,940
Unsecured term loan	–	–	720,004	720,004
Notes payable	–	–	470,370	470,370
Other liabilities:				
Payable to landowners	–	–	1,803,770	1,803,770
Tenants' rental deposits	–	–	351,781	351,781
Advance rentals	–	–	186,687	186,687
	₱–	₱–	₱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.

Significant input used in determining fair values of financial instruments under Level 2 comprises of interpolated market rates of benchmark securities. For investments in UITFs, fair values are determined based on published NAVPU as of reporting date.

As of December 31, 2016 and 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:

	2016	2015
	(In Thousands)	
Financial assets		
Balance at beginning of year	**₱5,843,569**	₱5,339,628
Add (deduct) total gain (loss) recorded in profit or loss	**(5,782,024)**	503,941
Balance at end of year	**₱ 61,545**	₱5,843,569
Nonfinancial assets		
Balance at beginning of year	**₱39,538,145**	₱38,470,525
Additions during the year	**2,242,250**	3,525,605
Revaluation decrement during the year	**(720,604)**	(528,159)
Depreciation and amortization	**(1,574,243)**	(1,290,186)
Net carrying value of disposed/transferred assets and other adjustments	**(3,381,500)**	(639,640)
Balance at end of the year	**₱36,104,048**	₱39,538,145
Financial liabilities		
Balance at beginning of year	**₱5,780,237**	₱5,346,467
Add (deduct) total loss (gain) recorded in profit or loss	**(5,780,237)**	433,770
Balance at end of year	**₱–**	₱5,780,237

Equity and/or Credit-Linked Notes are shown as "Asset of Disposal Group Classified as Held for Sale" as of December 31, 2015 (Note 37).

The structured Variable Unit-Linked Notes can be decomposed into bond components and options components. The fair value of structured notes has been computed by counterparties using present value calculations and option pricing models, as applicable. The valuation requires management to make certain assumptions about the model inputs particularly the credit spread of the Issuer. The model also used certain market observable inputs including the counterparty's credit default swap (CDS), PHP interest rate swap (IRS) rates (for the Peso-denominated issuances) and ROP CDS rates (for the USD-denominated issuances).

Description of valuation techniques are as follows:

Structured Notes	**Valuation Methods**	**Significant Unobservable Inputs**	**Significant Observable Inputs**
Peso-denominated	DCF Method / Monte Carlo Simulation	Issuer's Funding rate / Issuer's CDS as proxy	PHP IRS
Dollar-denominated	DCF Method / Monte Carlo Simulation	Issuer's Funding rate / Issuer's CDS as proxy	ROP CDS / USD IRS

The sensitivity analysis of the fair market value of the structured notes as of December 31, 2015 is performed for the reasonable possible movement in the significant inputs with all other variables held constant, showing the impact to profit and loss follows:

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

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

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

Structured Investments	Significant Observable Input	2015 Range of Input	 Sensitivity of the Input to Fair Value*
Peso- denominated	**PHP IRS (3Y)**	180.25 - 355.00 bps	50 bps increase/(decrease) in change inputs would result in a (decrease) / increase in the market value of the note by ₱65,500,462
Dollar- denominated	**ROP CDS (5Y)**	126.15 - 193.33 bps	50 bps increase/(decrease) in change inputs would result in a (decrease) / increase in the market value of the note by ₱28,095,617

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

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

The table below summarizes the valuation techniques used and the significant unobservable inputs valuation for each type of property, plant and equipment and investment properties held by the Group:

	Valuation Techniques	**Significant Unobservable Inputs**	**Range of Estimates**
Property, plant and equipment:			
Land and land improvements	Market Data Approach	Price per square meter	₱6,000 - ₱6,200
Plant buildings and building improvements			
Building	Replaceable Fixed Asset Valuation Approach	Replacement cost Estimated total floor area	₱4,287 - ₱10,000 24 - 1548 sq.m
Building improvements	Replaceable Fixed Asset Valuation Approach	Replacement cost Estimated number of components	₱2.8 million - ₱26.5 million 315 - 723 components
Machineries and equipment	Replaceable Fixed Asset Valuation Approach	Replacement cost Estimated number of components	₱3,200 - ₱8.6 million 465 - 1,162 components
Investment properties:			
Land	Market Data Approach	Price per square meter, size, location, shape, time element and corner influence	₱800 - ₱100,000
Land and building	Market Data Approach and Replacement Cost Approach	New Reproduction Cost	

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

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

	Description
Valuation Techniques	
Market Data Approach	A process of comparing the subject property being appraised to similar comparable properties recently sold or being offered for sale.
Replaceable Fixed Asset Valuation Approach	This method requires an analysis of the buildings and other land improvements by breaking them down into major components. Bills of quantities for each component using the appropriate basic unit are prepared and related to the unit cost for each component developed on the basis of current costs of materials, labor, plant and equipment prevailing in the locality to arrive at the direct costs of the components. Accrued depreciation was based on the observed condition.
Replacement Cost Approach	It is an estimate of the investment required to duplicate the property in its present condition. It is reached by estimating the value of the building "as if new" and then deducting the depreciated cost. Fundamental to the Cost Approach is the estimate of Reproduction Cost New of the improvements.
Reproduction Cost New	The cost to create a virtual replica of the existing structure, employing the same design and similar building materials.

	Description
Valuation Techniques	
Size	Size of lot in terms of area. Evaluate if the lot size of property or comparable conforms to the average cut of the lots in the area and estimate the impact of lot size differences on land value.
Shape	Particular form or configuration of the lot. A highly irregular shape limits the usable area whereas an ideal lot configuration maximizes the usable area of the lot which is associated in designing an improvement which conforms with the highest and best use of the property.
Location	Location of comparative properties whether on a main road, or secondary road. Road width could also be a consideration if data is available. As a rule, properties located along a main road are superior to properties located along a secondary road.
Time Element	"An adjustment for market conditions is made if general property values have appreciated or depreciated since the transaction dates due to inflation or deflation or a change in investors' perceptions of the market over time". In which case, the current data is superior to historic data.
Discount	Generally, asking prices in ads posted for sale are negotiable. Discount is the amount the seller or developer is willing to deduct from the posted selling price if the transaction will be in cash or equivalent.
Corner influence	Bounded by two (2) roads.

35. Notes to Consolidated Statements of Cash Flows

Non-cash Investing Activities

a. As of December 31, 2016 and 2015, unpaid additions to property, plant and equipment amounted to ₱86.6 million and ₱78.1 million, respectively, which is included as part of "Accounts payable and accrued expenses".

b. In 2015, the Group reclassified cost of land, which was previously recognized as real estate inventory amounting to ₱1.1 billion, to investment property in view of management's plan to develop thereon additional buildings to be held for lease.

c. In 2015, the Group transferred investment properties with a carrying value of ₱2.0 billion and ₱1.2 billion to inventories, respectively.

d. In 2015, the Group classified APLII as disposal group held for sale and as discontinued operations and classified assets, liabilities and equity and reserves of APLII amounting to ₱23.5 billion, ₱21.5 billion and ₱0.6 billion, respectively.

e. In 2016, the Group reclassified certain properties from property, plant and equipment with aggregate carrying amount of ₱4.7 billion to investment properties.

f. Construction costs of building intended for leasing amounting to ₱105.5 million under real estate inventory, which were still under construction as of December 31, 2015, were transferred to investment properties.

Non-cash Financing Activities

a. In July 2013, all the existing advances to Tangent amounting to ₱11.0 billion were offset with the existing advances from the Tangent.

b. As of December 31, 2016 and 2015, accrued interest payable amounted to ₱662.3 million and ₱2.1 billion, respectively. Finance costs and cost of hauling services include amortization of bond issue costs and unamortized transaction cost of subordinates debt amounting to ₱2.0 million and ₱17.3 million in 2016 and ₱2.0 million and ₱16.8 million in 2015, respectively.

c. As discussed in Note 30, LTG issued additional common shares to Tangent amounting to ₱5.4 billion upon conversion of its deposit for future stock subscription of ₱1.6 billion resulting in an increase in additional paid in capital of ₱1.2 billion. Transactions costs incurred for the share issuance in 2012 amounted to ₱67.5 million which are deducted from additional paid in capital.

36. Capital Management

The main thrust of the Group's capital management policy is to ensure that the Group complies with externally imposed capital requirements, maintains a good credit standing and has a sound capital ratio to be able to support its business and maximize the value of its shareholders equity. The Group is also required to maintain debt-to-equity ratios to comply with certain loan agreements and covenants in 2016 and 2015.

The Group's dividend declaration is dependent on the availability of earnings and operating requirements. The Group manages its capital structure and makes adjustment to it, in light of changes in economic conditions. To maintain or adjust capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes in 2016 and 2015.

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

The table below shows the leverage ratios of the Group:

	2016	2015
	(In Thousands, except ratios)	
Total liabilities	**₱650,486,448**	₱579,794,407
Total equity	**178,604,576**	169,758,095
Total liabilities and equity	**₱829,091,024**	₱749,552,502
Debt ratio	**0.78:1**	0.77:1
Debt-to-equity ratio	**3.64:1**	3.42:1

Regulatory Qualifying Capital for the Banking Segment

Under existing BSP regulations, the determination of PNB's compliance with regulatory requirements and ratios is based on the amount of PNB's "unimpaired capital" (regulatory net worth) reported to the BSP, which is determined on the basis of regulatory policies, which differ from PFRSs in some respects.

In addition, the risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10.00% for both solo basis (head office and branches) and consolidated basis (parent bank and subsidiaries engaged in financial allied undertakings but excluding insurance companies). Qualifying capital and risk-weighted assets are computed based on BSP regulations. Risk-weighted assets consist of total assets less cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits and other non-risk items determined by the MB of the BSP.

PNB and its individually regulated subsidiaries/operations have complied with all externally imposed capital requirement throughout the year.

On January 15, 2013, the BSP issued Circular No. 781, Basel III Implementing Guidelines on Minimum Capital Requirements, which provides the implementing guidelines on the revised risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards. The circular is effective on January 1, 2014.

The Circular sets out a minimum Common Equity Tier 1 (CET1) ratio of 6.0% and Tier 1 capital ratio of 7.5%. It also introduces a capital conservation buffer of 2.5% comprised of CET1 capital. The BSP's existing requirement for Total CAR remains unchanged at 10% and these ratios shall be maintained at all times.

Further, existing capital instruments as of December 31, 2010 which do not meet the eligibility criteria for capital instruments under the revised capital framework shall no longer be recognized as capital upon the effectivity of Basel III. Capital instruments issued under BSP Circular Nos. 709 and 716 (the circulars amending the definition of qualifying capital particularly on Hybrid Tier 1 and Lower Tier 2 capitals), starting January 1, 2011 and before the effectivity of BSP Circular No. 781, shall be recognized as qualifying capital until December 31, 2015. In addition to changes in minimum capital requirements, this Circular also requires various regulatory adjustments in the calculation of qualifying capital.

The Group has taken into consideration the impact of the foregoing requirements on the banking segment to ensure that the appropriate level and quality of capital are maintained on an ongoing basis.

<u>Internal Capital Adequacy Assessment Process (ICAAP) Implementation</u>
In compliance with BSP Circular 639, PNB (the Bank) has adopted its live ICAAP Document for 2011 to 2013. However, the BOD and the Management recognized that ICAAP is beyond compliance, i.e., it is about how to effectively run the Bank's operations by ensuring that the Bank maintains at all times an appropriate level and quality of capital to meet its business objective and commensurate to its risk profile. In line with its ICAAP principles, the Bank shall maintain a capital level that will not only meet the BSP CAR requirement but will also cover all material risks that it may encounter in the course of its business. The ICAAP process highlights close integration of capital planning/strategic management with risk management. The Bank has in place a risk management framework that involves a collaborative process for assessing and managing identified Pillar 1 and Pillar 2 risks. The Bank complies with the required annual submission of updated ICAAP.

37. **Assets and Liabilities of Disposal Group Classified as Held for Sale and Discontinued Operations**

Sale of PNB's 51% share in APLII to Allianz SE
On December 21, 2015, PNB entered into a 15-year exclusive partnership with Allianz SE under the following arrangements, subject to regulatory approvals:

- Allianz SE will acquire 12,750 shares representing 51% stockholdings of APLII and will have management control over the new joint venture company;
- The new joint venture company will operate under the name of "Allianz PNB Life Insurance, Inc.";
- A 15-year distribution agreement which will provide Allianz an exclusive access to the more than 660 branches nationwide of PNB.

As of December 31, 2015, APLII was classified as disposal group held for sale and as discontinued operation.

The sale of APLII was completed on June 6, 2016 for a total consideration of US$66.0 million (₱3.1 billion). Pursuant to the sale of APLII, PNB also entered into a distribution agreement with APLII where PNB will allow APLII to have exclusive access to the distribution network of PNB and its subsidiary, PNB Savings Bank, over a period of 15 years. Both the share purchase agreement and distribution agreement have provisions referring to one another; making the distribution agreement an integral component of the sale transaction. Accordingly, the purchase consideration of US$66.0 million (₱3.1 billion), was allocated between the sale of the 51% interest in APLII and the Exclusive Distribution Rights (EDR) amounting to US$44.9 million (₱2.1 billion) and US$21.1 million (₱1.0 billion), respectively.

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

PNB recognized gain on sale of the 51% interest in APLII amounting to ₱400.3 million, net of taxes and transaction costs amounting to ₱276.7 million and ₱153.3 million, respectively. The consideration amounting to ₱939.7 million allocated to the EDR was recognized as "Other deferred revenue" and will be amortized to income over 15 years from date of sale (see Note 20).

Prior to the sale of shares to Allianz SE, PNB acquired additional 15% stockholdings from the minority shareholders for a consideration amounting to ₱292.4 million between June 2, 2016 and June 5, 2016.

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

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

On June 6, 2016, the sale of APLII was completed. PNB recognized gain on sale amounting to ₱834.5 million recognized in "Net Income from Discontinued Operations" in the consolidated statements of income.

The results of operation of APLII are presented below:

	Years Ended December 31		
	2016	2015	2014
	(In Thousands)		
Interest income			
Loans and receivables	**₱7,610**	₱20,343	₱18,707
Trading and investment securities	**195,605**	443,116	396,586
Deposits with banks and others	**5,151**	3,504	324
	208,366	466,963	415,617
Net service fees and commission expense	**(67,591)**	(281,639)	(335,635)
Net insurance premiums	**508,770**	1,716,308	1,604,500
Net insurance benefits and claims	**(441,090)**	(1,290,439)	(1,191,359)
Net insurance premiums	**67,680**	425,869	413,141
Other income (charges)			
Trading and investment securities gains - net	**1,800**	20,874	14,661
Foreign exchange gains (losses) - net	**(876)**	11,806	(1,999)
Miscellaneous	**80,667**	149,061	101,111
Total operating income	**290,046**	792,934	606,896
General and administrative expenses			
Compensation and fringe benefits	**71,741**	223,322	166,757
Taxes and licenses	**16,759**	39,570	36,544
Occupancy and equipment-related costs	**7,610**	9,764	9,196
Depreciation and amortization	**4,707**	10,704	14,039
Provision for impairment, credit and other losses	**4,704**	32,765	–
Miscellaneous	**39,692**	74,573	73,025
Total general and administrative expenses	**145,213**	390,698	299,561
Result from operating activities	**144,833**	402,236	307,335
Provision for income tax	**(21,049)**	(44,305)	(43,171)
Result from operating activities, net of tax	**123,784**	357,931	264,164
Gain on sale of discontinued operation	**834,535**	–	–
Transaction cost	**(153,307)**	–	–
Provision for income tax	**(185,449)**	–	–
Net income from discontinued operations	**₱619,563**	₱357,931	₱264,164
Attributable to:			
Equity holders of the Company	**₱279,894**	₱161,699	₱119,339
Non-controlling interests	**339,669**	196,232	144,825
	₱619,563	₱357,931	₱264,164

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

	2016	2015	2014
Net income attributable to equity holders of the banking segment	**₱279,894**	₱161,699	₱119,339
Weighted average number of common shares for basic earnings per share	**10,821,389**	10,821,389	10,821,389
Basic earnings per share	**₱0.03**	₱0.02	₱0.01

The net cash flows directly associated with the disposal group follow:

	2016	2015	2014
		(In Thousands)	
Net cash provided by operating activities	**₱171,535**	₱1,210,588	₱1,535,951
Net cash used in investing activities	**(267,458)**	(903,161)	(1,395,508)

The major classes of assets and liabilities of APLII classified as disposal group held for sale as of December 31, 2015 are as follows (in thousands):

Assets	
Cash and other cash items	₱642,544
Financial assets at fair value through profit or loss	
Segregated fund assets	13,634,687
AFS investments	7,468,653
HTM investments	1,269,398
Other receivables	437,210
Property and equipment - net	29,546
Other assets	44,719
Assets of disposal group classified as held for sale	₱23,526,757
Liabilities	
Financial liabilities at fair value through profit or loss	
Segregated fund liabilities	₱13,725,321
Accrued taxes, interest and other expenses	161,817
Insurance contract liabilities	6,837,144
Other liabilities	728,339
Liabilities of disposal group classified as held for sale	₱21,452,621
Reserves	
Net unrealized gain on AFS investments	₱617,649
Remeasurement losses on retirement plan	(24,412)
Reserves of disposal group classified as held for sale	₱593,237
Attributable to:	
Equity holders of the Company	₱335,000
Non-controlling interests	258,237
	₱593,237

Transactions with Heineken

On May 27, 2016, the Group entered into a joint venture agreement with Heineken to establish AB HPI to manage its beer segment. In accordance with the agreement, ABI transferred its beer business comprising of the related inventories, returnable containers and brands to AB HPI in exchange for shares of stock at the fair value of ₱787.4 million. The Group has significant influence over AB HPI and therefore, treats the investment as investment in associate.

The Group recognized the difference amounting to ₱1,056.2 million between its investment and its equity interest in AB HPI as gain on investment in an associate arising from contribution of non-monetary assets in exchange for shares of stock. Also, the Group recognized ₱46.3 million as gain from the sale of its brands (see Note 6). These amounts are presented as part of discontinued operations in 2016.

The results generated from discontinued operations of the beer segment of the Group follow (in thousands):

	Years Ended December 31		
	2016	2015	2014
NET SALES	**₱3,136,595**	₱2,900,686	₱3,410,688
COST OF GOODS SOLD			
Taxes and licenses	**1,306,050**	1,352,173	1,440,781
Materials used and changes in inventories	**816,349**	458,775	529,406
Depreciation and amortization	**249,654**	289,436	359,691
Utilities	**77,478**	83,417	96,987
Outside services	**63,056**	135,265	113,950
Fuel and oil	**90,191**	107,400	125,916
Repairs and maintenance	**79,347**	102,491	106,266
Salaries, wages and other employee benefits:			
Salaries and wages	**108,093**	125,696	108,241
Retirement benefits costs	**32,080**	32,458	41,324
Professional fees	**49,181**	59,875	50,440
Supplies	**86,625**	72,416	88,645
Others	**81,446**	58,088	45,648
	3,039,550	2,877,490	3,107,295
GROSS PROFIT	**97,045**	23,196	303,393
SELLING EXPENSES			
Advertising and promotions	**305,174**	167,369	188,742
Depreciation and amortization (Note 12)	**141,031**	160,431	69,882
Personnel costs	**36,175**	37,343	34,497
Materials and consumables	**7,371**	39,486	5,419
Repairs and maintenance	**2,516**	2,946	11,208
Travel and transportation	**8,639**	8,385	9,207
Others	**30,754**	25,695	29,291
	531,660	441,655	348,246
GENERAL AND ADMINISTRATIVE EXPENSES			
Taxes and licenses	**40,442**	31,792	29,673
Management, consulting and professional fees	**34,595**	26,097	24,053
Personnel costs	**26,918**	22,405	15,526
Travel and transportation	**3,779**	4,781	2,090
Communication, light and water	**3,042**	1,751	1,541
Repairs and maintenance	**865**	940	75
Occupancy	**490**	–	–
Materials and consumables	**284**	73	96
Insurance	**53**	36	35
Others	**1,584**	794	861
	112,052	88,669	73,950
OPERATING LOSS	**(546,667)**	(507,128)	(118,803)
OTHER INCOME			
Gain on investment in an associate arising from contribution of non-monetary assets	**1,056,240**	–	–
Gain on sale of brands	**46,300**	–	–
Others	**3,463**	7,135	15,483
INCOME (LOSS) FROM DISCONTINUED OPERATIONS BEFORE INCOME TAX	**559,336**	(499,993)	(103,320)

(Forward)

	Years Ended December 31		
	2016	2015	2014
PROVISION FOR (BENEFIT FROM) INCOME TAX			
Current	**(₱132,184)**	(₱131,000)	₱9,379
Deferred	**(16,887)**	(18,998)	(40,375)
	(149,071)	(149,998)	(30,996)
NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS	**₱708,407**	(₱349,995)	(₱72,324)

The net cash flows directly associated from discontinued operations follow:

	2016	2015	2014
		(In Thousands)	
Net cash provided by operating activities	**(₱401,289,143)**	₱185,264,589	(₱389,338,445)
Net cash used in investing activities	**(230,836,659)**	(807,443,468)	93,005,208
	(₱632,125,802)	(₱622,178,879)	₱296,323,237

38. Commitments, Provision and Contingencies and Other Matters

Commitments

Operating lease commitments - the Group as lessor

The Group entered into lease agreements with third parties covering its investment property portfolio, certain motor vehicles and items of machinery. These leases generally provide for either (a) fixed monthly rent, or (b) minimum rent or a certain percentage of gross revenues, whichever is higher. The Group records rental income on a straight-line basis over less noncancellable lease term. Any difference between the calculated rental income and amount actually received is recognized as "Deferred rent" (see Note 8).

The Group has security deposits and advance rentals which are presented under "Other noncurrent liabilities." Security deposits pertain to the amounts paid by the tenants at the inception of the lease which is refundable at the end of the lease term. Advance rentals pertain to deposits from tenants which will be applied against receivables either at the beginning or at the end of lease term depending on the lease contract. Security deposits and advance rentals amounted to ₱273.0 million and ₱180.6 million as of December 31, 2016 and ₱387.6 million and ₱145.6 million as of December 31, 2015, respectively.

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

	2016	2015
	(In Thousands)	
Within one year	**₱1,130,072**	₱1,179,758
After one year but not more than five years	**1,605,790**	2,508,002
More than five years	**305,486**	264,551
	₱3,041,348	₱3,952,311

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

	2016	2015
	(In Thousands)	
Within one year	**₱457,055**	₱487,388
Within two to five years	**1,066,976**	856,828
More than five years	**1,667,333**	1,526,715
	₱3,191,364	₱2,870,931

Future minimum lease receivables under finance leases are as follows:

	2016	2015
	(In Thousands)	
Within one year	**₱1,738,954**	₱1,654,119
Beyond one year but not more than five years	**1,273,921**	1,984,772
More than five years	**36,500**	47,900
Total	**3,049,375**	3,686,791
Less amounts representing finance charges	**355,743**	62,206
Present value of minimum lease payments	**₱2,693,632**	₱3,624,585

Trust Operations
Securities and other properties held by PNB in fiduciary or agency capacities for its customers are not included in the accompanying statements of financial position since these are not assets of PNB. Such assets held in trust were carried at a value of ₱75.2 billion and ₱78.7 billion as of December 31, 2016 and 2015, respectively. In connection with the trust functions of PNB, government securities amounting to ₱0.7 billion, (included under "AFS investments") as of December 31, 2016 and 2015 are deposited with the BSP in compliance with trust regulations.

In compliance with existing banking regulations, PNB transferred from surplus to surplus reserves the amounts of ₱19.4 million, ₱16.6 million and ₱13.6 million in 2016, 2015 and 2014, respectively, which correspond to 10% of the net income realized in the preceding years from its trust, investment management and other fiduciary business until such related surplus reserve constitutes 20% of its regulatory capital.

Provisions and Contingencies
In the normal course of business, the Group makes various commitments and incurs certain contingent liabilities that are not presented in the financial statements including several suits and claims which remain unsettled. No specific disclosures on such unsettled assets and claims are made because any such specific disclosures would prejudice the Group's position with the other parties with whom it is in dispute. Such exemption from disclosures is allowed under PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. The Group and its legal counsel believe that any losses arising from these contingencies which are not specifically provided for will not have a material adverse effect on the financial statements.

Claim from PNB Gen
In 2015, PNB recognized income amounting to ₱716.2 million under "Other income (charges)" arising from the fire insurance claims of PNB from PNB Gen involving the Ever Gotesco Grand Central ("Insured Property") which was mortgaged to PNB by Gotesco Investment, Inc. and Ever Emporium, Inc. (collectively "Ever Gotesco Group") to secure certain credit accommodations. The insurable interest of PNB (as mortgagee) was insured with PNB Gen. The Insured Property

was razed by fire on March 19, 2012, which justified the payment by PNB Gen of the insurance claims of PNB, after the Court cleared the legal issues between PNB and Ever Gotesco Group that might potentially bar the payment thereof.

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

	2016	2015
	(In Thousands)	
Balance at beginning of year	**₱898,737**	₱1,640,648
Provisions (reversals) during the year (Note 26)	**401,553**	(741,911)
Balance at end of year	**₱1,300,290**	₱898,737

Excise Tax Refund Claim
The new excise tax law or RA 10351 became effective on January 1, 2013, and increased the excise tax rates of, among others, distilled spirits. Another change that was brought in by the new law is the shift in the tax burden of distilled spirits from raw materials to the finished product.

To implement the said law, the Secretary of Finance issued Revenue Regulations No. 17-2012 (RR 17-2012), which, in one of its transitory provisions, disallowed the tax crediting of the excise taxes that were already paid under the old law on the raw materials inventory by end of the year 2012 or by the effectivity of RA 10351 in favor of the excise taxes due on the finished goods inventory.

The Commissioner of Internal Revenue issued on January 9, 2013 Revenue Memorandum Circular (RMC) No. 3-2013. This RMC sought to clarify further certain provisions of RR No. 17-2012 but in effect extended the imposition of the excise tax on both the (1) ethyl alcohol as raw materials in the production of compounded liquors and (2) the manufactured finished product. Per the RMC, both ethyl alcohol and compounded liquor are considered as distinct distilled spirits products and are thus separate taxable items under the new law. This interpretation of the law was however modified with the issuance of RMC No. 18-2013. The new RMC allowed the non-payment of excise tax on ethyl alcohol that were purchased after the issuance of RMC No. 3-2013 to be used as raw materials in the manufacture of compounded liquors provided certain requirements such as posting of surety bonds are complied with. RMC No. 18-2013, however, still maintained that taxes previously paid on the raw materials, i.e., ethyl alcohol/ethanol inventory, at the time of the effectivity of the new excise tax law are still not subject to refund/tax credit to the manufacturers.

Under RR No. 17-2012, the amount of excise tax that was disallowed for tax credit was ₱725.8 million (included under "Other current assets"). Said amount represented taxes paid previously on raw materials and were not allowed to be deducted from the excise taxes that became due on the finished goods as taxed under the new law. TDI is contesting the disallowance of the tax credit and is undertaking appropriate legal measures to obtain a favorable outcome.

TDI has paid a total of ₱45.9 million (included under "Other current assets") in excise taxes for the raw materials that were purchased/imported for purposes of compounding during the subsistence of RMC No. 3-2013. TDI also would claim this amount on the basis that the RMC was issued without basis and beyond the authority granted by law to the administrative agency.

Other Matters

Property development tax incentives

The property development segment has three Board of Investment (BOI)-registered projects namely, Belton Place (BP), Eton Emerald Lofts (EEL) and One Archers Place (OAP). BP is registered with BOI as a new developer of low-cost housing project on a Non-Pioneer status under the Omnibus Investments Code of 1987 (Executive Order No. 226) on September 15, 2008. This registration entitles the Group to four years ITH from November 2008 or actual commercial operations or selling, whichever is earlier but in no case earlier than the date of registration. The ITH shall be limited only to the revenue generated from this project. Revenue with selling price exceeding ₱3.0 million shall not be covered by ITH. Likewise, on September 23, 2008, two other projects of the Group namely, OAP and EEL, were registered with the BOI as a new developer of low-cost housing project on a Non-Pioneer status. These two projects shall enjoy the same benefits as BP. The ITH incentives entitlements of the Group already expired in 2012.

Effluent Supply Agreement

On September 26, 2013, ADI and Aseagas Corporation (Aseagas) entered into an effluent (wastewater) supply agreement wherein ADI will supply effluent to Aseagas to be used in the generation of liquid bio-methane for a period of 20 years (delivery period) from the date Aseagas notifies ADI that the liquid bio-methane plant to be constructed by Aseagas becomes ready for commercial operations. The delivery period is renewable for another ten (10) years upon mutual agreement of both parties. As of March 14, 2017, the liquid bio-methane plant is still under construction.

39. Events after the Reporting Period

On March 14, 2017, LTG's BOD approved the declaration and distribution of regular cash dividends of ₱0.15 per share and special cash dividends of ₱0.03 per share to all stockholders of record as of March 29, 2017, to be paid not later than April 7, 2017.

SGV
Building a better working world

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

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
LT Group, Inc.
11th Floor, Unit 3 Bench Tower
30th St. corner Rizal Drive Crescent Park West 5
Bonifacio Global City, Taguig

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of LT Group, Inc. (a subsidiary of Tangent Holdings Corporation) and its subsidiaries, as at December 31, 2016 and 2015 and for each of the three years in the period ended December 31, 2016, included in this Form 17-A, and have issued our report thereon dated March 14, 2017. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the management of LT Group, Inc. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011) and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Martin C. Guantes
Partner
CPA Certificate No. 88494
SEC Accreditation No. 0325-AR-3 (Group A),
August 25, 2015, valid until August 24, 2018
Tax Identification No. 152-884-272
BIR Accreditation No. 08-001998-52-2015,
February 27, 2015, valid until February 26, 2018
PTR No. 5908704, January 3, 2017, Makati City

March 14, 2017

LT GROUP, INC. AND SUBSIDIARIES
SCHEDULE A. – Financial Assets
DECEMBER 31, 2016
(in thousands)

Name of Issuing Entity and Association of each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on bid prices on the balance sheet date	Income received and accrued
Government securities				
Republic of the Philippines (ROP) Bonds		1,097,022	1,259,709	23,386
Fixed Rate Treasury Notes		31,085	32,164	36,150
Retail Treasury Bonds		10,586	11,472	5,808
Power Sector Assets & Liabilities Mgt Corp		8,701	10,055	542
Republic of the Indonesia				1,012
US Treasury Notes				44
	-	**1,147,394**	**1,313,400**	**66,942**

Name of Issuing Entity and Association of each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on bid prices on the balance sheet date	Income received and accrued
Private debt securities				
SM Investments Corporation		74,580	76,202	3,696
International Container Terminal Services Inc		32,467	36,403	2,741
Ayala Land Inc		7,550	7,902	977
Fil-Invest Land Inc		80	83	7
Filinvest Development Cayman Islands				388
SM Prime Holdings Inc.				403
San Miguel Global Power Holdings Corp				338
Export-Import Bank of Korea				4
	-	**114,677**	**120,590**	**8,554**

Name of Issuing Entity and Association of each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on bid prices on the balance sheet date	Income received and accrued
Equity securities				
Alco Preferred	7,000		718	
Alliance Global Group Inc	60,000		767	
Ayala Corporation	10,000		7,305	
Ayala Land Inc	70,000		2,240	
Cosco Capital, Inc	150,000		1,275	
DMCI Holdings Inc	500,000		6,630	
Emperador Inc	80,000		560	
Filinvest Land, Inc.	200,000		306	
First Metro Phil Equity Exchange	7,000		791	
First Phil Holdings	10,000		679	
Forest Hills Golf and Country Club	1		170	
Global Ferro	31,127		89	
GT Cap Preferred Series B	1,000		1,020	
GT Capital Holdings, Inc.	500		635	
Manila Electric Co	20,000		5,300	
Manila Water Company, Inc.	25,000		725	
Petro Energy Resources Corp	6,289		26	
PLDT Common Shares	7,500		10,239	
PNOC Energy Development Corporation	1,230,000		6,335	
Resorts World Manila	810,000		2,665	
San Miguel Corp - Preferred 2G	4,100		326	
San Miguel Corp - Preferred 2H	26,000		2,005	
San Miguel Corp - Preferred 2I	25,970		2,026	
Security Bank Corp	9,000		1,710	
Universal Rightfield Prop. Inc.	2,883,000		69	
	6,173,487	**-**	**54,611**	**-**

Name of Issuing Entity and Association of each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on bid prices on the balance sheet date	Income received and accrued
Derivatives				
Standard Chartered Bank London		6,047,764	227,979	
Republic of the Philippines		15,234,457	61,545	
Wells Fargo Bank NA		4,804,430	31,425	
Philippine Long Distance Telephone Co.		2,436,280	29,195	
Citibank N.A. Manila Br.		4,243,358	16,769	
Bank of Tokyo Mitsubishi UFJ		1,988,800	11,612	
BNP Paribas Paris		1,105,082	10,538	
Petron Corporation		4,735,175	10,380	
Banco De Oro Universal Bank		2,742,575	7,576	
Standard Chartered Bank		599,844	3,157	
Bank of Tokyo-Mitsubishi Manila		500,950	2,440	
Australia and New Zealand Bank Manila		1,245,850	2,429	
Robinsons Bank Corporation		499,145	1,964	
Mizuho Bank Limited Manila		747,075	1,047	
PNB International Investments Corporation		49,933	243	

Continued

Name of Issuing Entity and Association of each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on bid prices on the balance sheet date	Income received and accrued
Metropolitan Bank and Trust Company		99,620	184	
Chase Manhattan Bank London		19,221	93	
Hong Kong and Shanghai Banking Corp		49,810	92	
Land Bank of the Philippines		49,810	92	
PNB Remittance Center Canada		18,450	34	
GETZ Advanced Materials, Inc.		7,260	23	
Ban Kee Trading, Inc.		14,952	4	
I-Remit Inc.		5,756	-	
Allied Bank Hong Kong			303	
	-	47,245,597	419,124	-
Designated at FVPL				
Peso Money Market Fund	7,160,584	4,342,134	4,444,290	23,958,284
Total Financial Assets at Fair Value through Profit or Loss	**13,334,071**	**52,849,802**	**6,352,015**	**24,033,780**

Name of Issuing Entity and Association of each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on bid prices on the balance sheet date	Income received and accrued
Held to Maturity Securities				
Government Securities				
Republic of the Philippines (ROP) Bonds		14,813,577	17,183,357	615,155
Fixed Rate Treasury Notes		2,737,693	3,514,068	162,653
Retail Treasury Bonds		2,885,515	3,115,347	136,550
Republic of Indonesia		248,600	257,045	11,773
Federal Reserve		5,081	5,081	
Federal Home Loan Mortgage Corp		22,374	22,443	136
Federal National Mortgage Association		77,066	77,138	385
Total Held to Maturity Securities	**-**	**20,789,906**	**24,174,479**	**926,652**

Name of Issuing Entity and Association of each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on bid prices on the balance sheet date	Income received and accrued
Available-for-Sale (AFS) Securities				
(Amounts in thousands, except for number of shares)				
Government Securities				
Republic of the Philippines (ROP) Treasury Bo		10,576,240	12,420,267	240,347
Power Sector Assets and Liabilities Managem		6,822,083	8,271,561	167,113
Fixed Rate Treasury Notes		5,735,460	5,976,102	331,985
Retail Treasury Bonds		3,897,745	4,001,636	146,924
Republic of Indonesia		2,794,438	3,025,131	288,534
Development Bank of the Philippines		2,172,217	2,394,652	25,891
PhilippineTreasury Bills		690,000	687,130	8,542
Singapore Treasury Bills		394,330	393,641	
Global Peso Notes		400,000	375,200	13,072
U.S. Treasury Bills		296,132	304,009	6,117
Bangko Sentral ng Pilipinas		163,658	221,010	4,086
Philippines - SGD		74,580	79,405	28
Treasury Gilts		66,961	67,352	2,038
Small Business Loan asset backed securities		278,531	32,661	644
Singapore Fixed Rate Treasury Notes		25,078	25,245	2
Republic of the Philippines (On-shore Dollar B			24,567	684
	-	**34,387,453**	**38,299,569**	**1,236,007**

Name of Issuing Entity and Association of each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on bid prices on the balance sheet date	Income received and accrued
Private Debt Securities				
International Container Terminal Services Inc.		4,365,615	4,555,829	293,043
SM Investments Corporation (SMIC)		2,470,362	2,524,618	49,033
Sinopec Corp		2,038,520	2,027,171	47,881
Banco De Oro		1,814,482	1,769,897	2,823
Filinvest Development Cayman Islands		1,731,996	1,755,915	64,150
First Pacific Company		1,544,253	1,582,134	46,234
Ayala Land Inc		1,473,390	1,481,245	29,214
Hutchison Whampoa Limited		1,342,440	1,377,482	18,636
First Gen Corporation		1,258,910	1,346,757	35,779
Energy Development Corp		1,217,488	1,341,487	47,408
Philippine Long Distance Telephone Company		1,174,337	1,185,422	19,575
Bank of China		894,960	915,033	26,090
Export-Import Bank of Korea		845,240	818,141	13,264
FPC Finance Limited		678,678	709,252	18,077
Standard Chartered Bank London		685,603	702,188	8,202
Rizal commercial Banking Corp		620,456	638,276	54,051
Metropolitan Bank & Trust Co.		567,100	550,602	30,397
Apple Inc		497,200	496,529	27,608
Filinvest Land Inc		460,440	477,212	29,053
Korea Development Bank		367,928	361,400	3,517
Hongkong & Shanghai Banking Corporation Fi		310,462	320,164	495
South Luzon Tollway Corporation		302,700	305,760	17,862
SM Prime Holdings, Inc.		261,534	269,109	11,327

continued

Name of Issuing Entity and Association of each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on bid prices on the balance sheet date	Income received and accrued
Sumitomo Bank Tokyo		248,600	248,207	5,991
Industrial & Commercial Bank of China		198,880	204,011	23,605
Westpac Bank Sydney		149,160	148,947	5,374
Security Bank Corp		119,328	123,761	6,670
Hongkong & Shanghai Banking Corporation H		103,487	110,804	12,688
BNPParibas		82,790	83,166	664
FPT Finance Limited		74,580	80,022	4,815
State Bank of India		74,580	76,195	24,099
Philippine Savings Bank		75,000	71,796	4,114
PNB Prime Peso Money Market		51,500	51,791	
Manila North Tollway Corporation Bonds		50,000	50,133	2,535
FPC Treasury Limited (FPC)		49,720	49,231	3,956
European Investment Bank		21,213	21,381	49
Petron Corporation		10,000	10,000	70
Aboitiz Power				598
Agricultural Bank Of China				6,565
Barclays Bank				20,511
China Construct Bank Asia				4,925
Deutsche Bank				12,216
JP Morgan Chase				17,210
Kookmin Bank				2,375
Lloyds Bank				2,753
	-	**28,232,932**	**28,841,068**	**1,055,502**

Name of Issuing Entity and Association of each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on bid prices on the balance sheet date	Income received and accrued
Equity Securities				
Allied Banker Insurance	200,000		20,000	
Apo Golf & Country Club	1		2	
Asean Finance	-		3,604	
Asia Pacific Rural & Agricultural Credit Assc	-		1,500	
Bacnotan Steel Industries	334,499,800		-	
Baguio City Country Club	1		1,500	
Bancnet, Inc.	49,999		5,000	
BAP Credit Guaranty	29,800		1,138	
Bulawan Mining Company	2,500,000		800	
Camp John Hay Golf Club	3		260	
Club Filipino	1		350	
Cruz Telephone Company	30		3	
Eagle Ridge Golf & Country Club	30		2,700	
Evercrest Golf Club-A	2		1,000	
Fairways & Bluewater Resort	294		20,580	
Heavenly Garden	5,000		500	
Iligan Golf & Country Club	1		1	
Lepanto Consolidated Mining Co."A"	4,972		-	
Lepanto Consolidated Mining Co."B"	1,775		-	
LGU Guarantee Corporation	50,000		10,000	
Manila Golf & Country Club, Inc. (Corp)	101		165,000	
Manila Polo Club	-		12,500	
Manila Southwoods Golf & Country Club	1		250	

continued

Name of Issuing Entity and Association of each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on bid prices on the balance sheet date	Income received and accrued
Manila Southwoods Golf Club	2		1,536	
Meralco	2,872		45,610	
Mimosa Golf & Country Club	1		400	
Mount Malarayat Gold & Country Club	17		1,350	
National Reinsurance Corp Common stock	1,000		1	
Northern Telephone Company	1,800		18	
Orchard Golf & Country Club-C	1		350	
PCDI Preferred Shares	175		39	
Philex Mining	151		-	
Philippine Central Depository Incorporated	3,855		3,502	
Philippine Clearing House	21,000		2,100	
Philippine Clearing House Corporation	-		2,100	
Philippine Columbian Association	2		-	
Philippine Dealing House	73,000		7,300	
Philippine Depository & Trust Corporation	24,436		2,392	
Philippine Long Distance Telephone Company	2,934		2,760	
Philippine Racing Club	30,331,103		298,930	
Philippines Electric Corporation Shares	202,440		95	
Philodril	695,625		8	
PICOP Resources	19,021,252		-	
PLDT Communication and Energy Venture	20		9	
PNB Management & Development Corporatic	313,879		1,933	
PNB Prime Peso Money Market	-		1,281	
Proton Chemical Industries Common Shares	44,419		-	

continued

Name of Issuing Entity and Association of each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on bid prices on the balance sheet date	Income received and accrued
PSE shares	17,820		4,259	
PT&T	5,000,000		-	
Pueblo de Oro Golf & Country Club	2		821	
Quezon City Sports Club	1		420	
Retelco	20		5	
Riviera Golf Shares "C"	4		180	
Santa Elena Golf & Country Club	1		2,800	
Sierra Grande Country	100		32	
Small Business Guarantee	400,000		16,000	
Southern Iloilo Telephone Company	20		2	
Sta. Elena Properties, Inc. "A"	4		12,400	
Subic Bay Yacht Club	58		3,480	
Tagaytay Highlands	1		550	
Tagaytay Midlands	1		500	
Ternate Dev't Corporation	-		170	
Valley Golf & Country Club	1		880	
Victorias Milling Corporation	-	-	-	-
Wack Wack Golf & Country Club	6		106,487	
	393,499,834	-	767,386	-
Total Available-for-Sale Securities	**393,499,834**	**62,620,385**	**67,908,023**	**2,291,509**

Name of Issuing Entity and Association of each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on bid prices on the balance sheet date	Income received and accrued
Loans and Receivables				
Government Securities				
Landbank of the Philippines	124,748	124,748	124,749	5,435
National Food Authority	256,869	256,859	276,183	17,337
Caticlan Super Marina	101,111	101,111	101,948	4,665
Home Guaranty Corporation	14,285	14,285	14,248	453
Home Development and Mutual Fund		57,846	57,846	1,661
	497,013	554,849	574,974	29,551
Private Securities				
Agricultural Bank of China Ltd HK	497,200	496,488	496,488	3,602
Bank of China Ltd Sydney	248,600	248,274	248,274	7,356
Bank of China HK	497,200	497,200	497,200	593
China Construction Bank HK	497,200	496,436	496,436	3,555
Industrial & Commercial Bank of China Sydne	497,200	496,455	496,455	6,031
Industrial & Commercial Bank of China	497,200	495,519	495,519	472
Steel Asia Manufacturing Corporation	4,255			
Pilipinas Hino Incorporated	6,988			
Golden Dragon Star Equities Inc./OPAL	-*			
Global Steel (NSC)	3,676,245			
	6,422,088	2,730,372	2,730,372	21,609
Total Loans and Receivables	**6,919,101**	**3,285,221**	**3,305,346**	**51,160**

*amount less than 1,000 pesos

For loans and receivables, refer to the Note 32 of the Consolidated Financial Statements.

LT GROUP, INC. AND SUBSIDIARIES
SCHEDULE B. – Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)
DECEMBER 31, 2016
(in thousands)

Name and Designation of Debtor	Balance at beginning of period	Additions	Amounts collected	Amounts written off	Current	Non-current	Balance at end of period
Related party:							
Tangent Holdings Corporation	-	320,000	-	-	320,000	-	320,000
	-	**320,000**	**-**	**-**	**320,000**	**-**	**320,000**

Other than the above related party, all amounts receivable from Directors, Officers, Employees, other Related Parties and Principal Stockholders pertained to purchases subject to usual terms, for ordinary travel and expense advances and for other such items arose in the ordinary course of business were excluded.

LT GROUP, INC. AND SUBSIDIARIES
SCHEDULE C. – Amounts Receivable from Related Parties which are eliminated during the consolidation of financial statements
DECEMBER 31, 2016
(in thousands)

Name and Designation of Debtor	Balance at beginning of period	Additions	Amounts collected	Amounts written off	Current	Non-current	Balance at end of period
Allmark Holdings Corp.	7,035	500	-	-	7,535	-	7,535
Caravan Holdings Corp.	12,830	-	-	-	12,830	-	12,830
Dunmore Development Corp.	2,840	-	-	-	2,840	-	2,840
Eton Properties Philippines, Inc.	659,965	656	-	-	660,621	-	660,621
Fil-Care Holdings, Inc.	11,550	1,380	-	-	12,930	-	12,930
Ivory Holdings, Inc.	8,245	700	-	-	8,945	-	8,945
Kenrock Holdings Corp.	12,230	1,880	-	-	14,110	-	14,110
Kentwood Development Corp.	3,850	200	-	-	4,050	-	4,050
La Vida Development Corp.	15,090	-	-	-	15,090	-	15,090
Leadway Holdings, Inc.	36,500	-	-	-	36,500	-	36,500
LT Group, Inc. (Parent)	525	-	-	-	525	-	525
Merit Holdings & Equities Corp.	175	-	-	-	175	-	175
Multiple Star Holdings Corp.	9,550	-	-	-	9,550	-	9,550
Philippine National Bank (PNB)		10,288	-	-	10,288	-	10,288
Pioneer Holdings Equities, Inc.	3,500	-	-	-	3,500	-	3,500
Society Holdings Corp.	7,590	2,010	-	-	9,600	-	9,600
Solar Holdings Corp.	20,300	-	-	-	20,300	-	20,300
Tanduay Brands International, Inc.	29,409	-	(29,409)	-	-	-	-
Tanduay Distillers, Inc.	58	502,530	-	-	502,588	-	502,588
Total Holdings, Corp.	1,970	-	-	-	1,970	-	1,970
	843,212	**520,144**	**(29,409)**	**-**	**1,333,947**	**-**	**1,333,947**

LT GROUP, INC. AND SUBSIDIARIES
SCHEDULE D. – Intangible Assets – Other Assets
DECEMBER 31, 2016
(in thousands)

Description	Beginning balance	Additions at cost	Charged to costs and expenses	Disposals	Other changes, additions (deductions)	Ending Balance
Goodwill	₱163,735	–	–	–	–	₱163,735
Software	1,131,041	420,205	(109,980)	–	6,756	1,448,022

Intangibles are presented in “Other noncurrent assets” in the consolidated balance sheets.

LT GROUP, INC. AND SUBSIDIARIES
SCHEDULE E. – Long term debts
DECEMBER 31, 2016
(in thousands)

Title of Issue and type of obligation	Amount authorized by indenture	Amount shown under caption “Short-term and long-term debt current” in related balance sheet	Amount shown under caption “Long-term debt net of current portion” in related balance sheet
1. Subordinated Debt		–	₱3,497,798
2. Unsecured term loan		–	1,604,003
3. Note payable		₱466,946	–

LT GROUP, INC. AND SUBSIDIARIES
SCHEDULE H - Capital Stock
DECEMBER 31, 2016

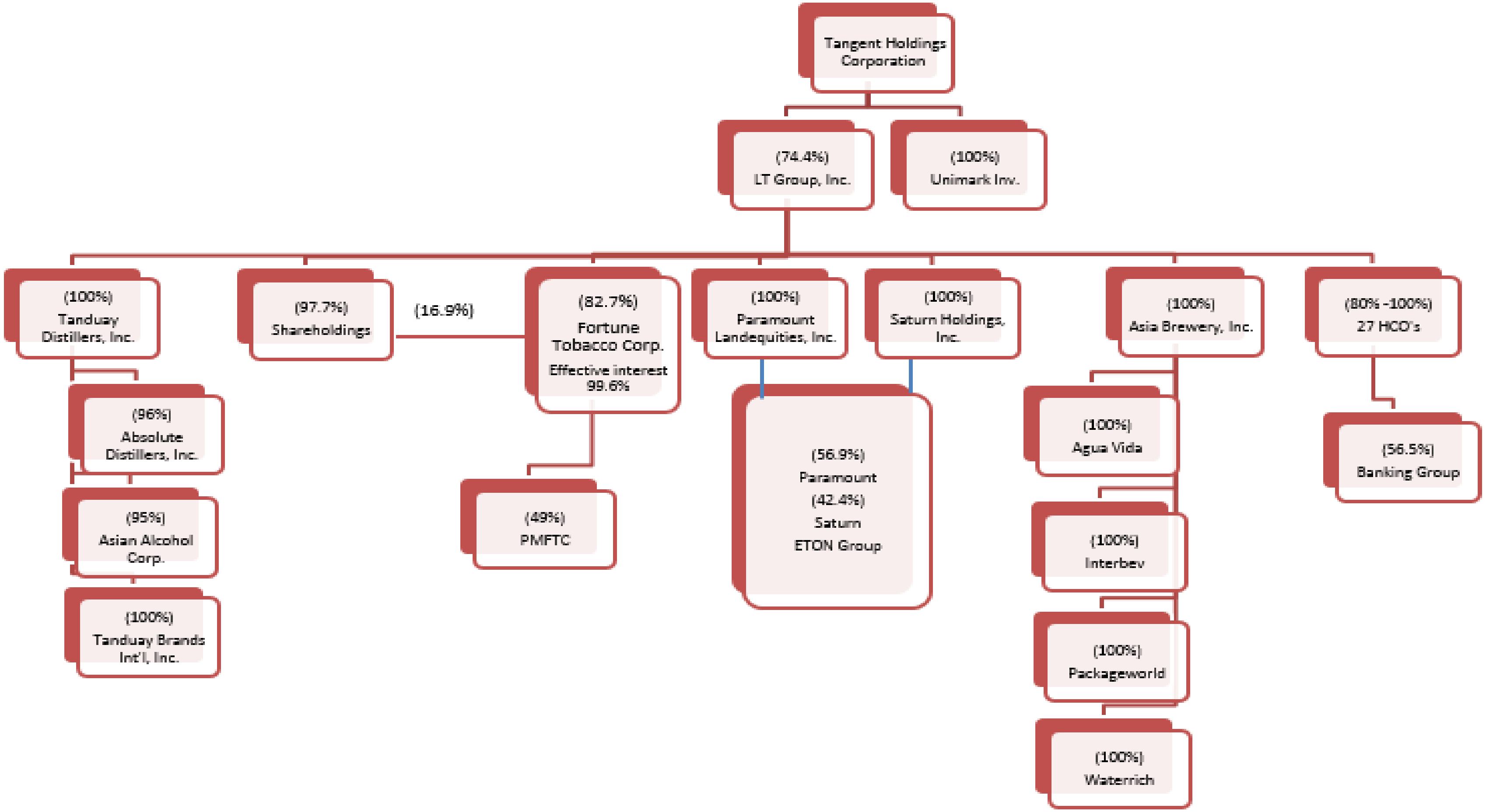
Title of Issue	Number of Shares Authorized	Number of Shares Issued And Outstanding as Shown under Related Balance Sheet caption	Number of shares Reserved for Options, Warrants, Conversions, and Other Rights	Number of shares Held by related Parties	Directors, Officers and Employees	Others
Common Stock	25,000,000,000	10,821,388,889	-	8,046,318,193	21,500	2,775,049,196

LT GROUP, INC.
SCHEDULE I - Reconciliation of Retained Earnings Available for Dividend Declaration
DECEMBER 31, 2016

Unappropriated retained earnings as of December 31, 2015, as adjusted to available for dividend declaration		**₱12,077,493,492**
Net income based on the face of audited financial statements	₱1,713,225,636	
Less: Non-actual/unrealized income net of tax		
Equity in net income of associate/joint venture	–	
Unrealized foreign exchange gain - net (except those attributable to cash and cash equivalents)	–	
Movement of deferred income tax assets	–	
Fair value adjustment (M2M gains)	38,901,692	
Fair value adjustment of Investment Property resulting to gain	–	
Adjustment due to deviation from PFRS/GAAP - gain	–	
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS	–	
Add: Non-actual losses		
Depreciation on revaluation increment (after tax)	–	
Adjustment due to deviation from PFRS/GAAP - loss	–	
Loss on fair value adjustment of investment property (after tax)	–	
Net income actual/realized		**1,674,323,944**
Adjustments:		
Appropriation of retained earnings during the year		**–**
Dividend declarations during the period		**(1,623,208,333)**
Reversal of appropriations during the year		**–**
Effects of prior year adjustments		**–**
Treasury shares		**–**
		51,115,611
RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION AS AT DECEMBER 31, 2016		**₱12,128,609,103**

Note: In accordance with Philippine SEC Financial Reporting Bulletin No. 14, the reconciliation is based on the separate/parent company financial statements of LT Group, Inc.

LT GROUP, INC. AND SUBSIDIARIES
SCHEDULE J – Relationships between & among the Group and its Parent
DECEMBER 31, 2016



LT GROUP, INC. AND SUBSIDIARIES
SCHEDULE K – List of all effective Standards and Interpretations under the Philippine Financial Reporting Standards (PFRS) effective as of DECEMBER 31, 2016

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS **Effective as of December 31, 2016**		**Adopted**	**Not Early Adopted**	**Not Applicable**
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
PFRSs Practice Statement Management Commentary		✓		
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	✓		
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
	Amendments to PFRS 2: Definition of Vesting Condition			✓
PFRS 3 (Revised)	Business Combinations	✓		
	Amendments to PFRS 3 : Accounting for Contingent Consideration in a Business Combination	✓		
	Amendments to PFRS 3 : Scope Exceptions for Joint Arrangements	✓		

**These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2016. The Company did not early adopt these standards, interpretations and amendments.*

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Early Adopted	Not Applicable
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓		
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	✓		
	Changes in Method of Disposal			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments Disclosures	✓		
	Amendments to PFRS 7: Transition	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments			✓
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✓		
	Amendments to PFRS 7: Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements	✓		
	Amendments to PFRS 7: Servicing Contracts*		✓	
PFRS 8	Operating Segments	✓		
	Amendments to PFRS 8 : Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Asset	✓		
PFRS 9	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✓		
	Financial Instruments (2014 version)*		✓	

**These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2016. The Company did not early adopt these standards, interpretations and amendments.*

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		**Adopted**	**Not Early Adopted**	**Not Applicable**
PFRS 10	Consolidated Financial Statements	✓		
	Amendments to PFRS 10: Transition Guidance	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities	✓		
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*		✓	
	Amendments to PFRS 10, PFRS 12 and PAS 28, Investment Entities: Applying the Consolidation Exception	✓		
PFRS 11	Joint Arrangements	✓		
	Amendments to PFRS 11: Transition Guidance	✓		
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations*		✓	
PFRS 12	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 12: Transition Guidance	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 28, Investment Entities: Applying the Consolidation Exception	✓		
PFRS 13	Fair Value Measurement	✓		
	Amendments to PFRS 13 : Portfolio Exception			✓
PFRS 14	Regulatory Deferral Accounts*		✓	
IFRS 15	Revenue from Contracts with Customers*		✓	
IFRS 16	Leases*		✓	
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendment to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendment to PAS 1: Disclosure Initiative	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		

**These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2016. The Company did not early adopt these standards, interpretations and amendments.*

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		**Adopted**	**Not Early Adopted**	**Not Applicable**
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 11	Construction Contracts	✓		
PAS 12	Income Taxes	✓		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✓		
PAS 16	Property, Plant and Equipment	✓		
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization*		✓	
	Amendments to PAS 16 and PAS 41: Bearer Plants		✓	
PAS 17	Leases	3		
PAS 18	Revenue	3		
PAS 19 (Revised)	Employee Benefits	3		
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures	3		
	Regional Market Issue Regarding Discount Rate*		✓	
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation	✓		
PAS 23 (Revised)	Borrowing Costs	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans	✓		

**These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2016. The Company did not early adopt these standards, interpretations and amendments.*

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Early Adopted	Not Applicable
PAS 27 (Amended)	Separate Financial Statements	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities	✓		
	Amendment: Equity Method in Separate Financial Statements*		✓	
PAS 28 (Amended)	Investments in Associates and Joint Ventures	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 28, Investment Entities: Applying the Consolidation Exception			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendment to PAS 32: Classification of Rights Issues	✓		
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting	✓		
	Amendments to PAS 34 : Interim Financial Reporting and Segment Information for Total Assets and Liabilities*		✓	
PAS 36	Impairment of Assets	✓		
	Amendment to PAS 36: Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		

**These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2016. The Company did not early adopt these standards, interpretations and amendments.*

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Early Adopted	Not Applicable
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives	✓		
	Amendment to PAS 39: Eligible Hedged Items	✓		
	Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting	✓		
PAS 40	Investment Property	✓		
PAS 41	Agriculture			✓
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities	✓		
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	✓		
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓

**These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2016. The Company did not early adopt these standards, interpretations and amendments.*

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Early Adopted	Not Applicable
IFRIC 8	Scope of PFRS 2			✓
IFRIC 9	Reassessment of Embedded Derivatives	✓		
	Amendments to Philippine Interpretation IFRIC - 9 and PAS 39: Embedded Derivatives	✓		
IFRIC 10	*Interim Financial Reporting and Impairment*	✓		
IFRIC 11	PFRS 2- Group and Treasury Share Transactions			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement			✓
IFRIC 15	Agreements for the Construction of Real Estate*	✓		
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners	✓		
IFRIC 18	Transfers of Assets from Customers	✓		
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	✓		
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine		✓	
IFRIC 21	Levies	✓		
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-15	Operating Leases - Incentives	✓		
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders	✓		
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs	✓		

**These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2016. The Company did not early adopt these standards, interpretations and amendments.*

LT GROUP, INC. AND SUBSIDIARIES
SCHEDULE L – Index to Exhibits
SEC FORM 17-A

		Page
(1)	Publication of Notice re: Filing	*
(2)	Underwriting Agreement	*
(3)	Plan of Acquisition, Reorganization, Arrangement, Liquidation or Succession	*
(4)	Articles of Incorporation and By-laws	*
(5)	Instruments Defining The Rights of Security Holders, Including Indentures	*
(6)	Opinion Re: Legality	*
(7)	Opinion Re: Tax Matters	*
(8)	Voting Trust Agreement	*
(9)	Material Contracts	*
(10)	Annual Report to Security Holders, FORM 17-Q or Quarterly Reports To Security Holders	*
(11)	Material Foreign Patents	*
(12)	Letter Re: Unaudited Interim Financial Information	*
(13)	Letter Re: Change in Certifying Accountant	*
(14)	Letter Re: Director Resignation	*
(15)	Letter Re: Change In Accounting Principles	*
(16)	Report Furnished To Security Holders	*
(17)	Other Documents Or Statements To Security Holders	*
(18)	Subsidiaries Of The Registrant	279
(19)	Published Report Regarding Matters Submitted To Vote Of Security Holders	*
(20)	Consents Of Experts and Independent Counsel	*
(21)	Power of Attorney	*
(22)	Statement Of Eligibility Of Trustee	*
(23)	Exhibits to be Filed With Bond Issues	*
(24)	Exhibits to be Filed With Stock Options Issues	*
(25)	Exhibits to be Filed by Investment Companies	*
(26)	Copy of Board of Investment Certificate in the case of Board of Investment Registered Companies	*
(27)	Authorization to Commission to Access Registrant’s Bank Accounts	*
(28)	Additional Exhibits	280
(29)	Copy of the Board Resolution approving the securities offering and authorizing the filing of the registration statement	*
(30)	Duly verified resolution of the issuer’s Board of Directors	*

These exhibits are either not applicable to the Group or require no answer.

EXHIBIT 18 Subsidiaries of the Registrant

LT GROUP, Inc. has the following subsidiaries as of December 31, 2016:

Distilled Spirits	Jurisdiction
1. TDI and subsidiaries	Philippines
a. Absolut Distillers, Inc.	
b. Asian Alcohol Corp	
c. Tanduay Brands Int'l Inc.	

Beverages

ABI and subsidiaries	Philippines
a. Agua Vida Systems, Inc.	
b. Interbev Philippines, Inc.	
c. Waterich Resources Corporation	
d. Packageworld, Inc.	
e. AB Nutribev, Inc.	
f. Asia Pacific Beverage Pte. Ltd.	

Tobacco

Fortune Tobacco Corp.	Philippines

Banking

a. PNB and subsidiaries (see page 7)	Philippines
b. Bank Holding Companies (see page 8)	Philippines

Property Development

a. Saturn	Philippines
b. Paramount	Philippines
1. Eton	Philippines
i. Belton Communities, Inc. (BCI)	
ii. Eton City, Inc. (ECI)	
iii. FirstHomes, Inc. (FHI)	

EXHIBIT 28. Additional Exhibits - Other Documents to be filed with the Consolidated Financial Statements

I. FINANCIAL SOUNDNESS INDICATORS

	2016	**2015**
Current Ratio	0.70	0.75
Debt to Equity Ratio	3.64	3.42
Asset to Equity Ratio	4.64	4.42
Interest Rate Coverage Ratio	80.99	76.10
Solvency Ratio	1.88	0.75
Profitability Ratios:		
Profit Margin	0.16	0.13
Return on Asset (ROA)	0.013	0.009
Return on Equity (ROE)	0.069	0.051

COVER SHEET

PW343
S.E.C. Registration Number

LT GROUP, INC.

(Company's Full Name)

11TH FLOOR UNIT 3, BENCH TOWER
30TH STREET COR. RIZAL DRIVE,
CRESCENT PARK WEST 5,
BONIFACIO GLOBAL CITY, TAGUIG
CITY

(Business Address: No. Street City / Town / Province)

MA. CECILIA L. PESAYCO
Contact Persons

816-3451 loc. 3453
Company Telephone Number

12 **31**
Month Day
Fiscal Year

ACGR
SEC FORM

FIRST WEDNESDAY OF MAY
Month Day
Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

Remarks = pls. use black ink for scanning purposes

SECURITIES AND EXCHANGE COMMISSION

SEC FORM – ACGR

ANNUAL CORPORATE GOVERNANCE REPORT

1. Report is Filed for the Year 2016

2. Exact Name of Registrant as Specified in its Charter **LT GROUP, INC.**

3. 11^{TH} FLOOR, UNIT 3 BENCH TOWER, 30^{TH} CORNER RIZAL DR., BGC TAGUIG CITY 1634
   Address of Principal Office — Postal Code

4. SEC Identification Number PW-343

5. (SEC Use Only)
   Industry Classification Code

6. BIR Tax Identification Number 121-145-650-000

7. (632) 816 3311 local 3453
   Issuer's Telephone number, including area code

8. **N/A**
   Former name or former address, if changed from the last report

TABLE OF CONTENTS

A. BOARD MATTERS

1) Board of Directors

Number of Directors per Articles of Incorporation	**Thirteen (13)**

Actual number of Directors for the year	**Thirteen (13)**

(a) Composition of the Board

Complete the table with information on the Board of Directors:

Director's Name	Type [Executive (ED), Non-Executive (NED) or Independent Director (ID)]	If nominee, identify the principal	Nominator in the last election (if ID, state the relationship with the nominator)	Date first elected	Date last elected (if ID, state the number of years served as ID)	Elected when (Annual /Special Meeting)	No. of years served as director
Lucio C. Tan	ED	N/A	Nomination Committee	07/02/99	06/21/16	Annual Meeting	18
Carmen K. Tan	NED	N/A	Nomination Committee	05/05/10	06/21/16	Annual Meeting	7
Harry C. Tan	NED	N/A	Nomination Committee	05/28/08	06/21/16	Annual Meeting	9
Michael G. Tan	ED	N/A	Nomination Committee	02/21/03	06/21/16	Annual Meeting	14
Lucio K. Tan, Jr.	NED	N/A	Nomination Committee	02/21/03	06/21/16	Annual Meeting	14
Juanita Tan Lee	ED	N/A	Nomination Committee	05/02/12	06/21/16	Annual Meeting	5
Joseph T. Chua	NED	N/A	Nomination Committee	06/09/14	06/21/16	Annual Meeting	3
Peter Y. Ong	NED	N/A	Nomination Committee	06/09/14	06/21/16	Annual Meeting	3
Washington Z. SyCip	NED	N/A	Nomination Committee	07/09/13	06/21/16	Annual Meeting	4
Antonino L. Alindogan, Jr.	ID	N/A	Dr. Lucio C. Tan and Ms. Juanita Tan Lee; Mr. Tan and Ms. Tan Lee have no relationship with Mr. Alindogan	07/31/12	06/21/16	Annual Meeting	5
Wilfrido E. Sanchez	ID	N/A	Dr. Lucio C. Tan and Ms. Juanita Tan Lee; Mr. Tan and Ms. Tan Lee have no relationship with Mr. Sanchez	07/31/12	06/21/16	Annual Meeting	5

Florencia G. Tarriela	ID	N/A	Dr. Lucio C. Tan and Ms. Juanita Tan Lee; Mr. Tan and Ms. Tan Lee have no relationship with Ms. Tarriela	08/09/12	06/21/16	Annual Meeting	5
Robin C. Sy	ID	N/A	Dr. Lucio C. Tan and Ms. Juanita Tan Lee; Mr. Tan and Ms. Tan Lee have no relationship with Mr. Sy	06/09/14	06/21/16	Annual Meeting	3

(b) Provide a brief summary of the corporate governance policy that the board of directors has adopted. Please emphasize the policy/ies relative to the treatment of all shareholders, respect for the rights of minority shareholders and of other stakeholders, disclosure duties, and board responsibilities.

Compliance with the principles of good corporate governance is primary in the consciousness of each member of the Board of Directors and Management.

In the center of the Company's policies on corporate governance is its Board commitment to observe a high standard of ethical conduct in all its activities, with emphasis on integrity, excellence, transparency, loyalty and a sense of good corporate citizenry. The key principles of its corporate governance include:

- ***The oversight responsibility of the Board of Directors, i.e., ensuring that the Company is appropriately and effectively managed and controlled by providing strategic guidance and effectively monitoring of the performance of Management. The Board is fully aware of its accountability to the Company and the stakeholders.***

- ***The timely and accurate disclosure of all material matters regarding the Company, including the financial situation, performance, ownership and governance of the Company.***

- ***The existence of independent audit mechanisms for monitoring the adequacy and effectiveness of the Company's governance, operations, information systems. The reliability and integrity of financial and operational information, effectiveness and efficiency of operations, security of assets, and compliance with laws, rules, regulations and contracts are reviewed and regularly passed upon by the Audit Committee.***

- ***The recognition and respect for the rights of stakeholders as established by law. There is an active cooperation between the Company and its stakeholders in creating wealth, jobs and sustainability of the Company's financial soundness.***

Further the Company's Corporate Governance Code commits to the following rights of the stockholders:

1. ***Voting Right***
   Shareholders shall have the right to elect, remove and replace directors and vote on certain corporate acts in accordance with the Corporation Code. A director shall not be removed without reasonable cause if it will deny minority shareholders representation in the Board.

2. ***Power of Inspection***
All shareholders shall be allowed to inspect corporate books and records including minutes of Board meetings and stock registries in accordance with the Corporation Code and will be furnished with annual reports, including financial statements, without cost or restrictions.

3. ***Right to Information***
The minority shareholders shall be granted the right to propose the holding of a meeting, and the rights to propose items in the agenda of the meeting, provided the items are for legitimate business purposes. The minority shareholders shall be furnished with relevant information as required by law about the Company on a timely and regular basis.

4. ***Right to Dividends***
Shareholders shall have the right to receive dividends subject to the discretion of the Board. The Company shall be compelled to declare dividends when its retained earnings shall be in excess of 100% of its paid-in capital stock, except in cases provided under the Company's Corporate Governance Manual.

5. ***Appraisal Right***
The shareholders shall have an appraisal right or the right to dissent and demand payment of the fair value of their shares under any of the circumstances set forth in Section 81 of the Corporation Code of the Philippines, and in the manner provided for under Section 82 of the said Code.

Likewise it is the duty of Directors to the Company's Shareholders that—

- ***The Board is transparent and fair in the conduct of the annual and special stockholders' meetings of the Company. The stockholders are encouraged to personally attend such meetings and are apprised ahead of time of their right to appoint a proxy.***

- ***The Board promotes shareholder rights, remove impediments to the exercise of shareholders' rights and provide adequate avenue for them to seek redress for breach of their rights.***

- ***The Board is instrumental in removing excessive costs and other administrative or practical impediments to shareholders participating in meetings and/or voting in person. Accurate and timely information should be made available to the stockholders to enable them to make a sound judgment on all matters brought to their attention for consideration or approval.***

(c) How often does the Board review and approve the vision and mission?

The Board reviews and approves the vision and mission of the Company annually. During its meeting held on March 14, 2017 the Board reviewed and reiterated the Vision and Mission statements of the Company with the following amendments in the Mission statement of the Company:

MISSION: Anchored to its Vision, the LT Group commits:
To increase stockholder values through long term growth in its major business groups.
To continuously improve the value of its products and services and to provide consumers with more and better choices.
To build the largest, most effective distribution network and widest customer reach in the Philippines.
To leverage on synergies between its various businesses to continuously improve revenues and cost structure.
To enhance the welfare of our employees and the communities where we live and work.

(d) Directorship in Other Companies

(i) Directorship in the Company's Group[1]

Identify, as and if applicable, the members of the company's Board of Directors who hold the office of director in other companies within its Group:

Director's Name	Corporate Name of the Group Company*	Type of Directorship (Executive, Non-Executive, Independent). Indicate if director is also the Chairman.
Lucio C. Tan	Asia Brewery, Inc., Eton Properties Philippines, Inc., Eton City, Inc., Belton Communities, Inc., FirstHomes, Inc., Fortune Tobacco Corporation, PMFTC, Inc., Tanduay Distillers, Inc., Absolut Distillers, Inc., Tangent Holdings Corporation and Shareholdings, Inc.	Chairman
	Philippine National Bank	Non-Executive Director
Carmen K. Tan	Asia Brewery Inc., Eton City, Inc., Fortune Tobacco Corporation, PMFTC, Inc., Tanduay Distillers, Inc., Tangent Holdings Corporation and Shareholdings, Inc.	Non-Executive Director
Harry C. Tan	Asia Brewery Inc., AlliedBankers Insurance Corp., Absolut Distillers, Inc., Eton Properties Philippines, Inc., FirstHomes, Inc., Belton Communities, Inc., PMFTC Inc., Philippine National Bank, Shareholdings, Inc., and Tanduay Distillers, Inc.	Non-Executive Director
Michael G. Tan	Asia Brewery, Inc.	President/Chief Operating Officer
	AlliedBankers Insurance Corp., Eton Properties Philippines, Inc., PMFTC Inc., Philippine National Bank, Absolut Distillers, Inc., Eton City, Inc., Shareholdings, Inc., and Victorias Milling Company, Inc., Tanduay Distillers, Inc.	Non-Executive Director
Lucio K. Tan, Jr.	Tanduay Distillers, Inc. and Eton Properties Philippines, Inc.	President
	Fortune Tobacco Corporation	Director/EVP
	AlliedBankers Insurance Corp., Philippine National Bank, PMFTC Inc., Absolut Distillers, Inc., Asia Brewery, Inc., Eton City, Inc., Belton Communities, Inc., FirstHomes, Inc., Shareholdings, Inc. and	Non-Executive Director

[1] The Group is composed of the parent, subsidiaries, associates and joint ventures of the Company.

	Victorias Milling Company, Inc.	
Joseph T. Chua	Eton Properties Philippines, Inc.;	Director/OIC
	Philippine National Bank, Asia Brewery Inc., Tanduay Distillers, Inc.	Board of Advisor
Juanita Tan Lee	Fortune Tobacco Corp., and Shareholdings, Inc.,	Director and Corporate Secretary
	Eton Properties Philippines, Inc., Asia Brewery, Inc.	Non-Executive Director
Washington Z. SyCip	Philippine National Bank Eton Properties Philippines, Inc.	Non-Executive Director
Peter Y. Ong	Fortune Tobacco Corporation, AlliedBankers Insurance Corporation, Allied Leasing and Finance Corporation	Non-Executive Director
Antonino L. Alindogan, Jr.	Eton Properties Philippines, Inc., Asia Brewery Inc., Tanduay Distillers, Inc.	Independent Director
Wilfrido E. Sanchez	Eton Properties Philippines, Inc., Asia Brewery Inc., Tanduay Distillers, Inc.	Independent Director
Florencia G. Tarriela	Philippine National Bank	Chairman/Independent Director

* As of March 16, 2017

(ii) Directorship in Other Listed Companies

Identify, as and if applicable, the members of the company's Board of Directors who are also directors of publicly-listed companies outside of its Group:

Director's Name	Name of Listed Company*	Type of Directorship (Executive, Non-Executive, Independent). Indicate if director is also the Chairman
Lucio C. Tan	PAL Holdings, Inc. MacroAsia Corporation	Chairman Chairman
Carmen K. Tan	PAL Holdings, Inc. MacroAsia Corporation	Non-Executive Director
Harry C. Tan	MacroAsia Corporation	Non-Executive Director
Michael G. Tan	PAL Holdings, Inc. MacroAsia Corporation	Director/Treasurer Non-Executive Director
Lucio K. Tan, Jr.	PAL Holdings, Inc. MacroAsia Corporation.	Non-Executive Director Non-Executive Director
Joseph T. Chua	PAL Holdings, Inc. MacroAsia Corporation	President/CEO Non-Executive Director
Washington Z. SyCip	PAL Holdings, Inc. MacroAsia Corporation Belle Corporation Lopez Holdings Corp. Metro Pacific Investments Corp. Century Properties Group Inc.	Non-Executive Director Chairman of the Board Independent Director Independent Director Independent Director Non-Executive Director
Antonino L. Alindogan, Jr.	PAL Holdings, Inc.	Independent Director

Wilfrido E. Sanchez	House of Investments, Inc. Rizal Commercial Banking Corp.	Non-Executive Director Non-Executive Director

* As of December 31, 2016

(iii) Relationship within the Company and its Group

Provide details, as and if applicable, of any relation among the members of the Board of Directors, which links them to significant shareholders in the company and/or in its group:

Dr. Lucio C. Tan is the majority shareholder of Tangent Holdings Corporation, which is the controlling corporate shareholder of the Company. Dr. Lucio C. Tan, the Chairman of the Company's Board of Directors, is the brother of Mr. Harry C. Tan. He is also the father of Mr. Lucio K. Tan, Jr. and Mr. Michael G. Tan. Ms. Carmen K. Tan is the wife of Dr. Lucio C. Tan and mother of Mr. Lucio K. Tan, Jr.

(iv) Has the company set a limit on the number of board seats in other companies (publicly listed, ordinary and companies with secondary license) that an individual director or CEO may hold simultaneously? In particular, is the limit of five board seats in other publicly listed companies imposed and observed? If yes, briefly describe other guidelines:

The Company observes the limit of five board seats in other publicly listed companies outside its Group for its Independent Directors and Executive Directors.

The By-Laws of the Company likewise disallows the nomination and election to the Board of Directors of any person who is engaged in any commercial venture or undertaking which is in competition with the business of the Company or any of its subsidiaries.

(e) Shareholding in the Company

Complete the following table on the members of the company's Board of Directors who directly and indirectly own shares in the company:

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

2) Chairman and CEO

(a) Do different persons assume the role of Chairman of the Board of Directors and CEO? If no, describe the checks and balances laid down to ensure that the Board gets the benefit of independent views.

Yes ☐ No **X**

Identify the Chair and CEO:

Chairman of the Board	Dr. Lucio C. Tan
CEO	Dr. Lucio C. Tan

The Company's By-Laws provide that the Chairman of the Board of Directors shall also be the Company's Chief Executive Officer and shall exercise such other powers and perform such other duties as the Board may assign to him.

The officer responsible though for the general charge and supervision of the business of the Company is the President, who is also the Chief Operating Officer. The President/COO may sign all authorized bonds, contracts or obligations in the name of the Company, and, together with the Corporate Secretary or any other director, may sign the certificates of shares in the capital stock of the Company. When so required by the Board, the President/COO is responsible for reporting thereto the affairs of the Company.

(b) Roles, Accountabilities and Deliverables

Define and clarify the roles, accountabilities and deliverables of the Chairman and CEO.

The Company's Chairman of the Board is likewise its Chief Executive Officer. The President/Chief Operating Officer of the Company takes on the role of the Company's officer-in-charge with respect to day-to-day operations.

	Chairman	Chief Operating Officer
Role	Presides over the meetings of the Board of directors and the meetings of the shareholders.	Head of the Management team and is primarily accountable for achieving the Company's business objectives.
Accountabilities	The proper conduct of meetings of the Board of Directors and exercise of the powers of the Company.	The Company's day-to-day operations and business direction.
Deliverables	To exercise such powers and to perform duties as the Board of Directors may assign to him	Manages the Company's day-to-day operations, sets overall business directions and strategic plans; Represents the Company in interaction with shareholders and other major stakeholders; Implements major corporate initiatives as approved by the Shareholders and the Board of Directors and reports back to these bodies; Responsible for strategic planning for the Company, to initiate growth and profitability Hires and dismisses employees at the management level, except officers elected by the shareholders or by the Board of Directors;

		From time to time, make such reports of the affairs of the Company as the Board of Directors may require and shall annually present a report of the preceding year's business at a Board meeting immediately preceding the annual meeting of the stockholders; Delegates duties to deputies and determines the scope of their authority; and Issue orders and implements transactions within his authority

3) Explain how the board of directors plans for the succession of the CEO/Managing Director/President and the top key management positions?

The By-Laws of the Company state that all officers shall be elected by and hold office at the pleasure only of the Board of Directors. Thus, succession of officers shall entirely depend on the discretion of the present members of the Board, taking into consideration the principles of good corporate governance.

4) Other Executive, Non-Executive and Independent Directors

Does the company have a policy of ensuring diversity of experience and background of directors in the board? Please explain.

Yes. The Nomination Committee evaluates the qualifications of the Directors and observes the policy of nominating individuals who are experienced and knowledgeable about the different sectors of the Group, like banking, tobacco, liquor, real estate and beverage companies. One of the qualifications of a Director is he/she must be a holder of a "Bachelor's degree or equivalent experience in managing the business as gained from the profession and/or industry". Moreover the Committee considered not only the diverse work experience, and education but likewise consciously voted to the Board women directors with excellent work experience and expertise.

Does it ensure that at least one non-executive director has an experience in the sector or industry the company belongs to? Please explain.

Yes. As an example, the Company's Audit and Risk Management Committee necessitates members with accounting and finance expertise or experience. The Board ensures the presence of directors, particularly Independent Directors, sitting in the Board with accounting and finance background, among others. As a matter of policy, the Chairman of the Audit and Risk Management Committee is a former banker and has extensive experience in banking and finance.

Define and clarify the roles, accountabilities and deliverables of the Executive, Non-Executive and Independent Directors:

	Executive	Non-Executive	Independent Director
Role	Directly exercise and manages the day-to-day operations of the respective positions in the company.	Exercise powers of the Company by approving, ratifying and confirming business acts of Management	Exercise powers of the Company by approving, ratifying and confirming business acts of Management. Further as an independent director it is their role to weigh

			corporate acts against interests of minority shareholders who are minimally represented in the Board
Accountabilities	Accountable to the shareholders and the public investors	Accountable to the shareholders and the public investors	Accountable to the shareholders and the public investors
Deliverables	Secure the profitability and growth of the company, the efficient execution of projects and undertakings.	Reviews and approves acts and/or proposals of Management during Board meetings	Checks and balances the interests of the Board and major shareholders vis-à-vis that of the public and other stakeholders of the Company

Provide the company's definition of "independence" and describe the company's compliance to the definition.

Independence is having no ties with the Company's management and freedom from any business or other relationships which could, or could reasonably be perceived to, materially interfere with the exercise of independent judgment in carrying out one's responsibilities as a director of the Company. The Nomination Committee reviews and validates the resume, business and professional affiliations of the independent directors and ensures that the nominees are best qualified to the position.

Does the company have a term limit of five consecutive years for independent directors? If after two years, the company wishes to bring back an independent director who had served for five years, does it limit the term for no more than four additional years? Please explain.

The Company observes the term limit for Independent Directors, in accordance with SEC Memorandum Circular No. 9, Series of 2011.

5) Changes in the Board of Directors (Executive, Non-Executive and Independent Directors)

(a) Resignation/Death/Removal

Indicate any changes in the composition of the Board of Directors that happened during the period:

Not Applicable

(b) Selection/Appointment, Re-election, Disqualification, Removal, Reinstatement and Suspension

Describe the procedures for the selection/appointment, re-election, disqualification, removal, reinstatement and suspension of the members of the Board of Directors. Provide details of the processes adopted (including the frequency of election) and the criteria employed in each procedure:

Procedure	Process Adopted	Criteria
a. Selection/Appointment		
(i) Executive Directors	The Nomination Committee shall meet prior to the Annual Shareholders' Meeting (ASM) to discuss the qualifications of nominees for election to the Board of Directors. According to the By-Laws, no director shall be nominated/elected at	Qualifications: Bona fide holder of at least one thousand (1,000) shares of the capital stock of the Company;

	a regular/special shareholders' meeting unless his/her name has been submitted to the Corporate Secretary by a stockholder proposing the same at least fifty (50) business days prior to the meeting, which notice shall be duly signed by both the proponent stockholder and the nominee signifying his/her consent thereto. The Committee shall prepare a list of all qualified nominees and report the same to the Board for its approval. At least forty five (45) days before the ASM, the Committee shall prepare a Final List of candidates which shall contain all the information about the nominees, and which list shall be made available to the Commission and to all stockholders through the filing and distribution of the Information Sheet, in accordance with Rule 20 of the Securities Regulation Code. During the ASM, the shareholders of the Company shall elect members of the Board of Directors, choosing from the final list of the candidates. The term of office of Directors shall begin immediately after election. Executive Directors will be elected by the new Board immediately after the ASM wherein which the new Board was elected.	He/She shall at least be a College graduate or have sufficient experience and/or understanding in managing a business such as that of the Company to substitute for such formal education; He/She shall at least be twenty-one (21) years old; He/She shall have proven to possess integrity and probity; He/She is a member in good standing of relevant industry, business or professional organizations; He/She shall have attended a seminar on corporate governance with a duly-accredited or recognized private or government institution and submitted a copy of his/her certificate of attendance to the Compliance Officer.
(ii) Non-Executive Directors	Same process as described above	Same Criteria as above
(iii) Independent Directors	Same process as described above. Only nominees whose names appear on the Final List of Candidates shall be eligible for election as independent	In addition to the qualifications for Executive and Non-executive Directors, an Independent Director must also be one who:

	director/s. No other nomination shall be entertained after the Final List of Candidates shall have been prepared. No further nomination shall be entertained or allowed on the floor during the ASM.	1. is not a director or officer or substantial stockholder of the Company or of its related companies or any of its substantial shareholders, except when he/she is an independent director in any of the foregoing; 2. does not own more than two percent (2%) of the shares of the Company and/or its related companies or any of its substantial shareholders; 3. is not related to any director, officer, or substantial shareholder of the Company or any of the related companies or substantial shareholders of the Company. For this purpose, relatives include spouse, parent, child, brother, sister, and the spouse of such child, brother or sister; 4. is not acting as a nominee or representative of any director or substantial shareholder of the Company, and/or any of its related companies, and/or any of its related shareholders pursuant to a Deed of Trust or under any contract or arrangement; 5. has not been employed in any executive capacity by the Company, any of its related companies and/or by any of its substantial shareholders within the last five (5) years; 6. is not retained, either personally or through his/her firm or any similar entity, as a professional adviser of the Company, or any of its related companies and/or any of its substantial

		shareholders in the last five (5) years; 7. has not engaged and does not engage in any transaction with the Company and/or with any of its related companies and/or with any of its substantial shareholders, whether by himself/herself and/or with other persons and/or through a firm of which he/she is a partner and/or a company of which he/she is a director or substantial shareholder, other than transactions which are conducted at arms length and are immaterial or insignificant; and 8. may hereafter be considered as an Independent Director under applicable laws, statutes, or rules and regulations of the SEC.
b. Re-appointment		
(i) Executive Directors	The process of Selection/Appointment is repeated for the next term of the Executive Director.	Same criteria as Selection/Appointment
(ii) Non-Executive Directors	The process of Selection/Appointment is repeated for the next term of the Non-Executive Director.	Same criteria as Selection/Appointment
(iii) Independent Directors	The process of Selection/Appointment is repeated for the next term of the Independent Director.	Same criteria as Selection/Appointment
c. Permanent Disqualification		
(i) Executive Directors (ii) Non-Executive Directors (iii) Independent Directors	A Director who, during his/her term in office, becomes permanently disqualified based on the criteria laid down by the Company's Corporate Governance Manual, shall be removed from office after credible proof has been	See immediate succeeding row on Criteria for Disqualification

	presented to the Board that the said Director does possess such disqualification.	

Criteria for Disqualification:

- Any person convicted by final judgment or order by a competent juridical or administrative body of any crime that: a.) involves the purchase or sale of securities, as defined in the SRC; b.) arises out of the person's conduct as an underwriter, broker, dealer, investment adviser, principal distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or flood broker; c.) arises out of his fiduciary relationship with a bank, quasi-bank, trust company, investment house or an affiliated person or any of them;

- Any person who, by reason of misconduct, after hearing, is permanently enjoined by a final judgment or order of the Commission or any court or administrative body of competent jurisdiction from: a. acting as underwriter, broker, dealer, investment adviser, principal distributor, mutual fund dealer, futures commission merchant, commodity trading advisor or flood broker; b. acting as director or officer of a bank, quasi-bank, trust company, investment house or investment company; c. engaging in or continuing an conduct or practice in any of the capacities mentioned in the sub-paragraphs a. and b. or willfully violating the laws that govern securities and banking activities;

- Any person who has been restrained to engage in activity involving securities and banking;

- Any person who is currently the subject of an effective order of the Commission or any court or any administrative body denying, revoking or suspending any registration, license or permit issued to him under the Corporation Code, Securities Regulation Code or any other law administered by the Commission or Bangko Sentral ng Pilipinas (BSP), or under any rule or regulation issued by the Commission or BSP;

- Any person convicted by final judgment or order by a competent juridical or administrative body of an offense involving moral turpitude or fraudulent act or transgressions;

- Any person finally found guilty by the Commission or court or regulating bodies to have willfully violated, or willfully aided, abetted, counseled, induced or procured the violation of, any provision of the Securities Regulation Code, the Corporation

- Code, or any other law administered by the Commission or BSP or any rule, regulation or order issued by the Commission or BSP;

- Any person currently the subject of an effective order of a self-regulatory organization, suspending or expelling him from membership, participation or association with a member or participant of the organization;

- Any person earlier elected as independent director who becomes an officer, employee or consultant of the Company;

- Any person finally found guilty by foreign court or financial regulatory counterparts of the Philippines of acts, violations, or misconduct listed in the foregoing paragraphs;

- Any person judicially declared to be insolvent; and

- Any person finally convicted of an offence punishable by imprisonment of more than six (6) years, or violation of the Corporation Code, committed within five (5) years prior to the date of his/her election or appointment.

d. Temporary Disqualification		
(i) Executive Directors	A temporarily disqualified Director shall within sixty (60) days from such disqualification, take the appropriate action to remedy or correct the disqualification. If he/she fails or refuses to do so for unjustified reasons, the disqualification shall become permanent. A permanent disqualification will result in the removal of the Director in accordance with the process under Permanent Disqualification.	Any of the following shall be a ground for the temporary disqualification of a Director: 1. Refusal to fully disclose the extent of his/her business interest as required under the SRC and its Implementing Rules and Regulations. Disqualification shall be in effect as long as the refusal persists; 2. Dismissal/termination from Directorship in another listed corporation for cause. This disqualification shall be in effect until the said involvement in the alleged irregularity is cleared or settled; 3. If the beneficial equity ownership of an Independent Director in the Company or its subsidiaries exceeds two percent (2%) of its subscribed capital stock. The disqualification shall be lifted if the limit is later on complied with; 4. Being under preventive suspension by the Company; and 5. Conviction that has not yet become final referred to in the grounds for the disqualification of Directors.
(ii) Non-Executive Directors	Same process as above	
(iii) Independent Directors	Same process as above	In addition to the criteria set forth for Executive and Non-executive Directors, any of the following persons shall likewise be disqualified from being nominated and elected as an Independent Director: 1. Owners of more than two percent (2%) of the total outstanding proprietary

		membership of the Company and/or any of its substantial shareholders; and 2. A director who has failed, without any justifiable cause, to attend at least fifty percent (50%) of the total number of Board meetings during his/her incumbency.
e. Removal		
(i) Executive Directors (ii) Non-Executive Directors (iii) Independent Directors	A Director will be removed from office only after proper notice and hearing. Due process should be observed.	Any of the grounds under permanent disqualification and for cases resolved by the Board to be reason enough for a Director's removal
f. Re-instatement		
(i) Executive Directors (ii) Non-Executive Directors (iii) Independent Directors	A Director may be reinstated by the Board of Directors during a Board meeting, wherein a quorum is present and a vacancy in the Board exists; or through the inclusion of the name of the Director in the Final List of Candidates to be elected during the Company's ASM	A Director may be reinstated if cause for his/her removal has ceased to exist. This however does not include cases of Permanent Disqualification
g. Suspension		
(i) Executive Directors (ii) Non-Executive Directors (iii) Independent Directors	A Director will be suspended only after proper notice and hearing.	A Director may be suspended for any of the causes under Temporary Disqualification

Voting Result of the last Annual General Meeting (June 21, 2016)

During the annual meeting, the stockholders present and represented by proxies, taking into consideration the voting instructions received through proxies submitted to the Office of the Corporate Secretary and the votes cast in person during the meeting, the 13 nominees with the highest number of votes were as follows:

Dr. Lucio C. Tan
Mr. Harry C. Tan
Ms. Carmen K. Tan
Mr. Lucio K. Tan, Jr.
Mr. Michael G. Tan
Ms. Juanita Tan Lee
Mr. Washington Z. Sycip
Mr. Antonino L. Alindogan, Jr. – Independent Director
Atty. Wilfrido E. Sanchez – Independent Director
Ms. Florencia G. Tarriela – Independent Director
Mr. Joseph T. Chua
Mr. Peter Y. Ong
Mr. Robin C. Sy – Independent Director

6) Orientation and Education Program

(a) Disclose details of the company's orientation program for new directors, if any.

There is no formal orientation program for new Directors. In practice, a new Director is provided with materials regarding the operations of the Company and its subsidiaries. The new Director is likewise encouraged to visit and inspect offices and facilities of subsidiaries.

(b) State any in-house training and external courses attended by Directors and Senior Management[2] for the past three (3) years:

The Company no longer avails of an in-house training and/or seminar/s for its directors but provides them updates on the available seminars and trainings being offered and encourages the directors to attend.

(c) Continuing education programs for directors: programs and seminars and roundtables attended during the year.

In compliance with SEC Memorandum Circular No. 20, Series of 2013, all of the Company's current Directors attended a program on corporate governance conducted by training providers duly accredited by the SEC.

Name of Director	Date of Training	Program	Name of Training Institution
Lucio C. Tan	August 3, 2016	Securities and Exchange Commission: Corporate Governance Forum	Securities and Exchange Commission (SEC)
Carmen K. Tan	August 3, 2016	Securities and Exchange Commission: Corporate Governance Forum	Securities and Exchange Commission (SEC)
Harry C. Tan	August 3, 2016	Securities and Exchange Commission: Corporate Governance Forum	Securities and Exchange Commission (SEC)
Lucio K. Tan, Jr.	October 19, 2016	Best Parliamentary Procedures for Board Directors and Top Management	Center for Global Best Practices
Michael G. Tan	August 3, 2016	Securities and Exchange Commission: Corporate Governance Forum	Securities and Exchange Commission (SEC)
Juanita Tan Lee	June 9, 2016	Distinguished Corporate Governance Speaker Series	The Institute of Corporate Directors
Joseph T. Chua	December 20, 2016	Corporate Governance & AMLA Seminar	Philippine Corporate Enhancement and Governance, Inc. (Formerly: Philippine Securities Consultancy Cooperation)
Washington Z. Sycip	Exempted		
Peter Y. Ong	June 9, 2016	Distinguished Corporate Governance Speaker Series	The Institute of Corporate Directors
Antonino L. Alindogan, Jr.	October 7, 2016	Seminar on Corporate Governance	Sycip Gorres Velayo & Co.
Wilfrido E. Sanchez	October 7, 2016	Distinguished Corporate Governance Speaker Series	The Institute of Corporate Directors
Florencia G. Tarriela	August 3, 2016	Securities and Exchange Commission: Corporate Governance Forum	Securities and Exchange Commission (SEC)

[2] Senior Management refers to the CEO and other persons having authority and responsibility for planning, directing and controlling the activities of the company.

Robin C. Sy	November 16, 2016	Corporate Governance Orientation Program	The Institute of Corporate Directors

B. CODE OF BUSINESS CONDUCT & ETHICS

1) Discuss briefly the company's policies on the following business conduct or ethics affecting directors, senior management and employees:

Business Conduct & Ethics	Directors	Senior Management	Employees
(a) Conflict of Interest	A policy of full and prompt disclosure for all cases of conflict of interest.	A policy of full and prompt disclosure for all cases of conflict of interest.	A policy of full and prompt disclosure for all cases of conflict of interest.
(b) Conduct of Business and Fair Dealings	The Company strictly requires this.	The Company strictly requires this.	The Company strictly requires this.
(c) Receipt of gifts from third parties	Receipt of gifts from third parties that will tend to undermine duties to the Company is highly discouraged.	Receipt of gifts from third parties that will tend to undermine duties to the Company is highly discouraged.	Receipt of gifts from third parties that will tend to undermine duties to the Company is highly discouraged.
(d) Compliance with Laws & Regulations	All Directors are strictly enjoined to comply with the Laws and Regulations.	All Senior Management are strictly enjoined to comply with the Laws and Regulations.	All employees are strictly enjoined to comply with the Laws and Regulations.
(e) Respect for Trade Secrets/Use of Non-public Information	The Company strictly requires the observance of proper usage of trade secrets and confidential information.	The Company strictly requires the observance of proper usage of trade secrets and confidential information.	The Company strictly requires the observance of proper usage of trade secrets and confidential information.
(f) Use of Company Funds, Assets and Information	The Company strictly monitors the use of Company funds, assets and information.	The Company strictly monitors the use of Company funds, assets and information.	The Company strictly monitors the use of Company funds, assets and information.
(g) Employment & Labor Laws & Policies	Together with laws and regulations, compliance with Employment & Labor Laws & Policies is strictly enjoined as well.	Together with laws and regulations, compliance with Employment & Labor Laws & Policies is strictly enjoined as well.	Together with laws and regulations, compliance with Employment & Labor Laws & Policies is strictly enjoined as well.
(h) Disciplinary action	The Company shall mete out appropriate disciplinary actions to persons found guilty of corporate transgressions.	The Company shall mete out appropriate disciplinary actions to persons found guilty of corporate transgressions.	The Company shall mete out appropriate disciplinary actions to persons found guilty of corporate transgressions.
(i) Whistle Blower	This is encouraged within the Company although a concrete policy thereon have yet to be formulated even while certain subsidiaries have the policies in place.	This is encouraged within the Company although a concrete policy thereon have yet to be formulated.	This is encouraged within the Company although a concrete policy thereon have yet to be formulated.
(j) Conflict Resolution	The Company highly encourages prompt conflict resolution.	The Company highly encourages prompt conflict resolution.	The Company highly encourages prompt conflict resolution.

2) Has the code of ethics or conduct been disseminated to all directors, senior management and employees?

Yes, through the memoranda to officers and discussions in the Board meetings.

3) Discuss how the company implements and monitors compliance with the code of ethics or conduct.

The Company monitors compliance through the respective internal auditors and periodic checks by the Board during Board meetings.

4) Related Party Transactions

(a) Policies and Procedures

Describe the company's policies and procedures for the review, approval or ratification, monitoring and recording of related party transactions between and among the company and its parent, joint ventures, subsidiaries, associates, affiliates, substantial stockholders, officers and directors, including their spouses, children and dependent siblings and parents and of interlocking director relationships of members of the Board.

As a conglomerate the Company is compelled to source or acquire some of its supplies from the subsidiaries. Moreover, since the businesses under the conglomerate is diverse, it is normally more convenient, expeditions and logical to deal with the subsidiaries.

The Company is ensured against the risk of materials shortages and unfair pricing. In addition, there is better coordination with suppliers on quality, production scheduling and pricing consideration. In addition, transactions with related parties have a stronger basis for trust and confidence in meeting material deadlines.

In the normal course of business, the Company and subsidiaries transacts with various related parties. Detailed disclosures are discussed in Note 22 of the Notes to the Consolidated Financial Statement.

Transactions with these related parties are necessary in the normal course of the Company's business. Though substantial in amount, they are still under normal trade practice. There are no special risks or contingencies arising from said transactions. In transacting with related parties, the prices are based on terms that are no less favorable than those arranged with third parties. In addition, since the Company adheres to industry standards and practices, the transactions have been fairly evaluated and no long term contracts have been entered into.

There are no long term suppliers contracts. The Company can source any material from third-party suppliers should this be more favorable to the Company. There are no parties that fall outside the definition "related parties" with whom the Company or any of its related parties has a relationship that enables the parties to negotiate terms of material transactions that may not be available from other more clearly independent parties on an arm's length basis.

(b) Conflict of Interest

(i) Directors/Officers and 5% or more Shareholders

Identify any actual or probable conflict of interest to which directors/officers/5% or more shareholders may be involved.

	Details of Conflict of Interest (Actual or Probable)
Name of Director/s	The Company does not foresee any actual or probable conflict of interest to which a Director may be involved
Name of Officer/s	The Company does not foresee any actual or probable conflict of interest to which a Company's Officer may be

	involved
Name of Significant Shareholders	The Company does not foresee any actual or probable conflict of interest to which a significant shareholder may be involved

(ii) Mechanism

Describe the mechanism laid down to detect, determine and resolve any possible conflict of interest between the company and/or its group and their directors, officers and significant shareholders.

	Directors/Officers/Significant Shareholders
Company	Regular disclosures in good faith shall aid in detecting conflicts of interest. Resolution of the same may range from informal talks with Management to the extent of elevating the matter to Board level.
Group	Above mechanism, when applicable, may also be used to detect, determine and resolve conflicts of interest between appropriate persons within the Group.

5) Family, Commercial and Contractual Relations

(a) Indicate, if applicable, any relation of a family,[3] commercial, contractual or business nature that exists between the holders of significant equity (5% or more), to the extent that they are known to the company:

The Company is not aware of any such relations that exist between its holders of significant equity.

(b) Indicate, if applicable, any relation of a commercial, contractual or business nature that exists between the holders of significant equity (5% or more) and the company:

The Company is not aware of any such relations that exist between its holders of significant equity.

(c) Indicate any shareholder agreements that may impact on the control, ownership and strategic direction of the company:

There is none.

6) Alternative Dispute Resolution

Describe the alternative dispute resolution system adopted by the company for the last three (3) years in amicably settling conflicts or differences between the corporation and its stockholders, and the corporation and third parties, including regulatory authorities.

No conflict that necessitated an alternative dispute resolution occurred within the Company in the last three (3) years.

C. BOARD MEETINGS & ATTENDANCE

1) Are Board of Directors' meetings scheduled before or at the beginning of the year?

Board meetings have been set to occur on the second Tuesday of every month and the dates are determined at the start of the year. The schedule may be reset only on certain exigencies where a change of schedule may be warranted.

[3] Family relationship up to the fourth civil degree either by consanguinity or affinity.

2) Attendance of Directors

Board	Name	Date of Election	No. of Meetings Held during the year (2016)	No. of Meetings Attended	%
Chairman	Lucio C. Tan	06/21/2016	13	13	100
Member	Carmen K. Tan	06/21/2016	13	10	77
Member	Harry C. Tan	06/21/2016	13	9	69
Member	Michael G. Tan	06/21/2016	13	13	100
Member	Lucio K. Tan, Jr.	06/21/2016	13	12	92
Member	Joseph T. Chua	06/21/2016	13	10	77
Member	Juanita Tan Lee	06/21/2016	13	13	100
Member	Washington Z. Sycip	06/21/2016	13	8	62
Member	Peter Y. Ong	06/21/2016	13	13	100
Independent	Robin C. Sy	06/21/2016	13	12	92
Independent	Florencia G. Tarriela	06/21/2016	13	12	92
Independent	Antonino Alindogan, Jr.	06/21/2016	13	12	92
Independent	Wilfrido E. Sanchez	06/21/2016	13	13	100

3) Do non-executive directors have a separate meeting during the year without the presence of any executive? If yes, how many times?

No. Non-executive directors do not have separate meetings during the year without the presence of any executive director.

4) Is the minimum quorum requirement for Board decisions set at two-thirds of board members? Please explain.

No. Minimum quorum requirement is majority of the members of the Board.

5) Access to Information

(a) How many days in advance are board papers[4] for board of directors meetings provided to the board?

Board materials are usually sent to the members of the Board at least three (3) days before the scheduled meeting.

(b) Do board members have independent access to Management and the Corporate Secretary?

Yes. Board members have independent access to Management and the Corporate Secretary.

(c) State the policy of the role of the company secretary. Does such role include assisting the Chairman in preparing the board agenda, facilitating training of directors, keeping directors updated regarding any relevant statutory and regulatory changes, etc?

The Corporate Secretary is a Filipino Citizen and resident of the Philippines. She possesses administrative and interpersonal skills and working knowledge of the Company's operations. She is aware of the laws, rules and regulations necessary in the performance of her duties and responsibilities. She prepares the Agenda, for the meeting, seek the comments and requests of the President, CFO and Management for issues or matters that they may need to present to the Board for discussion and/or approval. She likewise advises if matters requires the approval of the Board in accordance with existing laws. Her duties include:

[4] Board papers consist of complete and adequate information about the matters to be taken in the board meeting. Information includes the background or explanation on matters brought before the Board, disclosures, budgets, forecasts and internal financial documents.

1) ***Inform the members of the Board, in accordance with the By-Laws, of the Agenda of their meetings and assist them in obtaining relevant, timely and accurate corporate information in making sound business judgment and in performance of their responsibilities and obligations;***

2) ***Assist the President in preparing and holding meetings of Management;***

3) ***Supervise the maintenance, preparation and submission of reports and other documents to state agencies in accordance with applicable legislation;***

4) ***Attend all Board meetings, except when justifiable causes, such as, but not limited to, illness, death in the immediate family and serious accidents, prevent her from doing so;***

5) ***Maintain record of the minutes of the meetings of the Board and its committees, as well as other official records of the Company;***

6) ***Ensure that all Board procedures, rules and regulations are strictly followed by the members;***

7) ***Submit to SEC an advisement letter on the directors' attendance in Board meetings on or before January 5th of the following year; and***

8) ***As the Compliance Officer, she performs as well all the duties and responsibilities of the said office provided for in the Company's Corporate Governance Manual.***

(d) Is the company secretary trained in legal, accountancy or company secretarial practices? Please explain should the answer be in the negative.

The Corporate Secretary is a lawyer and is thus trained in the legal field. With the number of years she has been with the Company and its subsidiaries, she has gained ample experience appreciating and reading the financial statements. Her long years in the corporate practice and as a former Chief Counsel of the Bank has more than prepared her for the job.

(e) Committee Procedures

Disclose whether there is a procedure that Directors can avail of to enable them to get information necessary to be able to prepare in advance for the meetings of different committees:

Yes [X] No [ ]

Committee	Details of the procedures
Executive	Any of the Directors can request for the materials or necessary information or document/s from any of the Committees through the Office of the Corporate Secretary.
Audit	
Nomination and Compensation	
Risk Management	
Good Governance	

6) External Advice

Indicate whether or not a procedure exists whereby directors can receive external advice and, if so, provide details:

Directors may receive and/or solicit external advice on matters relating to the business of the Company by informing the Corporate Secretary. The Corporate Secretary sees to it that the concerns of the directors are properly addressed and if necessary engage qualified individuals to provide the advice or expertise.

7) Change/s in existing policies

Indicate, if applicable, any change/s introduced by the Board of Directors (during its most recent term) on existing policies that may have an effect on the business of the company and the reason/s for the change:

There were no changes introduced.

D. REMUNERATION MATTERS

1) Remuneration Process

Disclose the process used for determining the remuneration of the CEO and the four (4) most highly compensated management officers:

There is no particular process for determining the remuneration of the CEO and the most highly compensated management officers in the Company. Consideration is basically anchored on the skills they possess and their value to the Company. However, the companies under the conglomerate (subsidiaries) have their respective salary structures and remuneration policies. These are matured companies where salaries and remuneration processes are supervised and monitored by the respective Nomination and Remuneration Committees and vetted by the respective Corporate Governance Committees. The officers running the offices for said purpose are most qualified professionals in the field. The systems, policies and procedures are in accordance with best policies and practices in the industry.

2) Remuneration Policy and Structure for Executive and Non-Executive Directors

Disclose the company's policy on remuneration and the structure of its compensation package. Explain how the compensation of Executive and Non-Executive Directors is calculated.

The Directors of the Company receive an allowance of P30,000.00 a month and a per diem of P25,000.00 for every Board meeting and P15,000.00 for every Committee meeting attended. Other than the stated allowance and the per diem of the Directors, there are no other standard arrangements to which the Directors of the Company are compensated, or are to be compensated, directly or indirectly, for any services provided as a Director, including any additional amounts payable for Committee participation or special assignments, for the last completed fiscal year and the ensuing year.

Do stockholders have the opportunity to approve the decision on total remuneration (fees, allowances, benefits-in-kind and other emoluments) of board of directors? Provide details for the last three (3) years.

The allowance and per diems of Directors are disclosed in the Information Statement furnished to the stockholders before each Annual Shareholders' Meeting. Although the stockholders do not approve the total remuneration of the Board, any questions thereon may be raised during the Annual Shareholders' Meeting.

3) Aggregate Remuneration

Complete the following table on the aggregate remuneration accrued during the most recent year:

The following compensation was given to Officers and Directors for the following reporting years:

Summary Compensation Table
Annual Compensation

	Year	Salary	Bonus	Others*
Four (4) most highly compensated executive officers (see below)	2017 (Estimate)	7,854,000	654,500	3,162,500
	2016	7,140,000	595,000	2,875,000

	2015	6,980,000	595,000	2,805,000
All other officers and directors as a group unnamed	2017 (Estimate)	2,640,000	220,000	8,244,500
	2016	2,400,000	200,000	7,495,000
	2015	2,619,150	218,263	7,695,000

Others – includes per diem as director

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

4) Stock Rights, Options and Warrants

(a) Board of Directors

Complete the following table, on the members of the company's Board of Directors who own or are entitled to stock rights, options or warrants over the company's shares:

There are no Directors of the Company with stock rights, options or warrants over the Company's shares.

(b) Amendments of Incentive Programs

Indicate any amendments and discontinuation of any incentive programs introduced, including the criteria used in the creation of the program. Disclose whether these are subject to approval during the Annual Stockholders' Meeting:

There are none.

5) Remuneration of Management

Identify the five (5) members of management who are not at the same time executive directors and indicate the total remuneration received during the financial year:

Please see table above under item 3: Aggregate Remuneration

E. BOARD COMMITTEES

1) Number of Members, Functions and Responsibilities

Provide details on the number of members of each committee, its functions, key responsibilities and the power/authority delegated to it by the Board:

Committee	No. of Members			Committee Charter	Functions	Key Responsibilities	Power
	Executive Director (ED)	Non-executive Director (NED)	Independent Director (ID)				
Executive	3	3	2	Yes. Approved on January 20, 2015	The Executive Committee acts, by majority vote of all its members, on such specific matters within the competence of the Board of Directors as may be delegated to it by a majority vote of the Board, except with respect to (1) approval of any action for which shareholders' approval is also required; (2) the filling of vacancies in the		

					Board; (3) the amendment or repeal of By-Laws or the adoption of new By-Laws; (4) the amendment or repeal of any resolution of the Board, which by its express terms is not so amendable or repealable; and (5) a distribution of cash dividend to shareholders; All actions of the Committee are reported to the Board at the Board meeting following any action taken by the Committee and are subject to revisions and alterations by the Board; provided, that no rights of third persons will be affected by any such revision or alteration; and The Committee determines its rules and procedures subject to the approval of the Board of Directors.
Audit and Risk Management	1	2	3	Yes. Approved on January 20, 2015	Ensures the integrity of the Company's accounting and financial reporting systems, including the independent audit, and that appropriate systems of control are in place, in particular, systems for monitoring risk, financial control, and compliance with the law, rules and regulations; Assists the Board in its oversight function over the Company's financial reporting process, internal control system, information technology security, audit process, and compliance monitoring, and ensuring compliance with policies, laws, and regulations and ensuring that management is taking appropriate corrective actions in a timely manner to address control weaknesses and other problems identified by auditors. Reviews all financial reports to ensure their compliance with pertinent accounting standards, and recommends to the Board the approval thereof before submission to the regulatory agencies. Reviews the annual internal audit plan, at least one month before the conduct of the external audit, ensuring its conformity with the Company's objectives. Considers the independence and objectivity of the External Auditor, including reviewing the range of services provided in the context of all consulting services bought by the Company.

					Meets with the External Auditor, without the presence of the Company's Management, at least annually. Reviews the effectiveness of the financial management systems and information technology security including internal control of the entire accounting process from documentation of financial transactions to the preparation, interpretation and analysis of financial reports of Management and the External Auditor. Evaluates and determines the non-audit work, if any, of the External Auditor, and reviews periodically the non-audit fees paid to the External Auditor in relation to its significance to the total annual income of the External Auditor and to the Company's overall consultancy expenses. The Committee disallows any non-audit work that will conflict with the duties of the External Auditor or may pose a threat to his/her independence. Performs oversight functions over the Audit Committee of the various subsidiaries and affiliates of the Company; Prior to the external audit, discuss the nature, scope, and expenses of the audit, and ensure proper coordination among several external auditors, when applicable, to avoid duplication of efforts. Exercises explicit authority to investigate any matter within the terms of reference, has full access to and cooperation by management and full discretion to invite any Director or executive officer to attend its meetings, and adequate resources to enable it to effectively discharge its functions. Reviews the quarterly semi-annual, and annual financial statements before their submission to the Board. Has direct responsibility in monitoring and disclosing to the proper agencies the related party transactions of the Company. Elevates to international standards the accounting and auditing processes, practices and methodologies. **On Risk Management**

					Provide oversight over Management's activities in managing credit, market, liquidity, operational, legal and other risks of the Company. Review of the Company's risk register to understand the current risk environment, including review of emerging risks, the interrelationships between risks, and in the context of the Company's risk appetite; Review the Company's annual risk assessment exercise. Review risk mitigating strategies for effectiveness and consistency with the Company's risk tolerance; Provide direction for the allocation of resources and assignment of responsibilities for activities addressing business risks.
Nomination and Compensation	3	2	1	Yes. Approved on January 20, 2015	Pre-qualifies and shortlists candidates for election to the Board of Directors. Nominate at least two (2) independent directors or such as to constitute at least twenty percent (20%) of the members of the Board; Re-nominates directors, considering the director's contribution and performance (e.g. attendance, preparedness, participation and candor) including, if applicable, independent directors; Considers the following guidelines in determining the number of directors to be nominated to the Board: 1. The scope and nature of the operations of the Company; 2. Age of the director; and 3. Possible conflict of interest among the directors. Establishes a formal and transparent procedure for fixing the remuneration packages of individual directors. No director shall be involved in deciding his/her own remuneration; Designates amount of remuneration, which shall be in a sufficient level to attract and retain directors and officers who are needed to run the Company successfully;

					Provides a clear disclosure of its remuneration policy, level and mix of remuneration, and the procedure for setting remuneration, in the Company's annual report; Develops a form on Full Business Interest Disclosure as part of the pre-employment requirements for all incoming officers, which among others compel all officers to declare under the penalty of perjury all their existing business interests or shareholdings that may directly or indirectly conflict in their performance of duties once hired; Provides in the Company's annual reports, information and proxy statements a clear, concise and understandable disclosure of compensation of its executive officers for the previous fiscal year and the ensuing year; and In consultation with the executive or management committee/s, redefines the role, duties and responsibilities of the CEO by integrating the dynamic requirements of the business as a going concern and future expansionary prospects within the realm of good corporate governance at all times.
Corporate Governance	1	2	2	Yes. Approved on January 20, 2015	Ensure the Board's and the Board committees' effectiveness and due observance of corporate governance principles and guidelines; Oversee periodic performance evaluation of the Board and its committees and executive management, and conduct an annual self-evaluation of its performance. Periodic performance reviews include the subsidiaries, including their respective Boards and management; Evaluate and recommend whether or not a Director is able to and has been adequately carrying out his/her duties as Director, bearing in mind the Director's contribution and performance; and Review and recommend the manner by which the Board's performance may be evaluated and propose an objective performance criteria approved by the Board.

2) Committee Members

(a) Executive Committee

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee
Chairman	Lucio C. Tan	06/21/2016	-	-	-	9 years
Member (ED)	Harry C. Tan	06/21/2016	-	-	-	7 years
Member (NED)	Lucio K. Tan, Jr.	06/21/2016	-	-	-	9 years
Member (ED)	Michael G. Tan	06/21/2016	-	-	-	9 years
Member (NED)	Juanita Tan Lee	06/21/2016	-	-	-	3 years
Member (ID)	Florencia G. Tarriela	06/21/2016	-	-	-	3 years
Member (ID)	Antonino L. Alindogan, Jr.	06/21/2016	-	-	-	3 years
Member (NED)	*Joseph T. Chua*	06/21/2016	-	-	-	3 years

(b) Audit Committee and Risk Management Committee as of June 21, 2016

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee
Chairman (ID)	Antonino L. Alindogan, Jr.	06/21/2016	5	4	80	3 years
Member (NED)	Washington Z. SyCip	06/21/2016	5	4	80	2 years
Member (NED)	Lucio K. Tan, Jr.	06/21/2016	5	1	20	11 years
Member (ID)	Wilfrido E. Sanchez	06/21/2016	5	5	100	3 years
Member (ID)	Florencia G. Tarriela	06/21/2016	5	4	80	2 years
Member (ED)	Juanita Tan Lee	06/21/2016	5	5	100	11 years

Disclose the profile or qualifications of the Audit Committee members.

The Audit Committee shall be composed of at least five (5) members who shall preferably have accounting and finance background. At least two (2) of the Committee members shall be independent directors, one of which shall have an audit experience.

Antonino L Alindogan Jr. is an Independent Director of the Company, Asia Brewery Inc., Tanduay Distillers, Inc., Philippine Airlines, Inc., and Eton Properties Philippines Inc. He is the Chairman of An-Cor Holdings, Inc. and Chairman/President of Landrum Holdings, Inc. He is the Former President of C55, Inc.; Former Chairman of the Board of Directors of Development Bank of the Philippines (DBP); Former Consultant for Microfinance of DBP; Former Member of the Monetary Board of Bangko Sentral ng Pilipinas where he contributed his efforts and insights on a wide range of concerns, such as the pursuit of good governance, strengthening inflation targeting as an effective tool in price stability, and crafting innovative solutions to problem banks. He also took part in the BSP reorganization, upgrading and modernization of facilities and bank-wide planning and budgeting process. He is a Certified Public Accountant and holds a Bachelor of Science in Commerce degree in Accounting (Magna Cum Laude) from De La Salle College.

Washington Z. Sycip is a Director of the Company. Founder of SyCip Gorres Velayo & Co.; Chairman Emeritus of the Board of Trustees and Governors of the Asian Institute of Management; Chairman of Cityland Development Corp., Lufthansa Technik Philippines, Inc., STEAG State Power, Inc. and State Properties Corporation; Independent Director of Asian Eye Institute, Belle Corporation, Lopez Holdings Corp., Commonwealth Foods, Inc., First Philippine Holdings, Corp., Highlands Prime Inc., Metro Pacific Investments Corp., Philippine Equity Management Inc., Philippine Hotelier, Inc., Philamlife, Inc., Realty Investment Inc., The PHINMA Group, State Land, Inc., and Century Properties Group Inc.; and Director of Philippine Airlines, Inc., MacroAsia Corp., PAL Holdings, Inc. and Philippine National Bank.

Lucio K. Tan, Jr. is a Director of the Company. He is also Director and President and Chief Executive Officer of Tanduay Distillers, Inc. and President of Eton Properties Philippines, Inc.; a Director/EVP of Fortune Tobacco Corp.; and a Director of AlliedBankers Insurance Corp., Philippine Airlines, Inc., Philippine National Bank, PAL Holdings, Inc., MacroAsia Corp., PMFTC Inc., Lucky Travel Corp., Air Philippines Corporation, Absolut Distillers, Inc., Asia Brewery, Inc., Foremost Farms, Inc., Himmel Industries, Inc., Progressive Farms, Inc., The Charter House, Inc., Grandspan Development Corporation, and Shareholdings, Inc. He graduated from the University of California, Davis in 1991 with a Bachelor of Science degree in Civil Engineering and has a Master's Degree in Business Administration from the Kellogg School of Management Northwestern University.

Wilfrido E. Sanchez is an Independent Director of the Company. He is the Tax Counsel of Quiason Makalintal Barot Torres Ibarra &Sison Law Offices; Vice Chairman of Center for Leadership & Change, Inc.; Independent Director of Adventure International Tours, Inc., Amon Trading Corp., EEI Corporation, Grepalife Asset Management Corp., Grepalife Fixed Income Fund Corp., House of Investments, Inc., JVR Foundation, Inc., Kawasaki Motor Corp., Magellan Capital Holdings, Corp., Omico Corporation; PETNET, Inc., PETPLANS, Inc., Transnational Diversified Corp., Transnational Diversified Group, Inc., Transnational Financial Services, Inc., and Universal Robina Corp.; Independent Director of Eton Properties Philippines, Inc., Asia Brewery Inc., Tanduay Distillers, Inc. and Rizal Commercial Banking Corporation. He holds a Bachelor of Arts degree from the Ateneo de Manila University and has a Post-Graduate degree in Bachelor of Laws from Ateneo De Manila University and Masters of Law from Yale Law School.

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

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

Describe the Audit Committee's responsibility relative to the external auditor.

The Committee reviews the annual internal audit plan, at least one month before the conduct of the external audit, ensuring its conformity with the Company's objectives. The plan shall include the audit scope, resources and budget for implementation. Likewise, the Committee shall consider the independence and objectivity of the External Auditor, including reviewing the range of services provided in the context of all consulting services bought by the Company.

(c) Nomination and Compensation Committee

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee
Chairman	Lucio C. Tan	06/21/2016	1	1	100	2 years
Member (ED)	Harry C. Tan	06/21/2016	1	1	100	2 years
Member (NED)	Lucio K. Tan, Jr.	06/21/2016	1	1	100	2 years
Member (ED)	Michael G. Tan	06/21/2016	1	1	100	2 years
Member (ID)	Wilfrido E. Sanchez	06/21/2016	1	1	100	2 years
Member (ED)	Juanita Tan Lee	06/21/2016	1	1	100	10 years

(d) Corporate Governance Committee as of June 21, 2016

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee*
Chairman	Florencia G. Tarriela	06/21/2016	1	1	100	3 years
Member (NED)	Lucio K. Tan, Jr.	06/21/2016	1	-	0	3 years
Member (ED)	Michael G. Tan	06/21/2016	1	1	100	3 years
Member (ID)	Antonino L. Alindogan, Jr.	06/21/2016	1	1	100	3 years
Member (NED)	Joseph T. Chua	06/21/2016	1	1	100	2 years

3) Changes in Committee Members

Indicate any changes in committee membership that occurred during the year and the reason for the changes:

Not applicable

4) Work Done and Issues Addressed

Describe the work done by each committee and the significant issues addressed during the year.

Name of Committee	Work Done	Issues Addressed
Executive	Due to regular meetings of the Board of Directors that addressed the concerns of the Company, the Committee had no occasion to meet during the year.	N/A
Audit and Risk Management	Functions as prescribed in the Company's Corporate Governance Manual/Committee Charter	Audit concerns
Nomination	Functions as prescribed in the Company's By-Laws/Manual/Committee Charter	Nomination-related concerns prior to the ASM
Corporate Governance	The revisions of the Manual/Charters of the Committees	Charters/Manual revisions

5) Committee Program

Provide a list of programs that each committee plans to undertake to address relevant issues in the improvement or enforcement of effective governance for the coming year.

Name of Committee	Planned Programs	Issues to be Addressed
Executive	Continue to monitor the processes, and observance of good corporate governance thru proper and timely disclosures, transparency of	Strengthening key/core corporate governance principles.

	decisions for the benefit of the stakeholders.	
Audit and Risk Management	Closer monitoring of the financial and operational programs of the subsidiaries, in order to scale up the businesses to ensure growth in the Company. Strict implementation of the policies to mitigate and insulate if possible from risk	Strengthening key/core corporate governance principles.
Nomination	Ensure proper review of the qualifications of the nominees particularly those that are being nominated to sensitive positions.	Strengthening key/core corporate governance principles.
Corporate Governance	Consistent and widespread exercise of the principles of good corporate governance .	Strengthening key/core corporate governance principles.

F. RISK MANAGEMENT SYSTEM

1) Disclose the following:

(a) Overall risk management philosophy of the company;

Close monitoring of the risk environment of the Company, inclusive of its subsidiaries, in order to provide direction for the activities that will mitigate, to an acceptable level, the risks that may adversely affect the Company's ability to achieve its goals.

(b) A statement that the directors have reviewed the effectiveness of the risk management system and commenting on the adequacy thereof;

In the Company's Audited Financial Statements for the year ended December 31, 2016, the following statement is included therein:

"Risk Management Strategies
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.

(c) Period covered by the review;

Year 2016.

(d) How often the risk management system is reviewed and the directors' criteria for assessing its effectiveness; and

Reviewed annually.

(e) Where no review was conducted during the year, an explanation why not.

Not applicable.

2) Risk Policy

(a) Company

Give a general description of the company's risk management policy, setting out and assessing the risk/s covered by the system (ranked according to priority), along with the objective behind the policy for each kind of risk:

Risk Exposure	Risk Management Policy	Objective
The Company is a holding company that depends on dividends and distributions from subsidiaries	The employment of competent and efficient people to operate the subsidiaries as well as the Company itself	Objective is to avoid business losses and reverses in the subsidiaries
	The investment in a diverse portfolio	The Company will avoid collapse with the crippling of one industry or sector

(b) Group

Give a general description of the Group's risk management policy, setting out and assessing the risk/s covered by the system (ranked according to priority), along with the objective behind the policy for each kind of risk:

Given that the Company is a conglomerate of matured companies who have been in business for more than thirty years, each of the subsidiaries have their respective risk management policies which differ and are formed, in accordance with the businesses that they cover. The financial institutions under the Group exercise more stringent policies and complies strictly with the rules and regulations of government regulators. The companies involved in manufacturing will have a different set of risks peculiar to its businesses and the development company likewise observes the highest standards in accordance with the business. The Company ensures that each of the subsidiaries are exercising the necessary controls to protect its business and its shareholders.

(c) Minority Shareholders

Indicate the principal risk of the exercise of controlling shareholders' voting power.

Risk to Minority Shareholders
No risks foreseen.

3) Control System Set Up

(a) Company
Briefly describe the control systems set up to assess, manage and control the main issue/s faced by the company:

The Company's Risk Management Committee has been merged with the existing Audit Committee and is referred to as the Audit and Risk Management Committee. The said Committee discusses the risks during its meetings before these are taken up in the Board.

Group

Briefly describe the control systems set up to assess, manage and control the main issue/s faced by the company:

As described in the Sec. 2 (b), each of the subsidiaries manage their respective risks. If there is an issue that will affect the Group, this is scaled up to the Committee before it is taken up to the Board.

(b) Committee

Identify the committee or any other body of corporate governance in charge of laying down and supervising these control mechanisms, and give details of its functions:

Committee/Unit	Control Mechanism	Details of its Functions
Audit and Risk Management Committee	Checks and reviews financial reports of the Company. Likewise causes the development of risk management strategies and monitor the proper implementation thereof	The Committee assists the Board in fulfilling its oversight responsibilities. It reviews the financial reporting process, system of internal control and management of financial risk, audit process, Company's process for monitoring compliance with laws and regulations and its own code of corporate governance. It also assists the Board in identifying potential risk exposures of the Company.

G. INTERNAL AUDIT AND CONTROL

1) Internal Control System

Disclose the following information pertaining to the internal control system of the company:

(a) Explain how the internal control system is defined for the company;

Each of the companies belonging to the conglomerate has its own internal audit department. Said audit departments monitors, assesses and evaluates efficiencies of operations and the financial condition of their respective companies. The Company as a conglomerate has its Audit Committee, which reviews, assesses and evaluates the work and performance of the respective internal audit departments of the companies belonging to the conglomerate.

(b) A statement that the directors have reviewed the effectiveness of the internal control system and whether they consider them effective and adequate;

The Board regularly expresses its satisfaction to the efficiency and sound operation of the internal control system during Board meetings with presentations of the Company's financials.

(c) Period covered by the review;

Year 2016.

(d) How often internal controls are reviewed and the directors' criteria for assessing the effectiveness of the internal control system; and

Quarterly.

(e) Where no review was conducted during the year, an explanation why not.

Not applicable.

2) Internal Audit

(a) Role, Scope and Internal Audit Function

Give a general description of the role, scope of internal audit work and other details of the internal audit function.

The Company's Audit Committee serves as its internal audit. The Company as a conglomerate rely on its Audit Committee to exercise the role of the internal auditors. The role and scope thereof have already been discussed in the portions herein on Board Committees.

(b) Do the appointment and/or removal of the Internal Auditor or the accounting /auditing firm or corporation to which the internal audit function is outsourced require the approval of the audit committee?

Not applicable since internal auditors are the concerns of the respective subsidiaries.

(c) Discuss the internal auditor's reporting relationship with the audit committee. Does the internal auditor have direct and unfettered access to the board of directors and the audit committee and to all records, properties and personnel?

The internal auditors are expected to report to their respective senior management for any findings or issues that affect the subsidiary. If the issues are of great proportions that will affect the conglomerate, these are scaled up to the Management of the Company and the Audit Committee.

(d) Resignation, Re-assignment and Reasons

Disclose any resignation/s or re-assignment of the internal audit staff (including those employed by the third-party auditing firm) and the reason/s for them.

No resignation/s or reassignment save for the expiration of term of Committee members that was reported earlier herein.

(e) Progress against Plans, Issues, Findings and Examination Trends

State the internal audit's progress against plans, significant issues, significant findings and examination trends.

Since the Audit Committee serves as the Company's Internal Audit, there is no internal audit plan inclusive of a timeline and milestones. The external auditor, at the start of the year discusses with the Committee the audit plans, issues and findings for the year past. It likewise advises the Committee on regulatory compliance required of the Company and the subsidiaries. The Committee meets quarterly to discuss, review and approve the financials of the Company as prepared by the Chief Financial Officer, or the external auditor, when so appropriate.

Progress Against Plans	**N/A**
Issues[5]	
Findings[6]	
Examination Trends	

[The relationship among progress, plans, issues and findings should be viewed as an internal control review cycle whicah involves the following step-by-step activities:

1) Preparation of an audit plan inclusive of a timeline and milestones;
2) Conduct of examination based on the plan;
3) Evaluation of the progress in the implementation of the plan;
4) Documentation of issues and findings as a result of the examination;

[5] "Issues" are compliance matters that arise from adopting different interpretations.
[6] "Findings" are those with concrete basis under the company's policies and rules.

5) Determination of the pervasive issues and findings (“examination trends”) based on single year result and/or year-to-year results;
6) Conduct of the foregoing procedures on a regular basis.]

(f) Audit Control Policies and Procedures

Disclose all internal audit controls, policies and procedures that have been established by the company and the result of an assessment as to whether the established controls, policies and procedures have been implemented under the column “Implementation.”

Policies & Procedures	Implementation
Assist the Board in the performance of its oversight responsibility for the financial reporting process, system of internal control, audit process, and monitoring of compliance with applicable laws, rules and regulations.	In process
Establish through the audit system an independent monitoring and evaluation of the adequacy and effectiveness of the Company’s internal control system, including financial reporting control and information technology security.	In process
Coordinate with legal personnel on the monitoring and checking of compliance with laws, rules and regulations.	In process
Review and approve the annual and quarterly financial statements before their submission to the Board and to the regulatory agencies, with particular focus on the following matters: • Any changes in accounting policies and practices • Major judgmental areas • Significant adjustments resulting from the audit • Going concern assumptions • Compliance with accounting standards • Compliance with tax, legal and regulatory requirements • Completeness and clarity of the disclosures in the financial statements including related party transactions.	In process
Review of the adequacy of the Company’s risk management processes and policies including Business Continuity Plan.	In process
Evaluate whether management is setting the appropriate “control culture” by communicating the importance of internal control and the management risk and ensuring that all employee have an understanding of their roles and responsibilities.	In process
Evaluate whether management is setting the appropriate “tone at the top” by communicating the importance of the code and the guidelines for acceptable behavior.	In process

(g) Mechanisms and Safeguards

State the mechanism established by the company to safeguard the independence of the auditors, financial analysts, investment banks and rating agencies (example, restrictions on trading in the company's shares and imposition of internal approval procedures for these transactions, limitation on the non-audit services that an external auditor may provide to the company):

Auditors (Internal and External)	Financial Analysts	Investment Banks	Rating Agencies
External Auditor The Audit Committee evaluates and determines the non-audit work, if there are any, of the External Auditor, and reviews periodically the non-audit fees paid to the External Auditor in relation to its significance to the total annual income of the External Auditor and to the Company's overall consultancy expenses. The Committee disallows any non-audit work that will conflict with the duties of the External Auditor or may pose a threat to his/her independence. The non-audit work, if allowed, is disclosed in the Company's annual report.	Aside from the statutory regulations of the appropriate agencies, the Company has yet to establish a formal mechanism to safeguard the independence of financial analysts.	Aside from the statutory regulations of the appropriate agencies, the Company has yet to establish a formal mechanism to safeguard the independence of investment banks.	Aside from the statutory regulations of the appropriate agencies, the Company has yet to establish a formal mechanism to safeguard the independence of rating agencies.

(h) State the officers (preferably the Chairman and the CEO) who will have to attest to the company's full compliance with the SEC Code of Corporate Governance. Such confirmation must state that all directors, officers and employees of the company have been given proper instruction on their respective duties as mandated by the Code and that internal mechanisms are in place to ensure that compliance.

The Chairman and the CEO will to attest to the Company's full compliance with the SEC Code of Corporate Governance. Such confirmation will state that all Directors, officers and employees of the Company have been given proper instruction on their respective duties as mandated by the Code of Corporate Governance and that internal mechanisms are in place to ensure that compliance.

H. ROLE OF STAKEHOLDERS

1) Disclose the company's policy and activities relative to the following:

	Policy	Activities
Customers' welfare	The Company through its subsidiaries hold their customer's in utmost highest esteem.	The subsidiaries see to it that customer's requests, complaints are served or taken cared of. They ensure that the customer

		transactions are not unduly delayed and they get or receive the value of their money.
Supplier/contractor selection practice	The Company as a conglomerate has no supplier/contractor for itself but the subsidiaries have their respective processes which are shared by the Company.	The Company ensures that the suppliers or contractors are chosen based on competency, qualification and quality of products. The Company ensures that they are paid correctly and on time.
Environmentally friendly value-chain	The Company seeks to help, in any way possible, in the protection and sustainability of the environment	Through its subsidiaries, the Company ensures environmentally friendly value-chain like using solar power for production and engaging in renewable energy.
Community interaction	This is highly encouraged.	Through the Group's foundation, the Company is involved in community interaction through building of schools, reforestation around the country, giving scholarships to thousands of students.
Anti-corruption programmes and procedures?	The business of the Company shall be governed by this standard: It shall act with *integrity* in all dealings and in the discharge of duties and responsibilities; the goal is to work hard and establish a *good reputation* as the cornerstone of its success.	The Company sees to it that its Management and Officers conduct their businesses with honesty and integrity.
Safeguarding creditors' rights	The Company highly protects the rights of its creditors	The creditors are treated with great respect and their rights are protected by paying its obligations on time.

2) Does the company have a separate corporate responsibility (CR) report/section or sustainability report/section?

Yes. The Company as a conglomerate exercises its various corporate social responsibility through the Tan Yan Kee Foundation. The Tan Yan Kee Foundation has its own newsletter and website that reports on the current status of its on-going projects and/or new projects.

3) Performance-enhancing mechanisms for employee participation.

(a) What are the company's policy for its employees' safety, health, and welfare?

The Company offers health care benefits covered by the health insurance provider of the Company.

(b) Show data relating to health, safety and welfare of its employees.

There have been no reported work-related accidents or health concerns in the Company.

(c) State the company's training and development programmes for its employees. Show the data.

Employees are sent to seminars and training programs where it is necessary to enhance their knowledge and to acquire new information.

(d) State the company's reward/compensation policy that accounts for the performance of the company beyond short-term financial measures

It is the policy of the Company to promote advancement among its employees for consistently exceeding expectations over two years. The Board grants performance bonus, when so warranted.

4) What are the company's procedures for handling complaints by employees concerning illegal (including corruption) and unethical behaviour? Explain how employees are protected from retaliation.

Employees may complain through key Officers in the Company. Management shall maintain the confidentiality of all concerns and complaints.

I. DISCLOSURE AND TRANSPARENCY

1) Ownership Structure

(a) Holding 5% shareholding or more

Shareholder	Number of Shares	Percent	Beneficial Owner
Tangent Holdings Corporation *11th Floor Unit 3 Bench Tower, 30th Street cor. Rizal Drive, Crescent Park West 5, Bonifacio Global City, Taguig City*	8,046,318,193 RECORD OWNER	74.36%	Lucio C. Tan

Name of Senior Management	Number of Direct shares	Number of Indirect shares (name of record owner)	% of Capital Stock
Lucio C. Tan	2,200	Nil	-
Michael G. Tan	1,100	Nil	-
Ma. Cecilia L. Pesayco	2,200	Nil	-
Jose Gabriel D. Olives	0	Nil	-
Nestor C. Mendones	0	Nil	-
TOTAL	**5,500**	Nil	**-**

2) Does the Annual Report disclose the following:

Key risks	YES
Corporate objectives	YES
Financial performance indicators	YES
Non-financial performance indicators	YES
Dividend policy	YES
Details of whistle-blowing policy	YES
Biographical details (at least age, qualifications, date of first appointment, relevant experience, and any other directorships of listed companies) of directors/commissioners	YES

Training and/or continuing education programme attended by each director/commissioner	YES
Number of board of directors/commissioners meetings held during the year	NO**
Attendance details of each director/commissioner in respect of meetings held	NO**
Details of remuneration of the CEO and each member of the board of directors/commissioners	YES

Should the Annual Report not disclose any of the above, please indicate the reason for the non-disclosure.

**** Certain subsidiaries have formal Whistle-blowing Policy, such as the Bank.***

***** The number of board of directors' meetings held during the year, as well as the attendance details of each director, are disclosed in an advisement letter submitted to the Commission on or before January 5th of every year.***

3) External Auditor's fee

Name of auditor	Audit Fee	Non-audit Fee
SGV & Co.	**PhP 1,500,000**	**PhP 1,200,000**

4) Medium of Communication

List down the mode/s of communication that the company is using for disseminating information.

Since the Company is a publicly-listed company, all information shall be disseminated through the disclosure channels of the Philippine Stock Exchange. Shareholders may also get in touch with the Office of the Corporate Secretary for necessary relevant documents.

Likewise, the Company has an Investor Relations Officer whose contact details are available in the Company website.

5) Date of release of audited financial report:

The audited financial statements of the Company are filed on or before April 15 of each year.

6) Company Website

Does the company have a website disclosing up-to-date information about the following?

Business operations	**YES**
Financial statements/reports (current and prior years)	**YES**
Materials provided in briefings to analysts and media	**YES**
Shareholding structure	**NO**
Group corporate structure	**YES**
Downloadable annual report	**YES**
Notice of AGM and/or EGM	**YES**
Company's constitution (company's by-laws, memorandum and articles of association)	**YES**

Should any of the foregoing information be not disclosed, please indicate the reason thereto.

Shareholding structure is available upon request from the Office of the Corporate Secretary.

7) **Disclosure of RPT**

As a conglomerate the Company is compelled to source or acquire some of its supplies from the subsidiaries. Moreover, since the businesses under the conglomerate is diverse, it is normally more convenient, expeditions and logical to deal with the subsidiaries.

The Company is ensured against the risk of materials shortages and unfair pricing. In addition, there is better coordination with suppliers on quality, production scheduling and pricing consideration. In addition, transactions with related parties have a stronger basis for trust and confidence in meeting material deadlines.

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In the normal course of business, the Company and subsidiaries transacts with various related parties. Detailed disclosures are discussed in Note 22 of the Notes to the Consolidated Financial Statement.

Transactions with these related parties are necessary in the normal course of the Company's business. Though substantial in amount, they are still under normal trade practice. There are no special risks or contingencies arising from said transactions. In transacting with related parties, the prices are based on terms that are no less favorable than those arranged with third parties. In addition, since the Company adheres to industry standards and practices, the transactions have been fairly evaluated and no long term contracts have been entered into.

There are no long term suppliers contracts. The Company can source any material from third-party suppliers should this be more favorable to the Company. There are no parties that fall outside the definition "related parties" with whom the Company or any of its related parties has a relationship that enables the parties to negotiate terms of material transactions that may not be available from other more clearly independent parties on an arm's length basis.

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J. RIGHTS OF STOCKHOLDERS

1) Right to participate effectively in and vote in Annual/Special Stockholders' Meetings

(a) Quorum

Give details on the quorum required to convene the Annual/Special Stockholders' Meeting as set forth in its By-laws.

Quorum Required	According to the By-Laws, at the meeting of the Company, the stockholders holding or representing a majority of the subscribed capital stock of the Company, shall constitute a quorum for the transaction of business at such stockholders' meeting and every decision of a majority of said stockholder holding a majority of the subscribed capital stock, duly assembled at said meeting, unless otherwise provided by law, shall be valid as an act at such meeting.

(b) System Used to Approve Corporate Acts

Explain the system used to approve corporate acts.

System Used	At a Shareholders' Meeting, shareholders present vote to approve corporate acts of the Board of Directors and Management during the previous year.
Description	At all corporate meetings, each shareholder, either in person or proxy, shall be entitled to as many votes as he/she owns shares of stocks.

(c) Stockholders' Rights

List any Stockholders' Rights concerning Annual/Special Stockholders' Meeting that differ from those laid down in the Corporation Code.

There are no stockholders' rights concerning the Annual/Special Stockholder' Meeting which differ from those rights laid down in the Corporation Code.

Stockholders' Rights under The Corporation Code	Stockholders' Rights not in The Corporation Code
N/A	

Dividends

Declaration Date	Record Date	Payment Date
April 12, 2016	April 28, 2016	May 6, 2016

(d) Stockholders' Participation

1. State, if any, the measures adopted to promote stockholder participation in the Annual/Special Stockholders' Meeting, including the procedure on how stockholders and other parties interested may communicate directly with the Chairman of the Board, individual directors or board committees. Include in the discussion the steps the Board has taken to solicit and understand the views of the stockholders as well as procedures for putting forward proposals at stockholders' meetings.

Measures Adopted	Communication Procedure
Shareholders present during a Stockholders' Meeting may ask questions directed to the	There is no formal procedure for this.

Board and Key Officers.	

2. State the company policy of asking shareholders to actively participate in corporate decisions regarding:
    a. Amendments to the company's constitution
    b. Authorization of additional shares
    c. Transfer of all or substantially all assets, which in effect results in the sale of the company

    The corporate acts enumerated above all need stockholders' approval or ratification. These acts only need a majority vote of stockholders during a meeting with quorum present, except for item a, which needs the affirmative vote of stockholders representing at least two-thirds (2/3) of the subscribed capital stock of the Company.

3. Does the company observe a minimum of 21 business days for giving out of notices to the AGM where items to be resolved by shareholders are taken up?

    Yes, written notice of any annual or special stockholders' meeting are sent to all stockholders of record at least (21) twenty one business days prior to the date of the meeting notwithstanding that the Company's By-Laws and the requirements of the Securities and Regulation Code and the New Disclosure Rules of the Philippine Stock Exchange required only fifteen (15) days.

    a. Date of sending out notices: ***May 23, 2016***

    b. Date of the Annual/Special Stockholders' Meeting: ***June 21, 2016***

4. State, if any, questions and answers during the Annual/Special Stockholders' Meeting.

    There were no questions raised during the last Shareholders' Meeting

5. Result of Annual/Special Stockholders' Meeting's Resolutions ***(June 21, 2016, ASM)***

Resolution	Approving	Dissenting	Abstaining
Notation and Approval of the Management Report as reflected in the Company's Annual Report	9,396,950,213 shares	None	None
Ratification of all acts, transactions and resolutions of the Company for the year 2015	9,396,950,213 shares	None	None

6. Date of publishing of the result of the votes taken during the most recent AGM for all resolutions:

    June 22, 2016 via the Philippine Stock Exchange's Online Disclosure System.

(e) Modifications

State, if any, the modifications made in the Annual/Special Stockholders' Meeting regulations during the most recent year and the reason for such modification:

There were no modifications made in the Annual/Special Stockholders' Meeting regulations during the most recent year.

(f) Stockholders' Attendance

(i) Details of Attendance in the Annual/Special Stockholders' Meeting Held:

Type of Meeting	Names of Board members / Officers present	Date of Meeting	Voting Procedure (by poll, show of hands, etc.)	% of SH Attending in Person	% of SH in Proxy	Total % of SH attendance
Annual	Lucio C. Tan Carmen K. Tan Lucio K. Tan, Jr. Michael G. Tan Juanita Tan Lee Washington Z. Sycip Peter Y. Ong Florencia G. Tarriela Wilfrido E. Sanchez Antonino L. Alindogan, Jr. Robin C. Sy`	06-21-2016	Instructions received through proxies received by the Corporate Secretary	0.00%	86.84%	86.84%

(ii) Does the company appoint an independent party (inspectors) to count and/or validate the votes at the ASM/SSMs?

The counting of votes shall be conducted by the Corporate Secretary (or his/her duly authorized representative) to be assisted by the Corporation's independent accountant or by the representatives of SGV & Co.

(iii) Do the company's common shares carry one vote for one share? If not, disclose and give reasons for any divergence to this standard. Where the company has more than one class of shares, describe the voting rights attached to each class of shares.

Yes. For the election of directors, The stockholder may vote such number of shares for as many persons as there are directors to be elected, or he may cumulate said shares and give one candidate as many votes as the number of directors to be elected, or he may distribute them on the same principle among as many candidates as he shall see fit; provided the total number of votes cast by him shall not exceed the number of shares owned by him multiplied by the number of directors to be elected.

(g) Proxy Voting Policies

State the policies followed by the company regarding proxy voting in the Annual/Special Stockholders' Meeting.

	Company's Policies
Execution and acceptance of proxies	Shall be in writing and filed with the Corporate Secretary at least three (3) business days prior to the meeting
Notary	Not required
Submission of Proxy	Submitted to the Corporate Secretary at least three (3) business days prior to the meeting
Several Proxies	Principal stockholder shall be consulted in case of conflicting proxies
Validity of Proxy	Proxies are valid only for the stockholders meeting it was issued.
Proxies executed abroad	Consular validation is required.
Invalidated Proxy	This will not be accepted

Validation of Proxy	To be done after the close of business hours of the last day for the submission of proxies
Violation of Proxy	The proxy will not be honored.

(h) Sending of Notices

State the company's policies and procedure on the sending of notices of Annual/Special Stockholders' Meeting.

Policies	Procedure
Notices of Meeting shall be sent in accordance with the rules and regulations issued by the Commission	Notices will be sent to the list of stockholders as of record date, as prepared by the Company's stock transfer agent.

(i) Definitive Information Statements and Management Report (June 21, 2016 ASM)

Number of Stockholders entitled to receive Definitive Information Statements and Management Report and Other Materials	All stockholders as of May 23, 2016 totaling 10,821,388,889
Date of Actual Distribution of Definitive Information Statement and Management Report and Other Materials held by market participants/certain beneficial owners	May 31, 2016
Date of Actual Distribution of Definitive Information Statement and Management Report and Other Materials held by stockholders	May 31, 2016
State whether CD format or hard copies were distributed	Compact discs were distributed
If yes, indicate whether requesting stockholders were provided hard copies	N/A

(j) Does the Notice of Annual/Special Stockholders' Meeting include the following:

Each resolution to be taken up deals with only one item.	YES
Profiles of directors (at least age, qualification, date of first appointment, experience, and directorships in other listed companies) nominated for election/re-election.	YES
The auditors to be appointed or re-appointed.	YES
An explanation of the dividend policy, if any dividend is to be declared.	YES
The amount payable for final dividends.	YES
Documents required for proxy vote.	YES

Should any of the foregoing information be not disclosed, please indicate the reason thereto.

2) Treatment of Minority Stockholders

(a) State the company's policies with respect to the treatment of minority stockholders.

Policies	Implementation
The Board is committed to respect the rights of the minority stockholders	Strict implementation is enjoined

(b) Do minority stockholders have a right to nominate candidates for board of directors?

Yes, in accordance with the provisions of the By-Laws and the Revised Corporate Governance Manual.

K. INVESTORS RELATIONS PROGRAM

1) Discuss the company's external and internal communications policies and how frequently they are reviewed. Disclose who reviews and approves major company announcements. Identify the committee with this responsibility, if it has been assigned to a committee.

The Company has an investor relations officer who is responsible for the external communications to the investors and stockholders of the Company as well as analysts covering the Company.

2) Describe the company's investor relations program including its communications strategy to promote effective communication with its stockholders, other stakeholders and the public in general. Disclose the contact details (e.g. telephone, fax and email) of the officer responsible for investor relations.

	Details
(1) Objectives	**To disseminate necessary corporate information to promote greater understanding of the Company, as well as to build strong relationships with Company's investors and the analysts who cover the Company.**
(2) Principles	**To provide the stockholders, other stakeholders, investors and the public with accurate corporate information about the Company**
(3) Modes of Communications	**The Company conducts regular meetings with investors and analysts to keep them updated on developments with the Company and its subsidiaries. The Company also arranges teleconferences and site visits and participates in non-deal road shows and conferences in various locations, and also communicates through emails and telephone calls.** **In 2016, LTG attended 8 conferences with different brokers in Manila (3), Singapore (3) and Hong Kong (2). During these conferences, LTG met 112 times with representatives of different funds in one-on-one or group meetings. The Company also had 31 one-on-one meetings as well as 18 conference calls with different funds in its office, as well as conducted two visits to Asia Brewery's and Tanduay Distillers' production facilities with groups of sell-side and buy-side analysts.** **LTG conducted four (4) Analysts' Briefings during the 2016 calendar year, for Full Year 2015 Results, First Quarter 2016 Results, First Half 2016 Results and Nine Months 2016 Results. The briefing for Full Year 2016 Results was held on March 17, 2017. LTG disclosed the schedule of these briefings to the Philippine Stock Exchange (PSE) at least a week before the briefing date. These were attended by analysts from different brokerages and analysts of local funds.**
(4) Investors Relations Officer	**The Company welcomes inquiries from institutional investors, analysts and the financial community:** **Ms. Annabelle Arceo** **Telephone No. +632 478 8559** **Email: ir@ltg.com.ph or annabelle.arceo@ltg.com.ph**

3) What are the company's rules and procedures governing the acquisition of corporate control in the capital markets, and extraordinary transactions such as mergers, and sales of substantial portions of corporate assets?

With respect to acquisition of corporate control in the capital markets, as well as extraordinary transactions such as mergers, and sales of substantial portions of corporate assets, the Company acts in accordance with the relevant provisions in the Corporation Code.

Name of the independent party the board of directors of the company appointed to evaluate the fairness of the transaction price.

Currently, there is none.

L. **CORPORATE SOCIAL RESPONSIBILITY INITIATIVES**

Discuss any initiative undertaken or proposed to be undertaken by the company.

The Company as a conglomerate exercises its various corporate social responsibility through the Tan Yan Kee Foundation, Inc. (TYKFI). The TYKFI has committed itself to diverse areas of social responsibility such are: education, culture and sport, health and social welfare including environmental concerns, and research and manpower development.

Social Welfare:

TYKFI come up with a project entitled "Rebuilding the Community and the Environment," a three-year plan umbrella project which sought for strategic and sustainable programs to mitigate climate change and develop a satisfying and productive life for the Filipinos. This project includes the Dr. Lucio C. Tan Legacy Forest program which was launched in 2014 with its aim to plant fifteen (15) million trees in various parts of Luzon. As of 2015, the areas covered by the reforestation project are Quezon, Laguna, Nueva Ecija and Nueva Vizcaya. Aside from reforestation, the project also aims to establish its first water impounding project in its Nueva Ecija forest in order to ensure a continued water supply as an aid for continued nourishment for the growing seedlings. As of 2016, the project already covers a total of more than 500 hectares of planted area having planted seedlings.

Aside from the environmental concerns of the Foundation, it also helps the typhoon victims. As of January 2016, the Foundation reached out to the victims of Typhoon Lando in Casiguran, where the Foundation gave the victims grocery items as well as distributed galvanized iron sheets and roofing materials, so that they can reconstruct the damaged houses. And, in May 2016, TYKFI inaugurated the Balete Hanging Bridge and turned it over to Brgy. Captain Romeo Bugtong and his constituents in Balete, Santa Fe, Nueva Vizcaya. The Bridge was established for the people of Balete to have an easier access to national highway and the barangay instead of crossing rivers.

Education:

TYKFI has various scholarship programs namely: UE-TYK Scholarship Program, TYK-ABI Medical Specialty Scholarship Program, the newly launched TYK-STA, and a collaboration with the Foundation for Liberty and Prosperity (FLP).

In February 2016, the Foundation donated PhP2.0 Million to help fund the law scholarship program of FLP, sharing a common goal to provide for deserving individuals who have the capacity and desire to enact change in pursuit of the common good.

UE-TYK Scholarship program has been giving unprivileged but deserving students to attain quality education through full and partial scholarship since 1988. The scholarship is renewable every semester as long as the students meet the required grade and finishes his/her degree within the prescribed period. As of March 2016, there were thirty-nine (39) UE-TYK scholars who graduated in the fields of Accountancy, Liberal Arts, Engineering, Computer Studies, and Dentistry. To date, over 1,300 students including faculty members have benefitted from the program.

The Foundation has another scholarship program that is given to Filipino Doctors and Specialists who wanted to pursue further training and/or studies abroad. As of 2016 TYKFI-ABI granted two (2) doctors scholarships to attend fellowship

abroad.

There is another scholarship program that was introduced by the Foundation in partnership with Saint Teresita's Academy (STA) in the Diocese of Bayombong, located at Poblacion, Aritao, Nueva Vizcaya, launched this academic year 2016-2017, the TYK- STA. The TYK-STA was established with its goal to provide quality education to the children of marginalized families or farmers from the municipalities of Nueva Vizcaya. For its first year, it granted full scholarship to one hundred (100) students from Grades 7 to 10 who passed the screening and validation exam administered by the administrators of STA.

The Foundation also launched a new scholarship program in partnership with University of the East (UE), the Top-Up Assistance Program which provides help to financially-challenged but academically deserving students who graduated from Public Junior High Schools (JHS) and Grade 10 graduates from Education Service Contracting (ESC) participating schools to complete their Senior High School (SHS). For Academic Year 2016-2017, there are 192 Grade 11 grantees.

In addition to scholarship programs that the Foundation provide, it also conducts various training seminars. For the year 2016, TYKFI initiated two training programs which are: "Ganda Mo, Buhay Ko" in partnership with Ang-Hortaleza Foundation and Local Government of Ilocos Sur, conducted a livelihood training program wherein the 32 participants from different areas of Ilocos Sur were provided training on Basic Cosmetology which lasted for three (3) days, from May 25-27, 2016; and a 40-day training program on Basic Bookkeeping and Values Enhancement was conducted at King's College of the Philippines, La Trinidad, Benguet and Hotel Elizabeth in Baguio City for the residents of Regions 1, 8, and CAR from March 20 to April 27, 2017.

Lastly, in 2016 for the Brigada Eskwela of Nagtenga and Bantay Elementary School, the Foundation donated various materials for repainting classrooms and construction of other school amenities.

Health:

Every month, TYKFI and the Association of Asia Brewery Medical Specialty Scholars (AABMSS) holds a medical forum designed for laymen. The forum provides people an avenue to learn about the latest medical issues, trends, and available treatment options. In the forum, Asia Brewery medical scholars also render free consultations aside from the discussion of medical matters.

In January 2016, TYKFI and Absolut Distillers, Inc. conducted a medical mission at Barangay Malaruhatan in Lian, Batangas in partnership with University of the East Ramon Magsaysay Memorial Medical Center (UERMMC) in cooperation with the local government. Around 500 residents of all ages received free check-ups, medicines and vitamins.

M. BOARD, DIRECTOR, COMMITTEE AND CEO APPRAISAL

Disclose the process followed and criteria used in assessing the annual performance of the board and its committees, individual director, and the CEO/President.

	Process	Criteria
Board of Directors	Board Assessment	General responsibility of the Board to its stakeholders and the investing public
Board Committees	Performance Assessment	The appropriate governance of the Company through its Committees.
Individual Directors	Self-Assessment	Vis-à-vis the duties and responsibilities set forth in the Company By-Laws and Corporate Governance Manual.
CEO/President	Performance Assessment	The sound business operations of the Company

N. INTERNAL BREACHES AND SANCTIONS

Discuss the internal policies on sanctions imposed for any violation or breach of the corporate governance manual involving directors, officers, management and employees

The Compliance Officer shall monitor and evaluate cases on noncompliance with the Manual. Upon proper notice and hearing, the Compliance Officer shall recommend to the Chairman of the Board the imposable penalty for such violation if any, and for further review and approval of the Board members.

The penalties prescribed hereunder shall be imposed:

- ***First offense, reprimand.***
- ***Second offense, suspended. The duration of suspension shall depend on the gravity of the violation.***
- ***Third offense, recommended for termination from office.***

Pursuant to the requirement of the Securities and Exchange Commission, this Annual Corporate Governance Report is signed on behalf of the registrant by the undersigned, thereunto duly authorized, in the City of Manila on 08 April 2015.

SIGNATURES

MICHAEL G. TAN
President/Chief Operating Officer

MA. CECILIA L. PESAYCO
Compliance Officer

ANTONINO L. ALINDOGAN, JR.
Independent Director

WILFRIDO E. SANCHEZ
Independent Director

SUBSCRIBED AND SWORN to before me this APR 10 2017 day of April 2016, affiants exhibiting to me their competent evidence of identification, as follows:

NAME	PASSPORT NO.	DATE OF ISSUE/PLACE OF ISSUE
Michael G. Tan	EC0229876	February 6, 2014/DFA Manila, Philippines
Antonino L. Alindogan, Jr.	EB7378497	February 13, 2013/DFA Manila, Philippines
Wilfrido E. Sanchez	EC6743810	February 16, 2016/ DFA NCR Central, Philippines
Ma. Cecilia L. Pesayco	EC8362602	July 20, 2016/DFA Manila, Philippines

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Page No. 16 ;
Book No. II ;
Series of 2017.

ELVIN S. SALINDO
Notary Public until 31 December 2018
19th/F BDO Plaza, 8737 Paseo de Roxas, Makati City
PTR No. 5913572, Makati City, 04 January 2017
IBP No. 1056174, Makati, 04 January 2017
Roll No. 65645, Commission No. M-23