108132019002875

SECURITIES AND EXCHANGE COMMISSION

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Company Information

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

Document Information

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Department	CFD
Remarks	

COVER SHEET

SEC Registration Number

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Company Name

LT GROUP, INC. AND SUBSIDIARIES

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

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

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

COMPANY INFORMATION

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

No. of Stockholders	Annual Meeting Month/Day	Fiscal Year Month/Day
373	**May/7**	**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**	**808-1266**	**N/A**

Contact Person's Address

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

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

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended June 30, 2019

2. SEC Identification Number PW-343

3. BIR Tax Identification No. 121-145-650-000

4. Exact name of registrant as specified in its charter LT GROUP, INC.

5. Province, country or other jurisdiction of incorporation or organization Philippines

6. Industry Classification Code: (SEC Use Only)

7. Address of registrant's principal office — Postal Code
   11th Floor Unit 3 Bench Tower, 30th St. Corner Rizal Drive
   Crescent Park West 5 Bonifacio Global City Taguig City — 1634

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

9. Former name, former address, and former fiscal year, if changed since last report.

   N/A

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

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

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

    Yes [✓]   No [ ]

12. Indicate by check mark whether the registrant:

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

    Yes [✓]   No [ ]

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

    Yes [✓]   No [ ]

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

The unaudited interim condensed financial statements of LT Group, Inc. (the Company) and its subsidiaries as of and for the period June 30, 2019 (with comparative figures as of December 31, 2018 and for the period June 30, 2018) are filed as part of this form 17-Q as Annex "A".

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

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

PART II – OTHER INFORMATION

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

SIGNATURES

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

Issuer/Registrant	:	**LT GROUP, INC.**
Signature and Title	:	**JOSE GABRIEL D. OLIVES** Chief Financial Officer
Signature and Title	:	**NESTOR C. MENDONES** Deputy Chief Financial Officer
Date	:	August 13, 2019

Annex "A"

LT GROUP, INC. AND SUBSIDIARIES

Interim Condensed Consolidated Financial Statements
As at June 30, 2019 and December 31, 2018
and for the six months ended June 30, 2019 and 2018

LT Group, Inc. and Subsidiaries

Interim Condensed Consolidated Financial Statements
As at June 30, 2019 and December 31, 2018
and for the six months ended June 30, 2019 and 2018

LT GROUP, INC. AND SUBSIDIARIES

INTERIM CONSOLIDATED BALANCE SHEETS

(Amounts in Thousands)

	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	**₱203,248,633**	₱176,496,004
Financial assets at fair value through profit or loss (Notes 5 and 19)	**27,662,409**	10,783,021
Financial assets at fair value through other comprehensive income (FVTOCI) (Note 6)	**17,441,722**	9,256,885
Financial assets at amortized cost	**21,735,515**	–
Loans and receivables (Note 7)	**170,823,234**	245,934,405
Inventories (Note 8)	**13,203,688**	13,108,204
Due from related parties (Note 20)	**2,028,632**	2,028,632
Other current assets (Note 9)	**10,697,590**	9,105,700
	466,841,423	466,712,851
Assets of disposal group classified as held for sale	**7,606,647**	8,238,623
Total Current Assets	**474,448,070**	474,951,474
Noncurrent Assets		
Loans and receivables - net of current portion (Note 7)	**437,550,430**	347,753,938
Financial assets at FVTOCI (Note 6)	**89,060,237**	48,094,583
Financial assets at amortized cost	**72,714,858**	99,772,711
Investment in associates and joint ventures (Note 10)	**21,584,194**	20,314,141
Property, plant and equipment (Note 11):		
At appraised values	**60,416,289**	60,317,761
At cost	**9,455,138**	7,802,933
Investment properties (Note 11)	**30,383,595**	30,318,901
Deferred income tax assets (Note 27)	**1,864,769**	1,899,044
Other noncurrent assets (Note 12)	**7,342,568**	6,551,322
Total Noncurrent Assets	**730,372,078**	622,825,334
TOTAL ASSETS	**₱1,204,820,148**	₱1,097,776,808
LIABILITIES AND EQUITY		
Current Liabilities		
Deposit liabilities (Note 13)	**₱715,347,972**	₱672,342,296
Financial liabilities at fair value through profit or loss (Notes 14 and 19)	**206,149**	470,648
Bills and acceptances payable (Note 15)	**67,152,909**	60,549,245
Accounts payable and accrued expenses (Note 16)	**25,257,531**	22,516,482
Income tax payable	**736,321**	1,012,898
Short-term debts (Note 17)	**2,050,000**	2,050,000
Current portion of long-term debts (Note 17)	**278,285**	90,829
Due to related parties (Note 20)	**80,199**	80,199
Other current liabilities (Note 18)	**11,112,469**	8,616,177
	822,221,835	767,728,774
Liabilities of disposal group classified as held for sale	**6,557,207**	7,237,811
Total Current Liabilities (Carried Forward)	**828,779,042**	774,966,585

	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Total Current Liabilities (Brought Forward)	**₱828,779,042**	₱774,966,585
Noncurrent Liabilities		
Deposit liabilities - net of current portion (Note 13)	**43,063,147**	47,219,123
Bills and acceptances payable (Note 15)	**5,526,577**	9,533,590
Long-term debts - net of current portion (Note 17)	**69,931,368**	18,555,324
Net retirement benefits liability (Note 21)	**1,327,618**	1,636,201
Deferred income tax liabilities (Note 27)	**8,697,420**	8,811,004
Other noncurrent liabilities (Note 18)	**5,240,058**	5,864,593
Total Noncurrent Liabilities	**133,786,188**	91,619,835
Total Liabilities	**962,565,230**	866,586,420
Equity		
Attributable to equity holders of the Company (Notes 1 and 28):		
Capital stock	**10,821,389**	10,821,389
Capital in excess of par	**35,906,231**	35,906,231
Preferred shares of subsidiaries issued to Parent Company	**18,060,000**	18,060,000
Other equity reserves	**804,095**	804,095
Reserves of disposal group classified as held for sale	**(21,893)**	(21,893)
Other comprehensive income, net of deferred income tax effect	**16,825,425**	15,410,482
Retained earnings	**98,372,691**	91,998,914
Shares of the Company held by subsidiaries	**(12,519)**	(12,519)
	180,755,419	172,966,699
Non-controlling interests (Notes 1 and 28)	**61,499,499**	58,223,689
Total Equity	**242,254,918**	231,190,388
TOTAL LIABILITIES AND EQUITY	**₱1,204,820,148**	₱1,097,776,808

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

LT GROUP, INC. AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF INCOME

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

	Six Months Ended June 30		For the Quarter Ended June 30	
	2019 (Unaudited)	2018 (Unaudited)	**2019 (Unaudited)**	2018 (Unaudited)
REVENUE				
Banking	**₱26,868,035**	₱18,724,379	**₱13,949,833**	₱9,506,306
Beverage	**7,599,681**	6,760,126	**3,998,212**	3,654,144
Distilled spirits	**9,507,002**	8,828,795	**4,781,800**	4,606,151
Property development	**1,392,551**	1,213,140	**746,751**	634,601
	45,367,269	35,526,440	**23,476,596**	18,401,202
COST OF SALES AND SERVICES	**22,908,813**	16,357,593	**12,130,466**	8,692,490
GROSS INCOME	**22,458,456**	19,168,847	**11,346,130**	9,708,712
EQUITY IN NET EARNINGS OF ASSOCIATES	**5,389,331**	4,461,903	**2,872,809**	2,293,692
	27,847,787	23,630,750	**14,218,939**	12,002,404
OPERATING EXPENSES				
Selling expenses	**1,505,703**	1,303,070	**809,764**	667,428
General and administrative expenses	**15,253,594**	14,341,468	**7,728,040**	7,918,664
	16,759,297	15,644,538	**8,537,804**	8,586,092
OPERATING INCOME	**11,088,490**	7,986,212	**5,681,135**	3,416,312
OTHER INCOME (CHARGES)				
Finance costs	**(125,738)**	(50,407)	**(62,410)**	(20,400)
Finance income	**76,058**	53,262	**39,837**	29,920
Foreign exchange gains - net	**633,954**	828,368	**458,821**	807,266
Others - net	**1,203,373**	5,506,976	**580,428**	4,837,749
	1,787,647	6,338,199	**1,016,676**	5,654,535
INCOME BEFORE INCOME TAX	**12,876,137**	14,324,411	**6,697,811**	9,070,847
PROVISION FOR INCOME TAX				
Current	**1,895,641**	2,629,742	**975,772**	1,881,108
Deferred	**(46,998)**	(8,742)	**(10,138)**	(30,101)
	1,848,643	2,621,000	**965,634**	1,851,007
NET INCOME FROM CONTINUING OPERATIONS	**11,027,494**	11,703,411	**5,732,177**	7,219,840
NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS	**34,600**	(290,460)	**25,881**	(113,300)
NET INCOME	**₱11,062,094**	₱11,412,951	**₱5,758,058**	₱7,106,540
NET INCOME ATTRIBUTABLE TO:				
Equity holders of the Company	**₱9,237,145**	₱8,963,127	**₱4,815,431**	₱5,332,599
Non-controlling interests	**1,824,949**	2,449,824	**942,627**	1,773,941
	₱11,062,094	₱11,412,951	**₱5,758,058**	₱7,106,540
Basic/Diluted Earnings Per Share	**₱0.85**	₱0.83	**₱0.44**	₱0.49

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

LT GROUP, INC. AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Thousands)

	Six Months Ended June 30		For the Quarter Ended June 30	
	2019	2018	**2019**	2018
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
NET INCOME	**₱11,062,094**	₱11,412,951	**₱5,758,058**	₱7,106,540
OTHER COMPREHENSIVE INCOME (LOSS)				
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:				
Accumulated translation adjustment	**(323,525)**	948,496	**(420,258)**	(126,905)
Net changes in fair value of AFS financial assets, net of deferred income tax effect	**3,636,772**	(741,957)	**354,785**	(1,084,363)
	3,313,247	206,539	**(65,473)**	(1,211,268)
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:				
Re-measurement gains (losses) on defined benefit plans, net of deferred income tax effect	**(64,391)**	(591,634)	**43,535**	(800,201)
	(64,391)	(591,634)	**43,535**	(800,201)
OTHER COMPREHENSIVE INCOME (LOSS) - Net of income tax effect	**3,248,856**	(385,095)	**(21,938)**	(2,011,469)
TOTAL COMPREHENSIVE INCOME	**₱14,310,950**	₱11,027,856	**₱5,736,120**	₱5,095,071
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Equity holders of the Company	**₱11,035,140**	₱9,087,500	**₱4,351,683**	₱4,099,168
Non-controlling interests	**3,275,810**	1,940,356	**1,384,437**	995,903
	₱14,310,950	₱11,027,856	**₱5,736,120**	₱5,095,071

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

LT GROUP, INC. AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED JUNE 30, 2019 AND 2018

(Amounts in Thousands)

	Attributable to Equity Holders of the Company (Notes 1 and 28)											
	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	Other Comprehensive Income (Loss), Net of Deferred Income Tax Effect	Retained Earnings	Shares of the Company Held by Subsidiaries	Total	Non-controlling Interests (Notes 1 and 28)	Total
BALANCES AT DECEMBER 31, 2017	**₱10,821,389**	**₱35,906,231**	**₱–**	**₱18,060,000**	**₱804,095**	**₱–**	**₱4,299,674**	**₱78,435,633**	**(₱12,519)**	**₱148,314,503**	**₱47,000,912**	**₱195,315,415**
Net income for the period	–	–	–	–	–	–	–	8,963,127	–	8,963,127	2,449,824	11,412,951
Other comprehensive income	–	–	–	–	–	–	124,373	–	–	124,373	(509,468)	(385,095)
Total comprehensive income for the period	–	–	–	–	–	–	124,373	8,963,127	–	9,087,500	1,940,356	11,027,856
Reserves disposal group classified as held for sale	–	–	–	–	–	–	–	–	–	–	–	–
Dividends declared	–	–	–	–	–	–	–	(2,164,276)	–	(2,164,276)	(10,648)	(2,174,924)
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	–	–	–	–	–	–	(372,650)	372,650	–	–	–	–
BALANCES AT JUNE 30, 2018	**₱10,821,389**	**₱35,906,231**	**₱–**	**₱18,060,000**	**₱804,095**	**₱–**	**₱4,051,397**	**₱85,607,134**	**(₱12,519)**	**₱155,237,727**	**₱48,930,620**	**₱204,168,347**
BALANCES AT DECEMBER 31, 2018	**₱10,821,389**	**₱ 35,906,231**	**₱–**	**₱18,060,000**	**₱804,095**	**₱21,893**	**₱15,410,482**	**₱91,998,914**	**(₱12,519)**	**₱172,966,699**	**₱58,223,689**	**₱231,190,388**
Net income for the period	–	–	–	–	–	–	–	9,237,145	–	9,237,145	1,824,949	11,062,094
Other comprehensive income	–	–	–	–	–	–	1,797,995	–	–	1,797,995	1,450,861	3,248,856
Total comprehensive income for the period	–	–	–	–	–	–	1,797,995	9,237,145	–	11,035,140	3,275,810	14,310,950
Reserves disposal group classified as held for sale	–	–	–	–	–	–	–	–	–	–	–	–
Dividends declared	–	–	–	–	–	–	–	(3,246,420)	–	(3,246,420)	–	(3,246,420)
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	–	–	–	–	–	–	(383,052)	383,052	–	–	–	–
BALANCES AT JUNE 30, 2019	**₱10,821,389**	**₱35,906,231**	**₱–**	**₱18,060,000**	**₱804,095**	**₱21,893**	**₱16,825,425**	**₱98,372,691**	**(₱12,519)**	**₱180,755,419**	**₱61,499,499**	**₱242,254,918**

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

LT GROUP, INC. AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

	Six Months Ended June 30	
	2019	2018
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax from continuing operations	**₱12,876,137**	₱14,324,411
Income (loss) before income tax from discontinued operations	**43,913**	(283,517)
Income before income tax	**12,920,050**	14,040,894
Adjustments for:		
Equity in net earnings of associates (Note 10)	**(5,809,306)**	(4,461,903)
Depreciation and amortization (Note 22, 23 and 24)	**2,527,682**	2,034,482
Provision for losses (Note 24)	**809,545**	1,236,198
Realized trading gain on financial assets at FVTOCI	**(741,320)**	(154,363)
Share in losses of joint venture	**419,975**	412
Movements in accrued retirement benefits (Note 21)	**(308,583)**	114,030
Net gain on sale or exchange of assets (Note 26)	**(230,311)**	(4,592,265)
Mark-to-mark gain on financial assets at FVTPL (Note 26)	**(134,860)**	(19,213)
Finance costs (Note 25)	**125,738**	50,407
Finance income (Note 25)	**(76,058)**	(53,262)
Dividend income (Note 26)	**(43,098)**	(61,697)
Operating income before changes in working capital	**9,459,454**	8,133,720
Decrease (increase) in:		
Financial assets at FVTPL	**(16,744,528)**	493,928
Receivables	**(10,975,280)**	(31,690,131)
Other assets	**(1,762,602)**	823,222
Inventories	**(96,209)**	444,786
Increase (decrease) in:		
Deposit liabilities	**32,224,528**	33,341,663
Accounts payable and accrued expenses	**2,741,049**	2,024,881
Other liabilities	**1,077,569**	(313,191)
Financial liabilities at FVTPL	**(264,499)**	455,156
Net cash generated from operations	**15,659,482**	13,714,034
Dividends received	**4,392,546**	3,252,184
Income taxes paid, including creditable withholding and final taxes	**(2,216,926)**	(1,675,921)
Interest paid	**(125,738)**	(289,944)
Interest received	**76,058**	62,037
Contributions to retirement plan	**(1,009)**	–
Net cash generated from operating activities	**17,784,413**	15,062,390
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of:		
Financial assets at FVTOCI (Note 6)	**(59,861,590)**	(22,032,502)
Financial assets at amortized cost	**(14,459,822)**	(75,387,992)
Property, plant and equipment (Note 11)	**(2,336,530)**	(2,283,769)
Investment properties (Note 11)	**(810,810)**	–
Other assets	**(132,926)**	(545,830)
Investment in joint venture and associates (Note 10)	**(265,861)**	(242,244)
Proceeds from sale of:		
Financial assets at amortized cost	**19,446,520**	27,107,416
Financial assets at FVTOCI (Note 6)	**15,895,737**	38,173,553
Property, plant and equipment (Note 11)	**897,428**	324,848
Investment properties	**160,719**	196,780
Other assets (Note 12)	–	6,001,942
Net cash used in investing activities	**(41,467,135)**	(28,687,798)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Bills and acceptances payable	**221,892,239**	83,628,297
Bonds payable	**51,941,843**	16,002,000
Long-term negotiable certificate of deposits	**8,143,277**	–
Short-term debts	–	100,000
Settlement of bills and acceptances payable	**(219,295,588)**	(102,056,320)
Maturities of long-term negotiable certificates of deposits	**(9,000,000)**	–
Dividends paid	**(3,246,420)**	(2,174,924)
Net cash generated (used) from financing activities	**50,435,351**	(4,500,947)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**26,752,629**	(18,126,355)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**176,496,004**	174,024,418
CASH AND CASH EQUIVALENTS AT END OF PERIOD (Note 4)	**₱203,248,633**	₱155,898,063

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

LT GROUP, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

1. Corporate Information

LT Group, Inc. ("LTG" or the "Company") 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 Dr. Lucio C. Tan and his family and assignees (collectively referred to as the "Controlling Shareholders"). These business segments in which LTG and subsidiaries (collectively referred to as "the Group") operate are described in Note 3 to the interim condensed consolidated financial statements.

As of June 30, 2019, and December 31, 2018, LTG is 74.36%-owned by its ultimate parent company, Tangent, which is also incorporated in the Philippines.

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

2. Summary of Significant Accounting and Financial Reporting Policies

Basis of Preparation

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

The interim condensed consolidated financial statements of LTG have been prepared in accordance with Philippine Accounting Standards (PAS) 34, *Interim Financial Reporting*. The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's December 31, 2018 annual consolidated financial statements.

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

Basis of Consolidation

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

	Percentage of Ownership						
	June 30, 2019		December 31, 2018		June 30, 2018		Country of
	Direct	**Indirect**	Direct	Indirect	Direct	Indirect	Incorporation
Distilled Spirits							
TDI and subsidiaries	**100.0**	**–**	100.0	–	100.0	–	Philippines
Absolut Distillers, Inc. (ADI)	**–**	**96.0**	–	96.0	–	96.0	Philippines
Asian Alcohol Corporation (AAC)	**–**	**95.0**	–	95.0	–	95.0	Philippines
Tanduay Brands International, Inc. (TBI) [1]	**–**	**100.0**	–	100.0	–	100.0	Philippines
Beverages							
Asia Brewery, Inc. (ABI) and subsidiaries	**99.9**	**–**	99.9	–	99.9	–	Philippines
Agua Vida Systems, Inc.	**–**	**99.9**	–	99.9	–	99.9	Philippines
Interbev Philippines, Inc.	**–**	**99.9**	–	99.9	–	99.9	Philippines
Waterich Resources Corp.	**–**	**99.9**	–	99.9	–	99.9	Philippines
Packageworld, Inc.	**–**	**99.9**	–	99.9	–	99.9	Philippines
AB Nutribev Corp.	**–**	**99.9**	–	99.9	–	99.9	Philippines
Asia Pacific Beverage Pte Ltd	**–**	**99.9**	–	99.9	–	99.9	Singapore
Asia Pacific Beverages Myanmar Company Limited [2]	**–**	**90.0**	–	90.0	–	90.0	Myanmar
Tobacco							
Shareholdings, Inc. (Shareholdings)	**97.7**	**–**	97.7	–	97.7	–	Philippines
Fortune Tobacco Corporation (FTC)	**82.7**	**16.9**	82.7	16.9	82.7	16.9	Philippines
Property Development							
Saturn Holdings, Inc.	**100.0**	**–**	100.0	–	100.0	–	Philippines
Paramount Landequities, Inc. (PLI) and Subsidiaries	**100.0**	**–**	100.0	–	100.0	–	Philippines
Eton Properties Philippines, Inc. (Eton)	**–**	**99.6**	–	99.6	–	99.6	Philippines
Belton Communities, Inc. (BCI)	**–**	**99.6**	–	99.6	–	99.6	Philippines
Eton City, Inc. (ECI)	**–**	**99.6**	–	99.6	–	99.6	Philippines
FirstHomes, Inc. (FHI)	**–**	**99.6**	–	99.6	–	99.6	Philippines
Eton Properties Management Corporation (EPMC)	**–**	**99.6**	–	99.6	–	99.6	Philippines
Banking							
Bank Holding Companies [3]	**80-100**	**–**	80-100	–	80-100	–	Various
Philippine National Bank (PNB) and Subsidiaries [4]	**–**	**56.5**	–	56.5	–	56.5	Philippines
PNB Capital and Investment Corporation (PNB Capital)	**–**	**56.5**	–	56.5	–	56.5	Philippines
PNB Securities, Inc. (PNB Securities)	**–**	**56.5**	–	56.5	–	56.5	Philippines
PNB Forex, Inc.	**–**	**56.5**	–	56.5	–	56.5	Philippines
PNB Holdings Corporation (PNB Holdings)	**–**	**56.5**	–	56.5	–	56.5	Philippines
PNB General Insurers, Inc. (PNB Gen)	**–**	**56.5**	–	56.5	–	56.5	Philippines
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. (PNBRCI)	**–**	**56.5**	–	56.5	–	56.5	USA
PNB RCI Holding Co. Ltd.	**–**	**56.5**	–	56.5	–	56.5	USA

(Forward)

	Percentage of Ownership						
	June 30, 2019		December 31, 2018		June 30, 2018		Country of
	Direct	**Indirect**	Direct	Indirect	Direct	Indirect	Incorporation
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
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) (5)	–	**24.8**	–	24.8	–	24.8	Philippines
Allied Leasing and Finance Corporation (ALFC)	–	**32.3**	–	32.3	–	32.3	Philippines
Allied Banking Corporation (Hongkong) Limited (ABCHKL)	–	**28.8**	–	28.8	–	28.8	Hong Kong
ACR Nominees Limited	–	**28.8**	–	28.8	–	28.8	Hong Kong
Oceanic Holdings (BVI) Ltd. (OHBVI)	–	**15.7**	–	15.7	–	15.7	USA

(1) *Incorporated on May 6, 2003 to handle the marketing of TDI's products in the export market, TBI started its commercial operations in October 2017. On December 20, 2016, the Parent Company sold its 100% ownership interest in TBI to TDI through an execution of a Deed of Sale of Shares of Stocks.*

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

(3) *As of June 30, 2019, and December 31, 2018, 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.*

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

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

Changes in Accounting Policies and Disclosures

Changes in accounting policies effective on or after January 1, 2019 PFRS 16, Leases Under the new standard, lessees will no longer 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. 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 adoption of the PFRS 16 resulted in the recognition of Right-of-Use Assets amounting to the P1.7 billion under the Property and Equipment and the related Lease Liability of the same amount as of January 1, 2019. The Group continues to refine and improve its newly implemented accounting and financial reporting process, controls and governance structure as a result of adopting PFRS 16. Therefore, the estimation of impact is subject to change until the finalization of the Financial Statements for the year ending December 31, 2019.

New Accounting Standards, Amendments to Existing Standards and Interpretation Effective Subsequent to December 31, 2018

The standards, amendments and interpretation which have been issued and are effective as at December 31, 2018 are disclosed below. The Group intends to adopt these standards, amendments and interpretation, if applicable, when they become effective.

Effective beginning on or after January 1, 2019

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*
  Under PFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from January 1, 2019, with earlier application permitted.

- PFRS 16, *Leases*
  PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees - leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

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

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

  PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*
  The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event

- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in consolidated statement of income. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Group.

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*
  The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in PFRS 9 applies to such long-term interests.

  The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28, *Investments in Associates and Joint Ventures*.

  These amendments are not expected to have any significant impact on the consolidated financial statements.

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

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

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

This interpretation is not expected to be relevant to the Group because there has been no uncertainty involved in the tax treatments made by management in connection with the calculation of current and deferred taxes as of December 31, 2018 and 2017.

- *Annual Improvements to PFRSs* 2015-2017 Cycle
  - Amendments to PFRS 3, *Business Combinations*, and PFRS 11, *Joint Arrangements*, *Previously Held Interest in a Joint Operation*
    The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

    A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in PFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

    An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted. These amendments are currently not applicable to the Group but may apply to future transactions.

  - Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*
    The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in consolidated statement of income, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

    An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application is permitted. These amendments are not relevant to the Group because dividends declared by the Group do not give rise to tax obligations under the current tax laws.

  - Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*
    The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

    An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted.

Since the Group's current practice is in line with these amendments, the Group does not expect any effect on its consolidated financial statements upon adoption.

Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, *Definition of a Business*
  The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

  An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted. These amendments will apply on future business combinations of the Group.

- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, *Definition of Material*
  The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.

  An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*
  PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

  The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:
    - A specific adaptation for contracts with direct participation features (the variable fee approach)
    - A simplified approach (the premium allocation approach) mainly for short-duration contracts

PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted.

Deferred effectivity

- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

  The amendments 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. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

  On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

The Group continues to assess the impact of the above new and amended accounting standards and Interpretations effective subsequent to 2018 on the Group's financial statements in the period of initial application. Additional disclosures required by these amendments will be included in the consolidated financial statements when these amendments are adopted.

3. Segment Information

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

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

- Banking, provides full range of banking and other financial services to corporate, middle-market and retail customers, the National Government (NG), local government units (LGUs) and government-owned and controlled corporations (GOCCs) and various government agencies, including deposit-taking, lending, bills discounting, foreign exchange dealing, investment banking, fund transfers or remittance servicing and full range of retail banking and trust services and other insurance services. The Group conducts its banking business through PNB and its consolidated subsidiaries.

- Distilled Spirits, which is involved in manufacturing, compounding, bottling, importing, buying and selling of rum, spirit beverages, and liquor products. The Group conducts its distilled spirits business through TDI and its consolidated subsidiaries.

- Beverage, which is engaged in brewing and soft drinks and bottled water manufacturing in the Philippines. It also operates other plants, which includes commercial glass division and corrugated cartons and metal closures production facility, to support the requirements of its brewing, bottled water, non-beer products operations and to act as a service contractor and enter into service agreements for the supply of services. The Group conducts its beverage business through ABI and its consolidated subsidiaries.

- Tobacco, which is a supplier and manufacturer of cigarettes, casings, tobacco, packaging, labels and filters. The Group conducts its tobacco business through FTC's interest in PMFTC.

- Property Development, which is engaged in ownership, development, leasing and management of residential properties, including but not limited to, all kinds of housing projects, commercial, industrial, urban or other kinds of real property; acquisition, purchasing, development and selling of subdivision lots. The Group conducts its property development business through Eton and its consolidated subsidiaries.

- Others consist of various holding companies (LTG, Paramount, Saturn, Shareholdings, TBI, Mabuhay Global and Bank Holding Companies) that provide financing for working capital and capital expenditure requirements of the operating businesses of the Group.

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

The Group's assets are located mainly in the Philippines. The Group operates and derives principally all of its revenue from domestic operations. The Group's banking segment operates in key cities in the USA, Canada, Western Europe, Middle East and Asia. The distribution of assets and revenues of the banking segment outside the Philippines constitute 10.3% and 2.6% as of December 31, 2018, respectively, and 10.5% and 3.6% as of December 31, 2018 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 97% of the segment's total revenue in 2019 and 2018. The other segments of the Group have no significant customer, which contributes 10% or more of their segment revenues.

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

For the six months ended June 30, 2019:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
				(In Thousands)			
Segment revenue:							
External customers	**₱26,868,035**	**₱9,507,002**	**₱7,599,681**	**₱–**	**₱1,392,551**	**₱–**	**₱45,367,269**
Inter-segment	**104,211**	**7,313**	**496,592**	**–**	**–**	**(608,116)**	**–**
	26,972,246	**9,514,315**	**8,096,273**	**–**	**1,392,551**	**(608,116)**	**45,367,269**
Cost of sales	**9,442,688**	**7,890,101**	**5,823,334**	**–**	**517,132**	**(764,442)**	**22,908,813**
Gross profit	**17,529,558**	**1,624,214**	**2,272,939**	**–**	**875,419**	**156,326**	**22,458,456**
Equity in net earnings (loss) of associates and joint ventures	**(50,121)**	**–**	**(369,854)**	**5,652,593**	**–**	**156,713**	**5,389,331**
	17,479,437	**1,624,214**	**1,903,085**	**5,652,593**	**875,419**	**313,039**	**27,847,787**
Selling expenses	**–**	**785,843**	**670,175**	**–**	**49,685**	**–**	**1,505,703**
General and administrative expenses	**13,758,082**	**345,976**	**623,061**	**89,364**	**343,277**	**93,834**	**15,253,594**
Operating income	**3,721,355**	**492,395**	**609,849**	**5,563,229**	**482,457**	**219,205**	**11,088,490**
Finance costs	**–**	**(39,221)**	**(74,180)**	**–**	**(136,575)**	**124,238**	**(125,738)**
Finance income	**–**	**663**	**5,482**	**237,375**	**55,025**	**(222,487)**	**76,058**
Foreign exchange gains (losses)- net	**646,295**	**(4,503)**	**–**	**–**	**(1,458)**	**(6,380)**	**633,954**
Other income (charges) – net	**859,379**	**6,938**	**(8,232)**	**134,995**	**171,500**	**38,793**	**1,203,373**
Income before income tax	**5,227,029**	**456,272**	**532,919**	**5,935,599**	**570,949**	**153,369**	**12,876,137**
Provision for income tax	**1,216,026**	**76,183**	**289,084**	**61,409**	**200,418**	**5,523**	**1,848,643**
Segment profit from:							
Continuing operations	**4,011,003**	**380,089**	**243,835**	**5,874,190**	**370,531**	**147,846**	**11,027,494**
Discontinued operations	**34,600**	**–**	**–**	**–**	**–**	**–**	**34,600**
	₱4,045,603	**₱380,089**	**₱243,835**	**₱5,874,190**	**₱370,531**	**₱147,846**	**₱11,062,094**
Depreciation and amortization expense	**₱1,285,142**	**₱316,660**	**₱732,717**	**₱18,169**	**₱162,736**	**₱14,797**	**₱2,530,221**
Segment profit attributable to:							
Equity holders of the Company	**2,256,990**	**372,839**	**240,930**	**5,849,417**	**369,123**	**147,846**	**9,237,145**
Non-controlling interests	**1,788,613**	**7,250**	**2,905**	**24,773**	**1,408**	**–**	**1,824,949**

Other financial information of the operating segments as of June 30, 2019 is as follows:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
				(In Thousands)			
Assets:							
Current assets	**₱433,823,503**	**₱14,868,475**	**₱14,365,785**	**₱13,581,145**	**₱10,361,104**	**(₱12,551,942)**	**₱474,448,070**
Noncurrent assets	**665,191,332**	**7,028,594**	**15,733,146**	**17,923,980**	**21,653,190**	**2,841,836**	**730,372,078**
	₱1,099,014,835	**₱21,897,069**	**₱30,098,931**	**₱31,505,125**	**₱32,014,294**	**(₱9,710,106)**	**₱1,204,820,148**
Liabilities:							
Current liabilities	**₱830,809,587**	**₱4,793,320**	**₱6,060,786**	**₱291,763**	**₱6,734,901**	**(₱19,911,315)**	**₱828,779,042**
Noncurrent liabilities	**128,166,390**	**471,608**	**798,421**	**103,756**	**7,760,166**	**(3,514,153)**	**133,786,188**
	₱958,975,977	**₱5,264,928**	**₱6,859,207**	**₱395,519**	**₱14,495,067**	**(₱23,425,468)**	**₱962,565,230**
Investments in associates and joint ventures	**₱2,541,265**	**₱–**	**₱24,463**	**₱14,845,180**	**₱–**	**₱4,173,286**	**₱21,584,194**
Equity attributable to:							
Equity holders of the Company	**137,158,357**	**16,466,403**	**23,200,370**	**31,109,606**	**17,519,227**	**(44,698,544)**	**180,755,419**
Non-controlling interests	**2,880,501**	**165,738**	**39,354**	**–**	**–**	**58,413,906**	**61,499,499**
Short-term debts	**–**	**900,000**	**2,050,000**	**–**	**–**	**(900,000)**	**2,050,000**
Long-term debts	**67,223,446**	**–**	**–**	**–**	**6,925,092**	**(3,938,885)**	**70,209,653**

For the six months ended June 30, 2018:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
				(In Thousands)			
Segment revenue:							
External customers	₱18,724,379	₱8,828,795	₱6,760,126	₱–	₱1,213,140	₱–	₱35,526,440
Inter-segment	123,625	32,512	574,193	–	–	(730,330)	–
	18,848,004	8,861,307	7,334,319	–	1,213,140	(730,330)	35,526,440
Cost of sales	4,022,051	7,248,414	5,342,131	–	420,083	(675,086)	16,357,593
Gross profit	14,825,953	1,612,893	1,992,188	–	793,057	(55,244)	19,168,847
Equity in net earnings (loss) of associates and joint ventures	29,689	–	(391,714)	4,718,151	–	105,777	4,461,903
	14,855,642	1,612,893	1,600,474	4,718,151	793,057	50,533	23,630,750
Selling expenses	–	701,538	562,851	–	38,681	–	1,303,070
General and administrative expenses	12,887,901	317,648	587,582	74,047	396,159	78,131	14,341,468
Operating income	1,967,741	593,707	450,041	4,644,104	358,217	(27,598)	7,986,212
Finance costs	–	(19,633)	(31,231)	–	(143,373)	143,830	(50,407)
Finance income	–	629	10,959	94,312	16,710	(69,348)	53,262
Foreign exchange gains (losses)- net	685,551	928	6,064	113,068	5,852	16,905	828,368
Other income (charges) – net	5,178,883	1,131	51,336	61,190	73,755	140,681	5,506,976
Income before income tax	7,832,175	576,762	487,169	4,912,674	311,161	204,470	14,324,411
Provision for income tax	2,032,975	139,841	269,297	36,807	99,395	42,685	2,621,000
Segment profit from:							
Continuing operations	5,799,200	436,921	217,872	4,875,867	211,766	161,785	11,703,411
Discontinued operations	(290,460)	–	–	–	–	–	(290,460)
	₱5,508,740	₱436,921	₱217,872	₱4,875,867	₱211,766	₱161,785	₱11,412,951
Depreciation and amortization expense	₱865,215	₱288,346	₱706,048	₱12,032	₱151,692	₱11,149	₱2,034,482
Segment profit attributable to:							
Equity holders of the Company	3,084,175	432,554	218,343	4,855,309	210,961	161,785	8,963,127
Non-controlling interests	2,424,565	4,367	(471)	20,558	805	–	2,449,824

Other financial information of the operating segments as of December 31, 2018 is as follows:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
				(In Thousands)			
Assets:							
Current assets	₱435,407,693	₱12,028,921	₱13,881,506	₱13,140,794	₱10,664,924	(₱10,172,364)	₱474,951,474
Noncurrent assets	559,295,135	8,106,084	15,531,323	17,128,450	20,817,385	1,946,957	622,825,334
	₱994,702,828	₱20,135,005	₱29,412,829	₱30,269,244	₱31,482,309	(₱8,225,407)	₱1,097,776,808
Liabilities:							
Current liabilities	₱776,308,797	₱2,813,098	₱5,580,064	₱304,374	₱6,105,767	(₱16,145,515)	₱774,966,585
Noncurrent liabilities	85,859,497	556,868	798,342	103,756	8,227,741	(3,926,369)	91,619,835
	₱862,168,294	₱3,369,966	₱6,378,406	₱408,130	₱14,333,508	(₱20,071,884)	₱866,586,420
Investments in associates and joint ventures	₱2,415,414	₱–	₱305,413	₱13,553,425	₱–	₱4,039,889	₱20,314,141
Equity attributable to:							
Equity holders of the Company	129,639,681	16,607,026	22,997,974	29,861,115	17,148,801	(43,287,898)	172,966,699
Non-controlling interests	2,894,853	158,013	36,449	–	–	55,134,374	58,223,689
Short-term debts	–	200,000	2,050,000	–	–	(200,000)	2,050,000
Long-term debts	15,661,372	–	–	–	7,190,966	(4,206,185)	18,646,153

4. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
	(In Thousands)	
Cash and other cash items	**₱18,246,400**	₱21,298,919
Cash equivalents:		
Due from *Bangko Sentral ng Pilipinas* (BSP)	**103,289,436**	102,723,312
Interbank loans receivable	**44,088,031**	11,248,455
Securities held under agreements to resell	**20,245,048**	20,700,000
Due from other banks	**17,379,718**	20,525,318
	₱203,248,633	₱176,496,004

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 Note 22 and 25).

5. Financial Assets at Fair Value through Profit or Loss

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

	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
	(In Thousands)	
Government securities	**₱23,037,665**	₱8,457,713
Derivative assets (Note 19)	**1,953,331**	574,628
Equity securities	**1,572,370**	545,148
Unit investment trust fund	**789,205**	789,949
Private debt securities	**309,838**	415,583
	₱27,662,409	₱10,783,021

6. Financial assets at fair value through other comprehensive income (FVTOCI)

Financial Assets at FVTOCI consist of:

	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
	(In Thousands)	
Government securities	**₱76,440,748**	₱33,565,677
Other debt securities	**24,126,549**	17,672,009
Equity securities:		
Quoted	**3,766,283**	3,984,141
Unquoted	**2,168,379**	2,129,641
	106,501,959	57,351,468
Noncurrent portion	**(89,060,237)**	(48,094,583)
	₱17,441,722	₱9,256,885

7. Loans and Receivables

Loans and receivables consist of:

	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
	(In Thousands)	
Finance receivables	**₱607,956,633**	₱593,748,803
Trade receivables	**15,721,970**	14,311,108
Other receivables	**4,184,885**	3,193,332
	627,863,488	611,253,243
Allowance for credit losses	**(19,489,824)**	(17,564,900)
	608,373,664	593,688,343
Noncurrent portion	**(437,550,430)**	(347,753,938)
	₱170,823,234	₱245,934,405

Finance Receivables

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

	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
	(In Thousands)	
Receivables from customers:		
Loans and discounts	**₱558,884,181**	₱539,217,233
Credit card receivables	**₱13,881,120**	₱13,412,063
Customers’ liabilities on acceptances, letters of credit and trust receipts	**11,902,530**	13,996,644

(Forward)

	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
	(In Thousands)	
Finance lease receivables	**2,776,438**	2,928,339
Bills purchased	**2,432,170**	2,222,377
	589,876,440	571,776,656
Other receivables:		
Accrued interest receivable	**7,443,375**	6,717,723
Sales contract receivables	**7,160,638**	11,916,785
Accounts receivable	**3,810,593**	4,025,936
Miscellaneous	**548,594**	552,443
	18,963,200	23,212,887
	608,839,640	594,989,543
Unearned interest and other deferred income	**(883,007)**	(1,240,740)
	607,956,633	593,748,803
Allowance for credit losses	**(19,014,133)**	(17,100,449)
	588,942,500	576,648,354
Noncurrent portion	**(436,914,120)**	(347,459,220)
	₱152,028,380	₱229,189,134

Trade receivables

Trade receivables consist of:

	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
	(In Thousands)	
Consumer goods	**₱14,423,856**	₱12,916,794
Contract receivables	**1,283,960**	1,348,498
Lease receivables	**14,154**	45,816
	15,721,970	14,311,108
Allowance for credit losses	**(464,451)**	(453,211)
	15,257,519	13,857,897
Noncurrent portion of contract receivables	**(636,310)**	(294,718)
	₱14,621,209	₱13,563,179

8. Inventories

Inventories consist of:

	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
	(In Thousands)	
At Cost:		
Consumer goods:		
Alcohol	**₱2,769,652**	₱3,247,739
Beverage	**2,525,974**	2,886,739
	5,295,626	6,134,478
Real estate inventories:		
Land held for future development	**4,189,968**	4,543,419
Condominium and residential units	**607,917**	507,099
Subdivision land under development	**217,542**	217,542
	5,015,427	5,268,060
Fuel, materials and supplies	**2,156,747**	1,006,896
	12,467,800	12,409,434
At NRV -Materials and supplies	**735,888**	698,770
	₱13,203,688	₱13,108,204

9. Other Current Assets

Other current assets consist of:

	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
	(In Thousands)	
Creditable withholding taxes (CWT)	**₱4,704,545**	₱4,749,253
Input VAT	**1,761,505**	1,432,793
Excise tax	**1,109,770**	278,257
Prepaid expenses	**1,095,649**	863,781
Advances to suppliers	**973,292**	907,300
Stationeries, office supplies and stamps on hand	**543,218**	96,754
Deferred rent	**192,065**	170,162
Miscellaneous cash and other cash items	**91,205**	242,058
Deferred charges	**2,805**	2,549
Others	**223,536**	362,793
	₱10,697,590	₱9,105,700

10. 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	
	June 30, 2019	December 31, 2018	**June 30, 2019**	December 31, 2018
			(In Thousands)	
Associates:				
PMFTC	**49.6%**	49.6%	**₱14,086,389**	₱12,818,935
VMC	**30.9%**	30.9%	**2,796,746**	2,648,053
APLII	**44.0%**	44.0%	**2,541,265**	2,415,414
AB HPI	**50.0%**	50.0%	**–**	274,897
Joint Ventures:				
AEDC	**50.0%**	50.0%	**2,135,331**	2,126,326
ABI Pascual Holdings	**50.0%**	50.0%	**24,463**	30,516
			₱21,584,194	₱20,314,141

Investment in PMFTC

On February 25, 2010, FTC and Philip Morris Philippines Manufacturing, Inc. (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 between FTC and its related parties and PMPMI. The establishment of PMFTC allows FTC and PMPMI to benefit from their respective, complementary brand portfolios as well as cost synergies from the resulting integration of manufacturing, distribution and procurement, and the further development and advancement of tobacco industry growing in the Philippines. FTC and PMPMI hold equal economic interest in PMFTC. Since PMPMI has majority of the members of the BOD, it has control over PMFTC. FTC considers PMFTC as an associate.

As a result of FTC's divestment of its cigarette business to PMFTC, FTC initially recognized the investment amounting to ₱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 until 2017 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 of selected assets and liabilities, portion of the revaluation increment on FTC's property, plant and equipment amounting to ₱1.9 billion was transferred to retained earnings.

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 PMPMI and confirmed the execution of the Termination Agreement.

Investment in VMC
On December 21, 2007, the Company acquired 170.1 million shares representing 10.67% ownership in the shares of stock of VMC for ₱85.1 million presented as AFS investments as of December 31, 2013.

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%.

On May 23, 2017, portions of the convertible notes amounting to ₱58.94 million were converted to shares of stock of VMC resulting to an increase in the Group's percentage of ownership to 30.9% as of September 30, 2018 and December 31, 2017.

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 18). Amortization amounting to ₱36.5 million was recognized in 2016. 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.

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.

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.

Investment in AEPDC
On January 21, 2016, the Company entered into an agreement with Ayala Land Inc. (ALI) to jointly develop a project along the C5 corridor. The project is envisioned to be a township development that spans portion of Pasig City and Quezon City. On April 15, 2016, the Company infused ₱20.0 million to the joint project with ALI.

On July 5, 2017, the Company subscribed to additional 25,200,000 common shares and 226,800,000 preferred shares from AEPDC's increase in authorized capital stock for a consideration totaling to ₱252.0 million. Unpaid subscription in shares of stock of AEPDC included as part of "Subscription payable" account amounted to ₱30.5 million as of December 31, 2017.

On November 20, 2017, the Company made additional capital infusion amounting to ₱400.5 million for the joint venture's initial purchase of land.

Additional investments in various dates within the year 2018, amounted to ₱1.1 billion.

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

Additions to property, plant and equipment amounted to ₱2,336.5 million while retirement and disposals amounted to ₱482.0 million for the period ended June 30, 2019.

Additions to investment properties amounted to ₱810.8 million while retirement and disposals amounted to ₱279.2 million for the period ended June 30, 2019.

12. Other Noncurrent Assets

Other noncurrent assets consist of:

	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
	(In Thousands)	
Software costs	**₱2,633,270**	₱2,306,565
Advances to suppliers	**2,262,690**	1,838,352
Deferred charges	**927,189**	558,225
Net retirement plan assets (Note 21)	**279,455**	280,464
Deferred input VAT	**231,631**	347,974
Refundable and security deposits	**192,952**	308,237
Goodwill	**163,735**	163,735
Prepaid excise taxes	**111,186**	797,388
Checks for clearing	**111,035**	499,792
Chattel properties - net	**109,265**	109,265
Distribution network access	**105,020**	294,994
Others – net	**1,394,078**	225,301
	8,521,506	7,730,292
Allowance for probable losses	**(1,178,938)**	(1,178,970)
	₱7,342,568	₱6,551,322

13. Deposit Liabilities

Deposit liabilities consists of:

	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
	(In Thousands)	
Savings	**₱412,596,924**	₱387,882,302
Time	**189,206,792**	178,613,954
Demand	**156,607,403**	153,065,163
	758,411,119	719,561,419
Presented as noncurrent	**(43,063,147)**	(47,219,123)
Presented as current	**₱715,347,972**	₱672,342,296

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

Financial liabilities at fair value through profit or loss consist of derivatives liabilities amounting to ₱206.1 million and ₱470.6 million as of June 30, 2019 and December 31, 2018, respectively.

15. Bills and Acceptances Payable

Bills and acceptance payable consist of:

	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
	(In Thousands)	
Bills payable to:		
BSP and local banks	**₱69,809,187**	₱67,792,569
Foreign banks	**494,298**	521,405
Others	**432,990**	3,000
	70,736,475	68,316,974
Acceptances outstanding	**1,943,011**	1,765,861
	72,679,486	70,082,835
Less noncurrent portion	**(5,526,577)**	(9,533,590)
Current portion	**₱67,152,909**	₱60,549,245

16. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of:

	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
	(In Thousands)	
Trade payables	**₱12,349,377**	₱11,622,664
Nontrade payables	**803,856**	608,134
Accrued expenses:		
Purchase of materials and supplies and others	**3,043,839**	1,617,040
Interest	**1,933,774**	1,529,514
Other benefits - monetary value of leave	**1,555,817**	1,648,520
Taxes and licenses	**997,362**	784,500
Advertising and promotional expenses	**806,615**	804,477
Retention payable	**733,069**	924,505
Project development costs	**692,716**	1,097,299
PDIC insurance premiums	**416,309**	716,041
Rent and utilities payable	**341,646**	365,446
Information technology-related expenses	**192,125**	145,206
Due to government agencies	**95,771**	107,104
Output value added tax	**271,043**	113,898
Other payables	**1,024,212**	432,134
	₱25,257,531	₱22,516,482

17. Short-term and Long-term Debts

Short-term Debts

As of June 30, 2019, and December 31, 2018, outstanding unsecured short-term debts amounted to ₱2,050.0 million. The loans are subject to annual interest rates ranging from 3.3% to 7.0% in 2019 and 2018, are payable lump-sum on various dates within one year and subject to renewal upon agreement by the Group and counterparty banks.

Long-term Debts

	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
	(In Thousands)	
Bonds payable	**₱67,223,446**	₱15,661,372
Unsecured term loan	**2,707,922**	2,893,952
Notes payable	**278,285**	90,829
	70,209,653	18,646,153
Current portion	**(278,285)**	(90,829)
Noncurrent portion	**₱69,931,368**	₱18,555,324

PNB's Bonds Payable

4.25% USD 300 Million Fixed Rate Medium Term Note

On April 26, 2018, the Group issued 4.25% fixed coupon rate (EIR of 4.43%) unsecured medium-term note listed on the Singapore Stock Exchange at par value of $300 million in preparation for the higher capital and liquidity requirements required by the Bangko Sentral ng Pilipinas in the succeeding year. The bonds have an issue price of 99.532%, interest payable at semi-annual, tenor of five years and a day, and maturity of April 27, 2023.

As of December 31, 2018, the unamortized transaction cost of bonds payable amounted to ₱116.3 million. Amortization of transaction costs amounting to ₱12.2 million was charged to 'Interest expenses - bonds payable' in the consolidated statement of income.

Finance costs

Interest recognized on short-term and long-term debts, except for subordinated debts, are presented under "Finance costs" in the consolidated statements of income. Interest costs from subordinated debts are included in the "Cost of banking services".

Compliance with debt covenants

As of June 30, 2019 and December 31, 2018, the Group has complied with the financial and non-financial covenants of its long-term debts.

18. **Other Liabilities**

	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
	(In Thousands)	
Other dormant credits and float items	**₱1,763,472**	₱926,566
Bills purchased - contra (Note 8)	**1,577,634**	1,396,318
Payable to landowners	**1,505,191**	911,826
Managers' checks and demand drafts outstanding	**1,463,263**	2,610,460
Customers' deposits	**1,287,455**	1,115,106
Due to other banks	**872,654**	1,319,838
Provisions (Note 38)	**849,014**	715,776
Deposit on lease contracts	**773,496**	823,968
Other deferred revenue (Note 12)	**756,675**	857,493
Due to Treasurer of the Philippines	**696,451**	571,235
Tenants' rental deposits	**397,510**	1,026,379
Withholding taxes payable	**336,978**	513,136
Miscellaneous tax securities	**295,662**	216,165
Payment order payable	**244,217**	632,477
Advance rentals	**66,271**	104,566
Margin deposits and cash letters of credit	**43,751**	44,383
Others	**3,422,833**	695,078
	16,352,527	14,480,770
Presented as noncurrent	**(5,240,058)**	(5,864,593)
	₱11,112,469	₱8,616,177

19. **Derivative Financial Instruments**

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

	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
	(In Thousands)	
Balance at beginning of year	**₱103,980**	₱219,462
Availments	**1,643,201**	784,132
Changes in fair value	–	(899,614)
	₱1,747,181	₱103,980

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

20. Related Party Transactions

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

		Six Months Ended June 30	
		2019	2018
		(Unaudited)	(Unaudited)
		(In Thousands)	
Associate	Dividend income	**₱4,385,139**	₱3,248,900
	Purchases of inventories	**760,454**	543,403
	Sales	**190,480**	272,789
	Lease	**18,604**	17,550
Entities Under Common Control	Banking revenue - interest on loans and receivables	**305,366**	595,274
	Sales of consumer products	**13,102**	12,821
	Rent income	**3,804**	5,421
	Freight and handling	**(708)**	(7,746)
	Cost of banking services - interest expense on deposit liabilities	**(89,929)**	(74,208)
	Cost of sales and services	**(1,062)**	(20,971)
	Management and professional fees	**(32,804)**	(346,933)

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

			Outstanding Balance	
	Financial Statement Account	**Terms and Conditions**	**June 30, 2019 (Unaudited)**	December 31, 2018 (Audited)
			(In Thousands)	
Parent Company	Due to related parties	On demand; non-interest bearing	**(₱15,325)**	(₱15,325)
	Due from related parties	On demand; non-interest bearing	**509,000**	509,000
Associate	Other receivables - dividends	30 to 90 days terms; non-interest bearing	–	513,610
	Trade receivables	- do -	**793,895**	800,524
	Nontrade receivables	- do -	**123,726**	137,005
	Account payable and other liabilities	30 to 60 days terms; non-interest bearing	**(390,242)**	(398,177)
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	**32,998,288**	29,960,818
	Trade receivables	- do -	**11,900**	18,396
	Other receivables	- do -	**16,713**	16,730
	Due from related parties	On demand; non-interest bearing	**1,519,632**	1,519,632
	Advances to suppliers	- do -	**7,983**	–
	Deposit liabilities	With annual rates ranging from 0.38% to 1.73% and maturity ranging from 30 days to one year	**(14,964,946)**	(16,054,513)
	Account payable and other liabilities	30 to 90 days terms; non-interest bearing	**(294,385)**	(295,670)
	Due to related parties	On demand; non-interest bearing	**(64,874)**	(64,874)
	Other payables	30 to 90 days terms; non-interest bearing	**(17,676)**	–

As of June 30, 2019, and December 31, 2018, the outstanding related party balances are unsecured, and settlement occurs in cash, unless otherwise indicated. The Group has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related parties and the market in which these related parties operate.

21. Retirement Benefits

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

	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
	(In Thousands)	
Net retirement plan assets:		
FTC	**₱250,314**	₱250,314
TDI	**15,138**	15,138
LTG	**8,742**	8,742
AAC	**5,261**	6,270
	₱279,455	₱280,464
Net retirement benefits liabilities:		
PNB	**₱868,705**	₱1,221,893
ABI and subsidiaries	**400,936**	363,324
Eton	**40,747**	31,754
ADI	**17,230**	19,230
	₱1,327,618	₱1,636,201

<u>Transactions with Retirement Plans</u>

Management of the retirement funds of the banking segment is handled by the PNB Trust Banking Group (TBG). As of June 30, 2019 and December 31, 2018, the retirement fund of the Group includes 7,513,746 shares of PNB classified under FVTPL. No limitations and restrictions are provided and voting rights over these shares are exercised by a trust officer or any of its designated alternate officer of TBG.

As of June 30, 2019 and December 31, 2018, financial assets at FVTPL and HTM investments include government and private debt securities and various funds. Deposits with other banks pertain to Special Deposit Accounts (SDA) placement with BSP.

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

22. **Revenue and Cost of Sales and Services**

Revenue consists of:

	Six Months Ended June 30	
	2019 (Unaudited)	2018 (Unaudited)
	(In Thousands)	
Banking revenue	**₱26,868,035**	₱18,724,379
Sale of consumer goods	**17,106,683**	15,588,921
Rental income	**808,896**	727,025
Real estate sales	**583,655**	486,115
	₱45,367,269	₱35,526,440

Sale of consumer goods consists of:

	Six Months Ended June 30	
	2019 (Unaudited)	2018 (Unaudited)
	(In Thousands)	
Gross sales	**₱18,193,051**	₱16,707,680
Less sales returns, discounts and allowances	**1,086,368**	1,118,759
	₱17,106,683	₱15,588,921

Banking revenue consists of:

	Six Months Ended June 30	
	2019 (Unaudited)	2018 (Unaudited)
	(In Thousands)	
Interest income on:		
Loans and receivables	**₱19,093,221**	₱13,944,622
Trading and investment securities	**3,989,243**	2,024,594
Deposits with banks and others	**246,897**	397,725
Interbank loans receivable	**239,476**	188,965
	23,568,837	16,555,906
Service fees and commission income	**2,330,880**	2,079,114
Trading and securities gains	**968,318**	89,359
	₱26,868,035	₱18,724,379

Cost of sales and services consists of:

	Six Months Ended June 30	
	2019 (Unaudited)	2018 (Unaudited)
	(In Thousands)	
Cost of consumer goods sold:		
Materials used and changes in inventories	**₱9,311,921**	₱8,379,016
Depreciation and amortization	**787,477**	735,423
Fuel and power	**683,513**	564,977
Taxes and licenses	**591,852**	530,876
Personnel costs	**557,370**	450,978
Communication, light and water	**418,132**	393,157
Repairs and maintenance	**281,618**	211,413
Outside services	**202,426**	243,076
Freight and handling	**193,159**	136,807
Others	**182,061**	338,117
	13,209,529	11,983,840
Cost of banking services	**9,182,152**	3,953,670
Cost of real estate sales	**314,054**	244,459
Cost of rental income	**203,078**	175,624
Cost of sales and services	**₱22,908,813**	₱16,357,593

Other expenses include insurance, occupancy fees and representation which are not significant as to amounts.

Cost of banking services consist of:

	Six Months Ended June 30	
	2019 (Unaudited)	2018 (Unaudited)
	(In Thousands)	
Interest expense on:		
Deposit liabilities	**₱7,100,535**	₱3,146,817
Bills payable and other borrowings	**1,114,140**	404,469
Bonds payable	**492,342**	–
Services fees and commission expense	**475,135**	402,384
	₱9,182,152	₱3,953,670

23. Selling Expenses

	Six Months Ended June 30	
	2019 (Unaudited)	2018 (Unaudited)
	(In Thousands)	
Advertising and promotions	**₱753,609**	₱612,202
Freight and handling	**263,986**	263,397
Depreciation and amortization	**141,648**	150,938
Management, consulting and professional fees	**95,532**	65,831
Personnel costs	**61,730**	59,683
Commissions	**40,921**	30,614
Repairs and maintenance	**33,025**	6,591
Materials and consumables	**21,803**	7,667
Others	**93,449**	106,147
	₱1,505,703	₱1,303,070

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

24. General and Administrative Expenses

	Six Months Ended June 30	
	2019 (Unaudited)	2018 (Unaudited)
	(In Thousands)	
Personnel costs	**₱5,374,482**	₱4,941,232
Taxes and licenses	**2,499,638**	2,081,644
Depreciation and amortization	**1,473,250**	1,024,452
Insurance	**934,790**	863,970
Provision for losses	**808,820**	1,236,198
Marketing expenses	**699,419**	589,038
Occupancy	**538,406**	807,929
Outside services	**510,941**	741,922
Management, consulting and professional fees	**460,386**	479,324
Information technology	**361,764**	254,690
Travel and transportation	**234,035**	180,084
Materials and consumables	**153,243**	127,518
Communication, light and water	**124,463**	122,553
Repairs and maintenance	**114,760**	122,137
Fuel and oil	**16,697**	4,805
Others	**948,500**	763,972
	₱15,253,594	₱14,341,468

25. Finance Costs and Finance Income

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

	Six Months Ended June 30	
	2019 (Unaudited)	2018 (Unaudited)
	(In Thousands)	
Finance costs (Note 17):		
Short-term debts	**₱95,391**	₱31,231
Unsecured term loan and notes payable	**30,347**	19,176
	₱125,738	₱50,407
Finance income:		
Cash and other cash items (Note 4)	**₱63,727**	₱44,627
Interest-bearing contracts receivable (Note 7)	**12,331**	8,635
	₱76,058	₱53,262

26. Other Income (Charges) - net

	Six Months Ended June 30	
	2019 (Unaudited)	2018 (Unaudited)
	(In Thousands)	
Rental income	**₱368,660**	₱382,597
Net gain on sale or exchange of assets	**230,311**	4,592,265
Income from assets acquired	**45,521**	73,994
Dividend income	**43,098**	61,697
Recoveries	**22,077**	26,349
Processing and referral fees	**1,553**	1,691
Others	**492,153**	368,383
	₱1,203,373	₱5,506,976

27. Income Taxes

Income taxes include the corporate income tax, discussed below, and final taxes paid which represents final withholding tax on gross interest income from government securities and other deposit substitutes and income from the FCDU transactions. These income taxes, as well as the deferred tax benefits and provisions, are presented as ‘Provision for income tax’ in the 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 10.00% income tax.

Provision for current income tax consists of:

	Six Months Ended June 30	
	2019 Unaudited)	2018 (Unaudited)
	(In Thousands)	
RCIT/MCIT	**₱1,151,372**	₱2,310,947
Final tax	**744,269**	318,795
Provision for current income tax	**₱1,895,641**	₱2,629,742

28. **Equity**

Capital Stock

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

Authorized capital stock at ₱1 par value	
At the beginning and end of the period	**25,000,000,000 shares**
Issued capital stock at ₱1 par value:	
At the beginning and end of the period	**₱10,821,388,889**

29. **Basic/Diluted Earnings Per Share**

Basic/diluted earnings per share were calculated as follows:

	Six Months Ended June 30	
	2019 (Unaudited)	2018 (Unaudited)
	(In Thousands)	
Net income attributable to equity holders of the Company	**₱9,237,145**	₱8,963,127
Divided by weighted-average number of shares	**10,821,389**	10,821,389
Basic/diluted EPS for net income attributable to equity holders of the Company	**₱0.85**	₱0.83

30. **Financial Risk Management Objectives and Policies**

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

Financial Risk Management Objectives and Policies of the Banking Segment

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

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

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

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

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

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

The Risk Management Group (RMG) provides the legwork for the ROC in its role of formulating the risk management strategy, the development and maintenance of the internal risk management framework, and the definition of the governing risk management principles. The RMG provides assistance to the Assets and Liabilities Committee (ALCO) on capital management and the Board Policy Committee on the management of regulatory capital.

The mandate of the RMG involves:

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

Credit Risk

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

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

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

- Documented credit policies and procedures: sound credit granting process, risk asset acceptance criteria, target market and approving authorities;
- System for administration and monitoring of exposure;
- Pre-approval review of loan proposals;
- Post approval review of implemented loans;
- Work out system for managing problem credits;
- Regular review of the sufficiency of valuation reserves;
- Monitoring of the adequacy of capital for credit risk via the Capital Adequacy Ratio (CAR) report;
- Monitoring of breaches in regulatory and internal limits;
- Credit risk management dashboard;
- Diversification;
- Internal risk rating system for corporate accounts;
- Credit scoring for retail accounts; and
- Active loan portfolio management undertaken to determine the quality of the loan portfolio and identify the following:
  a. portfolio growth
  b. movement of loan portfolio (cash releases and cash collection for the month)
  c. loss rate
  d. recovery rate
  e. trend of nonperforming loans (NPLs)
  f. concentration risk (per classified account, per industry, clean exposure, large exposure, contingent exposure, currency, security, facility, demographic, etc.)

The banking segment collects data on risk rating of loan borrowers with an asset size of ₱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
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. Concentration by Industry

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.

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

- CRR 1 - Excellent
  Loans receivables rated as excellent include borrowers which are significant in size, with long and successful history of operations, an industry leader, with ready access to all equity and debt markets and have proven its strong debt service capacity.

- CRR 2 - Super Prime
  Loans receivables rated as super prime include borrowers whose ability to service all debt and meet financial obligations remains unquestioned.

- CRR 3 - Prime
  Under normal economic conditions, borrowers in this rating have good access to public market to raise funds and face no major uncertainties which could impair repayment.

- CRR 4 - Very Good
  Loans receivables rated as very good include borrowers whose ability to service all debts and meet financial obligations remain unquestioned, but current adverse economic conditions or changing circumstances have minimal impact on payment of obligations.

- CRR 5 - Good
  Loans receivables rated as good include borrowers with good operating history and solid management, but payment capacity could be vulnerable to adverse business, financial or economic conditions.

Standard

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

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

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

Sub-standard Grade

- CRR 9 - Fair
  These are performing loans receivables from borrowers not qualified as CRRs 1-8. The borrower is able to withstand normal business cycles, although any prolonged unfavorable economic and/or market period would create an immediate deterioration beyond acceptable levels.

- CRR 10 - Watchlist
  This rating includes borrower where the credit exposure is not at risk of loss at the moment, but the performance of the borrower has weakened and, unless present trends are reversed, could eventually lead to losses.

- CRR 11 - Special Mention
  These are loans that have potential weaknesses that deserve management's close attention. These potential weaknesses, if left uncorrected, may affect the repayment of the loan and thus increase credit risk to the banking segment.

- CRR 12 - Substandard
  These are loans or portions thereof which appear to involve a substantial and unreasonable degree of risk to PNB because of unfavorable record or unsatisfactory characteristics.

- CRR 13 - Doubtful
  These are loans or portions thereof which have the weaknesses inherent in those classified as CRR 12 with the added characteristics that existing facts, conditions and values make collection or liquidation in full highly improbable and in which substantial loss is probable.

- CRR 14 - Loss
  These are loans or portions thereof which are considered uncollectible or worthless.

The banking segment is using the Credit Scoring for evaluating borrowers with assets size below ₱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.

<u>Trading and Investment Securities and Other Financial Assets</u>
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 is judged to be of high quality and is 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.

<u>Impairment assessment</u>
The Group recognizes impairment or credit losses based on the results of specific (individual) and collective assessment of its credit exposures. A possible impairment has taken place when there is presence of known difficulties in the payment of obligation by counterparties, a significant credit rating downgrade takes place, infringement of the original terms of the contract has happened, or when there is an inability to pay principal or interest overdue beyond a certain threshold (e.g., 90 days). These and other 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.

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

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

Trading market risk

Trading market risk exists in the banking segment as the values of its trading positions are sensitive to changes in market rates such as interest rates, foreign exchange rates and equity prices. PNB is exposed to trading market risk in the course of market making as well as from taking advantage of market opportunities. For internal monitoring of the risk in the trading portfolio, the banking segment uses the Value-at-Risk (VaR) as a primary risk measurement tool. It adopts both the Parametric VaR methodology and Historical Simulation methodology (with 99% confidence level) models were validated by an external independent validator. Volatilities used in the parameter 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 underestimated 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 bechecked 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 VA 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.

Structural Market Risk of the Banking Segment

Non-trading Market Risk

Interest rate risk

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

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

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

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

As one of the long-term goals in the risk management process, the banking segment has 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.

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

<u>Risk Management Strategies</u>
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).

<u>Credit Risk</u>
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.

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

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

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

Market Risks 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.

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, 2018 and 2017, 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.

31. **Fair Values of Financial Instruments**

The Group has assets and liabilities that are measured at fair value on a recurring and non-recurring basis in the consolidated balance sheets after initial recognition. Recurring fair value measurements are those that another 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 FVTPL and financial assets through other comprehensive income. 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 June 30, 2019, and December 31, 2018, the carrying values of the Group's financial assets and liabilities approximate their respective fair values, except for the following financial instruments:

	June 30, 2019		December 31, 2018	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
		(In Thousands)		
Financial Assets:				
Financial assets at amortized cost/ HTM investments	**₱94,450,373**	**₱96,135,560**	₱99,772,711	₱96,187,595
Loans and receivables:				
Receivables from customers	**580,531,226**	**593,276,242**	561,351,072	561,366,817
Unquoted debt securities	**–**	**–**	–	–
	₱697,474,561	**₱696,233,014**	₱661,123,783	₱657,554,412
Financial Liabilities:				
Financial liabilities at amortized cost:				
Deposit liabilities -				
Time deposits	**₱158,638,103**	**₱159,720,141**	₱147,210,729	₱144,481,264
Bills payables	**70,736,475**	**70,892,248**	68,316,974	68,305,178
Long term debts:				
Subordinated debt	**3,497,797**	**3,551,484**	3,497,797	3,551,484
Unsecured term loan	**2,707,922**	**2,462,041**	2,893,952	2,631,179
Bonds payable	**67,223,446**	**75,574,474**	15,661,372	16,019,776
LTNCD	**30,568,689**	**29,486,651**	31,403,225	28,517,657
Other liabilities:				
Payable to landowners	**1,505,191**	**1,493,107**	911,826	904,506
Tenants' rental deposits	**397,510**	**386,451**	506,007	491,929
	₱335,275,133	**₱343,566,597**	₱270,401,882	₱264,902,973

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 3.00% to 4.13% as of June 30, 2019 and December 31, 2018, respectively.

Unsecured term loans, notes payable, payable to landowners, tenants' rental deposits and advance rentals - Fair values are estimated using the discounted cash flow method based on the discounted value of future cash flows using the applicable risk-free rates for similar types of instruments. The discount rates used range from 2.36% to 4.73% as of June 30, 2019 and December 31, 2018, respectively.

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

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

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

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value is 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.

32. Capital Management

The main thrust of the Group's capital management policy is to ensure that the Group complies with externally imposed capital requirements, maintains a good credit standing and has a sound capital ratio to be able to support its business and maximize the value of its shareholder's equity. The Group is also required to maintain debt-to-equity ratios to comply with certain loan agreements and covenants in 2018 and 2017.

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 2018 and 2017.

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

The table below shows the leverage ratios of the Group:

	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
	(In Thousands, except ratios)	
Total liabilities	**₱962,565,230**	₱866,586,420
Total equity	**242,254,918**	231,190,388
Total liabilities and equity	**₱1,204,820,148**	₱1,097,776,808
Debt ratio	**0.80:1**	0.79:1
Debt-to-equity ratio	**3.97:1**	3.75:1

33. Commitments and Contingencies

There were no changes in the Group's commitments and contingencies from those disclosed in the December 31, 2018 annual consolidated financial statements.

34. Seasonality of Interim Operations

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

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

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

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

35. **Assets and Liabilities of Disposal Group Classified as Held for Sale 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.

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.

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. These amounts are presented as part of discontinued operations in 2016.

Exchange of shares of PNB Gen for shares of Allied Bankers Insurance Corp. (ABIC)
On April 26, 2018, the BOD of PNB and PNB Holdings approved the exchange of all their holdings in PNB Gen for shares in ABIC. As a result, PNB reclassified all the assets and liabilities of PNB Gen to ‘Assets of disposal group classified as held for sale’ and ‘Liabilities of disposal group classified as held for sale’, respectively, in the consolidated balance sheet. The business of PNB Gen represented the entirety of the Group’s non-life insurance business. PNB Gen was previously presented in the ‘Others’ section of the business segment disclosure. With PNB Gen being classified as a discontinued operation in 2018, the comparative consolidated statement of income and comprehensive income and cash flow in 2017 and 2016 have been re-presented to show the discontinued operations separately from the continued operations.

36. Events After the Reporting Date

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

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

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

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

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

LT GROUP, INC. AND SUBSIDIARIES
SELECTED EXPLANATORY NOTES
As at June 30, 2019 and December 31, 2018
And for the Six Months Ended June 30, 2019 and 2018
(As required under Par. 7 (d) Selected Explanatory Notes Required Under SRC Rule 68, as Amended 2011)

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

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

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

Beverage Segment is affected by seasonality of operations.

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

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

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

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

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

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

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

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

On April 10, 2019, the Board of Directors of LTG approved the declaration and distribution of regular cash dividends of ₱0.15 per share and special cash dividends of ₱0.15 per share to all stockholders of record as of April 29, 2019. The dividends were paid on May 8, 2019.

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

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

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

None.

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

None.

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

None. The Company has no contingent liabilities or assets.

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

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

Beverage
ABI maintains a legal department whose main function is to pursue collection cases and handle litigation arising from labor disputes. As of June 30, 2019, ABI does not have any significant legal proceedings either against it or in pursuit of another party besides those arising from the ordinary course of business.

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

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, CristetaBabaison, 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 listeners, 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. Kingston filed a Notice of Appeal which was docketed as CA-G.R.-CV no. 106191. Paramount and Eton already filed their Appellees' Brief on September 21, 2016.

Per the Resolution dated March 8, 2017 of the Court of Appeals, the case is deemed submitted for decision.

Tobacco

Sandiganbayan case against Tan Companies

On June 6, 2011, a motion was submitted by the Government seeking to include PMFTC and its directors/officers as additional defendants in the forfeiture case pending before the Sandiganbayan against Mr. Lucio C. Tan, FTC, et al. since 1987. The Government claims that by transferring the assets owned by FTC to PMFTC as a result of the business combination, the FTC assets have been removed beyond the reach of the Government and the court. The Sandiganbayan denied this motion with finality on August 2011, ruling that they are not necessary or indispensable parties under the law. In a decision in June 2012, the Sandiganbayan also dismissed the forfeiture case against all the defendants for failure of the Government to prove that the assets that formed the subject of the case were ill-gotten wealth. The Government's motion for reconsideration was likewise denied in September 2012. On October 29, 2014, FTC received a resolution from the Supreme Court requiring it to submit its memorandum, which was subsequently filed on January 30, 2015.

Annex "B"

LT GROUP, INC. AND SUBSIDIARIES

Management Discussion and Analysis of
Financial Condition and Results of Operations

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

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

<u>RESULTS OF OPERATIONS</u>

LT Group, Inc. (LTG) reported a consolidated net income attributable to equity holders of ₱9.2 billion for the six months ended June 30, 2019, 3.1% more than the ₱9.0 billion recorded for the same period last year. This was on account of the improvement in the operating results of the tobacco, beverage and property development segments, which more than offset the lower net income of the banking and distilled spirits segments. The tobacco segment's net income increased by ₱1.0 billion from ₱4.9 billion in 2018 to ₱5.9 billion in 2019. Property development segment's net income was ₱371 million, 75.0% higher than the ₱212 million in 1H18. The beverage segment's net income of ₱244 million in 1H19 was higher by 11.9% compared to the recorded income of ₱218 million in the same period last year. The banking segment's net income was down by 26.6% from ₱5.5 billion for the first half of 2018 to ₱4.0 billion in the same period of 2019 on account of the decline in net gains on sale or exchange of assets. Distilled spirits segment's net income was ₱380 million, 13.0% lower than the ₱437 million recognized for the period ended June 30, 2018. Equity in net earnings from the 30.9% stake in VMC contributed ₱148 million compared to ₱115 million in the same period last year.

Consolidated revenues amounted to ₱45.4 billion for the six months ended June 30, 2019, 27.7% higher than the ₱35.5 billion recognized in 2018 on account of the increased revenues in the banking, beverage distilled spirits and property development segments.

Cost of sales and services increased by 40.1% from ₱16.4 billion for the six months ended June 30, 2018 to ₱22.9 billion in the same period in 2019, primarily attributable to higher interest expense on deposit liabilities and increased cost of sales of the beverage and distilled spirits segments mainly due to the higher volume and higher raw material costs.

Operating expenses amounted to ₱16.8 billion in 1H19 from ₱15.6 billion in 1H18 or an increase of 7.1%. This was as a result of increased general and administrative expenses by 6.4%, from ₱14.3 billion in 2018 to ₱15.3 billion in 2019 and increase of 15.6% in selling expenses.

SEGMENT OPERATIONS

Tobacco

The tobacco segment's net income was ₱5.9 billion for the six months ended June 30, 2019, higher than the ₱4.9 billion of the same period last year on account of the increase in equity in net earnings from PMFTC (FTC's 49.6% owned associate) from ₱4.7 billion last year to ₱5.7 billion in 2019.

Property Development

The property development segment reported a net income of ₱371 million for the first six months of 2019, 75.0% higher than the ₱212 million for the same period last year.

Rental revenues for the first six months of 2019 accounted for ₱809 million or 58.1% of revenues, representing a 11.3% growth over the same period in 2018, as lease contracts were renewed at higher rates for the BPO offices as well as the additional retail space completed in 2018 that contributed to the growth. Real estate sales were 20.2% higher y-o-y to ₱584 million.

Operating expenses were lower by 9.7% from ₱435 million in 1H18 to ₱393 million in 1H19.

Beverage

The beverage segment's net income was higher by 11.9% to ₱244 million for the six months ended June 30, 2019 from ₱218 million in the same period last year.

Revenues of the beverage segment were higher by 10.4% to ₱8.1 billion in 2019 from ₱7.3 billion in 2018. This was driven by the growth in revenues in energy drinks, bottled water and soymilk. Overall gross profit margin improved to 28.1% from 27.2% as a result of a favorable product mix.

Operating expenses increased by 12.4% to ₱1.3 billion in 2019 from ₱1.2 billion in 2018 on account of higher advertising, personnel, outside services and taxes and licenses.

Banking

The banking segment's net income was ₱5.5 billion for the six months ended June 30, 2019, 26.6% lower than the ₱4.0 billion recorded for the same period in 2018.

Interest income from banking operations was at ₱23.7 billion in 2019, 41.9% higher than the ₱16.7 billion earned last year, mainly on account of the expansion in loan and investment securities portfolios. Interest expense was at ₱9.0 billion for the six months ended June 30, 2019, up 147.7% from ₱3.6 billion in same period of 2018 primarily due to growth in deposit liabilities and other borrowings resulting to a net interest income of ₱14.7 billion, 12.6% higher year-on-year.

Net service fees and commission income improvement from the previous period's ₱1.7 billion to ₱1.9 billion in the current period were driven by the growth in deposit and credit card related fees.

Miscellaneous income decreased by 59.5% to ₱2.4 billion from ₱6.0 billion, due to lower gain from the sale of Real and Other Properties Acquired (ROPA). On the other hand, trading and investment securities and net foreign exchange gains was higher at ₱2.3 billion in 1H19 compared to 1H18's ₱2.1 billion.

Operating expenses increased by 6.7% as growth in revenues particularly in interest income and trading gains translated to higher business taxes and other related administrative expenses.

Distilled Spirits

The distilled spirits segment posted a net income of ₱380 million for the first semester ended June 30, 2019, lower than the net income of ₱437 million reported in the same period last year.

Net revenues were higher by 7.4% y-o-y to ₱9.5 billion in 1H19 mainly due to the improvement in revenues of other liquor products and bioethanol revenues.

Cost of sales increased by 8.9% to ₱7.9 billion in the current period as against ₱7.2 billion in the same period last year primarily due to higher raw material costs, personnel, repairs and maintenance and fuel and oil expenses. Gross profit margin was lower at 17.1% in the current period compared to 18.2% in the same period last year.

Operating expenses were higher at ₱1.1 billion in 1H19, due to higher selling expenses.

INANCIAL CONDITION

The Company's consolidated Total Assets as of June 30, 2019 and December 31, 2018 amounted to ₱1.2 trillion and ₱1.1 trillion, respectively. There was a decrease in Current Assets by 0.1% or ₱0.5 billion and an increase in Noncurrent Assets of ₱107.5 billion or 17.3%.

The slight decrease in consolidated Current Assets by 0.1% from ₱475.0 billion as of December 31, 2018 to ₱474.4 billion was primarily due to lower Current portion of Loans and Receivables and Assets of Disposal Group Classified as Held for Sale from the banking segment that decreased from ₱8.2 billion as of end-2018 to ₱7.6 billion as of June 30, 2019. This was offset primarily by the higher Cash and Cash Equivalents level from ₱176.5 billion as of end-2018 to ₱203.2 billion and as of June 30, 2019 on account of higher deposits from the banking segment and higher Financial Assets at Amortized Cost nearly maturing. Financial Assets at Fair Value through Other Comprehensive Income (FVTOCI) and Financial Assets at Fair Value through Profit or Loss were higher due to acquisitions during the year and increase in the fair value of the investments. Other Current Assets was higher by 17.5% to ₱10.7 billion as of June 30, 2019 from ₱9.1 billion as of December 31, 2018.

The 17.3% increase in Total Noncurrent Assets was mainly due to the movements in the Noncurrent portion of Loans and Receivables and Financial Assets at FVTOCI. Noncurrent portion of Loans and Receivables were higher by ₱89.8 billion due to the growth in booked loans by the banking segment. Financial Assets at FVTOCI were higher by ₱50.0 billion on account of acquisitions of various investment securities made as of June 30, 2019. Property, plant and equipment – at cost was higher by ₱1.7 billion due to various acquisitions during the year 2019. Investments in associates and joint ventures increased by 6.3% on account of equitized earnings recorded for the six months ended June 2019. Other noncurrent assets were higher by ₱0.8 billion, from ₱6.6 billion as of end-2018 to ₱7.3 billion as of June 30, 2019. Noncurrent Financial Assets at Amortized Cost were lower by 27.1% due to maturities of various investment securities.

Consolidated Total Liabilities increased by 11.1% to ₱962.6 billion as of June 30, 2019 from ₱866.6 billion as of December 31, 2018. This was on account of the increase in Total Current Liabilities by 6.9% from ₱775.0 billion in December 31, 2018 to ₱828.8 billion as of the end of the current period and increase in Noncurrent Liabilities of 46.0% from ₱91.6 billion to ₱133.8 billion.

Current portion of the banking segment's Deposit Liabilities amounted to ₱715.3 billion as of June 30, 2019, 6.4% higher than end-2018 balance. Current portion of Bills and Acceptances Payable increased by 10.9% mainly due to higher availments as of June 30, 2019. Accounts Payable and Accrued Expenses increased to ₱25.3 billion or 12.2% higher than ₱22.5 billion as of December 31, 2018 due to the various accruals in the first half of 2019. Other current liabilities increased from ₱8.6 billion as of end-2018 to ₱11.1 billion in current period due to additional accrual of transactions during the year 2019. Income tax payable was lower by 27.3% versus the December 31, 2018 level due to the income tax payments made in the current period. Current portion of long-term debts outstanding of ₱91 million as of December 31, 2018 increased to ₱278 million as of June 30, 2019 due to reclassification made from noncurrent to current for the nearly maturing debt. The Liabilities of Disposal Group Classified as Held for Sale decreased from ₱7.2 billion to ₱6.6 billion as payments were made for various currently maturing liabilities in 2019. Current Financial Liabilities at Fair Value through Profit or Loss were lower by 56.2% to ₱206 million as of June 2019.

The increase in the Noncurrent Liabilities was on account of the higher Long-Term debts net of current portion of the banking segment by ₱50 billion as of June 30, 2019, as the bank issued fixed-rate bonds and Euro Medium Term Notes (EMTN). This was offset by lower Noncurrent Deposit Liabilities by ₱4.2 billion and Noncurrent Bills and Acceptances Payable by ₱4.0 billion of the banking segment, Accrued Retirement Benefits which decreased by 18.9% or ₱0.3 billion and Other Noncurrent liabilities which declined by 10.6% to ₱5.2 billion as of June 30, 2019 from ₱5.9 billion due to various settlements during 2019.

LTG's consolidated Total Equity grew 4.8% to ₱242.3 billion as of June 30, 2019, on account of the increase in Retained Earnings coming from the net earnings during the period and increase in the other comprehensive income from the unrealized gain in fair value of investments.

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

1.) Revenues

Revenues for the period ended June 30, 2019 amounted to ₱45.4 billion, 27.7% higher from last year's ₱35.5 billion.

2.) Net Income Attributable to Equity Holders

Consolidated Net Income Attributable to Equity Holders for the six months ended June 30, 2019 and 2018 amounted to ₱9.2 billion and ₱9.0 billion, respectively.

3.) Current Ratio

Current ratio was 0.61:1 as of December 31, 2018 and 0.57:1 as of June 30, 2019.

4.) Debt to Equity Ratio

Debt-to-equity ratio increased from 3.75:1 in December 31, 2018 to 3.97:1 as of June 30, 2019.

5.) Earnings Per Share

LTG's earnings per share attributable to holders of the parent company for the six months ended June 30, 2019 and 2018 were ₱0.85 and ₱0.83, respectively.

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

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

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

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

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

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

(iv) The Group has capital expenditures for the regular replacement and upkeep of its assets.

(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 will arise from the Company's continuing operations.

(vii) The causes for any material change from period to period which shall include vertical and horizontal analyses of any material item;

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

1. Cash and cash equivalents – H, 15%
2. Financial assets at fair value through profit or loss - current – H, 157%
3. Financial assets at FVTOCI - current – H, 88%
4. Financial assets at amortized cost – current – H, 100%
5. Loans and receivables – current – H, (31%)
6. Other current assets – H, 18%
7. Assets of disposal group classified as held for sale – H, (8%)
8. Loans and receivables – noncurrent – H, 26%
9. Financial assets at FVTOCI - noncurrent – H, 85%
10. Financial assets at amortized cost - noncurrent – H, (27%)
11. Investment in associates and joint venture – H, 6%

12. Property, plant and equipment -at cost – H, 21%
13. Other noncurrent assets – H, 12%
14. Deposit liabilities – current – H, 6%
15. Financial liabilities at fair value through profit or loss – current – H, (56%)
16. Bills and acceptances payable - current – H, 11%
17. Accounts payable and accrued expenses – H, 12%
18. Income tax payable- H, (27%)
19. Current portion of long-term debts – H, 206%
20. Other current liabilities – H, 29%
21. Liabilities of disposal group classified as held for sale – H, (9%)
22. Deposit liabilities – noncurrent – H, (9%)
23. Bills and acceptances payable – noncurrent – H, (42%)
24. Long-term debts net of current portion – H, 277%
25. Net retirement benefit liability – H, (19%)
26. Other noncurrent liabilities – H, (11%)
27. Other comprehensive income – H, 9%
28. Retained earnings – H, 7%
29. Noncontrolling interests in net assets – H, 6%
30. Banking revenue – H, 44%; V, 7%
31. Beverage revenue – H, 12%
32. Distilled spirits revenue – H, 8%
33. Property development revenue – H, 15%
34. Cost of sales and services – H, 40%
35. Equity in net earnings of associates – H, 21%
36. Selling expenses – H, 16%
37. General and administrative expenses – H, 6%
38. Finance cost – H, 149%
39. Finance income – H, 43%
40. Foreign exchange gains – H, (24%)
41. Others-net – H, (78%)
42. Provision for income tax – current – H, (28%)
43. Provision for income tax – deferred – H, 438%
44. Net income – continuing operations - H, (6%)
45. Net income – discontinued operations – H, (112%)

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

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

LT GROUP, INC. AND SUBSIDIARIES
AGING OF LOANS AND RECEIVABLE
AS OF JUNE 30, 2019 (UNAUDITED)
(In thousands)

TYPE OF ACCOUNTS RECEIVABLE		TOTAL	up to 12 months	1 year to 3 years	Over 3 years to 5 years	Over 5 years	Past due and items in litigation
(a) Finance Receivables	P	608,839,640	152,028,380	163,419,684	91,167,700	182,468,291	19,755,585
Less: Unearned interest and other deferred income		883,007	-	-	-	883,007	-
Less: Allowance for credit losses		19,014,133	-	-	-	-	19,014,133
NET FINANCE RECEIVABLES		588,942,500	152,028,380	163,419,684	91,167,700	181,585,284	741,452
(b) Trade Receivables		15,721,970	14,621,209	-	-	-	1,100,761
Less: Allowance for credit losses		464,451	-	-	-	-	464,451
NET TRADE RECEIVABLES		15,257,519	14,621,209	-	-	-	636,310
(c) Other Receivables		4,184,885	4,173,645	-	-	-	11,240
Less: Allowance for credit losses		11,240	-	-	-	-	11,240
NET OTHER RECEIVABLES		4,173,645	4,173,645	-	-	-	-
NET LOANS AND RECEIVABLES	P	608,373,664	170,823,234	163,419,684	91,167,700	181,585,284	1,377,762

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

LT GROUP, INC. AND SUBSIDIARIES
FINANCIAL SOUNDNESS INDICATORS

	June 30, 2019	December 31, 2018
Current Ratio	0.57	0.61
Debt to Equity Ratio	3.97	3.75
Asset to Equity Ratio	4.97	4.75
	June 30, 2019	**June 30, 2018**
Interest Rate Coverage Ratio	123.50	325.49
Solvency Ratio	0.18	0.62
Profitability Ratios:		
Profit Margin	0.20	0.25
Return on Asset (ROA)	0.015	0.019
Return on Equity (ROE)	0.102	0.115