Office of the EVP and Chief Financial Officer

PNB

Direct Lines: 573-4074/573-4075 Fax: 526-3416
Trunk Lines: 526-3131 to 70/891-6040 to 70
Locals: 4074, 4499

April 15, 2015

MS. JANET A. ENCARNACION
HEAD, DISCLOSURE DEPARTMENT
Philippine Stock Exchange
3/F The Philippine Stock Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City

Dear Ms. Encarnacion:

In compliance with the reportorial requirements of Section 17 of the Securities Regulation Code (SRC) and Section 141 of the Corporation Code of the Philippines, we provide you the SEC Form 17-A report of the Philippine National Bank as of December 31, 2014.

Thank you,

Very truly yours,

NELSON C. REYES
EVP & Chief Financial Officer

COVER SHEET

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S.E.C. Registration Number

PHILIPPINE NATIONAL BANK

Company's Full Name)

8th Floor PNB Financial Center

Macapagal BLvd., Pasay City

(Business Address: No. Street City/Town/ Province)

MARLYN M. PABRUA

Contact Person

891-60-40

Company Telephone Number

1 2 **3 1**

Month *Day*

Fiscal Year

17 - A

FORM TYPE

Month *Day*

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

S T A M P S

Remarks = pls. use black ink for scanning purposes

SEC Number AS096-005555
File Number ____________

PHILIPPINE NATIONAL BANK
AND SUBSIDIARIES

(Company's Full Name)

Pres. Diosdado P. Macapagal Boulevard, Pasay City

(Company's Full Address)

891-6040 to 70

(Telephone Number)

(Calendar Year Ended)

SEC FORM 17-A REPORT

Form Type

(Amendment Designation (if applicable)

December 31, 2014

Period Ended Date

LISTED

(Secondary License Type and File Number)

SECURITIES AND EXCHANGE COMMISSION
SEC FORM 17-A

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

1. For the fiscal year ended December 31, 2014

2. SEC ID No. AS096-005555 3. BIR Tax Identification No. 000-188-209

4. Exact name of issuer as specified in its charter: Philippine National Bank

5. Philippines
Province, Country or other jurisdiction of Incorporation or organization

6. [ ] (SEC Use Only)
Industry Classification Code:

7. PNB Financial Center, Pres. Diosdado P. Macapagal Blvd, Pasay City
Address of principal office
1300
Postal Code

8. (632)/891-60-40 up to 70 _
Issuer's telephone number, including area code

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

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

Title of Each Class	Number of Shares Issued
Common Stock, ₱40 par value	1,249,139,678 shares

11. Are any or all of these securities listed on a Stock Exchange.
Yes [√] No [ ]

If yes, state the name of such stock exchange and the classes of securities listed therein:
Philippine Stock Exchange Common Stock

12. Check whether the issuer:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 thereunder or Section 11 of the RSA and RSA Rule 11 (a) – 1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such report)
Yes [√] No [ ]

(b) has been subject to such filing requirements for the past ninety (90) days
Yes [√] No [ ]

13. Aggregate market value of the voting stock held by non-affiliates: ₱99,931,174,240.00*

*****_1,249,139,678 common shares @ ₱80.00 trading price of PNB shares as of December 31, 2014_

Table of Contents

PART I - BUSINESS AND GENERAL INFORMATION

Item 1. Business

A. Business Development

The Philippine National Bank (PNB or the "Bank"), the country's first universal bank, is the fourth largest private local commercial bank in terms of assets as of December 31, 2014. The Bank was established as a government-owned banking institution on July 22, 1916. As an instrument of economic development, the Bank led the industry through the years with its agricultural modernization program and trade finance support for the country's agricultural exports, pioneering efforts in the Overseas Filipino Workers (OFW) remittance business, as well as the introduction of many innovations such as Bank on Wheels, computerized banking, ATM banking, mobile money changing, domestic traveler's checks, and electronic filing and payment system for large taxpayers. PNB has the widest overseas office network and one of the largest domestic branch networks among local banks.

On February 9, 2013, the Bank concluded its planned merger with Allied Banking Corporation (ABC) as approved and confirmed by the Board of Directors of the Bank and of ABC on January 22 and January 23, 2013, respectively. The respective shareholders of the Bank and ABC, representing at least two-thirds of the outstanding capital stock of both banks, approved the amended terms of the Plan of Merger of the two banks on March 6, 2012. The original Plan of Merger was approved on June 24, 2008 by the affirmative vote of ABC and the Bank's respective shareholders, representing at least two-thirds of the outstanding capital stock of both banks.

Last February 2014, the Bank successfully completed its Stock Rights Offering (Offer) of 162,931,262 common shares (Rights Shares) with a par value of P40.00 per share at a price of P71.00 each. The Rights Shares were offered to all eligible shareholders of the Bank at the proportion of fifteen (15) Rights Shares for every one hundred (100) common shares as of the record date of January 16, 2014. The offer period was from January 27, 2014 to February 3, 2014. A total of 33,218,348 Rights Shares were sourced from the existing authorized but unissued capital stock of the Bank. The remaining 129,712,914 Rights Shares were sourced from an increase in the authorized capital stock of the Bank. The Offer was oversubscribed and raised gross proceeds of P11.6 billion. The Offer strengthened the Bank's capital position under the Basel III standards, which took effect on January 1, 2014.

The Bank continued to undertake its liability management exercise that is, sourcing long-term funds to support its growth and expansion plans. In March 2014, PNB redeemed ₱3.25 billion worth of LTNCDs with a coupon rate of 6.50% and in October 2014 likewise redeemed ₱3.5 billion worth of LTNCDs with a coupon rate of 7% issued by the ABC. These funds were replaced with an issuance of ₱7.0 billion worth of LTNCDs with a coupon rate of 4.125% which will mature in June 2020.

Effective August 1, 2014, PNB's consumer loan books were consolidated with PNB's thrift bank subsidiary Allied Savings Bank (ASB) to strengthen the Bank's bid to be a strong player in the consumer finance business particularly in the housing and motor vehicle market segments. In November 2014, ASB formally changed its name to PNB Savings Bank (PNBSB) as part of the rebranding activity of the bank and put emphasis on the status of the bank as a major player in the consumer finance industry. The renaming of the savings bank aligns the image of the subsidiary bank with the Parent Bank capitalizing on the brand equity that PNB has built in the banking industry.

Recognizing the importance of its branches as the Bank's primary platform for sales and service, PNB through its consumer banking subsidiary PNBSB, continued to expand its branch network and improve delivery of services. PNBSB had 28 approved licenses in 2014 and was able to open a branch in Batangas last November 10, 2014.

PNB remained at the forefront of the debt capital market as the Bank led 12 corporate finance deals worth more than ₱115 billion in the power, infrastructure, telecommunications and real estate industries in 2014. PNB continued to originate and deliver structured solutions to large corporates as the Bank participated in five big ticket deals to raise an aggregate ₱102 billion. To manifest the Bank's commitment to nation-building, PNB was also actively involved in the ₱23.3 billion loan syndication for the Mactan-Cebu International Airport, a Public-Private Partnership Project that was rolled out in 2014.

PNB further strengthened its distinct franchise over the Global Filipino market segment. It maintains the widest network of overseas branches and offices serving as primary contact points for overseas Filipinos. The Bank has expanded its reach even further into non-traditional contact channels in the form of partner agent agreements and distribution thru convenience stores and other similar retail outlets. PNB continued to innovate its remittance products and services with the launch of Phone Remit in 2012, a 24/7 toll free phone remittance platform servicing the Europe and US market. The Bank also launched the PNB Web Remit in the last quarter of 2013 that enables customers to conduct online remittance transactions anywhere and anytime. The Bank continued to make headway in deepening its relationship with its Global Filipino customers by offering other products and services such as personal, home and auto loans including credit cards. PNB has a strong affinity with the Global Filipino market and continues to enrich the lives of Filipinos worldwide. In order to further strengthen its foothold in the overseas market, the Bank partnered with Wells Fargo & Company to provide Filipinos in the US a new way of sending remittances to the Philippines. OFWs can now send money to their families and friends in the Philippines using Wells Fargo's extensive network of more than 9,000 stores and 12,500 ATMs across 39 states in the US.

In affirmation of the Bank's well-managed operations, PNB received awards from the Institute of Corporate Directors (ICD) and the Bangko Sentral ng Pilipinas (BSP). In 2011 and 2012, PNB was given the Silver Award for Good Corporate Governance by the ICD in recognition of its professional practice of corporate directorship in line with global principles of good governance. In 2012 and 2013, the BSP awarded PNB as the Top Commercial Bank in Generating Remittances from Overseas Filipinos for two years in a row. PNB was also elevated by the BSP as Hall of Fame Awardee for Best Commercial Bank Respondent on Overseas Filipino Remittances for having won the award for four straight years (2005-2008). In the 2014 BSP Stakeholders' Ceremony, the Bank was recognized as the Outstanding PhilPass REMIT Participant. In recognition of PNB's innovative products, the Bank together with PNB Life was also accorded the Excellence in Business Model Innovation Award during the 2014 Retail Banker International Asian Trailblazer Awards for its Healthy Ka Pinoy Emergency Card which was launched in 2013 in the market.

Acknowledging PNB's improving performance, Standard & Poor's Ratings Services revised upward its outlook on PNB from "stable" to "positive" last March 2014, citing the gradual improvement in its asset quality following the merger with Allied Bank. The positive outlook on PNB also reflects expectations that the Bank's asset quality could keep improving, given the efforts to enhance its underwriting standards. In addition, Moody's Investors Service also raised the Bank's credit rating outlook from "stable" to "positive" last May 2014. Moody's likewise affirmed PNB's Ba2/NP local and foreign currency deposit ratings which reflect ongoing improvements in the credit profile of the Bank. Moreover, the ratings agency raised PNB's financial strength rating (BFSR) / baseline credit assessment (BCA) to D-/ba3 from E+/b1, reflecting the improvement in the Bank's financial profile, following its merger with Allied Banking Corporation in 2013.

B. Business Description

1. Products and Services

PNB, through its Head Office and 657 domestic branches/offices and 77 overseas branches, representative offices, remittance centers and subsidiaries, provides a full range of banking and financial services to large corporate, middle-market, small and medium enterprises (SMEs) and retail customers, including OFWs, as well as to the Philippine National Government, national government agencies (NGAs), local government units (LGUs) and Government Owned and Controlled Corporations (GOCCs) in the Philippines. PNB's principal commercial banking activities include deposit-taking, lending, trade financing, foreign exchange dealings, bills discounting, fund transfers/remittance servicing, asset management, treasury operations, comprehensive trust services, retail banking and other related financial services.

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

Institutional Banking Group
The Bank's Institutional Banking Group (IBG) is responsible for credit relationships with large corporate, middle-market and SMEs, as well as with the Government, government-related agencies, GOCCs and financial institutions.

Retail Banking Group
The Retail Banking Group (RBG) principally focuses on retail deposit products (i.e., current accounts, savings accounts and time deposit and other accounts) and services. While the focal point is the generation of lower cost of funding for the Bank's operations, the RBG also concentrates on the cross-selling of other bank products and services to its customers by transforming its domestic branch distribution channels into a sales-focused organization.

Consumer Finance Group
The Consumer Finance Group provides multi-purpose personal loans, home mortgage loans, motor vehicle financing and credit card services to the Bank's retail clients.

Effective August 1, 2014, PNB's thrift bank subsidiary took over the management of PNB's consumer loans.

Global Filipino Banking Group
The Global Filipino Banking Group covers the Bank's overseas offices which essentially provide convenient and safe remittance services to numerous OFWs abroad and full banking services in selected jurisdictions. It also provides consumer financing through the Pangarap Loan and Own a Philippine Home Loan which are available to OFWs. PNB has the largest overseas network among Philippine banks with 77 branches, representative offices, remittance centers and subsidiaries in the United States of America (USA), Canada, Europe, the Middle East and Asia. PNB also maintains correspondent relationships with 1,012 foreign banks and financial institutions worldwide.

Treasury Group
The Treasury Group is principally responsible for managing the Bank's funding and liquidity requirements as well as its investment and trading portfolio. The Group engages in interbank borrowing and lending activities, fixed income securities trading and foreign exchange spot and

swap dealing. It also oversees the Bank's long-term funding requirements and enters into derivative transactions for the hedging requirements of some of the banks sophisticated corporate accounts.

Trust Banking Group

The Bank, through its Trust Banking Group (TBG), provides a wide range of personal and corporate trust and fiduciary banking services and products. Personal trust products and services include living trust accounts, educational trust, estate planning, guardianship, insurance trust, and investment portfolio management. Corporate trust products and services include trusteeship, securitization, investment portfolio management, administration of employee benefits, pension and retirement plans, and trust indenture services for local corporations. Trust agency services include acting as bond registrar, collecting and paying agent, loan facility agent, escrow agent, share transfer agent, and receiving bank.

Credit Management Group

The Credit Management Group is primarily responsible in providing credit management services in the form of credit rating and scoring, financial evaluation and credit risk assessment, credit policy formulation, credit investigation and appraisal and risk asset acceptance criteria development. It focuses on sound credit underwriting and monitoring guidelines and practices to ensure a healthy loan portfolio for the Bank.

Remedial Management Group

The Remedial Management Group is primarily responsible in managing problem accounts and reducing the nonperforming loans of the Bank. It determines and formulates the appropriate settlement plan for the immediate resolution of each work-out account.

Special Assets Management Group

The Special Assets Management Group (SAMG) is responsible for the overall supervision of the Bank's foreclosed assets (ROPA).

2. Competition

In the Philippines, the Bank faces competition in all its principal areas of business, from both Philippine and foreign banks, as well as finance companies, mutual funds and investment banks. The competition that the Bank faces from both domestic and foreign banks was in part a result of the liberalization of the banking industry by the National Government in 1994 which allowed the entry of more foreign banks and the recent mergers and consolidations in the banking industry. As of December 31, 2014, there were 36 universal and commercial banks, of which 17 are private domestic banks, 3 are government banks and 16 are branches or subsidiaries of foreign banks. Some competitor banks have greater financial resources, wider networks and greater market share than PNB. Said banks also offer a wider range of commercial banking services and products, have larger lending limits and stronger balance sheets than PNB. To maintain its market position in the industry, the Bank offers diverse products and services, invests in technology, leverages on the synergies within the Tan Group of Companies and with its Government customers, as well as builds on relationships with the Bank's other key customers.

The Bank also faces competition in its operations overseas. In particular, the Bank's stronghold in the remittance business in 16 countries in North America, Europe, the Middle East and Asia is being challenged by competitor banks and non-banks.

As of December 31, 2014, the Bank has a distribution network of 657 branches and offices and 878 ATMs nationwide. The Bank is the fourth largest local private commercial bank in the Philippines in terms of local branches and the fourth largest in terms of consolidated total assets, net loans and receivables, capital and deposits. In addition, it has the widest international footprint among Philippine banks spanning Asia, Europe, the Middle East and North America with its overseas branches, representative offices, remittance centers and subsidiaries

3. Revenue Derived from Foreign Operations

The Bank and its subsidiaries (the Group) offer a wide range of financial services in the Philippines. The percentage contributions of the Group's offices in Asia, the Canada and USA, United Kingdom and Other European Union Countries to the Group's revenue, for the years 2014, 2013, 2012 are as follows:

	2014	2013	2012
Asia (excluding the Philippines)/ Middle East	4%	4%	4%
Canada and USA	2%	3%	3%
United Kingdom & Other European Union Countries	1%	1%	1%

Please refer to Note 6 of the Audited Financial Statements.

4. New Products and Services

The Bank launched the following products and services in 2014:

Electronic Remittance of Sickness, Maternity & Employees Compensation Benefit
PNB took the lead in the electronic remittance of employee benefits through the employer for further credit to the employee. This replaced the current disbursement method through check issuance. The new system involves the automated generation and transmission of report, with auto reversal of unsuccessful transactions.

BIR Interactive Form System (PNB i-Tax)
In partnership with the BIR, individuals and non-large taxpayers, who are account holders of the Bank, are provided with the electronic channel to pay taxes due to the BIR through the PNB Internet Banking System.

Enhanced Internet Banking System
The PNB Internet Banking System (IBS) now allows clients to avail of the "ATMSafe", a product which offers insurance protection against ATM robbery and theft. Clients who also wish to view the details of their loan accounts in real time may now enroll their loan accounts in the IBS. An enhanced security feature was also introduced for the online enrollment of third party accounts by using the One-Time-Password (OTP) sent through the client's registered mobile number.

Third Currency Savings and Time Deposit Accounts
PNB is now accepting third currencies such as Chinese Yuan/Renminbi, Japanese yen and Euro for both savings and time deposit accounts. The service is now being offered in Metro Manila, Southern Luzon and Metro Cebu areas and will soon be implemented in all domestic branches.

5. **Related Party Transactions**

In the ordinary course of business, the Parent Company has loans and other transactions with its subsidiaries and affiliates, and with certain Directors, Officers, Stockholders and Related Interests (DOSRI). Under the Parent Company's policy, these loans and other transactions are made substantially on the same terms as with other individuals and businesses of comparable risks. The amount of direct credit accommodations to each of the Parent Company's DOSRI, 70.00% of which must be secured, should not exceed the amount of their respective deposits and book value of their respective investments in the Parent Company.

In the aggregate, DOSRI loans generally should not exceed the Parent Company's equity or 15% of the Parent Company's total loan portfolio, whichever is lower. As of December 31, 2014 and 2013, the Group and Parent Company were in compliance with such regulations.

6. **Patents, Trademarks, Licenses, Franchises, Concessions and Royalty Agreements**

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

7. **Government Approval of Principal Products or Services**

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

8. **Estimate of Amount Spent for Research and Development Activities**

The Bank provides adequate budget for the development of new products and services which includes hardware and system development, continuous education and market research. Estimated amount spent for 2014, 2013 and 2012 totaled ₱373.4 million, ₱363.0 million and ₱219.2 million, respectively.

9. **Number of Employees**

The total employees of the Bank as of 31 December 2014 is 8,585 wherein 3,692 were classified as Bank officers and 4,893 as rank and file employees broken down as follows:

	Total
Officers:	
Vice President and up	148
Senior Assistant Vice President to Assistant Manager	3,544
Sub-total	3,692
Rank and File	4,893
Total	8,585

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

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

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

10. Risk Management

The year 2014 marks the 1st full year of the merged PNB. The activities involved the areas of bank policies, processes and systems together with the merged organizational structure. The risk management function was 1st among many that was fully integrated for the merged bank and accordingly elements of the risk management process applied on a uniform basis. Data sourcing remains to be a challenge but the increased knowledge of the data structure for the 2 core banking systems have provided for ease of complete data collection, albeit still on a manual basis for some areas. The bank also submitted (on time) its ICAAP (Internal Capital Adequacy Assessment Process) document in January 2014, just 6 months after it submitted the previous one in August 2013.

Under the Bank's Enterprise Risk Management (ERM) framework, all the risk-taking business units of the Bank, including its subsidiaries and affiliates, shall perform comprehensive assessments of all material risks.

In line with the integration of the ICAAP and risk management processes, PNB currently monitors 14 Material Risks (three for Pillar 1 and eleven for Pillar 2). These material risks are as follows:

<u>Pillar 1 Risks</u>:
1. Credit Risk (includes Counterparty and Country Risks)
2. Market Risk
3. Operational Risk

<u>Pillar 2 Risks</u>:
4. Compliance Risk (includes Regulatory Risk)
5. Credit Concentration Risk
6. Human Resource Risk
7. Information Technology Risk (includes Information Security Risk)
8. Interest Rate Risk in Banking Book (IRRBB)
9. Liquidity Risk
10. Legal Risk
11. Customer Franchise/ Reputational Risk
12. Strategic Business Risk
13. Post-Merger Integration Risk
14. Acquired Asset Disposal Risk

Pillar 1 Risk Weighted Assets are computed based on the guidelines set forth in BSP Circular No. 538 using the Standard Approach for Credit and Market Risks and Basic Indicator Approach for Operational Risks. Discussions that follow below are for Pillar 1 Risks:

<u>Credit Risk</u>

Credit risk is the risk to earnings or capital that arises from an obligor/s, customer/s or counterparty/ies failure to perform and meet the terms of its contract. It arises any time bank funds are extended, committed, invested, or otherwise exposed through actual or implied contractual agreements, whether reflected on or off the balance sheet *(BSP Circular No. 510, dated February 03, 2006)*.

Counterparty Risks: Counterparty risk is the potential exposure a party will bear if the other party to any financial contract will be unable to fulfill its obligations under the contract's specifications. Counterparty risk can be divided into two types: pre-settlement risk (PSR) and settlement risk (SR).

Country Risks: Country risk refers to uncertainties arising from economic, social and political conditions of a country which may cause obligors in that country to be unable or unwilling to fulfill their external obligations.

1. <u>Credit Policies and Procedures</u>

All credit risk policies issued by the regulatory bodies (i.e., BSP, SEC, PDIC, BIR, etc.) automatically form part of the Bank's board-approved risk policies. These risk policies reflect the Bank's lending profile and focus on:

- the risk tolerance and/or risk appetite
- the required return on asset that the Bank expects to achieve
- the adequacy of capital for credit risk

2. <u>Credit Risk Functional Organization</u>

The credit risk functional organization of the Bank conforms to BSP regulations. This ensures that the risk management function is independent of the business line. In order to maintain a system of "checks and balances", the Bank observes three (3) primary functions involved in the credit risk management process, namely:

- risk-taking personnel
- risk management function
- the compliance function

The risk-taking personnel are governed by a code of conduct for account officers and related stakeholders set to ensure maintenance of the integrity of the Bank's credit risk management culture.

The approving authorities are clearly defined in the Board-approved Manual of Signing Authority (MSA).

3. <u>Credit Limit Structure</u>

The Bank adopts a credit limit structure (regulatory and internal limits) as a quantitative measure of the risk tolerance duly approved by the Board. Breaches in the limits are monitored via the monthly credit dashboard reported to the Risk Oversight Committee.

4. <u>Stringent Credit Evaluation</u>

Repayment capacity of prospective borrowers is evaluated using an effective internal risk rating model for corporate and commercial accounts with asset size of over ₱15 million and appropriate credit scoring program for small accounts with asset size of ₱15 million and below and consumer loans. These models are validated to determine predictive ability.

5. Reporting System
An effective management information system (MIS) is in place and, at a minimum, has the capacity to capture accurate credit risk exposure/position of the Bank in real time. A monthly credit dashboard is used as the reporting tool for appropriate and timely risk management process.

6. Remedial Management System
A work-out system for managing problem credits is in place. Among others, these are renewals, extension of payment, restructuring, take-out of loans by other banks, and regular review of the sufficiency of valuation reserves.

7. Event-driven Stress Testing
Techniques are conducted to determine the payment capacity of affected borrowers' accounts. A Rapid Portfolio Review Program is in place to quickly identify possible problem credits on account of evolving events, both domestic and global. Results of the stress testing show minimum impact and have no material effect on the Bank's NPL ratio and capital adequacy ratio (CAR).

Market Risk

Market risk is the risk to earnings or capital arising from adverse movements in factors that affect the market value of financial instruments, products and transactions in an institution's overall portfolio, both on and off balance sheet and contingent financial contracts. Market risk arises from market-making, dealing and position-taking in the interest rate, foreign exchange, equity, and commodities markets *(BSP Circular No. 544, Series of 2006)*.

1. Price Risk in the Trading Portfolio
The Bank's trading positions are sensitive to changes in the market prices and rates. PNB is subject to trading market risk in its position-taking activities for fixed income, foreign exchange and equity markets. To calculate the risks in the trading portfolio, the Bank employs the Value-at-Risk (VAR) methodology both using Parametric approach and Historical Simulation approach with 99% confidence level. The Bank assumes a one (1) day holding period (equities and FX VAR) to a ten (10) day holding period for fixed income VAR, nonetheless a one-day VaR is computed for each portfolio.

VAR limits have been established annually and exposures against the VAR limits are monitored on a daily basis. The VAR figures are back-tested against actual (interest rates) and hypothetical profit and loss figures (FX and equities) to validate the robustness of the VAR model.

The Bank also employs the stop-loss monitoring tools to monitor the exposure in the price risks. Stop-loss limits are set up to prevent actual losses resulting from mark-to-market. To complement the VAR measure, the Bank performs stress testing and scenario analysis wherein the trading portfolios are valued under several market scenarios.

2. Structural Market Risk
Structural interest rate risk arises from mismatches in the interest profile of the Bank's assets and liabilities. To monitor the structural interest rate risk, the Bank uses a repricing gap report wherein the repricing characteristics of its balance sheet positions are analyzed to come up with a repricing gap per tenor bucket. The total repricing gap covering the one-year period is multiplied by the assumed change in interest rates based on observed volatility at 99% confidence level to obtain an approximation of the change in net interest earnings. Limits have been set on the tolerable level of Earnings-at-Risk (EAR). Compliance with the limits is monitored regularly. The Bank has also monitored its long-term exposure in interest rates which outlines the long-term assets and long-term liabilities according to next repricing date

3. Liquidity and Funding Risk

Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from the bank's inability to meet its obligations when they fall due. Liquidity obligations arise from withdrawal of deposits, extension of credit, working capital requirements and repayment of other obligations. The Bank seeks to manage its liquidity through active management of liabilities, regular analysis of the availability of liquid asset portfolios as well as regular testing of the availability of money market lines and repurchase facilities aimed to address any unexpected liquidity situations. The tools used for monitoring liquidity include gap analysis of maturities of relevant assets and liabilities reflected in the maximum cumulative outflow (MCO) report, as well as an analysis of sufficiency of liquid assets over deposit liabilities and regular monitoring of concentration risks in deposits by tracking accounts with large balances. The MCO focuses on a 12-month period wherein the 12-month cumulative outflow is compared to the acceptable MCO limit set by the Bank.

Operational Risk

1. People Risk

In most reference books and articles, it is mentioned that the most dynamic of all sources of operational risk factors is the people risk factor. Internal controls are often blamed for operational breakdowns, whereas the true cause of many operational losses can be traced to people failures. Every Chief Executive Officer has argued that people are the most important resource, yet the difficulty in measuring and modeling people risk has often led management to shy away from the problem when it comes to evaluating this aspect of operational risk.

In PNB, operational losses may be attributed to human error which can be brought about by inadequate training and management. This issue is being addressed through formal means (continuously conducting trainings) or informal means (monthly meetings and discussing issues at hand). These trainings also address the issue of relying on key performers instead of cross-training each team member.

Further, there is the risk of "non-fit" personnel being "forced" to occupy positions they are not qualified for. Annual evaluation and the implementation of balanced scorecards are used to ensure that ill-fitted personnel are re-trained, re-tooled or re-skilled to equip them better.

2. Process Risk

In financial institutions, most processes are designed with audited fail-safe features and checking procedures. Since processes interact with other risky variables - the external environment, business strategy and people - it is difficult to sound the all-clear. However, processes can make the institution vulnerable in many ways. To address this risk, the Bank has documented policies and procedures duly approved by the Board. The Internal Audit Group, as well as the various officers tasked with the review function, regularly monitors the implementation of these documented policies and procedures.

3. Business Strategy Risk

Strategic Risk can arise when the direction/strategy of a bank can lead to non-achievement of business targets. This results from a new focus of a business sector without consolidating it with the Bank's overall business plan and strategy. At PNB, strategy risk is managed through each business sector performing "actual vs. targets" sessions with and reporting to the Board of Directors through regular management profitability reporting sessions. In addition, coordination between business sectors is done through regular meetings by the Senior Management Team to ensure that overall business targets are continually revisited.

4. Business Environment Risk

Banks tend to have the least control over this source of operational risk yet it still needs to be managed. Business environment risk can arise from unanticipated legislative changes such as consumer affairs, physical threats such as bank robberies, terrorists' attacks, natural disasters and regulatory required financial report change, new or otherwise.

New competitive threats such as faster delivery channels, new products, new entrants and the ever-increasing rationalization of the banking industry are driving banks to become much more nimble-footed. The flexibility required to remain in the game leads some banks to take shortcuts that eventually expose them to some new source of operational risk.

At PNB, we have become fully involved and engaged in the Product Management Business Framework where old and new products alike are monitored by assigned product managers who coordinate with the various business sector heads in achieving the Bank's business plan. Further, a Product Committee composed of senior management has been created and meets regularly to ensure that business environment is closely monitored as to competition and delivery channels and that overall service standards are kept at acceptable levels.

5. Business Continuity Risk/Natural Events and Man-made Risk

The Bank recognizes that risks relating to natural, function-specific and man-made threats like the possibility of terrorist activities are possible. Business Continuity Risk is defined as any event that has a negative impact on the bank operations which could result in operational interruption, loss of or damage to critical infrastructure and the like.

The Bank has formulated the Business Continuity Plan (BCP) both on an enterprise-wide level as well as business unit level with the objective to define the critical procedures to be followed to recover critical functions on an acceptable limited basis in the event of abnormal or emergency conditions and other crisis. This means that the plan should provide provisions to:

- Ensure safety and security of all personnel, customers and vital Bank records;
- Ensure that there will be minimal disruption in operations;
- Minimize financial loss through lost business opportunities or assets deterioration; and
- Ensure a timely resumption to normal operation.

The Bank's BCP is tested at least on an annual basis with the following activities involved:

- Business Impact Analysis
- Risk Assessment of the Threats to Business
- Call Tree Test
- Table Top Test
- Alternate Site Test

6. Information Technology / Information Security Risk

The Bank recognizes the risk on IT/IS including the core banking implementation risk with the merger of PNB and Allied Bank. It is in this regard that constant monitoring is observed thru the creation of Project Management Office (PMO). Progress reports are submitted to/discussed with Senior Management and the Board monthly to provide updates and reasonable assurance that risks identified are mitigated if not fully controlled. Tools being used to conduct the assessment are as follows:

- IT Project Risk Assessment
- Project Health Check

With the implementation of policies under the Information Security Management System, the Bank provides assurance to its Stakeholders that the preservation of its information assets are observed to ensure the delivery of information to appropriate entity / person with confidentiality, integrity and required availability.

7. New Regulations Risk

New Regulations Risk is the current and prospective risk to earnings or capital arising from highly regulated jurisdiction and when rules and regulations are constantly changing. It is an important qualitative risk which must be monitored and managed, as regulatory sanctions from non-compliance, especially in extreme cases, may involve not just mere loss of reputation or financial penalties, but in extreme cases, a revocation of the banking charter or franchise (BAP Risk Manual, P103). At PNB, compliance to new circulars and memorandums by BSP is approached through an enterprise-wide engagement framework. Task Forces are constituted to discuss the gaps between current practices / process against the required deliverables. Further, overseas business units are also subject to host country regulations for which compliance must also be priority

8. Litigation Risk

Litigation risk is the likelihood or possibility that the Bank will suffer a financial loss due to payment of damages or other form of financial sanction as a result of losing a case, whether in a litigious or non-litigious setting. Litigation risk centers on the completeness and timeliness of filing of various pleadings before appropriate courts and other administrative or adjudicatory bodies in connection with cases or actions filed for and against the Bank.

The Bank has a framework to identify, assess, control and monitor litigation risk and legal risk in general that it may encounter in the course of its operations. The legal review process framework encompasses the validation of the existence, propriety and enforceability of documents, and review of the Bank's forms. It also embodies obtaining legal opinions on tax and regulatory compliance for new products and transactions, and ensuring that contracting entities have legal capacity or are duly empowered to enter into a contract.

Regulatory Capital Requirements under BASEL II – Pillar 1

The Bank's total regulatory requirements as of December 31, 2014 are as follows:

Consolidated(Amounts in ₱0.000 million)	Weighted Exposures
Total Credit risk-weighted assets	367,568.872
Total Market risk-weighted assets	4,532.456
Total Operational risk-weighted assets	38,234.751
Total Risk-Weighted Asset	410,336.079
Common Equity Tier 1 Ratio	17.427%
Capital Conservation Buffer	11.427%
Tier 1 Capital Ratio	17.427%
Total Capital Adequacy Ratio	20.605%

Credit Risk-Weighted Assets as of December 31, 2014

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

BSP's standards. The following are the consolidated credit exposures of the Bank and the corresponding risk weights:

	Exposure, Net of Specific Provision	**Exposures covered by Credit Risk Mitigants***	Net Exposure	0%	20%	50%	75%	100%	150%
Cash & Cash Items	15,019		15,019	14,590	429				
Due from BSP	105,799		105,799	105,799					
Due from Other Banks	17,662		17,662		3,960	2,719		10,983	
Financial Asset at FVPL									
Available for Sale	57,105	3,993	53,112	17,876	3,253	12,623		19,360	
Held to Maturity (HTM)	22,185	12,641	9,544	6,899		2,355		290	
Unquoted Debt Securities	4,179		4,179					4,129	50
Loans & Receivables	302,870	24,240	278,630		12,100	13,419	19,043	231,323	2,745
Sales Contracts Receivable	3,052		3,052					2,080	972
Real & Other Properties Acquired	15,143		15,143						15,143
Other Assets	29,562		29,562					29,562	
Total On-Balance Sheet Asset	572,576	40,874	531,702	145,164	19,742	31,116	19,043	297,727	18,910
Risk Weighted Asset - On-Balance Sheet			359,882	-	3,948	15,558	14,282	297,727	28,367
Total Risk Weighted Off-Balance Sheet Asset			5,914	-	64	1,672	442	3,736	-
Counterparty Risk Weighted Asset in Banking Book			1,497	-	71	1,111	-	315	-
Counterparty Risk Weighted Asset in Trading Book			276		2	27		247	

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

Market Risk-Weighted Assets as of December 31, 2014

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

Capital Requirements by Market Risk Type under Standardized Approach

(Amounts in ₱0.000Million)	Capital Charge	Adjusted Capital Charge	Market Risk Weighted Exposures
Interest Rate Exposures	279.978	349.972	3,499.724
Foreign Exchange Exposures	47.786	59.710	597.100
Equity Exposures	34.851	43.563	435.632
Total	362.615	453.245	4,352.456

The following are the Bank's exposure with assigned risk weights in the "held for trading" (HFT) portfolio:

Interest Rate Exposures
Specific Risk

Specific Risk from the held for trading (HFT) portfolio is ₱38.8 million. Peso government securities represents 72% of the portfolio with zero risk weight while dollar denominated securities issued by the Republic of the Philippines (ROP) compose 24% of the portfolio with risk weight ranging from 1.0% and 1.6%. On the other hand, the Bank's holdings of all other debt securities/derivatives that are below BBB- is around 3% and attracts 8.00% risk weight.

Part IV.1a INTEREST RATE EXPOSURES – SPECIFIC RISK (Amounts in ₱0.000 million)	Positions	Risk Weight					
		0.00%	0.25%	1.0%	1.60%	8.00%	Total
PHP-denominated debt securities issued by the Philippine National Government (NG) and BSP	Long	4,657.997					
	Short	63.378					
FCY-denominated debt securities issued by the Philippine NG/BSP	Long		203.251	34.763	1,366.169		
	Short						
Debt securities/derivatives with credit rating of AAA to BBB-issued by other entities	Long				30.988		
	Short				1.080		
All other debt securities/derivatives that are below BBB- and unrated	Long					194.267	
	Short					-	
Subtotal	Long	4,657.997	203.251	34.763	1,397.157	194.267	
	Short	63.378	-	-	1.080	-	
Risk Weighted Exposures [Sum of long and short positions times the risk weight]		-	0.508	0.348	22.372	15.541	38.769
Specific Risk Capital Charge for Credit-Linked Notes and Similar Products							
Specific Risk Capital Charge for Credit Default Swaps and Total Return Swaps							
SPECIFIC RISK CAPITAL CHARGE FOR DEBT SECURITIES AND DEBT DERIVATIVES		-	0.508	0.348	22.372	15.541	38.769

General Market Risk – Peso

The Bank's General Market Risk of its Peso debt securities and interest rate derivative exposure is ₱156.3 million. In terms of weighted position, the Bank’s capital charge is highest under the Over 5 years to 7 years bucket at ₱44.7 million (net) or 29% with risk weight at 3.25%. The Bank’s portfolio under the Over 20 years’ time band attracts 6% risk weight or ₱ 23.4 million (net) representing 15% of the total Peso General Market Risk.

Currency: PESO								
PART IV.1d GENERAL MARKET RISK (Amounts in ₱0.000 million)								
Zone	Times Bands		Debt Securities & Debt Derivatives/Interest Rate Derivatives		Risk Weight	Weighted Positions		
	Coupon 3% or more	Coupon less than 3%	Total Individual Positions					
			Long	Short		Long	Short	
1	1 month or less	1 month or less	2,456.600	2,456.600	0.00%	-	-	
	Over 1 month to 3 months	Over 1 month to 3 months	13.683	13.683	0.20%	0.312	0.027	
	Over 3 months to 6 months	Over 3 months to 6 months	675.075	675.075	0.40%	0.003	2.700	
	Over 6 months to 12 months	Over 6 months to 12 months	-	-	0.70%	0.763	-	
2	Over 1 year to 2 years	Over 1.0 year to 1.9 years	-	-	1.25%	0.462	-	
	Over 2 years to 3 years	Over 1.9 years to 2.8 years	-	-	1.75%	2.663	-	
	Over 3 years to 4 years	Over 2.8 years to 3.6 years	-	-	2.25%	3.098	-	
3	Over 4 years to 5 years	Over 3.6 years to 4.3 years	-	-	2.75%	42.638	-	
	Over 5 years to 7 years	Over 4.3 years to 5.7 years	1.080	1.080	3.25%	44.781	0.035	
	Over 7 years to 10 years	Over 5.7 years to 7.3 years	51.055	51.055	3.75%	17.683	1.915	
	Over 10 years to 15 years	Over 7.3 years to 9.3 years	-	-	4.50%	6.557	-	
	Over 15 years to 20 years	Over 9.3 years to 10.6 years	-	-	5.25%	15.513	-	
	Over 20 years	Over 10.6 years to 12 years	12.335	12.335	6.00%	24.138	0.740	
		Over 12 years to 20 years	-	-	8.00%	-	-	
		Over 20 years	-	-	12.50%	0.066	-	
Total			1,477.455	3,209.828		158.675	5.417	
Overall Net Open Position								153.258
Vertical Disallowance							-	0.272
Horizontal Disallowance							-	2.729
TOTAL GENERAL MARKET RISK CAPITAL CHARGE							-	156.259

General Market Risk – US Dollar

The Bank's exposure on General Market Risk of the dollar-denominated HFT portfolio is ₱82.9 million. In terms of weighted position, the Bank’s capital charge is concentrated under the Over 5 to 7 years at ₱20.5 million (net) and Over 10 to 15 years buckets at ₱24.5 million, respectively, with risk weight ranging from 3.25% to 4.50%. The Bank’s portfolio under the Over 20 years’ time band attracts 6% risk weight or ₱16.0 million representing 23% of the total risk weighted position.

Zone	Times Bands		Debt Securities & Debt Derivatives/Interest Rate Derivatives		Risk Weight	Weighted Positions		
Currency: USD								
PART IV.1d GENERAL MARKET RISK (Amounts in ₽0.000 million)								
	Coupon 3% or more	Coupon less than 3%	TotalIndividual Positions					
			Long	Short		Long	Short	
1	1 month or less	1 month or less	5,868.670	7,156.000	0.00%	-	-	
	Over 1 month to 3 months	Over 1 month to 3 months	2,837.067	2,795.212	0.20%	5.674	5.590	
	Over 3 months to 6 months	Over 3 months to 6 months	1,326.877	28.309	0.40%	5.308	0.113	
	Over 6 months to 12 months	Over 6 months to 12 months	-	-	0.70%	-	-	
2	Over 1 year to 2 years	Over 1.0 year to 1.9 years	34.763	-	1.25%	0.435	-	
	Over 2 years to 3 years	Over 1.9 years to 2.8 years	49.315	-	1.75%	0.863	-	
	Over 3 years to 4 years	Over 2.8 years to 3.6 years	-	-	2.25%	-	-	
3	Over 4 years to 5 years	Over 3.6 years to 4.3 years	1,379.009	1,340.069	2.75%	37.923	36.852	
	Over 5 years to 7 years	Over 4.3 years to 5.7 years	3,297.225	2,665.247	3.25%	107.160	86.621	
	Over 7 years to 10 years	Over 5.7 years to 7.3 years	11.038	-	3.75%	0.414	-	
	Over 10 years to 15 years	Over 7.3 years to 9.3 years	543.523	-	4.50%	24.459	-	
	Over 15 years to 20 years	Over 9.3 years to 10.6 years	17.104	-	5.25%	0.898	-	
	Over 20 years	Over 10.6 years to 12 years	267.224	-	6.00%	16.033	-	
		Over 12 years to 20 years	-	-	8.00%	-	-	
		Over 20 years	-	-	12.50%	-	-	
Total				15,631.815	13,984.837	199.166	129.176	
Overall Net Open Position								69.990
Vertical Disallowance							-	12.918
Horizontal Disallowance							-	-
TOTAL GENERAL MARKET RISK CAPITAL CHARGE							-	82.908

General Market Risk – Third currencies

The Bank is likewise exposed to interest rate risks of third currencies arising from its forward contracts.

Shown below are the general market risks on third currencies (interest component):

PART IV.1d GENERAL MARKET RISK (Amounts in ₽0.000 million)										
Currency	Time Bands	Total Debt Securities & Debt Derivatives/Interest Rate Derivatives			Weighted Positions		Overall Net Open Position	Vertical dis allowance	Horizontal dis allowance within	Total General Market risk capital charge
		Long	Short	Risk Weight	Long	Short				
JPY	1 month or less	-	158.817	0.00%	-	-	-	.005	-	.005
	Over 1 months to 3 months	26.082	26.082	0.20%	0.052	0.052				
GBP	1 month or less	54.434	257.166	0.00%	-	-	-	-	-	-
EUR	1 month or less	10.641	158.027	0.00%	-	-	-	0.012	-	0.012
	Over 1 months to 3 months	5.545	5.545	0.20%	0.011	0.011				
	Over 3 months to 6 months	27.208	27.208	0.40%	0.109	0.109				
CAD	1 month or less	44.743	67.095	0.00%	-	-	-	-	-	-
AUD	1 month or less	7.251	29.006	0.00%	-	-	-	-	-	-
HKD	1 month or less	1,465.369	0.00%	-	-	1,465.369	2.05	-	-	2.025
	Over 1 months to 3 months	160.846	0.20%	-	0.322	160.846				
	Over 3 months to 6 months	425.852	0.40%	-	1.703	425.852				

Equity Exposures

The Bank's holdings are in the form of common stocks traded in the Philippine Stock Exchange, with 8% risk weight both for specific and general market risk. The Bank's capital charge exposure to Equity Risk attracts adjusted capital charge of ₱43.6 million or Risk weighted equity exposures of ₱435.6 million. (as of Dec 31, 2014)

Item	Nature of Item	Positions	Stock Markets
			Philippines
A.1	Common Stocks	Long	217.816
		Short	5.656
A.10	TOTAL	Long	217.816
		Short	5.656
B.	Gross (long plus short) positions (A.10)		223.472
C.	Risk Weights		8%
D.	Specific risk capital (B. times C.)		17.878
E.	Net long or short positions		212.160
F.	Risk Weights		8%
G.	General market risk capital charges (E. times F.)		16.973
H.	Total Capital Charge For Equity Exposures (sum of D. and G.)		34.851
I.	Adjusted Capital Charge For Equity Exposures (H. times 125%)		43.563
J.	TOTAL RISK-WEIGHTED EQUITY EXPOSURES (I. X 10)		435.632

Foreign Exchange Exposures

The Bank's exposure to Foreign Exchange (FX) Risk carries a capital charge of ₱47.8 million or Risk-Weighted FX exposure of ₱597.1 million based on an 8% risk weight. Majority of the exposure comes from FX assets and FX liabilities in USD/PHP. The Bank also holds third currencies in JPY, CHF, GBP, EUR, CAD, AUD, SGD and other minor currencies.

Part IV. 3 FOREIGN EXCHANGE EXPOSURES (as of Dec 31, 2014)						
	Closing Rate USD/PHP:					44.740
Nature of Item	Currency	In Million USD Equivalent				In Million Pesos
		Net Long/(Short) Position (excluding options)		Net Delta-Weighted Positions of FX Options	Total Net Long/(Short) Positions	Total Net Long/(Short) Position
		Banks	Subsidiaries/Affiliates			
		1	2	3	4=1+2+3	5
Sum of net long positions	Various					597.100
Sum of net short positions	Various					(6.085)
Overall net open positions						597.100
Risk Weight						8%
Total Capital Charge For Foreign Exchange Exposures (B. times C.)						47.768
Adjusted Capital Charge For Foreign Exchange Exposures (D. times 125%)						59.710
Total Risk-Weighted Foreign Exchange Exposures, Excluding Incremental Risk-Weighted Foreign Exchange Exposures Arising From NDF Transactions (E. times 10)						597.100
Incremental Risk-Weighted Foreign Exchange Exposures Arising From NDF Transactions (Part IV.3a, Item F)						--
Total Risk-Weighted Foreign Exchange Exposures (Sum of F. and G.)						597.100
Note: Overall net open position shall be the greater of the absolute value of the sum of the net long position or the sum of net short position.						

Operational Risk – Weighted Assets

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

(amounts in ₱0.000 Million) Consolidated as of Dec 31, 2014	Gross Income	Capital Requirement (15% x Gross Income)
2011 (Year 3)	19,969.805	2,995.471
2012 (Year 2)	23,033.734	3,455.060
2013 (last year)	18,172.063	2,725.809
Average for 3 years		3,058.780
Adjusted Capital Charge	Average x 125%	3,823.475
Total Operational Risk weighted Asset		38,234.751

Business Development/Description of Significant Subsidiaries

PNB, through its subsidiaries, engages in a number of diversified financial and related businesses such as remittance servicing, non-life insurance, investment banking, stock brokerage, leasing, and other related services.

The following represent the Bank's significant subsidiaries:

Domestic Subsidiaries:

PNB Savings Bank (PNBSB) is a wholly-owned subsidiary of PNB as a result of the merger of PNB and Allied Banking Corporation (ABC). PNBSB traces its roots from First Malayan Development Bank which Allied Banking Corporation (ABC) bought in 1986 to reinforce its presence in the countryside. In 17 January 1996, it was renamed First Allied Savings Bank following the grant of license to operate as a savings bank. It was in the same year that the Monetary Board of the BSP granted a foreign currency deposit license. In 1998, First Allied Savings Bank changed its name to Allied Savings Bank to further establish its association with the parent ABC. With the merger of PNB and ABC in 2013, Allied Savings Bank became a wholly owned subsidiary of PNB. In November 2014, Securities and Exchange Commission approved the change of name of Allied Savings Bank to PNB Savings Bank.

PNBSB closed the year 2014 with total resources of ₱20.9 billion, up 90% from the previous year largely due to increase in its capitalization of ₱10 billion. Total deposits closed the year with ₱9.7 billion, the bulk of which 73% were in high cost funds maintained in Angat Savings, a flagship product which is a tier-based passbook savings account with pre-set monthly withdrawal transaction limits. This product continues to attract new customers and fresh funds given its competitive pricing versus other banks' equivalent product lines. Angat Savings had ₱7.1 billion in deposit portfolio. Other deposit products are regular savings, demand deposit, checks plus, time deposit and NOW accounts. Cash Card was positioned for those segments of the market demanding a no maintaining balance account required for payroll, transfer of funds for allowances, and even remittances. Power Earner 5+1, a new time deposit product with a term of 5 years plus 1 day, offers very competitive yield and was launched in the first quarter of 2015.

Total loan portfolio registered ₱9.0 billion by the end of 2014 was significantly higher or 260% than ₱2.5 billion level in 2013. Of the total loan portfolio, 86% comprised of consumer loans which is the thrust of the bank as the lending arms of PNB, parent bank, for the consumer loans.

PNBSB posted a net income of ₱157 million in 2014, higher by ₱148.0 million than ₱9.0 million audited net income in 2013. Its net interest income of ₱656.0 million was up year-on-year by 155% while pre-tax profits improved by 391% to close at ₱177.0 million. Return-on-equity stood at 4.3% higher than 1% in 2013. PNB Savings Bank's capital adequacy ratio (CAR) reached 113% due to capital infusion and is well above the minimum required by the BSP. PNBSB ended the year with a network of 28 branches strategically located across Metro Manila, Southern & Northern Tagalog Regions, Bicol, Western Visayas and Northern Mindanao.

PNB General Insurers Co., Inc. (PNBGen) is a subsidiary of the Bank established in 1991. It is a non-life insurance company that offers coverage for fire and allied perils, marine, motor car, aviation, surety, engineering, accident insurance and other specialized lines. PNBGen is a dynamic company providing and continuously developing a complete range of highly innovative products that will provide total protection to its customers at competitive terms. It started operations with an initial paid-up capital of ₱13 million. To date, PNBGen's paid-up capital is ₱912.6 million, one of the highest in the industry. As of 31 December 2014, total assets and total capital of PNBGen was at ₱8.1 billion and ₱1.1 billion, respectively.

For the period ended December 31, 2014, PNBGen posted a net income of ₱5.3 million, a complete turn-around from the ₱868.4 million net loss incurred in 2013. The net loss in 2013 was due primarily to claims losses because of typhoons Maring, Santi and Yolanda as well as the earthquake in Bohol.

PNBGen's compliance risk involves the risk of legal and regulatory sanctions, financial loss, and damage to the reputation of the company as a result of failure to comply with all applicable laws, regulations, codes of conduct and standards of good practice. PNBGen developed its own compliance program in recognition of its duty to adhere to relevant regulations based on a culture of accountability and transparency. PNBGen is committed to put in place the appropriate processes to ensure a common understanding of and compliance with insurance laws and existing rules and regulations, through a continuing training and education program, and enhanced monitoring and enforcement.

PNB Life Insurance Inc. (PNB Life), traces its roots from New York Life Insurance Philippines, Inc. (NYLIP), as a Philippine subsidiary of US-based New York Life International, LLC and commenced operations in August 2001. In February 2003, Allied Banking Corporation (Allied Bank) acquired a minority interest in NYLIP and started offering bancassurance in its branches nationwide. In June 2007, New York Life International, LLC divested all its interest in NYLIP in favor of Allied Bank.

In May 2008, NYLIP changed its corporate name to PNB Life Insurance, Inc. to reflect the change in ownership and in anticipation of the merger of Allied Bank and PNB. This change in branding demonstrates the new owner's commitment to the Philippine life insurance market and its dynamism and growth prospects. In October 2009, the Bank acquired a minority stake in PNB Life paving the way for the expansion of bancassurance operations of PNB Life to the PNB branches nationwide.

In April 2013, the merger of Allied Bank and PNB further strengthened the bancassurance partnership with PNB Life which benefited from the resulting synergy and increased operational efficiency. This positive development set the stage for the introduction to the bank clients competitive investment-linked insurance products designed to meet changing needs for complete financial solutions.

PNB Life has provincial regional business centers (RBCs) in San Fernando City, La Union covering Northern Luzon; San Fernando City, Pampanga serving Central Luzon; Naga City serving Southern Luzon; Zamboanga City covering Northern Mindanao, Iloilo City covering Western Visayas, Cebu City covering East Visayas, and Davao City to cover Eastern Mindanao. Cognizant of the Filipino-Chinese market, PNB Life maintains an RBC in Binondo.

Ranked among the top 10 life insurance companies in the Philippines, PNB is a leading provider of variable life products, complemented by the full line of individual and group life protection offerings. All its products and services are designed to meet the lifetime financial planning, wealth accumulation and protection needs of every Filipino. PNB Life is truly "Providing New Beginnings in your Life" as it vigorously aim to be the dominant provider of financial security to Filipinos worldwide.

PNB Life is 100% Filipino owned and managed company with Dr. Lucio Tan as Chairman and Ms. Esther Tan as President.

As of 31 December 2014 total assets and total capital of PNB Life were ₱19.6 billion and ₱1.95 billion, respectively. For the 12 months ended 31 December 2014, net income was ₱255.4 million.

PNB Capital and Investment Corporation (PNB Capital), a wholly-owned subsidiary of the Bank, is an investment house with a non-quasi-banking license. It was incorporated on 30 June 1997 and commenced operations on 8 October 1997. It is licensed to operate as an investment house by the SEC with the Certificate of Registration No. 01-2008-00234. It renewed its license on 24 November 2014.

As of 31 December 2014, PNB Capital had an authorized and paid-up capital of ₱350.00 million or 3,500,000 shares at ₱100.00 par value. Its principal business is to provide investment banking services which include debt and equity underwriting, private placement, loan arrangement, loan syndication, project financing and general financial advisory services, among others. The company is authorized to buy and sell, for its own account, securities issued by private corporations and the Philippine Government. PNB Capital distributes its structured and packaged debt and equity securities by tapping banks, trust companies, insurance companies, retail investors, brokerage houses, funds and other entities that invest in such securities.

Investment banking is a highly regulated industry. Regulatory agencies overseeing PNB Capital include the BSP, SEC, BIR, as well as several affiliates, support units and regulatory commissions of these entities.

The primary risks of the company include underwriting, reputational and liability risks. First, underwriting risk pertains to the risk of market's non-acceptance of securities being offered and underwritten by PNB Capital. In such scenario, the company would have to purchase the offered for its own account. Second, reputational risk arises from the possibility that the company may not be able to close mandated deals as committed. Third, liability risk refers to the risk being held liable for any losses incurred by the client due to non-performance of committed duties or gross negligence by the company. These primary risks are addressed by:

- ensuring that the staff is well-trained and capable, at the functional and technical level, to provide the services offered;
- understanding the clients' specific needs and goals;

- clarifying and documenting all goals, methodologies, deliverables, timetables and fees before commencing on a project or engagement and including several indemnity clauses to protect PNB Capital from being held liable for actions and situations beyond its control. These indemnity clauses are revised and improved upon after each engagement, as and when new protection clauses are identified; and
- all transactions are properly documented and approved by the Investment Committee and/or Board of Directors.

PNB-IBJL Leasing and Finance Corporation (formerly Japan-PNB Leasing and Finance Corporation), was incorporated on April 24, 1996 under the auspices of the Provident Fund of the Bank as PF Leasing and Finance Corporation,. It was largely inactive until it was used as the vehicle for the joint venture between the Bank (60%), IBJ Leasing Co Ltd., Tokyo (35%), and Industrial Bank of Japan, now called Mizuho Corporate Bank (5%). The corporate name was changed to Japan-PNB Leasing and Finance Corporation and the joint venture company commenced operations as such in February 1998.

On January 31, 2011, PNB increased its equity interest in JPNB Leasing from 60% to 90%. The Bank's additional holdings were acquired from minority partners, IBJ Leasing Co., Ltd. (IBJL) and Mizuho Corporate Bank, which divested their 25% and 5% equity interests, respectively. IBJL remains as an active joint venture partner with a 10% equity interest.

On November 28, 2014, PNB and IBJL entered into a Share Sale and Purchase Agreement covering the buy back by IBJL from PNB of 15% equity ownership in Japan-PNB Leasing with a closing date of January 30, 2015.

PNB-IBJL Leasing and Finance Corporation operates as a financing company under Republic Act No. 8556 (the amended Finance Company Act). Its major activities are financial lease (direct lease, sale-leaseback, lease-sublease and foreign currency leasing), operating lease (through wholly-owned subsidiary, PNB-IBJL Equipment Rentals Corporation*)*, term loans (for productive capital expenditures secured by chattel mortgage), receivable discounting (purchase of short-term trade receivables and installment papers) and Floor Stock Financing (short-term loan against assignment of inventories, e.g., motor vehicles).

Majority of the principal products or services are in peso leases and loans. Foreign currency (US dollar and Japanese yen) leases and loans are mostly funded by IBJL.

As of December 31, 2014, PNB-IBJL Leasing and Finance Corporation had an authorized capital of ₱150.0 million, represented by 1,500,000 shares with a par value of ₱100 per share, which are fully subscribed and paid up. On April 3, 2014, its Board and stockholders approved the increase of the company's authorized capital to P1.0 billion, representing 10,000,000 shares, in preparation for the declaration of stock dividends. On June 27, 2014, PNB-IBJL Leasing and Finance Corporation's Board approved the declaration of 2 shares to 1 share stock dividends to stockholders of record as of June 30, 2014.

As of December 31, 2014, PNB-IBJL Leasing and Finance Corporation's total assets and total equity stood at ₱5.7 billion and ₱660.8 million, respectively. Its unaudited net income for the year ended December 2014 was ₱128.0 million.

On January 13, 2015, the Securities and Exchange Commission approved the increase in its authorized capital stock from ₱150.0 million (1.5 million shares) to ₱1.0 billion (10.0 million shares).

Subsequently, the stock dividends declaration was implemented with the issuance of 300,000 new shares on January 23, 2015.

On January 30, 2015, the buyback of the 15% equity of Japan-PNB Leasing by IBJL from PNB was consummated, resulting to an equity ownership as follows: PNB - 75% and IBJL - 25%.

On March 27, 2015, the Securities and Exchange Commission approved the change of name of Japan-PNB Leasing and Finance Corporation to PNB-IBJL Leasing and Finance Corporation.

PNB-IBJL Equipment Rentals Corporation (formerly Japan-PNB Equipment Rentals Corporation**)** is a wholly-owned subsidiary of PNB-IBJL Leasing and Finance Corporation. It was incorporated in the Philippines on July 3, 2008 as a rental company and started commercial operations on the same date. It is engaged in the business of renting all kinds of real and personal properties.

As of December 31, 2014, it had a paid-up capital of ₱27.5 million and total capital of ₱48.1 million. Its total assets and unaudited net income for the year ended December 31, 2014 were ₱253.5 million and ₱9.8 million, respectively.

On March 11, 2015, the Securities and Exchange Commission approved the change of name from Japan-PNB Equipment Rentals Corporation to PNB-IBJL Equipment Rentals Corporation.

Allied Leasing and Finance Corporation ("ALFC") became a majority-owned (57%) subsidiary of PNB by virtue of the merger between PNB and Allied Bank In February 2013. It was incorporated on 29 December 1978. The company is authorized by the SEC to operate as a financing company in accordance with the provisions of Republic Act No. 5980, as amended by R.A. 8856, otherwise known as the Financing Company Act. It started operations on 25 June 1980. On 16 October 1996, the authorized capital was increased to ₱500 million divided into 5 million shares with ₱100.00 par value per share. As of 31 December 2014, ALFC's paid-up capital amounted to ₱152.50 million.

PNB Holdings Corporation (PHC), a wholly-owned subsidiary of the Bank, was established on 20 May 1920 as Philippine Exchange Co., Inc. The Securities and Exchange Commission (SEC) approved the extension of the corporate life of PNB Holdings for another fifty (50) years effective 20 May 1970. In 1991, it was converted into a holding company and was used as a vehicle for the Bank to go into the insurance business.

As of 31 December 2014, PHC had an authorized capital of ₱500.0 million or 5,000,000 shares at ₱100 par value per share. As of 31 December 2014, total paid-up capital of PHC was ₱255.1 million while additional paid-in capital was ₱3.6 million, while total assets and total capital were ₱332.9 million and ₱332.3 million, respectively, and net loss was ₱0.4 million (based on unaudited financial statements) .

PNB Securities, Inc. (PNBSec), a wholly-owned subsidiary of the Bank which was incorporated on 18 January 1991, is engaged in buying and selling of all kinds of securities for its own account and on behalf of others.

As of 31 December 2014, total paid-up capital was at ₱100.0 million. PNBSec is engaged in the stockbrokerage business that deals in the trading of shares of stocks listed at the stock exchange. As of 31 December 2014, total assets and total capital were ₱238.3 million and ₱170.8 million, respectively. Net loss for the year ended 31 December 2014 was ₱1.8 million.

Inherent to all trading participants (TPs) engaged in the stockbrokerage business, PNBSec is exposed to risks like operational risk, position risk, counterparty risk and large exposure risk. To address, identify, assess and manage the risks involved, PNBSI submits monthly to the SEC the required Risk Based Capital Adequacy (RBCA) Report which essentially measures the broker's net liquid capital considering said risks.

PNB Forex, Inc. (PFI), a wholly-owned subsidiary of the Bank which was incorporated on 13 October 1994 as a trading company, was engaged in the buying and selling of foreign currencies in the spot market for its own account and on behalf of others. The company temporarily ceased its operations in foreign currency trading as of 1 January 2006. It derives 100% of its revenues from interest income earned from the cash/funds held by the corporation. On 16 December 2013, the PFI's Board of Directors approved the dissolution of the company. Last 17 March 2014, the Office of the City Treasurer of Pasay City approved the company's application for retirement of business. The company is now applying for tax clearance with the Bureau of Internal Revenue.

As of December 31, 2014, total assets and total income of PFI were ₱91.4 million and ₱91.2 million, respectively. For the year ended 31 December 2014, net income was ₱1.1million.

Bulawan Mining Corporation, a wholly-owned subsidiary of the Bank, was incorporated in the Philippines on 12 March 1985. It is authorized to explore and develop land for mining claims and sell and dispose such mining claims.

PNB Management and Development Corporation, a wholly-owned subsidiary of the Bank, was incorporated in the Philippines on 6 February 1989 primarily to own, acquire, hold, purchase, receive, sell, lease, exchange, mortgage, dispose of, manage, develop, improve, subdivide, or otherwise deal in real estate property, of any type and/or kind of an interest therein, as well as build, erect, construct, alter, maintain, or operate any subdivisions, buildings and/or improvements. It is also authorized to explore and develop land mining claims and to sell/dispose such mining claims.

Foreign Subsidiaries:

Allied Commercial Bank (ACB) became a majority-owned commercial bank subsidiary of PNB by virtue of the merger between PNB and ACB in February 2013. It is the former Xiamen Commercial Bank, the name change having been effected in August 2001. It obtained its commercial banking license in July 1993 and opened for business in October 1993.

ACB maintains its head office in Xiamen, in Fujian Province, a southeastern commercial city of China. In 2003, ACB opened a branch in Chongqing, a southwestern industrial city of Sichuan.

The commercial banking license granted to ACB allows it to offer full banking services in foreign currency to resident and non-resident natural persons including compatriots from Hong Kong, Macau and Taiwan. It also allows ACB to service foreign trade and loan requirements of enterprises owned by local residents.

Allied Banking Corporation (Hong Kong) Limited (ABCHKL) became a majority –owned (51%) commercial subsidiary of PNB by virtue of the merger between PNB and Allied Bank in February 2013. ABCHKL is a private limited company incorporated in Hong Kong in 1978 and is licensed as a restricted license bank under the Hong Kong Banking Ordinance. ABCHKL was Allied Bank's first majority-owned overseas subsidiary. Due to the merger, PNB now owns 51% of ABCHKL. It provides a full range of commercial banking services predominantly in Hong Kong, which include lending and trade financing, documentary credits, participation in loans syndications and other risks, deposit taking, money market and foreign exchange operations, money exchange, investment and corporate services.

ABCHKL's core revenues primarily comprise of interest income from its lending activities complemented with fees and commissions from other fee-based services. ABCHKL has a wholly owned subsidiary, ACR Nominees Limited, a private limited company incorporated in Hong Kong which provides management and corporate services to its customers. It also holds and operates one branch office in Tsimshatsui, Kowloon. In addition to its normal banking services, ABCHKL acts and is licensed as an insurance agent. Its main businesses are property mortgage loans, trade finance, deposits (not less than hk$500,000), remittances, foreign exchange and secretarial and nominee services.

PNB International Investment Corporation (PNB IIC), formerly Century Bank Holding Corporation, a wholly-owned subsidiary of the Bank, is a U.S. non-bank holding company incorporated in California on 21 December 1979. It changed its name to PNB International Investment Corporation on 1 December 1999.

PNB IIC owns **PNB Remittance Centers, Inc.** (PNB RCI) which was incorporated in California on 19 October 1990. PNB RCI is a company engaged in the business of transmitting money to the Philippines. As of 31 December 2014, PNB RCI has 20 branches in 6 states. PNB RCI owns **PNB RCI Holding Company, Ltd.** which was incorporated in California on 18 August 1999 and **PNB Remittance Company, Nevada** (PNB RCN) which was incorporated in Nevada on 12 June 2009. PNB RCN is engaged in the business of transmitting money to the Philippines. PNB RCI Holding Company, Ltd. is the holding company for **PNB Remittance Company Canada** (PNB RCC). PNB RCC is also a money transfer company incorporated in Canada on 26 April 2000. PNB RCC has 7 branches in Canada as of year-end 2014.

PNB RCI is regulated by the U.S. Internal Revenue Service and the Department of Financial Institutions of the State of California and other state regulators of financial institutions while PNBRCN is regulated by the Nevada Department of Business and Industry – Division of Financial Institutions. PNB RCC is regulated by the Office of the Superintendent of Financial Institutions of Canada and Financial Transactions and Reports Analysis Centre of Canada.

PNB IIC does not actively compete for business, being only a holding company. PNB RCI, PNB RCN and PNB RCC have numerous competitors from local U.S. banks, Philippine bank affiliates doing business in North America, as well as other money transfer companies like Western Union, Money Gram, Lucky Money and LBC.

PNB (Europe) Plc (PNBE) was originally set up as a PNB London Branch in 1976. In 1997, it was converted into PNB (Europe) Plc, as wholly-owned subsidiary of the Bank, incorporated in the United Kingdom with a full banking license. It is also authorized to provide cross-border services to 18 members states of European Economic Area (EEA). In 2007, PNBE opened its branches in Paris, France, where it is engaged in remittance services. PNBE is regulated by the Financial Conduct Authority and authorized and regulated by the Prudential Regulation Authority. PNBE Paris branch is governed by the Banque de France.

In April 2014, Allied Bank Phils (UK). was merged with PNBE Plc.

PNB Global Remittance & Financial Company (HK) Limited (PNB Global)**,** a wholly-owned subsidiary of the Bank, is registered with the Registrar of Companies in Hong Kong. On 1 July 2010, PNB Global took the remittance business of PNB Remittance Center, Ltd. with the former as the surviving entity. It now operates as a money lender and remittance company. As of 30 December 2013, it maintains six (6) offices in Hong Kong. Its remittance business is regulated by the Customs and Excise Department of Hong Kong.

Effective August 2012, PNB Global launched its tie-up arrangement with Western Union strengthening its cash pick-up services throughout the Philippines.

Item 2. Properties

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

Disclosed in Exhibit I is the list of Bank-owned properties as of December 31, 2014.

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

Disclosed in Exhibit II is the list of Bank's branches that are under lease as of December 31, 2014.

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

Information related to Property and Equipment is shown under Note 10 of the Audited Financial Statements of the Bank and Subsidiaries.

Item 3. Legal Proceedings

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 its Financial Statements.

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

There was no matter submitted to a vote of the security holders during the fourth (4^{th}) quarter of the year covered by this report.

PART II – OPERATIONAL AND FINANCIAL INFORMATION

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

A. Market Price of and Dividends on Registrant's Common Equity and Related Stockholders

1. Market Information

The PNB Common shares are listed and traded at the Philippine Stock Exchange, Inc. The high and low sales prices of PNB Shares for each quarter for the last two (2) fiscal years are:

	2013		2014		March 2015	
	High	Low	High	Low	High	Low
Jan – Mar	107.60	87.40	87.20	75.56	87.50	76.70
Apr – Jun	117.00	75.95	94.95	81.50		
July – Sep	91.00	65.00	91.50	85.95		
Oct – Dec	99.00	77.60	88.30	76.50		

The trading price of each PNB common share as of March 31, 2015 was ₱77.50.

2. Holders

There are 30,167 shareholders as of December 31, 2014. The top twenty (20) holders of common shares, the number of shares held, and the percentage to total shares outstanding held by each are as follows:

No.	Stockholders	Common Shares[1/]	Percentage To Total Outstanding Capital Stock
1	PCD Nominee Corporation (Filipino)	111,384,105	8.9168655004
2	Key Landmark Investments, Ltd.	109,115,864	8.7352812437
3	PCD Nominee Corporation (Non-Filipino)	105,653,011	8.4580622056
4	Caravan Holdings Corporation	67,148,224	5.3755576884
5	Solar Holdings Corporation	67,148,224	5.3755576884
6	True Success Profits Ltd.	67,148,224	5.3755576884
7	Prima Equities & Investments Corporation	58,754,696	4.7036129774
8	Leadway Holdings, Inc.	53,470,262	4.2805670928
9	Infinity Equities, Inc.	50,361,168	4.0316682663
10	Pioneer Holdings Equities, Inc.	28,044,239	2.2450843163
11	Multiple Star Holdings Corporation	25,214,730	2.0185676946
12	Donfar Management Ltd.	25,173,588	2.0152740677
13	Uttermost Success, Ltd.	24,752,272	1.9815455738
14	Mavelstone Int'l Ltd.	24,213,463	1.9384111662
15	Kenrock Holdings Corporation	21,301,405	1.7052860761
16	Fil-Care Holdings, Inc.	20,836,937	1.6681030446
17	Fairlink Holdings Corporation	20,637,854	1.6521654354
18	Purple Crystal Holdings, Inc.	19,980,373	1.5995307292
19	Kentron Holdings & Equities Corporation	19,944,760	1.5966797270
20	Fragile Touch Investment, Ltd.	18,581,537	1.4875487754

[1/] *This includes the 423,962,500 common shares issued to the stockholders of Allied Banking Corporation (ABC) relative to the merger of PNB and ABC as approved by the Securities and Exchange Commission (SEC) on January 17, 2013.*

3. Dividends

PNB is authorized under Philippine Law to declare dividends, subject to certain requirements. The Bank's ability to pay dividends is contingent on its ability to set aside unrestricted retained earnings for dividend distribution. In addition, the Bank's declaration of dividends, including computation of restricted retained earnings, is subject to compliance with certain rules and regulations prescribed by the Bangko Sentral ng Pilipinas (BSP) as provided under the Manual of Regulations for Banks (MORB) and subject to compliance with certain regulatory requirements as may be applicable to the Bank at the time of such declaration.

PNB has adopted the following dividend policy:

> "Dividends shall be declared and paid out of the surplus profits of the Bank at such times and in such amounts as the Board of Directors may determine in accordance with the provisions of law and the regulations of the Bangko Sentral ng Pilipinas (BSP) and the Securities and Exchange Commission (SEC), subject to compliance with such financial regulatory requirements as may be applicable to the Bank."

As of date, the Bank has not declared any cash dividends for the fiscal years 2013 and 2014.

4. Recent Sales of Unregistered or Exempt Securities, including Recent Issuance of Securities Constituting an Exempt Transaction

The Bank successfully completed its Stock Rights Offering (Offer) of 162,931,262 common shares (Rights Shares) with a par value of ₱40.00 per share at a price of ₱71.00 each. The Rights Shares were offered to all eligible shareholders of the Bank at the proportion of fifteen (15) Rights Shares for every one hundred (100) common shares held as of the record date of 16 January 2014. The offer period was from 27 January 2014 to 3 February 2014.

A total of 33,218,348 Rights Shares were sourced from the existing authorized but unissued capital stock while the remaining 129,712,914 Rights Shares were sourced from the increase in authorized capital stock of the Bank, which was approved by the Securities and Exchange Commission on July 18, 2014. All the Rights Shares were already listed in the Philippine Stock Exchange.

The Offer strengthens the Bank's capital position under the Basel III standards, which took effect on January 1, 2014.

5. Computation of Public Ownership

As of December 31, 2014, PNB's Public Ownership Level is 21.03%, which is above the minimum percentage of ten percent (10%) public ownership requirement for a listed company, in compliance with the requirement of the Philippine Stock Exchange (PSE).

6. Description of PNB's Securities

- As of December 31, 2014, PNB's authorized capital stock amounted to ₱70,000,000,040.00 divided into 1,750,000,001 common shares having a par value of ₱40.00 per share.

- The total number of common shares outstanding as of December 31, 2014 is 1,249,139,678. This includes the 423,962,500 common shares issued relative to the merger of PNB and Allied Banking Corporation subject of the Registration Statement filed with the Securities and Exchange Commission and for listing with the Philippine Stock Exchange.

- As of December 31, 2014, a total of 1,143,230,002 common shares (or 91.52%) are held by Filipino-Private Stockholders while the remaining 105,909,676 common shares (or 8.48%) are held by Foreign-Private Stockholders. PNB has a total of ₱49,965,587,120.00 subscribed capital.

- The Bank's stockholders have no pre-emptive right to subscribe to any new or additional issuance of shares by the Bank, regardless of the class of shares, whether the same are issued from the Bank's unissued capital stock or in support of an increase in capital. (*Article Seven of PNB's Amended Articles of Incorporation*)

- At each meeting of the stockholders, every stockholder entitled to vote on a particular question involved shall be entitled to one (1) vote for each share of stock standing in his name on the books of the Bank at the time of the closing of the transfer books for such meeting or on the record date fixed by the Board of Directors. (*Section 4.9 of PNB's Amended By-Laws*)

- Section 24 of the Corporation Code of the Philippines provides that *"x x x every stockholder entitled to vote shall have the right to vote in person or by proxy the number of shares of stock standing, at the time fixed by the by-laws, in his own name on the stock books of the corporation x x x and said stockholder may vote such number of shares for as many persons as there are directors to be elected or he may cumulate said shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of his shares shall equal x x x*."

Item 6. Management's Discussion and Analysis

Management's Discussion and Analysis

The financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

Financial Condition

2014 vs. 2013

The Group's consolidated assets reached ₱625.4 billion as of December 31, 2014, higher by ₱9.1 billion compared to ₱616.3 billion total assets reported by the Bank as of December 31, 2013. Changes (more than 5%) in assets were registered in the following accounts:

- Loans and Receivables (L&R) expanded to ₱316.3 billion in December 2014, ₱42.0 billion or 15.3% higher as compared to its December 2013 level of ₱274.3 billion mainly due to loan releases implemented in the current year to various corporate borrowers.

- Financial Assets at Fair Value Through Profit or Loss at ₱17.4 billion grew by 48.7% or ₱5.7 billion from ₱11.7 billion attributed mainly to purchases of various investment securities and increase in segregated fund assets.

- Interbank Loans Receivable was at ₱7.7 billion as of December 31, 2014, a decrease of ₱0.7 billion from ₱8.4 billion as of December 31, 2013 due mainly to maturing interbank lending transactions to various banks.

- Available for Sale Investments went down to ₱63.1 billion as of December 31, 2014, ₱17.2 billion lower than the ₱80.3 billion level as of December 31, 2013 attributable mainly to the reclassification of ₱18.3 billion investment securities to Held to Maturity Investments two years after the sale of a significant amount of Held to Maturity Securities in October 2011. Held to Maturity Investments now stood at ₱23.0 billion.

- Due from Bangko Sentral ng Pilipinas decreased by ₱47.4 billion from ₱153.2 billion to ₱105.8 billion accounted for by Special Deposit Accounts which dropped by ₱51.5 billion to fund various loan releases. Cash and Other Cash Items increased by ₱2.8 billion from ₱11.8 billion to ₱14.6 billion. Due from Other Banks went up by ₱0.7 billion from ₱14.9 billion to ₱15.6 billion.

- Investment Properties decreased by ₱1.2 billion from ₱21.5 billion to ₱20.3 billion due to disposal of foreclosed properties

- Intangible assets were lower at ₱2.3 billion in view of the amortization of merger-related core deposits and customer relations intangibles.

- Other assets and Deferred Tax Assets were higher by ₱1.8 billion and ₱0.1 billion from ₱3.4 billion to ₱5.2 billion and from ₱1.3 billion to ₱1.5 billion, respectively.

Consolidated liabilities decreased by ₱7.5 billion from ₱533.9 billion as of December 31, 2013 to ₱526.4 billion as of December 31, 2014. Major changes in liability accounts were as follows:

- Deposit Liabilities was lower by ₱14.8 billion from ₱462.4 billion to ₱447.6 billion. Demand deposits declined by ₱23.8 billion. The decline in deposits was due to a shift of funds by depositors to the stock rights offer of the Bank in the 1st quarter of this year. ₱6.75 billion LTNCD were redeemed in March and October 2014.

- Financial liabilities at Fair value through profit or loss was higher at ₱10.9 billion from last year's ₱8.1 billion attributed to the increase in segregated fund liabilities of PNB Life.

- Bills and Acceptances Payable increased by ₱5.9 billion from ₱13.2 billion to ₱19.1 billion accounted for by interbank borrowings under repurchase agreement with foreign banks. Income Tax Payable increased by ₱38 million from ₱48 million to ₱86 million

Total equity accounts improved by ₱16.8 billion, from ₱82.3 billion as of December 31, 2013 to a high of ₱99.1 billion as of December 31, 2014 on account of significant increases attributed to the following:

- ₱11.6 billion proceeds from the issuance of 162.9 million common shares in line with the stock rights offering in February 2014
- ₱5.5 billion net income for the twelve months period ended December 31, 2014
- ₱1.2 billion increase in net unrealized gain(loss) on AFS adjustments and ₱0.2 billion increase in non-controlling interests.

offset by the ₱1.0 billion downward adjustment in remeasurement losses on Retirement Plan, ₱0.4 billion decline in FX translation.

2013 vs. 2012

As of end of the first year of PNB-Allied Bank merger, the Group's consolidated assets expanded to ₱616.3 billion as of December 31, 2013, ₱288.0 billion or 87.7% higher compared to ₱328.3 billion of PNB as of December 31, 2012. The increase is inclusive of some ₱198.2 billion assets of the former Allied Banking Corporation (ABC) at fair values of February 9, 2013, the effective date of the merger.

Changes (more than 5%) in assets were registered in the following accounts:

- Cash, Due from BSP and Due from Banks of the merged Bank totaled ₱179.9 billion, 284.4% or ₱133.1 billion higher compared to the December 31, 2012 level of ₱46.8 billion. The increase came from Deposits with the BSP which grew by ₱116.0 billion while the increases in Cash and Other Cash Items and Due from Banks accounts of ₱6.2 billion and ₱10.8 billion respectively, pertain mainly to ABC accounts which were brought in to the merged Bank.
- Interbank Loans Receivable was at ₱8.4 billion as of December 31, 2013 or a decrease of 27.0% compared to the December 31, 2012 level of ₱11.5 billion due mainly to interbank lending transactions to various banks in December 2012.
- Securities Held Under Agreements to Resell as of December 31, 2012 of ₱18.3 billion represents lending transactions of the Bank with the BSP.
- Financial Assets at Fair Value Through Profit or Loss at ₱11.7 billion grew by ₱7.7 billion from ₱4.0 billion accounted for by the ₱7.1 billion Segregated Fund Assets designated as financial asset at FVPL. This account refers to the considerations from unit-linked insurance contracts received by PNB Life Insurance, Inc. (PNB Life) in designated funds. Segregated fund assets and the corresponding segregated fund liabilities are designated as financial assets and liabilities at FVPL and are evaluated at fair value basis in accordance with a documented risk management or investment strategy.
- Available for Sale Investments went up to ₱80.3 billion as of December 31, 2013, ₱13.3 billion or 19.9% higher than the ₱67.0 billion level as of December 31, 2012 considering net acquisition of various securities as well as AFS securities holdings from the former ABC.
- Loans and Receivables now stood at ₱274.3 billion, from ₱144.2 billion as of December 31, 2012 attributable mainly to the ₱92.3 billion total loans brought in by the former ABC to the merged Bank, of which more than 80% are corporate accounts. New loan releases to various corporate borrowers also contributed to the increase in Loans and Receivables.
- Investment Properties was ₱21.5 billion, up by ₱6.0 billion from the ₱15.5 billion reported as of December 31, 2012. This came from the ₱5.7 billion ROPA accounts of the former ABC.
- Property and Equipment (PPE) amounted to ₱19.8 billion as of December 31, 2013, an increase of ₱6.4 billion from the December 31, 2012 level of ₱13.4 billion on account of the merged PPE accounts of former ABC.
- Investment in Associate had a zero balance as of December 31, 2013 compared to the P2.4 billion as of December 31, 2012 primarily due to the increase in ownership of PNB in Allied Commercial Bank (ACB) from 39% to 90% after the merger. Since ACB is now a subsidiary, the investment of PNB in ACB is now consolidated line-by-line in the financial statements. Moreover, the P5.0 million remaining investment in an associate as of December 31, 2013 was included under Other Assets.
- The ₱13.4 billion Goodwill as of December 31, 2013 represents the difference between the fair value of the identified ABC net assets and liabilities at the time of the merger and the market value of the 423.962 million PNB shares issued in line with the merger.
- Of the ₱2.4 billion Intangible Assets, ₱2.0 billion represents customer relationship and core deposits acquired by the Group through business combination. These intangible assets are initially measured at their fair value at the date of acquisition. The fair value of these

intangible assets reflects expectations about the probability that the expected future economic benefits embodied in the asset will flow to the Group.

- Other Assets and Deferred Tax Assets amounted to ₱3.4 billion and ₱1.3 billion as of December 31, 2013 compared to ₱1.8 billion and ₱2.9 billion as of December 31, 2012, respectively.

- The total consolidated liabilities of the merged bank increased by ₱242.2 billion from ₱291.7 billion as of December 31, 2012 to ₱533.9 billion of the merged Bank as of December 31, 2013. Major changes in liability accounts were as follows:

  - Deposit Liabilities, representing 87% of total liabilities of the merged Bank stood at P462.4 billion, higher by ₱221.5 billion compared to the December 2012 level of ₱240.9 billion, attributed to ABC deposit balances. Demand, Savings and Time deposits increased by ₱97.2 billion, ₱92.7 billion and ₱31.6 billion, respectively.
  - Financial Liabilities at FVPL increased by ₱1.6 billion to ₱8.1 billion as of December 31, 2013 from ₱6.5 billion as of December 31, 2012. The increase was primarily due to the P7.3 billion segregated fund liabilities from ABC subsidiary PNB Life partly offset by the redemption of the P6.0 billion subordinated notes issued on June 19, 2009. The subordinated note and segregated fund liabilities are part of a group of financial instruments that are managed on a fair value basis, in accordance with the Group's documented risk management and investment strategy.
  - Accrued Expenses Payable and Other Liabilities also increased from ₱3.9 billion and ₱17.3 billion respectively, to ₱5.5 billion and P34.8 billion, respectively as of December 31, 2013. Increase in Other Liabilities of ₱17.7 billion came mainly from the other liabilities of the former ABC.
  - Income Tax Payable decreased by ₱0.1 billion from ₱0.2 billion to ₱0.1 billion

- The consolidated equity now stood at ₱82.3 billion as of December 31, 2013, up by ₱45.7 billion from ₱36.5 billion as of December 31, 2012. The increase in capital accounts was accounted for by the following:

  - ₱41.4 billion market value of 423,962,500 PNB common shares issued in line with the PNB-ABC merger
  - ₱5.2 billion net income for the year ended December 31, 2013
  - ₱1.3 billion increase in the accumulated translation adjustment account.
  - ₱3.0 billion increase in non-controlling interest

  partly offset by:

  - ₱4.6 billion mark-to-market loss on AFS
  - ₱0.5 billion additional actuarial losses taken up in compliance with PAS 19.

<u>2012 vs. 2011</u>

- The Group's consolidated assets expanded to ₱328.3 billion as of December 31, 2012, ₱16.7 billion or 6.0% higher compared to ₱311.6 billion as of December 31, 2011. Significant changes (more than 5%) in assets were registered in the following accounts:

  - Loans and Receivables grew by 14.8% or ₱18.1 billion, from ₱125.6 billion to ₱144.2 billion, attributable mainly to new loan releases during the period.

- Available for Sale Investments increased by ₱14.7 billion, from ₱52.3 billion to ₱67.0 billion, attributed mainly to purchases of government securities.
- Investment Properties decreased from ₱18.5 billion to ₱15.5 billion, primarily due to sale of foreclosed properties and provision for loss on a certain property which was destroyed by fire.
- Due from Other Banks decreased by ₱2.4 billion, from ₱6.4 billion to ₱4.0 billion.
- Financial Assets at Fair Value Through Profit or Loss was lower by ₱2.9 billion, from ₱6.9 billion to ₱4.0 billion, attributed mainly to the sale of various investment securities.
- Interbank Loans Receivable decreased by ₱5.6 billion, from ₱17.1 billion to ₱11.5 billion, in view of lower interbank lending.
- Other Assets declined by ₱0.3 billion, from ₱2.1 billion to ₱1.8 billion

- The consolidated liabilities increased by ₱14.0 billion from ₱277.7 billion as of December 31, 2011 to ₱291.7 billion as of December 31, 2012. Major changes in liability accounts were as follows:
    - Deposit Liabilities increased by ₱3.3 billion from ₱237.5 billion to ₱240.8 billion attributed mainly to the ₱8.1 billion increase in savings deposit partly offset by the ₱1.7 billion and ₱3.1 billion reductions in demand and time deposits.

    - Bills and Acceptances Payable increased by ₱4.6 billion, from ₱8.5 billion to ₱13.1 billion, mainly accounted for by BSP rediscounting and various borrowings from other banks.
    - Subordinated Debt increased by ₱3.5 billion, from ₱6.4 billion to ₱9.9 billion. On May 9, 2012, the Bank issued ₱3.5 billion of Unsecured Subordinated Notes to finance asset growth and strengthen the Bank's capital base.

    - Other liabilities increased by ₱2.6 billion from ₱14.7 billion to ₱17.3 billion, mainly due to the accrual of provision for loss on certain court cases, additional insurance liability of the Bank's subsidiary PNB Gen. Insurers, and increment in accounts payable on certain collection arrangements.

- The consolidated equity stood at ₱36.6 billion as of December 31, 2012, up by ₱4.7 billion from ₱31.9 billion as of December 31, 2011. The increase in capital accounts was mainly accounted for by the ₱4.7 billion net income for the year ended December 31, 2012. As mentioned in item 1 above, Surplus as of December 31, 2012 and December 31, 2011 are already net of SPV losses previously being deferred in accordance with the SPV Law.

<u>Results of Operations</u>

2014 vs. 2013

- Consolidated net income reached ₱5.5 billion for the twelve months ended December 31, 2014, an improvement of ₱0.3 billion compared with the ₱5.2 billion net income reported for the same period last year.

- Net interest income for the current year at ₱ 16.9 billion went up significantly by ₱3.2 billion or 22.9% compared to ₱13.7 billion in 2013 as interest income posted an increase of ₱2.0 billion at ₱20.5 billion vs ₱18.5 billion primarily accounted for by interest on loans and receivables which increased by ₱2.1 billion, driven by significant expansion in the loan portfolio. On the other hand, interest expense which amounted to ₱4.7 billion last year dropped by ₱1.1 billion to ₱3.6 billion as the Bank continued to undertake its liability management exercise by raising long term deposits at lower interest rates. In March 2014, PNB redeemed P3.25 billion worth of LTNCDs with a coupon rate of 6.50% and in October 2014 likewise redeemed P3.5 billion worth of LTNCDs with a coupon rate of 7% issued by the ABC. These funds were replaced with an issuance of P7.0 billion worth of LTNCDs with a coupon rate of 4.125% which will mature in June 2020. Furthermore, interest on borrowings also declined as a result of the redemption of unsecured subordinated debts totaling ₱10.5 billion in 2013 (₱4.5 billion, 7.13% redeemed in March 2013 and ₱6.0 billion, 8.5% redeemed in June 2013).

- Fee-based and other income decreased by ₱1.7 billion to ₱6.2 billion from ₱7.9 billion for the same period last year. The decrease was attributed to lower gains from Trading and Investment Securities which declined by ₱3.4 billion, partly offset by the ₱0.1 billion, ₱0.9 billion and ₱0.7 billion increases in Foreign Exchange Gains, Net gain on sale or exchange of assets and Miscellaneous Income, respectively.

- Net service fees and commission income and net insurance premium were at ₱2.5 billion and ₱0.7 billion, respectively, for the period ended December 31, 2014.

- Administrative and other operating expenses totaled ₱19.5 billion for the year ended December 31, 2014, ₱2.4 billion more than last year's ₱17.1 billion. Increases were registered in Compensation and Fringe Benefits by ₱1.6 billion partly due to implementation of the 2014 Collective Bargaining Agreement effective July 2014. Provision for impairment and credit losses also increased by ₱1.4 billion to ₱2.2 billion from ₱0.8 billion last year. Partly offset by ₱0.2 billion decreases in depreciation and amortization and ₱0.5 billion miscellaneous expenses.

- Total Comprehensive Income for the twelve months period ended December 31, 2014 amounted to ₱5.4 billion, ₱3.8 billion higher compared to the ₱1.6 billion for the same period last year. Current year's comprehensive income came mainly from the net income totaling ₱5.5 billion and net unrealized gain on available-for-sale securities by ₱1.2 billion, offset by ₱0.5 billion in accumulated translation adjustments, ₱1.0 billion re-measurement losses on retirement plan taken up in the current year.

2013 vs. 2012

- For the year 2013, the net income of the merged bank reached ₱5.2 billion, ₱0.5 billion higher compared to ₱4.7 billion reported by PNB in 2012. The figure would have been much higher if not for the ₱865.5 million accrual on casualty losses (e.g. for typhoon Yolanda/Santi and for the Bohol earthquake) taken up in the later part of 2013.
- Net interest income amounted to ₱13.7 billion for the year ended December 31, 2013, almost double the ₱7.0 billion net interest income for the same period last year due to the expansion of the loan portfolio. Interest income was up by ₱7.1 billion from ₱11.4 billion to ₱18.5 billion. Interest expense however was also higher at ₱4.7 billion or by ₱0.3 billion from ₱4.4 billion last year.
- Fee-based and other income was higher by ₱0.3 billion at ₱7.9 billion for the year ended December 31, 2013 from ₱7.6 billion for the same period last year. Increases were registered in Net Gain on Sale of exchange of Assets, Foreign Exchange Gains and Miscellaneous by ₱159 million, ₱62 million and ₱843 million, respectively, while Trading and Investment Securities Gains declined by ₱746 million.

- Net service fees and commission income and net insurance premium were at ₱2.3 billion and (₱0.5 billion), respectively, for the period ended December 31, 2013.
- Administrative and other operating expenses of the merged bank totaled ₱17.1 billion in 2013, ₱6.2 billion more than last year's ₱10.9 billion. Increases were registered in Compensation and Fringe Benefits by ₱2.3 billion, Taxes and Licenses by ₱0.6 billion, Occupancy and Equipment-related Costs by P0.5 billion, Depreciation and Amortization by P0.8 billion and Other Miscellaneous Expenses by P1.9 billion, respectively.
- Provision for Income Tax was at ₱1.2 billion and ₱0.9 billion for the years ended December 31, 2013 and 2012, respectively with the increase primarily due to higher taxable revenues during the current period.

- Total Comprehensive Income for the year ended December 31, 2013 amounted to ₱1.6 billion, ₱3.1 billion lower compared to the ₱4.7 billion total comprehensive income reported for the period ending December 31, 2012. Comprehensive income came mainly from the net income totaling ₱5.2 billion and accumulated translation adjustments related to foreign operations which contributed ₱1.2 billion, reduced by the ₱4.4 billion decline in market value of available-for-sale securities and the ₱0.5 billion re-measurement losses on retirement plan taken up in the current year.

2012 vs. 2011

- The Bank posted a ₱4.7 billion consolidated net income for the year ended December 31, 2012, higher than the ₱4.6 billion net income for the same period last year.
- Net interest income stood at ₱7.0 billion in 2012, slightly lower by ₱0.2 billion compared to the net interest income for the same period last year. Interest income declined by ₱1.1 billion, from ₱12.5 billion to ₱11.4 billion. Interest expense decreased by ₱0.9 billion from ₱5.3 billion to ₱4.4 billion.
- Net service fees and commission income was slightly lower at ₱1.9 billion in 2012 compared to ₱2.1 billion reported for the same period last year.
- Fee-based and other income increased by ₱0.3 billion for the year ended December 31, 2012 to ₱7.6 billion, from ₱7.3 billion for the same period last year. The increase came from gains on Trading and investment securities which expanded by ₱1.8 billion from ₱3.6 billion to ₱5.4 billion, mainly attributed to gain on sale/redemption of Available for Sale Securities.
- Net insurance premium (benefits and claim) is at ₱0.2 billion for the period ended December 31, 2012.
- Administrative and other operating expenses were lower by ₱0.2 billion from ₱11.2 billion to ₱10.9 billion.
- Provision for income tax was at ₱0.9 billion and ₱0.8 billion for the years ended December 31, 2012 and 2011, respectively**.**

Key Performance Indicators

- Capital Adequacy/Capital Management

  The Parent Company's Capital Management (Sub-Committee of the Asset/Liability Committee) has been created to specifically handle policies and procedures pertaining to the capital planning and assessment as well as possible equity investments of the Bank.

The Sub-Committee shall be responsible for the following:

- Determine the appropriate level of capital that will support the attainment of the Bank's strategic objectives, meet the minimum regulatory requirements and cover all material risks that the Bank may encounter in the course of its business
- Periodically monitor and assess the capital ratios of the Bank. Monitoring shall include capital ratios with and without the regulatory stress test prescribed by the regulators, based on both the consolidated and solo financial statements of the bank.
- Report to the ALCO the Bank's capital ratio and position based the consolidated and solo financial statements on a monthly basis and to the Board ICAAP Steering Committee on a quarterly basis.
- Inform the ALCO/ Board ICAAP Steering Committee on possible breach of ICAAP capital thresholds, particularly during period of stress and activating the Bank's capital contingency plan, if needed.

  - The Sub-Committee will evaluate and endorse to the Board the options to improve the Bank's capital adequacy as provided for in the Capital Contingency Plan

  - In case of capital sourcing, the Sub-Committee shall endorse to the Board ICAAP Steering Committee / Board the manner, the amount and time period for capital raising.
- Ensure that the capital ratios resulting from the three-year strategic business plan under the Bank's ICAAP shall meet the minimum regulatory requirement as well as the Bank's internal thresholds.

  - The Sub-Committee shall determine the Bank's internal thresholds and shall endorse same to the Board ICAAP Steering Committee / Board.
- Undertake the optimal allocation of the capital to the different business groups in accordance with the portfolio diversification policy and subject to the sustainability of earnings, risk weights of assets, among others.

The Bank and its individual regulatory operations have complied with all externally imposed capital requirements throughout the period.

<u>Regulatory Qualifying Capital</u>
Under existing BSP regulations, the determination of the Parent Company's compliance with regulatory requirements and ratios is based on the amount of the Parent Company's "unimpaired capital" (regulatory net worth) reported to the BSP, which is determined on the basis of regulatory policies, which differ from PFRS in some respects.

As required under BSP Circular 781, the risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10.00% for both solo basis (head office and branches) and consolidated basis (parent bank and subsidiaries engaged in financial allied undertakings but excluding insurance companies). Other minimum ratios include Common Equity Tier (CET) 1 ratio and Tier 1 capital ratios of 6.0% and 7.5%, respectively. A conservation buffer of 2.5%, comprised of CET 1 capital is likewise imposed.

Banks and their subsidiaries are subject to the following risk-based capital adequacy ratios (CARs):

a. Common Equity Tier 1 – must be at least 6.0% of risk weighted assets at all time;
b. Tier 1 capital must be at least 7.5% of risk weighted assets at all times; and
c. Qualifying capital (Tier 1 Capital plus Tier 2 Capital) must be at least 10.0% of risk weighted assets at all times.

Qualifying capital consists of the sum of the following elements, net of required deductions:

a. Common equity Tier 1 capital consists of 1) Paid up common stock that meet the eligibility criteria, b) Common stock dividends distributable, additional paid in capital resulting from the issuance of common stock included in CET1 capital, Deposits for common stock subscription, Retained earnings, Undivided profits, other comprehensive income (net unrealized gains or losses on AFS and cumulative foreign currency translation), and minority interest on subsidiary banks which are less than wholly-owned
b. Additional Tier 1 capital consists of instruments issued by the bank that are not included in CET 1 capital that meet the criteria for inclusion in additional tier 1 capital, meet the required loss absorbency features for instrument classified as liabilities and loss absorbency feature at point of non-viability as defined in the BSP guidelines.
c. Tier 2 capital is composed of 1) instruments issued by the Bank (and are not included in AT1 capital) that meet criteria for inclusion in Tier 2 and meet the required loss absorbency feature at point of non-viability as defined in the guidelines, 2) Deposits for subscription of T2 capital, 3) appraisal increment reserves on bank premises as authorized by the Monetary Board, 4) general loan loss provision, limited to a maximum of 1.00% of credit risk weighted asset, and minority interest in subsidiaries which are less than wholly owned as defined in the guidelines.

A capital conservation buffer of 2.5% of risk weighted assets, comprised of CET 1 capital, shall be required. This buffer is meant to promote the conservation of capital and build up of adequate cushion that can be drawn down to absorb losses during period of financial and economic stress.

Under BSP Circular No. 360, effective July 1, 2003, the capital-to-risk assets ratio (CAR) is to be inclusive of a market risk charge. In August 2006, the BSP issued Circular No. 538 which contains the implementing guidelines for the revised risk-based capital adequacy framework to conform to Basel II recommendations. Under the revised framework, capital requirements for operational risk, credit derivatives and securitization exposures are to be included in the calculation of the Parent Company's capital adequacy. The revised framework also prescribes a more granular mapping of external credit ratings to the capital requirements and recognizes more types of financial collateral and guarantees as credit risk mitigants. Changes in the credit risk weights of various assets, such as foreign currency denominated exposures to the Philippine National Government, non-performing exposures and ROPA, were also made. Exposures shall be risk-weighted based on third party credit assessment of the individual exposure given by eligible external credit assessment institutions. Credit risk-weights range from 0.00% to 150.00% depending on the type of exposure and/or credit assessment of the obligor. The new guidelines took effect last July 1, 2007.

The Group's consolidated capital adequacy ratio for combined credit, market and operational risks computed based on BSP Circular No. 781 (for 2014) and BSP Circular No. 538 (for 2013 and 2012) were 20.6%, 19.7% and 18.1% as of December 31, 2014, 2013 and 2012, respectively, improving and well above the minimum 10% required by BSP. The following table sets the regulatory capital as reported to BSP as at December 31, 2014, 2013 and 2012 (amounts in billions):

Philippine National Bank
As of Dates Indicated
Amount in MM

	Consolidated			Solo		
	2014	2013	2012	2014	2013	2012
Tier 1 (core) Capital / CET1 under BASEL III	**93,899.128**	**81,927.249**	**29,950.780**	**90,782.607**	**79,100.512**	**30,744.150**
Common stock	49,965.587	43,448.337	26,489.837	49,965.587	43,448.337	26,489.837
Additional Paid In Capital	31,331.251	26,499.909	2,037.272	31,331.251	26,499.909	2,037.272
Retained Earnings	13,368.528	9,568.295	2,278.793	12,689.560	9,002.417	2,278.793
Other comprehensive income	(3,469.641)			(3,203.791)		
Cumulative Foreign Currency Translation		(209.578)	(909.161)		149.849	(61.752)
Undivided profits	-	-	-	-	-	-
Minority interest in subsidiary financial allied undertakings which are less than wholly-owned (for consolidated basis)	2,703.403	2,620.286	54.039	-	-	-
Deductions from Tier 1 Capital / CET1 under BASEL III	22,391.624	19,715.452	3,442.213	45,931.470	19,385.053	3,345.648
Total outstanding unsecured credit accommodations, both direct and indirect, to directors, officers, stockholders and their related interests (DOSRI)	1.906	54.051	87.181	1.906	54.051	87.181
Total outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates	1,575.000			1,575.000		
Deferred income tax	3,810.979	3,896.944	3,355.032	3,567.215	3,566.545	3,258.467
Goodwill	13,515.765	15,764.457		13,515.765	15,764.457	
Other intangible assets	2,033.313			1,938.996		
Investments in equity of unconsolidated subsidiary banks and quasi-banks, and other financial allied undertakings (excluding subsidiary securities dealers/brokers and insurance companies), after deducting related goodwill, if any (for solo basis only and as applicable)	-			24,066.287		
Investments in equity of unconsolidated subsidiary securities dealers/brokers and insurance companies after deducting related goodwill, if any (for both solo and consolidated bases and as applicable)	1,452.612			1,264.252		
Other equity investments in non-financial allied undertakings and non-allied undertakings	1.933			1.933		
Reciprocal investments in common stock of other banks/quasi-banks and financial allied undertakings including securities dealers/brokers and insurance companies, after deducting related goodwill, if any (for both solo and consolidated bases)	0.116			0.116		
Gross Tier 1 Capital / CET1 Capital under BASEL III	71,507.504	62,211.797	26,508.567	44,851.137	59,715.459	27,398.502
Additional Tier 1 Capital (AT1) under BASEL III	-			-		
TOTAL TIER 1 CAPITAL	71,507.504			44,851.137		
Upper Tier 2 Capital (BASEL II)		2,903.298	1,452.880		2,792.410	1,442.058
Appraisal Increment Reserve, Bank Premises auth. By MB	291.725	291.725	291.725	291.725	291.725	291.725
General loan loss provision (limited to 1.00% of credit risk-weighted assets computed per Part III, Item B.)	2,778.459	2,611.573	1,161.155	2,571.878	2,500.685	1,150.333
Lower Tier 2 Capital (limited to 50% of Tier 1 Capital) (BASEL II)		9,953.651	13,254.284		9,953.651	13,699.251
Unsecured Subordinated Debt	9,970.136	9,953.651	16,134.886	9,969.498	9,953.651	16,134.886
Total Tier 2 Capital	13,040.320	12,856.949	14,707.164	12,833.101	12,746.061	15,141.309
Deductions from Qualifying Capital (BASEL II)		623.123	3,122.668		14,735.834	9,472.213
Gross Tier 2 Capital (limited to 100% of Tier 1 Capital) under BASEL II / TOTAL TEIR 2 CAPITAL Under BASEL III	13,040.320	12,856.949	14,707.164	12,833.101	12,746.061	15,141.309
TOTAL QUALIFYING CAPITAL	**84,547.824**	**74,445.623**	**38,093.063**	**57,684.238**	**57,725.686**	**33,067.598**

The risk-weighted assets of the Group and Parent Company as of December 31, 2014, 2013 and 2012 are as follows:

Risk-weighted on:						
Balance sheet assets:	359,881.507	319,474.854	180,263.416	329,029.139	292,664.636	172,427.340
20%	3,948.319	3,365.582	3,346.152	3,845.662	2,438.801	3,316.012
50%	15,558.027	13,963.631	3,874.130	13,799.102	12,821.113	3,853.812
75%	14,282.083	15,492.672	3,509.684	13,705.209	15,028.768	3,509.684
100%	297,726.532	249,165.915	140,892.358	270,610.938	225,933.829	133,209.840
150%	28,366.547	37,487.054	28,641.092	27,068.228	36,442.125	28,537.992
Off-Balance sheet assets:	5,914.306	7,835.140	2,462.837	5,750.879	7,224.489	2,013.627
20%	64.024	34.381	74.208	64.024	34.381	74.208
50%	1,671.841	2,331.258	1,782.022	1,671.841	2,331.258	1,782.022
75%	442.532	519.572	-	442.532	519.572	-
100%	3,735.909	4,949.929	606.607	3,572.482	4,339.278	157.397
150%	-	-	-	-	-	-
Total Counterparty Risk-Weighted Assets in the Banking Book	1,497.381	599.806	673.881	1,497.381	599.806	673.881
Total Counterparty Risk-Weighted Assets in the Trading Book (Derivatives and Repo-style Transactions)	275.678	9.914	198.574	254.248	-	198.574
Total Risk-Weighted Amount of Credit Linked Notes in the Banking Book	-	-	-	-	-	-
Total Risk-Weighted Securitization Exposures	-	-	-	-	-	-
General loan loss provision [in excess of the amount permitted to be included in Upper Tier 2]	-	-	-	-	-	-
Total Credit Risk Weighted Assets	367,568.872	327,919.714	183,598.708	336,531.647	300,488.931	175,313.422
Market Risk Weighted Assets	4,532.456	9,337.189	3,255.293	4,233.579	3,828.952	3,241.655
Operational Risk-Weighted Assets	38,234.751	40,938.779	23,385.190	34,261.055	36,178.156	20,306.580
Total Risk Weighted Assets	410,336.079	378,195.681	210,239.191	375,026.281	340,496.038	198,861.657
Capital Ratios						
CET1 Cpital (BASEL III)	**17.427%**			**11.959%**		
Capital Conversion Buffer (BASEL III)	**11.427%**			**5.959%**		
Tier 1 capital ratio	**17.427%**	**16.367%**	**11.866%**	**11.959%**	**15.374%**	**11.396%**
Tier 2 capital ratio (not disclosed under BASEL III)		**3.317%**	**6.253%**		**1.580%**	**5.232%**
CAR	**20.605%**	**19.684%**	**18.119%**	**15.381%**	**16.953%**	**16.628%**

- Asset Quality

The Group's non-performing loans (gross of allowance for impairment losses) decreased to ₱ 9.9 billion as of 31 December 2014 compared to ₱10.7 billion as of 31 December 2013. NPL ratios based on BSP guidelines are now 0.92% (net of valuation reserves) and 3.42% (at gross), from 1.39% and 4.26%, respectively in December 2013.

- Profitability

	Year Ended	
	12/31/14	12/31/13
Return on equity (ROE)[1/]	6.1%	8.8%
Return on assets(ROA)[2/]	0.9%	1.1%
Net interest margin(NIM)[3/]	3.2%	3.4%

[1/] *-Net income divided by average total equity for the period indicated*
[2/] *Net income divided by average total assets for the period indicated*
[3/] *Net interest income divided by average interest-earning assets*

ROE for the period ending 31 December 2014 is at 6.1% or 31.4% lower compared to the 8.8% ratios last year. The reduction was traced to higher average capital of the Bank in the previous year.

ROA is at 0.9% compared to 1.1% last year.

NIM ratio of the bank for December 2014 is at 3.2% based on net interest margin of ₱16.9 billion and total average interest-earning assets of ₱527.0 billion, 0.2 percentage point lower compared to the 3.4% NIM ratio of the same period last year.

- Liquidity

The ratio of liquid assets to total assets as of 31 December 2014 was 35.8% compared to 45.5% as of 31 December 2013. Ratio of current assets to current liabilities was at 64.9% as of 31 December 2014 compared to 67.0% as of 31 December 2013.The Group is in compliance with the regulatory required liquidity floor on government deposits and legal reserve requirements for deposit liabilities.

- Cost Efficiency

The ratio of total operating expenses (excluding provision for impairment, credit and other losses) to total operating income resulted to 66.5% for the year ended December 2014 compared to 70.4% for the same period last year.

Known trends, demands, commitments, events and uncertainties

The Bank presently has more than adequate liquid assets to meet known funding requirements and there are no known trends, demands, commitments, events or uncertainties that will have a material impact on the Bank's liquidity.

Events that will trigger direct or contingent financial obligation

In the normal course of business, the Group makes various commitments and incurs certain contingent liabilities that are not presented in the financial statements, including several suits and claims which remain unsettled. No specific disclosures on such unsettled assets and claims are made because any such disclosures would prejudice the Group's position with the other parties with whom it is in dispute. Such exemption from disclosures is allowed under PAS 37, Provisions, Contingent Liabilities and Contingent Assets. The Group and its legal counsel believe that any losses arising from these contingencies which are not specifically provided for will not have a material adverse effect on the financial statements.

Material off-balance sheet transactions, arrangement or obligation

The following is a summary of various commitments and contingent liabilities of the Group as of December 31, 2014 and 2013 at their equivalent peso contractual amounts:

	12/31/2014	12/31/2013
	(In Thousand Pesos)	
Trust department accounts	**₱ 65,817,031**	**₱ 56,334,549**
Standby letters of credit	**11,281,048**	**13,165,263**
Deficiency claims receivable	**21,292,747**	**11,722,138**
Credit Card Lines	**13,996,427**	**11,239,863**
Inward bills for collection	**676,610**	**660,197**
Shipping guarantees issued	**32,732**	**1,481,927**
Other credit commitments	**974,377**	**974,377**
Outward bills for collection	**430,230**	**477,220**
Unused commercial letters of credit	**44,280**	**66,664**
Other contingent accounts	**326,693**	**504,525**
Confirmed export letters of credit	**490,015**	**82,513**
Items held as collateral	**51**	**64**

Capital Expenditures

The Bank has committed on investing in the upgrade plan of its Systematics core banking system running on the IBM z-series mainframe, as well as on a new branch banking system. This is a top priority enterprise-wide project that will require major capital expenditures within the next three (3) years. For this project and other medium scale projects requiring information technology solutions, expected sources of funds will come from the sale of acquired assets and funds generated from the Bank's operations.

Significant Elements of Income or Loss

Significant elements of net income of the Bank came from its continuing operations.

Seasonal Aspects

There was no seasonal aspect that had material effect on the Bank's financial condition or results of operations.

Item 7. Financial Statements

The Audited Financial Statements (AFS) of the Bank and its Subsidiaries, which comprise the Statements of Financial Position as at December 31, 2014 and 2013 and January 1, 2013, and the Statements of Income, Statements of Comprehensive Income, Statements of Changes in Equity and Statements of Cash Flows for each of the three (3) years in the period ended December 31, 2014 and a Summary of Significant Accounting Policies and other explanatory information, Notes to Financial Statements, Independent Auditors' Report and the Statement of Management's Responsibility are filed as part of this SEC 17-A report for the year ended December 31, 2014.

Item 8. Information on Independent Accountant and Changes in/disagreements with Accountants on Accounting/Financial Disclosure

A. Independent Public Accountants

SyCip Gorres Velayo & Co., CPAs (SGV) is the current external auditor of the Bank and its domestic subsidiaries for the calendar year 2014. Representatives of SGV are expected to be present at the stockholders meeting. They will have the opportunity to make a statement if they desire to do so and will be available to respond to appropriate questions. Ms. Vicky Lee Salas is the engagement partner of the Bank for the year 2014.

The Bank intends to retain SGV & Co. as its external auditor for the year 2015. This requires the endorsement of the Board Audit and Compliance Committee with the approval of the Board of Directors and ratification by the Stockholders during the Annual Stockholders' Meeting of the Bank.

B. Audit and other related fees

The following are the engagement fees billed and paid for each of the last two fiscal years for the professional services rendered by the Bank's external auditor, SyCip Gorres Velayo and Co. :

2014
Audit

- ₱12.802 million engagement fee for the audit of the Bank's Financial Statements as of December 31, 2014 (inclusive of out-of-pocket expenses (OPE) but excluding Value Added Tax (VAT).

- ₱6.350 million engagement fee for the review of Financial Statements as of June 30, 2014 and engagement fee for the issuance of Comfort Letter related to the offering of PNB LTNCD Long Term Negotiable Certificates of Time Deposit (LTNCD) in June 2014.

2013
Audit

- ₱5.992 million engagement fee for the audit of the Bank's Financial Statements as of December 31, 2013 (inclusive of out-of-pocket expenses (OPE) but excluding Value Added Tax (VAT).

Other related fees

- ₱13.305 million engagement fee for the review of Financial Statements as of March 31, 2013 and June 30, 2013 and issuance of comfort letter relative to the issuance of ₱5.0 billion Long Term Negotiable Certificates of Time Deposit (LTNCD) in July 2013 and ₱5.0 billion LTNCD in October 2013.
- ₱6.160 million engagement fee for the review of Financial Statements as of March 31, 2013 and 2012 relative to the Purchase Price Allocation.
- ₱10.500 million engagement fee for the review of the Financial Statements and issuance of comfort letter relative to the Stock Rights Offering of PNB.
- ₱1.232 million engagement fee for the review of Financial Statements of the Trust Banking Group for the year 2013.

There are no fees billed for the last two (2) years for tax accounting performed by the Bank's external auditor.

The approval of audit engagement fees is based on the Bank's existing Manual of Signing Authority.

C. Changes in Accounting Policies and Disclosures

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the Group's annual financial statements as of and for the year ended December 31, 2013, except for the adoption of the following new, amendments and improvements to Philippine Financial Reporting Standards (PFRS) which became effective as of January 1, 2014.

Except as otherwise indicated, these changes in the accounting policies did not have any significant impact on the financial position or performance of the Group:

Investment Entities (Amendments to PFRS 10, PFRS 12 and PAS 27)
These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. This amendment is not relevant to the Group since none of the entities in the Group would qualify as an investment entity under PFRS 10.

PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* (Amendments)
The amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments affect presentation only and have no impact on the Group's financial position or performance.

PAS 36, *Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets* (Amendments)
These amendments remove the unintended consequences of PFRS 13 on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

PAS 39, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting* (Amendments)
These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria.

Philippine Interpretation IFRIC 21, *Levies*
IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 does not have material financial impact in the consolidated financial statements.

D. Disagreements with Accountants

The Bank and its subsidiaries had no disagreement with its auditors on any matter of accounting principles or practices, financial statements disclosure, or auditing scope procedure.

In compliance with SEC Rule 68, as amended, and BSP Circular 660, Series of 2009, there is no need at this time to change the audit partner for the Bank. Ms. Vicky B. Lee-Salas, SGV's Leader for Market Group 5 and one of the more experienced audit partners in the banking industry, was the audit partner-in-charge for the year 2014.

PART III - CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers

A. Name, position, age, date of assumption and citizenship of Directors and Executive Officers as of December 31, 2014

Board of Directors[1]/

Name	Position	Age	Date last Elected	Date first Elected	Citizenship
Florencia G. Tarriela	Independent Director and Chairperson of the Board of Directors Member of the Board Credit and Policy Committee, Risk Oversight Committee, Board ICAAP Steering Committee, Trust	68	5/27/2014	5/29/2001	Filipino

1/ The directors are elected either by the stockholders (under section 5.3 of the PNB By-Laws) or by the Board of Directors (under Section 5.7 of the said By-Laws).
3/ Independent Director – As used in Section 38 of the Securities Regulation Code, an Independent Director means a person who, apart from his fees and shareholdings, is independent of management and free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director in any covered company.

Committee, Corporate Governance Committee and Board IT Governance Committee

Name	Position	Age	Date last Elected	Date first Elected	Citizenship
Felix Enrico R. Alfiler	Independent Director and Vice Chairman of the Board Chairman of the Board Credit and Policy Committee and Corporate Governance Committee Member of the Board Audit and Compliance Committee, Board Oversight Committee – Domestic and Overseas Offices and Subsidiaries, and Board Oversight RPT Committee	65	5/27/2014	1/1/2012	Filipino
Florido P. Casuela	Director Chairman of the Board Credit Committee and Risk Oversight Committee Member of the Board Audit and Compliance Committee, Board ICAAP Steering Committee, and Board IT Governance Committee	73	5/27/2014	5/30/2006	Filipino
Joseph T. Chua	Director Member of the Board Credit Committee, Risk Oversight Committee, Board Oversight Committee – Domestic and Foreign Offices/Subsidiaries and Board IT Governance Committee	58	5/27/2014	5/27/2014	Filipno
Leonilo G. Coronel	Director Chairman of the Trust Committee and Board IT Governance Committee Member of the Board Credit Committee, Risk Oversight Committee and Board Oversight Committee – Domestic and Foreign Offices/Subsidiaries	68	5/27/2014	5/28/2013	Filipino
Reynaldo A. Maclang	Director Member of the Board Credit and Policy Committee, Board Credit Committee, Board ICAAP Steering Committee, Trust Committee and Corporate Governance Committee	76	5/27/2014	2/9/2013	Filipino
Estelito P. Mendoza	Director	85	5/27/2014	1/1/2009	Filipino
Federico C. Pascual	Independent Director Chairman of the Board Oversight RPT Committee Member of the Board Credit Committee, Board Audit and Compliance Committee, Corporate Governance Committee, Board Oversight Committee – Domestic and Foreign Offices/Subsidiaries	72	5/27/2014	5/27/2014	Filipino

Cecilio K. Pedro	Independent Director Member of the Trust Committee and Board IT Governance Committee	61	5/27/2014	2/28/2014	Filipino
Washington Z. Sycip	Director	93	5/27/2014	12/8/1999	Filipino American

Name	Position	Age	Date last Elected	Date first Elected	Citizenship
Harry C. Tan	Director Member of the Board Credit and Policy Committee, Board Credit Committee, Risk Oversight Committee and Board Audit and Compliance Committee	69	5/27/2014	2/9/2013	Filipino
Lucio C. Tan	Director	80	5/27/2014	12/8/1999	Filipino
Lucio K. Tan, Jr.	Director Member of the Board Credit and Policy Committee and Corporate Governance Committee	49	5/27/2014	9/28/2007	Filipino
Michael G. Tan	Director Chairman of the Board ICAAP Steering Committee Member of the Board Credit and Policy Committee, Board Credit Committee and Corporate Governance Committee	48	5/27/2014	2/9/2013	Filipino
Deogracias N. Vistan	Independent Director Chairman of the Board Audit and Compliance Committee, Board Oversight Committee – Domestic and Foreign Offices/Subsidiaries Member of the Board Credit and Policy Committee, Board ICAAP Steering Committee, Corporate Governance Committee and Board Oversight RPT Committee	70	5/27/2014	**7**/15/2011	Filipino

None of the above-mentioned Directors is an appointed official or employee of any agency of the Government of the Philippines.

Name	Position	Age	Date Appointed	Citizenship
Doris S. Te	Corporate Secretary	34	1/20/2012	Filipino
Manuel T. Gonzales	Board Advisor	77	10/01/2013	Filipino
William T. Lim	Board Advisor	74	1/25/2013	Filipino
Christopher J. Nelson	Board Advisor	55	5/24/2014	British

Executive Officers

Name	Position	Age	Date of Assumption	Citizenship
Reynaldo A. Maclang	President	76	5/27/2014	Filipino
Cenon C. Audencial, Jr.	Head of the Institutional Banking Group Executive Vice President	56	8/5/2013	Filipino
Horacio E. Cebrero III	Head of the Treasury Group Executive Vice President	53	7/19/2010	Filipino

Christopher C. Dobles	Chief Security Officer and Head of the Corporate Security Group Executive Vice President	71	2/9/2013	Filipino
Jovencio B. Hernandez	Head of the Retail Banking Group Executive Vice President	61	2/8/2010	Filipino

Name	Position	Age	Date of Assumption	Citizenship
Nelson C. Reyes	Chief Financial Officer and Head of the Financial Management and Controllership Group Executive Vice President	51	1/1/2015	Filipino
Yolanda M. Albano	Head of the Commercial Banking Group First Senior Vice President	64	2/9/2013	Filipino
Alice Z. Cordero	Chief Compliance Officer, Corporate Governance Executive and Head of the Global Compliance Group First Senior Vice President	58	6/16/2010	Filipino
Socorro D. Corpus	Head of the Human Resource Group First Senior Vice President	63	2/9/2013	Filipino
Zacarias E. Gallardo, Jr.	Chief Financial Officer and Head of the Financial Management and Controllership Group First Senior Vice President	65	10/01/2012	Filipino
Miguel Angel G. Gonzalez	Chief Credit Officer and Head of the Credit Management Group First Senior Vice President	56	3/3/2010	Filipino
Ramon L. Lim	President and CEO of PNB Securities, Inc. First Senior Vice President	63	7/16/2010	Filipino
John Howard D. Medina	Head of the Global Operations Group First Senior Vice President	45	2/11/2013	Filipino
Edgardo T. Nallas	President of Japan-PNB Leasing and Finance Corporation and JPNB Equipment Rentals Corporation First Senior Vice President	57	5/1/2013	Filipino
Benjamin J. Oliva	Head of the Global Filipino Banking Group First Senior Vice President	62	9/10/2012	Filipino
Aida M. Padilla	Head of the Remedial Management Group First Senior Vice President	65	4/26/2009	Filipino
Carmela A. Pama	Chief Risk Officer and Head of the Risk Management Group First Senior Vice President	58	10/9/2006	Filipino
Emmanuel German V. Plan II	First Senior Vice President Head of the Special Asset Management Group	62	6/8/2009	Filipino
Emeline C. Centeno	Head of the Corporate Planning and Research Division Senior Vice President	56	6/1/2003	Filipino
Dioscoro Teodorico L. Lim	Chief Audit Executive and Head of the Internal Audit Group	60	2/9/2013	Filipino

Senior Vice President

Name	Position	Age	Date of Assumption	Citizenship
Maria Paz D. Lim	Corporate Treasurer Senior Vice President	54	6/23/2006	Filipino
Norman Martin C. Reyes	Chief Marketing Officer and Head of the Marketing Group Senior Vice President	49	1/16/2015	Filipino
Manuel C. Bahena, Jr.	Chief Legal Counsel First Vice President	53	2/11/2013	Filipino
Roberto S. Vergara	Chief Trust Officer and Head of Trust Banking Group First Vice President	63	1/16/2015	Filipino
Constantino Yap	Head of Information Technology Group Vice President	51	7/1/2013	Filipino
Modette Ines V. Cariño	Acting Head of Consumer Finance Group Vice President	44	10/29/2013	Filipino

B. Profile of Directors and Executive Officers together with their business experience covering at least the past five (5) years

The following are the Board of Directors of the Bank:

FLORENCIA G. TARRIELA, 68, Filipino, has been serving as Chairman of the Board of the Bank since May 24, 2005, and as an Independent Director since May 30, 2006. She also serves as Chairman/Independent Director of PNB Capital and Investment Corporation and Independent Director of PNB Life Insurance, Inc., PNB International Investments Corporation, and LT Group, Inc. She obtained her Bachelor of Science in Business Administration degree, Major in Economics, from the University of the Philippines and her Masters in Economics degree from the University of California, Los Angeles, where she topped the Masters Comprehensive Examination. Ms. Tarriela is currently a columnist for "Business Options" of the Manila Bulletin and "FINEX Folio" of Business World. She is a Life Sustaining Member of the Bankers Institute of the Philippines and FINEX, where she is also a Director, and a Trustee of TSPI Development Corporation. Ms. Tarriela was formerly an Undersecretary of Finance, and an alternate Board Member of the Monetary Board of the Bangko Sentral ng Pilipinas, Land Bank of the Philippines and the Philippine Deposit Insurance Corporation. She was formerly Deputy Country Head, Managing Partner and the first Filipino female Vice President of Citibank N. A. Ms. Tarriela is a co-author of several inspirational books - "Coincidence or Miracle? Books I, II, III ("Blessings in Disguise"), and IV ("Against All Odds"), and gardening books - "Oops-Don't Throw Those Weeds Away!" and "The Secret is in the Soil". She is an environmentalist and practices natural ways of gardening.

FELIX ENRICO R. ALFILER, 65, Filipino, was elected as Vice Chairman/Independent Director of the Bank effective on January 1, 2012. He completed his undergraduate and graduate studies in

Statistics at the University of the Philippines in 1973 and 1976, respectively. He undertook various continuing education programs, including financial analysis and policy, at the IMF Institute of Washington, D.C. in 1981 and on the restructured electricity industry of the UK in London in 1996. He has published articles relating to, among others, the globalization of the Philippine financial market, policy responses to surges in capital inflows and the Philippine debt crisis of 1985. He is currently the Chairman/Independent Director of PNB RCI Holdings Co., Ltd. and an Independent Director of Japan PNB Leasing and Finance Corp., PNB Savings Bank and PNB International Investments Corp. He previously held various distinguished positions, namely: Philippine Representative to the World Bank Group Executive Board in Washington, D.C., Special Assistant to the Philippine Secretary of Finance for International Operations and Privatization, Director of the Bangko Sentral ng Pilipinas, Assistant to the Governor of the Central Bank of the Philippines, Advisor to the Executive Director at the International Monetary Fund, Associate Director at the Central Bank and Head of the Technical Group of the CB Open Market Committee. Mr. Alfiler was also the Monetary Policy Expert in the Economics Sub-Committee of the 1985-1986 Philippine Debt Negotiating Team which negotiated with over 400 private international creditors for the rescheduling of the Philippines' medium- and long-term foreign debts. In the private sector, Mr. Alfiler was an Advisor at Lazaro Tiu and Associates, Inc., President of Pilgrims (Asia Pacific) Advisors, Ltd., President of the Cement Manufacturers Association of the Philippines (CeMAP), Board Member of the Federation of Philippine Industries (FPI), and Vice President of the Philippine Product Safety and Quality Foundation, Inc. and Convenor for Fair Trade Alliance.

FLORIDO P. CASUELA, **73,** Filipino, has been serving as a Director of the Bank since May 30, 2006. A Certified Public Accountant, he obtained his degree in Bachelor of Science in Business Administration, Major in Accounting, and his Masters in Business Administration from the University of the Philippines. He took the Advanced Management Program for Overseas Bankers conducted by the Philadelphia National Bank in conjunction with the Wharton School of the University of Pennsylvania. Mr. Casuela was one of the ten (10) awardees of the 2001 Distinguished Alumni Award of the UP College of Business Administration. He is currently the Chairman of PNB Securities, Inc. He is also a Director of PNB Savings Bank, PNB International Investments Corporation, PNB RCI Holdings Co., Ltd. and Surigao Micro Credit Corporation. He is a Senior Consultant of the Bank of Makati, Inc. and a Director of Sagittarius Mines, Inc. as well as its subsidiaries, namely: Hillcrest, Inc., where he is also the President, and Pacificrim Land Realty Corporation, where he is the Chairman. He is a Trustee of the LBP Countryside Development Foundation, Inc. He was formerly the President of Maybank Philippines, Inc., Land Bank of the Philippines, and Surigao Micro Credit Corporation. He was also a Senior Executive Vice President of United Overseas Bank (Westmont Bank), Executive Vice President of PDCP (First Bank), Senior Vice President of Philippine National Bank, First Vice President of Bank of Commerce and Vice President of Metropolitan Bank & Trust Co. Mr. Casuela worked as a Special Assistant to the Chairman of the National Power Corporation and an Audit Staff of Joaquin Cunanan, CPAs. He also held various positions and was a Senior Adviser in the Bangko Sentral ng Pilipinas.

JOSEPH T. CHUA, 58, was elected as Director of the Bank on May 27, 2014. He obtained his degrees in Bachelor of Arts in Economics and Bachelor of Science in Business Management from De La Salle University and his Masters in International Finance from the University of Southern California. He is presently the Chairman of the Board of Watergy Business Solutions, Inc., Cavite Business Resources, Inc. and J.F. Rubber Philippines. He is the President of Goodwind Development Corporation, MacroAsia Mining Corporation and MacroAsia Corporation, where he is also the CEO. He is a Director of PNB General Insurers Co., Inc., Bulawan Mining Corporation, PNB Management & Development Corp., Philippine Airlines and Eton Properties Philippines, Inc., where he also serves as the Officer-in-Charge. Previous to these, he was the Chairman of

MacroAsia Mining Corporation, a Director/Chief Operating Officer of MacroAsia Corporation, and a Managing Director of Goodwind Development Corporation. He is a member of the Management Association of the Philippines, Philippine Chamber of Commerce and Industry, Chamber of Mines of the Philippines, German Philippine Chamber of Commerce and Rubber Association of the Philippines.

LEONILO G. CORONEL, 68, Filipino, was elected as a Director of the Bank on May 28, 2013. He obtained his Bachelor of Arts degree, Major in Economics from the Ateneo de Manila University and finished the Advance Management Program of the University of Hawaii. He became a Fellow of the Australian Institute of Company Directors in 2002. Presently, he is the Chairman of Japan PNB Leasing and Finance Corporation and JapanPNB Equipment Rentals Corp. He is an Independent Director of DBP-Daiwa Capital Markets Phil., Megawide Construction Corporation and Electronic Network of Cash Tellers. He is also a Director of Software Ventures International. Prior to his present positions, Mr. Coronel was Executive Director of the Bankers Association of the Philippines and RBB Micro Finance Foundation. He also previously served as a Director/Treasurer of Philippine Depository and Trust Corporation, a Director of the Philippine Clearing House Corporation, the Philippine Dealing System and the Capital Markets Development Council, a Managing Director of BAP-Credit Bureau and the President of Cebu Bankers Association. He was a Consultant of Land Bank of the Philippines, Arthur Young, U.S. Aid, Bankers Association of the Philippines and Economic Development Corporation. He also worked with Citibank, Manila for twenty (20) years, occupying various positions.

REYNALDO A. MACLANG, 76, Filipino, was appointed as the Bank's President on May 27, 2014 after serving as a Director of the Bank since February 9, 2013. He holds a Bachelor of Laws degree from the Ateneo de Manila University. He is currently the Chairman of PNB (Europe) Plc and a member of the Board of Directors of Allied Leasing & Finance Corporation, PNB Savings Bank, PNB Global Remittance and Financial Co., HK, Ltd., Bulawan Mining Corporation, PNB Management & Development Corporation and PNB Forex, Inc. He was previously a Director of Allied Banking Corporation (ABC), PNB Life Insurance, Inc., PNB Italy SpA and Eton Properties Philippines, Inc. He has been with ABC since 1977 and was formerly the President of Allied Savings Bank from 1986 to 2001. He then became the President of ABC from 2001 up to 2009. Previous to that, he was connected with other commercial banks and practiced law.

ESTELITO P. MENDOZA, 85, Filipino, was elected as a Director of the Bank on January 1, 2009. He obtained his Bachelor of Laws degree (cum laude) from the University of the Philippines and Master of Laws degree from the Harvard Law School. A practicing lawyer for more than sixty years, he has been consistently listed for several years as a "Leading Individual in Dispute Resolution" among lawyers in the Philippines in international/regional directories of lawyers. He has also been a Professional Lecturer of law at the University of the Philippines, and served as Undersecretary of Justice, Solicitor General, Minister of Justice, Member of the Batasang Pambansa and Provincial Governor of Pampanga. He was the Chairman of the Sixth (Legal) Committee, 31st Session of the UN General Assembly and the Special Committee on the Charter of the United Nations and the Strengthening of the Role of the Organization. He currently serves as a member of the Board of Directors of Philippine Airlines, Inc., San Miguel Corporation, and Petron Corporation. He has been awarded a Doctor of Laws degree (honoris causa) by Central Colleges of the Philippines, Hanyang University, University of Manila, Angeles University Foundation and the University of the East, and a Doctor of Humane Letters degree by the Misamis University. He is a recipient of a Presidential Medal of Merit as Special Counsel on Marine and Ocean Concerns and the University of the Philippines Alumni Association's 1975 "Professional Award in Law" and 2013 "Lifetime Distinguished Achievement Award".

FEDERICO C. PASCUAL, 72, Filipino, was elected as Independent Director of the Bank on May 27, 2014. He obtained his Bachelor of Laws degree from the University of the Philippines. He took his Masters of Laws, Corporate and Labor Laws in Columbia University. Presently, he is the Chairman/Independent Director of PNB General Insurers Co., Inc. and Independent Director of PNB International Investments Corporation and PNB Holdings Corporation. He is the President/Director of Tala Properties, Woldingham Realty, Inc. and Nineveh Development Corporation. He is also a Director of Global Energy Growth System and Apo Reef World Resort, the proprietor of Green Grower Farm, and a Partner of the University of Nueva Caceres in Bataan. Mr. Pascual was previously the President and General Manager of Government Service Insurance System and the President and CEO of Allied Banking Corporation (ABC). He worked with Philippine National Bank for twelve (12) years in various capacities, including as Acting President, CEO and Vice Chairman. Mr. Pascual previously served as the President and Director of Philippine Chamber of Commerce and Industry, Chairman of National Reinsurance Corporation and PNOC-AFC, co-Chairman of the Industry Development Council of the Department of Trade and Industry, and Treasurer of BAP-Credit Guarantee. He was also a Director of San Miguel Corporation, Philippine Stock Exchange, Manila Hotel Corporation, Cultural Center of the Philippines, CITEM, Bankers Association of the Philippines, Philippine National Construction Corporation, Allied Cap Resources HK, Oceanic Bank SF, USA, AIDSISA Sugar Mill, PDCP Bank, Equitable PCIB, Bankard, Philippine International Trading Corporation, Philippine National Oil Corporation and Certified Data Centre Professional. He is active in various professional and social organizations.

CECILIO K. PEDRO, 61, Filipino, was elected as Independent Director of the Bank on February 28, 2014. He obtained his Bachelor of Science degree in Business Management from the Ateneo de Manila University in 1975 and Honorary Doctorate of Philosophy in Technological Management from the Technological University of the Philippines in March 2006. He is the Chief Executive Officer (CEO)/President of Lamoiyan Corporation. He is also the Chairman and CEO of Pneumatic Equipment Corporation and Action Container, Inc., and a Director of CATS Motors and Philippine Business for Social Progress. He is an Independent Director of PNB Savings Bank. He was formerly the CEO/President of Aluminum Container, Inc. and a Director of DBS Philippines, Inc. (formerly Bank of Southeast Asia, Inc.). Mr. Pedro has received various distinguished awards, namely, the Ten Outstanding Young Men in the field of Business Entrepreneurship, Aurelio Periquet Award on Business Leadership, Ateneo Sports Hall of Fame, CEO Excel Award, Ozanam Award for Service, Entrepreneur of the Year for Social Responsibility, Ten Outstanding Manileños, and PLDT SME Nation and Go Negosyo's Grand MVP Bossing Award. He was also recognized by the House of Representative for his Exemplary Accomplishment in the Promotion of the Welfare of the Deaf Community on October 16, 2012. He is currently involved in various socio-civic organizations. He is the Chairman of the Deaf Evangelistic Alliance Foundation, Inc., Asian Theological Seminary, and Legazpi Hope Christian School and the Vice Chairman of the Ateneo Scholarship Foundation. He is also the Vice President of the Federation of Filipino-Chinese Chambers of Commerce and Industry, Inc. and an Elder of the United Evangelical Churches of the Philippines. He is a board member of the Philippine Secondary School Basketball Championship, Ten Outstanding Young Men Foundation, Manila Doctors Hospital, Asian Marketing Federation and Commanderie de Bordeaux (Philippine Chapter).

WASHINGTON Z. SYCIP, 93, Filipino-American, has been serving as a Director of the Bank since December 8, 1999. He is the founder of SGV Group. He is also one of the founders and Chairman Emeritus of the Asian Institute of Management; a member of the Board of Overseers of the Graduate School of Business at Columbia University; the Honorary Chairman of the Euro-Asia Centre of INSEAD in Fontainebleau, France; and a Honorary Life Trustee of The Asia Society. He is a member of the Board of Directors of a number of other major corporations in the Philippines and other parts of the world. Mr. SyCip has served as President of the International Federation of

Accountants, a member of the International Advisory Board of the Council on Foreign Relations, Vice Chairman of the Board of Trustees of The Conference Board, and Chairman of the Asia Pacific Advisory Committee of the New York Stock Exchange. He also served in the international boards of the American International Group, AT&T, Australia & New Zealand Bank, Caterpillar, Chase Manhattan Bank, Owens-Illinois, Pacific Dunlop and United Technologies Corporation, among others. He was a member of the Board of Trustees of the Ramon Magsaysay Award Foundation and Eisenhower Exchange Fellowship. Among his awards are the Order of Lakandula, Rank of Grand Cross, conferred by Philippine President Benigno S. Aquino, III on June 30, 2011; Lifetime Achievement Award given by Columbia Business School and Asia Society; Ramon Magsaysay Award for International Understanding; the Management Man of the Year given by the Management Association of the Philippines; the Officer's Cross of the Order of Merit given by the Federal Republic of Germany; Star of the Order of Merit Conferred by the Republic of Australia; and the Officer First Class of the Royal Order of the Polar Star awarded by H.M. the King of Sweden.

HARRY C. TAN, 69, Filipino, was appointed as a Director of the Bank on February 9, 2013 after serving as a Director of Allied Banking Corporation (ABC) since November 1999. He holds a Bachelor of Science degree in Chemical Engineering from Mapua Institute of Technology. Mr. Tan is currently the Chairman of Bulawan Mining Corporation and a Director of PNB Management Development Corporation, PNB Savings Bank, Allied Commercial Bank and PNB Global Remittance and Financial Company (HK) Limited. He is also the Chairman of the Air Philippines Corporation and the President of Century Park Hotel and Landcom Realty Corporation. He is the Vice Chairman of Lucky Travel Corporation, Eton Properties Philippines, Inc., Tanduay Distillers, Inc., Belton Communities, Inc., and Eton City Inc. He is also the Vice Chairman and Treasurer of LT Group, Inc. He is the Managing Director/Vice Chairman of The Charter House Inc. and is a member of the Board of Directors of various private firms which include Asia Brewery, Inc., Dominium Realty and Construction Corporation, Progressive Farms, Inc., Shareholdings Inc., Himmel Industries, Inc., Tobacco Recyclers Corporation, Basic Holdings Corporation, Pan Asia Securities Inc., Absolut Distillers, Inc., Alliedbankers Insurance Corporation, Asian Alcohol Corporation, REM Development Corporation, Tanduay Brands International Inc., Foremost Farms, Inc., Grandspan Development Corporation, Manufacturing Services and Trade Corporation, PAL Holdings, Inc., and Philip Morris Fortune Tobacco Corporation, Inc. He is also the Chairman for the Tobacco Board of Fortune Tobacco International Corporation.

LUCIO C. TAN, **80,** Filipino, has been serving as a Director of the Bank since December 8, 1999. He studied at Far Eastern University and later earned his Chemical Engineering degree from the University of Sto. Tomas (UST). In 2003, he earned the degree of Doctor of Philosophy, Major in Commerce, from UST. From humble origins, Dr. Tan became the Chairman of Allied Banking Corporation (ABC). He is presently the Chairman and CEO of LT Group, Inc., Philippine Airlines, Inc., Lucky Travel Corporation, Eton Properties Philippines, Inc., Alliedbankers Insurance Corporation, Tanduay Distillers, Inc. and PAL Holdings, Inc. He is the Chairman of Asia Brewery, Inc., Basic Holdings Corporation, Himmel Industries, Inc., Fortune Tobacco Corporation, Grandspan Development Corporation, PNB Life Insurance, Inc., Allied Leasing and Finance Corporation, Allied Commercial Bank, PNB Savings Bank and Allied Banking Corporation (HK) Ltd. Dr. Tan is also the Chairman/President of Tangent Holdings Corporation. Despite Dr. Tan's various business pursuits, he continues to share his time and resources with the community. In 1986, he founded the Tan Yan Kee Foundation, Inc., of which he is Chairman and President. He is likewise Chairman Emeritus of the Federation of Filipino-Chinese Chambers of Commerce and Industry, Inc. He is the founder and Vice Chairman of the Foundation for Upgrading the Standard of Education, Inc. Dr. Tan received various honorary degrees for his outstanding achievements and leadership in the Philippines and other parts of the world.

LUCIO K. TAN, JR., 48, Filipino, has been serving as a Director of the Bank since September 28, 2007. He obtained his Bachelor of Science degree in Civil Engineering (Minors in classical Chinese Mandarin and Mathematics) from the University of California Davis in 1991. He completed the academic requirements for his Executive Masters in Business Administration (EMBA) at the Hong Kong University of Science and Technology (Business School) and J.L. Kellogg School of Management of Northwestern University in 2006. He also attended courses in Basic and Intermediate Japanese Language. Mr. Tan is currently the President and COO of Tanduay Distillers, Inc. He is a member of the Board of Directors of Bulawan Mining Corporation, PNB Capital and Investment Corporation, PNB Forex, Inc., PNB Management and Development Corporation, Allied Commercial Bank, Phillip Morris Fortune Tobacco Corporation, Inc., Philippine Airlines, Inc., PAL Holdings, Inc., Air Philippines Corporation, MacroAsia Corporation, LT Group, Inc., Alliedbankers Insurance Corporation, Foremost Farms, Inc., Basic Holdings Corporation, PNB Savings Bank, Allied Leasing ad Finance Corporation, Victorias Milling Company, PNB Global Remittance and Financial Company (HK) Ltd. and Eton Properties Phils., Inc., where he is also the Officer-in-Charge. He is an Executive Director of Dynamic Holdings Limited, and Executive Vice President (EVP) and Director of Fortune Tobacco Corporation.

MICHAEL G. TAN, 49, Filipino, was elected as a Director of the Bank on February 9, 2013. He is the President/Director of LT Group, Inc., the holding firm of the Lucio Tan Group of Companies. He also served as a Director of Allied Banking Corporation (ABC) from January 30, 2008 until the ABC's merger with PNB on February 9, 2013. He is the Chairman of PNB Holdings Corporation and PNB Management and Development Corporation. He is also a Director of PNB Forex, Inc., Bulawan Mining Corporation, PNB Savings Bank, Allied Commercial Bank, PNB Global Remittance and Financial Company (HK) Ltd., and Alliedbankers Insurance Corp. He is a Director and the Chief Operating Officer of Asia Brewery, Inc. and a member of the Board of Directors of the following companies: Philippine Airlines Foundation, Inc., Air Philippines Corp., Philippine Airlines, Inc., PAL Holdings, Inc., Absolut Distillers, Inc., Eton Properties Phils., Inc., Shareholdings, Inc., Lucky Travel Corporation, Eton City, Inc., Abacus Distribution Systems Philippines, Inc., PMFTC, Inc., Tangent Holdings Corporation, and Victorias Milling Company. He holds a Bachelor of Applied Science degree in Civil Engineering from the University of British Columbia, Canada.

DEOGRACIAS N. VISTAN, 70, Filipino, was elected as an Independent Director of the Bank on August 1, 2011. He obtained his Bachelor of Arts and Bachelor of Science degrees in Business Administration from the De La Salle University and earned his Masters in Business Administration from Wharton Graduate School. Mr. Vistan's extensive banking experience includes being Chairman of United Coconut Planters Bank (2003-2004), Vice Chairman of Metropolitan Bank and Trust Company (2000-2001), and President of Equitable-PCI Bank (2001-2002), Solidbank Corporation (1992-2000) and Land Bank of the Philippines (1986-1992). He also served as President of FNCB Finance (1979-1980). Mr. Vistan held various management positions in Citibank Manila, Cebu and New York (1968-1986). He is a former Presidential Consultant on Housing (2002-2003) and President of the Bankers Association of the Philippines (1997-1999). He is an Independent Director of PNB Capital and Investment Corporation and PNB International Investments Corporation. He is also a member of the Board of Directors of Lorenzo Shipping Corporation and U-Bix Corporation. He is the Chairman of Creamline Daily Corporation and Pinoy Micro Enterprise Foundation. He is currently a member of the Board of Trustees of the Ramon Magsaysay Award Foundation and Landbank Countryside Development Foundation, Inc.

DORIS S. TE, **34,** Filipino, was appointed as Corporate Secretary of the Bank on January 20, 2012. She obtained her degree in Bachelor of Science in Business Management in 2001 and earned her

Juris Doctor in 2005 from the Ateneo de Manila University. She began her law career as a Junior Associate in Zambrano & Gruba Law Offices and in Quiason Makalintal Barot Torres Ibarra & Sison Law Office. She joined the Bank in 2009. Prior to her appointment as Corporate Secretary, she was Assistant Corporate Secretary and later Acting Corporate Secretary of the Bank. Presently, she also serves as a Director and Corporate Secretary of Valuehub, Inc., a family-owned distribution company.

Board of Advisors:

MANUEL T. GONZALES, 77, Filipino was appointed as Board Advisor of the Bank on October 1, 2013. At present, Mr. Gonzales is a Director of Allied Leasing and Finance Corporation and Alliedbankers Insurance Corporation. Previous to this, he was a Director of Allied Banking Corporation (ABC) from March 26, 1986 until the PNB-ABC merger on February 9, 2013. He was with ABC since 1977 where he served as Senior Executive Vice President from 1997 to 2009 and as Executive Vice President from 1981 to 1997. Mr. Gonzales is a graduate of De La Salle University and holds a Bachelor of Science degree in Commerce. He continued his postgraduate studies on Masters of Arts in Economics at the Ateneo De Manila University.

WILLIAM T. LIM, 74, Filipino, was appointed as Board Advisor of the Bank on January 25, 2013. Previous to that, he served as a Consultant of Allied Banking Corporation (ABC) on credit matters since 1995. He obtained his Bachelor of Science degree in Chemistry from Adamson University. From 1985 to 1994, he was a Director of Corporate Apparel, Inc., Concept Clothing, and Freeman Management and Development Corporation, and President of Jas Lordan, Inc. He also worked with Equitable Banking Corporation for 28 years, rising from the ranks to become a Vice President of the Foreign Department.

CHRISTOPHER J. NELSON, **55**, British, was appointed as Board Advisor of the Bank on May 27, 2014 after serving as Director since March 21, 2013. He holds Bachelor of Arts and Masters of Arts degrees in History from Emmanuel College, Cambridge University, U.K., and a Diploma in Marketing from the Institute of Marketing, Cranfield, U.K. He is currently a member of the Board of PNB Holdings Corporation and Chairman of Lux et Sal, the operating company of Domuschula International School, a duly certified International Baccalaureate (IB) World School. Prior to joining the Bank, he was President of Philip Morris Philippines Manufacturing, Inc., a position he held for 10 years. He has an extensive 31 years of experience in the tobacco business, 25 years of which were with Philip Morris International, holding various management positions including Area Director for Saudi Arabia, Kuwait, Gulf Cooperation Council, Yemen, and Horn of Africa. Mr. Nelson is actively involved in various business and non-profit organizations that work for the social and economic upliftment of communities. He is a member of the Board of Trustees of the American Chamber Foundation Philippines, Inc., British Chamber of Commerce of the Philippines, Philippine Band of Mercy and the Federation of Philippine Industries. He was also a former Trustee of Tan Yan Kee Foundation and Director of the American Chamber of Commerce of the Philippines, Inc. Mr. Nelson is a member of the Society of Fellows of the Institute of Corporate Directors.

Executive Officers of the Bank:

REYNALDO A. MACLANG
(Please refer to above profile of Mr. Maclang.)

CENON C. AUDENCIAL, JR., 56, Filipino, Executive Vice President, is the Head of the Institutional Banking Group. Before joining the Bank in 2009, he headed the Institutional and

Corporate Bank of ANZ, prior to which he was a Senior Relationship Manager of Corporate Banking and Unit Head of Global Relationship Banking for Citibank N.A. He previously served as a Vice President and Unit Head of Standard Chartered Bank's Relationship Management Group, and was a Relationship Manager in Citytrust Banking Corporation. Before his 20-year stint as a Relationship Manager, he was a Credit Analyst for Saudi French Bank and AEA Development Corporation. Mr. Audencial obtained his Bachelor of Arts degree in Economics from the Ateneo de Manila University.

HORACIO E. CEBRERO III, 53, Filipino, Executive Vice President, is the Head of the Treasury Group. He obtained his Bachelor of Science degree in Commerce, Major in Marketing, from the De La Salle University. Prior to joining PNB, he was an Executive Vice President and the Treasurer of EastWest Banking Corporation. He also held the post of Senior Vice President and Deputy Treasurer of Rizal Commercial Banking Corporation, Vice President/Head of the Foreign Exchange Desk of Citibank Manila and Vice President/Chief Dealer of the Treasury Group of Asian Bank Corporation. He brings with him 32 years of experience in the banking industry starting from Loans and Credit, Branch Banking, Fixed Income Sales, Trust Banking, Foreign Exchange and Fixed Income Trading, Portfolio Management and other Treasury-related activities.

CHRISTOPHER C. DOBLES, 71, Filipino, Executive Vice President, is the Head of the Corporate Security Group and designated as the Bank's Chief Security Officer. He serves as the Chairman of the Administrative and Investigation Committee, the Committee on Decorum and Investigation and Member of the Labor Management Committee, PNB Regular Retirement Board and Promotions Committee A and B. He was also the former Head of Allied Banking Corporation's (ABC) Credit Investigation and Appraisal Department and was appointed as the Internal Affairs Officer of the Anti Fraud Committee. He was a member of ABC's Senior Management Committee and the Promotions Committee. He holds a Bachelor of Arts degree from the University of Sto. Tomas and took up units in Masters in Business from the Ateneo Graduate School. He was a commissioned officer with the rank of Major in the Philippine Constabulary Reserve Force. Prior to becoming the Bank Chief Security Officer, he held key positions in ABC, where he started as an Assistant Manager of the Corporate Affairs and Security Department in 1977 and later became Head of Corporate Affairs. He was formerly a President of the Bank Security Management Association (BSMA) and has been consistently elected as a member of the association's Board of Directors up to the present.

JOVENCIO B. HERNANDEZ, 61, Filipino, Executive Vice President, is the Head of the Retail Banking Group. A Certified Public Accountant, he obtained his Bachelor of Science degree in Commerce, Major in Accounting, from the De La Salle College. Prior to joining PNB, he was a Senior Vice President and Head of the Consumer Banking Group of Security Bank. He was also a Senior Vice President for Retail Banking of Union Bank of the Philippines in 2004, Commercial Director of Colgate Palmolive in 1996, and Group Product Manager of CFC Corporation and Unilever in 1982 and 1980, respectively. He was formerly the President of Security Finance in 2004 and First Union Plans in 2003. He was also a Director of SB Forex and Security-Phil Am. He served as Treasurer, Director and Executive Committee Member of Bancnet from 2004 to 2006. He is presently a Director of Bancnet.

NELSON C. REYES, 51, Filipino, Executive Vice President, joined the Bank on January 1, 2015 as the Chief Financial Officer. Prior to joining PNB, he was the Chief Financial Officer of the Hongkong and Shanghai Banking Corporation (HSBC), Ltd., Philippine Branch, a position he held since 2004. He was also a Director for HSBC Savings Bank Philippines, Inc and HSBC Insurance Brokers Philippines, Inc. His banking career with HSBC spanned 28 years and covered the areas of Credit Operations, Corporate Banking, Treasury Operations and Finance. He gained international banking exposure working in HSBC offices in Australia, Thailand and Hong Kong. Mr. Reyes graduated from De La Salle University with a Bachelor of Science degree in Commerce, Major in Accounting, and is a Certified Public Accountant.

YOLANDA M. ALBANO, 64, Filipino, First Senior Vice President, is the Head of the Bank's Commercial Banking Group. She was previously the First Senior Vice President and Head of Allied Banking Corporation's (ABC) Institutional Banking Group, comprised of the Account Management Division and the Merchant Banking Division. She joined ABC in 1977, starting off as an Account Officer at the Business Development Division and moving on as the Head of the Credit and Research Department, concurrent Head of the Corporate Affairs Department, Head of the Account Management Division, and ultimately, Head of the Institutional Banking Group. At present, she is a member of the Financial Executives Institute of the Philippines (FINEX). She is a past President of the Bank Marketing Association of the Philippines (BMAP) and the Credit Management Association of the Philippines (CMAP). She is also a past President of the College of the Holy Spirit Alumnae Foundation. Ms. Albano completed her Bachelor of Arts degree in Economics in three (3) years with a Dean's Award for Academic Excellence from the University of the Philippines.

ALICE Z. CORDERO, 58, Filipino, First Senior Vice President, was appointed the Chief Compliance Officer of the Bank on June 16, 2010 with oversight on the Bank, including all subsidiaries, affiliates and foreign branches. She is concurrently the Corporate Governance Executive of the Bank. She obtained Bachelor of Science degree in Business Economics from the University of the Philippines. She has earned units in Masters in Business Administration at the Ateneo Graduate School of Business. Prior to joining the Bank, she was the Chief Compliance Officer of Allied Banking Corporation (ABC) (2007-2010). She worked with Citibank N.A - Manila Branch (1988-2007) for nineteen (19) years and held various senior positions in the Consumer Banking Group, including Compliance and Control Director (1999-2005) and concurrent Regional Compliance and Control Director for Philippines and Guam (2004). Her 35 years of banking experience include working for ABC (1979-1983; 2007-2010), First National Bank of Chicago - Manila Branch (1983-1986), Far East Bank and Trust Company (1986-1988) and Citibank N.A. - Manila Branch (1988-2007), where she held department head positions in Credit Policy, Credit & Research Management, Financial Control, Corporate Regulatory Reporting, Asset Strategy, Business Development, Risk Management and Compliance.

SOCORRO D. CORPUS, 63, Filipino, First Senior Vice President, is the Head of the Human Resource Group. She is a graduate of Assumption College with a Bachelor of Arts degree, Major in Psychology, and an Associate in Commercial Science degree. She has been an HR practitioner for over 35 years. She started her career with China Banking Corporation in 1973 as an HR specialist prior to joining the Allied Banking Corporation (ABC) in 1977 as an Assistant Manager. Her professional affiliations include the following: founding member and a board member of the Organization Development Professional Network (ODPN), past President and member of the Bankers' Council for People Management, member of the Personnel Management Association of the Philippines, and the regular bank representative to the Banking Industry Tripartite Council.

ZACARIAS E. GALLARDO, JR., 65, Filipino, First Senior Vice President, of the Financial Management and Controllership Group of the Bank since October 1, 2012. Mr. Gallardo, a Certified Public Accountant, obtained his degree of Bachelor of Science in Commerce (Summa Cum Laude) from Far Eastern University in 1969. He has earned units for his Masters in Business Administration at De La Salle College, Bacolod City. He had served the Central Bank of the Philippines for 24 years where he was extensively exposed to all phases of banking. He worked with consultancy firms and published a reference book on Regulations on Trust and Fiduciary

Business and Investment Management Activities. He joined Allied Bank in 1996 and served as the Bank's Controller from 2001 until he joined PNB in 2012. He also headed the Allied Bank's ICAAP Core Team and Business Continuity unit.

MIGUEL ANGEL G. GONZALEZ, **56,** Filipino, First Senior Vice President, is the Chief Credit Officer and Head of the Credit Management Group. He entered the Bank in March 2010 as Senior Vice President for Commercial Banking Group. He obtained his Bachelor of Science degree in Industrial Engineering from the University of the Philippines and Masters in Business Management degree from Asian Institute of Management. He started his banking career with Citibank NA in 1984. He later headed the Branch Banking Group of Land Bank of the Philippines in 1989 then joined Union Bank of the Philippines in 1994 where he was Senior Vice President and head of Credit and Market Risk Group. In 2007, he became the Country Manager for Genpact Services LLC.

RAMON L. LIM, 63, Filipino, is the President and CEO of PNB Securities, Inc., a wholly-owned subsidiary of the Bank. A Certified Public Accountant, he obtained his Bachelor of Science degree in Commerce, Major in Accounting (Magna Cum Laude), from the University of San Carlos in April 1971. He completed his Masters in Business Management at the Asian Institute of Management (AIM) in 1980 as a full scholar under the Post-Graduate Scholarship Program of Citibank Manila where he worked from 1975 to 1993. He began his overseas postings at Citibank's Head Office in New York in 1984; then, at its Taipei Branch as Vice President and Deputy Treasurer; and finally, at its Hong Kong Regional Office as Senior Trader and Currency Fund Manager. He then moved to become the Managing Director of Solid Pacific Finance Ltd., Hong Kong from 1993 to 1995, and Investment Manager of MHK Properties and Investment Ltd, HK from 1996 to 1997. He was the Treasurer, then Business Manager of the Trust Group of Union Bank of the Philippines from 1997 to 2002. He joined the Bank in November 2002 as Deputy Head of the Treasury Group. He was designated as Head of International and Branch Offices Sector from September 2004 to September 2006. He was re-assigned back to the Treasury Group as its Head in October 2006 until July 2010. He was designated as the Chief of Staff of the PNB President from May 2010 until July 2011, in concurrent capacity as President and CEO of PNB Securities, Inc. He has been a Fellow of the Institute of Corporate Directors since May 2011.

JOHN HOWARD D. MEDINA, 45, Filipino, First Senior Vice President, has been the Head of the Global Operations Group since 2009. The group manages the Bank's operations and back-office support units in the Philippines and overseas branches in the United States, Asia-Pacific and Europe. He is also the Integration Director who coordinates all efforts to complete the operational merger of PNB with Allied Banking Corporation (ABC). Mr. Medina has a Bachelor of Science degree in Industrial Engineering from the University of the Philippines and Masters in Business Administration from the Shidler College of Business at the University of Hawai'i at Manoa. He was an East-West Center Degree Fellow and the recipient of a full scholarship while at the University of Hawai'i. He also attended the Handelshøjskolen I Århus (the Aarhus School of Business), Pacific Asian Management Institute and the European Summer School for Advanced Management for additional graduate studies. Prior to joining PNB in 2004, he was a pioneer in the process and technology banking practice in the nineties when he helped transform the Asian operations of one of the largest multinational banks. He subsequently established a private consulting practice in the United States, helping set up operations and technology initiatives of large financial institutions. Mr. Medina also worked with Union Bank of the Philippines where he conceptualized and implemented electronic banking products and services.

EDGARDO T. NALLAS, 57, Filipino, is the President and CEO of Japan PNB Leasing and Finance Corporation and its subsidiary, Japan-PNB Equipment Rentals Corporation. He has 35 years of experience in various areas of banking, particularly in human resources management, account management and branch banking. He was formerly the Head of PNB Human Resources Group with the rank of First Senior Vice President. He obtained his Bachelor of Arts degree in Economics (Accelerated) from the De La Salle University in 1977 and has earned units in Masters in Business Administration from said school. He started his career in Human Resource in 1977 with PhilBanking Corporation. Prior to PNB, he held various HR positions at SolidBank Corporation (1992–1995), BA Savings Bank (1997) and Philippine Bank of Communications (1998–2005).

BENJAMIN S. OLIVA, 62, Filipino, First Senior Vice President, is the Head of the Global Filipino Banking Group (GFBG) which manages PNB's overseas network of branches and remittance subsidiaries in Asia, Europe, the Middle East, and North America, and a Director of PNB (Europe) Plc. Mr. Oliva obtained his Bachelor of Science degree in Commerce, Major in Accounting (Cum Laude), from the De La Salle University. He started his career with FNCB Finance, Inc. where he held various junior managerial positions from 1973-1978. He moved to Jardine Manila Finance in 1978 as Vice President of the Metro Manila Auto Finance. In 1980, Mr. Oliva started his career as a banker at the State Investment Bank where he was Head of Corporate Sales Lending Division. In 1981, he moved to PCI Bank when he handled Corporate Banking. He joined Citibank, NA in 1988, where he exhibited his expertise in sales and headed different sales divisions (Loans, Cards and Citiphone Banking). He became a Director for various divisions such as Country Asset Sales, Credit Cards Business, Business Development and Personal Loans from November 1999 to January 2006. In January 2006, he was hired by Citibank Savings, Inc. as the Director for Personal Loans and moved back to Citibank, NA as Business Development Director in February 2007. He was rehired by Citibank Savings, Inc. as its President in December 2007. From June 2009 to July 2011, he held concurrent positions as Commercial Banking Director of Citibank NA and board member of Citibank Savings, Inc. In September 2011, he has been a designate Consultant for Consumer Banking of United Coconut Planters Bank. Mr. Oliva joined PNB on September 10, 2012.

AIDA M. PADILLA, 65, Filipino, is First Senior Vice President and the Head of the Remedial Management Division. She is the chief strategist for problem and distressed accounts. A seasoned professional, she rose from the branch banking ranks at the Philippine Banking Corporation to become Vice President for Marketing of its Corporate Banking Group. She obtained her Bachelor of Science degree in Commerce, Major in Accounting, from St. Theresa's College.

CARMELA A. PAMA, 58, Filipino, First Senior Vice President, is the Bank's Chief Risk Officer. A Certified Public Accountant, she obtained her Bachelor of Science degree in Business Administration and Accountancy from the University of the Philippines and Masters in Business Administration degree from the Stern School of Business, New York University. She started her banking career with Citibank N.A. (Phils.) where she held various positions in the areas of Treasury Trading and Marketing, and Operations and Quality Development. She left Citibank with the rank of Vice President and moved to Banco Santander to open its operations in the Philippines. She moved back to Citibank, N.A. (Phils.) in 1996 to head various operation units. Prior to joining PNB on October 9, 2006, she was a Consulting Services Practice Manager at Oracle Corporation (Phils.) from 1999 to 2005. Her stint as CRO of the Bank since October 2006 has developed her proficiency in all facets of banking operations and has rounded off her skills in enterprise risk management. In 2010, she co-led the implementation of the Bank's ICAAP (Internal Capital Adequacy Assessment Process) and has successfully institutionalized the process. She has worked closely with the Bank's board level Risk Oversight Committee in the effective oversight of the various risks faced by the Bank. She has also been closely involved in the merger/integration activities for PNB and Allied Bank. Her 30 years of corporate experience has provided her with a well-rounded expertise in the operations, technology and risk management areas of the Bank.

EMMANUEL GERMAN V. PLAN II, 62, Filipino, First Senior Vice President, is the Head of the Special Assets Management Group. He holds a Bachelor of Science degree in Commerce, Major in Accounting, from the University of Santo Tomas and took up masteral studies at the Letran College. Prior to joining the Bank, he was Senior Vice President of the Special Assets Group of Allied Banking Corporation (ABC). He concurrently held the position of Senior Vice President of State Investment Trust and State Properties Corporation. He also acted as Managing Director of Bear Stearns State Asia and Northeast Land Development Corporation. He has exposure in investment banking, account management, and credit and collection. He has been involved in acquired assets management and in real estate development since 1997. Mr. Plan is also into social, religious and charitable undertakings through his active involvement in different educational and religious foundations like Sambayan Educational Foundation, Inc., LSQC Scholarship Foundation, UST-EHSGAA and Magis Deo, to name a few.

EMELINE C. CENTENO, 56, Filipino, Senior Vice President, is the Head of the Corporate Planning and Research Division. She obtained her Bachelor of Science degree in Statistics (Dean's Lister) and completed the coursework in Masters of Arts in Economics (on scholarship) from the University of the Philippines. She joined PNB in 1983, rose from the ranks and held various positions at the Department of Economics and Research, Product Development, Monitoring and Implementation Division and the Corporate Planning Division before assuming her present position as Head of the merged Corporate Planning and Research Division. Ms. Centeno was awarded as one of the Ten Outstanding Employees of the Bank in 1987.

DIOSCORO TEODORICO L. LIM, 60, Filipino, Senior Vice President, is the Chief Audit Executive (CAE) of the Bank. A Certified Public Accountant, he holds a Bachelor of Science degree in Commerce, Major in Accounting, from the University of San Carlos-Cebu. He started his career in 1976 with SGV as a Staff Auditor and, after a year, was Field in Charge until 1978. He joined Allied Banking Corporation (ABC) in 1979 as a Junior Auditor. He rose from the ranks to become an Audit Officer in 1986 and was designated as Head of the Internal Audit Division in 2000, until his appointment as CAE of PNB on February 9, 2013. He also served as Compliance Officer of Allied Savings Bank (seconded officer) from August 2001 to August 2006. He served as a member of the Board of Directors of Rosehills Memorial Management (Philippines), Inc. in 2011 and 2013. He is a member of the Institute of Internal Auditors Philippines, Association of Certified Fraud Examiners-Philippines and Philippine Institute of Certified Public Accountants.

MARIA PAZ D. LIM, 54, Filipino, Senior Vice President, is the Corporate Treasurer. She obtained her Bachelor of Science degree in Business Administration, Major in Finance and Marketing, from the University of the Philippines, and Masters in Business Administration from the Ateneo de Manila University. She joined PNB on June 23, 1981, rose from the ranks and occupied various officer positions at the Department of Economics & Research, Budget Office and Corporate Disbursing Office prior to her present position.

NORMAN MARTIN C. REYES, 49, Filipino, Senior Vice President, is the Bank's Chief Marketing Officer and Head of the Marketing Group. He obtained his Bachelor of Arts degree, Major in Economics at the University of the Philippines and Masters in Business Management at the Asian Institute of Management. He has over 20 years of management experience in the field of product development, sales and marketing and process management, and has directly managed an extensive list of corporate and consumer services. He started his banking career in 1993, holding various positions at Citibank, Union Bank and Royal Bank of Scotland. Prior to joining PNB, he was Senior Vice President at United Coconut Planters Bank.

MANUEL C. BAHENA, JR., 53, Filipino, First Vice President, is the Chief Legal Counsel of the Bank. He joined PNB in 2003 and was appointed as Head of Documentation and Research Division of the Legal Group in 2009. Before joining PNB, he was the Corporate Secretary and Vice President of the Legal Department of Multinational Investment Bancorporation. He also formerly served as Corporate Secretary and Legal Counsel of various corporations, among which are the Corporate Partnership for Management in Business, Inc.; Orioxy Investment Corporation; Philippine Islands Corporation for Tourism and Development; Cencorp (Trade, Travel and Tours), Inc.; and Central Bancorporation General Merchants, Inc. He obtained his Bachelor of Science degree in Business Administration from Lyceum of the Philippines in 1981 and his Bachelor of Laws degree from Arellano University in 1987.

ROBERTO S. VERGARA, 63, Filipino, First Vice President, is the Chief Trust Officer and Head of the Trust Banking Group. He obtained his Bachelor of Arts degree, Major in Economics from Ateneo de Manila University. He began his career in 1973 and held various positions in trust, treasury, investment banking and global banking/overseas remittances. Prior to joining PNB, he was the Trust Officer of Hongkong and Shanghai Banking Corporation and then became the Trust Officer, Treasury Group Head and Global Banking/Overseas Remittance Group Head of the Land Bank of the Philippines. He is also a holder of Government Civil Service Career Executive Service Officer and Career Service Executive eligibility.

MODETTE INES V. CARIÑO, 44, Filipino, Vice President, is the Acting Head of the Consumer Finance Group. She obtained her Bachelor of Science degree in Commerce, Major in Accounting, from the De La Salle University. She started her career as a Marketing Assistant for Consumer Loans in 1994 and has joined several financial institutions such as Bank of Southeast Asia, International Exchange Bank and Union Bank. She was connected with Security Bank as Auto Loans Head to establish the consumer loans business of the bank prior to joining PNB. She was hired by the Bank as Product Manager for Motor Vehicle Loans and was eventually appointed as Head of the 14 Regional Consumer Finance Centers prior to her present position.

CONSTANTINO T. YAP, 51, Filipino, Vice President, is the Head of the Information Technology Group. He was hired by Allied Banking Corporation (ABC) on October 1, 2007 as Assistant Vice President for the Special Projects Section of the IT Division. Prior to joining ABC, he was the Dean of the College of Engineering and College of Computer Studies and Systems at the University of the East (Manila campus) from May 2005 to May 2007, and was the Assistant Dean of the College of Computer Studies at Lyceum of the Philippines from May 2004 to May 2005. He worked as an IT Consultant for various call centers and business-to-business firms from August 2002 to May 2004. He was the Technical Consultant for the horse racing totalizator project of Manila Jockey Club and a Vice President for Betting Operations of the Philippine Racing Club from 1996 to 2000. From 1994 to 1996, he helped manage his family's construction business. While living in the US from 1988 to 1994, he was a computer telephony programmer and systems analyst that provided promotions and marketing services running on interactive voice response systems (IVRS) for Phoneworks, Inc., American Network Exchange Inc., and Interactive Telephone Inc. He obtained his Bachelor of Engineering degree in Electrical from Pratt Institute in Brooklyn, New York, USA, in 1984 and earned his Master of Science in Electrical Engineering at Purdue University in West Lafayette, Indiana, USA, in 1986.

C. Independent Directors

In carrying out their responsibilities, the directors must act prudently and exercise independent judgment while encouraging transparency and accountability. The Bank has five (5) independent directors representing 33% of the members of the Board, beyond the 20% requirement of the SEC.

The appointment of the 5 independent directors composed of the Board Chairman Florencia G. Tarriela, and Messrs. Felix Enrico R. Alfiler, Federico C. Pascual, Cecilio K. Pedro, Deogracias N. Vistan were approved and confirmed by the appropriate regulatory bodies.

The independent directors act as Chairman of the Board, Board Credit & Policy Committee, Corporate Governance/Nomination/Remuneration Committee, Board Oversight Committee – Domestic and Foreign Subsidiaries/Affiliates, Board Audit and Compliance Committee and Board Oversight Related Party Transaction (RPT) Committee. The independent directors are also members of four other board committees such as the Board ICAAP Steering Committee, Trust Committee, Board IT Governance Committee and the Risk Oversight Committee. The latter board committee Chairman is a non-executive director and former president of a government bank with universal banking license.

D. Identity of Significant Employees

There are no employees who are expected by the Group to make a significant contribution to the business other than the executive officers.

E. Family Relationship

Directors Harry C. Tan and Lucio C. Tan are brothers. Directors Lucio K. Tan, Jr. and Michael G. Tan are sons of Mr. Lucio C. Tan. Director Joseph T. Chua is a son in law of Mr. Lucio C. Tan.

F. Involvement in Certain Proceedings

Neither the Directors nor any of the Executive Officers have, for a period covering the past five (5) years, reported:

i. any petition for bankruptcy filed by or against a business to which they are related as a general partner or executive officer;
ii. any criminal conviction by final judgment or being subject to a pending criminal proceeding, domestic or foreign, other than cases which arose in the ordinary course of business in which they may have been impleaded in their official capacity;
iii. being subject to any order, judgment, or decree, of a competent court, domestic or foreign, permanently or temporarily enjoining, barring, suspending or limiting their involvement in any type of business, securities, commodities or banking activities; and
iv. being found by a domestic or foreign court of competent jurisdiction (in a civil action), the Commission or comparable foreign body, or a domestic or foreign Exchange or other organized trading market or self regulatory organization, to have violated a securities or commodities law or regulation, and the judgment has not been reversed, suspended, or vacated.

G. Brief Description of Any Material Pending Legal Proceedings to which the Registrant or any of its Subsidiaries is a Party

The Bank and some of its subsidiaries are parties to various legal proceedings which arose in the ordinary course of their operations. None of such legal proceedings, either individually or in the aggregate, are expected to have a material adverse effect on the Bank and its subsidiaries or their financial condition.

Item No. 10 – Executive Compensation

A. Executive Compensation

The Annual compensation of executive officers consists of a 16-month guaranteed cash emolument. There are no other arrangements concerning compensation for services rendered by Directors or executive officers to the Bank and its subsidiaries.

B. Compensation of Directors

The Directors receive a reasonable per diem for each attendance at a Board meeting or any meeting of the Board Committees. Total per diem given to the Board of Directors of the Bank amounted to ₱44.325 million in 2014 from ₱17.815 million in 2013 due to the expanded roles and responsibilities as a result of the merger.

C. Summary of Compensation Table

Annual Compensation (In Pesos)					
Name and Principal Position	**Year**	**Salary**	**Bonus**	**Others**	**Total**
Omar Byron T. Mier [1/] President & Chief Executive Officer (CEO) Reynaldo A. Maclang [2/] President Four most highly compensated executive officers other than the CEO 1. Cenon C. Audencial, Jr. Executive Vice President 2. Horacio E. Cebrero III Executive Vice President 3. Christopher C. Dobles Executive Vice President 4. Jovencio B. Hernandez Executive Vice President					
CEO and Four (4) Most Highly Compensated Executive Officers	Actual 2013	30,364,256	7,705,872	-	38,070,128
	Actual 2014	50,690,483	12,041,581	-	62,732,064
	Projected 2015	60,800,000	14,500,000	-	75,300,000
All other officers and directors (as a group unnamed)	Actual 2013	1,573,877,191	516,977,906	-	2,090,855,097
	Actual 2014	2,606,668,197	843,788,872	-	3,450,457,069
	Projected 2015	3,128,000,000	1,012,500,000	-	4,140,500,000

[1/] *Retired effective May 26, 2014*
[2/] *Appointed as President effective May 27, 2014*

D. Employment Contracts and Termination of Employment and Change-in-Control Arrangements

All executive officers are covered by the Bank's standard employment contract which guarantees annual compensation on a 16-month schedule of payment. In accordance with the Bank's Amended By-Laws, Article VI, Sec. 6.1, all officers with the rank of Vice President and up hold office and serve at the pleasure of the Board of Directors.

E. Warrants and Options Outstanding: Repricing

No warrants or options on the Bank's shares of stock have been issued or given to the Directors or executive officers as a form of compensation for services rendered.

Item No. 10A – Remuneration Policy

PNB's remuneration policy manifests the Bank's belief that the quality of its human resource is a key competitive edge in the industry. As such, the Bank maintains remuneration and benefits program that attracts, motivates, and retains talents and develops their potentials. The Bank's remuneration and benefits program aims to 1) ensure compliance with requirements of labor and other regulatory laws; 2) establish competitiveness with peer groups in the industry; and c) strengthen alignment with and accomplishment of the Bank's business strategies.
The following are the features of the Bank's remuneration policy for Directors and Officers:

I. Emolument and Fringe Benefits of the Board of Directors
- Cash Emolument in the form of Per Diem for every Board and Board Committee meeting
- Non-Cash Benefit in the form of Healthcare Plan, Group Life Insurance, and Group Accident Insurance

II. Officers' Compensation and Benefits

1. Monetary Emoluments
   - Monthly compensation in the form of monthly basic pay which is reviewed annually and subject to the adjustment thru merit increase effective July 1 based on Officer's performance and achievements
   - Bonuses equivalent to four (4) months gross compensation per year
   - Allowances to cover business-related expenses, official travel, social and recreational activities (i.e., summer outing/Christmas party) and relocation expenses
   - Service Incentive in the form of cash award upon reaching milestones in length of service (e.g., 10th year, 25th year of service, etc)

2. Non-Cash Benefits
   - Healthcare Plan in the form of hospitalization, consultation and other medical benefits for the Officer and two (2) of his/her primary dependents
   - Group Life Insurance coverage in amounts based on the Officer's rank
   - Group Accident Insurance coverage in amounts based on the officer's rank
   - Leave Privileges in the form of leave with pay benefits for the following purposes: a) vacation; b) sick; c) maternity; d) paternity; e) birthday; f) bereavement; g) solo parent; h) emergency; i) special leave for female employees.
   - Car Plan in the form of car cost-sharing scheme based on the officer's rank

3. Fringe Benefits
   - Loan Facilities available for the following purposes: a) housing; b) car financing; c) general purpose

4. Retirement Benefits
   - Retirement benefits equivalent to applicable monthly pay per year of service for those who attained the required minimum length of service under the Plan.

Item No. 11 – Security Ownership

A. Security Ownership of Certain Record and Beneficial Owners and Management.

(1) **Security Ownership of Certain Record and Beneficial Owners (*more than 5% of any class of voting securities as of 31 December 2014)***

Name & Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Common Shares Held	Percentage of Ownership
All Seasons Realty Corporation - Makati City - 8,191,895 shares Shareholder	Majority-Owned and Controlled by LT Group, Inc.	Filipino	747,326,928	59.8273308551%
Allmark Holdings Corporation - Quezon City – 16,967,394 shares Shareholder		Filipino		
Caravan Holdings Corporation - Marikina City - 67,148,224 shares Shareholder		Filipino		
Donfar Management Ltd. - Makati City – 25,173,588 shares Shareholder		Filipino		
Dunmore Development Corp. (X-496) - Makati City - 12,395,850 shares Shareholder		Filipino		
Dynaworld Holdings, Inc. - Pasig City - 9,323,108 shares Shareholder		Filipino		
Fast Return Enterprises, Ltd. - Makati City - 14,865,453 shares Shareholder		Filipino		

Fil-Care Holdings, Inc. - Quezon City - 20,836,937 shares Shareholder		Filipino		
Fragile Touch Investment Ltd. - Makati City - 18,581,537 shares Shareholder		Filipino		
Ivory Holdings, Inc. - Makati City - 16,997,821 shares Shareholder		Filipino		
Kenrock Holdings Corporation - Quezon City – 21,301,405 shares Shareholder		Filipino		
Kentwood Development Corp. - Pasig City - 14,112,105 shares Shareholder		Filipino		
Key Landmark Investments, Ltd. - British Virgin Islands - 109,115,864 shares Shareholder		Filipino		
La Vida Development Corp. - Quezon City - 16,052,705 shares Shareholder		Filipino		
Leadway Holdings, Inc. - Quezon City – 53,470,262 shares Shareholder		Filipino		
Mavelstone International Ltd. - Makati City - 24,213,463 shares Shareholder		Filipino		
Merit Holdings and Equities Corporation - Quezon City – 14,233,686 shares Shareholder		Filipino		
Multiple Star Holdings Corporation		Filipino		

- Quezon City – 25,214,730 shares Shareholder				
Pioneer Holdings Equities, Inc. - Pasig City - 28,044,239 shares Shareholder		Filipino		
Profound Holdings, Inc. - Mandaluyong City - 14,935,099 shares Shareholder		Filipino		
Purple Crystal Holdings, Inc. - Mandaluyong City - 19,980,373 shares Shareholder		Filipino		
Safeway Holdings & Equities, Inc. - Quezon City - 9,864,499 shares Shareholder		Filipino		
Society Holdings Corporation - Quezon City - 14,162,708 shares Shareholder		Filipino		
Solar Holdings Corporation - Pasig City - 67,148,224 shares Shareholder		Filipino		
Total Holdings Corporation - Pasig City - 13,095,263 shares Shareholder		Filipino		
True Success Profits, Ltd. - British Virgin Islands - 67,148,224 shares Shareholder		Filipino		
Uttermost Success, Ltd. - Makati City -24,752,272 shares		Filipino		

Shareholder				
Name & Address of Record Owner and Relationship with Issuer	**Name of Beneficial Owner and Relationship with Record Owner**	**Citizenship**	**No. of Common Shares Held**	**Percentage of Ownership**
Domingo T. Chua - Quezon City - 210,220 shares Shareholder	The records in the possession of the Bank show that the beneficial ownership of these companies / individuals belongs to the shareholders of record of said companies or to the individual himself, as the case may be.[2] The Bank has not been advised otherwise	Filipino	224,181,238	17.9468510967%
Dreyfuss Mutual Investments, Inc. - Pasay City - 7,833,794 shares Shareholder		Filipino		
Fairlink Holdings Corporation - Makati City – 20,637,854 shares Shareholder		Filipino		
Infinity Equties, Inc. - Quezon City - 50,361,168 shares Shareholder		Filipino		
Integrion Investments, Inc. - Pasay City - 7,833,794 shares Shareholder		Filipino		
Iris Holdings & Development Corp. - Makati City - 7,671,517 shares Shareholder		Filipino		
Jewel Holdings, Inc. - Marikina City - 11,512,247 Shareholder		Filipino		
Kentron Holdings and Equities Corp. - Pasig City - 19,944,760 shares Shareholder		Filipino		

[2] *The companies issue proxies/special powers of attorney (SPAs) to Mr. Lucio C. Tan as their authorized proxy/attorney-in-fact to vote their shares during stockholders' meetings. Said proxies/special powers of attorney are renewed by the foregoing shareholders on a year-to-year basis.*
Other than the proxies/SPAs mentioned above, the Bank is not aware of any other relationship between Mr. Tan and the above-stated companies. Mr. Domingo T. Chua is a brother-in-law of Mr. Lucio C. Tan.

Local Trade and Development Corporation - Makati City – 6,711,575 shares Shareholder		Filipino		
Luys Securities Co., Inc. - Makati City - 17,898 shares Shareholder		Filipino		
Mandarin Securities Corporation - Makati City - 13,281 shares Shareholder		Filipino		
Opulent Land-Owners, Inc. - Quezon City - 5,921,109 shares Shareholder		Filipino		
Power Realty Development Corporation - Quezon City - 1,852,727 shares Shareholder		Filipino		
Prima Equities and Investments Corp. - Quezon City - 58,754,696 shares Shareholder		Filipino		
Virgo Holdings and Development Corp. - Makati City - 8,520,677 shares Shareholder		Filipino		
Lucio K. Tan, Jr. - Quezon City - 2,300 shares Shareholder		Filipino		
Witter Webber & Schwab Investment, Inc. - Pasay City - 7,833,795 shares Shareholder		Filipino		
Zebra Holdings, Inc. - Marikina City - 8,547,826 shares Shareholder		Filipino		

(2) **Security Ownership of Management (*Individual Directors and Executive Officers as of 31 December 2014*)**

Name of Beneficial Owner	Amount of Common Shares and Nature of Beneficial Ownership	Citizenship	Percentage of Ownership
Florencia G. Tarriela Chairman Independent Director	2 shares ₱80.00 (R)	Filipino	0.0000001601
Felix Enrico R. Alfiler Independent Director	115 shares ₱4,600.00 (R)	Filipino	0.0000092063
Florido P. Casuela Director	133 shares ₱5,3200.00 (R)	Filipino	0.0000106473
Joseph T. Chua Director	11,315 shares ₱452,600.00 (R)	Filipino	0.0009058234
Leonilo G. Coronel Director	1 share ₱40.00 (R)	Filipino	0.0000000801
Reynaldo A. Maclang Director	155 shares ₱6,200.00 (R)	Filipino	0.0000124085
Estelito P. Mendoza Director	1,150 shares ₱46,000.00 (R)	Filipino	0.0000920634
Federico C. Pascual Independent Director	39 shares ₱1,560.00 (R)	Filipino	0.0000031221
Cecilio K. Pedro Independent Director	5,000 shares ₱200,000.00 (R)	Filipino	0.0004002755
Washington Z. SyCip Director	39,111 shares ₱1,564,440.00 (R)	Filipino American	0.0031310350
Harry C. Tan Director	230 shares ₱9,200.00 (R)	Filipino	0.0000184127
Lucio C. Tan Director	14,843,119 shares ₱593,724,760.00 (R)	Filipino	1.1882673540
Lucio K. Tan, Jr. Director	2,300 shares ₱92,000.00 (R)	Filipino	0.0001841267

Michael G. Tan Director	250 shares ₱10,000.00 (R)	Filipino	0.0000200138
Deogracias N. Vistan Independent Director	100 shares ₱4,000.00 (R)	Filipino	0.0000080055
Sub-total	14,903,020 shares ₱596,120,800.00 (R)		1.1930627345
All Directors & Executive Officers as a Group	14,961,787 shares P598,471,480.00 (R)		1.1977673325

7. Voting Trust Holders of 5% or More

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

D. Changes in Control

There has been no change in control in the bank for the year 2014.

Item 12. Certain Relationships and Related Transactions

In the ordinary course of business, the Parent Company has loans and other transactions with its subsidiaries and affiliates, and with certain directors, officers, stockholders and related interests (DOSRI). Under the Parent Company's policy, these loans and other transactions are made substantially on the same terms as with other individuals and businesses of comparable risks. The amount of direct credit accommodations to each of the Parent Company's DOSRI, 70.00% of which must be secured, should not exceed the amount of their respective deposits and book value of their respective investments in the Parent Company.

In the aggregate, DOSRI loans generally should not exceed the Parent Company's equity or 15% of the Parent Company's total loan portfolio, whichever is lower. As of December 31, 2014 and 2013, the Group and Parent Company were in compliance with such regulations.

For proper monitoring of related party transactions (RPT) and to assist the Board in performing its oversight functions in monitoring and managing potential conflicts of interest of management, board members and shareholders, the Bank created the Board Oversight RPT Committee (BORC). The BORC is composed of at least five (5) regular members which include three (3) independent directors and 2 non-voting members (the Chief Audit Executive and the Chief Compliance Officer). The Chairman of the committee is an independent director and appointed by the Board.

Information related to transactions with related parties and with certain directors, officers, stockholders and related interests (DOSRI) is shown under Note 32 of the Audited Financial Statements of the Bank and Subsidiaries and Exhibit IV of the Supplementary Schedules Required by SRC Rule 68 Annex E.

PART IV – CORPORATE GOVERNANCE

Item 13 – Corporate Governance

Please refer to the attached Annual Corporate Governance Report (ACGR)

PART V - EXHIBITS AND SCHEDULES

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

A. Exhibits

Exhibit I	List of Bank Owned Properties as of December 31, 2014
Exhibit II	List of Branches under Lease as of December 31, 2014
Exhibit III	Statement of Management's Responsibility, Report of Independent Auditors and Audited Financial Statements of Philippine National Bank and its Subsidiaries as of December 31, 2014 and 2013 and January 1, 2013 and for each of the three years ended in the period December 31, 2013 and Notes to Financial Statements.
Exhibit IV	Supplementary Schedules Required by SRC Rule 68 Annex E Schedule of Retained Earnings Available for Dividend Declaration Map showing relationships between and among parent, subsidiaries, an associate, and joint venture Schedule of all effective standards and interpretations under PFRS Financial Ratios

B. Reports on SEC Form 17-C

<u>SEC 17-C FOR THE YEAR 2014</u>

DATE	PARTICULARS
01-08-14	Approval of the Philippine Stock Exchange of the bank's application to list an additional up to 163,000,000 common shares, with par value of P40.00 per share, to cover the bank's stock rights offering to all stockholders of record as of January 16, 2014.
01-10-14	Final terms of PNB's stock rights offering and the recent developments in the operations of the Bank in relation to its subsidiaries.
01-21-14	Acquisition of LT Group, Inc. of additional indirect ownership of PNB shares through the following companies which own shares in PNB: All Seasons Realty Corporation, Society Holdings Corporation, Profound Holdings, Inc., Total Holdings Corporation, Kentwood Development Corporation, Fil-Care Holdings, Inc., Safeway Holdings & Equities, Inc., Purple Crystal Holdings, Inc., Dynaworld Holdings, Inc., and La Vida Development Corporation.
02-06-14	Press Release: Philippine National Bank successfully raises Php11.6 Billion in common stock rights offering
02-18-14	Confirmation of the SEC that the bank's issuance of additional 618,348 Offer Shares out of the Bank's authorized but unissued capital was an exempt transaction under Section 10.1 of the Securities Regulation Code.

02-28-14	Board approval of the following: (1) election of Mr. Cecilio K. Pedro as an Independent Director of the Bank; (2) holding of Annual Stockholders' Meeting of the Bank on May 27, 2014 at 8:00 a.m. at the Grand Ballroom, Upper Lobby, Century Park Hotel; (3) direct investment of the Bank in PNB General Insurers Co., Inc. (PNB Gen) by subscribing to the additional authorized capital stock of PNB Gen in the amount of P600 Million; (4) amendments to the Article II of the Amended Articles of Incorporation and Section 1.1, Article I of the Amended By-Laws of the Bank; and (5) amendment to Section 4.2, Article IV of the Amended By-Laws of the Bank.
03-06-14	Board approval of the promotion/change in rank of the following PNB Senior Officers: Cenon C. Audencial, Jr., Alice Z. Cordero, John Howard D. Medina, Carmela Leticia A. Pama, Allan L. Ang, Jane A. Gocuan and Aida M. Padilla
04-10-14	Board approval of the following: (1) nominees for the Board of Directors of PNB for the year 2014-2015; (2) retirement of Mr. Omar Byron T. Mier, President and CEO, effective upon the appointment of a new bank President; and (3) appointment of Mr. Manuel C. Bahena, Jr. as the Chief Legal Counsel
04-30-14	Board approval of the Revised Manual on Corporate Governance and Revised Charters of the Board Committees and Scorecard
05-19-14	Press Release: PNB Posts P1.3 B Income for the First Quarter
05-26-14	Board approval of the resignation of Mr. Rafael Z. Sison, Jr., FSVP and Head of Branch Banking Group, effective May 1, 2014
05-27-14	a. Result of Annual Stockholders' Meeting held on May 27, 2014 - (1) amendment of Article II of Articles of Incorporation; (2) amendment of Article I and Article IV of the By-Laws; (3) election of directors; and (4) appointment of SGV and Co., as the bank's External Auditor; b. Result of Organizational Meeting - (1) election of Chairman, Vice Chairman and other corporate officers and (2) Board Advisors; and (3) Chairpersons/members of the Board Committees
06-09-14	Conduct of a due diligence review of the United Coconut Planters Bank as a potential acquisition for PNB
07-21-14	Hiring of Ms. Juanita Margarita O. Umali as the Head of the Credit Card Group with the rank of Senior Vice President, effective July 21, 2014.
07-22-14	Receipt of SEC approval of the amendment of Article VII of the Amended Articles of Incorporation of the bank approving the increasing in its authorized capital by 500,000,000 common shares from 1,250,000,001 common shares to 1,750,000,001 common shares
07-25-14	Board approval of the following: (a) resignation of Mr. Ramon Eduardo E. Abasolo, First Senior Vice President and Division Head of Flexcuble Operations Division, effective on August 1, 2014; (b) resignation of Mr. Emmanuel A. Tuazon, Senior Vice President and Marketing Director of Allied Savings Bank, effective at the close of business hours of July

	11, 2014; and (c) promotion of Ms. Cynthia B. Lanot as Senior Vice President and Division Head of Corporate Banking Division - Team A, Institutional Banking Group
08-05-14	Board approval of the issuance of Long Term Negotiable Certificates of Time Deposit of up to P10 Billion, subject to BSP approval
08-18-14	Press Release: Philippine National Bank First Half 2014 Operating Results
10-13-14	Hiring of Mr. Nelson C. Reyes as Chief Financial Officer and Group Head of the Financial Management and Controllership Group of the bank with the rank of Executive Vice President, effective January 1, 2015
10-24-14	Board approval of the resignation of the following PNB senior officers: Mr. Elfren Antonio S. Sarte (FSVP and President of Allied Savings Bank) and Mr. Loreto M. Arenas (SVP of Global Operations Group)
11-10-14	Board approval of secondment of Ms. Mary Ann A. Santos, Senior Vice President, as Acting President of Allied Savings Bank, effective on November 01, 2014
11-11-14	Receipt of SEC approval of the amendment of Article II of the PNB's Amended Articles of Incorporation and the amendment of Section 1.1., Article I and Section 4.2, Article IV of the Amended By-Laws of the bank
11-17-14	Press Release: PNB Posts P3.7 Billion Net Income in First Nine Months of 2014
11-25-14	Receipt of Monetary Board approval of the authority of PNB to issue Long Term Negotiable Certificates of Time Deposits (LTNCDs) in local currency, in the aggregate amount of up to P10 Billion in several tranches, subject to various terms and conditions
11-28-14	a. Board approval of the following: (a) Sell back by PNB IBJ Leasing (IBJL) of its 15% equity ownership in Japan-PNB Leasing and Finance Corporation; and (b) Change in the name of JPNBL and its wholly-owned subsidiary, Japan-Equipment Rental Corporation b. SEC approval of the amendment of the Articles of Incorporation and By-Laws of PNB Savings Bank approving, among others, its change of name from Allied Savings Bank to PNB Savings Bank and the increase in its authorized capital stock from P500 Million to P15 Billion divided into 149,975,000 common shares and 25,0000 preferred shares, both with par value of P100.00 each
12-03-14	Press Release re: PNB's LTNCD Issuance Pricing
12-05-14	Hiring of Mr. Norman Martin C. Reyes as Chief Marketing Officer and Head of Marketing Group with the rank of Senior Vice President
12-19-14	Hiring of Mr. Roberto S. Vergara as Chief Trust Officer with the rank of First Vice President – Trust Banking Group, effective January 16, 2015 and Press Release: Philippine National Bank List P7 Billion LTNCDs

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the Philippine National Bank by the undersigned, thereunto duly authorized, in the City of Pasay on April __, 2015.

REYNALDO A. MACLANG
President

NELSON C. REYES
Executive Vice President &
Chief Financial Officer

JOHN D. MEDINA
First Senior Vice President
Global Operations Group
(Principal Operating Officer)

MARLYN M. PABRUA
Senior Vice President & Controller
(Principal Accounting Officer)

DORIS S. TE
Corporate Secretary

APR 1 4 2

SUBSCRIBED AND SWORN to before me this __ day of April 2015 affiants exhibiting to me their Passport Nos./SSS Nos. as follows:

Names	Passport No./ SSS No.	Date of Issue	Place of Issue
Reynaldo A. Maclang	EC0299319	February 14, 2014	DFA Manila
Nelson C. Reyes	EC3050873	December 20, 2014	DFA NCR South
John D. Medina	EB6456110	October 1, 2012	DFA NCR East
Doris S. Te	EB0993396	September 20, 2010	DFA Manila
Marlyn M. Pabrua	03-4445825-3	N/A	N/A

Notary Public

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Book No. IV
Series of 2015

ATTY. VANE... ANDRADE
Commission No. / Roll No. 50458
Notary Public for Pasay City until 12/31/15
9th Floor PNB Financial Center
Pres. D.P. Macapagal Blvd., Pasay City
PTR No. 4203779/01-05-15/Pasay City
IBP No. 982955/01-06-15/Tarlac

Exhibit I

PHILIPPINE NATIONAL BANK
LIST OF BANK OWNED PROPERTIES
AS OF DECEMBER 31, 2014

Branch Name	Address
Metro Manila	
ANGONO	Quezon Ave., E. dela Paz St., Angono, Rizal
ARRANQUE	Soler Citiriser Building, 1427 Soler St., Sta. Cruz, Manila
AYALA AVE.	G/F, VGP Center, 6772 Ayala Avenue, Makati City
BAYANAN-MUNTINLUPA	National Road, Bayanan, Muntinlupa City
BETTER LIVING	ABC Bldg., Doña soledad Ave., Better Living Subd., Parañaque City
BINONDO CENTER (MANILA DOWNTOWN OFFI(	Alliance Bldg., 410 Quintin Paredes St., Binondo, Manila
BUENDIA	56 Gil Puyat Ave., (Buendia), Makati City
CALOOCAN	Gen. San Miguel St., Brgy. 4, Zone 1, Sangandaan, Dist. II, Caloocan City
CALOOCAN CENTER (Caloocan)	1716 Rizal Ave. Ext., cor. L. Bustamante St., Caloocan City
CUBAO	cor Gen. Araneta St. and Aurora Blvd., Cubao, Quezon City
DAPITAN	Dapitan St. cor. M. dela Fuente St., Metro Manila
DIVISORIA-Sto. Cristo	Sto. Cristo cor. M. delos Santos Sts., Divisoria, Metro Manila
EARNSHAW	Earnshaw corner Jhocson Sts., Sampaloc, Manila
FELIX AVENUE	F. P. Felix Avenue, Brgy. San Isidro, Cainta, Rizal 1900
J. ABAD SANTOS	Unit B, Dynasty Towers, J. Abad Santos corner Bambang Sts., Manila
KAMUNING	118 Kamuning Road, Quezon City
LAS PIÑAS	#19 Alabang Zapote Road Pamplona II, Las Piñas City
MAIN	G/F PNB Financial Center, Pres. Diosdado Macapagal Blvd., Pasay City
MAKATI CENTER (Head Office)	G/F Allied Bank Center, 6754 Ayala Ave. cor. Legazpi St., Makati City
MAKATI POBLACION	1204 JP Rizal St., corner Angono & Cardona Streets, Makati City
MAKATI-C. PALANCA	GF Unit G1 & G2, BSA Suites, G103 C. Palanca cor. Dela Rosa St., Makati City
MALABON	F. Sevilla Blvd., Brgy. Tañong, Malabon City
MALABON-RIZAL AVE. (MALABON)	701 Rizal Ave., cor. Magsaysay St., Malabon, Metro Manila
MANDALUYONG	471 Shaw Blvd., Mandaluyong City
MARIKINA-A. TUAZON (MARIKINA - MAIN)	Mayor Gil Fernando Ave. (Angel Tuason Ave.), cor. Chestnut St. San Roque, Marikina City
NAVOTAS	865 M. Naval St., Navotas, Metro Manila
NEW MANILA	322 E. Rodriguez, Sr. Blvd., New Manila, Quezon City
NIA	EDSA corner Nia Road, Brgy. Piñahan, Diliman, Quezon City
NOVALICHES-QUIRINO (NOVALICHES)	Quirino Hi-way cor. Sarmiento St., Novaliches, Quezon City
ORTIGAS	G/F, JMT Bldg., ADB Avenue, Ortigas Center, Pasig City
P. TUAZON	279 P. Tuazon Blvd., Cubao, Quezon City
PACO	Pedro Gil cor. Pasaje-Rosario Sts., Paco, Metro Manila
PASAY	2976 Mexico Avenue, Pasay City
PASIG-SHAW	Jade Center Condominium, 105 Shaw Blvd., Pasig City
PETRON MEGA PLAZA	G/F, Petron Mega Plaza Bldg., 358 Sen. Gil Puyat Avenue, Makati City
PLAZA DEL CONDE	San Fernando Towers, Plaza del Conde. Binondo Manila
PROJECT 3 - AURORA BLVD.	1003 Aurora Blvd., cor. Lauan St., Quirino Dist., Quezon City
QUADRANGLE	Unit I Paramount Condominium, EDSA corner West Ave., Quezon City
QUEZON CITY CIRCLE	Elliptical Road cor. Kalayaan Avenue, Diliman, Quezon City
RIZAL AVENUE	rizal avenue corner saturnino herrera st., sta. cruz, manila
SAN LORENZO	G/F, Jackson Bldg., 926 A. Arnaiz Avenue, Makati City
VALENZUELA	313 San Vicente St. corner Mc Arthur Highway, Karuhatan, Valenzuela City
VALENZUELA-MC ARTHUR	101 McArthur Hi-way, Bo. Marulas, Valenzuela City
WACK-WACK	Summit One Tower, Shaw Blvd., Wack-Wack, Mandaluyong City
WEST AVENUE	92 West Ave., Quezon City
WEST TRIANGLE	1396 Quezon Ave., Quezon City

Exhibit I

PHILIPPINE NATIONAL BANK
LIST OF BANK OWNED PROPERTIES
AS OF DECEMBER 31, 2014

Branch Name	Address
Northern Luzon	
AGOO	Verceles St., Consolacion, Agoo, La Union
ALAMINOS	Quezon Avenue, Poblacion, Alaminos City, Pangasinan
ANGELES	730 Sto. Rosario St., Angeles City, Pampanga 2009
APARRI	J.P.Rizal St., Aparri, Cagayan 3515
BAGUIO	51 Session Road,Corner Upper Mabini St., Baguio City
BALANGA	Zulueta St., Poblacion, Balanga, Bataan 2100
BALIUAG	015 Rizal St., San Jose, Baliuag, Bulacan
BANGUED	McKinley corner Peñarrubia Streets, Zone 4, Bangued, Abra , 2800
BANGUED-MAGALLANES	Cor. Taft & Magallanes Sts., Bangued, Abra
BASCO	NHA Bldg., Caspo Fiesta Road Kaychanarianan, Basco, Batanes
BATAC	cor San Marcelino and Concepcion Sts., Batac, Ilocos Norte
BAYOMBONG	JP RIZAL ST., DISTRICT 4, BAYOMBONG, NUEVA VIZCAYA
CABANATUAN	CORNER PACO ROMAN AND DEL PILAR STS., CABANATUAN CITY, NUEVA ECIJA
CANDON	National Highway cor. Dario St., San Antonio, Candon City 2700
CANDON-NATL HI-WAY	National Hi-way, Candon, Ilocos Sur
CAUAYAN	Maharlika Hi-way cor Cabanatuan Rd., Cauayan, Isabela 3305
CONCEPCION	A. Dizon St., San Nicolas, Concepcion, Tarlac 2316
DAGUPAN	A.B. Fernandez Ave., Dagupan City
DAU	MacArthur Highway, Dau, Mabalacat, Pampanga 2010
GAPAN	TINIO STREET, SAN VICENTE, GAPAN CITY, NUEVA ECIJA
GAPAN-POBLACION	Tinio Street, Poblacion, Gapan, Nueva Ecija
GUAGUA	PNB Guagua Bldg., Brgy. Sto. Cristo, Guagua, Pampanga 2003
IBA	1032 R. Magsaysay Ave., Zone I, Iba, Zambales 2201
ILAGAN	Old Capitol Site Calamagui 2, Ilagan City, Isabela 3300
LA UNION	Quezon Ave., City of San Fernando, La Union
LAOAG	BRGY. 10 TRECE MARTIRES ST. CORNER J P RIZAL ST., LAOAG CITY 2900
LINGAYEN	Avenida Rizal East cor. Maramba Blvd., Lingayen, Pangasinan
MALLIG PLAINS	Cor. Don Mariano Marcos Ave. & Bernabe Sts., Roxas, Isabela 3320
MALOLOS	Sto. Niño, Malolos City, Bulacan
MEYCAUAYAN	Mc Arthur Highway, Saluysoy, Meycauayan City, Bulacan
MUÑOZ	D. Delos Santos St. Cor. Tobias St., Science City of Munoz, Nueva Ecija
OLONGAPO	2440 Rizal Ave., East Bajac-Bajac, Olongapo city, Zambales 2200
PANIQUI	M.H. Del Pilar St., corner Mc Arthur Hi-way Paniqui Tarlac
ROSALES	MC Arthur Highway, Carmen East, Rosales, Pangasinan
SAN FERNANDO	A Consunji St., Sto. Rosario, City of San Fernando, Pampanga
SAN FERNANDO - LA UNION	612 Quezon Ave., San Fernando, La Union
SAN JOSE N. ECIJA	Maharlika Hi-way Cor. Cardenas St. San Jose City Nueva Ecija 3121
SANTIAGO	Marcos Highway cor. Camacam St., Centro East, Santiago City, Isabela 3311
SOLANO-MAHARLIKA HI-WAY	Maharlika National Highway, Solano, Nueva Vizcaya
TARLAC	F. Tanedo St., San Nicolas, Tarlac City
TAYUG	PNB Tayug Branch, Zaragoza Street, Poblacion, Tayug, Pangasinan 2445
TUGUEGARAO	Bonifacio St., Tuguegarao City, Cagayan 3500
URDANETA	MC Arthur Highway, Nancayasan, Urdaneta City, Pangasinan 2428
VIGAN	LEONA FLORENTINO ST., VIGAN CITY, ILOCOS SUR 2700

Exhibit I

PHILIPPINE NATIONAL BANK
LIST OF BANK OWNED PROPERTIES
AS OF DECEMBER 31, 2014

Branch Name	Address
Southern Luzon	
BACOOR	KM 17 AGUINALDO HIGHWAY BACOOR CAVITE
BALAYAN	147 Plaza Mabini, Balayan, Batangas
BATANGAS	P. Burgos St., Cor. C. Tirona St., Batangas City
CALAMBA	BURGOS ST., CALAMBA CITY
CALAPAN	J.P.Rizal St. Camilmil, Calapan City, Oriental Mindoro
CANDELARIA	National Road, Poblacion, Candelaria, Quezon
CAVITE	P. BURGOS AVENUE, CARIDAD, CAVITE CITY
DAET	Carlos II St., Brgy, 3, Daet, Camarines Norte
DARAGA	Baylon Compound, Market Site, Rizal St. Daraga, Albay
IRIGA	Highway 1, San Roque, Iriga City, Camarines Sur
KAWIT	Allied Bank Bldg., Gen. Tirona Highway, Binakayan, Kawit, Cavite
LEGASPI	Corner Rizal and Gov. Forbes Sts., Brgy. Baybay, Legaspi City
LIPA	B. Morada Ave., Lipa City, Batangas
LOPEZ	San Francisco St. Talolong Lopez Quezon
LUCENA	Quezon Ave., Brgy IX, Lucena City
MAMBURAO	National Road, Brgy. Payompon, Mamburao, Occidental Mindoro
MANGARIN	Quirino corner M.H. del Pilar Sts. Brgry 6, San Jose, Occidental Mindoro 5100
MASBATE	Quezon St., Brgy. Pating, Masbate City, Masbate
NAGA	Gen. Luna St., Brgy. Abella, Naga City, Camarines Sur
ODIONGAN	#15 J.P. Laurel St., cor M. Formilleza St., Ligaya, Odiongan, Romblon
PUERTO PRINCESA	Valencia St. Cor. Rizal Avenue. Brgy. Tagumpay, Pto Princesa City
PUERTO PRINCESA-RIZAL AVE.	Rizal Ave., Mangahan, Puerto Princesa, Palawan
SAN PABLO	M. Paulino St., San Pablo City, Laguna
SAN PEDRO	KM 30 NATIONAL HI-WAY, SAN PEDRO, LAGUNA
SILANG	166 J.P. RIZAL ST., SILANG, CAVITE
SORSOGON	Rizal St., Sorsogon City
STA. CRUZ	Pedro Guevarra Avenue Brgy. Uno Sta. Cruz, Laguna
TABACO	Ziga Avenue, Cor. Bonifacio St., Tayhi, Tabaco City
TAGAYTAY-AGUINALDO	E. Aguinaldo Hi-way, Tagaytay City, Cavite

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PHILIPPINE NATIONAL BANK
LIST OF BANK OWNED PROPERTIES
AS OF DECEMBER 31, 2014

Branch Name	Address
Visayas	
AMELIA AVENUE	Cor. Amelia and Margarita Sts., Libertad, Bacolod City
ANTIQUE	T. Fornier St., Bantayan, San Jose, Antique 5700
BACOLOD	10th Lacson St., Bacolod City
BACOLOD-ARANETA (Bacolod - Main)	Araneta Ave., near cor. Luzuriaga St., Bacolod City, Negros Occidental
BACOLOD-LOCSIN	Barcel's Bldg., Locsin St., Bacolod City, Negros Occ.
BAYAWAN	National Highway cor Mabini St., Brgy. Suba, Bayawan City
BAYBAY-MAGSAYSAY	148 R. Magsaysay Ave., Baybay, Leyte
BINALBAGAN	Don Pedro R. Yulo St., Binalbagan, Negros Occidental 6107
BORACAY	Branch - Bgy. Balabag, Boracay Island, Malay, Aklan
BORONGAN	Real St., Brgy Songco, Borongan City, Samar
CADIZ	Cor Luna and Cabahug Sts., Cadiz City, Negros Occidental 6121
CALBAYOG	Maharlika Highway, Brgy Obrero, Calbayog City, Leyte
CATARMAN	Cor. Jacinto & Carlos P Garcia St., Brgy Narra, Catarman, Nothern Samar
CATBALOGAN	Imelda Park Site, Catbalogan, Western Samar 6700
CATBALOGAN-DEL ROSARIO	Del Rosario St. cor. Allen Ave., Catbalogan, Samar
CEBU	Corner M.C. Briones and Jakosalem Streets, Cebu City
DANAO (Cebu - DANAO)	Beatriz VIII & Juan Luna St., Cebu City
DUMAGUETE	Siliman Avenue cor Real St., Dumaguete City, Negros Occidental
DUMAGUETE – LOCSIN	33 Dr. V. Locsin St., Dumaguete City, Negros Oriental
ILOILO	Cor. Gen Luna & Valeria Street, Iloilo City
ILOILO-LEDESMA	Ledesma cor. Quezon Sts., Iloilo City
JAKOSALEM (CEBU - JAKOSALEM)	D. Jakosalem cor. Legaspi Sts., Cebu City
KABANKALAN	NOAC National Highway cor Guanzon St., Kabankalan City
KALIBO	0508 G. Pastrana St., Kalibo, Aklan
LAPU-LAPU *	Manuel L. Quezon National Highway, Pajo, Lapulapu City
LARENA	Roxas St., Larena, Siquijor
LUZURIAGA	Cor Luzuriaga and Araneta Sts., Bacolod City
MAASIN	Cor. Allen & Juan Luna St., Brgy. Tunga-tunga, Maasin City, Leyte
NAVAL	Cor. Caneja & Ballesteros Sts., Naval, Biliran Province 6543 ,Leyte
ORMOC	Cor. Cata-ag & Bonifacio Sts., Ormoc City, Leyte
PASSI	5037 F. Palmares Street, Passi City, Iloilo (beside St. William Parish Church).
PLAZA LIBERTAD	JM Basa Street, Iloilo City 5000
POTOTAN	Guanco St., Pototan, Iloilo
ROXAS	Cor. CM Recto & G. Del Pilar Streets, Brgy. III, Roxas City, Capiz 5800
ROXAS DOWNTOWN	Roxas Ave., Roxas City, Capiz
SAN CARLOS	V. Gustilo St., San Carlos City
SILAY	Rizal St., Silay City
TACLOBAN	Cor. Sto. Niño & Justice Romualdez Sts., Tacloban City, Leyte 6500
TACLOBAN-ZAMORA	Zamora St, Tacloban City, Leyte
TAGBILARAN	C. P. Garcia Ave. cor. J. A. Clarin St., Poblacion, Tagbilaran City, Bohol
TANJAY	Magallanes cor. E. Romero Sts (formerly Lopez Jaena), Tanjay City, Negros Or.
TOLEDO	Rafols St., Poblacion, Toledo City, Cebu
TUBIGON	Corner Cabangbang Avenue & Jesus Vaño Street, Centro, Tubigon, Bohol, Philippines
VICTORIAS	Cor. Ascalon and Montinola Sts., Victorias City

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PHILIPPINE NATIONAL BANK
LIST OF BANK OWNED PROPERTIES
AS OF DECEMBER 31, 2014

Branch Name	Address
Mindanao	
AGUSAN DEL SUR	Roxas St., Brgy 4, San Francsico, Agusan del Sur
BASILAN	Strong Blvd., Isabela, Basilan
BASILAN-ROXAS	Roxas Ave., Sta. Cruz, Isabela, Basilan
BISLIG	Cor. Abarca & Espiritu Sts., Mangagoy, Bislig, Surigao del Sur
BUTUAN	Montilla Blvd., Brgy. Dagohoy, Butuan City, Agusan del Norte
BUUG	National Highway, Poblacion, Buug, Zamboanga, Sibugay
CAGAYAN DE ORO	Corrales Ave., cor. T. Chavez St., Cagayan de Oro City, Misamis Oriental
CDO-COGON	JP Borja cor. V. Rosa Sts., CDO City, Misamis Oriental
CDO-DIVISORIA	Tiano Brothers cor., Cruz Taal Sts., CDO City
CDO-LAPASAN	Lim Ket Kai Development Center, CDO City, Misamis Oriental
COTABATO	39 Makakua St., Cotabato City, Maguindanao
COTABATO-DOROTHEO	Alejandro Dorotheo St. (formerly Jose Lim Sr.) cor. Corcuera St., Cotabato City, No. Cot.
DAVAO	San Pedro St., cor. C.M. Recto St., Davao City, Davao del Sur
DAVAO-CM RECTO	G/F Imperial Hotel, CM Recto St., Davao City, Davao
DAVAO-SAN PEDRO	San Pedro St., Davao City
DIGOS	Quezon Avenue, Digos, Davao del Sur
DIPOLOG	Gen. Luna St. cor. C.P. Garcia Sts., Dipolog City, Zamboanga del Norte
GENERAL SANTOS	City Hall Dr. Osmena St., General Santos City, South Cotabato
GINGOOG	National Highway, Brgy. 23, Gingoog City, Misamis Oriental
ILIGAN	Cor. Gen. Aguinaldo & Labao Sts., Poblacion, Iligan City, Lanao del Norte
IPIL	National Hi-way, Poblacion, Ipil, Zamboanga Sibugay
JOLO	Serantes St., Jolo, Sulu
JOLO-AROLAS	Serrates St., Jolo, Sulu
KIDAPAWAN	Quezon Blvd., Kidapawan City, North Cotabato
KORONADAL	Morrow St., Koronadal, South Cotabato
KORONADAL-POBLACION	Gen. Santos Drive Zone, Poblacion, Koronadal, South Cotabato
LIMKETKAI CENTER	Limketkai Center, Lapasan, Cagayan de Oro City, Misamis Oriental
MAMBAJAO	Cor. Gen. Aranas & Burgos Sts., Brgy. Poblacion, Mambajao, Camiguin
MARANDING	Maranding, Lala, Lanao del Norte
MARAWI	Perez St., Poblacion, Marawi City, Lanao del Sur
MATI	Rizal Ext., Brgy. Central, Mati, Davao Oriental
MIDSAYAP	Quezon Avenue, Midsayap, North Cotabato
MOLAVE	Mabini St., Molave, Zamboanga del Sur
OROQUIETA	Sen. Jose Ozamis St., Lower Lamac, Oroquieta City, Misamis Occidental
OZAMIS	Rizal Ave., Aguada, Ozamis City, Misamis Occidental
PAGADIAN	Rizal, Ave., Balangasan District, Pagadian City, Zamboanga del Sur
PAGADIAN-PAJARES	F.S. Pajares St., cor Cabrera Sts., San Francisco District, Pagadian City, Zamboanga Del Sur
S. K. PENDATUN	near corner S. K. Pendatun St. & Quezon Ave., Cotabato City
SURIGAO	45 Rizal St., Brgy. Washington, Surigao City, Surigao del Norte
TACURONG	Alunan Drive, Poblacion, Tacurong, Sultan Kudarat
TAGUM	Rizal St., Magugpo, Poblacion, Tagum City, Davao del Norte
TANDAG	Napo, National Highway, Tandag, Surigao del Sur
TAWI-TAWI	Bagay St., Poblacion, Bongao, Tawi-Tawi
TAWI-TAWI-BONGAO	Datu-Halun St., Bongao, Tawi-Tawi
ZAMBOANGA	J.S. Alano St., Zamboanga City, Zamboanga del Sur
ZAMBOANGA- SUCABON	Mayor MS Jaldon St., Zamboanga City, Zamboanga del Sur

PHILIPPINE NATIONAL BANK
LIST OF BRANCHES UNDER LEASE
AS OF DECEMBER 31, 2014

Branch Name	Address	Monthly Rent (in Pesos)	Expiration of Lease
Metro Manila			
168 MALL	Unit 3S-04, 3rd Floor 168 Shopping Mall, Sta. Elena, Soller Sts., Binondo, Manila	146,902.61	09/30/2016
A. BONIFACIO	789 A. Bonifacio Ave., cor. Galino St., Balintawak, Quezon City	107,158.65	05/14/2014
ACROPOLIS	90 E. Rodriguez Jr. Avenue, Barangay Bagumbayan, Quezon City, (formerly 251 E. Rodriguez Jr., Ave., Lil	170,748.24	10/31/2015
ADRIATICO	G/F Pearl Garden Hotel, 1700 M. Adriatico cor. Malvar Sts., Malate, Manila	221,207.10	06/30/2014
AGUILAR AVENUE-LAS PIÑA	G/F Las Pinas Doctors' Hospital, Aguilar Ave., Citadella Subd., Las Pinas City	150,741.54	03/14/2016
AGUIRRE	G/F RICOGEN Bldg., 112 Aguirre St., Legaspi Village, Makati City	119,142.01	09/25/2014
Alabang	G/F Page 1 Building 1215 Acacia Avenue Madrigal Business Park, Ayala Alabang, Muntinlupa	191,290.64	05/15/2017
ALABANG - LAS PINAS	Don Mariano Lim Industrial Compound, Alabang Zapote Rd., cor. Concha Cruz Rd., Las Pinas City	95,000.00	12/31/2017
Ali Mall	Alimall ll Bldg., Gen. Romulo Ave., cor P. Tuazon Blvd., Cubao, Quezon City	94,190.00	12/31/2014
Almanza	Hernz Arcade, Alabang-Zapote Road, Almanza, Las Piñas City 1750	141,003.71	03/31/2018
AMORSOLO	Don Pablo Building, 114 Amorsolo St., Legaspi Village, Makati City	under nego	07/31/2013
ANNAPOLIS	Annapolis Tower, 43 Annapolis St., Greenhills, San Juan, Metro Manila	125,000.00	03/01/2018
Antipolo	89 P. Oliveros St., Kapitoloyo Arcade, San Roque, Antipolo City, Rizal	57,828.77	12/31/2014
ANTIPOLO-CIRCUMFERENTIA	Circumferential Road, Quezon Ave., Antipolo, Rizal	9,000.00	04/21/2016
AURORA BLVD-KATIPUNAN	Aurora Blvd., (near PSBA), Bgy. Loyola Heights, Quezon City	36,750.00	11/15/2014
BALIC-BALIC	AGB Bldg., 1816 G. Tuason cor. Prudencio Sts., Balic-Balic, Sampaloc, Manila	under nego	03/31/2013
BAMBANG-MASANGKAY	G/F ST Condominium, 1480 G. Masangkay St., Sta. Cruz, Manila	133,705.69	02/29/2016
BANAWE	Banawe Fortune Center, Banawe cor. Quezon. Avenue, Quezon City	45,943.55	12/31/2013
BANAWE-N. ROXAS	Prosperity Bldg. 395 Banawe cor. N. Roxas Street, Quezon City	204,111.71	12/31/2014
Bangkal	G/F E. P. Hernandez Bldg., 1646 Evangelista St., Bangkal, Makati City	103,439.82	11/01/2017
Batasang Pambansa	Main Entrance, Batasan Pambansa Complex, Constitutional Hills, Quezon City	-	02/12/2017
Bel-air Makati	52 Jupiter St., Bel-Air, Makati City	27,040.67	12/31/2020
BELLEVUE - FILINVEST	North Bridgeway, Filinvest Corporate City, Alabang, Muntinlupa City(effective Aug 14, 2009)	183,336.63	07/31/2014
Benavidez	Unit G-1D, G/F BSA Mansion, 108 Benavidez St., Legaspi Village, Makati City	104,987.00	06/15/2016
BF HOMES	43 President's Ave., BF Homes, Paranaque City		1/
BF HOMES – PHASE 3	CFB Building, 322 Aguirre Avenue, BF Homes, Paranaque		
BF Homes -Aguirre Avenue	47 Aguirre Ave. corner Tirona St., B.F. Homes, Parañaque City 1718	92,059.84	08/01/2017
Bicutan	VCD Building, 89 Doña Soledad Avenue Betterliving Subdivision, Bicutan Parañaque City	71,368.08	05/24/2016
BICUTAN WEST SERVICE RO	Km. 16, West Service Road, South Super Highway, Bicutan, Paranaque	52,500.00	12/31/2017
Binondo	452 San Fernando St. cor. Elcano St., Binondo, Manila	14,116.67	12/31/2016
Blumentritt	Citidorm Blumentritt, 1848 Blumentritt corner Leonor Rivera Sts., Sta. Cruz, Manila	107,052.12	11/30/2019
BLUMENTRITT-RIZAL AVE. E	2229-2231 Rizal Avenue (between Batangas & Laguna Sts.), Blumentritt, Sta. Cruz, Manila	84,000.00	12/31/2017
BONI AVENUE	654 Boni Ave., Mandaluyong City	122,652.02	12/31/2016
Bonifacio global City	Shop 2, The Luxe Residences 28th St., cor 4th Ave., Bonifacio Global City, Taguig	348,301.94	11/30/2019
BSP Sub Unit	Ground Floor Cafetorium Building, BSP Complex, A. Mabini cor. P. Ocampo Sts. Malate, Manila	229,044.48	06/30/2015
C. PALANCA	C. Palanca cor Quezon Boulevard, Quiapo Manila		1/
Cainta	RRCG Transport Bldg., Km. 18 Ortigas Avenue Extension, Brgy. San Isidro, Cainta, Rizal	77,315.42	10/26/2016
CAINTA -FELIX AVE.	G/F Arellano Bldg., Felix Ave., cor. Village East Ave., Cainta, Rizal	53,765.08	02/15/2017
Caloocan-A.Mabini	451 A. Mabini corner J. Rodriguez St., Caloocan City	95,582.25	02/01/2018
Cartimar-Taft	SATA Corp. Bldg., 2217 Taft Avenue, Pasay City	117,757.00	10/15/2019
CENTURY PARK	G/F Century Park Hotel, P. Ocampo (Vito Cruz Ext.) cor. M. Adriatico Sts., Malate, Manila	170,721.71	02/28/2014
CHINO ROCES AVENUE EXT.	G/F G&A Building, 2303 Chino Roces Ave Extension (Pasong Tamo Ext), Makati City (07/18/2011)	94,512.09	05/15/2016
CM Recto	Unit 6 & 7 PSPCA 2026-2028 C.M Recto Ave., Quiapo, Manila	127,938.91	03/31/2015
COA	COA Building, Commonwealth Avenue, Quezon City	74,438.72	12/31/2018
Commonwealth	G/F, LC Square Bldg., 529 Commonwealth Avenue., Quezon City	84,138.26	12/01/2019
CONGRESSIONAL	149 Congressional Ave., Project 8, Quezon City	113,644.45	04/19/2017
CUBAO-HARVARD	SRMC Bldg. 901 Aurora Blvd. Cor Harvard & Stanford Sts., Cubao, Quezon City	100,000.00	09/30/2013
Dapitan-Gelinos	G/F, Maceda Place Bldg., Laong-Laan cor. Maceda St., Sampaloc, Manila	97,334.50	07/30/2019
Dasma-Makati	2284 Allegro Center, Chino Roces Avenue Extension, Makati City	122,484.83	10/31/2015
DEL MONTE	Relocated to 116 Del Monte Ave., QC (Old Site 131 Del Monte Ave., cor. D. Tuazon St., Quezon City)	126,181.13	07/31/2016
Delta	101-N dela Merced Bldg., West Avenue corner Quezon Avenue, Quezon City	117,904.53	08/31/2016
Divisoria	869 Sto. Cristo St., Binondo, Manila	504,000.00	09/07/2015
DIVISORIA MARKET	Unit 14 & 15, New Divisoria Mall, Calle Commercio & Tabora Sts., Divisoria, Metro Manila	25,272.35	02/28/2015
DIVISORIA-JUAN LUNA	CK Bldg., 750 Juan Luna St., Binondo Manila	130,277.25	03/31/2015
DOMESTIC AIRPORT	G/F PAL Data Center, Domestic Road, Pasay City	21,272.70	12/31/2011
DON ANTONIO HEIGHTS	G/F Puno Foundation Bldg., Holy Spirit Drive, Don Antonio Heights, Quezon City		1/
E. Rodriguez Sr. Ave. - Banaue	97 ECCOI Building, E. Rodriguez Sr. Avenue, Brgy. Tatalon, Quezon City 1102	57,933.50	08/31/2016
E. RODRIGUEZ SR. AVENUE	1706 E. Rodriguez Ave., Cubao, QC	97,655.47	05/31/2016
E. RODRIGUEZ-G. ARANETA	599 Araneta Ave. cor. E. Rodriguez Ave.,Quezon City	36,750.00	08/31/2014
Eastwood City	MDC 100 Building, Mezzanine Level, Unit M3, E. Rodriguez, Jr. Ave., corner Eastwood Ave., Brgy. Bagur	267,474.54	11/11/2018
Edison-Buendia	Visard Bldg, #19 Sen. Gil Puyat Ave., Makati City	70,430.32	02/07/2016
EDSA EXTENSION	235 EDSA Extension corner Loring St., Pasay City	112,185.15	05/28/2014
EDSA Roosevelt	1024 Global Trade Center Bldg., EDSA, Quezon City	201,442.41	01/31/2019
EDSA-BALINTAWAK	337 - 339 EDSA Cor. Don Vicente Ang St., Caloocan City	87,846.00	06/10/2014
EDSA-CALOOCAN	Insular Life Bldg., EDSA B. Serrano St., Caloocan City	71,483.34	07/31/2014

Branch Name	Address	Monthly Rent (in Pesos)	Expiration of Lease
EDSA-ETON CYBERPOD CEN	One Cyberpod Centris, G/F Eton Centris, EDSA cor. Quezon Avenue, Quezon City, MM	107,924.80	02/28/2015
ELCANO	706-708 Elcano St, Manila	109,395.30	11/30/2017
Ermita	1343 A. Mabini Street, Ermita, Manila	147,392.78	09/30/2016
ERMITA-U.N.	Physician's Tower, 533 U.N. Avenue, cor. San Carlos Sts., Ermita, Manila	144,427.50	01/31/2018
Escolta	# 324 G/F Regina Bldg., Escolta, Manila	184,063.40	09/30/2015
España	Unit 104, St. Thomas Square, 1150 España Blvd., cor Padre Campa St., Sampaloc East, Manila	73,483.55	06/15/2018
ESPAÑA-WELCOME ROTOND	Dona Natividad Bldg., Espana-Quezon Blvd., Rotonda, Quezon city	59,082.66	02/28/2013
Eton-Corinthian	Unit 78 E-Life, Eton Cyberpod Corinthian, EDSA cor. Ortigas Ave., Brgy. Ugong Norte, Quezon City	117,384.55	03/14/2015
Ever Gotesco	Lower G/F, Stall No. 20, Ever Gotesco Commonwealth, Quezon City	190,425.87	03/06/2015
Fairview	No. 41, Regalado Ave., West Fairview, Quezon City	103,364.77	05/30/2016
FAIRVIEW-COMMONWEALTH	70 Commonwealth Ave., Fairview Park Subd., Fairview, Quezon City	79,000.00	03/31/2018
FILINVEST AVENUE	BC Group Center, Filinvest Avenue & East Asia Drive, Filinvest Corporate City, Muntinlupa City	172,091.46	01/15/2017
Fort Bonifacio-Infinity	G/F 101, The Infinity Tower, 26th Street, Fort Bonifacio, Taguig City	254,036.38	05/15/2016
Fort Bonifacio-McKinley Hill	G/F Unit B, Mc Kinley Hill 810 Bldg. Upper McKinley Road, McKinley Town Center, Fort Bonifacio, Tag	403,080.42	04/07/2016
Frisco	Unit E/F, MCY Bldg. No. 136 Roosevelt Ave., SFDM, Quezon City	47,218.06	10/18/2019
FRISCO-SFDM	972 Del Monte Ave., corner San Pedro St., SFDM, Quezon City	82,687.50	01/23/2018
FTI	Lot 55, G/F Old Admin Bldg., FTI Complex,Taguig City	117,564.97	06/30/2019
G. ARANETA	1-B G. Araneta Ave., Quezon City	98,398.13	05/10/2014
Galas	20 A. Bayani St., corner Bustamante, Galas, Quezon City	98,913.94	05/31/2016
GEN. T. DE LEON	4024 Gen. T. De Leon St., Barangay Gen. T. De Leon, Valenzuela City	61,740.00	07/31/2016
Gil Puyat	G/F Burgundy Corporate Tower, #252 Sen. Gil Puyat Ave., Makati	236,749.71	05/14/2016
Gilmore	Gilmore IT Center No. 08, Gilmore Ave., cor 1st St., New Manila, Quezon City	19,075.89	12/31/2014
GOV. PASCUAL	19 Gov. Pascual St., Acacia, Malabon City	38,783.21	06/15/2013
Grace Park	354 A-C 10th Ave., Grace Park, Caloocan City	98,354.14	05/31/2019
GRACE PARK-3RD AVENUE	128 Rizal Avenue Ext.,Between 2nd and 3rd Avenue,Grace Park, Caloocan City	92,610.00	10/31/2016
GRACE PARK-7TH AVE.	322 Rizal Ave. Ext. near cor. 7th Ave., Grace Park, Caloocan City	77,175.00	08/15/2017
GRACE VILLAGE	G/F TSPS Condominium Bldg., Christian cor. Hope Sts., Grace Village, QC	102,718.34	12/31/2016
GRANADA	Xavier Hill Tower 1, Granada cor. N. Domingo Sts., Quezon City	121,869.85	02/28/2015
GREENBELT	G/F The Charter House 114 Legaspi Street, Makati City	92,386.74	09/30/2013
Greenhills	G/F, One Kennedy Place, Club Filipino Drive Greenhills, San Juan City	204,331.60	03/15/2015
GREENHILLS CENTER	G/F Limketkai Bldg., Ortigas Ave., Greenhills, San Juan, MM	312,987.65	06/18/2013
GSIS	Level 1 GSIS Bldg., Financial Center, Roxas Blvd., Pasay City	128,299.16	05/31/2018
Guadalupe	Pacmac Bldg., 23 EDSA Guadalupe, Makati City	80,187.12	09/01/2017
Harrison Plaza	RMSC Bldg., M. Adriatico St., Malate, Manila		1/
Intramuros	G/F Marine Teachnology Bldg. Cor.A Soriano Ave. & Arzobispo Sts., Intramuros,Manila	176,269.55	06/30/2019
INTRAMUROS-CATHEDRAL	707 Aduana cor Cabildo Shipping Center Condominium, Intramuros, Manila	91,947.18	11/30/2014
J. P. LAUREL	G/F Gama Bldg., J. P. Laurel cor. Minerva Sts., San Miguel, Manila	107,100.00	02/28/2015
JADE-ORTIGAS	Unit G-04 Antel Global Corporate Center, Jade Drive, Ortigas Center, Pasig City	118,355.58	02/29/2016
Juan Luna	451 Juan Luna St., Binondo, Manila	98,485.20	09/30/2015
KAMIAS	Topaz Building, 99-101 Kamias Road, Kamias, Quezon City	90,235.34	05/31/2014
Kapasigan	Emiliano A. Santos Bldg., A. Mabini cor. Dr. Sixto Antonio Ave., Pasig City	140,872.40	09/30/2015
Katipunan	335 Agcor Bldg., Katipunan Ave., Loyola Heights, Quezon City	176,223.18	12/31/2016
KATIPUNAN-ST. IGNATIUS	G/F Linear Building, Katipunan Road, Quezon City	126,000.00	03/05/2013
Lagro	BDI Center Inc., Lot 33, Blk. 114, Regalado Ave., Greater Lagro, Quezon City	152,937.04	09/15/2018
LAGRO-QUIRINO	Quirino Ave., Lagro, Quezon City	96,034.58	06/30/2014
LAS PIÑAS-ALMANZA	Consolidated Asiatic Proj., Inc. Bldg., Alabang-Zapote Road, Bgy. Almanza, Las Pinas City	144,257.40	03/31/2017
Legaspi Village	First Life Center 174 Salcedo St., Legaspi Village, Makati City	156,425.80	10/15/2019
Leon Guinto	G/F Marlow Bldg. 2120 Leon Guinto St., Malate Manila	169,377.01	07/15/2015
Luneta	Nat'l. Historical Institute (NHI) Cmpd.,T.M. Kalaw St.,Ermita, Manila	40,000.00	04/26/2018
MALINTA	G/f M@M Building, 407 Mac Arthur Highway, Malinta, Valenzuela City.	88,853.51	08/31/2015
MANDALUYONG-SHAW	2 Acacia Lane corner Shaw Boulevard and Pinagtipunan Sts, Mandaluyong City (effective 07/24/2009)	109,974.38	06/15/2014
Marikina	Shoe Ave. corner W. Paz St., Sta. Elena, Marikina City 1800	199,843.00	11/13/2015
MARIKINA - CONCEPCION	Bayan-bayanan Ave. cor. Eustaquio St., Concepcion, Marikina, Metro Manila	154,350.00	06/30/2017
MARIKINA - STA. ELENA	314 J. P. Rizal St., Bgy. Sta. Elena, Marikina City	72,930.38	07/31/2013
Marulas	8 AGS Bldg., Mc Arthur Highway, Marulas, Valenzuela City	37,170.88	06/14/2016
MASANGKAY	916 Masangkay St. Binondo Manila	133,100.00	11/30/2013
Masinag	Silicon Valley Bldg., 169 Sumulong Highway, Mayamot, Antipolo City	70,839.05	12/31/2016
MASINAG-SUMULONG	241 Sumulong Highway, Mayamot, Masinag, Antipolo City	80,405.74	02/28/2015
MATALINO	Tempus I Bldg., Matalino St., Diliman, Quezon City	82,640.81	06/30/2014
METROPOLITAN AVENUE (Pa	Unit 102, BUMA Building, 1012 Metropolitan Avenue, San Antonio Village, Makati City	154,430.07	09/30/2015
MINDANAO AVENUE (Tandan	Yrreverre Square Building, 888 Mindanao Ave., Brgy. Talipapa, Novaliches, QC ///	77,390.52	06/30/2016
MONTALBAN	San Jose Highway corner Midtown Subdivision, Rodriguez, Rizal	69,457.50	05/31/2016
Monumento	419 D&I Bldg., EDSA, Caloocan City	9,333.33	06/30/2017
MORAYTA	Consuelo Building, 929 N. Reyes St., (Formerly Morayta), Sampaloc, Manila	134,505.00	07/31/2017
Muntinlupa	G/F Arbar Building, National Highway, Poblacion Muntinlupa City	90,994.30	06/18/2019
MWSS	MWSS Compound, Katipunan Road, Balara, Quezon City	102,790.33	12/31/2016
N.S. AMORANTO	Unit 103, “R” Place Building, 255 N.S. Amoranto Sr. Avenue, Quezon City	for reloc	
Naga Road - Las Piñas	Lot 2A, Naga Road corner DBP Extension, Pulang Lupa Dos, Las Piñas City	42,460.50	04/12/2022
NAIA	Arrival Area Lobby, NAIA Complex, Pasay City	monthly basis	
NAIA 3	Arrival Area Lobby, NAIA Terminal 3 Complex, Pasay City 1300	60,000.00	12/31/2014
NAIA I	Departure Area, NAIA Terminal Bldg., Imelda Ave., Paranaque, Metro Manila	33,917.57	11/30/2011
NAIA II	NAIA Centennial Terminal II Northwing Level Departure Intl.,Bldg., Pasay City	21,400.00	08/05/2012
Navotas - Fish Port	Bulungan cor Daungan Ave., Navotas Fish Port Complex, North Bay Boulevard South, Navotas City	31,198.06	03/15/2023
NFA	SRA Building, Brgy. Vastra, North Avenue, Quezon City	37,265.92	06/01/2016
NORTH BAY	511 Honorio Lopez Blvd., Balut, Tondo, Manila	33,178.70	10/31/2015
Novaliches	513 Quirino Highway, Talipapa, Novaliches, Quezon City	45,063.00	02/24/2015
NPC	Agham Road, Diliman, Quezon City	193,949.66	11/25/2018
ONGPIN	917 Prestige Tower Condominium, Ongpin St., Sta Cruz, Manila	140,475.44	04/18/2014
ORTIGAS CENTER-GARNET	Unit 104, Taipan Place, Emerald Avenue, Ortigas Center, Pasig City	121,275.00	10/15/2017
OYSTER PLAZA	Unit D1, Oyster Plaza Bldg., Ninoy Aquino Ave., Metro Manila	72,930.38	10/31/2015

Branch Name	Address	Monthly Rent (in Pesos)	Expiration of Lease
PADRE FAURA	PAL Learning Center Bldg., 540 Padre Faura cor. Adriatico Sts., Ermita, Manila	86,908.70	06/30/2012
PADRE RADA	RCS Bldg., Padre Rada St., Tondo, Manila	126,813.02	10/31/2014
PAMPLONA	Alabang Zapote Road, Pamplona, Las Pinas City	99,225.00	02/07/2018
Pandacan	Jesus Street, Cor. T. San Luis, Pandacan, Manila	59,521.57	10/31/2015
PARANG-MARIKINA	105 BG Molino St., Parang, Marikina	86,821.88	06/30/2014
PASAY-EDSA	765 EDSA, Malibay, Pasay City	89,250.00	09/14/2013
PASAY-LIBERTAD	P. Villanueva St., Libertad, Pasay City	84,892.50	12/31/2014
PASAY-TAFT	2482 Taft Avenue, Pasay City	168,000.00	01/31/2018
Pasig	G/F, Westar Bldg., 611 Shaw Blvd., Pasig City 1600	161,142.72	09/30/2017
PASIG-ORTIGAS EXT.	Ortigas Ave., Rosario, Pasig City	99,220.97	08/31/2013
PASIG-RIVERSIDE	CTIP Compound, Ortigas Avenue Extension, Rosario, Pasig City	97,240.50	06/30/2015
Pasig-Santolan	Amang Rodriguez Ave., Brgy. Dela Paz, Santolan, Pasig City	112,781.36	12/07/2018
PASO DE BLAS	292 Paso de Blas, Valenzuela, Metro Manila	95,166.50	05/31/2014
PASONG TAMO	2233 Pasong Tamo Ave., Makati City	107,625.00	06/30/2014
PGH	PGH Compound, Taft Avenue, Ermita Manila	384,055.33	12/31/2014
Pioneer	G/F Bldg. B. Guerrero Complex, 123 Pioneer St., Mandaluyong City	148,768.44	04/14/2019
Plaza Sta. Cruz	740 Florentino Torres St., Sta. Cruz, Manila 1003	175,106.77	11/30/2022
Port Area	G/F Bureau of Customs Compound, , South Harbor, Port Area, Manila	102,447.92	11/23/2018
Pritil	MTSC Bldg., Juan Luna cor.Capulong Ext., Tondo, Manila 1012	115,000.00	10/31/2015
Project 8	Mecca Trading Bldg., Congressional Avenue., Project 8, Quezon City	87,166.67	06/01/2016
QUIAPO	516 Evangelista near Ronquillo St., Quiapo, Metro Manila	132,490.18	02/15/2014
REINA REGENTE (T. Mapua)	1067 Felipe II St., (near corner Reina Regente), Binondo, Manila	69,457.50	05/31/2016
REMEDIOS	Unit G07 Ground Floor, Royal Plaza Twin Towers, 648 Remedios cor. Ma. Orosa Sts., Malate, Manila	97,240.50	08/31/2015
Retiro	422 N.S. Amoranto St., Edificio Enriqueta Bldg., Sta. Mesa Heights, Quezon City	164,791.15	04/15/2018
ROCES AVENUE	54 Alejandro Roces Ave., Quezon City	36,750.00	08/31/2014
Rockwell Center	Stall No. RS-03, G/F Manansala Tower, Estrella St., Rockwell Center, Makati City	106,431.36	05/30/2015
ROOSEVELT	256 Roosevelt Ave., San Francisco del Monte, Quezon City	127,338.75	04/30/2014
Rosario-Pasig	Unit 117-118, G/F Ever Gotesco Mall, Ortigas Extension, Pasig City	196,573.43	06/30/2016
Roxas Blvd.	Suite 101, CTC Building 2232 roxas Boulevard, Pasay City	136,088.40	02/28/2017
Salcedo Village	G/F LPL Mansions Condominium, 122 L.P. Leviste St., Salcedo Village, Makati City 1227	170,232.36	05/19/2016
SALCEDO-DELA COSTA	Classica Towers, 114 HV dela Costa St., Salcedo Village, Makati City	58,983.75	09/30/2014
SAMSON ROAD	149 Samson Road corner P. Bonifacio St. Caloocan City	69,457.50	01/31/2014
SAN ANDRES	Linao Street, San Andres, Metro Manila	102,876.48	07/31/2014
San Juan	213 F. Blumentritt St. cor. Lope K. Santos, San Juan City	28,511.07	03/01/2018
SAN LORENZO-ARNAIZ	GF Power Realty Bldg., 1012 A. Arnaiz Avenue, Makati City	73,500.00	06/30/2014
SAN MATEO	19 Gen. Luna St., Banaba, San Mateo, Rizal	47,462.63	10/31/2016
SAN NICOLAS	Gedisco Tower, 534 Asuncion St., San Nicolas, Manila City	157,493.60	03/31/2014
Shangri-la Plaza	Unit AX 116 P3 Carpark Bldg., Shangri-la Annex Plaza Mall, Edsa Corner Shaw Blvd., Mandaluyong City	137,974.05	09/30/2015
Shaw Blvd - Princeton	G/F, Sun Plaza Bldg., 1505 Princeton St. cor. Shaw Blvd., Mandaluyong City	179,354.00	05/30/2017
SHAW BLVD.	Starmall Shaw Blvd., EDSA, Mandaluyong City	102,101.10	07/31/2015
SSS Diliman	G/F, SSS Building., East Avenue Diliman, Quezon City	190,965.82	01/31/2017
Starmall Alabang	Upper Ground Level, Starmall Alabang, South Superhighway, Alabang Muntinlupa City, 1770	69,615.84	01/01/2016
Sucat	G/F Kingsland Bldg., Dr. A. Santos Avenue Sucat, Parañaque	160,199.99	10/31/2020
SUCAT-EVACOM	AC Raftel Center, 8193 Dr. A. Santos Ave., Sucat, P'que City	158,015.81	05/30/2014
T. ALONZO	T. Alonzo cor. Ongpin Sts., Sta. Cruz, Manila	162,750.00	03/31/2015
Taft - Malate	Marc 1 Building 1973 Taft Avenue, Malate , Manila 1004	99,303.75	06/17/2016
TAFT AVENUE	G/F One Archers' Place, Taft Avenue, Malate, Manila (new site effective 01/10/2011)	109,088.04	01/31/2016
Tanay	Tanay New Public Market Road, Brgy. Plaza Aldea, Tanay, Rizal	44,000.00	10/30/2017
Tandang Sora	102 cor. San Miguel Village and Tandang Sora Ave., Brgy. Pasong Tamo, Quezon City	61,600.00	09/01/2016
Taytay	Ilog Pugad National Road, Brgy. San Juan, Taytay, Rizal	87,000.00	03/04/2016
THE FORT-BURGOS CIRCLE	Unit GF-4, The Fort Residences, 30th St. cor. 2nd Avenue, Padre Burgos Circle, Bonifacio Global City, Tag	172,091.46	11/30/2017
Timog	G/F, Newgrange Bldg., 32 Timog Ave., Brgy. Laging Handa, Quezn City	96,768.00	11/14/2016
TONDO	1941-43 Juan Luna St., Tondo, Manila	103,318.03	10/31/2017
TUTUBAN	G/F & Podium Level, Prime Block Mall, Tutuban Center, Divisoria, Manila	94,737.12	06/14/2014
Tutuban-Abad Santos	1450-1452 Coyuco Bldg., Jose Abad Santos, Tondo, Manila	52,435.82	08/31/2016
U. E. RECTO	G/F Dalupan Bldg., Unversity of the East Campus, Claro M. Recto Ave., Manila		1/
U.N. Avenue	G/F UMC Bldg., 900 U.N. Avenue, Ermita, Manila	71,930.43	11/30/2017
UNITED PARAÑAQUE	Iba cor. Malugay Sts., East Service Road, Bgy. San Martin de Porres, United Pque., Pque. City	-	09/22/2012
UP Campus	No. 3 Apacible St., UP Campus, Diliman, Quezon City 1101	463,400.00	12/31/2014
Uratex - East Service Road	Uratex Bldg., Km. 23, East Service Road, Barangay Cupang, Muntinlupa City	63,870.86	10/31/2018
Villamor Air Base	G/F Airmens Mall Bldg. cor Andrews & Sales sts. Villamor Air Base, Pasay City	16,350.00	12/01/2014
VISAYAS-CONGRESSIONAL	RTS Building, 22 Congressional Ave.near corner Visayas Ave., Quezon City	95,206.79	03/15/2016
VITO CRUZ	550 Pablo Ocampo St.(formerly Vito Cruz Ext.), Malate, Manila	91,350.00	08/31/2014
ZABARTE - QUIRINO HI-WAY	1131 Quirino Hi-way, Bgy. Kaligayahan, Novaliches, Quezon City	81,260.04	07/31/2016
ZAPOTE	59 Alabang-Zapote Road, Las Piñas City	80,223.41	08/14/2015

Branch Name	Address	Monthly Rent (in Pesos)	Expiration of Lease
Northern Luzon			
Abanao	90 NRC Building, Abanao St., Baguio City	115,817.23	10/15/2018
AGOO MARKET	20 Cases Blvd., Sta. Barbara, Agoo, La Union	6,000.00	06/01/2015
ANGELES-MC ARTHUR	McArthur Hi-way, Bgy. Salapungan, Angeles City, Pampanga	85,085.44	07/31/2015
Apalit	Mc Arthur Highway, San Vicente, Apalit, Pampanga	11,051.26	07/31/2018
BAGUIO-CENTER MALL	G/F Baguio Center Mall, Magsaysay Ave., Baguio City	50,000.00	06/30/2013
Balagtas	G/F D&A Bldg., Mc Arthur Highway, San Juan, Balagtas, Bulacan	58,873.48	06/30/2020
BEPZ	Bataan Economic Zone, Luzon Ave., Marivels, Bataan 2106	27,164.30	03/07/2019
BOCAUE	McArthur Hi-way, Lolomboy, Bocaue, Bulacan	-	10/07/2012
Bontoc	G/F Mt. Province Commercial Center, Pob. Bontoc, Bontoc, Mountain Province	27,030.00	09/11/2016
CABANATUAN-MAHARLIKA	Km. 114, Maharlika Highway, Cabanatuan, Nueva Ecija (Paco Roman St., Cabanatuan City, Nueva Ecija)	36,465.19	04/29/2014
Camiling	Poblacion G, Camiling Tarlac	77,437.50	05/18/2017
CAMILING-RIZAL	Rizal St., Camiling, Tarlac (LOT LEASE)	19,073.49	03/15/2016
CAPAS	Capas Comm'l Complex, Concepcion Junction, Bo. Sto. Domingo, Capas, Tarlac	65,376.87	10/15/2016
CAUAYAN -MAHARLIKA HI-\	Disston Lumber and Electrical Supply, National Road, San Fermin, Cauayan City, Isabela (effective 04/01/2	69,457.50	03/31/2014
Centro Ilagan	J. Rizal St., Centro, Ilagan City, Isabela 3300	31,500.00	08/04/2018
Clark Field	Retail 4 & 5, Berthaphil III, Clark field Center 2, Jose Abad Santos Ave., Clark Field Freeport Zone, Clark I	100,776.56	05/31/2019
DAGUPAN-FERNANDEZ	A. B. Fernandez Ave., cor. Noble St., Dagupan City	80,000.00	12/31/2014
Dinalupihan	BDA Bldg., San Ramon Highway, Dinalupihan, Bataan 2110	51,434.58	03/20/2017
Dolores	Units 4&5 G/F, Peninsula Plaza Bldg., Mc Arthur Highway, Dolores, City of San Fernando, Pampanga	82,360.04	05/31/2019
East Gate City walk	East Gate CW Commercial Center, Olongapo Gapan Rd., San Jose, City of San Fernando, Pampanga	74,211.68	05/31/2018
Guimba	CATMAN Bldg., Provincial Road corner Faigal St., Saranay District , Guimba, Nueva Ecija	45,885.75	09/30/2017
La Trinidad	Benguet State University Compound, Brgy Balili, Kilometer 5, La Trinidad, Benguet 2601	56,783.61	10/05/2032
Lagawe	JDT BLDG., INGUILING DRIVE, POBLACION EAST, LAGAWE,IFUGAO	16,788.80	11/10/2018
LAOAG-CASTRO	F.R. Castro Ave. (formerly A. Bonifacio St.), Laoag City, Ilocos Norte	99,225.00	03/31/2019
LUBAO	Olongapo Rd., Sta. Cruz, Lubao, Pampanga	46,189.24	12/31/2015
MABALACAT	McArthur Highway, Bgy., Mabiga, Mabalacat, Pampanga	37,268.00	01/31/2015
Macabebe	Y N CEE Commercial Bldg. Poblacion, San Gabriel Macabebe, Pampanga	35,427.59	03/28/2016
Magsaysay Avenue	G/F Lyman Ogilby Centrum Bldg., 358 Magsaysay Ave., Baguio City 2600	91,121.75	06/30/2017
MALOLOS-MC ARTHUR	FC Bldg., Km. 40, McArthur Hiway, Sumapang Matanda, Malolos City, Bulacan	76,403.25	12/31/2016
MANGALDAN	G/F Abad Biascan Bldg., 5 Rizal Ave., Poblacion, Mangaldan, Pang.	-	02/28/2012
MEYCAUAYAN-ESPERANZA	GF Stalls 8 & 9 Esperanza Mall, Mc Arthur Highway, Brgy. Calvario, Meycauayan, Bulacan (new site effec	77,670.85	10/31/2016
NAGUILIAN ROAD - BAGUIO	G/F High Country Inn, Naguilian Road, Baguio City	77,175.00	10/31/2016
Narvacan	ANNEX BLDG., NARVACAN MUNICIPAL HALL, STA. LUCIA, NARVACAN, ILOCOS SUR	55,000.00	09/01/2017
North Zambales	Brgy. Hall, Pob. South, Sta. Cruz, Zambales	15,000.00	12/31/2017
OLONGAPO-MAGSAYSAY	YBC Mall, 97 Magsaysay Drive, East Tapinac, Olongapo City	for reloc	
Orani	Agustina Bldg., McArthur Highway, Parang-Parang, Orani, Bataan	42,063.43	11/18/2018
Pasuquin	FARMERS TRADING CENTER BLDG., Maharlika Hi-way, POB. 1, Pasuquin, Ilocos Norte	20,000.00	02/12/2022
PEREZ BLVD.-DAGUPAN	Orient Pacific Center Building Perez Blvd. cor. Rizal St. Extension, Dagupan City (former Abrabar Building	75,245.63	03/31/2017
PLARIDEL	Cagayan Valley Road, Bonga, Plaridel, Bulacan (LOT LEASE)	15,944.05	07/30/2017
Robinsons Pulilan	Robinsons Mall Pulilan, Maharlika Highway, Cutcut, Pulilan, Bulacan	40,834.92	12/21/2014
SAN AGUSTIN (Dolores)	Tagle Building, McArthur Hiway, Brgy. San Agustin, San Fernando, Pampanga	95,220.00	08/15/2018
SAN CARLOS-PANGASINAN	Plaza Jaycee St., San Carlos City, Pangasinan	60,046.01	08/14/2014
SAN FERNANDO-MC ATHUR	LNG Bldg., Mc Arthur Highway Dolores Junction, San Fernando, Pampanga	64,163.78	09/27/2013
San Jose Del monte	Dalisay Bldg., Quirino Hi-way, Tungkong Mangga, City of San Jose Del Monte, Bulacan	12,000.00	12/31/2019
Sanchez Mira	C-2 Maharlika Highway Sanchez Mira, Cagayan 3518	33,100.00	03/01/2023
Sangitan	R. Macapagal Bldg, Maharlika Highway, Brgy Dicarma, Cabanatuan City	52,175.20	08/31/2016
SANTIAGO-PANGANIBAN	Municipal Integrated Bldg., Panganiban cor. Barrera St., Santiago, Is.	5,023.50	08/28/2015
Solano	National Highway. Poblacion South, Solano, Nueva Vizcaya	47,753.71	08/31/2017
Sta. Maria	Jose Corazon De Jesus St., Poblacion, Sta. Maria, Bulacan	82,884.47	09/30/2018
STA. ROSA-NUEVA ECIJA	G/F, JNB Bldg., Bgy. Cojuangco, Cagayan Valley Road, Sta. Rosa, NE	41,674.50	09/30/2016
Subic	Lot 5 Retail 2, Times Square mall, Sta. Rita Road, Subic Bay Freeport Zone, Olongapo City, Zambales 2220	92,002.80	10/08/2016
Tabuk	Lua Bldg., Mayangao St., Tabuk, Kalinga 3800	28,300.26	05/31/2015
TARLAC-ZAMORA	#6 Zamora St. Tarlac City	-	10/31/2012
Tuao	GF, Villacete Bldg., National Highway, Pata, Tuao, Cagayan	12,240.00	07/23/2018
TUGUEGARAO-BRICKSTONE	G/F Brickstone Mall, Km. 482, Maharlika Highway, Pengue Ruyu, Tuguegarao City, Cagayan (new site eff	72,201.07	11/15/2015
URDANETA-ALEXANDER (La	AAG Building 2, Alexander St., Urdaneta City, Pangasinan	82,687.50	12/14/2017
VIGAN-QUEZON AVE.	36 Quezon Ave., Vigan, Ilocos Sur (LOT LEASE)	54,697.78	04/30/2013

Branch Name	Address	Monthly Rent (in Pesos)	Expiration of Lease
Southern Luzon			
Albay Capitol	ANST Bldg. II, Rizal St., Brgy. 14, Albay District., Legaspi City	79,172.31	04/30/2019
Atimonan	Our Lady of the Angels Parish Compund, Quezon Street, Atimonan,Quezon	19,892.36	07/16/2015
BACOOR-PANAPAAN	Casa San Miguel 215 E. Aguinaldo Highway, Barangay Panapaan, Bacoor, Cavite	71,662.50	05/13/2017
BATANGAS-KUMINTANG	JPA AMA Bldg., Kumintang Ilaya, Batangas City, Batangas	72,802.75	02/28/2015
BATANGAS-PALLOCAN WES'	G/F MAJ Bldg., National Highway, Pallocan West, Batangas City	85,000.00	07/15/2013
Bauan	G/F ADD Building, J.P. Rizal St., Poblacion, Bauan, Batangas	36,004.21	07/11/2016
Biñan	Ammar Commercial Center, Nepa National Highway, Brgy. Sto. Domingo, Biñan, Laguna	98,951.35	03/31/2023
Boac	Gov. Damian Reyes St., Murallon, Boac,Marinduque	31,215.00	07/31/2019
BULAN	R. Magsaysay cor. MH del Pilar Sts., Bulan, Sorsogon	38,587.50	07/31/2017
CABUYAO	Asia Brewery Complex, National Hi-way, Bgy. Sala, Cabuyao, Laguna	36,931.93	03/31/2013
Calamba - Bucal	GF PrimeUnit 103 Carolina Center Bldg. COR. Ipil-ipil St., Brgy.Bucal Calamba, Laguna	86,390.42	11/30/2018
Calamba Crossing	G/F Unit Building, J. Alcasid Business Center, Crossing Calamba City, Laguna	103,355.13	02/15/2016
CALAMBA-NATL HI-WAY	G/F Sta. Cecilia Business Center, Nat'l Hi-way, Bgy. Parian, Calamba, Laguna	39,000.00	10/15/2016
CARMONA	9767 Brgy. Maduya, Carmona, Cavite	79,007.91	08/31/2015
Cavite - Dasmariñas	G/F LCVM BLDG, Aguinaldo Hi-Way Zone IV, DASMARIÑAS CITY, CAVITE	142,864.70	12/31/2015
CEPZ	GEN. TRIAS DRIVE, ROSARIO, CAVITE	27,563.51	01/01/2016
DAET-PIMENTEL	Pimentel Ave., cor. Dasmarinas St., Daet, Camarines Norte	71,662.50	03/16/2015
DASMARIÑAS-AGUINALDO	G/F, Amada-Felix Bldg., Aguinaldo Hi-way, Burol Main, Dasmarinas, Cavite	75,000.00	10/31/2012
GEN. TRIAS	129 Governor's Drive, Manggahan, General Trias, Cavite	63,669.38	08/31/2016
Goa	Juan Go Bldg., cor. Rizal & Bautista Sts., Goa, Camarines sur	46,415.30	08/31/2017
GUMACA	Andres Bonifacio St., Poblacion, Gumaca, Quezon (LOT LEASE)	14,280.50	11/29/2015
Imus	GF, J. Antonio Bldg. 1167 Gen. Aguinaldo Highway, Bayan Luma 7, Imus, Cavite 4103	155,157.07	11/01/2016
IMUS-AGUINALDO	Sayoc-Abella Blsg., E. Aguinaldo Hi-way, Imus, Cavite	86,821.88	08/31/2014
LEGAZPI-IMPERIAL	35 F. Imperial St., Legaspi, Albay (LOT LEASE)		1/
Lemery	Humarang Bldg. Corner Ilustre Ave. and P. De Joya St., Lemery Batangas	57,083.33	06/30/2016
Ligao	San Jose St., Dunao, Ligao City, Albay	59,473.40	09/30/2017
LIPA-AYALA HI-WAY	K-Pointe Plaza, Ayala Hi-way, Lipa City, Batangas	55,913.29	10/31/2015
LUCENA-ENRIQUEZ	Enriquez cor Enverga St., Poblacion, Lucena City	70,000.00	09/15/2017
Maharlika	Kadiwa Center Building, Poblacion, Sta. Cruz, Marinduque	6,768.27	06/20/2015
MOLINO	I.K. Commercial Building, Molino III, Paliparan Highway, Bacoor, Cavite	69,283.86	05/31/2015
NAGA MAGSAYSAY	G-Square Building Magsaysay Avenue cor Catmon II St., Balatas, Naga City	74,088.00	04/14/2014
NAGA PANGANIBAN	DECA Corporate Center, Panganiban Drive, Brgy. Tinago, Naga City	146,410.00	08/31/2015
Naic	P. POBLETE STREET, IBAYO SILANGAN, NAIC, CAVITE	5,300.53	02/15/2017
NASUGBU	JP Rizal St. cor F. Alix St., Nasugbu Batanagas (effective 06/01/2009)	83,482.35	05/31/2014
PACITA COMPLEX	Old National Hiway, Brgy Nueva, San Pedro, Laguna	52,000.00	05/31/2016
Paseo de Santa Rosa	Blk. 5 Lot 3B Sta. Rosa Estate 2-A, Balibago Tagaytay Road, Bo. Sto. Domingo, Sta. Rosa City, 4026 Lagu	155,538.18	06/30/2016
Pili	Cu Bldg, Old San Roque, Pili, Camarines Sur	64,409.69	08/31/2017
Pinamalayan	Mabini St. Zone IV, Pinamalayan, Oriental Mindoro	43,502.38	10/01/2020
Polangui	National Road, Ubaliw, Polangui, Albay	38,000.00	04/30/2018
Romblon	SAL Building, Republika St., Brgy. 1, Romblon, Romblon	20,944.00	10/11/2019
SAN PABLO-COLAGO AVE.	Mary Grace Building,Colago Ave. cor. Quezon Ave.,San Pablo City, Laguna	52,093.13	11/30/2016
SAN PEDRO-NATL HI-WAY	KM. 31, National Highway, Brgy. Nueva, San Pedro, Laguna	75,245.63	09/30/2018
SAN RAFAEL	Cagayan Valley Road, Bo. Cruz na Daan, San Rafael, Bulacan	-	12/31/2011
Siniloan	G. Redor St. Siniloan, Laguna	64,263.61	01/17/2016
SORSOGON-MAGSAYSAY	Doña Nening Building, R. Magsaysay St., Sorsogon City, Sorsogon	42,443.06	03/13/2013
STA. CRUZ-REGIDOR	Regidor St., Poblacion, Sta. Cruz, Laguna	81,033.75	02/21/2014
Sta. Rosa	NATIONAL HIGHWAY BALIBAGO CITY OF STA ROSA LAGUNA	98,433.46	07/01/2016
STA. ROSA-BALIBAGO	G/F Don F. Tan Gana Bldg., National hi-way, Balibago, Sta. Rosa, Laguna	106,722.00	09/30/2015
Tagaytay	Vistamart Bldg., Gen. E. Aguilnado Highway, Mendez Crossing West, Tagaytay City	79,992.57	11/01/2019
Tanauan	G/F V. Luansing Bldg, J.P. Laurel Highway, Tanauan City, Batangas	44,000.00	08/22/2016
TANZA	G/F Annie's Plaza, A. Soriano Highway, Daang Amaya, Tanza Cavite	51,051.26	10/15/2015
UP los Baños	LANZONES ST. UPLB COLLEGE LOS BANOS, LAGUNA	-	03/15/2014
Virac	055 Quezon Ave., Brgy Salvacion, Virac, Catanduanes		12/31/2018

Branch Name	Address	Monthly Rent (in Pesos)	Expiration of Lease
Visayas			
A.CORTES (Cebu - A. C. Cortes)	AC Cortes Ave., Mandaue City, Cebu	96,032.77	02/29/2016
BACOLOD-HILADO	Hilado corner L..N. Agustin Sts., Bacolod City	-	
BACOLOD-LIBERTAD	Libertad St., near Poinsetia St., Bacolod City, Negros Occidental	52,093.13	11/03/2016
Bais	Rosa Dy-Teves Bldg, Quezon St., Bais City	27,500.00	11/30/2016
Banilad	Gov. M. Cuenco Ave., cor. Paseo Saturnino St., Banilad, Cebu City	110,004.27	02/28/2015
BANILAD-FORTUNA	AS Fortuna St., Banilad, Mandaue City, Cebu (LOT LEASE)	37,000.18	03/23/2015
BANTAYAN	Escario St., Bantayan Island, Cebu	61,233.51	10/23/2014
Baybay	Baybay Multipurpose Gym, Magsaysay Ave., Baybay City, Leyte	1,000.00	12/24/2017
Bogo	Cor. R. Fernan & San Vicente Sts., Bogo City, Cebu	23,098.25	04/14/2016
CARBON	41-43 Plaridel St., Carbon district, Cebu City, Cebu	104,186.25	10/31/2014
CARCAR	Jose Rizal St., Poblacion 1, Rotonda, Carcar, Cebu	69,283.86	02/21/2016
Cebu IT Park	G/F, TGU Tower, Cebu IT Park, Salinas Drive cor. J.M del Mar St., Apas, Cebu City	246,761.28	12/15/2017
Centro Mandaue	G/F M2, Gaisano Grand Mall, Mandaue Centro, A. Del Rosario St., Mandaue City 6014, Cebu	80,634.65	02/28/2017
COLON	G/F J. Avila Bldg., Collonade Mall Oriente, Colon St., Cebu City	155,469.04	12/31/2014
CONSOLACION	Cansaga (Poblacion), Consolacion, Cebu	40,000.00	11/15/2011
De Leon	ATM Bldg., corner Jalandoni and Ledesma Sts., Iloilo City	84,672.00	06/30/2015
Downtown Tacloban	G/F, Washington Trading Bldg., Rizal Ave., Tacloban City, Leyte 6500	104,780.08	10/22/2016
DUMAGUETE SOUTH ROAD (	Manhattan Suites, South Road, Calindagan, Dumaguete City, Negros Oriental	42,649.35	03/31/2017
Fuente Osmeña	BF Paray Bldg., Osmena Blvd., Cebu city	145,600.00	05/25/2018
FUENTE OSMEÑA-CAPITOL	C. A. O. Mercado Bldg., Osmeña Blvd., Cebu City	132,037.94	05/31/2013
GORORDO	Machay Bldg., Gorordo Ave., Lahug, Cebu City	61,000.00	08/15/2012
Guihulngan	New Guihulngan Public Market, S. Villegas St., Guihulngan, Negros Oriental	2,423.52	02/09/2015
Guiuan	Cor. San Nicolas & Guimbaolibot Sts., Guiuan, Eastern Samar 6809	44,582.36	10/31/2019
ILOILO-ALDEGUER	Lope Locsin Bldg., Aldeguer St., Iloilo City	88,200.00	11/30/2015
ILOILO-GEN. LUNA	Sarabia Manor Bldg., 101 Gen. Luna St., Iloilo City	60,637.50	12/17/2014
Island City Mall - Tagbilaran	Upper Ground Floor 33-34, Island City Mall, Dampas District, Tagbilaran City	62,105.72	07/31/2016
Jaro	#8 Lopez Jaena St., Jaro, Iloilo City	125,537.07	05/02/2016
JARO-LEDESMA	Simon Ledesma St., Jaro, Iloilo	66,852.84	02/28/2017
KALIBO-MARTELINO	Martelino St., Kalibo, Aklan (beside Jolibee - near corner Arch. Gabriel Reyes Street) (LOT LEASE)	35,890.70	12/29/1904
La Carlota	Cor La Paz and Rizal Sts., La Carlota City	37,235.94	05/31/2016
La Paz	Inayan Bldg., cor. Huevana & Rizal Sts.,La Paz, Iloilo City 5000	64,760.40	12/31/2018
Lahug	G/F Juanita Bldg., Escario St. Cor. Gorordo Ave., Brgy. Camputhaw, Lahug, Cebu City	43,419.50	02/07/2016
LAPU-LAPU-MARKET	Mangubat cor. Rizal Sts., Lapu-Lapu City, Cebu		1/
MAMBALING	G/F Super Metro Mambaling, F. Llamas St., corner Cebu South Road, Basak, San Nicolas, Cebu City	73,740.71	09/30/2014
Mandaue	JD Building, Lopez Jaena Street, Tipolo, Mandaue City, Cebu 6014	95,551.17	04/15/2015
MANDAUE-SUBANGDAKU	KRC Bldg., National Highway, Subangdaku, Mandaue City, Cebu	59,871.79	08/15/2016
MEPZ	1st Ave., MEPZ 1, Mactan Island, Lapu-Lapu City, Cebu 6015	18,990.89	07/19/2019
Miag-ao	One TGN Building, Cor. Noble & Sto. Tomas Sts., Miagao., Iloilo	44,568.56	05/15/2018
MINGLANILLA	Ward 4, Poblacion, Minglanilla, Cebu City	57,330.00	10/14/2017
NORTH ROAD – MANDAUE	Insular Square, 31 JP Rizal St., Tabok, Mandaue City		
One Pavilion Mall- Cebu City	One Pavilion Mall, R. Duterte St., Banawa, Cebu City, 6000	100,097.43	10/07/2017
ORMOC-REAL	Reat St., Ormoc City., Leyte	60,775.31	09/30/2016
Palompon	Ground Floor, Municipal Bldg., Rizal St., Palompon, Leyte	3,556.08	05/17/2018
PUSOK	Highway, Pusok, Lapu-Lapu City (LOT LEASE)	23,579.48	02/29/2016
SAN JOSE-ANTIQUE	San Isidro St., San Jose de Buenavista, Antique	61,990.82	06/11/2015
STA. BARBARA	Bga. Dama, Brgy Bolong Oeste, Sta. Barbara, Iloilo City	52,032.55	10/31/2013
Tabunok	Paul Sy Bldg., National Highway, Tabunok, Talisay City	15,568.00	01/17/2017
TABUNOK-TALISAY	Viva Lumber Bldg., Talisay, Tabunok, Cebu	15,568.00	06/17/2014
TAGBILARAN-DEL PILAR	GIE Garden Hotel, cor. CP Garcia Ave. & MH del Pilar St., Tagbilaran, Bohol	70,000.00	07/31/2012
TALAMBAN	DCR Bldg., National Highway, Talamban, Cebu City	63,425.75	08/14/2013
Ubay - Bohol	G/F LM Commercial Bldg.,National Hi-way Cor.Tan Pentong St.,Poblacion, Ubay, Bohol	59,901.58	06/14/2018
Uptown Cebu	Ground Floor, Jethouse Bldg., #36 Osmena Blvd., Cebu City	134,220.70	09/15/2015

Branch Name	Address	Monthly Rent (in Pesos)	Expiration of Lease
Mindanao			
Agdao	Doors 2 & 3, Gimenes Bldg., Carlos Garcia Hi-way (Diversion Road) Buhangin, Davao City	115,817.23	10/15/2018
AGDAO-LAPU-LAPU	Lapu-Lapu St., Agdao, Davao City	-	11/30/2014
Bajada	G/F Quibod Bldg., J. P. Laurel St. Cor. A. Loyola St., Davao City, Davao del Sur	61,234.37	06/30/2018
Bangoy	Roman Paula Bldg., 35-37 C. Bangoy Street, Davao City.	67,052.69	07/21/2019
Bankerohan	Units 101-102, JLF Parkway Bldg., cor. Quirino & Magallanes Sts., Davao City, Davao del Sur	74,000.00	06/30/2015
BAYUGAN	Narra Avenue, Bayugan, Agusan del Sur	27,951.00	05/31/2016
BUTUAN-J.C. AQUINO	J.C. Aquino Avenue, Butuan City, Agusan del Norte		
Carmen	Premier Bldg., Elipe Park, R.M. Pelaez St. Cor. Agoho Drive, Brgy. Carmen, Cagayan de Oro City, Misami	52,755.36	08/31/2015
Climaco	JNB Bldg., Buenavista St., Zamboanga City, Zamboanga del Sur	88,255.38	06/25/2017
Dadiangas	RD Realty Development Bldg., Santiago Blvd., General Santos City, South Cotabato	65,517.31	02/28/2018
DAVAO-CALINAN (Kidapawan	LTH Building, Davao-Bukidnon Highway, Calinan, Davao City	62,500.00	04/26/2013
DAVAO-DIGOS	Gen. Luna St. (near Katipunan), Digos, Davao del Sur	40,262.75	09/30/2015
DAVAO-LANANG	ABI Compound, Km. 7, Lanang, Davao City, Davao	34,837.39	07/24/2016
DAVAO-MATINA CROSSING	80 Gen. Mac Arthur Highway, Matina Crossing, Davao City (formerly Saavedra St., Toril, Davao City)	48,620.25	09/15/2015
DIPOLOG-RIZAL	Rizal Ave., cor. Osmena St., Dipolog City, Zamboanga del Norte	93,712.50	04/16/2017
Gaisano Capital - Surigao	Gaisano Capital, KM 4, National Highway, Barangay Luna, Surigao City	38,744.28	07/10/2017
GENERAL SANTOS-ACHARON	Pedro Acharon Blvd., General Santos City, South Cotabato (LOT LEASE)		1/
ILIGAN-QUEZON	Juan Luna St., Iligan City, Lanao del Norte	88,200.00	10/31/2016
Isulan	Aristoza Bldg., National Highway, Isulan, Sultan Kudarat	37,383.28	05/31/2017
KCC Mall- Gen. Santos City	Unit 018 Lower G/F KCC Mall of Gensan, Jose Catolico Sr. Ave. General Santos City, South Cotabato	110,197.72	04/10/2016
Liloy	Chan Bldg., Baybay, Liloy, Zamboanga del Norte	14,112.00	04/30/2015
Limketkai Mall - North Concours	G/F North Concourse, Limketkai Mall, Limketkai Center, Lapasan, Cagayan de Oro City, Misamis Oriental	201,337.36	10/31/2016
Malaybalay	Flores Bldg., cor. Rizal & Tabios Sts., Brgy. 5, Malaybalay City, Bukidnon	57,349.35	04/30/2017
MALAYBALAY-FORTICH	Fortich corner Kapitan Juan Melendez Sts., Malaybalay, Bukidnon	-	03/31/2018
Matina	HIJ Bldg., Mc Arthur Highway, Brgy. Matina, Davao City	64,276.97	06/30/2018
Monteverde	Mintrade Bldg., Monteverde St. cor. Sales St., Davao City,Davao del Sur	96,630.60	03/31/2017
MONTEVERDE-BANGOY	Monteverde cor. Bangoy Sts., Davao City	-	03/13/2015
OZAMIS-GOMEZ	Gomez cor. Burgos Sts., Ozamis City, Misamis Occidental	50,000.00	09/30/2013
Pala-o	G/F Iligan Day Inn Bldg., Benito S. Ong St., Pala-O, Iligan City, Lanao del Norte	56,449.70	09/30/2017
Panabo City	G/F Gaisano Grand Mall of Panabo, Quezon St., Brgy. Sto. Niño, Panabo City, Davao Del Norte	80,586.22	11/21/2016
Sasa	Carmart Bldg., Km 8, Sasa, Davao City	42,200.00	06/15/2015
Sindangan	Corner Rizal & Bonifacio Sts., Poblacion, Sindangan, Zamboanga del Norte	8,929.92	08/11/2022
Sta. Ana Davao	Bonifacio Tan Bldg., Rosemary cor. Bangoy Sts., Sta. Ana Dist., Davao City, Davao del Sur	64,260.00	04/30/2018
STA. ANA-MAGSAYSAY	R. Magsaysay Ave., cor. Lizada St., Davao City, Davao	109,974.38	05/24/2016
SURIGAO-WASHINGTON	San Nicolas St., Washington, Surigao City, Surigao del Norte	112,815.00	03/31/2016
TAGUM-APOKON	GL 04-06 (G/F) Gaisano Grand Arcade, Apokon Road cor. Lapu-Lapu Ext., Brgy. Visayan Village, Tagum	49,612.50	09/15/2017
Tetuan	G/F, AL Gonzalez & Sons Bldg., Veterans Ave., Zamboanga City 7000	82,632.13	05/15/2017
Toril	Anecita G. Uy Bldg., Saavedra St., Toril, Davao City, Davao del Sur	57,455.36	06/01/2017
Valencia	Tamay Lang Bldg., G. Lavina St., Poblacion, Valencia, Bukidnon	69,805.12	04/01/2017
VALENCIA-MABINI	Lavina Bldg., Mabini Street, Valencia, Bukidnon	58,593.75	02/28/2021
ZAMBOANGA - CANELAR	G/F, Blue Shark Hotel, Mayor Jaldon St., Canelar, Zamboanga City	48,315.30	08/31/2022
ZAMBOANGA - GUIWAN	National Hi-way, Guiwan Zamboanga City	17,280.00	02/28/2017
ZAMBOANGA - NUÑEZ EXT	Ciudad Medical Zamboanga, Nuñez Ext., Zamboanga City	53,589.72	05/31/2013
ZAMBOANGA-SAN JOSE	San Jose Road, Zamboanga City, Zamboanga del Sur	30,000.00	04/22/2014
ZAMBOANGA-VETERANS AV	Zamboanga Doctors' Hospital, G/F Annex Bldg., Veterans Ave., Zamboanga City, Zamboanga del Sur	70,339.50	05/15/2017

[1/] Contract of Lease renewal is still in process

COVER SHEET

A	S	0	9	6	-	0	0	5	5	5	5

S.E.C. Registration Number

PHILIPPINE NATIONAL BANK

Company's Full Name)

9th Floor PNB Financial Center

Macapagal Blvd., Pasay City

Metro Manila

(Business Address: No. Street City/Town/ Province)

DORIS S. TE
Corporate Secretary

Contact Person

834-0780

Company Telephone Number

1	2		3	1

Month Day
Fiscal Year

Updated Consolidated Changes in the Annual Corporate Governance Report

FORM TYPE

Last Tuesday of May of each year

Month Day
Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

Remarks = pls. use black ink for scanning purposes

PNB

Office of the Corporate Secretary
Direct Lines: 536-0540
Trunk Lines: 891-6040 to 70
Local: 4782

April 13, 2015

Ms. Justina F. Callangan
Director
Corporation Finance Department
Securities and Exchange Commission
SEC Building, EDSA
Greenhills, Mandaluyong City

Dear Director Callangan:

In compliance with SEC Memorandum Circular Nos. 1 and 12, Series of 2014, we are pleased to submit herewith the updated Consolidated Changes in the Annual Corporate Governance (ACGR) for 2014 of the Philippine National Bank to include the other sections of the ACGR without change/update.

We trust you will take note of the above. Thank you.

Very truly yours,

DORIS S. TE
Corporate Secretary

Att: a/s

Philippine National Bank
PNB Financial Center
Pres. Diosdado Macapagal Blvd.,
Pasay City, Metro Manila 1300,
Philippines

T. (632) 526-3131 to 70/891-6040 to 70
P.O. Box 1884 (Manila)
P.O. Box 410 (Pasay City)
www.pnb.com.ph

PNB

SECRETARY'S CERTIFICATE

I, **DORIS S. TE**, Corporate Secretary of the Philippine National Bank ("PNB"), a universal banking corporation organized and existing under the laws of the Republic of the Philippines, with principal office address at the PNB Financial Center, Pres. Diosdado Macapagal Blvd., Pasay City, do hereby certify that during the Executive Session of the PNB Board of Directors held on December 19, 2014, at which a majority of the members was present, the Board approved under Resolution No. 09, the submission of the consolidated changes in the Annual Corporate Governance Report (ACGR) for 2014, in compliance with SEC Memo Circular No. 12 dated May 26, 2014 issued by the SEC Chairperson Teresita J. Herbosa.

IN WITNESS WHEREOF, I have hereunto affixed my signature this January 6, 2015 in Pasay City, Metro Manila.

DORIS S. TE
Corporate Secretary

SUBSCRIBED AND SWORN to before me this JAN 06 2015 in Pasay City, Metro Manila, affiant exhibiting to me her T.I.N. 245-547-624.

Doc.No. 345
Page No. 70
Book No. XIV
Series of 2015.

ATTY. RUTH PAMELA E. TANGHAL-MANUBAG
Commission No. 14-11/01-09-14; Roll No. 46369
Notary Public for Pasay City until 12/31/15
9th Floor PNB Financial Center
Pres. D.P. Macapagal Blvd., Pasay City
PTR No. 4203775/01-05-15
IBP No. 977992/01-05-15/PPLM

Philippine National Bank
PNB Financial Center
Pres. Diosdado Macapagal Blvd.,
Pasay City, Metro Manila 1300,
Philippines

T. (632) 526-3131 to 70 / 891-6040 to 70
P.O. Box 1844 (Manila)
P.O. Box 410 (Pasay City)
www.pnb.com.ph

SECURITIES AND EXCHANGE COMMISSION

SEC FORM – ACGR

ANNUAL CORPORATE GOVERNANCE REPORT

1. Report is Filed for the Year: **2014**

2. Exact Name of Registrant as Specified in its Charter: **PHILIPPINE NATIONAL BANK**

3. **PNB Financial Center**
   President Diosdado Macapagal Boulevard
   Pasay City, Metro Manila
   Address of Principal Office

   1300
   Postal Code

4. SEC Identification Number**: AS096-005555**

5. (SEC Use Only)
   Industry Classification Code

6. BIR Tax Identification Number**: 000-188-209**

7. **(632) 891-6040 to 70/ (632) 526-3131 to 70**
   Issuer's Telephone number, including area code

8. **Not Applicable**
   Former name or former address, if changed from the last report

TABLE OF CONTENTS

A. BOARD MATTERS

1) Board of Directors

Number of Directors per Articles of Incorporation	15

Actual number of Directors for the year 2014	15

(a) Composition of the Board (updated - 2014)

Complete the table with information on the Board of Directors:

Director's Name	Type [Executive (ED), Non-Executive (NED) or Independent Director (ID)]	If nominee, identify the principal	Nominator in the last election (if ID, state the relationship with the nominator)	Date first elected	Date last elected (if ID, state the number of years served as ID)[1]	Elected when (Annual /Special Meeting)	No. of years served as director
1. Florencia G. Tarriela	ID	N/A	Lucio C. Tan, None	May 29, 2001	May 27, 2014 (2 years)	Annual Meeting	13.6 years
2. Felix Enrico R. Alfiler	ID	N/A	Lucio C. Tan, None	Dec. 16, 2011	May 27, 2014 (2 years)	Annual Meeting	3 years
3. Florido P. Casuela	NED	N/A	Lucio C. Tan	May 30, 2006	May 27, 2014	Annual Meeting	8.6 years
4. Joseph T. Chua	NED	N/A	Lucio C. Tan	May 27, 2014	May 27, 2014	Annual Meeting	0.6 year
5. Leonilo G. Coronel	NED	N/A	Lucio C. Tan	May 28, 2013	May 27, 2014	Annual Meeting	1.6 years
6. Reynaldo A. Maclang	ED	N/A	Lucio C. Tan	February 9, 2013	May 27, 2014	Annual Meeting	1.8 years
7. Estelito P. Mendoza	NED	N/A	Lucio C. Tan	Dec. 23, 2008	May 27, 2014	Annual Meeting	6 years
8. Federico C. Pascual	ID	N/A	Lucio C. Tan, None	May 27, 2014	May 27, 2014 (0)	Annual Meeting	0.6 year
9. Cecilio K. Pedro	ID	N/A	Lucio C. Tan, None	February 28, 2014	May 27, 2014 (0)	Annual Meeting	0.8 year
10. Washington Z. Sycip	NED	N/A	Lucio C. Tan	Dec. 8, 1999	May 27, 2014	Annual Meeting	15 years
11. Harry C. Tan	NED	N/A	Lucio C. Tan	February 9, 2013	May 27, 2014	Annual Meeting	1.8 years
12. Lucio C. Tan	NED	N/A	Lucio C. Tan	Dec. 8, 1999	May 27, 2014	Annual Meeting	15 years
13. Lucio K. Tan, Jr.	NED	N/A	Lucio C. Tan	Sept. 28, 2007	May 27, 2014	Annual Meeting	7.3 years
14. Michael G. Tan	NED	N/A	Lucio C. Tan	February 9, 2013	May 27, 2014	Annual Meeting	1.8 years
15. Deogracias N. Vistan	ID	N/A	Lucio C. Tan, None	July 15, 2011	May 27, 2014 (2 years)	Annual Meeting	3.4 years

[1]Reckoned from the election immediately following January 2, 2012.

(b) Provide a brief summary of the corporate governance policy that the board of directors has adopted. Please emphasis the policy/ies relative to the treatment of all shareholders, respect for the rights of minority shareholders and of other stakeholders, disclosure duties, and board responsibilities.

The Bank's Revised Corporate Governance Manual states that the most cogent proof of good corporate governance is visible to the eyes of its investors. The Board shall be committed to respect the rights of the stockholders, such as:

(1) Right to vote on all matters that requires their consent or approval;
(2) Right to inspect corporate books and records;
(3) Right to information;
(4) Appraisal right; and
(5) Right to dividends

It shall be the duty of the directors to promote shareholder rights, remove impediments to the exercise of shareholders rights and allow possibilities to seek redress for any violation of their rights. They shall encourage the exercise of shareholders' voting rights and the solution of collective action problems through appropriate mechanisms. They shall be instrumental in removing excessive costs and other administrative or practical impediments to shareholders participating in meetings and/or voting in person. The directors shall pave the way for the electronic filing and distribution of shareholder information necessary to make informed decisions, subject to legal constraints.

All material information about the Bank which could adversely affect its viability or the interest of its stakeholders shall be publicly disclosed to the regulators in a timely manner. All disclosed information shall be released via the approved stock exchange procedure for company announcements as well as through the Annual Report.

The Board is primarily accountable to the stockholders. The Board shall commit at all times to fully disclose material information dealings for the interest of the stakeholders. It shall be the Board's responsibility to foster the long-term success of the corporation, and to sustain its competitiveness and profitability in a manner consistent with its corporate objectives, for the best interest of the Bank, its stockholders, its depositors and other creditors, its management and employees, the regulators, deposit insurer and the public at large.

Title X – Section 81 of the Corporation Code of the Philippines allows a stockholder to exercise his right to dissent and demand payment of the fair value of his shares in certain instances, to wit: (1) in case an amendment to the Articles of Incorporation will change or restrict the rights of such stockholder or otherwise extend or shorten the term of the company; (2) in case of the sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the company's properties; or (3) in cases of merger or consolidation**.** Under Section 42 of the Corporation Code, a stockholder is likewise given an appraisal right in cases where a corporation decides to invest its funds in another corporation or business. The stockholder must have voted against the proposed corporate action in order to avail himself of the appraisal right. None of the proposed corporate actions to be submitted to the stockholders for approval constitutes a ground for the exercise of the stockholder's appraisal right

(c) How often does the Board review and approve the vision and mission?

The review of the vision and mission is done every year at the start of the strategic planning process as all objectives, KRAs and performance indicators are aligned with the strategic directions of the Bank as articulated in the vision-mission statements.

A more structured review of the vision and mission for possible revision is conducted at the start of the crafting of a long-range plan such as the five-year development plan of the Bank or the crafting of the integration plan of the merged Bank.

(d) Directorship in Other Companies

(i) Directorship in the Company's Group[2] (updated – 2014)

Identify, as and if applicable, the members of the company's Board of Directors who hold the office of director in other companies within its Group:

Director's Name	Corporate Name of the Group Company	Type of Directorship (Executive, Non-Executive, Independent). Indicate if director is also the Chairman.
Florencia G. Tarriela	PNB Capital and Investment Corporation PNB Life Insurance, Inc. PNB International Investments Corporation	Chairman/ID ID ID
Felix Enrico R. Alfiler	PNB RCI Holdings Co., Ltd. PNB-IBJL Leasing and Finance Corporation (formerly Japan-PNB Leasing and Finance Corporation) PNB International Investments Corporation PNB Savings Bank (formerly Allied Savings Bank)	Chairman/ID ID ID ID
Florido P. Casuela	PNB Securities, Inc. PNB RCI Holdings Co., Ltd. PNB International Investments Corporation PNB Savings Bank (formerly Allied Savings Bank)	Chairman NED NED NED
Joseph T. Chua	Bulawan Mining Corporation PNB General Insurers Co., Inc. PNB Management Development Corporation	NED NED NED
Leonilo G. Coronel	PNB-IBJL Leasing and Finance Corporation (formerly Japan-PNB Leasing and Finance Corporation) PNB-IBJL Equipment Rentals Corporation (formerly Japan-PNB Equipment Rentals Corporation)	Chairman Chairman
Reynaldo A. Maclang	PNB (Europe) Plc Allied Leasing and Finance Corporation PNB Savings Bank (formerly Allied Savings Bank) PNB Global Remittance and Financial Co., (HK) Ltd. PNB Forex, Inc. Bulawan Mining Corporation PNB Management Development Corporation	Chairman NED NED NED NED NED NED
Estelito P. Mendoza	None	Not Applicable
Federico C. Pascual	PNB General Insurers Co., Inc. PNB Holdings Corporation PNB International Investments Corporation	Chairman/ID ID ID
Cecilio K. Pedro	PNB Savings Bank (formerly Allied Savings Bank)	ID
Washington Z. Sycip	None	Not Applicable
Harry C. Tan	PNB Global Remittance and Financial Co., (HK) Ltd. Bulawan Mining Corporation PNB Management Development Corporation PNB Savings Bank (formerly Allied Savings Bank) Allied Commercial Bank Allied Banking Corporation (HK) Ltd.	Chairman Chairman NED NED NED NED

[2] The Group is composed of the parent, subsidiaries, associates and joint ventures of the company.

Dr. Lucio C. Tan	Allied Leasing and Finance Corporation Allied Banking Corporation (HK) Ltd. Allied Commercial Bank PNB Life Insurance, Inc. PNB Savings Bank (formerly Allied Savings Bank)	Chairman Chairman Chairman Chairman Chairman
Lucio K. Tan, Jr.	PNB Capital and Investments Corporation PNB Forex, Inc. Bulawan Mining Corporation PNB Management Development Corporation Allied Leasing and Finance Corporation PNB Savings Bank (formerly Allied Savings Bank) Allied Commercial Bank Allied Banking Corporation (HK) Ltd. PNB Global Remittance and Financial Co., (HK) Ltd.	NED NED NED NED NED NED NED NED NED
Michael G. Tan	PNB Management Development Corporation PNB Holdings Corporation PNB Forex, Inc. Bulawan Mining Corporation Allied Commercial Bank PNB Savings Bank (formerly Allied Savings Bank) PNB Global Remittance and Financial Co., (HK) Ltd. Allied Banking Corporation (HK) Ltd.	Chairman Chairman NED NED NED NED NED NED
Deogracias N. Vistan	PNB International Investments Corporation PNB Capital and Investment Corporation	Chairman/ID ID

(ii) Directorship in Other Listed Companies (updated – 2014)

Identify, as and if applicable, the members of the company's Board of Directors who are also directors of publicly-listed companies outside of its Group:

Director's Name	Name of Listed Company	Type of Directorship (Executive, Non-Executive, Independent). Indicate if director is also the Chairman.
Florencia G. Tarriela	LT Group, Inc.	ID
Joseph T. Chua	MacroAsia Corporation	ED
Leonilo G. Coronel	Megawide Construction Corporation	ID
Estelito P. Mendoza	San Miguel Corporation Petron	NED NED
Washington Z. Sycip	Belle Corporation Cityland Development Corporation Century Properties Group, Inc. First Philippine Holdings Corporation Lopez Holdings Corporation LT Group, Inc. MacroAsia Corporation Metro Pacific Investments Corporation	ID Chairman ID ID ID Director Chairman ID
Harry C. Tan	LT Group, Inc. PAL Holdings, Inc.	Vice Chairman NED
Lucio C. Tan	PAL Holdings, Inc. LT Group, Inc.	Chairman and CEO Chairman and CEO

Lucio K. Tan, Jr.	MacroAsia Corporation LT Group, Inc. PAL Holdings, Inc. Victorias Milling Corporation	NED NED NED NED
Michael G. Tan	LT Group, Inc. PAL Holdings, Inc. Victorias Milling Company	ED NED NED
Deogracias N. Vistan	Lorenzo Shipping Corporation	ID

(iii) Relationship within the Company and its Group (new update*)*

Provide details, as and if applicable, of any relation among the members of the Board of Directors, which links them to significant shareholders in the company and/or in its group:

Director's Name	Name of the Significant Shareholder	Description of the relationship
Harry C. Tan	LT Group, Inc. (LTG) (indirect – beneficial owner)	Mr. Tan is the Vice Chairman of LTG.
Lucio C. Tan		Mr. Tan is the Chairman and CEO of LTG.
Lucio K. Tan, Jr.		Mr. Tan is a director of LTG.
Michael G. Tan		Mr. Tan is the President and COO of LTG.
Florencia G. Tarriela		Ms. Tarriela is an independent director of LTG.

(iv) Has the company set a limit on the number of board seats in other companies (publicly listed, ordinary and companies with secondary license) that an individual director or CEO may hold simultaneously? In particular, is the limit of five board seats in other publicly listed companies imposed and observed? If yes, briefly describe other guidelines:

	Guidelines	Maximum Number of Directorships in other companies
Executive Director/ Chief Executive Officer (CEO) Non-Executive Director	Sec. X145 of the Manual of Regulations for Bank (MORB) re: Interlocking Directorships and/or Officerships BSP Circular No. 749, Series of 2012 re: Guidelines in Strengthening Corporate Governance in BSP Supervised Financial Institutions; and SEC Memo Circular No. 9, Series of 2011 re: Term Limits for Independent Directors.	Subject to MORB restrictions which state that "except as may be authorized by the Monetary Board or as otherwise provided in the MORB, there shall be no concurrent directorship or interlocking directorship and officership between banks or between bank and a quasi-bank (QB) or non-bank financial institution (NBFI)". An ID can be elected to a maximum of five (5) companies within a single business conglomerate, i.e., parent company, subsidiary or affiliate.

(e) Shareholding in the Company (updated – 2014)

Complete the following table on the members of the company's Board of Directors who directly and indirectly own shares in the company:

Name of Director	Number of Direct shares	Number of Indirect shares / Through (name of record owner)	% of Capital Stock
Florencia G. Tarriela	2	None	0.0000001601
Felix Enrico R. Alfiler	None	115 (PCD Nominee Corporation – Filipino)	0.0000092063
Florido P. Casuela	None	133 (PCD Nominee Corporation – Filipino)	0.0000106473
Joseph T. Chua	None	11,315 (PCD Nominee Corporation – Filipino)	0.0009058234
Leonilo G. Coronel	None	1 (PCD Nominee Corporation – Filipino)	0.0000000801
Reynaldo A. Maclang	155	None	0.0000124085
Estelito P. Mendoza	None	1,150 (PCD Nominee Corporation – Filipino)	0.0000920634
Federico C. Pascual	38	1 (PCD Nominee Corporation – Filipino)	0.0000031222
Cecilio K. Pedro	5,000	None	0.0004002755
Washington Z. Sycip	39,111	None	0.0031310350
Harry C. Tan	230	None	0.0000184127
Dr. Lucio C. Tan	14,843,119	None	1.1882673540
Lucio K. Tan, Jr.	2,300	None	0.0001841267
Michael G. Tan	250	None	0.0000200138
Deogracias N. Vistan	None	100 (PCD Nominee Corporation – Filipino)	0.0000080055
TOTAL	14,890,205	12,815 (PCD Nominee Corporation – Filipino)	1.1930627345

2) Chairman and CEO

(a) Do different persons assume the role of Chairman of the Board of Directors and CEO? If no, describe the checks and balances laid down to ensure that the Board gets the benefit of independent views.

Yes [√] No [ ]

Identify the Chair and CEO: (updated – 2014)

Chairman of the Board	Florencia G. Tarriela
CEO/President	Reynaldo A. Maclang*

*Mr. Reynaldo A. Maclang was appointed as President and CEO of the Bank effective May 27, 2014.

(b) Roles, Accountabilities and Deliverables

Define and clarify the roles, accountabilities and deliverables of the Chairman and CEO.

	Chairman	**Chief Executive Officer**
Role Accountabilities Deliverables	1. To call meeting of stockholders; 2. To convene the Board of Directors whenever he may deem it necessary, either on his own initiative, or upon the request of the President, or two members of the Board; 3. To preside over all the meetings of the stockholders and the Board of Directors; 4. To provide leadership in the board of directors. The chairperson of the board shall ensure effective functioning of the board, including maintaining a relationship of trust with the board members; 5. To ensure that the board takes an informed decision. The chairperson of the board shall ensure a sound decision making process and he should encourage and promote critical discussions and ensure that dissenting views can be expressed and discussed within the decision-making process; and 6. To perform such other functions a are assigned to him by law or by the Board of Directors.	The President of the Bank shall have, among others, the power and duties inherent in his office, execute and administer the policies, measures, orders and resolutions approved by the Board of Directors, and direct and supervise the operations and administration of the Bank. He shall have the power and duty as follows: 1. To execute all contracts and to enter into all authorized transactions in behalf of the bank; To exercise, as Chief Executive Officer, the power of supervision and control over decisions or actions of subordinate officers and all other powers that may be granted by the Board; 3. To recommend to the Board the appointment, promotion or removal of all officers of the Bank with the rank of at least Vice President or its equivalent; 4. To appoint, promote or remove employees and officers of the Bank except those who are to be appointed or removed by the Board of Directors; 5. To transfer, assign and reassign officers and personnel of the Bank in the interest of the service; 6. To report periodically to the Board of Directors on the operation of the Bank; 7. To submit annually a report on the result of the operations of the bank to the stockholders of the Bank; and 8. To delegate any of his powers, duties and functions to any official of the Bank, with the approval of the Board of Directors.

3) Explain how the board of directors plan for the succession of the CEO/Managing Director/President and the top key management positions? (updated – 2014)

The PNB Board of Directors has approved the adoption/implementation of the succession plan for the Bank, under its Board Resolution No. 03/01-19-2007 dated January 19, 2007. The PNB succession policy ensures that there are ready successors who have been well-trained and suitably prepared to assume sudden and anticipated vacancies. The Bank has a succession plan reviewed and approved annually by the Corporate Governance/Nomination/Remuneration Committee. Group Heads are required to complete the succession matrix with at least 2 understudies/successors to key management positions.

4) Other Executive, Non-Executive and Independent Directors

Does the company have a policy of ensuring diversity of experience and background of directors in the board? Please explain.

Yes. The Bank's Revised Corporate Governance Manual specifies that the members of the Board of Directors shall possess the following qualifications:

(1) Holder of at least one (1) share of stock of the Bank;
(2) He shall be at least a collage graduate or have at least five (5) years of experience in business to substitute for such formal education;
(3) He shall be at least twenty-five (25) years old at the time of his election or appointment;
(4) He must have attended a special seminar on corporate governance for Board of Directors conducted or accredited by the BSP and SEC; incumbent directors must attend the said seminar within a period of six (6) months from date of election;
(5) He shall have proven to possess integrity and probity, physical/mental fitness, competence, relevant, education/financial literacy/training, diligence and knowledge/experience;
(6) He shall be assiduous in his work habits;
(7) Practical understanding of the business of the bank; and
(8) Membership in good standing in relevant industry, business or professional organizations.

For Independent Directors, he shall refer to a person who:

(1) Is not or has not been, an officer or employee of the bank, its subsidiaries or affiliates or related interests during the past three (3) years counted from the date of election;
(2) Is not a director or officer of the related companies of the bank's majority stockholder;
(3) Is not a stockholder with shares of stock sufficient to elect one seat in the board of directors of the bank, or in any of its related companies or of its majority corporate shareholders;
(4) Is not a relative within the fourth degree of consanguinity or affinity, legitimate or common-law of any director, officer or a stockholder holding shares of stock sufficient to elect one seat in the board of the bank or any of its related companies;
(5) Is not acting as a nominee or representative of any director or substantial shareholder of the bank, any of its related companies or any of its substantial shareholders; and
(6) Is not retained as professional adviser, consultant, agent or counsel of the institution, any of its related companies or any of its substantial shareholders, either in his personal capacity or through his firm; is independent of management and free from any business or other relationship, has not engaged and does not engage in any transaction with the bank or with any of its related companies or with any of its substantial shareholders, whether by himself or with other persons or through a firm of which he is a partner or a company of which he is a director or substantial shareholder, other than transactions which are conducted at arms-length and could not materially interfere with or influence the exercise of his judgment.

Does it ensure that at least one non-executive director has an experience in the sector or industry the company belongs to? Please explain.

Yes. The Bank's Board of Directors, including its Independent Directors, are highly qualified business professionals, with excellent educational credentials. The Board of Directors collectively hold a broad range of expertise and related banking experiences that provide value to the strengthening and upholding of good corporate governance practices in the Bank. In the Board, three (3) directors and one (1) board advisor were inducted "fellow" by the Institute of Corporate Directors, in recognition of their distinguished reputation and commitment to the highest standards of corporate governance principles, ethics and social responsibility.

Majority of the directors of the Bank have been senior officers, presidents and/or directors of other financial institutions, with decade of experience in banking and finance.

Define and clarify the roles, accountabilities and deliverables of the Executive, Non-Executive and Independent Directors:

	Executive	**Non-Executive**	**Independent Director**
Role Accountabilities Deliverables	1. To execute all contracts and to enter into all authorized transactions in behalf of the Bank. 2. To exercise, as Chief Executive Officer, the power of supervision and control over decisions or actions of subordinate officers and all other powers that may be granted by the Board. 3. To recommend to the Board the appointment, promotion or removal of all officers of the Bank with the rank of Vice President or its equivalent. 4. To appoint, promote or remove employees and officers of the bank except those who are to appointed or removed by the Board of Directors. 5. To transfer, assign and reassign officers and personnel of the bank in the interest of the service. 6. To report periodically to the Board of Directors on the operations of the bank. 7. To submit annually a report on the result of	The Board of Directors is primarily responsible for approving and overseeing the implementation of the Bank's strategic objectives, risk management strategy, corporate governance and corporate values. Compliance with the highest standards in corporate governance principally starts with the Board of Directors which has the responsibility to foster the long-term success of the Bank and secure its sustained competitiveness and profitability in accordance with its fiduciary responsibility. Below are the specific roles, accountabilities and deliverables of the Non-Executive Directors: 1. To approve and monitor the implementation of strategic objectives. 2. To approve and oversee the implementation of policies governing major areas of banking operations. 3. To approve and oversee the implementation of risk management policies. 4. Identify key risk areas and performance indicators and monitor these factors with due diligence to enable the Bank, including its trust operations to anticipate and prepare for possible threats to its	Recognizing the importance of the role of independent directors, the Board has elected the independent directors to act as Chairman of the Board and various board committees. In the various board committees, the independent directors play an active role in the formulation of the business strategies and priorities of the Bank, its subsidiaries and affiliates. The Board and the Committees continue to review and strengthen the corporate governance policies to adopt consistency in the corporate governance framework in the Bank, its subsidiaries, and affiliates.

	the operations of the bank to the stockholders of the bank; and 8. To delegate any of his powers, duties and functions to any official of the bank, with the approval of the Board of Directors.	operational and financial viability. 5. Adopt and maintain adequate risk management policy which include (a) a comprehensive risk management approach; (b) a detailed structure of limits, guidelines and other parameters used to govern risk-taking; (c) a clear delineation of lines of responsibilities for managing risks; (d) an adequate system for measuring risk; and (e) the effective internal controls and a comprehensive risk reporting process. 6. To oversee selection and performance of senior management. 7. To define appropriate governance policies and practices for the bank and for its own work and to establish means to ensure that such are followed and periodically reviewed for ongoing improvements. 9. To effectively utilize the work conducted by the internal audit, risk management and compliance functions and the external auditors. 10. In group structures, the board of directors of the parent bank shall have the overall responsibility for defining an appropriate corporate governance framework that shall contribute to the effective oversight over entities in the group. Towards this end, the board of directors of the parent bank shall ensure consistent adoption of corporate governance policies and systems across the group and shall carry-out the duties and responsibilities. 11. Implement a process for the selection of Directors who can add value and contribute independent judgment to the formulation of sound corporate strategies and	

		policies. 12. Ensure the bank's faithful compliance with all applicable laws, regulations and best business practices. 13. Establish and maintain an investor relations program that will keep the stockholders informed of important developments in the bank. 14. Identify the sectors in the community in which the bank operates or which are directly affected by its operations, and formulate a clear policy of accurate, timely and effective communication with them. 16. Adopt a system of check and balance within the Board. A regular review of the effectiveness of such system to ensure the integrity of the decision-making and reporting process at all times. A continuing review of the bank's internal control system to maintain its adequacy and effectiveness. 17. Formulate and implement policies and procedures that will ensure the integrity and transparency of related party transactions between and among the corporation and its joint ventures, subsidiaries, associates, affiliates, major stockholders, officers and directors, including their spouses, children and dependent siblings and parents and of interlocking director relationships by members of the Board. 18. Constitute a Board Audit and Compliance Committee and such other committees it deems necessary to assist the Board in the performance of its duties and responsibilities. 19. Establish and maintain an alternative dispute resolution system in the bank that can amicably settle conflicts or differences between the bank and its stockholders, and the bank and third parties,	

		including the regulatory authorities. 20. Keep the activities and decisions of the Board within its authority under the Amended Articles of Incorporation and Amended By-Laws, and in accordance with existing laws, rules and regulations.	

Provide the company's definition of "independence" and describe the company's compliance to the definition.

The Bank complies with the definition of "Independent Director" as contained in Section 38 of the Securities Regulation Code (SRC), the General Banking Law of 2000 and the Manual of Regulations for Banks (MORB) of the Bangko Sentral ng Pilipinas (BSP). An Independent Director means a person who, apart from his fees and shareholdings, is independent of management and free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director in the Bank.

As defined under Subsection X141.2 (b) of the MORB in compliance with BSP Circular No. 749, Series of 2012, as amended by Circular Nos. 757 and 793, Series of 2012 and 2013, respectively, an Independent Director shall refer to a person who (1) is not and has not been an officer or employee of the bank, its subsidiaries or affiliates or related interests during the past three (3) years counted from the date of his election; (2) is not a director or officer of the related companies of the bank's majority stockholder; (3) is not a stockholder with shares of stock sufficient to elect one seat in the board of directors of the bank, or in any of its related companies or of its majority corporate shareholders; (4) is not a relative, legitimate or common-law of any director, officer or majority shareholder of the bank or any of its related companies. For this purpose, relatives refer to the spouse, parent, child, brother, sister, parent-in-law, son-/daughter-in-law, and brother-/sister-in-law; (5) is not acting as a nominee or representative of any director or substantial shareholder of the bank, any of its related companies or any of its substantial shareholders; (6) is not retained as professional adviser, consultant, agent or counsel of the bank, any of its related companies or any of its substantial shareholders, either in his personal capacity or through his firm; is independent of management and free from any business or other relationship, has not engaged and does not engage in any transaction with the institution or with any of its related companies or with any of its substantial shareholders, whether by himself or with other persons or through a firm of which he is a partner or a company of which he is a director or substantial shareholder, other than transactions which are conducted at arm's length and could not materially interfere with or influence the exercise of his judgment.

Does the company have a term limit of five consecutive years for independent directors? If after two years, the company wishes to bring back an independent director who had served for five years, does it limit the term for no more than four additional years? Please explain.

Yes. The Bank is compliant with the term limit of independent directors imposed by BSP Circular No. 749, Series of 2012 and SEC Memorandum Circular No. 9, Series of 2011.

Section 3.1.3. of the Revised Corporate Governance Manual provides the term limits for independent directors (ID) as follows: (a) ID can be elected to only five (5) companies of the conglomerate, parent bank and its subsidiaries and affiliates; (b) ID of the Bank may only serve as such for a total of five (5) consecutive years. ID shall be ineligible for reelection unless he has undergone a "cooling off" period of two (2) years; and (c) After the two-year cooling off period, an ID can be reelected and served for another five (5) consecutive years and shall be perpetually barred from being elected as such after serving for ten (10) years.

5) Changes in the Board of Directors (Executive, Non-Executive and Independent Directors)

(a) Resignation/Death/Removal (updated – 2014)

Indicate any changes in the composition of the Board of Directors that happened during the period:

Name	Position	Date of Cessation	Reason
Omar Byron T. Mier	Director/President and CEO	May 27, 2014	Expiration of term
Christopher J. Nelson	Director	May 27, 2014	Expiration of term

(b) Selection/Appointment, Re-election, Disqualification, Removal, Reinstatement and Suspension

Describe the procedures for the selection/appointment, re-election, disqualification, removal, reinstatement and suspension of the members of the Board of Directors. Provide details of the processes adopted (including the frequency of election) and the criteria employed in each procedure: (new update)

Procedure	Process Adopted	Criteria
a. Selection/Appointment		
(i) Executive Directors (ii) Non-Executive Directors (iii) Independent Directors	The Corporate Governance Committee (acting as the Bank's Nomination Committee) receives and considers the shortlist of the candidates nominated to sit as members of the Board of Directors. In compliance with Subsection X141.2 of the MORB of the BSP re: Qualifications of a Director and in accordance with the procedures for the nomination and election of independent directors set forth in Rule 38 of the Securities Regulation Code which was incorporated in the PNB By-Laws, the Corporate Governance Committee determines whether the nominees are fit and proper and qualified to be elected as member of the Board. The nominee will then be recommended for election by the Board and/or stockholders during the Annual Stockholders' Meeting.	In compliance with subsection X141.2 of the MORB of the BSP, a director of the Bank shall have the following qualifications: 1. Holder of at least one (1) share of stock of the Bank; 2. He shall be at least a college graduate or have at least five (5) year-experience in business to substitute for such formal education; 3. He shall be at least twenty-five (25) years old at the time of his election or appointment; 4. He must have attended a special seminar on corporate governance for board of Directors conducted or accredited by the BSP and SEC: Provided, That incumbent Directors must attend said seminar within a period of six (6) months from date of election; 5. He must be fit and proper for the position of a director of the bank,

		proven to possess integrity/probity, physical / mental fitness, competence, relevant education/ financial literacy/ training, diligence and knowledge/experience; 6. He shall be assiduous in his work habits; 7. Practical understanding of the business of the Bank; and 8. Membership in good standing in relevant industry, business or professional organizations. 9. The members of the board of directors shall possess the foregoing qualifications for directors in addition to those required or prescribed under R.A. No. 8791 and other existing applicable laws and regulations.
b. Re-appointment		
(i) Executive Directors	- Same as above. -	- Same as above. -
(ii) Non-Executive Directors		
(iii) Independent Directors		
c. Permanent Disqualification		
(i) Executive Directors		As enumerated under Subsection X141.3 of the MORB of the BSP, the Revised Manual of Corporate Governance of the Bank and Section 27 of the Corporation Code.
(ii) Non-Executive Directors		
(iii) Independent Directors		
d. Temporary Disqualification		
(i) Executive Directors		As enumerated under Subsection X141.3 of the MORB of the BSP and the Revised Manual of Corporate Governance of the Bank.
(ii) Non-Executive Directors		
(iii) Independent Directors		
e. Removal		
(i) Executive Directors		As provided under Section 28 of the Corporation Code and in case of violation of any of the provisions of the Revised Manual of
(ii) Non-Executive Directors		
(iii) Independent Directors		

		Corporate Governance of the Bank, the maximum penalty of removal from office shall be imposed to the directors.
f. Re-instatement		
(i) Executive Directors		As enumerated in the Revised Corporate Governance Manual of the Bank, a temporary disqualified director shall, within sixty (60) business days from such disqualification, may take the appropriate action to remedy or correct his disqualification and to be re-instated to his position.
(ii) Non-Executive Directors		
(iii) Independent Directors		
g. Suspension		
(i) Executive Directors		In case of violation of any of the provisions of the Revised Manual of Corporate Governance of the Bank, the suspension from office shall be imposed in case of second violation. The duration of the suspension shall depend on the gravity of the violation.
(ii) Non-Executive Directors		
(iii) Independent Directors		

Voting Result of the last Annual General Meeting (May 27, 2014)

Name of Director	Votes Received
Florencia G. Tarriela	Majority
Felix Enrico R. Alfiler	Majority
Florido P. Casuela	Majority
Joseph T. Chua	Majority
Leonilo G. Coronel	Majority
Reynaldo A. Maclang	Majority
Estelito P. Mendoza	Majority
Federico C. Pascual	Majority
Cecilio K. Pedro	Majority
Washington Z. Sycip	Majority
Harry C. Tan	Majority
Dr. Lucio C. Tan	Majority
Lucio K. Tan, Jr.	Majority
Michael G. Tan	Majority
Deogracias N. Vistan	Majority

6) Orientation and Education Program

(a) Disclose details of the company's orientation program for new directors, if any.

The Bank furnishes all of its directors with a copy of the specific duties and responsibilities of the Board of Directors as prescribed under Items *"b"* and *"c"* of Subsection X141.3 of the Manual of Regulations for Banks (MORB) at the time of their election. The directors concerned are each required to acknowledge receipt of the copies of such specific duties and responsibilities and certify that they fully understand the same. Copies of the acknowledgment and certification are then submitted to the BSP within 10 business days after the date of election.

(b) State any in-house training and external courses attended by Directors and Senior Management[3] for the past three (3) years: (updated – 2014)

Participant(s)	Title of Seminar, Date and Venue
2014	
Cenon C. Audencial Jr., EVP	o Corporate Governance Seminar by ICD on November 26, 2014 at PNB Financial Center, Macapagal Blvd., Pasay City o Leading Culture Change Workshop Series on March 24 & 31, 2014 by Ancilla Consulting at PNB Makati Penthouse, Makati City
Horacio E. Cebrero III, EVP	o Corporate Governance Seminar by ICD on November 26, 2014 at PNB Financial Center, Macapagal Blvd., Pasay City o Leading Culture Change Workshop Series on March 24 and 31, 2014 by Ancilla Consulting at PNB Makati Penthouse, Makati City o Securitization in Housing Finance and Introduction to Concentration Risk on July 4, 2014 at SGV, Makati City o BASEL III: What's Next Under the Capital, Leverage and Macro-Prudential Guidelines on August 7, 2014 at SGV, Makati City
Christopher C. Dobles, EVP	o Corporate Governance Seminar by ICD on November 26, 2014 at PNB Financial Center, Macapagal Blvd., Pasay City o Leading Culture Change Workshop Series on March 24 & 31, 2014 by Ancilla Consulting at PNB Makati Penthouse, Makati City o 21st Asian Professional Security Association (APSA) International Conference & Secusafe by Secusafe Alliance Philippines on May 14-16, 2014 at Manila Hotel
Jovencio D. Hernandez, EVP	o Corporate Governance Seminar by ICD on November 26, 2014 at PNB Financial Center, Macapagal Blvd., Pasay City o Leading Culture Change Workshop Series on March 24 and 31, 2014 by Ancilla Consulting at PNB Makati Penthouse, Makati City
Alice Z. Cordero, FSVP	o Corporate Governance Seminar by ICD on November 26, 2014 at PNB Financial Center, Macapagal Blvd., Pasay City o Leading Culture Change Workshop Series on March 24 and 31, 2014 by Ancilla Consulting at PNB Makati Penthouse, Makati City

[3] Senior Management refers to the CEO and other persons having authority and responsibility for planning, directing and controlling the activities of the company.

	o Seminar on Concentration Risk and Related Party Transactions on April 25, 2014 by BAIPHIL at Mandarin Oriental Hotel, Makati City
Socorro D. Corpus, FSVP	o Corporate Governance Seminar by ICD on November 26, 2014 at PNB Financial Center, Macapagal Blvd., Pasay City o Leading Culture Change Workshop Series on March 24 and 31, 2014 by Ancilla Consulting at PNB Makati Penthouse, Makati City o Comprehensive Competency-Based Learning and Assessment Framework in March 24 and 31, 2014 at PNB Makati Penthouse
Zacarias E. Gallardo, Jr., FSVP	o Corporate Governance Seminar by ICD on November 26, 2014 at PNB Financial Center, Macapagal Blvd., Pasay City o Leading Culture Change Workshop Series on March 24 and 31, 2014 by Ancilla Consulting at PNB Makati Penthouse, Makati City o Mentor Skills Development Workshop on July 15 and August 14, 2014 at PNB Makati Penthouse o BASEL III: What's Next Under the Capital, Leverage and Macro-Prudential Guidelines in 2014 on August 7, 2014 at SGV, Makati City
Miguel Angel G. Gonzales, FSVP	o Corporate Governance Seminar by ICD on November 26, 2014 at PNB Financial Center, Macapagal Blvd., Pasay City o Leading Culture Change Workshop Series on March 24 and 31, 2014 by Ancilla Consulting at PNB Makati Penthouse, Makati City
John Howard D. Medina, FSVP	o Corporate Governance Seminar by ICD on November 26, 2014 at PNB Financial Center, Macapagal Blvd., Pasay City o Leading Culture Change Workshop Series on March 24 & 31, 2014 by Ancilla Consulting at PNB Makati Penthouse, Makati City
Benjamin S. Oliva, FSVP	o Corporate Governance Seminar by ICD on November 26, 2014 at PNB Financial Center, Macapagal Blvd., Pasay City o Leading Culture Change Workshop Series on March 24 & 31, 2014 by Ancilla Consulting at PNB Makati Penthouse, Makati City
Aida M. Padilla, FSVP	o Corporate Governance Seminar by ICD on November 26, 2014 at PNB Financial Center, Macapagal Blvd., Pasay City o Leading Culture Change Workshop Series on March 24 & 31, 2014 by Ancilla Consulting at PNB Makati Penthouse, Makati City
Carmela Leticia A. Pama, FSVP	o Corporate Governance Seminar by ICD on November 26, 2014 at PNB Financial Center, Macapagal Blvd., Pasay City o Leading Culture Change Workshop Series on March 24 & 31, 2014 by Ancilla Consulting at PNB Makati Penthouse, Makati City o Concentration Risk and Related Party Transactions in April 25, 2014 by BAIPHIL at Mandarin Oriental Hotel, Makati City
Emmanuel German V. Plan II, FSVP	o Leading Culture Change Workshop Series on March 24 and 31, 2014 by Ancilla Consulting at PNB Makati Penthouse, Makati City o Architecture and Urban Planning: What Business Leaders Need to Know in 2014 in Makati City
Dioscoro Teodorico L. Lim, SVP	o Corporate Governance Seminar by ICD on November 26, 2014 at PNB Financial Center, Macapagal Blvd., Pasay City o Leading Culture Change Workshop Series on March 24 and 31, 2014 by Ancilla Consulting ate PNB Makati Penthouse, Makati City o Concentration Risk and Related Party Transactions in April 25, 2014 by BAIPHIL at Mandarin Oriental Hotel, Makati City
Maria Paz D. Lim, SVP	o Corporate Governance Seminar by ICD on November 26, 2014 at PNB Financial Center, Macapagal Blvd., Pasay City o Leading Culture Change Workshop Series on March 24 and 31, 2014 by Ancilla Consulting at PNB Makati Penthouse, Makati City

	○ Comprehensive Competency-Based Learning and Assessment Framework in March 24 and 31, 2014 2014 at PNB Makati Penthouse.
Manuel C. Bahena, Jr., FVP	○ Corporate Governance Seminar by ICD on November 26, 2014 at PNB Financial Center, Macapagal Blvd., Pasay City ○ Leading Culture Change Workshop Series on March 24 and 31, 2014 by Ancilla Consulting at PNB Makati Penthouse, Makati City ○ Mentor Skills Development Workshop on July 15 and August 14, 2014 at PNB Makati Penthouse
Josephine E. Jolejole, FVP	○ Corporate Governance Seminar by ICD on November 26, 2014 at PNB Financial Center, Macapagal Blvd., Pasay City ○ Leading Culture Change Workshop Series on March 24 and 31, 2014 by Ancilla Consulting at PNB Makati Penthouse, Makati City ○ Securitization in Housing Finance and Introduction to Concentration Risk in 2014 on July 4, 2014 at SGV, Makati City
Constantino T. Yap, VP	○ Leading Culture Change Workshop Series on March 24 and 31, 2014 by Ancilla Consulting at PNB Makati Penthouse, Makati City
2013	
Christopher J. Nelson, director	○ Orientation Course on Corporate Governance on June 7, 2013 Institute of Corporate Directors
Erwin C. Go, SVP	○ Corporate Governance and Anti-Money Laundering Act (SEC, IC & Supreme Court MCLE Accredited Seminar) on February 15, 2013 ○ Philippine Securities Consultancy Corporation (PHILSECC) Dusit Thani Hotel, Ayala Center, Makati City –
Lolita Chu, FVP	○ Training on Risk-Adjusted Performance Measures on October 28 & 29, 2013 ○ By: KEN Knoeledge International Holiday Inn & Suites Makati, Manila Philippines
2012	
Deogracias N. Vistan, director Felix Enrico R. Alfiler, director	○ Corporate Governance Orientation Program (CGOP) ○ March 1 to 2, 2012; Institute of Corporate Directors, Inc.
Emeline Centeno, SVP	○ Stress Testing: Perspectives, Guidance & Application ○ January 20, 2012; AIM, Makati City
Schubert Austero, SVP	○ Learning for the Future - An Open Space Technology Conference ○ Crown Plaza Manila Galleria
Alice Cordero, SVP Lino Carandang, FVP	○ Seminar on Foreign Account Tax Compliance Act (FATCA), DODD- Frank Act & BASEL III ○ August 31,2012; 21F Brassiere, Security Bank, Ayala Ave., Makati City
Marie Fe Liza Jayme, FVP Daniel Yu, SVP	○ Asia Regional Seminar of International Commercial Cash Operations Seminar (ICCOS ASIA) ○ October 15-17, 2012; Makati Shangri La Plaza
Marlyn Pabrua, SVP	○ BASEl lll and Interface with IFRS Training ○ Balmori Room, Manila Peninsula Hotel
Senior Officers	○ Transformational Leadership
Esperanza A. Gavieta, VP	○ The Housing Finance Sec. after Fin. & Natural Calamities
Ricardo C. Ramos, OIC	○ Budget Appropriation-PNB New York Compliance/ Operations Training
Winston L. Peckson, FVP	○ The PERA law (R.A. No. 9505)
Emmanuel German Plan, SVP	○ Home Guaranty Corporation
Josephine E. Jolejole, VP	○ 2nd Annual REIT Asia Pacific Philippines Summit 2010

(c) Continuing education programs for directors: programs and seminars and roundtables attended during the year. (updated – 2014)

Name of Directors	Date of Training	Program	Name of Training Institution
2014			
Florencia G. Tarriela	August 19, 2014	Distinguished Corporate Governance Speaker Series	The Institute of Corporate Directors
Felix Enrico R. Alfiler	November 26, 2014	Corporate Governance Seminar	The Institute of Corporate Directors
Florido P. Casuela	August 19, 2014	Distinguished Corporate Governance Speaker Series	The Institute of Corporate Directors
Joseph T. Chua	August 19, 2014	Distinguished Corporate Governance Speaker Series	The Institute of Corporate Directors
Leonilo G. Coronel	March 6 and 7, 2014	Orientation Course on Corporate Governance	The Institute of Corporate Directors
Reynaldo A.Maclang	November 26, 2014	Corporate Governance Seminar	The Institute of Corporate Directors
Estelito P. Mendoza	September 19, 2014	Corporate Governance Seminar	SGV
Federico C. Pascual	August 19, 2014	Distinguished Corporate Governance Speaker Series	The Institute of Corporate Directors
Cecilio K. Pedro	June 05, 2014	Orientation Course on Corporate Governance	The Institute of Corporate Directors
Washington Z. Sycip	April 1, 2014	Corporate Governance Enhancement Session on Corporate Governance Requirements Under US Laws and Regulations	PLDT - Corporate Governance Seminar conducted by the Chief Corporate Governance Officer
Harry C. Tan	August 19, 2014	Distinguished Corporate Governance Speaker Series	The Institute of Corporate Directors
Dr. Lucio C. Tan	August 19, 2014	Distinguished Corporate Governance Speaker Series	The Institute of Corporate Directors
Lucio K. Tan, Jr.	October 21, 2014	Corporate Governance Seminar	Risk, Opportunities, Assessment and Management (ROAM), Inc.
Michael G. Tan	August 19, 2014	Distinguished Corporate Governance Speaker Series	The Institute of Corporate Directors
Deogracias N. Vistan	November 26, 2014	Corporate Governance Seminar	The Institute of Corporate Directors
Christopher J. Nelson	February 5, 2014	Distinguished Corporate Governance Speaker Seminar	Institute of Corporate Directors
2013			
Florencia G. Tarriela	February 13, 2013	Whole Brain Leadership Workshop	Institute of Corporate Directors
Florido P. Casuela	February 13, 2013	Whole Brain Leadership Workshop	Institute of Corporate Directors
	February 8, 2013	Breakfast Roundtable	Institute of Corporate Directors
Omar Byron T. Mier	February 13, 2013	Whole Brain Leadership Workshop	Institute of Corporate Directors

Christopher J. Nelson	June 17 and October 16, 2013	Breakfast Roundtable	Institute of Corporate Directors
	November 15, 2013	Annual Working Session	Institute of Corporate Directors
Harry C. Tan	February 13, 2013	Whole Brain Leadership Workshop	Institute of Corporate Directors
2012			
Florencia G. Tarriela	November 23, 2012	Updates on New AML-CFT Laws	AMLC Secretariat – BSP
Felix Enrico R. Alfiler	March 1-2, 2012	Orientation Course on Corporate Governance	Institute of Corporate Directors
	November 23, 2012	November 23, 2012	Updates to New AML-CFT LAWS
Florido P. Casuela	November 23, 2012	Updates on New AML-CFT Laws	AMLC Secretariat – BSP
Reynaldo A. Maclang	November 23, 2012	Updates on New AML-CFT Laws	AMLC Secretariat – BSP
Estelito P. Mendoza	November 23, 2012	Updates on New AML-CFT Laws	AMLC Secretariat – BSP
Omar Byron T. Mier	November 23, 2012	Updates on New AML-CFT Laws	AMLC Secretariat – BSP
Washington Z. Sycip	November 23, 2012	Updates on New AML-CFT Laws	AMLC Secretariat – BSP
John G. Tan	November 23, 2012	Updates on New AML-CFT Laws	AMLC Secretariat – BSP
Lucio C. Tan	November 23, 2012	Updates on New AML-CFT Laws	AMLC Secretariat – BSP
Lucio K. Tan, Jr.	November 23, 2012	Updates on New AML-CFT Laws	AMLC Secretariat – BSP
Deogracias N. Vistan	March 1-2, 2012 November 23, 2012	Orientation Course on Corporate Governance Updates on New AML-CFT Laws	Institute of Corporate Directors AMLC Secretariat – BSP

B. CODE OF BUSINESS CONDUCT & ETHICS

1) Discuss briefly the company's policies on the following business conduct or ethics affecting directors, senior management and employees:

Business Conduct & Ethics	Directors	Senior Management	Employees	Reference/Circular
(a) Conflict of Interest	Covered	Covered	Covered	Personal Investment Policy, Manual of Policies*, Sec. 2211 Employee Handbook
(b) Conduct of Business and Fair Dealings		Covered	Covered	Personal Investment Policy, Manual of Policies *, Sec. 2211
(c) Receipt of gifts from third parties		Covered	Covered	Policy on Soliciting and/or Receiving Gifts (Gen. Cir. 1-866/2013 dated April 10, 2013)
(d) Compliance with Laws & Regulations		Covered	Covered	Manual of Policies*, Code of Conduct Manual Employee Handbook
(e) Respect for Trade Secrets/Use of Non-	Covered	Covered	Covered	Personal Investment Policy, Manual of Policies*, Sec. 2211 Confidentiality

public Information				of Information (Manual of Policies *, Sec. 2203.13), Employee Handbook
(f) Use of Company Funds, Assets and Information		Covered	Covered	Confidentiality of Information (Manual of Policies *, Sec. 2203.13), Employee Handbook
(g) Employment & Labor Laws & Policies		Covered	Covered	Manual of Policies,*Employee Handbook
(h) Disciplinary action		Covered	Covered	Code of Conduct Manual, Employee Handbook
(i) Whistle Blower	Covered	Covered	Covered	Gen. Cir. 1-868/2013 dated April 12, 2013
(j) Conflict Resolution		Covered	Covered	Code of Conduct Manual

* Manual of Policies on Human Resource Management and Development

2) Has the code of ethics or conduct been disseminated to all directors, senior management and employees? (updated – 2014)

The Bank's human resource policies including but not limited to the Code of Conduct are disseminated by the Human Resource Group via the Bank's email network to all employees (officers and rank and file) and accessible through the Bank's intranet system (PNB Cybermag). New hires are required to attend classroom training on Corporate Governance and Code of Conduct briefings.

3) Discuss how the company implements and monitors compliance with the code of ethics or conduct. (updated – 2014)

Each employee accomplishes an Acknowledgement Receipt certifying therein that he/she has been furnished with a copy of the Code of Conduct Manual; that he/she has fully read and understood the provisions embodied in the Code of Conduct Manual and that he/she promises to abide with the rules/regulations of the Code of Conduct Manual.

Compliance and implementation of PNB Code of Conduct is stipulated in the PNB Code of Conduct Manual. Fact Finding Committees and Disciplinary Authorities created/formed as approved by the Board are mandated to observe procedures, proceedings, and timelines in performing their respective functions. Corresponding sanctions are enumerated in the PNB Code of Conduct in case of violation or non-observance of Bank policies by Bank employees. Code of conduct evaluations, policies and procedures, enhancement in the ethical standards of the Bank are reviewed and approved by the Corporate Governance/ Nomination/ Remuneration Committee.

4) Related Party Transactions

(a) Policies and Procedures (updated – 2014)

Describe the company's policies and procedures for the review, approval or ratification, monitoring and recording of related party transactions between and among the company and its parent, joint ventures, subsidiaries, associates, affiliates, substantial stockholders, officers and directors, including their spouses, children and dependent siblings and parents and of interlocking director relationships of members of the Board.

Related Party Transactions	Policies and Procedures
(1) Parent Company (2) Joint Ventures (3) Subsidiaries (4) Entities Under Common Control (5) Substantial Stockholders (6) Officers including spouse/children/siblings/parents (7) Directors including spouse/children/siblings/parents (8) Interlocking director relationship of Board of Directors	In the ordinary course of business, the Bank has loans and other transactions with its subsidiaries and affiliates, and those classified as "directors, officers, stockholders and related interests" (DOSRI). Under the Bank's policy, these loans and other transactions are made substantially on the same terms as those of other individuals and businesses of comparable risk. Under BSP Circular 423, the amount of direct credit accommodations to each of the Bank's DOSRI, 70% of which must be secured, should not exceed the amount of their respective deposits and the book value of their respective investments in the Bank. In the aggregate, DOSRI loans generally should not exceed the Bank's net worth or 15% of the Bank's total loan portfolio, whichever is lower. For proper monitoring of related party transactions (RPT) and to assist the Board in performing its oversight functions in monitoring and managing potential conflicts of interest of management, board members and shareholders, the Bank created the Board Oversight RPT Committee (BORC). The BORC is composed of at least five (5) regular members which include three (3) independent directors and 2 non-voting members (the Chief Audit Executive and the Chief Compliance Officer). The Chairman of the committee is an independent director and appointed by the Board. The RPT accounts are discussed, evaluated and endorsed by the BORC for approval of the Board. Any member of the Board who is a director of the RPT account does not participate during the discussion and abstain during the voting on the account.

(b) Conflict of Interest

(i) Directors/Officers and 5% or more Shareholders

Identify any actual or probable conflict of interest to which directors/officers/5% or more shareholders may be involved.

	Details of Conflict of Interest (Actual or Probable)
Name of Director/s	None
Name of Officer/s	None
Name of Significant Shareholders	None

(ii) Mechanism

Describe the mechanism laid down to detect, determine and resolve any possible conflict of interest between the company and/or its group and their directors, officers and significant shareholders.

	Directors/Officers/Significant Shareholders
Company Group	Sec. 3.1.11 of the Bank's Revised Corporate Governance Manual, Directors must avoid conflicts or potential conflicts of interest. A conflict of interest occurs when an individual's private or related interests interfere in any way, or are perceived to interfere, with the interests of the Bank as a whole. A conflict situation can arise when a Director takes actions or has interests that may make it difficult for him to preserve his objectivity and carry out his tasks effectively. Conflicts of interests also

	arise when a Director, or a member of his family, receives improper personal benefits as a result of his position in the Bank. Any question about a Director's actual or potential conflict of interest with the Bank should be brought promptly to the attention of the Corporate Governance/Nomination Committee, which will review the question and determine an appropriate course of action, including whether consideration or action by the full Board is necessary. Directors involved in any conflict or potential conflict shall disassociate themselves from any decision related thereto. All Bank employees have a duty to ensure than no personal transactions in which they engage conflict with their corporate and customer responsibilities. Accordingly, PNB employees shall not buy or sell a security on the basis of knowledge: (1) of a probable change in investment attitude and consequent action by bank with respect to that security; (2) that bank is effecting or proposes to effect transactions in the security or other transactions which may affect the price of the security to a material degree; or (3) that bank is contemplating a transaction of any kind that would have a material effect on a particular company or security.

5) Family, Commercial and Contractual Relations

(a) Indicate, if applicable, any relation of a family,[4] commercial, contractual or business nature that exists between the holders of significant equity (5% or more), to the extent that they are known to the company:

Names of Related Significant Shareholders	Type of Relationship	Brief Description of the Relationship
None	Not Applicable	Not Applicable

(b) Indicate, if applicable, any relation of a commercial, contractual or business nature that exists between the holders of significant equity (5% or more) and the company:

Names of Related Significant Shareholders	Type of Relationship	Brief Description
None	Not Applicable	Not Applicable

(c) Indicate any shareholder agreements that may impact on the control, ownership and strategic direction of the company:

Name of Shareholders	% of Capital Stock affected (Parties)	Brief Description of the Transaction
None that the company is aware of.	Not Applicable	Not Applicable

6) Alternative Dispute Resolution

Describe the alternative dispute resolution system adopted by the company for the last three (3) years in

[4] Family relationship up to the fourth civil degree either by consanguinity or affinity.

amicably settling conflicts or differences between the corporation and its stockholders, and the corporation and third parties, including regulatory authorities.

	Alternative Dispute Resolution System
Corporation & Stockholders	The Bank has adopted various communication systems to allow its stockholders and third parties, including regulatory authorities, to exercise their rights and communicate their concerns/queries to the Bank. The contact details of the Office of the Corporate Secretary and the stock transfer agent of the Bank are posted in the Bank's website for the easy reference of shareholders. The Bank also posts its contact details for customer care and third parties in the main page of the website. For regulatory issues, the Bank follows the procedure set forth by the concerned regulators.
Corporation & Third Parties	
Corporation & Regulatory Authorities	

C. BOARD MEETINGS & ATTENDANCE

1) Are Board of Directors' meetings scheduled before or at the beginning of the year?

Yes. The meetings of the Board of Directors are scheduled at the beginning of the year.

2) Attendance of Directors (updated – 2014)

Board	Name	Date of Election	No. of Meetings Held during the year	No. of Meetings Attended
Chairman/Independent Director	Florencia G. Tarriela	May 27, 2014	22	22
Vice Chair/Independent Director	Felix Enrico R. Alfiler***	May 27, 2014	22	11
Member	Florido P. Casuela	May 27, 2014	22	21
Member	Joseph T. Chua*	May 27, 2014	13	12
Member	Leonilo G. Coronel	May 27, 2014	22	22
Member	Reynaldo A. Maclang	May 27, 2014	22	22
Member	Estelito P. Mendoza	May 27, 2014	22	14
Independent Director	Federico C. Pascual*	May 27, 2014	13	13
Independent Director	Cecilio K. Pedro**	May 27, 2014	19	16
Member	Washington Z. Sycip	May 27, 2014	22	17
Member	Harry C. Tan	May 27, 2014	22	17
Member	Lucio C. Tan	May 27, 2014	22	16
Member	Lucio K. Tan, Jr.	May 27, 2014	22	13
Member	Michael G. Tan	May 27, 2014	22	19
Independent Director	Deogracias N. Vistan	May 27, 2014	22	22

** Elected on May 27, 2014 during the Annual Stockholders' Meeting of the Bank*
*** Elected on February 28, 2014*
**** On medical leave of absence since January 1, 2014. He participated in Board meetings via teleconferencing since June 27, 2014.*

3) Do non-executive directors have a separate meeting during the year without the presence of any executive? If yes, how many times?

No.

4) Is the minimum quorum requirement for Board decisions set at two-thirds of board members? Please explain.

No. Article IV, Section 5.12 of the PNB's Amended By-Laws states that "a majority of the directors shall be necessary at all meetings to constitute a quorum for the transaction of any business and every decision of a majority of the quorum assembled as Board shall be valid as a corporate act unless otherwise provided by law. A minority of the Board present at any regular or special meeting shall, in the absence of a quorum, adjourn to a later date, and shall not transact any business until a quorum has been secured".

5) Access to Information

(a) How many days in advance are board papers[5] for board of directors meetings provided to the board?

The Board papers for board of directors meetings are provided to the board 3-4 days in advance except for items taken up/endorsed after the cut-off for the initial delivery which are given the day before the board meeting.

(b) Do board members have independent access to Management and the Corporate Secretary? (new update)

Yes. The board members have independent access to Management and the Corporate Secretary to enable the directors have complete information about matters to be taken up during or after their meeting.

(c) State the policy of the role of the company secretary. Does such role include assisting the Chairman in preparing the board agenda, facilitating training of directors, keeping directors updated regarding any relevant statutory and regulatory changes, etc?

The following are the duties of the Corporate Secretary as provided by the Bank's By-Laws and Revised Corporate Governance Manual:

(1) Notify parties concerned of any stockholders and Board meetings;
(2) Inform the members of the Board, in accordance with the Amended By-Laws, of the agenda of their meetings and ensure that the members have before them accurate information that will enable them to arrive at intelligent decisions on matters that require their approval;
(3) Attend all Board meetings, except when justifiable causes, such as illness, death in the immediate family and serious accidents, prevent him from doing so;
(4) Ensure that all Board procedures, rules and regulations are strictly followed by the members;
(5) Provide proper assistance to the Members of the Board during all Board and Stockholders' meetings while they are in the performance of their duties and responsibilities under the law and the By-Laws;
(6) Be responsible for the safekeeping and preservation of the integrity of the Minutes of the meetings, as well as the other official records pertaining to the duties and responsibilities of the Office of the Corporate Secretary;
(7) Furnish all Directors with a copy of the general responsibilities and specific duties and responsibilities of the Board of Directors prescribed under Manual of Regulations for Banks (MORB) Subsec. X141.3(b and c), as well as the specific duties and responsibilities of a Director under X141.3(d), within thirty (30) banking days from the time of election. Copies of the acknowledgement and certification by the Directors shall be submitted to the appropriate supervisory and examining department of SES-BSP within fifteen (15) banking days from date hereof;
(8) Monitor the Directors' compliance with the attendance requirements, and issue and submit to the SEC, on or before January 30 of the following year, a sworn certification about the Directors' record of attendance in Board meetings. The certification may be submitted through SEC Form 17-C or in a separate filing;
(9) Keep a list of the Bank's stockholders, their proxies and their stockholdings, maintain the stock transfer book/s and keep track of all outstanding certificates in the manner required by law and regulations, and

[5] Board papers consist of complete and adequate information about the matters to be taken in the board meeting. Information includes the background or explanation on matters brought before the Board, disclosures, budgets, forecasts and internal financial documents.

a. Ascertain the identity and citizenship of the transferee, voting trustee, or proxy of voting shares of stock of the bank, and require them to submit or disclose such documents and information relative to their stockholdings or any voting trust arrangements thereto;
b. Require the transferee, voting trustee, proxy of voting shares of stock to disclose all information with respect to persons related to them within the fourth degree of consanguinity or affinity where they have controlling interest, and the extent thereof;
c. Require the transferee or recipient of voting shares of stock to execute an affidavit stating, among other things, that the transferee or recipient of voting shares of stock is a bona fide owner of the said shares of stock, and that he/she acknowledges full awareness of (a) the prohibition against ownership of voting shares of stock in excess of the ceilings and/or (b) the requirement for prior Monetary Board approval for transactions resulting to significant ownership of voting shares of stock of a bank by any person, as provided in Subsec. X126.2 of the MORB and such other rules and regulations of the regulatory agencies, as may be amended from time to time;
d. Promptly inform stockholders (a) who have reached any of the ceilings prescribed by laws/BSP regulations of their ineligibility to own or control more than applicable ceiling or (b) who would own voting shares of stock requiring prior Monetary Board approval;
e. Disclose the ultimate beneficial owners of bank shares held in the name of Philippine Central Depository (PCD) Nominee Corporation in the annual (or quarterly whenever changes occur) report on Consolidated List of Stockholders and their Stockholdings (BSP 7-16-11), which report shall be made under oath by the corporate secretary;
f. Submit financial statements, list of certain stockholders together with their stockholdings, as well as such other reports as prescribed/required by the regulatory agencies;
g. Disclose any material transactions, events and information as required under the rules and regulations of the regulatory agencies;
h. Perform such other duties as are necessary or incidental to his office and those that may from time to time be required by the Board, as well as by the rules and regulations of the regulatory agencies;

(10) Exhibit loyalty to the mission, vision and objectives of the Bank; and
(11) Work fairly and objectively with the Board, Management and stockholders.

The Corporate Secretary prepares the Agenda for the Board and committee meetings (Board Credit and Policy Committee and Board Credit Committee) and also assists the directors in attending seminars and trainings.

The Chief Compliance Officer is in charge in monitoring the bank compliance with the provisions and requirements of the Revised Corporate Governance Manual and relevant banking rules and regulations as well as keeping the directors updated regarding any related statutory and regulatory changes.

(d) Is the company secretary trained in legal, accountancy or company secretarial practices? Please explain should the answer be in the negative.

Yes. The Corporate Secretary of the bank is a lawyer. She possesses appropriate administrative and interpersonal skills, and have working knowledge of the operations of the bank.

(e) Committee Procedures

Disclose whether there is a procedure that Directors can avail of to enable them to get information necessary to be able to prepare in advance for the meetings of different committees:

Yes [√] No [ ]

Committee	Details of the procedures
Board Credit and Policy Committee	The respective committee secretariats send the materials to the members at least two days before the meeting. The directors have meet with Management should they require additional information.
Board Credit Committee	
Board Audit and Compliance Committee	
Corporate Governance/ Nomination/ Remuneration Committee	
Risk Oversight Committee	
Trust Committee	
Board ICAAP Steering Committee	
Board Oversight Committee – Domestic and Foreign Offices/Subsidiaries	
Board Oversight RPT Committee	
Board I.T. Governance Committee	

6) External Advice

Indicate whether or not a procedure exists whereby directors can receive external advice and, if so, provide details:

Procedures	Details
Directors are given the discretion to request for external advice whenever desired or necessary.	

7) Change/s in existing policies

Indicate, if applicable, any change/s introduced by the Board of Directors (during its most recent term) on existing policies that may have an effect on the business of the company and the reason/s for the change: (updated – 2014)

There are several policy changes in the regular course of business for improved process and efficiency, as well as the alignment of policies of the Bank in view of the merger.

Existing Policies	Changes	Reason
Manual on Signing Authority (MSA) - Branch Operations	Annual review/revision of approving authorities for Branch Operations	To facilitate approval of transactions in the branches for the integrated management of Merged Bank branches
Amendments to the approving limits of Board CreditCom and Board CPC	Revised the approving limits of Board CreditCom and Board Credit and Policy Committee (Board CPC)	To facilitate the approving limits of Board CreditCom and Board CPC under the Merged Bank
Revised Policy on Sure Home Loan Program	I. Amendments to the basic policies, implementing guidelines and approving authorities of the Sure Home Loan Program. II. Included a provision on the guidelines and required documentation in case the loan proceeds to be released is against the DOU of an accredited real estate developer.	To simplify and update the program features as well as to align some provisions with the Policy on Home Flexi Loan Program and Motor Vehicle Loan Program
Guidelines on Booking and Valuation of Real and	Included guidelines for booking and valuation of ROPA properties under Generally Accepted Accounting	Board approved new policy guidelines on booking of ROPA as part of the ROPA strategy

Other Properties (ROPA) under GAAP	Principles (GAAP).	
Policy on External Credit Investigation	Accreditation and credit investigation guidelines for external credit investigators, in case the bank shall engage the services of external credit investigators.	To streamline the processes and procedures in the outsourcing of the Bank's accreditation of external CI service providers that will support loan expansion and ROPA disposal programs
Policy Guidelines and Approving Authorities on Loans Fully Secured by Deposit Hold-out	Amendments to the policy guidelines and approving authorities for Loans Fully Secured by Holdout	To align the credit policies and approving authorities for the Merged Bank
Creation of Global Consumer Loans Credit Committee (GLCC)		To facilitate approval of consumer loan recommendations for overseas offices managed by the Global Filipino Banking Group of up to Php10M. Support consumer banking strategic direction for PNB Savings as the hub for the consumer business
Amendments to the Policy on External Appraisal	Amended the guideline pertaining to the Validation of appraisal reports for ROPA properties	To streamline the appraisal process requirements and support turnaround time for the sale of Real and Other Properties Acquired (ROPA)
Revised Policy on Related Party Transaction (RPT)	Amended the policy to consider and incorporate the important provisions of the BSP Circulars.	To align and comply with the recent BSP regulations on related party transactions (RPTs) framework
Policy on PNB Corporate Social Responsibility	Adoption of the Policy on PNB Corporate Social Responsibility under the merged Bank.	To integrate guidelines on the Bank's Corporate Social Responsibility initiatives for the merged bank
Policies on Compensation, Benefits and Incentives	For Bank rank and file employees whose regular work hours (under a night shift schedule) fall or are rendered between 6:01 PM to 6:00 A.M.	Harmonization of policy to be adopted under the Merged Bank.
PNB Perfect Attendance Award Program	For rank and file employees who achieve perfect attendance record for at least one semester in a calendar year.	
Policies on Paternity Leave Benefit	Pursuant to Republic Act No. 8187 entitled "An Act Granting Paternity Leave of Seven (7) Days with Full Pay to All Married Male Employees in the Private and Public Sectors for the First Four (4) Deliveries of the Legitimate Spouse with Whom He is Cohabiting and for Other Purposes", otherwise known as the "Paternity Leave Act of 1996".	
Policy on Solo Parent Leave Benefit	Pursuant to Republic Act No. 8972 entitled "An Act Providing for the Benefits and Privileges to Solo Parents and their Children, Appropriating Funds Therefor and for Other Purposes",	

	otherwise known as the "Solo Parents' Welfare Act of 2000".	
Policy on Hazard Pay	For rank and file employees, including those on probationary status, who are designated to perform cash/deposit pick-up/delivery and ATM off-site cash loading/servicing.	
PNB Car Plan for Officers	The PNB Officers' Car Plan involves the acquisition by the Bank of brand new motor vehicles for the purpose of leasing them out to qualified officers over a period of five (5) years, thru financing arrangement, with the officer's option to purchase the said leased vehicle upon expiration of the lease term, as the case may be.	

D. REMUNERATION MATTERS

1) Remuneration Process

Disclose the process used for determining the remuneration of the CEO and the four (4) most highly compensated management officers:

Process	CEO	Top 4 Highest Paid Management Officers
(1) Fixed remuneration	The remuneration for CEO is determined through negotiation with the incoming CEO taking into consideration (a) his/her qualifications; (b) salary range for the rank and position; (c) result of a commissioned Banking Industry Compensation Survey; (d) budget; and (e) other factors which affect compensation	The remuneration to four (4) executives is determined through negotiation with the incoming senior officers taking into consideration (a) their qualifications; (b) salary range for the rank and position; (c) result of a commissioned Banking Industry Compensation Survey; (d) budget; and (e) other factors which affect compensation
(2) Variable remuneration	Not Applicable	Not Applicable
(3) Per diem allowance	Not Applicable	Not Applicable
(4) Bonus	The Bonus is based on the Bank's policy under PNB Board Resolution No. 12/07-24-09 of July 24, 2009 (re: "Amendment to the Compensation and Benefit Policy for Officers")	The Bonus is based on the Bank's policy under PNB Board Resolution No. 12/07-24-09 of July 24, 2009 (re: "Amendment to the Compensation and Benefit Policy for Officers")
(5) Stock Options and other financial instruments	Not Applicable	Not Applicable
(6) Others (specify)	Not Applicable	Not Applicable

2) Remuneration Policy and Structure for Executive and Non-Executive Directors

Disclose the company's policy on remuneration and the structure of its compensation package. Explain how the compensation of Executive and Non-Executive Directors is calculated.

	Remuneration Policy	Structure of Compensation Packages	How Compensation is Calculated
Executive Directors Non-Executive Directors	The remuneration and structures are based on the Bank's policy under PNB Board Resolution No. 06/10-23-09 of October 23, 2009 (re: "Policy on Remuneration of Directors and Officers")	The remuneration and structures are based on the Bank's policy under PNB Board Resolution No. 06/10-23-09 of October 23, 2009 (re: "Policy on Remuneration of Directors and Officers")	The remuneration and structures are based on the Bank's policy under PNB Board Resolution No. 06/10-23-09 of October 23, 2009 (re: "Policy on Remuneration of Directors and Officers")

Do stockholders have the opportunity to approve the decision on total remuneration (fees, allowances, benefits-in-kind and other emoluments) of board of directors? Provide details for the last three (3) years.
Yes. Section 5.8 of the PNB's Amended By-Laws re: Compensation states that Directors, as such, shall receive such compensation for their services as may from time to time be fixed by the stockholders subject to the limitations set forth in Section 30 of the Corporation Code.

Remuneration Scheme	Date of Stockholders' Approval
There has been no proposal on remuneration for directors presented to the stockholder for approval in the Annual Stockholders' Meetings held for the years 2012-2014. As of present, the directors do not receive any compensation apart from per diems.	

3) Aggregate Remuneration

Complete the following table on the aggregate remuneration accrued during the most recent year: (new update)

Remuneration Item	Executive Directors	Non-Executive Directors (other than independent directors)	Independent Directors
(a) Fixed Remuneration	-	-	-
(b) Variable Remuneration	-	-	-
(c) Per diem Allowance	-	₱31,955,000.00	₱12,370,000.00
(d) Bonuses	-	-	-
(e) Stock Options and/or other financial instruments	-	-	-
(f) Others (Specify)	-	-	-
Total		₱31,955,000.00	₱12,370,000.00

Other Benefits	Executive Directors	Non-Executive Director (other than independent directors)	Independent Directors
1) Advances	-	-	-
2) Credit granted	-	-	-
3) Pension Plan/s Contributions	-	-	-
(d) Pension Plans, Obligations incurred	-	-	-
(e) Life Insurance Premium		₱12,052.60	₱4,042.60
(f) Hospitalization Plan		₱144,409.19	₱57,606.45
(g) Car Plan	-	-	-
(h) Others (Specify)	-	-	-
Total		₱156,461.79	₱61,649.05

4) Stock Rights, Options and Warrants

(a) Board of Directors

Complete the following table, on the members of the company's Board of Directors who own or are entitled to stock rights, options or warrants over the company's shares:

Director's Name	Number of Direct Option/Rights/ Warrants	Number of Indirect Option/Rights/ Warrants	Number of Equivalent Shares	Total % from Capital Stock
Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable

(b) Amendments of Incentive Programs

Indicate any amendments and discontinuation of any incentive programs introduced, including the criteria used in the creation of the program. Disclose whether these are subject to approval during the Annual Stockholders' Meeting:

Incentive Program	Amendments	Date of Stockholders' Approval
None	Not Applicable	Not Applicable

5) Remuneration of Management

Identify the five (5) members of management who are not at the same time executive directors and indicate the total remuneration received during the financial year: (new update)

Name of Officer/Position	Total Remuneration
Audencial, Cenon, Jr. C.; Cebrero, Horacio III E.; Dobles, Christopher C.; Hernandez, Jovencio D.	₱62,732,064.00*

** Inclusive of the renumeration of the President*

E. BOARD COMMITTEES

1) Number of Members, Functions and Responsibilities

Provide details on the number of members of each committee, its functions, key responsibilities and the power/authority delegated to it by the Board: (updated – 2014)

Committee	No. of Members			Committee Charter
	Executive Director	Non-Executive Director	Independent Director	
Board Credit and Policy Committee	1	3	3	Yes
Board Credit Committee	1	5	1	Yes
Board Audit and Compliance Committee	0	2	3	Yes
Corporate Governance/Nomination Com	1	2	4	Yes
Risk Oversight Committee	0	4	1	Yes
Trust Committee	2*	1	2	Yes
Board ICAAP Steering Committee	1	2	2	Yes
Board Oversight Committee – Domestic & Foreign Offices/Subsidiaries	0	2	3	Yes
Board Oversight RPT Committee	0	0	3	Yes
Board I.T. Governance Committee	0	3	2	Yes

(*) Ex-officio members

<u>BOARD COMMITTEES' FUNCTIONS/KEY RESPONSIBILITIES AND POWER/AUTHORITY:</u>

A. <u>BOARD CREDIT AND POLICY COMMITTEE (Board CPC) (updated – 2014)</u>

Function: The Board CPC was created in 2014 to take over the functions of the former Executive Committee and perform other functions and duties as the Board may confer upon it.

Key Responsibilities and Power/Authority:

1. To review, evaluate, approve and/or endorse for Board approval credit lines and facilities for "current" clients, per credit policies and procedures, and the approval limits in the Manual of Signing Authority.
2. To approve and/or endorse for approval of the Board the restructuring of facilities for remedial accounts/disposal of non-performing assets (NPAs), and the write-off of unrecoverable accounts.
3. To review, evaluate, approve and/or endorse for Board approval policies and procedures, manuals for bank products, and services to be offered to the bank's domestic and overseas markets.
4. To endorse for Board approval the establishment or closure of local branches, and overseas offices and approve the relocation and renovation thereof as may be proper.
5. To evaluate and endorse for Board approval the bank's strategic plans, thrusts, business models, forecasts and the annual budget.
6. In coordination with the other board committees, to conduct quarterly/periodic Management Profitability Reviews to determine the bank's/business sectors actual performance against targets/budgets.
7. To provide policy directors for CBA negotiations and the management of Labor and Employee Relations and endorse the negotiated CBA provisions for Board approval.
8. To evaluate, approve and endorse for Board approval such investments in financial assets/and products and the raising of core of Lower Tier 2 Capital, as the case may be, and provide investment and/or risk limits for treasury or investment products.
9. To approve all expenses over P1,000,000.00.
10. To exercise oversight functions over Domestic and Overseas Subsidiaries.
11. To exercise oversight functions over Credit and Market Risks.
12. To set up plans for the implementation of mergers and acquisitions and provide the budget thereof.

B. BOARD CREDIT COMMITTEE (Board CreditCom)

Function/Power/Responsibilities: The Board CreditCom has the authority to review, discuss, note, endorse and/or approve Management pre-clearances, recommendations, updates and reports on credit matters and provide the bank the flexibility to respond to time-sensitive matters as well as facilitate the approval of certain corporate actions within the authority limits determined by the Board. It shall also perform other functions and duties as the Board may confer upon it.

C. BOARD AUDIT AND COMPLIANCE COMMITTEE (BACC)

Function: The Board Audit and Compliance Committee has oversight responsibility relating to the integrity of the Bank's financial statements, internal controls and compliance with legal and regulatory requirements.

Key Responsibilities and Power/Authority:

1. Provide oversight of the Bank's internal and external auditors and Compliance Officer.
2. Review and approve the Bank's internal audit plan and compliance plan.
3. Discuss with the External Auditor before the audit commences the nature, scope of the audit.
4. Responsible for the setting-up of an Internal Audit Group and Global Compliance Group and consider the appointment of the Chief Audit Executive and the Chief Compliance Officer as well as an independent External Auditor.
5. Monitor and evaluate the adequacy and effectiveness of the Bank's internal control system.
6. Receive and review reports of internal and external auditors and regulatory agencies where applicable and ensure that Management is taking appropriate corrective actions in a timely manner in addressing control and compliance functions with regulatory agencies.
7. Review the quarterly, half-year and annual financial statements, focusing particularly on: (a) Any change/s in accounting policies and practices; (b) Major judgmental areas; (c) Significant adjustments resulting from the audit; (d) Going concern assumptions; (e) Compliance with accounting standards; and (f) Compliance with tax, legal, regulatory and stock exchange requirements.
8. Responsible for coordinating, monitoring and facilitating compliance with existing laws, rules and regulations including anti-money laundering. For this purpose, the Chief Compliance Officer shall report directly to the BACC.
9. Evaluate and determine the non-audit work of the External Auditor and review periodically the an on-audit fees paid to the External Auditor in relation to their total annual income and to the Bank's overall consultancy expenses. The Committee shall disallow any non-audit work that will conflict with his duties as an external auditor or may pose a threat to his independence. The non-audit work should be disclosed in the Bank's annual report.
10. Establish and identify the report line of the Chief Audit Executive so that the reporting level allows the internal audit activity to full its duties and responsibilities. The Chief Audit Executive shall report directly to the Board Audit and Compliance Committee functionally. The Committee shall ensure that the internal auditor shall have free and full access to all the Bank's records, properties and personnel relevant to the internal audit activity and that the internal audit activity should be free from interference in determining the scope of the internal auditing examinations, performing work, and communicating results, and shall provide a venue for the BACC to review and approve the annual internal audit plan.
11. Supervise the formulation of the rules and procedures on financial reporting and internal control.
12. Shall explicit authority to investigate any matter within its terms and reference, full access to and cooperation by Management and full discretion to invite any Director or Executive Officer to attend its meetings, and adequate resources to enable it to effectively discharge its functions.
13. Shall have the sole authority to select, evaluate, appoint, and replace the External Auditors subject to stockholder ratification. It shall recommend to the Board of Directors to grant the President the authority to negotiate and finalize the terms and conditions of the audit engagement as well as the audit fees, and sign, execute and deliver the corresponding contract and all non-audit engagement with the External Auditors subject to the confirmation of the BACC members.
14. Shall have the authority, to the extent it deems necessary or appropriate, to retain special legal, accounting, or other consultants to advise the Committee. The Bank shall provide funding, as determined by the BACC,

for payment of compensation to the External Auditors and to any advisors employed by the Board Audit and Compliance Committee.

15. May form and delegate authority to subcommittees, comprised or one or more members of the Committee, as necessary or appropriate. Each subcommittee shall have the full power and authority of the BACC.

D. <u>CORPORATE GOVERNANCE/NOMINATION/REMUNERATION COMMITTEE</u>

Function: The Corporate Governance/Nomination/Remuneration Committee ensures the Board's effectiveness and adherence to corporate governance principles and guidelines and the selection of members of the Board and senior executives of the Bank as well as in the appointment of the members of the respective Board committees.

Key Responsibilities and Power/Authority:

1. To review and evaluate the qualifications of all persons nominated to the Board as well as those nominated to other positions requiring appointment by the Board of Directors.
2. To ensure the Board's effectiveness and due observance of corporate governance principles and guidelines.
3. To receive and evaluate complaints regarding conflict of interest situations.
4. Oversee the periodic performance evaluation of the Board and its committees and executive management.
5. Conduct an annual self-evaluation of the Committee's performance.
6. Decide whether or not a director is able to and has been adequately carrying out his/her duties as director bearing in mind the director's contribution and performance (e.g. competence, candor, attendance, preparedness and participation).
7. Adopt such internal guidelines that will address the competing time commitments that are faced when directors of the Bank serve on multiple boards.
8. Formulate such policies regarding the continuing education of Directors, assignment to Board Committees, succession plan for Board members and senior officers, and their remuneration commensurate with corporate and individual performance.
9. Establish a formal and transparent procedure for developing a policy on executive remuneration and for fixing the remuneration of corporate officers and directors, and provide oversight over remuneration of senior management and other key personnel ensuring that compensation is consistent with the Bank's culture, financial capacity, business strategy and control environment.
10. Designate the amount of remuneration and fringe benefits, which shall be at a sufficient level to attract and retain directors and officers who are needed to run the Bank successfully.
11. Disallow any director to decide his or her own remuneration.
12. Provide in the Bank's annual reports, information and proxy statements a clear, concise and understandable disclosure of the aggregate compensation of its executive officers for the previous year and the ensuing year.
13. Review and formulate policies to strengthen provisions on conflict of interest, salaries and benefits, promotion and career development of personnel concerned in line with the existing professional development program and succession plan for senior management.
14. Decide the manner by which the Board's performance may be evaluated.
15. Establish strategic objectives and a set of corporate values that are communicated throughout the institution.
16. Set and enforce clear lines of responsibility and accountability throughout the Bank.
17. Ensure that the Board members are qualified for their positions, have a clear understanding of their role in corporate governance and are not subject to undue influence from Management or outside concerns.
18. Effectively utilize the work conducted by internal and external auditors in recognition of the important control function they provide.
19. Ensure that compensation approaches are consistent with the Bank's ethical values, objectives, strategy and control environment.
20. Conduct corporate governance in a transparent manner.

E. RISK OVERSIGHT COMMITTEE (ROC)

Functions: The BSP-mandated functions of the Risk Oversight Committee are as follows:

1. Identify and evaluate exposures – the ROC shall assess the probability of each risk becoming reality and shall estimate its possible effect and cost. Priority areas of concern are those risks that are most likely to occur (high probability) and are costly when they happen (high severity).
2. Develop risk management strategies – the ROC shall develop a written plan defining the strategies for managing and controlling the major risks. It shall identify practical strategies to reduce the chance of harm and failure or minimize losses if the risk becomes real.
3. Oversee the implementation of the risk management plan – the ROC shall conduct regular discussions on the Bank's current risk exposures based on regular management reports and assess how the concerned units or offices reduced these risks.
4. Review and revise the plan as needed – the ROC shall evaluate the risk management plan to ensure its continued relevance, comprehensiveness and effectiveness. It shall revisit strategies, look for emerging or changing exposures, and stay abreast of developments that affect the likelihood or harm or loss.

Key Responsibilities: The duties and responsibilities of the ROC with respect to the different fields that it covers according to its charter are the following:

Operational and Legal Risks

1. Approve the basic structure of the framework for managing operational risk (i. e., arising from process, system, people and external event), which includes legal risk.
2. Mandated to be aware of the major aspects of the Bank's operational and legal risks, it shall: (a) Review, on continuing basis, operational and legal risk exposures and loss events by major business lines; and (b) Oversee the effective resolution, management and control of the Bank's operational and legal risk.
3. Assume an oversight role through the Corporate Risk Manager and Chief Audit Executive with respect to the management's responsibility for maintaining and implementing effective policies and procedures for managing operational risk in all of the Bank's products, activities processes and systems; and through the Chief Legal Counsel with respect to legal risk.

Strategic and Financial Risks

1. Assume an oversight role through the Head of Corporate Planning Division in monitoring the compatibility of the Bank's strategic goals, business strategies developed, resources deployed and quality of implementation.
2. Review and discuss with management the performance versus target of major business units. ROC may request management for an explanation on unfavourable variance and direct management to change certain policies and strategies.
3. Assess how the Bank generates income and analyze the sensitivity of the Bank's earnings given a set of business conditions.

Reputation Risk: Assume an oversight role through the Service Quality Officer in ensuring the abundance of caution in dealing with customers and the community, as well as the Bank's responsiveness in addressing negative public opinion.

Technology Risk: Assume an oversight role through the IT Governance Committee in ensuring that technology and information security risks are properly identified, monitored, reported and mitigated. This assumes that each member of the ROC:

1. Have the knowledge and skills necessary to understand and effectively manage technology-related risks.
2. Ensure that – (a) An effective technology planning process exists; (b) Technology is implemented properly with appropriate controls; and (c) Measurement and monitoring efforts effectively, identify ways to manage risk exposure.
3. Review, recommend for Board approval, and monitor technology projects that may have significant impact

on the Bank's operations, earnings or capital.

4. Establish clearly-defined measurement objectives and conduct periodic reviews to ensure that goals and standards established by management are met.

Compliance Risk: Assume an oversight role through the Chief Compliance Officer with respect to compliance with laws, rules, regulations, prescribed practices, internal policies and procedures or ethical standards.

Trust Risk: Assumes the oversight role through the bank's Trust Risk Officer with the Corporate Risk Manager, for the identification, measurement, monitoring and control of operations of the Trust Banking Group; this is a specialized function that is distinct from Trust banking Operations.

Others: Performs such other functions as may be mandated by the Board and regulatory bodies relevant to risk management.

Power/Authority: The ROC has the authority to implement the following:

1. Direct management to submit regular reports on current risk exposures on operational, legal, compliance, strategic, reputation and technology risks and to address said risks.
2. Approve or endorse for Board approval the proposed risk policies and procedures.
3. Access to all Bank's records and any officer or employee of the Bank, as it deems necessary.

F. TRUST COMMITTEE

Function: Provides direction for the trust business and management of trust assets, fiduciary accounts, investments and trust services.

Key Responsibilities and Power/Authority:

1. The Trust Committee shall act within the sphere of authority as may be provided herein and/or as may be delegated by the Board of Directors, such as but not limited to the following:

   (a) The formulation of specific policies with regard to: (i) Correlation of the Trust Banking Group with other departments of the Bank; (ii) Personnel; (iii) Cost and charges; (iv) Kinds of business to be accepted; (v) Trust business development; (vi) Work with other banks and/or financial institutions;
   (b) The acceptance and closing of trust and other fiduciary accounts;
   (c) The initial review of assets placed under the custody of the Trust Banking Group as trustee and fiduciary;
   (d) The investment, reinvestment and disposition of funds or property;
   (e) The review and approval of transactions between trust and/or fiduciary accounts; and
   (f) The review of trust and other fiduciary accounts at least once every twelve (12) months to determine the advisability of retaining or disposing of the trust or fiduciary assets, and/or whether the account is being managed in accordance with the instrument creating the trust or other fiduciary relationship."

2. The Trust Committee is a special committee which reports directly to the Board of Directors and is primarily responsible for overseeing the fiduciary activities of the Bank/NBFI. In discharging its functions, it shall:

   a) Ensure that fiduciary activities are conducted in accordance with applicable laws, rules and regulations and prudent practices;
   b) Ensure that policies and procedures that translate the Board's objectives and risk tolerance into prudent operating standards are in place and continue to be relevant, comprehensive and effective;
   c) Oversee the implementation of the risk management framework and ensure that internal controls are in place relative to fiduciary activities;
   d) Adopt an appropriate organizational structure/staffing pattern and operating budgets that shall enable the trust department to effectively carry out its functions;

e) Oversee and evaluate performance of the Trust Officer;
f) Conduct regular meetings at least once every quarter, or more frequently as necessary , depending on the size and complexity of the fiduciary business; and
g) Report regularly to the Board of Directors on matters arising from fiduciary activities."

G. BOARD ICAAP STEERING COMMITTEE

Function: The Board ICAAP Steering Committee was created to perform periodic evaluation and approval of the Bank's capital planning, risk assessment policies and procedures and provide active oversight on the consistent adoption of the Bank's ICAAP Program.

Key Responsibilities and Power/Authority:

1. Establish a well-defined organizational structure for the integrated risk and capital management to ensure enterprise wide execution of the Bank's ICAAP Program;
2. Evaluate and approve the Bank's capital planning and ICAAP risk assessment policies and procedures;
3. Overall assess and provide active oversight on the consistent adoption of the Bank's board-approved ICAAP Program;
4. Set out the Bank's risk appetite;
5. Ensure that the Bank maintains an appropriate level of capital commensurate to the risk covered by the ICAAP;
6. Designate Internal Audit Group, through the Chief Audit Executive to validate the compliance to the ICAAP Policies & Procedures; and
7. Review the ICAAP at least annually, or as often as deemed necessary, to ensure that risks are covered adequately by capital.

H. BOARD OVERSIGHT COMMITTEE – DOMESTIC & FOREIGN OFFICES/SUBSIDIARIES (updated – 2014)

Function: The Board Oversight Committee was a newly created board committee to provide the required oversight on the domestic and foreign offices/subsidiaries to ensure their profitable operations and long-term viability consistent with the Bank's strategic goals.

Key Responsibilities and Power/Authority:

1. To provide oversight on the business plans, initiatives, overall business operations and regulatory compliance of the domestic subsidiaries and overseas offices to include foreign branches, subsidiaries, marketing desk offices and representative offices.
2. To establish the strategic objectives and the business priorities for the domestic subsidiaries and overseas offices that needs to be regularly communicated throughout the domestic subsidiaries and overseas offices. This will include the evaluation and approval of the Bank's short term, medium term and long term strategic plans and the supporting schedules as components of the major plans and key activities. On periodic basis, the Committee will require the re-forecasting of financial budgets/plans, capital/equity investments, contingency plans and significant changes in market positioning, budgets and re-alignment of the ICAAP Programs for specific business entities.
3. To supervise the formulation of policy guidelines and procedures to ensure the quality of compliance and risk management of the different business legal vehicles by focusing on key risk areas that require closer supervision by the Board and implementation of timely effective corrective actions and/or plans by senior management.
4. To conduct periodic financial performance and management profitability reviews and be informed of market and economic developments and changes in laws and regulatory environment for each of the domestic and overseas business legal vehicle, in coordination with the respective entity Board of Directors, other board committees and senior management group heads that provide oversight support to the domestic subsidiaries and overseas offices.

5. To review and approve business models/licenses, product programs, operations policy and procedures manuals, IT systems and developments, major marketing tie-ups/programs.
6. To review and evaluate qualification of key personnel recommended to be hired or appointed for the domestic subsidiaries and overseas offices as well as those nominated to positions requiring the confirmation of the Board of Directors, and formulate policies for the continuing education of key officers in domestic subsidiaries and overseas offices, their assignment to management committees and the succession planning for the domestic subsidiaries and overseas offices senior management.

I. BOARD OVERSIGHT RPT COMMITTEE (updated – 2014)

Function: The Board Oversight RPT Committee (BORC) is created to assist the Board in performing its oversight functions in monitoring and managing potential conflicts of interest of management, board members and shareholders.

Key Responsibilities and Power/Authority:

1. Oversee the evaluation of relevant related party transactions that present the risk of potential abuse and ensure that rules and regulations, accounting standards in each jurisdiction are considered to properly and effectively implement the bank's RPT policy guidelines;
2. Exercise sound and objective judgment on the related party transactions for the best interest of the bank and that the processes and approvals are conducted at arm's length basis; and
3. Endorse the related party transaction to the Board for approval.
4. Review and approve policy guidelines and implementing procedures in the handling of relevant RPTs by ensuring an effective compliance with existing laws, rules and regulations, accounting standards and global best practices;
5. Review and inform the Board in advance of any related party transaction causing material conflicts of interest, conclude the transaction with the approval of the Board through an effective monitoring system;
6. Oversee the proposed deals on RPTs clearly articulate the identity of the parties involved and the terms of transactions are made substantially on the same terms as other individuals and businesses of comparable risk;
7. Ensure bank compliance with the disclosure and reporting of materially significant RPTs.

J. BOARD I.T. GOVERNANCE COMMITTEE (updated – 2014)

Function: To assist the Board in performing its oversight functions in reviewing, approving and monitoring the IT Risk Management Framework and IT Strategic Plan of the PNB Group. This is a new committee tasked to focus on IT strategic plans and on-going migration to a new Core Banking System.
Key Responsibilities and Power/Authority:

1. Oversee the development of the long-term and short-term Enterprise IT Strategic Plans.
2. Ensure that IT laws, IT regulatory guidelines and IT corporate standards are considered in the proper and effective implementation of IT risk management policies and procedures.
3. Endorse IT related plans, IT policy guidelines and procedures to the Board for approval.
4. Review new projects that require any IT hardware, software, maintenance support and services, and endorse the needed budget for final approval by the Board.
5. Review and approve the renewal of IT contracts that are part of the overall IT budget.
6. Has oversight of the IT Risk Management System.
7. Review and endorse for approval of the Board the Enterprise IT Strategic Plans of the Parent Bank, its subsidiaries and affiliates.
8. Evaluate and endorse for approval of the Board the IT Organizational Structure of the PNB Parent Bank and related entities belonging to the PNB Group - foreign branches, domestic and foreign subsidiaries and affiliates.
9. Review and endorse for approval of the Board the IT Risk Assessment of the PNB Group and its member entities.

10. Review and endorse for approval of the Board IT policy guidelines and implementing procedures in related to IT functions, processes and systems and ensuring adherence to existing laws, rules and regulations, and global best practices;
11. Review and inform the Board in a timely manner critical IT Projects and approve necessary IT budgets (within Php5.0M limit) to support business plans and priorities. (Items beyond Php5.0 Million shall be endorsed to Board Credit and Policy Committee (BCPC) for approval).
12. Oversee that IT Project proposals are consistent with the overall IT Strategic Plans.
13. Monitor the IT Group performance, IT Projects and in-sourcing and out-sourcing activities of IT functions and services provided to related entities.

2) Committee Members (updated – 2014)

(a) Board Credit and Policy Committee

Office	Name	Date of Appointment	No. of Meetings Held	Length of Service in the Committee
Chairman (ID)	Felix Enrico R. Alfiler	July 17, 2012	68	2.4 years
Vice Chair (ID)	Florencia G. Tarriela	May 29, 2001	68	13.6 years
Member (ED)	Reynaldo A. Maclang	Feb. 9, 2013	68	1.8 years
Member (NED)	Harry C. Tan	Feb. 9, 2013	68	1.8 years
Member (NED)	Lucio K. Tan, Jr.	May 29, 2008	68	6.6 years
Member (NED)	Michael G. Tan	Feb. 9, 2013	68	1.8 years
Member (ID)	Deogracias N. Vistan	May 29, 2012	68	2.6 years
Alternate Member (NED)	Florido P. Casuela*	May 28, 2008	68	6.6 years

* *Appointed as alternate member effective May 27, 2014 for the duration of sick leave of absence of Dir. Alfiler.*

(b) Board Credit Committee

Office	Name	Date of Appointment	No. of Meetings Held	Length of Service in the Committee
Chairman (NED)	Florido P. Casuela	Feb. 9, 2013	46	1.8 years
Vice Chair (ED)	Reynaldo A. Maclang	Feb. 9, 2013	46	1.8 years
Member (NED)	Harry C. Tan	Feb. 9, 2013	46	1.8 years
Member (NED)	Michael G. Tan	Feb. 9, 2013	46	1.8 years
Member (NED)	Leonilo G. Coronel*	May 27, 2014	30	0.6 year
Member (NED)	Joseph T. Chua*	May 27, 2014	30	0.6 year
Member (ID)	Federico C. Pascual*	May 27, 2014	30	0.6 year

* *Elected on May 27, 2014*

(c) Board Audit and Compliance Committee (BACC)

Office	Name	Date of Appointment	No. of Meetings Held	Length of Service in the Committee
Chairman (ID)	Deogracias N. Vistan	August 1, 2011	18	3.4 years
Member (ID)	Felix Enrico R. Alfiler	May 27, 2014	10	0.6 year
Member (NED)	Florido P. Casuela	June 25, 2010	18	4.5 years
Member (ID)	Federico C. Pascual	May 27, 2014	10	0.6 year
Member (NED)	Harry C. Tan	May 27, 2014	10	0.6 year

The BACC shall be composed of at least three (3) Board of Directors, two (2) of whom shall be independent directors, including the Chairman, preferably with accounting, auditing or related financial management expertise or experience. The members of the BACC and the Committee Chair shall be appointed by the Board.
Disclose the profile and qualification of the Audit Committee members.

Deogracias N. Vistan, 70, Filipino, was elected as an Independent Director of the Bank on August 1, 2011. He obtained his Bachelor of Arts and Bachelor of Science degrees in Business Administration from the De La Salle University and earned his Masters in Business Administration from Wharton Graduate School. Mr. Vistan's extensive banking experience includes being Chairman of United Coconut Planters Bank (2003-2004), Vice Chairman of Metropolitan Bank and Trust Company (2000-2001), and President of Equitable-PCI Bank (2001-2002), Solidbank Corporation (1992-2000) and Land Bank of the Philippines (1986-1992). He also served as President of FNCB Finance (1979-1980). Mr. Vistan held various management positions in Citibank Manila, Cebu and New York (1968-1986). He is a former Presidential Consultant on Housing (2002-2003) and President of the Bankers Association of the Philippines (1997-1999). He is an Independent Director of PNB Capital and Investment Corporation and PNB International Investments Corporation. He is also a member of the Board of Directors of Lorenzo Shipping Corporation and U-Bix Corporation. He is the Chairman of Creamline Daily Corporation and Pinoy Micro Enterprise Foundation. He is currently a member of the Board of Trustees of the Ramon Magsaysay Award Foundation and Landbank Countryside Development Foundation, Inc.

Felix Enrico R. Alfiler, 65, Filipino, was elected as Vice Chairman/Independent Director of the Bank effective on January 1, 2012. He completed his undergraduate and graduate studies in Statistics at the University of the Philippines in 1973 and 1976, respectively. He undertook various continuing education programs, including financial analysis and policy, at the IMF Institute of Washington, D.C. in 1981 and on the restructured electricity industry of the UK in London in 1996. He has published articles relating to, among others, the globalization of the Philippine financial market, policy responses to surges in capital inflows and the Philippine debt crisis of 1985. He is currently the Chairman/Independent Director of PNB RCI Holdings Co., Ltd. and an Independent Director of PNB-IBJL Leasing and Finance Corporation, PNB Savings Bank and PNB International Investments Corp. He previously held various distinguished positions, namely: Philippine Representative to the World Bank Group Executive Board in Washington, D.C., Special Assistant to the Philippine Secretary of Finance for International Operations and Privatization, Director of the Bangko Sentral ng Pilipinas, Assistant to the Governor of the Central Bank of the Philippines, Advisor to the Executive Director at the International Monetary Fund, Associate Director at the Central Bank and Head of the Technical Group of the CB Open Market Committee. Mr. Alfiler was also the Monetary Policy Expert in the Economics Sub-Committee of the 1985-1986 Philippine Debt Negotiating Team which negotiated with over 400 private international creditors for the rescheduling of the Philippines' medium- and long-term foreign debts. In the private sector, Mr. Alfiler was an Advisor at Lazaro Tiu and Associates, Inc., President of Pilgrims (Asia Pacific) Advisors, Ltd., President of the Cement Manufacturers Association of the Philippines (CeMAP), Board Member of the Federation of Philippine Industries (FPI), and Vice President of the Philippine Product Safety and Quality Foundation, Inc. and Convenor for Fair Trade Alliance.

Florido P. Casuela, 73, Filipino, has been serving as a Director of the Bank since May 30, 2006. A Certified Public Accountant, he obtained his degree in Bachelor of Science in Business Administration, Major in Accounting, and his Masters in Business Administration from the University of the Philippines. He took the Advanced Management Program for Overseas Bankers conducted by the Philadelphia National Bank in conjunction with the Wharton School of the University of Pennsylvania. Mr. Casuela was one of the ten (10) awardees of the 2001 Distinguished Alumni Award of the UP College of Business Administration. He is currently the Chairman of PNB Securities, Inc. He is also a Director of PNB Savings Bank, PNB International Investments Corporation, PNB RCI Holdings Co., Ltd. and Surigao Micro Credit Corporation. He is a Senior Consultant of the Bank of Makati, Inc. and a Director of Sagittarius Mines, Inc. as well as its subsidiaries, namely: Hillcrest, Inc., where he is also the President, and Pacificrim Land Realty Corporation, where he is the Chairman. He is a Trustee of the LBP Countryside Development

Foundation, Inc. He was formerly the President of Maybank Philippines, Inc., Land Bank of the Philippines, and Surigao Micro Credit Corporation. He was also a Senior Executive Vice President of United Overseas Bank (Westmont Bank), Executive Vice President of PDCP (First Bank), Senior Vice President of Philippine National Bank, First Vice President of Bank of Commerce and Vice President of Metropolitan Bank & Trust Co. Mr. Casuela worked as a Special Assistant to the Chairman of the National Power Corporation and an Audit Staff of Joaquin Cunanan, CPAs. He also held various positions and was a Senior Adviser in the Bangko Sentral ng Pilipinas.

Federico C. Pascual, 72, Filipino, was elected as Independent Director of the Bank on May 27, 2014. He obtained his Bachelor of Laws degree from the University of the Philippines. He took his Masters of Laws, Corporate and Labor Laws in Columbia University. Presently, he is the Chairman/Independent Director of PNB General Insurers Co., Inc. and Independent Director of PNB International Investments Corporation and PNB Holdings Corporation. He is the President/Director of Tala Properties, Woldingham Realty, Inc. and Nineveh Development Corporation. He is also a Director of Global Energy Growth System and Apo Reef World Resort, the proprietor of Green Grower Farm, and a Partner of the University of Nueva Caceres in Bataan. Mr. Pascual was previously the President and General Manager of Government Service Insurance System and the President and CEO of Allied Banking Corporation (ABC). He worked with Philippine National Bank for twelve (12) years in various capacities, including as Acting President, CEO and Vice Chairman. Mr. Pascual previously served as the President and Director of Philippine Chamber of Commerce and Industry, Chairman of National Reinsurance Corporation and PNOC-AFC, co-Chairman of the Industry Development Council of the Department of Trade and Industry, and Treasurer of BAP-Credit Guarantee. He was also a Director of San Miguel Corporation, Philippine Stock Exchange, Manila Hotel Corporation, Cultural Center of the Philippines, CITEM, Bankers Association of the Philippines, Philippine National Construction Corporation, Allied Cap Resources HK, Oceanic Bank SF, USA, AIDSISA Sugar Mill, PDCP Bank, Equitable PCIB, Bankard, Philippine International Trading Corporation, Philippine National Oil Corporation and Certified Data Centre Professional. He is active in various professional and social organizations.

Harry C. Tan, 68, Filipino, was appointed as a Director of the Bank on February 9, 2013 after serving as a Director of Allied Banking Corporation (ABC) since November 1999. He holds a Bachelor of Science degree in Chemical Engineering from Mapua Institute of Technology. Mr. Tan is currently the Chairman of Bulawan Mining Corporation and a Director of PNB Management Development Corporation, PNB Savings Bank, Allied Commercial Bank and PNB Global Remittance and Financial Company (HK) Limited. He is also the Chairman of the Air Philippines Corporation and the President of Century Park Hotel and Landcom Realty Corporation. He is the Vice Chairman of Lucky Travel Corporation, Eton Properties Philippines, Inc., Tanduay Distillers, Inc., Belton Communities, Inc., and Eton City Inc. He is also the Vice Chairman and Treasurer of LT Group, Inc. He is the Managing Director/Vice Chairman of The Charter House Inc. and is a member of the Board of Directors of various private firms which include Asia Brewery, Inc., Dominium Realty and Construction Corporation, Progressive Farms, Inc., Shareholdings Inc., Himmel Industries, Inc., Tobacco Recyclers Corporation, Basic Holdings Corporation, Pan Asia Securities Inc., Absolut Distillers, Inc., Alliedbankers Insurance Corporation, Asian Alcohol Corporation, REM Development Corporation, Tanduay Brands International Inc., Foremost Farms, Inc., Grandspan Development Corporation, Manufacturing Services and Trade Corporation, PAL Holdings, Inc., and Philip Morris Fortune Tobacco Corporation, Inc. He is also the Chairman for the Tobacco Board of Fortune Tobacco International Corporation.

Describe the Audit Committee's responsibility relative to the external auditor.

The Committee shall have the sole authority to select, evaluate, appoint, and replace the External Auditors subject to stockholder ratification. It shall recommend to the Board of Directors to grant the President the authority to negotiate and finalize the terms and conditions of the audit engagement as well as the audit fees, and sign, execute and deliver the corresponding contract and all non-audit engagement with the External Auditors subject to the confirmation of the BACC members. Provide oversight of the Bank's External Auditor. Discuss with the External Auditor before the audit commences the nature, scope of the audit. Responsible for the selection process and endorsement of the External Auditor to the Board for approval. Receive and review the reports of external auditor and ensure that Management is taking appropriate corrective actions in a timely manner in addressing control and compliance functions with regulatory agencies. Evaluate and determine the non-audit work of the External Auditor, and review periodically the non-audit fees paid to the External Auditor in relation to their total annual income and to the Bank's overall consultancy expenses.

(d) Corporate Governance Committee*

Office	Name	Date of Appointment	No. of Meetings Held	Length of Service in the Committee
Chairman (ID)	Felix Enrico R. Alfiler	Sept. 27, 2013	14	1.3 years
Member (ED)	Reynaldo A. Maclang	Jan. 16, 2014	14	0.9 year
Member (ID)	Federico C. Pascual*	Oct. 16, 2014	2	0.2 year
Member (NED)	Lucio K. Tan, Jr.	Feb. 9, 2013	14	1.8years
Member (NED)	Michael G. Tan	Feb. 9, 2013	14	1.8 years
Member (ID)	Florencia G. Tarriela	May 24, 2005	14	9.6 years
Member (ID)	Deogracias N. Vistan	July 15,2011	14	3.4 years

* *Elected on October 16, 2014 vice Atty. Estelito P. Mendoza*

* *The Corporate Governance Committee acted as the Bank's Nomination and Remuneration*

(e) Risk Oversight Committee

Office	Name	Date of Appointment	No. of Meetings Held	Length of Service in the Committee
Chairman (NED)	Florido P. Casuela	May 30, 2006	16	8.6 years
Member (NED)	Joseph T. Chua	May 27, 2014	7	0.6 year
Member (NED)	Leonilo G. Coronel	Sept. 27, 2013	16	1.3 years
Member (NED)	Harry C. Tan	Feb. 9, 2013	7	1.8 years
Member (ID)	Florencia G. Tarriela	May 29, 2001	16	13.6 years

(f) Trust Committee

Office	Name	Date of Appointment	No. of Meetings Held	Length of Service in the Committee
Chairman (NED)	Leonilo G. Coronel	May 27, 2014	6	0.6 year
Member (ID)	Cecilio K. Pedro	May 27, 2014	6	0.6 year
Member (ID)	Florencia G. Tarriela	May 27, 2014	6	0.6 year
Ex-Officio Member	Reynaldo A. Maclang	May 27, 2014	6	0.6 year
Ex-Officio Member	Josephine E. Jolejole	June 15, 2013	9	1.5 years

(g) Board ICAAP Steering Committee

Office	Name	Date of Appointment	No. of Meetings Held	Length of Service in the Committee
Chairman (NED)	Michael G. Tan	Feb. 9, 2013	1	1.8 years
Member (NED)	Florido P. Casuela	Dec. 10, 2010	2	4.0 years
Member (ED)	Reynaldo A. Maclang	Feb. 9, 2013	2	1.8 years
Member (ID)	Florencia G. Tarriela	Dec. 10, 2010	2	4.0 years
Member (ID)	Deogracias N. Vistan	July 15, 2011	2	3.4 years

(h) Board Oversight Committee

Office	Name	Date of Appointment	No. of Meetings Held	Length of Service in the Committee
Chairman (ID)	Deogracias N. Vistan	May 29, 2012	12	2.6 years
Member (ID)	Felix Enrico R. Alfiler	May 29, 2012	12	2.6 years
Member (NED)	Joseph T. Chua	May 27, 2014	12	0.6 year
Member (NED)	Leonilo G. Coronel	Sept. 27, 2013	12	1.3 years
Member (ID)	Federico C. Pascual	May 27, 2014	12	0.6 year

(i) Board Oversight RPT Committee

Office	Name	Date of Appointment	No. of Meetings Held	Length of Service in the Committee
Chairman (ID)	Federico C. Pascual[1/]	May 27, 2014	10	0.6 year
Member (ID)	Felix Enrico R. Alfiler[2/]	Sept. 27, 2013	16	1.3 years
Member (ID)	Deogracias N. Vistan	Sept. 27, 2013	16	1.3 years
Alt. Member (ID)	Florencia G. Tarriela[3/]	Sept. 27, 2013	16	1.3 years
Non-voting Member	Alice Z. Cordero	Dec. 20, 2013	16	1.0 year
Non-voting Member	Dioscoro Teodorico L. Lim	Dec. 20, 2013	16	1.0 year

[1/] *Appointed as member effective May 27, 2014 and assumed as Chairman effective October 24, 2014*
[2/] *On medical leave of absence since January 1, 2014.*
[3/] *Appointed as alternate member for Dir. Alfiler effective May 27, 2014.*

(j) Board IT Governance Committee

Office	Name	Date of Appointment	No. of Meetings Held	Length of Service in the Committee
Chairman (NED)	Leonilo G. Coronel	April 10, 2014	10	0.7 year
Member (NED)	Florido P. Casuela	April 10, 2014	10	0.7 year
Member (NED)	Joseph T. Chua	May 27, 2014	8	0.6 year
Member (ID)	Cecilio K. Pedro	May 27, 2014	8	0.7 year
Member (ID)	Florencia G. Tarriela	May 27, 2014	8	0.7 year

3) Changes in Committee Members (updated – 2014)

Indicate any changes in committee membership that occurred during the year and the reason for the changes:

Name of Committee	Name	Reason
1. Board Credit and Policy Committee	Omar Byron T. Mier	Retired effective on May 27, 2014
	Christopher J. Nelson	Expiration of term as director
	Leonilo G. Coronel	Appointed as a member of another committee
	Florido P. Casuela	Appointed as a member of another committee
2. Board Credit Committee	Leonilo G. Coronel	Appointed as members effective on May 27, 2014
	Joseph T. Chua	
	Federico C. Pascual	
	Omar Byron T. Mier	Retired effective on May 27, 2014

3. Board Audit and Compliance Committee	Felix Enrico R. Alfiler	Appointed as members effective on May 27, 2014
	Federico C. Pascual	
	Harry C. Tan	
	Reynaldo A. Maclang	Appointed as ex-officio member of Trust Committee effective on May 27, 2014
	Florencia G. Tarriela	Appointed as a member of another committee
	Leonilo G. Coronel	Appointed as Chairman of another committee
	Estelito P. Mendoza	Appointed as a member of another committee
	Christopher J. Nelson	Expiration of term as director
4. Corporate Governance/ Nomination/ Remuneration Committee	Federico C. Pascual	Appointed as a member effective on October 16, 2014
	Estelito P. Mendoza	Resigned from the committee effective on October 16, 2014
5. Risk Oversight Committee	Joseph T. Chua	Appointed as members effective on May 27, 2014.
	Harry C. Tan	
6. Trust Committee	Leonilo G. Coronel	Appointed as Chairman effective on May 27, 2014
	Cecilio K. Pedro	Appointed as a member effective on May 27, 2014
	Florencia G. Tarriela	
	Reynaldo A. Maclang	
	Felix Enrico R. Alfiler	Appointed as members of another committee
	Harry C. Tan	
	Michael G. Tan	
	Omar Byron T. Mier	Retired effective on May 27, 2014
7. Board ICAAP Steering Committee	Michael G. Tan	Appointed as Chairman effective on May 27, 2014
8. Board Oversight Committee – Domestic & Foreign Offices/ Subsidiaries	Joseph T. Chua	Appointed as members effective on May 27, 2014
	Federico C. Pascual	
9. Board Oversight RPT Committee	Federico C. Pascual	Appointed as a member effective on May 27, 2014 and assumed as Chairman effective on October 24, 2014
	Deogracias N. Vistan	Appointed as a member effective on October 24, 2014
	Florencia G. Tarriela	Appointed as an alternate member effective on May 27, 2014 for duration of medical leave of absence of Director Alfiler
10. Board IT Governance Committee	Florencia G. Tarriela	Appointed as members effective on May 27, 2014
	Cecilio K. Pedro	
	Joseph T. Chua	

4) Work Done and Issues Addressed (updated – 2014)

Describe the work done by each committee and the significant issues addressed during the year.

Name of Committee	Work Done	Issues Addressed
Board Credit and Policy Committee	1. Reviewed, evaluated, approved and/or endorsed for Board approval credit lines and facilities for "current" clients,	Addressed concerns about – 1. exposures to group/conglomerate accounts

	per credit policies and procedures, and the approval limits in the Manual of Signing Authority (MSA). 2. Approved and/or endorsed for approval of the Board the restructuring of facilities for remedial accounts/disposal of Non-Performing Assets (NPAs) and the write-off of unrecoverable accounts. 3. Reviewed, evaluated, approved and/or endorsed for Board approval policies and procedures, manuals for bank products, and services to be offered to the bank's domestic and overseas markets. 4. Endorsed for Board approval the establishment or closure of local branches, and overseas offices and approved the relocation and renovation thereof as may be proper. 5. Evaluated and endorsed for Board approval the bank's strategic plans, thrusts, business models, forecasts and the Annual Budget. 6. In coordination with the other Board Committees, conducted quarterly/periodic management profitability reviews to determine the bank's/business sectors actual performance against targets/budgets. 7. Evaluated, approved and endorsed for Board approval such investments in financial assets/and products and provided investment and/or risk limits for treasury or investment products. 8. Approved expenses over P1,000,000.00. 9. Approved/endorsed the setting of floor price/auction/sale of ROPOA	2. long-term exposure of the bank 3. approved accounts which were booked but were not availed and the reasons for non-availment 4. status of the NPLs and the big ticket items in the bank's ROPOA 5. update on remedial accounts, ROPOA, etc. (except credit lines) which have been approved and which were not implemented 6. policies of bank which may be causing unnecessary delays for the bank to be more proactive and able to respond on a timely basis and to get the best practice so the bank can be more competitive 7. monitoring of the renovation/ relocation of the branches 8. report on all items, projects, plans, strategies and the like that were presented to and approved by the Board CPC or the Board but remain unimplemented 9. reduction of non-performing assets 10. identification of strength, weaknesses, opportunities and threats to the various business of the banks 11. identification of opportunities in target industries

Board Credit Committee	1) Approved/endorsed/disapproved credit transactions 2) Reviewed consumer banking portfolio	1) Credit worthiness of the borrower 2) Growth of portfolio 3) Monitoring of the consumer banking portfolio and account officer/ relationship manager workload
Board Audit and Compliance Committee	All audit and compliance reports were discussed during the regular and special meetings. All open issues were tracked and documented in the minutes of meeting of the BACC until closure.	
Corporate Governance/ Nomination/Remuneration Committee	4) Nomination to the PNB Board	The Committee reviewed and evaluated the qualifications of the nominees to the Board as well as those nominated to positions that need board approvals.
	5) Review/amendment/approval of policies of the Bank relating to personnel.	The purpose of amending the policies is to harmonize these with the standards applied at Allied Bank and to make the PNB policies consistent and compliant with the labor law.
	6) Launching of Ideas in Action Program (PNB employee suggestion program	The Committee approved the program which provides employees the chance to show creativity, innovativeness and commitment to the Bank. It encourages everyone to think of new ideas or suggetions, receives and processes these ideas, and awards contributors for their valuable ideas or suggestions.
	7) Corporate Social Responsibility Program of the Bank	The Bank aspires to live up to the trust and regard it has been bestowed upon by the Filipino people. One of the ways the Bank intends to do this is by being a good and responsible corporate citizen. The Bank's Corporate Social Responsibility (CSR) policy is manifested through the following strategic thrusts: (a) empowering Filipinos through eduction; (b) protecting the environment; and (c) commitment to philanthropic initiatives. It's CSR goals and programs are embodied in a framework that promotes shared responsibility and thefore focuses on building partnership and linkages.
	8) Approval of the proposed Charter of Board Overseas Offices Oversight Committee	The mission of the Committee is to provide the required oversight on the overseas offices to ensure their profitable operations and long-term viability consistent with the Bank's strategic goal.

	9) Approval of hiring/appointment/ extension/ promotion of personnel 10) Approval of the amendments on bank policies on benefits of officers and staff 11) Purchase of Directors and Officers (D & O) Liability Insurance	With no objections raised, the Committee approved/endorsed the hiring/appointment/ extension/promotion of personnel to the Board for approval. The alignment of PNB's existing benefits (Service Awards, Beareavement Leave, Emergency Leave, Housing Loan, Motor Vehicle Loan, Summer Outing Allowance, Christmas Party allowance, Death Assistance, Group Life and Accident Insurance Coverage and Health Care Program) with Allied Bank's existing policies was amended and extended to both officers and staff. The amendments are in accordance with the CBA and Management and the Union. The new insurance policy will complement the existing liability insurance fund maintained in a trust fund for the directors and officers with specific ranks and mitigate some of the risks due to the increase in the size of the business of the Bank.
Risk Oversight Committee	Accomplished processes and policies Board-approved are as follows: ▪ Conducted Rapid Loan Portfolio on El Niño Phenomenon, Global Ebola Scare and carried out stress testing on Real Estate and Decreasing Trend in Oil Price. Highlights of endorsements forwarded for Board approval are as follows: ▪ Use of the Merged Deposits Assumptions for % Core and Volatile Deposits using enhanced statistical model in the Maximum Cumulative Outflow (MCO) report/ Liquidity Gap Report ▪ 2014 Treasury Value-at-Risk and Stop Loss Limits ▪ Earnings-at-Risk (EaR) Limit for the Bank - Increase the EaR limit to Php4.0B from the current Php3.83B (merged Bank 1+1); - Reckon the EaR limit against a 350 bps potential change in yields across one-	The ROC had provided directives and resolutions on a number of issues that raise risks on the Bank's credit and market positions and overall operations as enumerated below: ▪ The Committee was able to formalize the lending direction of the Bank in tapping the Real Estate sector. A) Residential Real Estate Loans – granted to individual households for the acquisition, construction and/ or improvement of housing units and acquisition of any associated land that is or will be occupied by the borrower. B) Developer Financing – Loans or investment granted to Real Estate developers for project finance, general working capital and other purposes as may be required. ▪ Increased risk oversight of the Committee to the Bank's domestic and overseas subsidiaries. The Committee has instructed all ROCs, or its equivalent, of all subsidiaries to inform the ROC-Parent about the highlights of their risk indicator and monitoring reports on Credit, Market and Operational Risk. ▪ Directed the management to immediately address the issue of Bank's use of Lotus Notes licenses. The Zimbra

	year benchmark interest rates per tenor bucket which is the observed average month-on-month change in yields; - Change in the treatment of Regular Savings Account (Volatile portion) to interest-sensitive account (from non-interest rate sensitive account); - Adopt a merged Bank methodology of determining the Bank's EaR Limit ▪ Long Term Repurchase Transaction - Approval to source longer term dollar funds via Long-Term-Repurchase (LT Repo) facilities being offered by counterparties; - Set-up of Long-Term Credit Facility for prospective LT Repo counterparties to be carved out from existing Money Market lines in coordination with Financial Institutions Division (FID); - Set-up of overall Repurchase Facility limit of US$ 300M with sublimit for LT Repo of US$ 100M in coordination with Risk Management Group; ▪ Additional Authorized signatory/ies for the Uniform Stress Testing submitted to BSP ▪ Tier 3 Sub Policies as part of the Enterprise Information Security Policies. This will help in achieving the core objective of information security which is protecting the confidentiality, integrity and availability of the Bank's information assets. These high level security policies are based on ISO 27000 series of internationally-accepted information security and risk management standards, related laws and regulations.	project was fully implemented to PNB Makati by first week of 2015. The Bank is expected to be fully complied on its email license issues by end of January 2015. ▪ The Committee noted the Bank's high credit card stand-in (STIP) figures for several periods and directed the Credit Card Division and relevant units to do the necessary actions to keep the statistics within the acceptable level. The recent Bank's STIP numbers showed that they have been well within the set limit. ▪ Directed PNB Gen to conduct a review on everything that was done by its previous management to uncover other issues or deviations that may result to material losses. The subsidiary President has pledged that they have been strengthening their risk management process and teamed up with the Bank's Internal Audit Group to also fortify their audit activities.
Trust Committee	1) Acceptance and closing of various trust and other fiduciary accounts. 2) Review and approval of various investment instruments for both directional	

	and discretionary accounts. 3) Approval of the launch of the PNB Institutional Fund UITF launched in February 2014. Asset Under Management (AUM) as of October 2014 is at Php5.09Billion. 4) Approval on the amendments to the Declaration of Trust of various UITF to make the features of the products competitive and superior against its competitors. 5) Approval of various product manuals in compliance with the requirements of the bank and regulations (Pre-need, Auto Invest Plan, PNB Institutional Fund, Pinnacle Club Service and UITF Online Manual, TBG Risk Manual). 6) Review and approval of relevant policies and procedures in compliance with regulatory observations, ensuring that operating standards are in place (e.g., 2014 Compliance Plan and Training Program, 2014 TBG Money Laundering & Terrorist Financing Prevention, User Access Matrix and revision of the Manual of Signing Authority for UITF allowing branch heads to sign in the Participating Agreement). 7) Review and approval of transactions by and between trust accounts to fund withdrawal of clients and realign the portfolio in accordance with the funds' strategy/guidelines. 8) Approval of various marketing initiatives and promotions to push Trust Products and services both to clients and branches (i.e. cash incentive and referral program and UITF Online Raffle Promo). 9) Conduct of regular meetings to ensure that trust activities are conducted in accordance with applicable laws, rules and regulations and prudent practices.	
Board ICAAP Steering Committee	1. Oversight on the review and approval of the Bank's capital planning and risk assessment policies 2. Overall assessment and active oversight on the implementation of the Bank's Board-approved ICAAP	Provides suggestions and resolutions relative to the BSP Observations and Recommendations on the ICAAP Document
Board Oversight Committee – Domestic & Foreign Offices/ Subsidiaries	1. Reviewed & monitored the monthly performance of the domestic subsidiaries and overseas offices 2. Recommended strategies/action plans to improve business operations and reduce the losses of the domestic subsidiaries and overseas offices 3. Recommended the development and pushed for the implementation of new remittance products & services and remittance channels 4. Required domestic subsidiaries and overseas offices to reduce operating expenses and instituted cost-saving measures 5. Recommended new business models/ marketing programs and other business building initiatives for the domestic subsidiaries and overseas	To address the performance/ profitability of the domestic subsidiaries and overseas offices

	offices 6. Oversee that all domestic subsidiaries and overseas offices are compliant to all regulatory requirements	
Board Oversight RPT Committee (BORC)	Related party transactions were deliberated, approved/noted by BORC; endorsed to the board; and documented in the minutes per Board approved policies and procedures.	Complied with the SEC and BSP rules and regulations on RPT.
Board IT Governance Committee	1. Review and endorsed for Board approval IT policy guidelines and implementing procedures relative to IT functions, processes and systems and ensuring adherence to existing laws, rules and regulations, and global best practices. 2. Reviewed and informed the Board in a timely manner critical IT Projects and endorsed approval of necessary IT budgets to support business plans and priorities; 3. Monitored the IT Group performance, IT projects and in-sourcing and out-sourcing activities of IT functions and services provided to related entities; 4. Reviewed and monitored significant IT concerns and corrective actions arising from regulatory examinations, internal audits and external reviews.	

5) Committee Program (updated – 2014)

Provide a list of programs that each committee plans to undertake to address relevant issues in the improvement or enforcement of effective governance for the coming year.

Name of Committee	Planned Programs	Issues Addressed
Board Credit and Policy Committee	Quarterly management profitability reporting Reports on various industries	Regular assessment of the Bank's performance. Continued search for opportunities in the target industries of the Bank for deeper penetration and identification of risk
Board Credit Committee	Semi-annual review of portfolio	Monitoring of the consumer banking portfolio and identification of strengths, weaknesses, threats and opportunities
Board Audit and Compliance Committee (BACC)	The BACC holds regular monthly meetings to review and approve Compliance and Internal Audit Reports. Special meetings are held to discuss quarterly financial statements submitted to regulators. The BACC invites business resource persons or subject matter experts to participate in the meetings, as necessary, primarily to provide comprehensive reports and guidance to significant issues the BACC is confronted with.	
Corporate Governance/ Nomination/Remuneration Committee	Corporate Governance Seminar	All board members, especially those who are new and have not yet attended one, and key senior officers are enjoined to attend corporate governance seminars/

	Institute of Corporate Directors (ICD) Programs	trainings at least once a year, in compliance with BSP requirement and SEC Memorandum Circular No. 20, Series of 2013. Right now, there are three (3) PNB board members and one (1) board advisor who are ICD Fellows. The other board members are encouraged to attend these ICD Programs to strengthen the Bank's corporate governance.
Risk Oversight Committee	Coordinates preparation of the annual ICAAP program submitted to BSP. Completion of Enterprise Information Security Policy. Endorses annual renewal of Risk Management Manuals, Policies on Procedures to further strengthen risk management practices of the bank enterprise wide. Harmonized risk management policy guidelines for critical risk management reports under the Merged Bank.	
Trust Committee	Strengthened and enhanced the Risk Management and Compliance Systems. The bank has considered relevant banking laws, rules and regulations applicable to trust banking which are monitored through the RCSA Program including compliance with BSP Circular 766 on Corporate Governance and Risk Management Practices on Trust, Other Fiduciary Business and Investment Management Activities. Strengthened Trust Operations based on 5 essential components (capability of Trust Operation Management, Adequacy of operations, controls and audits, quality and level of earnings, compliance and management of fiduciary assets) being considered by BSP to get an audit rating of 4 through the acquisition of a new Trust System."	
Board ICAAP Steering Committee	Ensured that the PNB Group ICAAP Program involved active oversight on domestic and foreign subsidiaries. Focused on the seamless implementation of the Capital Contingency Plan to address new BSP regulations and align with recent Basel III developments.	Implemented a well-defined Capital allocation for the subsidiaries aligned with Board approved Business Plans.
Board Oversight Committee – Domestic & Foreign Subsidiaries and Affiliates	Expanded review & monitoring of monthly performance of oversea and domestic offices. Approved new strategic programs to further strengthen its operations to achieve long-term profitable operations via: - New marketing programs, tools & strategies to sell PNB products & services supported by aggressive advertising. - Retention programs were approved to win back lost clients	Rolled-out revenue generating programs and effectively reduced overhead expenses to achieve desired rate of return.

	and deepen relationship with existing valued customers. - New distribution channels for remittances through new technology i.e web-based.	
Board Oversight RPT Committee	Established a robust RPT framework to ensure proper monitoring of RPT dealings are approved per Board approved policy guidelines. Increased awareness of RPT policies and procedures and modified practices to align with new regulations.	Bank has fully adhered with the SEC/BSP regulation and enhanced practices to align with global best practices. Existing policies were modified to provide clearer guidelines and thresholds through issuance of RPT compliance bulletins.

F. RISK MANAGEMENT SYSTEM

1) Disclose the following:

(a) Overall risk management philosophy of the Bank: (updated – 2014)

The Bank places a high priority on risk management and has taken concrete steps to refine its framework for risk management, including the identification and control of the risks associated with its operational activities.

A sound, robust and effective enterprise risk management system coupled with global best practices were recognized as a necessity and are the prime responsibility of the Board and senior management. The approach to risk is founded on strong corporate governance practices that are intended to strengthen the enterprise risk management of PNB, while positioning PNB Group to manage the changing regulatory environment in an effective and efficient manner.

Strong independent oversight has been established at all levels within the group. The Bank subscribes to the philosophy of integrity, accountability and transparency in its manner of doing business, dealing fairly with its clients, investors, stockholders, the communities affected by the Bank's various activities. The Bank espouses professionalism among the members of its Board of Directors, executives and employees in managing the Bank, its subsidiaries and affiliates; and respect for the laws and regulations. The Bank practices a philosophy of rational checks and balances and adopts a structured approach to its operating processes.

The bank's Board of Directors has delegated specific responsibilities to various board committees which are integral to the PNB's risk governance framework and allow executive management, through management committees, to evaluate the risks inherent in the business and to manage them effectively. There are ten (10) Board Committees as presented previously.

Board of Directors

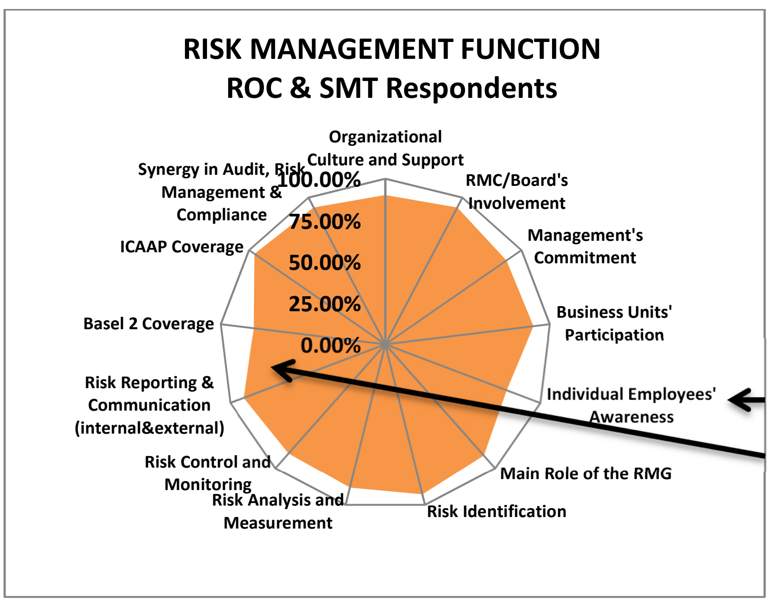
- Board Credit & Policy Committee (BCPC)
- Board Credit Committee (BCC)
- Corporate Governance Committee
- Board Audit and Compliance Committee
- Risk Oversight Committee
- Board ICAAP Steering Committee
- Trust Committee
- Board Oversight Committee for Overseas & Domestic Subsidiaries and Branches (BOOC)
- Board Oversight Related Party Transaction Committee (BORPTC)
- Board IT Governance Committee

Figure 1: Board Level Committees

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

The risk management system and the directors' criteria for assessing its effectiveness are reviewed/revised annually.

(b) A statement that the directors have reviewed the effectiveness of the risk management system and commenting on the adequacy thereof:



Overall, the exercise achieved a high evaluated rating of 90.85% an improvement from last year's rating of 88.0%. This means that the "Risk Management processes is embedded in all "*lines of defense*" in the organization."

The areas for additional focus and continuing improvement are:

- ***"Individual employees' awareness" which suggests the need for continuing awareness programs***
- ***"Basel 2 coverage" as the bank enables to comply with the continuing changes in regulatory requirements***

Figure 1: 2013 Overall Assessment of the Risk Management Function

Regular review and assessment of the Enterprise Risk Management Function is completed by both the senior management team and the Risk Oversight Committee members.

(c) Period covered by the review;

One year.

(d) How often the risk management system is reviewed and the directors' criteria for assessing its effectiveness?

Annually.

Summary of RM Function Evaluation - 2014			
	Score	**Assessment**	
Organizational Culture and Support	90.11%	Effective RM process in place	
RMC/Board's Involvement	93.33%	Very Effective RM process in place	
Management's Commitment	88.89%	Effective RM process in place	
Business Units' Participation	90.00%	Effective RM process in place	**Structure and Administration of the RM Function**
Individual Employees' Awareness	78.26%	Effective RM process in place	
Main Role of the RMG	89.61%	Effective RM process in place	
Risk Identification	93.33%	Very Effective RM process in place	
Risk Analysis and Measurement	89.17%	Effective RM process in place	
Risk Control and Monitoring	88.01%	Effective RM process in place	**Role of the Risk Management Group**
Risk Reporting & Communication (internal & external)	91.30%	Very Effective RM process in place	
Basel 2 Coverage	80.00%	Effective RM process in place	
ICAAP Coverage	96.06%	Very Effective RM process in place	**Compliance to Regulatory Requirements**
Synergy in Audit, Risk Management & Compliance	93.33%	Very Effective RM process in place	
Average Rating	**90.85%**	**Effective RM process in place**	

Figure 2: Summary of RM Function Evaluation

(e) Where no review was conducted during the year, an explanation why not.

Not Applicable.

2) Risk Policy

(a) Company

Give a general description of the company's risk management policy, setting out and assessing the risk/s covered by the system (ranked according to priority), along with the objective behind the policy for each kind of risk:

The following are the basic principles that the Bank must adhere to in conducting its business, with the objective of minimizing risks and optimizing return on capital:

- First, the boards of directors and its delegated committees have the responsibility for managing the bank's overall strategies and objectives.
- Second, the bank works on the basis that risk taking decisions should always be made by a committee consisting of at least three persons, and not by one person alone, no matter how high he is in the organization.

- Third, the bank has policies and procedures in place to guide line management in actually originating, approving and managing these risks.

- Fourth, rhe Board Risk Oversight Committee is created by the PNB Board of Directors to assist the board to oversee the risk profile and approves the risk management framework of PNB and its related allied subsidiaries and affiliates. It is mandated to set risk appetite, approve frameworks, policies and processes for managing risk, and accept risks beyond the approval discretion provided to management.

(b) Group

Give a general description of the Group's risk management policy, setting out and assessing the risk/s covered by the system (ranked according to priority), along with the objective behind the policy for each kind of risk:

Risk Exposure	Risk Management Policy	Objective
Market Risk	Market Risk Management Manual	The Market Risk Manual covers subsidiaries and affiliate with market risk exposure. This includes Value At Risk (VaR) Monitoring and setting of VaR Limits.
Liquidity Risk	Liquidity Risk Management Manual	The Liquidity Risk Management Manual covers subsidiaries and affiliate with funding liquidity risk exposure. This would include monitoring of liquidity gaps and the setting of cumulative liquidity gap limit up to one-year.
Interest Rate Risk	Interest Rate Risk in the Banking Book	The Interest Rate Risk Management Manual covers subsidiaries and affiliate with exposure in net interest income arising from mismatch of repriceable assets and repriceable liabilities. This would include the monitoring of repricing gap and the setting of the earnings at risk limit for the repricing gap per tenor bucket.
Market Risk Price Risk in the Trading Portfolio	The Bank's trading positions are sensitive to changes in the market prices and rates. PNB is subject to	To calculate the risks in the trading portfolio, the Bank employs the Value at Risk (VAR) methodology with 99%

	trading market risk in its position-taking activities for the fixed income, foreign exchange and equities markets. The Bank also employs the stop-loss monitoring tool to monitor the exposure in the price risks. Stop-loss limits are set up to prevent actual losses resulting from mark to market. To complement the VAR measure, the Bank performs stress testing and scenario analysis wherein the trading portfolios are valued under several market scenarios.	confidence level and one-day holding period (equities and FX VAR) to ten day holding period for fixed income VAR. VAR limits have been established annually and exposures against the VAR limits are monitored on a daily basis. The VAR figures are back-tested against actual (interest rates) and hypothetical profit and loss (FX and Equities) to validate the robustness of the VAR mode
Structural Market Risk	Structural interest rate risk arises from mismatches in the interest profile of the Bank's assets and liabilities. Limits have been set on the tolerable level of earnings at risk. Compliance to the limit is monitored regularly.	To monitor the structural interest rate risk, the Bank uses a re-pricing gap report wherein the repricing characteristics of its balance sheet positions are analyzed to come up with a repricing gap per tenor bucket. The total repricing gap covering the one-year period is multiplied by an assumed change in interest rates based on observed volatility at 99% confidence level to obtain an approximation of the change in net interest earnings.
Liquidity and Funding Risk	The Bank seeks to manage its liquidity through active management of liabilities, regular analysis of the availability of liquid asset portfolio as well as regular testing of the availability of money market lines and repurchase facilities aimed to address any unexpected liquidity situations.	The tools used for monitoring liquidity include gap analysis of maturities of relevant assets and liabilities reflected in the maximum cumulative outflow (MCO) report, as well as an analysis of the sufficiency of liquid assets over deposit liabilities and regular monitoring of concentration risks in deposits by tracking accounts with large balances. The MCO focuses on a 12-month period wherein the 12-month cumulative outflow is compared to the acceptable MCO limit set by the Bank.
Credit Risk	All credit risk policies issued by the regulatory bodies (BSP, SEC, PDIC, BIR, etc.) automatically form part of the Bank's board-approved risk policies. These risk policies reflect the Bank's lending profile and focus on: a) the risk tolerance and/or risk appetite; b) the required return on asset that the Bank expects to achieve; c) the adequacy of capital for credit risk.	The following credit risk management tools are in place: a) Credit Limit Structure: The Bank adopts a credit limit structure (regulatory and internal limits) as quantitative measure of the risk tolerance duly approved by the Board. Breaches in limits are monitored via the monthly credit dashboard reported at the Risk Oversight Committee. b) Stringent Credit Evaluation: Repayment capacity of prospective borrowers are evaluated using an effective

		internal risk rating model for corporate and MSME accounts and appropriate credit scoring program for consumers loans. These models are validated to determine its predictive ability. c) Reporting System: Effective Management Information System (MIS) are in place and, at a minimum, has the capacity to capture accurate credit risk exposure/position of the Bank in real time. A monthly credit dashboard is used as the reporting tool for appropriate and timely risk management process. d) Remedial Management System: A work-out system for managing problem credits is in place. This includes renewals, extension of payment, restructuring, take-out of loans by other banks, and regular review of the sufficiency of valuation reserves. e) Event-Driven Stress Testing: Techniques are conducted to determine the payment capacity of affected borrowers' accounts. A Rapid Portfolio Review program is in place to quickly identify possible problem credits on account of evolving events both domestic and global. Results of the stress testing shows minimum impact and have no material effect to Bank's NPL ratio and CAR.
Operational Risk People Risk	a) In PNB operational losses may be attributed to human error which can be brought about by inadequate training and management. b) Further, there is the risk of "non-fit" personnel being "forced" to occupy positions that they are not qualified for. c) Regularly Business Continuity Program must be set in place to ensure risks of unforeseen threats which can cause negative events / losses for the bank are mitigated	a) This issue is being addressed through formal (continuously conducting trainings) or informal (monthly meetings and discussing issues at hand) means. These trainings also address the issue of relying on key performers instead of cross training each team member. b) Annual evaluation and the implementation of balanced scorecards are used to ensure that ill-fitted personnel are either re-trained, re-tooled and re-skilled to equip them better. c) The Bank's BCP must be tested to ensure personnel and technology readiness for activation when the need arises.
Process Risk	Most processes are designed with audited fail-safes and checking procedures. Since processes interact with other risky variables - the external environment, business	The bank has documented policies and procedures duly approved by the Board. The Internal Audit Group as well as the various officers tasked with the review function regularly monitor the

	strategy and people – it is difficult to sound the all clear. However, processes can make an institution vulnerable in other ways.	implementation of these documented policies and procedures.
Business Strategy Risk	Strategic Risk can arise when the direction/strategy of the bank can lead to non-achievement of business targets. This results in a new focus of a business sector without consolidating this with the bank's overall business plan and strategy.	At PNB, strategic risk is managed through each business sector performing "actuals versus targets" sessions with and reported to the Board of Directors through regular management profitability reporting Sessions. In addition, the coordination between business sectors are done through regular meetings by the senior management team to ensure that overall business targets are continually revisited.
Business Environment Risk	Banks tend to have the least control over this source of operational risk, yet it still needs to be managed. Business environment risk can arise from unanticipated legislative changes such as consumer affairs, physical threats such as bank robberies, terrorist attacks, natural disasters, and regulatory-required financial report changes, new or otherwise. New competitive threats such as faster delivery channels, new products, new entrants and the ever-increasing rationalization of the banking industry are driving banks to become much more nimble-footed. The flexibility required to remain in the game leads some banks to take shortcuts that eventually expose them to some new source of operational risk.	PNB become fully involved and engaged in the Product Management Business Framework where old and new products alike are monitored by assigned product managers who coordinate with the various business sector heads in achieving the bank's business plan. Furthermore, a Product Committee composed of senior managers has been convened and meets regularly to ensure that the business environment is closely monitored as to competition; and delivery channels and over all service are kept at acceptable levels.
Information Technology Risk	The growing dependence of financial institutions on IT systems is a key source of operational risk. Data corruption problems, whether accidental or deliberate, have been sources of embarrassing and costly operational mistakes. Losses may also result from a simple change in program, which end up being incorrectly tested prior to cut-over to production	The Bank has institutionalized and implemented the IT Governance Committee which is composed of members of the senior management team, who discuss the monthly ITG dashboard prior to it being presented to the Risk Oversight Committee with following focused topics: a) Bank's IT Strategic Plan b) Incident Reporting c) Business Continuity Management d) Major IT Projects e) Enterprise Project Management Further, the Bank has formalized the Project Implementation Process for defined systems implementation to include, among others, the creation of a

		Project Steering Committee to oversee the project's progress and to ensure that the project's objectives are achieved.
Information Security Risk	Enterprise Information Security Policies, the cornerstone of the Bank's information security management system, is a component of an effective Corporate Governance. This communicates Management's directives and support for PNB's information security programs and strategies. The high level security policies stated herein are based on International Organization for Standardization (ISO) 27000 series of internationally-accepted information security and risk management standards, related laws and regulations.	Adoption of globally accepted ISMS (Information Security Management System – in compliance with BSP Circulars and ISO mandated functions). Following domains are in place: 1. Organization of information security 2. Asset management security 3. Human resources security 4. Physical and environmental security 5. Communications and operations management security 6. Access control 7. Information systems acquisition, development and maintenance security 8. Information security incident management 9. Business continuity management 10. Information security compliance

Note: The Bank applies the same risk management policy for both the Bank and its subsidiaries and affiliates as a Group.

(c) Minority Shareholders

Indicate the principal risk of the exercise of controlling shareholders' voting power.

Risk to Minority Shareholders
Stockholders holding or representing at least two thirds (2/3) of the outstanding capital stock of the corporation may control the vote for matters such as the amendment of articles of incorporation, removal of directors, shorten or extend corporate term, increase or decrease capital, sale or other disposition of assets, invest corporate funds in another corporation or business or for any other purpose, declaration of dividends, merger or consolidation, voluntary dissolution, etc.

3) Control System Set Up

(a) Company

Briefly describe the control systems set up to assess, manage and control the main issue/s faced by the company:

The Enterprise Risk Management Function (ERM) in the Bank is managed through the continuous review, evaluation and agreement between the Board of Directors and management. The Board of Directors, through its various designated committees, provides policy directions, reviews performance and ensures that safe and sound management practices are always adhered to in all of the Bank's engagement and transactions.

For ERM, three (3) committees are tasked to oversee the Bank's risk management processes. These are embedded in the charters of (1) Risk Oversight Committee; (2) Board Audit and Compliance Committee; and (3) Corporate Governance Committee.

The ERM Framework is applied to both the Bank and its subsidiaries and affiliates both domestic and overseas. RMG provides the backbone to the Risk Overseers assigned in each of the business units to ensure that the risk management tools are uniformly adopted and executed.

Risk Exposure	Risk Assessment (Monitoring and Measurement Process)	Risk Management and Control (Structures, Procedures, Actions Taken)
Market Risk		
Price Risk in the Trading Portfolio	The Bank's trading positions are sensitive to changes in the market prices and rates. PNB is subject to trading market risk in its position taking activities for the fixed income, foreign exchange and equities markets. The Bank also employs the stop loss monitoring tool to monitor the exposure in the price risks. Stop loss limits are set up to prevent actual losses resulting from mark to market. To complement the VAR measure, the Bank performs stress testing and scenario analysis wherein the trading portfolios are valued under several market scenarios.	To calculate the risks in the trading portfolio, the Bank employs the Value at Risk (VAR) methodology with 99% confidence level and one-day holding period (equities and FX VAR) to ten-day holding period for fixed income VAR. VAR limits have been established annually and exposures against the VAR limits are monitored on a daily basis. The VAR figures are back tested against actual (interest rates) and hypothetical profit and loss (FX and Equities) to validate the robustness of the VAR model.
Structural Market Risk	Structural interest rate risk arises from mismatches in the interest profile of the Bank's assets and liabilities. Limits have been set on the tolerable level of earnings at risk. Compliance to the limit is monitored regularly.	To monitor the structural interest rate risk, the Bank uses a re-pricing gap report wherein the repricing characteristics of its balance sheet positions are analyzed to come up with a repricing gap per tenor bucket. The total repricing gap covering the one-year period is multiplied by assumed change in interest rates based on observed volatility at 99% confidence level to obtain an approximation of the change in net interest earnings.
Liquidity and Funding Risk	The Bank seeks to manage its liquidity through active management of liabilities, regular analysis of the availability of liquid asset portfolio as well as regular testing of availability of money market lines and repurchase facilities aimed to address any unexpected liquidity situations.	The tools used for monitoring liquidity include gap analysis of maturities of relevant assets and liabilities reflected in the maximum cumulative outflow (MCO) report, as well as an analysis of sufficiency of liquid assets over deposit liabilities and regular monitoring of concentration risks in deposits by tracking accounts with large balances. The MCO focuses on a 12-month period wherein the 12-month cumulative outflow is compared to the acceptable MCO limit set by the Bank.
Credit Risk	All credit risk policies issued by the regulatory bodies (BSP, SEC, PDIC, BIR, etc.) automatically form part of the	The following credit risk management tools are in place:

	Bank's board-approved risk policies. These risk policies reflect the Bank's lending profile and focus on: a) the risk tolerance and/or risk appetite; b) the required return on asset that the Bank expects to achieve; c) the adequacy of capital for credit risk;	a) Credit Limit Structure: The Bank adopts a credit limit structure (regulatory and internal limits) as quantitative measure of the risk tolerance duly approved by the Board. Breaches in limits are monitored via the monthly credit dashboard reported at the Risk Oversight Committee. b) Stringent Credit Evaluation Repayment capacity of prospective borrowers are evaluated using an effective internal risk rating model for corporate and MSME accounts and appropriate credit scoring program for consumers loans. These models are validated to determine its predictive ability. c) Reporting System Effective Management Information System (MIS) are in place and, at a minimum, has the capacity to capture accurate credit risk exposure/position of the Bank real time. A monthly credit dashboard is used as the reporting tool for appropriate and timely risk management process. d) Remedial Management System Work-out system for managing problem credits are in place. Among others, these are renewals, extension of payment, restructuring, take-out of loans by other banks; and regular review of the sufficiency of valuation reserves. e) Event-Driven Stress Testing Techniques are conducted to determine the payment capacity of affected borrowers' accounts. A Rapid Portfolio Review program is in place to quickly identify possible problem credits on account of evolving events both domestic and global. Results of the stress testing shows minimum impact and have no material effect to Bank's NPL ratio and CAR.
Operational Risk		
People Risk	a) In PNB operational losses may be attributed to human error which can be brought about by inadequate training and management. b) Further, there is the risk of "non-fit" personnel being "forced" to occupy positions that they are not qualified	a) This issue is being addressed through formal (continuously conducting trainings) or informal (monthly meetings and discussing issues at hand) means. These trainings also address the issue of relying on key performers instead of cross training

	for.	each team member. b) Annual evaluation and the implementation of balanced scorecards are used to ensure that ill-fitted personnel are either re-trained, re-tooled and re-skilled to equip them better.
Process Risk	Most processes are designed with audited fail-safes and checking procedures. Since processes interact with other risky variables - the external environment, business strategy and people – it is difficult to sound the all clear. However, processes can make an institution vulnerable in other ways.	The Bank has documented policies and procedures duly approved by the board. The Internal Audit Group as well as the various officers tasked with the review function regularly monitors the implementation of these documented policies and procedures.
Business Strategy Risk	Strategic Risk can arise when the direction/strategy of the bank can lead to non-achievement of business targets. This results in a new focus of a business sector without consolidating this with the bank's overall business plan and strategy.	At PNB, strategic risk is managed through each business sector performing "actuals vs targets" sessions with and report to the Board of Directors through regular Management Profitability Reporting Sessions. In addition, the coordination between business sectors are done through regular meetings by the senior management team to ensure that overall business targets are continually revisited.
Business Environment Risk	Banks tend to have the least control over this source of operational risk yet it still needs to be managed. Business environment risk can arise from unanticipated legislative changes such as consumer affairs, physical threats such as bank robberies, terrorist attacks, natural disasters and regulatory required financial report changes, new or otherwise. New competitive threats such as faster delivery channels, new products, new entrants and the ever-increasing rationalization of the banking industry are driving banks to become much more nimble-footed. The flexibility required to remain in the game leads some banks to take shortcuts that eventually expose them to some new source of operational risk.	At PNB, we have become fully involved and engaged in the Product Management Business Framework where old and new products alike are monitored by assigned product managers who coordinate with the various business sector heads in achieving the bank's business plan. Further, a Product Committee composed of senior managers has been convened and meets regularly to ensure that business environment is closely monitored as to competition; delivery channels and over all service levels are kept at acceptable levels.
Information Technology Risk	The growing dependence of financial institutions on IT systems is a key source of operational risk. Data corruption problems, whether accidental or deliberate, have been sources of embarrassing and costly operational mistakes. Losses may also result from a simple	The bank has institutionalize and implemented the IT Governance Committee which is composed of members of the senior management team, who discuss the monthly ITG Dashboard prior to it being presented to the Risk Oversight Committee with following focused topics:

	change in program, which end up being incorrectly tested prior to cut-over to production.	a) Bank's IT Strategic Plan b) Incident Reporting c) Business Continuity Management d) Major IT Projects e) Enterprise Project Management Further, the bank has formalized the Project Implementation Process for defined systems implementation to include among others the creation of a Project Steering Committee to oversee the project's progress and to ensure that the project's objectives are achieved.
Information Security Risk	IS Risk is assessed as the unwanted or unintended negative impact or consequence to the bank as a result of exposure to vulnerability or threat to the bank's information assets.	Adoption of risk mitigation and management tools as follows: a) Regular Vulnerability and Penetration Testing b) Increased Risk Awareness Campaign c) Tight Data Protection and Incident Management Reporting & corresponding Resolution Program d) Consistent Patch Management Program to prevent External and Internal Attacks e) Regular review of the Business Impact on security threats

(b) Group

Briefly describe the control systems set up to assess, manage and control the main issue/s faced by the company:

Note: The Bank applies the same risk control systems set up for both the Bank and its subsidiaries and affiliates as a Group.

(c) Committee

Identify the committee or any other body of corporate governance in charge of laying down and supervising these control mechanisms, and give details of its functions:

Committee/Unit	Control Mechanism	Details of its Functions
Risk Oversight Committee (ROC)	a) Approval of risk limits such as Value at Risk limits, Stop loss limits, credit risk factors, liquidity gap limits, earnings at risk limit. b) Approval of risk manuals c) Review and notation of current risk exposures via the risk dashboards.	Functions: The BSP-mandated functions of the ROC are as follows: a) Identify and evaluate exposures – The ROC shall assess the probability of each risk becoming reality and shall estimate its possible effect and cost. Priority areas of concern are those risks

		that are most likely to occur (high probability) and are costly when they happen (high severity). b) Develop risk management strategies – The ROC shall develop a written plan defining the strategies for managing and controlling the major risks. It shall identify practical strategies to reduce the chance of harm and failure or minimize losses if the risk becomes real. c) Oversee the implementation of the risk management plan – the ROC shall conduct regular discussions on the Bank's current risk exposures based on regular management reports and assess how the concerned units or offices reduced these risks. d) Review and revise the plan as needed – The ROC shall evaluate the risk management plan to ensure its continued relevance, comprehensiveness and effectiveness. It shall revisit strategies, look for emerging or changing exposures, and stay abreast of developments that affect the likelihood or harm or loss.

G. INTERNAL AUDIT AND CONTROL

1) Internal Control System

Disclose the following information pertaining to the internal control system of the company:

(a) Explain how the internal control system is defined for the company:

Internal control system is a process designed and effected by the Board of Directors, Senior Management, and all levels of personnel to provide reasonable assurance on the achievement of objectives through efficient and effective operations; reliable, complete and timely financial and management information; and compliance with applicable laws, regulations, supervisory requirements, and the organization's policies and procedures. The internal control system shall embody management oversight and control culture; risk recognition and assessment; control activities; information and communication; and monitoring activities and correcting deficiencies.

(b) A statement that the directors have reviewed the effectiveness of the internal control system and whether they consider them effective and adequate: (updated – 2014)

The Bank's overall risk management system, internal control systems and compliance with policies, procedures and regulations has remained satisfactory. PNB has an integrated bank-wide risk management process of comprehensive identification, assessment, mitigation and monitoring of all relevant material risks exposures of the Bank through individual unit's Risk and Control Self-Assessment (RCSA) process. The RCSA is an integral component of Enterprise Risk Management (ERM) and the Internal Capital Adequacy Assessment Process (ICAAP). The Board of Directors and senior management are consistent and diligent in the discharge of their oversight and governance functions over Bank's internal control system through regular monitoring of major issues of the Bank operations. Periodically, appropriate policies and procedures are issued to strengthen controls versus changes in the economic and regulatory environment.

Under the good governance of both the Board and the President/Chief Executive Officer and with the strong support of senior management to oversee the establishment, administration, and assessment of the Bank's system of risk management and control processes, PNB's internal control environment has been effective and dynamic to ensure the attainment of its business objectives.

(c) Period covered by the review:

One (1) year.

(d) How often internal controls are reviewed and the directors' criteria for assessing the effectiveness of the internal control system: and

Annually. The criteria for assessing the effectiveness of internal control system include, among others, the results of internal, external and BSP regulatory examinations, occurrence of fraud/irregularity and RCSA.

(e) Where no review was conducted during the year, an explanation why not.

Not applicable. Review was conducted in 2014.

2) Internal Audit

(a) Role, Scope and Internal Audit Function

Give a general description of the role, scope of internal audit work and other details of the internal audit function.

Role	**Scope**	**Indicate whether In-house or Outsource Internal Audit Function**	**Name of Chief Internal Auditor/Auditing Firm**	**Reporting process**
The Internal Audit Group is headed by the Chief Audit Executive (CAE) reporting directly to the Board Audit and Compliance Committee. The Internal Audit functions include assessment of internal controls and the recommendations to implement constructive measures to ensure adequate control. It is also tasked to support the Bank's risk management activities and corporate governance initiatives. The functions and responsibilities of the Internal Audit Group and the Chief Audit Executive		In-house	Dioscoro Teodorico L. Lim	Functionally reporting to the Board through the BACC and administratively to the President

is covered by the audit charter and Internal Audit Manual which is revised and approved by the Board annually. The major functions that the Internal Audit Group performs are: 1. Develop an audit charter, approved by both senior management and the audit committee, for the internal auditing activity. 2. Develop, along with management, an organization model that can be used to map major processes/operations for the purpose of identifying the organization's auditable units. 3. Develop a risk assessment methodology for the auditable entities identified in the model of major processes/operations. 4. Develop an audit plan based on the risk assessment and requests from management and get it approved by the board. 5. Work with senior management and the audit committee to establish a reporting relationship that will ensure that audit recommendations receive appropriate attention. 6. Establish a quality assurance and improvement program for the internal auditing activity that provides assurance that the internal auditing activity: a) performs in accordance with its charter; b) adheres to the Standards and the Code of Ethics; c) operates in an effective and efficient manner; and d) is perceived by the board and management as adding value and improving an organization's operations. 7. The internal audit function shall be established centrally by the parent bank (PNB) and shall have authority over the group (PNB and its Subsidiaries). PNB IAG shall define the internal audit strategies, methodology and scope for PNB and its BSP-supervised domestic and overseas Subsidiaries and branches. 8. For BSP-supervised Subsidiaries with established internal audit functions, the internal audit of said entities shall closely coordinate with PNB IAG to ensure consistent adoption of audit methodologies and alignment of strategies and scope.			

(b) Do the appointment and/or removal of the Internal Auditor or the accounting /auditing firm or corporation to which the internal audit function is outsourced require the approval of the audit committee? (updated – 2014)

Yes. The BACC Charter states, among others, that as part of the oversight function of the Bank's Internal Auditor, the BACC is:

> "Responsible for the establishment of the Internal Audit Group and the appointment and replacement of the Chief Audit Executive (who will report directly to the BACC functionally) including annual performance review of the CAE, accepting the resignation and/or dismissal subject to due process. "

(c) Discuss the internal auditor's reporting relationship with the audit committee. Does the internal auditor have direct and unfettered access to the board of directors and the audit committee and to all records, properties and personnel? (updated – 2014)

Yes. The IAG Charter states that:

> "The Chief Audit Executive (CAE) shall report directly/functionally to the Board Audit and Compliance Committee (BACC) and may report administratively to the President and Chief Executive Officer."
>
> IAG shall have free and unrestricted access to the BACC and any other member of the Board of Directors as needed to fulfill its responsibilities.
>
> Authority is granted for full, free and unrestricted access to any and all of the Bank's, its affiliates and subsidiaries' records, physical properties, and personnel relevant to any function under review. All employees are requested to assist IAG in fulfilling their staff function.
>
> Documents and information given to internal auditors during a periodic review will be handled in the same prudent and confidential manner as by those employees normally accountable for them."

(d) Resignation, Re-assignment and Reasons

Disclose any resignation/s or re-assignment of the internal audit staff (including those employed by the third-party auditing firm) and the reason/s for them. (updated – 2014)

Name of Audit Staff	Reason
In summary, there were 35 additional auditors (32 newly hired and 3 transferees from other departments) while 26 auditors retired/resigned in 20142.	Turnover of auditors is considered a "normal attrition" scenario in a banking environment

The BACC Charter state that as part of the oversight function of the Bank's Internal Auditor, the BACC is:

> "Responsible for the establishment of the Internal Audit Group and the appointment and replacement of the Chief Audit Executive (who will report directly to the BACC functionally) including annual performance review of the CAE, accepting the resignation and/or dismissal subject to due process. "

(e) Progress against Plans, Issues, Findings and Examination Trends

State the internal audit's progress against plans, significant issues, significant findings and examination trends. (updated -2014)

Progress Against Plans	100.6% Accomplishment for 2014: 1,113 audits exceeding plan of 1,106
Issues[6]	None
Findings[7]	92.6% resolution rate
Examination Trends	• Regular Audits- • Spot Audits • Confirmation of Balances • Special Audits/Fraud Investigations/Request for Audit The results of our internal control review and evaluation on operations of the bank units disclosed that the internal control environment of the Bank is considered effective as the units' ratings remained concentrated at Low Risk.

(f) Audit Control Policies and Procedures

Disclose all internal audit controls, policies and procedures that have been established by the company and the result of an assessment as to whether the established controls, policies and procedures have been implemented under the column "Implementation." (updated – 2014)

Policies and Procedures	Implementation
Internal Audit Charter	Implemented. Based on the assessment of an independent validator, IAG "Generally Conforms" to the International Standards for the Professional Practice of Internal Auditing, the Code of Ethics, and the Definition of Internal Auditing.
Board Audit and Compliance Committee Charter	
Audit Risk Assessment	
Audit Planning and Monitoring of Accomplishment	
Pre-Engagement Activities	
Audit Fieldwork and Reporting of Results	
Audit Client Satisfaction Surveys	
Audit Sampling Methodology	
Audit Working Paper Preparation	
Audit Risk Rating System	
Internal and External Quality Assessment Reviews	
Monitoring of Outstanding Audit Issues	
Fraud Investigations	
Professional Development	
Consulting Activities	
Insourced Activities	
Performance Measures	

6 "Issues" are compliance matters that arise from adopting different interpretations.

7 "Findings" are those with concrete basis under the company's policies and rules.

(g) Mechanisms and Safeguards

State the mechanism established by the company to safeguard the independence of the auditors, financial analysts, investment banks and rating agencies (example, restrictions on trading in the company's shares and imposition of internal approval procedures for these transactions, limitation on the non-audit services that an external auditor may provide to the company): (updated – 2014)

<table>
<tr><th>Auditors
(Internal and External)</th><th>Financial Analysts</th><th>Investment Banks</th><th>Rating Agencies</th></tr>
<tr><td>Internal Auditors' performance is governed by the provisions of the International Standards for the Professional Practice of Internal Auditing and BSP prescribed standards and regulations, particularly on rotation of auditors.</td><td colspan="3" rowspan="4">The credit rating agencies, investment banks, institutional and other potential investors request for data and information prior to their scheduled meetings with the Bank's senior officers.

Information provided to them is cut-and-dried data that have already been previously disclosed to the Philippine Stock Exchange and to the public.

No write-ups, analyses, opinions and judgments are included in the information provided to these agencies.</td></tr>
<tr><td>Auditors are bound to carry out their functions in accordance with the Employee Discipline Policies and Procedures/Code of Conduct.</td></tr>
<tr><td>Auditors shall not install nor develop policies and procedures, prepare reports, or execute activities that fall within the scope of its review.</td></tr>
<tr><td>The Board Audit and Compliance Committee (BACC) shall have the sole authority to select, evaluate, appoint, dismiss, replace and re-appoint the External Auditors (subject to stockholder ratification) based on fair and transparent criteria such as (I) core values, culture and high regard for excellence in audit quality; (ii) technical competence and expertise of auditing staff; (iii) independence; (iv) effectiveness of the audit process; and (v) reliability and relevance of the external auditor's reports. The BACC shall set compensation of the external auditor in relation to the scope of its duties and approve in advance all audit engagement fees and terms and all audit related tax compliance and all non-audit engagements with the External Auditors.</td></tr>
</table>

(h) State the officers (preferably the Chairman and the CEO) who will have to attest to the company's full compliance with the SEC Code of Corporate Governance. Such confirmation must state that all directors, officers and employees of the company have been given proper instruction on their respective duties as mandated by the Code and that internal mechanisms are in place to ensure that compliance.

The Revised Corporate Governance Manual had been disseminated and/or circularized to all directors, officers and employees of the Bank. Said Manual has been posted in the Bank's I-comply Site of Cybermag/Intranet and PNB Website which is accessible 24/7.

The Chairman, President & CEO and the Chief Compliance Officer of the Bank can attest to the company's full compliance with the SEC Code of Corporate Governance.

H. ROLE OF STAKEHOLDERS

1) Disclose the company's policy and activities relative to the following:

	Policy	Activities
Customers' welfare	The Bank established Customer Service Policy Guidelines under Circular No. 1-774/2006 which will govern the conduct and manner by which all personnel render customer service to bank clients following the office decorum, standard greetings and spiels, as well as common courtesy.	The Bank continues to update the Customer Service Policy Guidelines issued in 2006. Gen Cir. 2-1653/2008 sets the standard for Service Quality. It sets forth the guiding principles of customer service, the protocols to be followed and the procedures for handling complaints. Further enhancements to this standard were issued, namely, Gen Cir. 2-1740/2009 announcing the Customer Service Hotlines and merging all helpdesks and Gen Cir. 2-1803/2010 which refined the procedures when replying to customer inquiries and/or complaints.
Supplier/contractor selection practice (updated – 2014)	The bank has an established guideline on the "Accreditation of Suppliers/ Contractors" per Sel. Cir. No. 8-169/2005 dated August 26, 2005 to ensure that the Bank, as much as possible/practicable, deals only with the best suppliers/contractors, pre-screened as to their capacity to deliver the best goods/services to the Bank at the lowest possible cost. The Bank has an established "Manual of Signing Authority (MSA)" as guide to the proper recommending and approving authority/ies in the procurement processes depending on the degree and amount involved on the items to be procured.	From among the list of accredited suppliers/contractors, Corporate Services Division (CSD) invites bidders to submit bids for a particular item/s to be procured. For purchases amounting to P5,000.00 and below, a telephone canvas is used; for over P5,000.00 but less than P5,000.00, a formal quotation is used; and for over P50,000.00, a sealed quotation is used. At least 3 bidders are gathered for each item purchased before an evaluation is made based on the terms of pricing and quality of goods/services offered, recommends to proper approving authority/ies (Heads of CSD/Heads of FAG/Bids and Awards Committee [BAC]/BCPC) the best complying bid/s and upon approval, award the transaction/s to the winning bidder/s.

Environmentally friendly value-chain	PNB participates in environmental protection projects of both the government and private sectors.	• PNB's Branches Grow Greener -- Tree Planting Project • Earth Hour • PNB/PAL Recycables Event • Pasay City Walang Plastikan Project (Anti-Plastic Bags Drive)
Community interaction	PNB gets involved in community/ school/health/relief/calamity assistance project	• PNB Pagtutulungan ng Bayan outreach projects through distribution of relief goods • PNB Brigada Eskwela – volunteer work of employees to help prepare for school opening. • PNB Tan Yan Kee Philhealth Card Distribution Project – free health card for indigents
Anti-corruption programmes and procedures (updated – 2014)	Under the Bank's Whistleblower Policy (as amended), employees can report or complain internally any suspected or actual commission of theft/fraud, corruption, etc. The employee or the whistleblower is protected against retaliation, discrimination, harassment or adverse personnel action, for reporting in good faith a suspected or actual violation. Hence, anyone who retaliates against the whistleblower is subject to disciplinary action, including the possibility of termination/dismissal from the Bank service. Policy on Soliciting and/or Receiving Gifts under Gen. Cir. 1-866/2013. Soliciting gifts/ donations/ sponsorship whether in cash or in kind from clients, suppliers and other business-related parties is strictly prohibited.	A whistleblower can submit a confidential report on suspected or alleged actual event/violation to any head of Corporate Security Group, Legal Group, Internal Audit Group or Human Resource Group using the Disclosure of Violation/Complain Form. The Head of such group shall gather details and information and validate and determine the scope and nature of the complaint and forward the complaint to the Head of Corporate Security Group for further evaluation and thereafter prepare an Incident/Preliminary Report and submit the same to the Admin Investigation Committee for appropriate disposition. The identity of the whistleblower or complainant must be kept in strict confidence. Employees may be allowed to receive gifts/ donations/ sponsorship/ financial assistance whether in cash or in kind from clients, suppliers, and other business-related parties, subject to reporting to HRG using the Gift List Form for worth P2,000.00 and above; and more than P5,000.00 must be turned over to HRG for donation to any legitimate charitable institution. To instill professionalism, superiors/bosses are encouraged to return or decline gifts from subordinates with value of more than P2,000.00.
Safeguarding creditors' rights	The Bank adheres to the highest principles of good corporate governance as embodied in its By-Laws and Articles	

	of Incorporation, Code of Conduct and Corporate Governance Manual. It subscribes to the philosophy of integrity, accountability and transparency in its manner of doing business.	

2) Does the company have a separate corporate responsibility (CR) report/section or sustainability report/section? (updated – 2014)

   Yes. The Bank's corporate social responsibility (CSR) programs are under the purview of the Office of the President of the Bank. The Bank has implemented the following CSR programs in 2014:

• PNB Greener Path Project of NLEX • Dr. Lucio Tan Legacy Forest Project • Greener Project in Negros Oriental • UPLB Coco-peration • Tacloban Mangrove Project • Assistance to Tacloban Elementary School • Books Across the Seas Project • Assistance to Sister of Mary Girstown Students • PNB Gives Relief Goods to Caloocan Fire Victims • PNB-PMAP Med Mission (Pagtutulungan ng Bayan) • Typhoon Glenda/Mario (Pagtutulungan ng Bayan) • Little Angels Home (Pagtutulungan ng Bayan) • Donation to Tan Yan Kee Foundation

3) Performance-enhancing mechanisms for employee participation.

   (a) What are the company's policy for its employees' safety, health, and welfare? (updated – 2014)

   PNB recognizes and values its employees as its greatest asset. PNB also believes that the promotion of employee welfare can create happy, loyal and productive employees.

   Therefore, PNB has institutionalized programs and policies that protect, enhance and nurture employees' health, safety and general welfare and the giving of awards/recognition through the following:

   - Wellness/Insurance
     - Coverage under a health care maintenance program (including employees' qualified dependents)
     - Coverage under a group term life and accident insurance
     - Conduct of annual physical exam; provision of gyms, badminton and basketball courts; grant of discounted rates for immunization/vaccination and other health/wellness products; conduct of lectures/fora on first aid, fitness/nutrition/diet, stress management and the like; conduct of annual fun runs and different sports tournaments
     - Clinic with doctors, nurses and dentist to provide free medical and dental services and free medicines (pain reliever, anti-allergies, antibiotics, antispasmodic, anti-diarrhea etc.) at the Head Office; and provision of medicine cabinets/first-aid kits in branches

   - General Welfare
     - Annual Team Building activity for each Group/Unit/Branch and socialization events that promote camaraderie among employees such as Bank Anniversary and Christmas party

- Support and recognition to various clubs/associations/cooperative organized by employees that promote, encourage and conduct civic, social, cultural and sports activities, as well as savings and loan facilities among its members and provision of mini-grocery at the Head Office
- Chapel for spiritual meditation, worship and Eucharistic celebration (daily masses)
- Financial assistance and special moratorium on payment of employee fringe benefit loans for employees affected by calamity/natural disaster
- Scholarship for employees' qualified children
- Free shuttle bus service for Head Office employees (Macapagal Boulevard - Buendia LRT and EDSA-Taft MRT stations routes and back)
- Canteen with subsidized food rates and coffee shop at the Head Office
- Free parking space at the Head Office
- Employee Communications Program which includes: provision of bulletin boards; suggestion boxes; public announcement system; Intranet (e-mail) and on-line newsletters that disseminate Bank policies, corporate updates, job vacancies including tips on health and wellness as well as pointers on being prepared and safe before/during/after natural calamities (earthquake, typhoon, fire and floods)
- Special interest and foreign exchange rates and waiver of annual fee of the Bank's credit card for employees
- Office uniforms

➢ Safety/Security
- Regular fire and earthquake drill exercises
- 24/7 or round-the-clock security
- Top-of-the-line centralized alarm system and CCTV coverage
- Fumigation of building; regular maintenance of air-conditioning, lighting/electrical, alarm and elevator systems; cleaning of building premises; provision of walkways intended for Persons With Disability (PWD); provision of fire extinguishers and regular maintenance of building water-sprinklers; regular inspection of fire exits

➢ Awards/Recognition
Service Excellence Award for teams and individuals to recognize and further promote employees' excellence, productivity and professional growth; and Service Award to those who have been servicing the Bank for a number of years.

➢ Policy on Learning and Development
Learning and development activities are conducted for all levels of employees, taking into account their learning/training needs vis-a-vis the Bank's corporate mission, objectives, strategies and values. Learning and development shall be a shared responsibility among top management, middle management, supervisors, employees and training staff.

The learning programs in PNB are the following:
- Learning within the Bank (In-House)
- Learning outside the Bank
- Learning program abroad
- Orientation and Job Induction of new hires
- Student Trainee Program
- Junior Executive Development Institute
- Management Training Program/Fast Track Training Program
- Branch Operations Development Program
- Leadership Courses
- Human Resources Talent Management Program

- Employee-related approved Bank policies

  - Policy on Resignation and Retirement
  - Policy on Work Schedule
  - Harmonization of Bank Policies on Grant of Bonuses
  - Revisions on the PNB Policy on Transfer of Employee
  - Harmonization Policy on PNB Employees Loans
  - Policy on Special Leave – Anti-Violence Against Women
  - Workplace Policy on HIV/AIDS
  - Harmonization of PNB Policies on Leave Benefits
  - Harmonization Policy on the Group Term Insurance
  - Harmonized Policy on Christmas/Summer Allowance
  - Workplace Policy on Breastfeeding
  - Harmonized Policy on Overtime Pay and Allowance
  - Policy on Bank Expense – Official Travel
  - Policy on Employee Relocation/Dislocation
  - Harmonized Policy on Maternity Leave Benefits

(b) Show data relating to health, safety and welfare of its employees. (updated – 2014)

- Enrolled 8,496 employees under the PNB Group Life Insurance
- Enrolled 8,496 employees under the PNB Group Accident Insurance
- Processed/paid 248 claims/applications for PNB Maternity Benefit
- Enrolled 8,744 employees and 14,021 subsidized dependents under the HMO (Valucare Health Maintenance, Inc.)
- Released/issued various medicines to 12, 783 employees for the year 2014 at PNB Medical Office
- Processed/paid a total of 212 claims for SSS Sickness and Maternity Benefit
- Adopted various health-care activities in the workplace (discounted vaccinations, lectures on health care or wellness program, etc.)
- Provision of a Medical Office (with doctors, nurses and dentist) at the Head Office

(c) State the company's training and development programmes for its employees. Show the data. (updated – 2014)

Course Title / Duration	Description	Objectives	Target Employees
Orientation Program for New Hires (5 days)	An induction program designed to establish an adequately-informed perspective of the Bank's corporate vision, mission, values, policies and procedures, benefits and provide the requisite knowledge on customer service through a workshop.	At the end of this program, the participants will 1. Be familiar with the bank's goals, history, organizational set-up, functions/services of the divisions/departments. 2. Be able to understand the Bank's personnel policies and procedures, employee benefits and other employment-related matters. 3. Be able to know what the Bank expects of you in terms of job performance and conduct. 4. Be able to demonstrate a positive work attitude through a deeper appreciation of the value of your work. 5. Be able to learn and practice the	Newly Hired Employees

		skills on quality customer service with the aim of : a. sustaining the Bank's competitiveness in the industry; and b. further strengthening the Bank's corporate image.	
Selling 101 (1 day)	This one-day workshop is designed to enhance the selling skills competencies of the New Accounts Service Representatives for them to be able to develop a sales mindset.	1. Review and connect the duties and responsibilities of NAC to Selling 2. Develop appreciation for professional selling as a form of service 3. Demonstrate essential skills in selling	New Accounts Service Representatives
Self-Trans-formation and Re-discovery (STAR) Workshop (2 days)	This two -day program was designed to provide the participants with the necessary tools to enhance their personal and corporate effectiveness through self-mastery, values clarification and the projection of a professional image. Program Outline: Self-Mastery (Self-Knowledge); Personal Values; Self-Motivation; Habit; Effectiveness; Good grooming and proper hygiene; Corporate wardrobe and visual poise; Workplace etiquette and social graces; Professional image	1. Provide the participants with the necessary tools to enhance their personal and corporate effectiveness 2. Apply skills on how to achieve self mastery 3. Rediscover personal and corporate values and integrate them with their actions 4. Set personal goals 5. Demonstrate ways on how to motivate oneself	Rank and File Employees
In-Branch Selling Workshop (2 days)	This two-day program aims to provide branch operations employees with the knowledge and skills to transform their branch into an aggressive sales-oriented distribution point. Program Outline: • Sales - Mindset • Attitude • Relationship-building • Technical know-how	At the end of this program, the participants will be able to: 1. Develop a sales-oriented mindset; 2. Identify the do's and don'ts to having a positive attitude 3. Enumerate and practice the steps in building relationships 4. Apply the steps to the selling cycle	Staff/ Officers
Leadership Enhancement & Awareness Program (2 days)	This workshop aims to provide participants with an introduction to the basic concepts and principles of effective leadership	1. Differentiate leadership and management 2. Describe the five sources of power and how each causes different follower behavior 3. Identify qualities associated with effective leaders 4. Enumerate and describe the different leadership styles and their application 5. Develop an appreciation for having leadership vision 6. Prepare action plans to achieve	Officer Candidates

		goals and objectives	
POC (Planning, Organizing, Controlling) for Productivity (2 days)	This program provides participants with the necessary competencies for day-to-day supervision through the application of the management functions.	At the end of the program, participants would be able to: 1. Explain the systems approach to management; 2. Explain the different transformational processes in management to include the basic competencies for each process; and 3. Apply the learning in planning, organizing, and controlling through structured learning exercises and case studies.	Officer Candidates
Performance Management (2 days)	This course aims to provide the participants with the different management techniques necessary to achieve superior performance	At the end of the workshop, the participants would be able to: 1. To explain the importance of performance management. 2. To identify the roles of the officer in performance management 3. To simulate a formal performance review.	Officer Candidates
Managing Effective Teams (MET) (2 days)	This module provides participants with the necessary competencies for the day-to-day supervision through the application of the management function and also gives emphasis on the conceptual framework in building the work team.	At the end of the program, the participants will be able to: 1. Recognize the importance of building a team to accomplish goals. 2. Identify the different stages of team development. 3. Identify and practice the necessary skills in managing effective teams.	Officer Candidates
Managing People for Peak Performance (MP3) (3 days)	A 3-day comprehensive people-handling course designed to provide officers with the requisite knowledge and skills to effectively manage the performance of their direct reports. This workshop focuses on the principles of performance management, with emphasis on coaching and counseling.	At the end of this program, participants will be able to: 1. appreciate the importance of managing employee performance, 2. enumerate and define the different performance management interventions, 3. distinguish work situations that will require coaching and/or counseling 4. identify and practice skills vital to successful coaching and counseling	Officers (AM1 – AVP)
S.M.A.R.T. Leadership (2 days)	This workshop will introduce participants to what is now being considered as a key to leadership effectiveness and success, Emotional Intelligence or "EQ". It will enable the participants to understand and manage themselves and their interpersonal relationships skillfully.	At the end of this workshop, participants will be able to: 1. Appreciate the effective leadership principles 2. Develop a personal mission and vision and clarify personal values 3. Understand the importance of EQ to personal and professional growth 4. Practice effective team leadership skills	Officers (AM1 – AVP)

Personal Effectiveness Program (PEP) (2days)	This program aims to enlighten participants on the various ways they can be more effective in virtually any aspect of their lives, simply by looking into the qualities that are already within them. Too often the barriers to being effective are put in place by none other than ourselves. The course will show that it is sometimes necessary to change ourselves if we want to make changes in our lives and everything in it.	At the end of the training, participants will be able to: 1. Take better control of their personal and professional lives by possessing helpful effective paradigms and attitudes 2. Apply the Seven Habits of Highly Effective People as espoused by Stephen Covey 3. Make use of several useful tips for professionalism	Rank-and-file employees and junior officers
PNB CARES for Internal Customers (2 days)	An internal customer or internal service provider can be anyone in the organization. An internal customer can be a co-worker, another department, or a distributor who depends upon us to provide products or services which in turn are utilized to create a deliverable for the external customer. Outstanding internal customer service is simply good business. Internal customer service can flourish only in high communication environment. To create positive internal customer service, all departments work together cooperatively, agree on processes and procedures, and negotiate expectations. Like gears meshing in sync, interdependent business units meet each others' needs, work productively together to meet common goals, and deliver high quality products and service to the external customer.	At conclusion of the course participants will be able to: 1. Identify ways to improve internal and external customer service 2. Reduce interdepartmental miscommunication and conflict 3. Support the priorities of internal customers 4. Focus on problems rather than personalities 5. Handle conflict professionally 6. Identify internal problems which cost external customer loyalty 7. Turn complaints into improvements 8. Work together to meet organizational goals 9. Improve workplace productivity and communication 10. Improve service within your organization, increase productivity, and as a result, offer your clients better service. 11. Create interdepartmental service strategies that help rather than hinder work flow in your organization. 12. Eliminate "turf wars" among departments.	Rank-and-file employees and officers (AM1-SM)
Negotiation Skills Training (2 days)	Your ability to negotiate well has a large impact on both your personal and professional life. The qualities of the results you get are determined in a large part on your negotiating ability. Today's negotiating professionals must possess the most effective and current negotiating tools. This practical two-day workshop will give you those tools that are necessary in your negotiations to	After the training program, participants should be able to: 1. Identify the two main types of negotiations. 2. Describe types of power available to negotiators. 3. Explain guidelines to making concessions more effectively. 4. Demonstrate various response techniques to use during negotiations	Rank-and-file employees (AO's) and officers (AM1-SM)

	help you identify what is really negotiable. Anyone can improve their negotiating ability by instruction, practice, planning, feedback and application. In this highly interactive workshop, you will learn effective negotiating strategies and tactics. In addition, you will learn how to read a situation and apply empathy to help minimize the downside risks and avoid bad results.		
Effective Business Writing (2 days)	In today's competitive working environment, it is essential to produce clear, concise and reader-friendly business writing to tight deadlines. Many employees may possess excellent spoken communication skills but often lack confidence when writing business documents. This course will help the participants to understand that writing effectively means delivering their message that is unambiguous, concise and direct to the point.	After the training program, participants should be able to: 1. Develop a professional, reader-friendly written style when writing. 2. Organize ideas coherently when writing. 3. Improve written work as a result of practical writing exercises.	Rank-and-file employees and junior officers
Leadership Training Program (2 days)	Leadership is one of those things that is often awfully hard to define but you know when you see it, and you definitely know when it's missing. You may have some people who now have to 'step up to the plate' and take on far more of a leadership role than previously. You may need them to demonstrate the kind of leadership behaviors that others aspire to. There may be managers who have to take the next step and go beyond being good or even excellent managers, to become inspirational leaders within the business.	At the end of the program, participants are expected to: 1. Understanding good Leadership Behaviors 2. Learning the difference between Leadership and Management 3. Gaining insight into your Patterns, Beliefs and Rules 4. Defining Qualities and Strengths 5. Determining how well you Perceive what's going on around you 6. Polishing Interpersonal Skills and Communication Skills 7. Learning about Commitment and How to Move Things Forward 8. Making Key Decisions 9. Handling Your and Other People's Stress 10. Empowering, Motivating and Inspiring Others 11. Leading by Example	All Bank Officers (All levels)
Living Your Values Everyday (LiVE) (1 day)	A one-day program which aims to effect clarification and alignment in the value systems of the individual employee with the core values of the Bank.	At the end of the program, you will be able to: 1. Clarify your personal values 2. Appreciate the importance of values in life and work 3. Identify PNB's corporate values	Newly Hired Employees/ Officer Candidates

		4. Align your personal values with PNB's corporate values	
Presentation Skills Training (2 days)	In this program, participants will learn how to conquer the podium and deliver presentations that get results. From dynamic introductions to powerful closings, participants will have an opportunity during this training to practice and refine their platform skills.	Upon completing this course participants will know how to: 1. Develop and organize a presentation for any audience and any event 2. Design visuals to enhance both the presenter's message & performance 3. Deliver visual information in a way that keeps the audience in sync 4. Handle tough questions 5. Master memorization techniques 6. Use humor effectively	Rank-and-file employees and officers (AM1-SM)
Stress Management Workshop (2 days)	At the end of the workshop, participants will be able to manage stress positively.	1. Define stress, its symptoms, types and effects 2. Determine persona l stress responses 3. Enumerate factors that influence stress tolerance level 4. Identify stressors and its types 5. Demonstrate different stress management techniques	Officer Candidates
Fundamentals of Management (2 days)	This two-day course aims to help participants make the transition from team members to responsive and effective supervisors. The discussion and activities will focus on the roles, responsibilities and basic competencies of a supervisor.	1. Define management and explain its transformational processes 2. Appreciate the roles and responsibilities of a manager 3. Practice the necessary competencies for day-to-day supervision through the use of structured learning exercises and case studies 4. Prepare and present a program plan of action for a JEDI activity	Rank and File Employees
Developing People (2 days)	This program aims to introduce participants to the different concepts of learning and people development.	1. Define training and appreciate its benefits 2. Explain the steps involved in the Training Cycle 3. Enumerate and describe the adult learning principles 4. Enumerate and apply the steps to On-The-Job-Coaching	Officer Candidates
Developing Roadmaps to Effectively Achieve Mastery (2 days)	To identify specific areas to self regulate and provide participants with the necessary foundational skills to achieve self mastery	At the end of the workshop, participants are expected to: 1. Identify and cherish persona dreams 2. Build on areas of strength and identify areas for improvement	Officer Candidates

		3. Create your own goals/plans for professional and personal development 4. Identify roadblocks that impede performance and success and be empowered to make changes	
Communication in Action (2 days)	Identify communication concepts critical to building positive relationships with others internal and external to the organization	1. Identify the essential factors relevant to interpersonal communications 2. Practice some skills relevant to interpersonal communications 3. Clarify the purpose and functions of communications in an organization 4. Practice skills in the giving of instructions 5. Identify the roles of the junior officer in organizational communications 6. Properly decide when and when not to hold meetings 7. Identify responsibilities in attending meetings	Officer Candidates

(d) State the company's reward/compensation policy that accounts for the performance of the company beyond short-term financial measures. (updated – 2014)

The Bank grants the quarterly Service Excellence Award to individual employees and/or teams who have pushed themselves one step further in the following areas of the Bank: process improvement, productivity enhancement, professional improvement, extraordinary leadership and values, risk management, cost reduction, corporate social responsibility, customer service, revenue generation and cross-selling of bank products. The Bank also grants the Service Award to employees who have been servicing the Bank for a number of years.

The Bank adopted the existing PNB Policy on the Grant of Bonuses as part of the harmonization of policies for the merged bank and pursuant to the recently concluded collective bargaining agreement (CBA) of PNB with the employees union.

4) What are the company's procedures for handling complaints by employees concerning illegal (including corruption) and unethical behavior? Explain how employees are protected from retaliation. (updated – 2014)

Under the Bank's Whistleblower Policy (as approved under PNB Board Resolution No. 05/03-21-13 of March 21, 2013, as amended), employees can report or complain about internally any suspected or actual commission of theft/fraud, corruption, etc. The employee or the whistleblower is protected against retaliation, discrimination, harassment or adverse personnel action, for reporting in good faith a suspected or actual violation. Hence, anyone who retaliates against the whistleblower is subject to disciplinary action, including the possibility of termination/dismissal from the Bank service.

I. DISCLOSURE AND TRANSPARENCY

1) Ownership Structure (updated – 2014)

(a) Holding 5% shareholding or more

Shareholder	Number of Shares	Percent	Beneficial Owner
PCD Nominee Corporation (Filipino)	111,384,105	8.9168655004	Various
PCD Nominee Corporation (Non-Filipino)	105,653,011	8.4580622056	Various
Key Landmark Investments, Ltd.	109,115,864	8.7352812437	Its stockholders
Solar Holdings Corporation	67,148,224	5.3755576884	Its stockholders
Caravan Holdings Corporation	67,148,224	5.3755576884	Its stockholders

Name of Senior Management	Number of Direct shares	Number of Indirect shares / Through (name of record owner)	% of Capital Stock
No one from among the senior management of the banks owns 5% or more of the total outstanding and issued PNB shares	Not Applicable	Not Applicable	Not Applicable
TOTAL			

2) Does the Annual Report disclose the following:

Key risks	Yes
Corporate objectives	Yes
Financial performance indicators	Yes
Non-financial performance indicators	Yes
Dividend policy	None
Details of whistle-blowing policy	None
Biographical details (at least age, qualifications, date of first appointment, relevant experience, and any other directorships of listed companies) of directors/commissioners*	Yes
Training and/or continuing education programme attended by each director/commissioner	None
Number of board of directors/commissioners meetings held during the year	None
Attendance details of each director/commissioner in respect of meetings held	None
Details of remuneration of the CEO and each member of the board of directors/commissioners*	None

Should the Annual Report not disclose any of the above, please indicate the reason for the non-disclosure.

- The dividend policy of the Bank is included in the Information Statement under Management Report.

3) External Auditor's fee

Name of auditor	Audit Fee	Non-audit Fee
SGV & Co. • Engagement fee for the audit of the Bank's Financial Statements as of December 31, 2014 (inclusive of out-of-pocket expenses [OPE] but excluding Value Added Tax [VAT]	P12.802 million	-
• Engagement fee for the review of the Financial Statements as of June 30, 2014 and engagement fee for the issuance of Comfort Letter related to the offering of PNB Long Term Negotiable Certificates of Time Deposit (LTNCD) in June 2014	P6.350 million	-

4) Medium of Communication

List down the mode/s of communication that the company is using for disseminating information.

1. Advisories (internal/external; branches) in formats depending on the message and purpose
2. Website
3. Facebook
4. Print Media
5. Radio
6. Letter Advices to Publics
7. Short Message Service
8. Electronic Channels – ATM, Phone, Mobile

5) Date of release of audited financial report: (updated – 2014)

February 28, 2014

6) Company Website

Does the company have a website disclosing up-to-date information about the following?

Business operations	Yes
Financial statements/reports (current and prior years)	Yes
Materials provided in briefings to analysts and media	Yes
Shareholding structure	Yes
Group corporate structure	Yes
Downloadable annual report	Yes
Notice of AGM and/or EGM	Yes
Company's constitution (company's by-laws, memorandum and articles of association)	Yes

Should any of the foregoing information be not disclosed, please indicate the reason thereto.

7) **Disclosure of RPT**

RPT	Relationship	Nature	Value

When RPTs are involved, what processes are in place to address them in the manner that will safeguard the interest of the company and in particular of its minority shareholders and other stakeholders?

In the ordinary course of business, the Bank has loans and other transactions with its subsidiaries and affiliates, and with certain directors, officers, stockholders and related interests (DOSRI). Under the Bank's policy, these loans and other transactions are made substantially on the same terms as with other individuals and businesses of comparable risks. The amount of direct credit accommodations to each of the Bank's DOSRI, 70.00% of which must be secured, should not exceed the amount of their respective deposits and book value of their respective investments in the Bank.

In the aggregate, DOSRI loans generally should not exceed the Bank's equity or 15% of the Bank's total loan portfolio, whichever is lower. As of December 31, 2014 and 2013, the Bank was in compliance with such regulations.

DOSRI loans are reported to the BSP in accordance with existing BSP regulations. The reported DOSRI performing loans exclude loans extended to certain borrowers before these borrowers became DOSRI.

For proper monitoring of related party transactions (RPT) and to assist the Board in performing its oversight functions in monitoring and managing potential conflicts of interest of management, board members and shareholders, the Bank created the Board Oversight RPT Committee (BORC). The BORC is composed of at least five (5) regular members which include three (3) independent directors and 2 non-voting members (the Chief Audit Executive and the Chief Compliance Officer). The Chairman of the BORC is an independent director and appointed by the Board.

On January 31, 2007, BSP Circular No. 560 was issued providing the rules and regulations that govern loans, other credit accommodations and guarantees granted to subsidiaries and affiliates of banks and quasi-banks. Under the said Circular, total outstanding exposures to each of the Bank's subsidiaries and affiliates shall not exceed 10% of a bank's net worth, the unsecured portion of which shall not exceed 5% of such net worth. Further, the total outstanding exposures to subsidiaries and affiliates shall not exceed 20% of the net worth of the lending bank. BSP Circular No. 560 is effective on February 15, 2007.

The information relating to the DOSRI loans of the Group follows: (updated – 2014)

	Consolidated			
	September 30, 2014	**December 31,**		
		2013	**2012**	**2011**
Total Outstanding DOSRI Accounts *	12,688,324	3,577,857	2,650,526	4,916,441
Percent of DOSRI accounts granted prior to effectivity of BSP Circular No. 423 to total loans	4.35%	1.40%	2.03%	4.34%
Percent of DOSRI accounts granted after effectivity of BSP Circular No. 423 to total loans	4.35%	1.40%	2.03%	4.34%
Percent of DOSRI accounts to total loans	4.35%	1.40%	2.03%	4.34%
Percent of unsecured DOSRI accounts to total DOSRI accounts	1.02%	1.52%	3.29%	14.60%
Percent of past due DOSRI accounts to total DOSRI accounts	0.00%	0.00%	0.00%	0.00%
Percent of non-accruing DOSRI accounts to total DOSRI accts.	0.00%	0.00%	0.00%	0.00%

** Includes outstanding unused credit accommodations of P37.2 million as of September 30, 2014 and P178.6 million as of December 31, 2013.*

Details on the significant related party transactions of the Group (the Bank and its subsidiaries) and the Bank are as follows (transactions with subsidiaries have been eliminated in the consolidated financial statements). Transactions reported under subsidiaries represent companies where the Bank has control. Transactions reported under other related parties represent companies which are under common control. (updated – 2014)

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Subsidiaries			
Receivables from Customers		7,232,568	Revolving credit lines with fixed annual interest rate of 4.25% and maturity terms of less than 90 days; unsecured, with no impairment
Accounts receivable		57,220	Advances to finance deficit in pension liability, remittance cover and additional working capital; Non-interest bearing, unsecured, payable on demand
Accrued interest receivable		3,459	Interest in receivables from customers
Deposit liabilities		2,025,578	With annual rates ranging from 0.1% to 3.0% and maturity terms ranging from 30 days to one (1) year
Bills Payable		1,599,046	Foreign currency-denominated bills payable with fixed annual interest rate of 1.03% and maturity term of 180 days; unsecured
Accrued interest payable		17,335	Interest on deposit liabilities and bills payable
Due to other banks		12,245	Clearing accounts for funding and settlement of remittances
Due from Other banks		429,110	With annual fixed rates ranging from 0.01% to 4.5% including time with maturities of up to 90 days
Other Liabilities		3,625,000	Deposit for stock subscription
Interest Expense	19,160		Interest expense on deposit liabilities and bills payable
Interest income	66,841		Interest income on receivable from customers
Rental Income	19,114		Rental income with lease term of ranging from 2 to 5 years and annual escalation rates ranging from 5% to 10%
Other expenses	1,739		Share in utilities expense
Securities Transactions:			
Purchases	1,608,525		Outright purchase of securities
Sales	752,197		Outright sales of securities
Trading gains	1,316		Gain on sale of investment securities
Loan releases	8,192,356		Loan drawdowns
Loan collections	1,343,815		Settlement of loans and interest
Net withdrawals	2,650,415		Net withdrawals for the period
Affiliates			
Receivables from Customers		12,513,169	USD Term Loan with re-pricing interest rates ranging from 3.75% to 4.79% and maturity terms from three (3) to seven (7) years;
Sales contract receivable		105,750	Arising from sale of investment property; title will be transferred upon full payment; non-interest bearing loan payable within one year; with no impairment
Accrued interest receivables		56,074	Accrued interest of receivables from customers
Bills Payable		40,000	Bills payable, 90 days, unsecured

Deposit Liabilities		9,564,878	With annual fixed interest rates ranging from 0.01 % to 4.50 % including time with maturities of up to 90 days
Due from other banks		3,340,271	With annual fixed interest rates ranging from 0.01 % to 4.50 % including time with maturities of up to 90 days
Other Liabilities		39,212	Payable in 5 years 13%-16% fully, secured chattel mortgage-4/20/15
Interest Income	118,594		Interest income on receivables from customers and due from other banks
Interest Expense	87,635		Interest expense on deposit liabilities and bills payable
Rental Income	24,639		Monthly rent income from related parties
Rental Expense	23,846		Monthly rent payments to related parties with term ranging from 24 to 240 months
Other income	50,319		Profit from sale of investment property
Loan releases	13,394,547		Loan drawdowns
Loan collections	5,911,451		Settlement of loans and interest
Net deposits	4,638,456		Net deposits for the period
Key Management Personnel			
Loan to Officers		17,656	Interest bearing and no allowance for impairment
Loan releases	2,390		Loan drawdowns
Loan collections	3,286		Settlement of loans and interest
Interest income	9,462		Interest income on loans and receivables
Interest expense	0.6		Interest expense on deposit liabilities

J. RIGHTS OF STOCKHOLDERS

1) Right to participate effectively in and vote in Annual/Special Stockholders' Meetings

(a) Quorum

Give details on the quorum required to convene the Annual/Special Stockholders' Meeting as set forth in its By-laws.

Quorum Required	Section 4.6 of PNB Amended By-Laws states that "unless otherwise provided by law, a quorum at any stockholders' meeting shall consist of the stockholders representing a majority of the voting stock of the Bank present either in person or by proxy".

(b) System Used to Approve Corporate Acts

Explain the system used to approve corporate acts.

System Used	Ratification in the Annual Stockholders' Meeting
Description	Ratification of the corporate acts is always part of the agenda of the Annual Stockholders' Meeting.

(c) Stockholders' Rights

List any Stockholders' Rights concerning Annual/Special Stockholders' Meeting that differ from those laid down in the Corporation Code.

Stockholders' Rights under The Corporation Code	Stockholders' Rights <u>not</u> in The Corporation Code
None	None

Dividends

Declaration Date	Record Date	Payment Date
Please see note below		

Note:

The Bank has not declared any cash or stock dividends on its common equity for the fiscal year 2014. The Bank's ability to pay dividends is contingent on its ability to set aside unrestricted retained earnings for dividend distribution. In addition, the Bank's declaration of dividends, including computation of unrestricted retained earnings, is subject to compliance with certain rules and regulations prescribed by the BSP as provided under the Manual of Regulations for Banks (MORB).

(d) Stockholders' Participation

1. State, if any, the measures adopted to promote stockholder participation in the Annual/Special Stockholders' Meeting, including the procedure on how stockholders and other parties interested may communicate directly with the Chairman of the Board, individual directors or board committees. Include in the discussion the steps the Board has taken to solicit and understand the views of the stockholders as well as procedures for putting forward proposals at stockholders' meetings. (updated – 2014)

Measures Adopted	Communication Procedure
Adoption of SRC Rule 20 – Disclosures to Stockholders Prior to Meeting Section 4.4, Article IV of the Bank's Amended By-Laws.	Mailing of the Information Statement and Management Report together with the latest Audited Financial Statement to the stockholders at least 15 business days from the date of the stockholders' meeting. Publication of Notice of Meeting for one (1) week daily in at least one newspaper of newspaper of general circulation
Adoption of the Question and Answer Portion	Stockholders are allowed to take the floor and asked questions to the Chairman of the Board, the other directors or the officers of the Bank to air their concerns. If the queries cannot be addressed immediately on the floor, the stockholders are encouraged to dialogue with Management after the meeting.

2. State the company policy of asking shareholders to actively participate in corporate decisions regarding:
   a. Amendments to the company's constitution
   b. Authorization of additional shares
   c. Transfer of all or substantially all assets, which in effect results in the sale of the company

The Bank complies with the requirements under the Corporation Code in obtaining stockholders' approval for such decisions. Any amendment of the Bank's Articles of Incorporation, increase in capital stock or transfer of all or substantial sale of its assets required the vote of at least two-thirds of the outstanding capital stock.

3. Does the company observe a minimum of 21 business days for giving out of notices to the AGM where items to be resolved by shareholders are taken up? (updated – 2014)

   a. Date of sending out notices:

      For the Annual Stockholders' Meeting held on May 27, 2014 - April 29 – May 6, 2014

      In compliance with SRC Rule 20 (3)(c)(iv), the Information Statement, Management Report and written notice of the meeting was sent to the shareholders of record at least fifteen (15) business days prior to the date of the meeting. In addition, the notice of meeting was likewise published for one (1) week alternatively in three (3) newspapers of general circulation in the Philippines, in accordance with Section 4.4, Article IV of the Bank's Amended By-Laws.

   b. Date of the Annual/Special Stockholders' Meeting:

      For the Annual Stockholders' Meeting - May 27, 2014

      Section 4.2, Article IV of PNB Amended By-Laws states that "the annual meeting of the stockholders shall be held at the principal office of the Bank or any other place within Metro Manila as may be determined by the majority of the Board of Directors, on the last Tuesday of May of each year unless such day is a legal holiday in which case the business day next following shall be the meeting day for the particular year".

4. State, if any, questions and answers during the Annual/Special Stockholders' Meeting. (updated – 2014)

   Questions and Answers during the Annual Stockholders' Meeting held on May 27, 2014:

   Q. Mr. Alejandro V. Villapando, a stockholder, took the floor and asked if in view of the impressive figures presented by the report of the President, the stockholders will finally receive their much awaited dividends.

   A. President Omar Byron T. Mier replied that everyone who invests in the shares of a company has two sources of income, one is the price of the stock and the other is dividends. The price of PNB stocks has gone up to about ₱92.00 per share, so stockholders who acquired their shares at lower price can sell at a profit. To be able to declare dividends, PNB will have to comply with certain regulatory conditions and have a certain amount of unrestrained retained earnings. Based on the plan and strategies that have been presented, the bank hopes to be able to declare dividends in a few years.

   Q. Ms. Eugenia Socorro Gomez, a stockholder and former employee, took and asked if there was truth to the rumored BPI-PNB merger.

   A. Mr. Mier replied that the rumor came about two or three weeks ago when a couple of investors accompanied by investment bankers came to PNB. They were impressed with the bank's three-year plan and said that PNB's stock price was undervalued. When these investors started to buy, the price of PNB shares shot up to as high as ₱94.50. A lot of reporters were speculating why the price was going up. He said that there was no truth to the rumors of a BPI-PNB merger. That was a story of the past. He assured Ms. Gomez that the plan is to grow PNB as stronger and more profitable, independent bank.

5. Result of Annual/Special Stockholders' Meeting's Resolutions

Annual Stockholders' Meeting (May 27, 2014)			
Resolution	**Approving**	**Dissenting**	**Abstaining**
Confirmation of the Minutes of the 2013 Annual Stockholders' Meeting held on May 28, 2013	Majority	-	12,651,340
Notation of President's Report	Majority	-	12,861,790
Approval of the Bank's 2013 Annual Report	Majority	-	12,861,790
Approval of the Amendment of Article II of the Articles of Incorporation, in compliance with SEC Memorandum Circular No. 6, Series of 2014, to state the specific address of the principal office of the Bank	Majority	-	12,651,340
Approval of the Amendment of the By-Laws, as follows: a. Section 1.1, Article I, in compliance with SEC Memorandum Circular No. 6, Series of 2014, to state the specific address of the principal office of the Bank; and b. Section 4.2, Article IV, to clarify that the annual meeting of the stockholders shall be held at the principal office of the Bank, if practicable, or anywhere in Metro Manila on the last Tuesday of May of each year	Majority	-	12,651,340
Approval of the ratification of all the acts, resolutions and proceedings of the Board of Directors and Corporate Officers since the 2013 Annual Stockholders' Meeting	Majority	-	12,861,790
Approval of the Election of the following Directors:			
a) Florencia G. Tarriela	Majority	6,663,422	12,651,340
b) Felix Enrico R. Alfiler	Majority	836,741	12,651,340
c) Florido P. Casuela	Majority	12,906,335	12,651,340
d) Joseph T. Chua	Majority	6,959,051	12,651,340
e) Leonilo G. Coronel	Majority	12,906,335	12,651,340
f) Reynaldo A. Maclang	Majority	12,906,335	12,651,340
g) Estelito P. Mendoza	Majority	12,906,335	12,651,340
h) Federico C. Pascual	Majority	836,741	12,651,340
i) Cecilio K. Pedro	Majority	836,741	12,651,340
j) Washington Z. Sycip	Majority	7,374,113	12,651,340
k) Harry C. Tan	Majority	7,494,716	12,651,340
l) Dr. Lucio C. Tan	Majority	6,959,051	12,651,340
m) Lucio K. Tan, Jr.	Majority	7,909,778	12,651,340
n) Michael G. Tan	Majority	7,626,094	12,651,340
o) Deogracias N. Vistan	Majority	6,247,832	12,651,340
Appointment of External Auditor	Majority	11,561,805	12,651,340

6. Date of publishing of the result of the votes taken during the most recent AGM for all resolutions: (updated – 2014)

   The results of the Annual Stockholders' Meeting (ASM) were immediately disclosed to the Bank's regulators, i.e., the Philippine Stock Exchange (PSE), the Bangko Sentral ng Pilipinas (BSP), and the Securities and Exchange Commission (SEC) after the ASM on May 27, 2014. A press conference was also held after the ASM.

(e) Modifications

State, if any, the modifications made in the Annual/Special Stockholders' Meeting regulations during the most recent year and the reason for such modification:

Modifications	Reason for Modification
None	Not Applicable

(f) Stockholders' Attendance

(i) Details of Attendance in the Annual/Special Stockholders' Meeting Held: (updated – 2014)

Type of Meeting	Names of Board members / Officers present	Date of Meeting	Voting Procedure (by poll, show of hands, etc.)	% of SH Attending in Person	% of SH in Proxy	Total % of SH attendance
Annual	Florencia G. Tarriela, director Florido P. Casuela, director Leonilo G. Coronel, director Reynaldo A. Maclang, director Estelito P. Mendoza, director Omar Byron T. Mier, director Christopher J. Nelson, director Cecilio K. Pedro, director Washington Z. Sycip, director Michael G. Tan, director Lucio C. Tan, director Deogracias N. Vistan, director Doris S. Te, corporate secretary Cenon C. Audencial, Jr., EVP Horacio E. Cebrero III, EVP Jovencio B. Hernandez, EVP Alice Z. Cordero, FSVP Socorro D. Corpus, FSVP Zacarias E. Gallardo, Jr., FSVP Miguel Angel G. Gonzalez, FSVP Ramon L. Lim, FSVP John Howard D. Medina, FSVP Edgardo T. Nallas, FSVP Benjamin S. Oliva, FSVP Aida M. Padilla, FSVP Carmela A. Pama, FSVP Emmanuel German V. Plan II, FSVP Elfren Antonio S. Sarte, FSVP	May 27, 2014	In person and by representative to act by written proxy	0.005%	77.411%	77.416%

	Allan L. Ang, SVP Emeline C. Centeno, SVP Elisa M. Cua, SVP Erwin C. Go, SVP Dioscoro Teodorico L. Lim, SVP Emmanuel A. Tuazon, SVP Manuel C. Bahena, Jr., FVP Lino S. Carandang, FVP Josephine E. Jolejole, FVP Arsenia L. Matriano, FVP Sarah Jessica M. Navarro, FVP Udel C. Salvo, FVP Janette Y. Abad Santos, VP					

(ii) Does the company appoint an independent party (inspectors) to count and/or validate the votes at the ASM/SSMs?

No.This is handled by the Bank's stock transfer agent.

(iii) Do the company's common shares carry one vote for one share? If not, disclose and give reasons for any divergence to this standard. Where the company has more than one class of shares, describe the voting rights attached to each class of shares.

Yes. Section 4.9 (re: Voting of Shares in General) of the PNB's Amended By-Laws states that at each meeting of the stockholder, every stockholder entitled to vote on the particular question involved shall be entitled to one (1) vote for each share of stock standing in his name on the books of the Bank at the time of the closing of the transfer books for such meeting or on the record date fixed by the Board of Directors pursuant to Section 3.4 of the said Amended By-Laws.

(g) Proxy Voting Policies

State the policies followed by the company regarding proxy voting in the Annual/Special Stockholders' Meeting.

Section 4.7, Article VII of the PNB Amended By-Laws:

Right to Vote; Proxies. Stockholders entitled to vote at a stockholders' meeting may vote either in person or by proxy the number of shares registered in their respective names in the Stock and Transfer Book of the Bank. Proxies shall be in writing, signed by the stockholder and duly presented to the Secretary for inspection and recorded not later than 5:00 o'clock in the afternoon five (5) calendar days prior to the date of the meeting. Unless otherwise provided in the proxy, it shall be valid for the meeting for which it is intended. No proxy shall be valid and effective for a period longer than five (5) years at any one time.

	Company's Policies
Execution and acceptance of proxies	Stockholders entitled to vote at a stockholders' meeting may vote either in person or by proxy the number of shares registered in their respective names in the Stock and Transfer Book of the Bank.
Notary	Not required.
Submission of Proxy	Proxies shall be in writing, signed by the stockholder and duly presented to the Secretary for inspection and recorded not later than 5:00 o'clock in the afternoon five (5) calendar days prior to date of the meeting.

Several Proxies	Joint and alternative proxies are acceptable.
Validity of Proxy	Per SRC Rule 20(5)(F)(ii), no proxy shall confer authority to vote with respect to more than one meeting (and any adjournment thereof) unless a specific statement is made in the information statement and form of proxy that the proxy is valid for more than one meeting. Provided, however, that no proxy shall be valid and effective for a period longer than five (5) years from the date of the proxy; Per Sec. 58 of the Corporation Code, unless otherwise provided in the proxy, it shall be valid only for the meeting for which it is intended. No proxy shall be valid and effective for a period longer than five (5) years at any one time.
Proxies executed abroad	Acceptable.
Invalidated Proxy	In accordance with the rules under the Securities Regulation Code and the SEC Memorandum No. 5, Series of 1996.
Validation of Proxy	Done by the Corporate Secretary in coordination with the Stock Transfer Agent, usually the day after the deadline for the submission of proxies.
Violation of Proxy	In accordance with the rules under the Securities Regulation Code and the SEC Memorandum Circular No. 5, Series of 1996.

(h) Sending of Notices

State the company's policies and procedure on the sending of notices of Annual/Special Stockholders' Meeting.

Policies	Procedure
In compliance with SRC Rule 20 (3)(c)(iv), the Information Statement, Management Report and written notice of the meeting was sent to all shareholders of record at least fifteen (15) business days prior to the date of the meeting. In addition, the notice of meeting was likewise published for one (1) week daily in at least one newspaper of general circulation in the Philippines, in accordance with Section 4.4, Article IV of the Bank's Amended By-Laws.	The written notice of the meeting together with the Definitive Information Statement and Audited Financial Statement contained in a CD are physically mailed to the last known addresses on record of all the qualified stockholders through the Stock Transfer Agent. This is also disclosed to the Philippine Stock Exchange and uploaded to the Bank's website. The notice is also published alternately in newspapers of general circulation for one week.

(i) Definitive Information Statements and Management Report (updated – 2014)

	Annual Stockholders' Meeting (May 27, 2014)
Number of Stockholders entitled to receive Definitive Information Statements and Management Report and Other Materials	30,373
Date of Actual Distribution of Definitive Information Statement and Management Report and Other Materials held by market participants/certain beneficial owners	May 5 - 6, 2014
Date of Actual Distribution of Definitive Information Statement and Management Report and Other Materials held by stockholders	May 5 - 6, 2014
State whether CD format or hard copies were distributed	Distributed in CD format

If yes, indicate whether requesting stockholders were provided hard copies	Printed (hard) copies of the contents of the CD, i.e., Definitive Information Statement and Audited Financial Statement, were made available during the meeting. Printed copies are also sent to the stockholders upon receipt of their written request.

(j) Does the Notice of Annual/Special Stockholders' Meeting include the following: (updated – 2014)

	Special Stockholders' Meeting	**Annual Stockholders' Meeting (May 27, 2014)**
Each resolution to be taken up deals with only one item.	Not Applicable	Yes
Profiles of directors (at least age, qualification, date of first appointment, experience, and directorships in other listed companies) nominated for election/re-election.	Not Applicable	Yes
The auditors to be appointed or re-appointed.	Not Applicable	Yes
An explanation of the dividend policy, if any dividend is to be declared.	Not Applicable	No dividend will be declared.
The amount payable for final dividends.	Not Applicable	Not Applicable
Documents required for proxy vote.	Not Applicable	Proxies are not solicited.

Should any of the foregoing information be not disclosed, please indicate the reason thereto.

Documents required for proxy vote - Stockholders are informed that they may issue and vote by proxies but proxies are not solicited.

Not applicable items – These items were not part of the Agenda for the meeting.

2) Treatment of Minority Stockholders

(a) State the company's policies with respect to the treatment of minority stockholders.

Policies	**Implementation**
Right to vote on all matters that require their consent or approval	Shareholders have the right to elect, remove and replace directors and vote on certain corporate acts in accordance with the Corporation Code.
Right to inspect corporate books and records	All shareholders are allowed to inspect corporate books and records, including minutes of Board meetings and stock registries, in accordance with the Corporation Code and may access the annual reports, including financial statements, without cost or restrictions.
Right to Information	The shareholders are provided, upon request, with periodic reports which disclose personal and professional information about the directors and officers and certain other matters such as their holdings of the Bank's shares, dealings with the Bank, relationships among directors and key

	officers, and the aggregate compensation of directors and officers. All other material information are disclosed to the regulators and uploaded to the Bank's website for easy access by all stockholders of the Bank. The minority shareholders are granted the right to propose the holding of a meeting, and the right to propose items in the agenda of the meeting, provided the items are for legitimate business purposes. The minority shareholders have access to any information relating to matters for which Management is accountable.
Appraisal Right	The shareholders have appraisal right or the right to dissent and demand payment of the fair value of their shares in the manner provided for under Section 82 of the Corporation Code of the Philippines, under any of the following circumstances: 1. In case any amendment to the Articles of Incorporation has the effect of changing or restricting the rights of any stockholders or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class, or of extending or shortening the term of corporate existence. 2. In case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets as provided in the Corporation Code; and 3. In case of merger or consolidation.
Absence of Pre-emptive Right to Stock Issuances of the Corporation	The stockholders have no pre-emptive right to subscribe to any new or additional issuance of shares by the Bank, regardless of the class of shares, and whether the same is issued from the Bank's unissued capital stock or in support of an increase in capital.
Rights to Dividends	Dividends shall be declared and paid out of the surplus profits of the Bank as often and at such times as the Board may determine and in accordance with the provisions of the law and regulations of the Bangko Sentral ng Pilipinas.

(b) Do minority stockholders have a right to nominate candidates for board of directors?

Yes. Any stockholder may nominate candidates for the Board.

K. INVESTORS RELATIONS PROGRAM

1) Discuss the company's external and internal communications policies and how frequently they are reviewed. Disclose who reviews and approves major company announcements. Identify the committee with this responsibility, if it has been assigned to a committee.

External communications in the form of press releases or pronouncements to the market are coursed through the Marketing Group of the Bank. This covers, among others, write-ups on financials, products, tie-ups, etc. Press releases on financials and any other are approved by the President and CEO as endorsed by the Marketing Head and the sponsor of the information. The financial figures have to be signed off by the President and Chief Financial Officer. All others which are at product level have to be signed off by the relevant unit/division involved in the particular communication and the Marketing Head.

All other required regulatory external pronouncements are released through the Corporate Secretary's Office and forwarded to the appropriate regulatory bodies or institutions.

Internal communications are handled through the Corporate Communications Unit under the Human Resources Group.

2) Describe the company's investor relations program including its communications strategy to promote effective communication with its stockholders, other stakeholders and the public in general. Disclose the contact details (e.g. telephone, fax and email) of the officer responsible for investor relations.

FOR STOCKHOLDERS

	Details
(1) Objectives	To be able to give quality service and address all the concerns of the PNB stockholders.
(2) Principles	PNB is a customer-centered organization with a passion for service excellence.
(3) Modes of Communications	Verbal and written communications, including e-mail and fax.
(4) Investors Relations Officer	Ms. Josiemer Q. Lunar Regulatory Reports and Stockholders Relations Head Tel.#(632) 536-0540 Fax No. (632) 834-0780 Email: lunarjq@pnb.com.ph

FOR OTHER STAKEHOLDERS (updated – 2014)

	Details
(1) Objectives	• Promote investors' awareness and name recognition through participation in domestic and international conferences sponsored by fund managers. • Improve investors' perception of PNB by keeping them abreast of the developments in the Bank through constant communications and maintaining cordial relations with them. • Effectively address concerns/issues that could materially affect the Bank's good image, operations and viability.
(2) Principles	• Accuracy and Timeliness - To provide analysts/credit rating agencies/ investors with correct and up-to-date information on PNB. • Transparency - To disclose to investors relevant information on the

	Bank in line with the prescribed standard of disclosure by regulatory agencies. • Consistency and Impartiality - To make the same information accessible to all interested analysts/ credit rating agencies/investors through various modes of communication.
(3) Modes of Communications	• Meetings with the President and other Senior Officers (as requested by investors) • Teleconferences / phone calls • Emails
(4) Investors Relations Officer	SVP Emeline Centeno Corporate Planning and Research Division Tel # 526-3131 local 2120/2084 Email address: centenoec@pnb.com.ph iru@pnb.com.ph

FOR PUBLIC IN GENERAL

	Details
(1) Objectives	• To properly communicate corporate news, institutional advocacies and product campaigns to the general public and specific markets through appropriate and effective media channels. • To provide the proper feedback channels to potential and existing clients and reply to queries in a timely manner. (Customer Service)
(2) Principles	• Timeliness - Timely dissemination of information as required by the public. • Effectivity - To reach the proper audience with the appropriate communication
(3) Modes of Communications	• Internal and External Email Broadcasts • Facebook • Print Media • Radio • Letter Advices to Publics • TV Advertisements (Local, Cable and Overseas) • Press Releases • Short message service alerts • Electronic Channels – ATM, Phone, Mobile • Websites and Social Networks
(4) Investors Relations Officer	SVP Norman Martin C. Reyes Chief Marketing Officer / Marketing Group Head Tel.# (632) 526-3131 loc. 4360 Email address: reyesnmc@pnb.com.ph

3) What are the company's rules and procedures governing the acquisition of corporate control in the capital markets, and extraordinary transactions such as mergers, and sales of substantial portions of corporate assets?

The following are undertaken for the acquisition of substantial control in capital markets, merger with another bank and sale of substantial portion of corporate assets:

a. Secure Board approval for the envisioned transaction.
b. Request for engagement proposals from the following: (i) Financial Advisors (either for valuation purposes and/or for underwriting, or for the rendering of fairness opinion); (ii) Legal Advisors; and (iii) Independent Auditor.
c. Do a comparative analysis of the proposals and prepare a recommendation to the Board of Directors.
d. Get approval for their engagement.
e. Evaluate the papers and secure the necessary approvals:
   i. For the merger/ acquisition of substantial control: (a) Board approval; (b) Stockholders approval; (c) PDIC approval; (d) BSP approval; (e) SEC approval; and (f) approval from foreign regulatory authorities, whenever needed.
   ii. For sale of substantial portion of corporate assets: (a) Board approval; and (b) BSP/other regulatory approvals, if needed.

BSP and SEC rules and regulations on mergers and acquisitions are strictly being followed by PNB.

Name of the independent party the board of directors of the company appointed to evaluate the fairness of the transaction price.

1) For the Merger of PNB and Allied Bank, Union Bank of Switzerland (UBS) was appointed by the Board of Directors to render a Fairness Opinion in accordance with SEC rules.

2) As a rule, PNB hires an advisor for a Fairness Opinion as necessary and on a per transaction basis. Hence, for prospective transactions, PNB will hire whoever is qualified to render Fairness Opinion following SEC rules regarding this matter.

L. CORPORATE SOCIAL RESPONSIBILITY INITIATIVES

Discuss any initiative undertaken or proposed to be undertaken by the company.

Initiative	Beneficiary
PNB Greener Path Project at NLEX	Local Communities
Dr. Lucio Tan Legacy Forest Project	
Greener Project in Negros Oriental	
UPLB Coco-peration	
Tacloban Mangrove Project	
Assistance to Tacloban Elementary School	Students of Tacloban Elementary School
BOOKS ACROSS THE SEAS Project	Various schools
Assistance to Sister of Mary Girlstown Students	Students of Mary Girlstown
PNB Gives Relief Goods to Caloocan Fire Victims	Victims of calamities
PNB-PMAP Med Mission (Pagtutulungan ng Bayan)	Various communities
Typhoon Glenda/Mario (Pagtutulungan ng Bayan)	Victims of calamities
Little Angels Home (Pagtutulungan ng Bayan)	Orphanage
Donation to Tan Yan Kee Foundation	Filipino students

M. BOARD, DIRECTOR, COMMITTEE AND CEO APPRAISAL

Disclose the process followed and criteria used in assessing the annual performance of the board and its committees, individual director, and the CEO/President.

	Process	Criteria
Board of Directors		
Board Committees		
Individual Directors		
CEO/President		

Under the Bank's Revised Corporate Governance Manual (Manual), the Board established an evaluation system such as the Performance Evaluation Sheet to determine and measure their compliance with the Manual. Any violation thereof shall subject the responsible director, officer or employee to the penalty provided under Part 10 of the Manual.

The Performance Evaluation Sheet is divided into three parts, 1) Questions on Director's Individual Qualitative Performance; 2) Questions on the Board; and 3) Questions on the Board Committees. After the Directors' self-evaluation, the results are discussed and noted by the Corporate Governance Committee before submission to the Board for notation.

N. INTERNAL BREACHES AND SANCTIONS

Discuss the internal policies on sanctions imposed for any violation or breach of the corporate governance manual involving directors, officers, management and employees

Violations	Sanctions
First Violation	Reprimand
Second Violation	Suspension (The duration will depend on the gravity of the violation)
Third Violation	Removal from the office (maximum penalty)

Pursuant to the requirement of the Securities and Exchange Commission, this Annual Corporate Governance Report is signed on behalf of the registrant by the undersigned, thereunto duly authorized, in the City of Pasay City on June _____, 2013.

SIGNATURES

FLORENCIA G. TARRIELA **Chairman of the Board/** **Independent Director**	**OMAR BYRON T. MIER** **President & Chief Executive Officer**
FELIX ENRICO R. ALFILER **Independent Director**	**DEOGRACIAS N. VISTAN** **Independent Director**

ALICE Z. CORDERO
SVP & Chief Compliance Officer

SUBSCRIBED AND SWORN to before me this JUN 28 2013 day of June 2013, affiant(s) exhibiting to me their Passports, as follows:

NAME/NO.	DATE OF ISSUE	PLACE OF ISSUE
Florencia G. Tarriela Passport No. EB6620757	October 23, 2012	DFA, Manila
Omar Byron T. Mier Passport No. XX3773388	May 21, 2009	DFA, Manila
Felix Enrico R. Alfiler Passport No. XX5369996	January 27, 2010	Philippine Embassy Washington D.C., U.S.A.
Deogracias N. Vistan Passport No. EB1321633	November 8, 2010	DFA, Manila
Alice Z. Cordero Passport No. XX5553449	February 18, 2010	DFA, Manila

NOTARY PUBLIC
ATTY. RUTH PAMELA E. TANGHAL-MANUBAG
Commission No. 12-13, Roll No. 46369
Notary Public for Pasay City until 12-31-13
9th Floor PNB Financial Center
Pres. D.P. Macapagal Blvd., Pasay City
PTR No. 3150479/01-03-13
IBP No. 882332/01-03-13/PPLM

Doc No. 81
Page No. 18
Book No. XIII
Series of 2013

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Philippine National Bank is responsible for the preparation and fair presentation of the consolidated and parent company financial statements as of December 31, 2014 and 2013 and January 1, 2013 and for each of the years ended December 31, 2014, 2013 and 2012, including the additional components attached therein, in accordance with the Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of consolidated and parent company financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the consolidated and parent company financial statements and submits the same to the stockholders.

SyCip, Gorres, Velayo & Co., the independent auditors appointed by the stockholders, has examined the consolidated and parent company financial statements of Philippine National Bank in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such examination.

FLORENCIA G. TARRIELA
Chairman of the Board

REYNALDO A. MACLANG
President

NELSON C. REYES
Executive Vice President & Chief Financial Officer

SUBSCRIBED AND SWORN to before me this ____ day of April 2015 affiants exhibiting to me their Passport No., as follows:

Names	Passport No.	Date of Issue	Place of Issue
Florencia G. Tarriela	EB6620757	October 23, 2012	DFA Manila
Reynaldo A. Maclang	EC0299319	February 14, 2014	DFA Manila
Nelson C. Reyes	EC3050873	December 20, 2014	DFA NCR South

Notary Public

Doc.No. 420
Page No. 87
Book No. XIII
Series of 2015.

ATTY. MARILA N. SISON-BALAQUIOT
Commission No. 14-04; Roll No. 45151
Notary Public for Pasay City until 12/31/15
9th Floor PNB Financial Center
Pres. D.P. Macapagal Blvd., Pasay City
PTR No. 420377[illegible]1-05-15/Pasay City
IBP No. 982957/01-06-15/Manila II

COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

A S 0 9 6 - 0 0 5 5 5 5

Company Name

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

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

PNB Financial Center, President Diosdado Macapagal Boulevard, Pasay City

Form Type	Department requiring the report	Secondary License Type, If Applicable
AAFS		

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number/s	Mobile Number

No. of Stockholders	Annual Meeting Month/Day	Fiscal Year Month/Day
	05/27	12/31

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
Mr. Reynaldo A. Maclang		891-6040 to 70	

Contact Person's Address

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.

SGV
Building a better working world

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
December 28, 2012, valid until December 31, 2015
SEC Accreditation No. 0012-FR-3 (Group A),
November 15, 2012, valid until November 16, 2015

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Philippine National Bank
PNB Financial Center
President Diosdado Macapagal Boulevard
Pasay City

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Philippine National Bank and Subsidiaries (the Group) and the parent company financial statements of Philippine National Bank (the Parent Company), which comprise the consolidated and parent company statements of financial position as at December 31, 2014 and 2013, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2014, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated and parent company financial statements present fairly, in all material respects, the financial position of the Group and of the Parent Company as at December 31, 2014 and 2013, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2014 in accordance with Philippine Financial Reporting Standards.

Report on the Supplementary Information Required Under Revenue Regulations 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 41 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Philippine National Bank. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Vicky Lee Salas

Vicky Lee Salas
Partner
CPA Certificate No. 86838
SEC Accreditation No. 0115-AR-3 (Group A),
February 14, 2013, valid until February 13, 2016
Tax Identification No. 129-434-735
BIR Accreditation No. 08-001998-53-2015,
March 17, 2015, valid until March 16, 2018
PTR No. 4751290, January 5, 2015, Makati City

March 27, 2015

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

STATEMENTS OF FINANCIAL POSITION

(In Thousands)

	Consolidated			Parent Company		
	December 31		January 1	December 31		January 1
	2014	2013 (As Restated - Note 2)	2013 (As Restated - Note 2)	**2014**	2013 (As Restated - Note 2)	2013 (As Restated - Note 2)
ASSETS						
Cash and Other Cash Items	**₱14,628,489**	₱11,804,746	₱5,599,088	**₱13,865,078**	₱9,700,005	₱5,548,325
Due from Bangko Sentral ng Pilipinas (Notes 7 and 17)	**105,773,685**	153,169,330	37,175,399	**95,415,467**	146,079,249	36,531,047
Due from Other Banks (Note 34)	**15,591,406**	14,881,541	4,042,769	**5,013,357**	6,146,134	3,293,782
Interbank Loans Receivable (Note 8)	**7,671,437**	8,405,250	11,498,756	**7,671,437**	8,405,250	11,498,756
Securities Held Under Agreements to Resell	**–**	–	18,300,000	**–**	–	18,300,000
Financial Assets at Fair Value Through Profit or Loss (Note 9)	**17,351,626**	11,709,348	4,023,065	**6,695,950**	3,845,673	3,965,098
Available-for-Sale Investments (Note 9)	**63,091,497**	80,304,149	66,997,479	**55,411,588**	72,696,109	64,764,040
Held-to-Maturity Investments (Note 9)	**22,970,306**	–	–	**21,559,631**	–	–
Loans and Receivables (Notes 10 and 34)	**316,253,021**	274,276,083	144,230,665	**289,021,394**	255,435,530	139,523,674
Property and Equipment (Note 11)	**19,574,383**	19,765,126	13,427,172	**18,683,415**	18,889,220	13,247,461
Investments in Subsidiaries and an Associate (Note 12)	**–**	–	2,391,255	**24,102,612**	13,502,731	6,399,163
Investment Properties (Notes 13 and 35)	**20,248,482**	21,452,962	15,493,026	**19,752,903**	21,224,934	15,425,877
Deferred Tax Assets (Note 31)	**1,461,938**	1,317,283	2,939,349	**1,029,423**	1,063,337	2,832,385
Intangible Assets (Note 14)	**2,294,824**	2,378,040	377,022	**2,200,102**	2,280,136	371,505
Goodwill (Notes 14 and 37)	**13,375,407**	13,375,407	–	**13,515,765**	13,515,765	–
Other Assets (Note 15)	**5,159,331**	3,436,355	1,777,820	**4,178,455**	2,810,178	1,464,683
TOTAL ASSETS	**₱625,445,832**	₱616,275,620	₱328,272,865	**₱578,116,577**	₱575,594,251	₱323,165,796
LIABILITIES AND EQUITY						
LIABILITIES						
Deposit Liabilities (Notes 17 and 34)						
Demand	**₱101,561,040**	₱125,359,053	₱28,152,296	**₱100,322,249**	₱118,010,984	₱28,417,452
Savings	**293,201,308**	285,542,213	192,793,260	**284,837,113**	282,722,724	192,824,803
Time	**52,881,409**	51,464,182	19,908,821	**47,287,301**	47,698,807	20,164,420
	447,643,757	462,365,448	240,854,377	**432,446,663**	448,432,515	241,406,675
Financial Liabilities at Fair Value Through Profit or Loss (Note 18)	**10,862,025**	8,074,895	6,479,821	**44,264**	163,084	6,479,821
Bills and Acceptances Payable (Notes 19 and 34)	**19,050,058**	13,171,997	13,076,901	**18,526,044**	13,484,476	12,718,811
Accrued Taxes, Interest and Other Expenses (Note 20)	**5,441,349**	5,523,523	3,914,290	**5,035,156**	5,009,163	3,720,769
Subordinated Debt (Note 21)	**9,969,498**	9,953,651	9,938,816	**9,969,498**	9,953,651	9,938,816
Income Tax Payable	**85,505**	48,448	149,050	**70,001**	6,186	147,911
Other Liabilities (Note 22)	**33,332,758**	34,798,705	17,285,251	**18,629,173**	20,897,845	13,398,883
	526,384,950	533,936,667	291,698,506	**484,720,799**	497,946,920	287,811,686
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY						
Capital Stock (Note 25)	**49,965,587**	43,448,337	26,489,837	**49,965,587**	43,448,337	26,489,837
Capital Paid in Excess of Par Value (Note 25)	**31,331,251**	26,499,909	2,037,272	**31,331,251**	26,499,909	2,037,272
Surplus Reserves (Notes 25 and 33)	**537,620**	524,003	569,887	**537,620**	524,003	569,887
Surplus (Note 25)	**18,702,394**	13,357,342	8,165,143	**16,019,048**	11,613,316	6,188,017
Net Unrealized Gain (Loss) on Available-for-Sale Investments (Note 9)	**(2,336,142)**	(3,581,865)	1,037,252	**(2,276,501)**	(3,400,929)	904,686
Remeasurement Losses on Retirement Plan (Note 29)	**(2,292,833)**	(1,278,372)	(781,900)	**(2,249,830)**	(1,262,899)	(773,837)
Accumulated Translation Adjustment (Note 25)	**(59,854)**	291,371	(992,620)	**68,603**	225,594	(61,752)
Parent Company Shares Held by a Subsidiary (Note 25)	**–**	–	(4,740)	**–**	–	–
	95,848,023	79,260,725	36,520,131	**93,395,778**	77,647,331	35,354,110
NON-CONTROLLING INTERESTS (Note 12)	**3,212,859**	3,078,228	54,228	**–**	–	–
	99,060,882	82,338,953	36,574,359	**93,395,778**	77,647,331	35,354,110
TOTAL LIABILITIES AND EQUITY	**₱625,445,832**	₱616,275,620	₱328,272,865	**₱578,116,577**	₱575,594,251	₱323,165,796

See accompanying Notes to Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

STATEMENTS OF INCOME

(In Thousands, Except Earnings per Share)

	Consolidated			Parent Company		
	Years Ended December 31					
	2014	2013 (As Restated - Note 2)	2012 (As Restated - Note 2)	**2014**	2013 (As Restated - Note 2)	2012 (As Restated - Note 2)
INTEREST INCOME ON						
Loans and receivables (Notes 10 and 34)	**₱15,191,171**	₱13,118,464	₱7,451,352	**₱13,994,793**	₱12,558,709	₱7,313,933
Trading and investment securities (Note 9)	**3,389,450**	3,756,195	3,235,754	**2,938,727**	3,409,591	3,140,385
Deposits with banks and others (Notes 7 and 34)	**1,919,766**	1,585,522	659,295	**1,616,415**	1,361,825	633,710
Interbank loans receivable (Note 8)	**19,218**	19,852	14,207	**19,219**	18,101	14,207
	20,519,605	18,480,033	11,360,608	**18,569,154**	17,348,226	11,102,235
INTEREST EXPENSE ON						
Deposit liabilities (Notes 17 and 34)	**2,788,400**	3,655,381	3,099,782	**2,614,956**	3,569,034	3,112,516
Bills payable and other borrowings (Notes 19, 21 and 34)	**856,927**	1,076,113	1,285,120	**801,114**	1,027,124	1,227,690
	3,645,327	4,731,494	4,384,902	**3,416,070**	4,596,158	4,340,206
NET INTEREST INCOME	**16,874,278**	13,748,539	6,975,706	**15,153,084**	12,752,068	6,762,029
Service fees and commission income (Note 26)	**3,545,363**	3,489,065	2,224,477	**2,872,162**	2,611,282	1,606,236
Service fees and commission expense (Note 34)	**1,004,582**	1,079,749	421,372	**351,287**	380,154	146,341
NET SERVICE FEES AND COMMISSION INCOME	**2,540,781**	2,409,316	1,803,105	**2,520,875**	2,231,128	1,459,895
Net insurance premiums (Note 27)	**2,012,773**	1,816,110	526,404	**–**	–	–
Net insurance benefits and claims (Note 27)	**1,287,497**	2,306,086	302,656	**–**	–	–
NET INSURANCE PREMIUMS (BENEFITS AND CLAIMS)	**725,276**	(489,976)	223,748	**–**	–	–
OTHER INCOME						
Net gain on sale or exchange of assets (Note 13)	**1,453,047**	518,604	359,915	**1,435,726**	496,864	359,915
Foreign exchange gains - net (Note 23)	**1,293,319**	1,236,189	1,173,823	**1,007,476**	1,007,721	978,554
Trading and investment securities gains - net (Note 9)	**1,282,367**	4,618,233	5,364,809	**1,234,347**	4,421,504	5,273,217
Miscellaneous (Note 28)	**2,242,526**	1,490,980	702,172	**1,419,590**	984,863	396,159
TOTAL OPERATING INCOME	**26,411,594**	23,531,885	16,603,278	**22,771,098**	21,894,148	15,229,769
OPERATING EXPENSES						
Compensation and fringe benefits (Notes 29 and 34)	**7,596,633**	5,988,167	3,710,029	**6,582,719**	5,144,506	3,214,496
Provision for impairment, credit and other losses (Note 16)	**2,264,615**	833,584	823,701	**2,155,199**	953,821	795,106
Taxes and licenses	**1,863,507**	1,784,886	1,134,272	**1,693,907**	1,681,885	1,098,754
Depreciation and amortization (Note 11)	**1,495,970**	1,705,660	819,546	**1,342,210**	1,573,934	745,672
Occupancy and equipment-related costs (Note 30)	**1,471,736**	1,508,237	1,004,321	**1,257,625**	1,298,564	801,106
Miscellaneous (Note 28)	**4,813,628**	5,281,824	3,419,436	**3,950,882**	4,827,552	3,090,318
TOTAL OPERATING EXPENSES	**19,506,089**	17,102,358	10,911,305	**16,982,542**	15,480,262	9,745,452
INCOME BEFORE INCOME TAX	**6,905,505**	6,429,527	5,691,973	**5,788,556**	6,413,886	5,484,317
PROVISION FOR INCOME TAX (Note 31)	**1,410,460**	1,182,038	939,615	**1,369,207**	1,034,471	885,781
NET INCOME	**₱5,495,045**	₱5,247,489	₱4,752,358	**₱4,419,349**	₱5,379,415	₱4,598,536
ATTRIBUTABLE TO:						
Equity holders of the Parent Company (Note 32)	**₱5,358,669**	₱5,146,315	₱4,742,527			
Non-controlling interests	**136,376**	101,174	9,831			
	₱5,495,045	₱5,247,489	₱4,752,358			
Basic/Diluted Earnings per Share Attributable to Equity Holders of the Parent Company (Note 32)	**₱4.60**	₱4.82	₱7.05			

See accompanying Notes to Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
STATEMENTS OF COMPREHENSIVE INCOME
(In Thousands)

	Consolidated			Parent Company		
	Years Ended December 31					
	2014	2013 (As Restated - Note 2)	2012 (As Restated - Note 2)	**2014**	2013 (As Restated - Note 2)	2012 (As Restated - Note 2)
NET INCOME	**₱5,495,045**	₱5,247,489	₱4,752,358	**₱4,419,349**	₱5,379,415	₱4,598,536
OTHER COMPREHENSIVE INCOME (LOSS)						
Items that recycle to profit or loss in subsequent periods:						
Net change in unrealized gain (loss) on available-for-sale investments (Note 9)	**1,257,552**	(4,412,125)	270,961	**1,115,330**	(4,296,682)	227,401
Income tax effect (Note 31)	**9,059**	(464)	23,948	**9,098**	(8,933)	19,029
	1,266,611	(4,412,589)	294,909	**1,124,428**	(4,305,615)	246,430
Accumulated translation adjustment	**(368,697)**	1,238,778	(540,912)	**(156,991)**	287,346	(395,757)
Share in equity adjustments of an associate (Note 12)	**–**	–	(6,795)	**–**	–	–
	897,914	(3,173,811)	(252,798)	**967,437**	(4,018,269)	(149,327)
Items that do not recycle to profit or loss in subsequent periods:						
Remeasurement gains (losses) on retirement plan (Note 29)	**(1,024,067)**	(503,721)	220,219	**(986,931)**	(489,062)	226,706
Income tax effect (Note 31)	**9,334**	3,253	1,938	**–**	–	–
	(1,014,733)	(500,468)	222,157	**(986,931)**	(489,062)	226,706
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	**(116,819)**	(3,674,279)	(30,641)	**(19,494)**	(4,507,331)	77,379
TOTAL COMPREHENSIVE INCOME	**₱5,378,226**	₱1,573,210	₱4,721,717	**₱4,399,855**	₱872,084	₱4,675,915
ATTRIBUTABLE TO:						
Equity holders of the Parent Company	**₱5,238,706**	₱1,314,717	₱4,711,886			
Non-controlling interests	**139,520**	258,493	9,831			
	₱5,378,226	₱1,573,210	₱4,721,717			

See accompanying Notes to Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

STATEMENTS OF CHANGES IN EQUITY

(In Thousands)

	Consolidated												
	Attributable to Equity Holders of the Parent Company												
	Capital Stock (Note 25)	Capital Paid in Excess of Par Value (Note 25)	Surplus Reserves (Notes 25 and 33)	Surplus (Note 25)	Net Unrealized Gain (Loss) on Available-for-Sale Investments (Note 9)	Remeasurement Losses on Retirement Plan (Note 29)	Accumulated Translation Adjustment (Note 25)	Parent Company Shares Held by a Subsidiary (Note 25)	Equity in Net Unrealized Gain on AFS Investment of an Associate (Note 12)	Revaluation Increment on Land and Buildings (Note 2)	Total	Non-controlling Interest (Note 12)	Total Equity
Balance at January 1, 2014, as previously reported	**₱43,448,337**	**₱26,499,909**	**₱524,003**	**₱12,432,838**	**(₱3,581,865)**	**(₱1,278,372)**	**₱291,371**	**₱–**	**₱–**	**₱2,489,722**	**₱80,825,943**	**₱3,078,228**	**₱83,904,171**
Effect of restatement (Note 2)	–	–	–	**924,504**	–	–	–	–	–	**(2,489,722)**	**(1,565,218)**	–	**(1,565,218)**
Balance at January 1, 2014, as restated	**43,448,337**	**26,499,909**	**524,003**	**13,357,342**	**(3,581,865)**	**(1,278,372)**	**291,371**	–	–	–	**79,260,725**	**3,078,228**	**82,338,953**
Total comprehensive income (loss) for the year	–	–	–	**5,358,669**	**1,245,723**	**(1,014,461)**	**(351,225)**	–	–	–	**5,238,706**	**139,520**	**5,378,226**
Issuance of capital stock (Note 25)	**6,517,250**	**5,050,869**	–	–	–	–	–	–	–	–	**11,568,119**	–	**11,568,119**
Transaction costs on shares issuance	–	**(219,527)**	–	–	–	–	–	–	–	–	**(219,527)**	–	**(219,527)**
Declaration of dividends	–	–	–	–	–	–	–	–	–	–	–	**(4,889)**	**(4,889)**
Transfer to surplus reserves (Note 33)	–	–	**13,617**	**(13,617)**	–	–	–	–	–	–	–	–	–
Balance at December 31, 2014	**₱49,965,587**	**₱31,331,251**	**₱537,620**	**₱18,702,394**	**(₱2,336,142)**	**(₱2,292,833)**	**(₱59,854)**	**₱–**	**₱–**	**₱–**	**₱95,848,023**	**₱3,212,859**	**₱99,060,882**
Balance at January 1, 2013, as previously reported	₱26,489,837	₱2,037,272	₱569,887	₱7,266,067	₱1,037,252	(₱781,900)	(₱992,620)	(₱4,740)	₱–	₱2,816,962	₱38,438,017	₱54,228	₱38,492,245
Effect of restatement (Note 2)	–	–	–	899,076	–	–	–	–	–	(2,816,962)	(1,917,886)	–	(1,917,886)
Balance at January 1, 2013, as restated	26,489,837	2,037,272	569,887	8,165,143	1,037,252	(781,900)	(992,620)	(4,740)	–	–	36,520,131	54,228	36,574,359
Total comprehensive income (loss) for the year	–	–	–	5,146,315	(4,619,117)	(496,472)	1,283,991	–	–	–	1,314,717	258,493	1,573,210
Issuance of capital stock (Note 1)	16,958,500	24,547,429	–	–	–	–	–	–	–	–	41,505,929	–	41,505,929
Transaction costs on shares issuance	–	(84,792)	–	–	–	–	–	–	–	–	(84,792)	–	(84,792)
Declaration of dividends	–	–	–	–	–	–	–	–	–	–	–	(2,873)	(2,873)
Non-controlling interest arising on a business combination (Note 37)	–	–	–	–	–	–	–	–	–	–	–	2,768,380	2,768,380
Transfer from surplus reserves (Notes 25 and 33)	–	–	(45,884)	45,884	–	–	–	–	–	–	–	–	–
Reissuance of Parent Company shares held by a subsidiary	–	–	–	–	–	–	–	4,740	–	–	4,740	–	4,740
Balance at December 31, 2013	₱43,448,337	₱26,499,909	₱524,003	₱13,357,342	(₱3,581,865)	(₱1,278,372)	₱291,371	₱–	₱–	₱–	₱79,260,725	₱3,078,228	₱82,338,953
Balance at January 1, 2012, as previously reported	₱26,489,837	₱2,037,272	₱560,216	₱2,567,178	₱742,343	(₱1,004,057)	(₱451,708)	(₱4,740)	₱6,795	₱2,816,962	₱33,760,098	₱46,847	₱33,806,945
Effect of restatement (Note 2)	–	–	–	865,109	–	–	–	–	–	(2,816,962)	(1,951,853)	–	(1,951,853)
Balance at January 1, 2012, as restated	26,489,837	2,037,272	560,216	3,432,287	742,343	(1,004,057)	(451,708)	(4,740)	6,795	–	31,808,245	46,847	31,855,092
Total comprehensive income (loss) for the year	–	–	–	4,742,527	294,909	222,157	(540,912)	–	(6,795)	–	4,711,886	9,831	4,721,717
Declaration of dividends	–	–	–	–	–	–	–	–	–	–	–	(2,450)	(2,450)
Transfer to surplus reserves (Note 33)	–	–	9,671	(9,671)	–	–	–	–	–	–	–	–	–
Balance at December 31, 2012	₱26,489,837	₱2,037,272	₱569,887	₱8,165,143	₱1,037,252	(₱781,900)	(₱992,620)	(₱4,740)	₱–	₱–	₱36,520,131	₱54,228	₱36,574,359

	Parent Company								
	Capital Stock (Note 25)	**Capital Paid in Excess of Par Value** (Note 25)	**Surplus Reserves** (Notes 25 and 33)	**Surplus** (Note 25)	**Net Unrealized Gain (Loss) on AFS Investments** (Note 9)	**Remeasurement Losses on Retirement Plan** (Note 29)	**Accumulated Translation Adjustment** (Note 25)	**Revaluation Increment on Land and Buildings** (Note 2)	**Total Equity**
Balance at January 1, 2014, as previously reported	**₱43,448,337**	**₱26,499,909**	**₱524,003**	**₱10,688,812**	**(₱3,400,929)**	**(₱1,262,899)**	**₱225,594**	**₱2,489,722**	**₱79,212,549**
Effect of restatement (Note 2)	**–**	**–**	**–**	**924,504**	**–**	**–**	**–**	**(2,489,722)**	**(1,565,218)**
Balance at January 1, 2014, as restated	**43,448,337**	**26,499,909**	**524,003**	**11,613,316**	**(3,400,929)**	**(1,262,899)**	**225,594**	**–**	**77,647,331**
Total comprehensive income (loss) for the year	**–**	**–**	**–**	**4,419,349**	**1,124,428**	**(986,931)**	**(156,991)**	**–**	**4,399,855**
Issuance of capital stock (Note 25)	**6,517,250**	**5,050,869**	**–**	**–**	**–**	**–**	**–**	**–**	**11,568,119**
Transaction costs on shares issuance	**–**	**(219,527)**	**–**	**–**	**–**	**–**	**–**	**–**	**(219,527)**
Transfer to surplus reserves (Note 33)	**–**	**–**	**13,617**	**(13,617)**	**–**	**–**	**–**	**–**	**–**
Balance at December 31, 2014	**₱49,965,587**	**₱31,331,251**	**₱537,620**	**₱16,019,048**	**(₱2,276,501)**	**(₱2,249,830)**	**₱68,603**	**₱–**	**₱93,395,778**
Balance at January 1, 2013, as previously reported	₱26,489,837	₱2,037,272	₱569,887	₱5,288,941	₱904,686	(₱773,837)	(₱61,752)	₱2,816,962	₱37,271,996
Effect of restatement (Note 2)	–	–	–	899,076	–	–	–	(2,816,962)	(1,917,886)
Balance at January 1, 2013, as restated	26,489,837	2,037,272	569,887	6,188,017	904,686	(773,837)	(61,752)	–	35,354,110
Total comprehensive income (loss) for the year	–	–	–	5,379,415	(4,305,615)	(489,062)	287,346	–	872,084
Issuance of capital stock (Note 1)	16,958,500	24,547,429	–	–	–	–	–	–	41,505,929
Transaction costs on shares issuance	–	(84,792)	–	–	–	–	–	–	(84,792)
Transfer from surplus reserves (Notes 25 and 33)	–	–	(45,884)	45,884	–	–	–	–	–
Balance at December 31, 2013	₱43,448,337	₱26,499,909	₱524,003	₱11,613,316	(₱3,400,929)	(₱1,262,899)	₱225,594	₱–	₱77,647,331
Balance at January 1, 2012, as previously reported	₱26,489,837	₱2,037,272	₱560,216	₱734,043	₱658,256	(₱1,000,543)	₱334,005	₱2,816,962	₱32,630,048
Effect of restatement (Note 2)	–	–	–	865,109	–	–	–	(2,816,962)	(1,951,853)
Balance at January 1, 2012, as restated	26,489,837	2,037,272	560,216	1,599,152	658,256	(1,000,543)	334,005	–	30,678,195
Total comprehensive income (loss) for the year	–	–	–	4,598,536	246,430	226,706	(395,757)	–	4,675,915
Transfer to surplus reserves (Note 33)	–	–	9,671	(9,671)	–	–	–	–	–
Balance at December 31, 2012	₱26,489,837	₱2,037,272	₱569,887	₱6,188,017	₱904,686	(₱773,837)	(₱61,752)	₱–	₱35,354,110

See accompanying Notes to Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
STATEMENTS OF CASH FLOWS
(In Thousands)

	Consolidated			Parent Company		
	Years Ended December 31					
	2014	2013 (As Restated - Note 2)	2012 (As Restated - Note 2)	**2014**	2013 (As Restated - Note 2)	2012 (As Restated - Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES						
Income before income tax	**₱6,905,505**	₱6,429,527	₱5,691,973	**₱5,788,556**	₱6,413,886	₱5,484,317
Adjustments for:						
Provision for impairment, credit and other losses (Note 16)	**2,264,615**	833,584	823,701	**2,155,199**	953,821	795,106
Depreciation and amortization (Note 11)	**1,495,970**	1,705,660	819,546	**1,342,210**	1,573,934	745,672
Net gain on sale or exchange of assets (Note 13)	**(1,453,047)**	(518,604)	(359,915)	**(1,435,726)**	(496,864)	(359,915)
Realized trading gain on available-for-sale investments (Note 9)	**(1,174,153)**	(4,375,759)	(4,287,934)	**(1,128,511)**	(4,183,617)	(4,205,426)
Amortization of premium (discount) on investment securities	**(694,846)**	1,166,368	(717,699)	**1,099,979**	1,167,834	(714,460)
Loss (gain) on mark-to-market of held for trading securities (Note 9)	**233,439**	267,643	(46,281)	**233,506**	267,732	(45,769)
Amortization of fair value adjustments	**222,245**	117,413	–	**222,245**	117,413	–
Loss (gain) on mark-to-market of derivatives (Note 23)	**(105,244)**	529,159	(312,791)	**(105,087)**	530,468	(312,791)
Amortization of transaction costs (Notes 17 and 21)	**38,600**	34,191	21,733	**38,600**	34,191	21,733
Unrealized foreign exchange gain (loss) on bills payable and acceptances	**33,378**	(96,001)	(145,180)	**33,378**	(96,001)	(145,180)
Recoveries on receivable from special purpose vehicle (Note 28)	**(27,000)**	–	–	**(27,000)**	–	–
Unrealized foreign exchange loss (gain) on available-for-sale investments	**(13,599)**	(32,195)	348,674	**(9,993)**	(32,195)	348,674
Loss on write-off of software cost (Note 14)	**2,648**	–	–	**852**	–	–
Gain on mark-to-market of financial assets and liabilities designated at fair value through profit or loss (Notes 9 and 18)	**(1,751)**	(184,465)	(314,340)	**–**	(179,878)	(314,340)
Gain from step-up acquisition (Note 28)	**–**	(63,605)	–	**–**	–	–
Share in net income of an associate (Notes 12 and 28)	**–**	(4,975)	(10,309)	**–**	–	–
Gain from closure of a subsidiary (Note 12)	**–**	–	–	**(1,917)**	–	–
Changes in operating assets and liabilities:						
Decrease (increase) in amounts of:						
Interbank loan receivable (Note 8)	**(178,898)**	–	–	**(178,898)**	–	–
Financial assets at fair value through profit or loss	**(5,768,722)**	(1,963,492)	3,355,649	**(2,978,696)**	2,090,417	3,410,647
Loans and receivables	**(44,553,319)**	(40,625,440)	(20,406,367)	**(35,839,430)**	(35,766,254)	(19,544,204)
Other assets	**(2,898,550)**	104,526	1,020,423	**(2,254,929)**	(1,019,124)	1,527,640
Increase (decrease) in amounts of:						
Financial liabilities at fair value through profit or loss	**2,787,130**	(2,112,749)	–	**(118,819)**	(6,279,675)	–
Deposit liabilities	**(14,994,164)**	80,127,257	3,310,937	**(16,258,325)**	76,186,872	2,935,486
Accrued taxes, interest and other expenses	**(82,174)**	(14,876)	602,203	**25,993**	(156,016)	11,389
Other liabilities	**(2,565,604)**	8,221,163	1,397,859	**(3,314,173)**	3,152,271	803,643
Net cash generated from (used in) operations	**(60,527,541)**	49,544,330	(9,208,118)	**(52,710,986)**	44,279,215	(9,557,778)
Income taxes paid	**(899,599)**	(1,183,440)	(778,857)	**(696,006)**	(1,033,856)	(705,614)
Net cash provided by (used in) operating activities	**(61,427,140)**	48,360,890	(9,986,975)	**(53,406,992)**	43,245,359	(10,263,392)

(Forward)

	Consolidated			Parent Company		
	Years Ended December 31					
	2014	2013 (As Restated - Note 2)	2012 (As Restated - Note 2)	**2014**	2013 (As Restated - Note 2)	2012 (As Restated - Note 2)
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from sale of:						
Available-for-sale investments	**₱63,379,326**	₱145,302,130	₱244,287,670	**₱56,615,134**	₱143,623,926	₱239,372,119
Investment properties	**2,849,775**	3,021,651	2,669,604	**2,830,358**	2,678,954	2,727,503
Property and equipment	**451,212**	97,256	291,204	**457,352**	126,782	276,392
Proceeds from maturities of :						
Available-for-sale investments	**368,050**	–	–	–	–	–
Held-to-maturity investments	**40,000**	–	–	–	–	–
Collection of receivables from special purpose vehicle (Notes 10 and 28)	**27,000**	258,348	575,000	**27,000**	258,348	575,000
Proceeds from redemption of placements with the Bangko Sentral ng Pilipinas	**–**	–	20,200,000	**–**	–	20,200,000
Acquisitions of:						
Available-for-sale investments	**(65,693,182)**	(141,313,335)	(254,009,801)	**(59,006,674)**	(140,290,305)	(248,911,324)
Held-to-maturity investments	**(571,602)**	–	–	**(571,602)**	–	–
Property and equipment (Note 11)	**(981,458)**	(861,312)	(704,327)	**(835,152)**	(753,771)	(636,651)
Software cost (Note 14)	**(384,951)**	(118,236)	(120,215)	**(380,474)**	(82,808)	(119,576)
Net cash acquired from merger (Note 37)	**–**	64,444,868	–	**–**	53,204,473	–
Additional investments in subsidiaries (Note 12)	**–**	–	–	**(10,600,000)**	–	–
Closure of subsidiaries (Note 12)	**–**	–	–	**2,035**	(38,267)	32,042
Net cash provided by (used in) investing activities	**(515,830)**	70,831,370	13,189,135	**(11,462,023)**	58,727,332	13,515,505
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from issuances of:						
Bills and acceptances payable	**42,300,489**	65,997,725	48,061,417	**39,296,399**	64,736,812	47,023,325
Capital stock (Note 25)	**11,568,119**	–	–	**11,568,119**	–	–
Subordinated debt	**–**	–	3,474,112	**–**	–	3,474,112
Settlement of:						
Bills and acceptances payable	**(36,475,970)**	(68,957,465)	(43,297,761)	**(34,320,173)**	(66,965,983)	(41,477,692)
Subordinated debt (Note 21)	**–**	(4,500,000)	–	**–**	(4,500,000)	–
Payments for transaction cost of issuance of shares	**(219,527)**	(84,792)	–	**(219,527)**	(84,792)	–
Dividends paid to non-controlling interest	**(4,889)**	(2,873)	(2,450)	**–**	–	–
Net cash provided by (used in) financing activities	**17,168,222**	(7,547,405)	8,235,318	**16,324,818**	(6,813,963)	9,019,745
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(44,774,748)**	111,644,855	11,437,478	**(48,544,197)**	95,158,728	12,271,858
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR						
Cash and other cash items	**11,804,746**	5,599,088	5,404,110	**9,700,005**	5,548,325	5,303,112
Due from Bangko Sentral ng Pilipinas	**153,169,330**	37,175,399	17,952,795	**146,079,249**	36,531,047	17,292,594
Due from other banks	**14,881,541**	4,042,769	6,423,981	**6,146,134**	3,293,782	4,906,698
Interbank loans receivable (Note 8)	**8,405,250**	11,498,756	17,097,648	**8,405,250**	11,498,756	17,097,648
Securities held under agreements to resell	**–**	18,300,000	18,300,000	**–**	18,300,000	18,300,000
	188,260,867	76,616,012	65,178,534	**170,330,638**	75,171,910	62,900,052
CASH AND CASH EQUIVALENTS AT END OF YEAR						
Cash and other cash items	**14,628,489**	11,804,746	5,599,088	**13,865,078**	9,700,005	5,548,325
Due from Bangko Sentral ng Pilipinas	**105,773,685**	153,169,330	37,175,399	**95,415,467**	146,079,249	36,531,047
Due from other banks	**15,591,406**	14,881,541	4,042,769	**5,013,357**	6,146,134	3,293,782
Interbank loans receivable (Note 8)	**7,492,539**	8,405,250	11,498,756	**7,492,539**	8,405,250	11,498,756
Securities held under agreements to resell	**–**	–	18,300,000	**–**	–	18,300,000
	₱143,486,119	₱188,260,867	₱76,616,012	**₱121,786,441**	₱170,330,638	₱75,171,910
OPERATIONAL CASH FLOWS FROM INTEREST AND DIVIDENDS						
Interest paid	**₱3,387,941**	₱4,628,585	₱4,381,425	**₱3,150,615**	₱4,522,239	₱4,332,906
Interest received	**22,270,498**	17,100,983	12,232,534	**22,147,995**	16,117,367	11,978,131
Dividends received	**2,409**	3,399	2,418	**79,744**	81,562	25,219

See accompanying Notes to Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
(Amounts in Thousand Pesos except When Otherwise Indicated)

1. **Corporate Information**

Philippine National Bank (the Parent Company) was established in the Philippines in 1916 and started commercial operations that same year. On May 27, 1996, the Parent Company was registered with the Philippine Securities and Exchange Commission (SEC) with a corporate term of 50 years. Its principal place of business is at PNB Financial Center, President Diosdado Macapagal Boulevard, Pasay City, Metro Manila. As of December 31, 2014, the Lucio Tan Group Inc. (LTG) held indirect ownership of 59.83% of the Parent Company's shares through its various subsidiaries, while 17.95% of the Parent Company's shares are held by various holding companies associated with or who issue proxies/special powers of attorney in favor of Director Lucio C. Tan and the latter owns directly 1.19% of the Parent Company's shares. The remaining 21.03% of the Parent Company's shares are held by other stockholders. As of December 31, 2013, the Lucio Tan Group Inc. (LTG) held indirect ownership of 56.48% of the Parent Company's shares through its various subsidiaries, while 20.22% of the Parent Company's shares were held by various holding companies associated with or who issue proxies/special powers of attorney in favor of Director Lucio C. Tan and the latter owns directly 1.19% of the Parent Company's shares. The remaining 22.11% of the Parent Company's shares were held by other stockholders.

The Parent Company provides a 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. The Parent Company's principal commercial banking activities include deposit-taking, lending, bills discounting, foreign exchange dealing, investment banking, fund transfers/remittance servicing and a full range of retail banking and trust services through its 657 and 656 domestic branches as of December 31, 2014 and December 31, 2013, respectively.

The Parent Company has the largest overseas network among Philippine banks with 77 and 81 branches, representative offices, remittance centers and subsidiaries as of December 31, 2014 and December 31, 2013, respectively, in 16 locations in the United States, Canada, Europe, the Middle East and Asia.

The subsidiaries of the Parent Company are engaged in a number of diversified financial and related businesses such as remittance, life and nonlife insurance, commercial and retail banking, leasing, stock brokerage, foreign exchange trading and/or related services.

The Parent Company previously operated under a rehabilitation program pursuant to the memorandum of agreement signed by the Republic of the Philippines, the Philippine Deposit Insurance Corporation (PDIC) and the LTG on May 3, 2002. In May 2007, the Parent Company concluded its 5-year Rehabilitation Plan as approved by the Bangko Sentral ng Pilipinas (BSP).

Merger with Allied Banking Corporation
The respective shareholders of the Parent Company and Allied Banking Corporation (ABC), representing at least two-thirds of the outstanding capital stock of both banks, approved the amended terms of the Plan of Merger of the two banks on March 6, 2012. The original plan of the merger which was effected via a share-for-share exchange was approved by the affirmative vote of ABC and the Parent Company's respective shareholders, representing at least two-thirds of the outstanding capital stock of both banks on June 24, 2008. Under the approved amended terms,

the Parent Company will be the surviving entity. It will issue to ABC shareholders 130 Parent Company common shares for every ABC common share and 22.763 Parent Company common shares for every ABC preferred share. Merger and business combination are terms used interchangeably within the accompanying financial statements and have the same meaning.

On February 9, 2013, the Parent Company concluded its planned merger with ABC as approved and confirmed by the Board of Directors (BOD) of the Parent Company and of ABC on January 22 and 23, 2013, respectively. The purchase consideration as of February 9, 2013, the acquisition date, amounted to ₱41.5 billion which represents 423,962,500 common shares at the fair value of ₱97.90 per share in exchange for the 100.00% voting interest in ABC at the share swap ratio of 130 Parent Company common shares for one ABC share and 22.763 Parent Company common shares for one ABC preferred share (Note 37). The fair value of the shares is the published price of the shares of the Parent Company as of February 9, 2013. There are no contingent consideration arrangements as part of the merger.

The merger of the Parent Company and ABC will enable the two banks to advance their long-term strategic business interests as they capitalize on their individual strengths and markets.

2. **Summary of Significant Accounting Policies**

Basis of Preparation

The accompanying financial statements of the Parent Company and its subsidiaries (the Group) have been prepared on a historical cost basis except for financial assets and liabilities at fair value through profit or loss (FVPL) and available-for-sale (AFS) investments that are measured at fair value. Amounts in the financial statements are presented to the nearest thousand pesos (₱000) unless otherwise stated.

The financial statements provide comparative information in respect of the previous period. In addition, the Group presents an additional statement of financial position at the beginning of the earliest period presented when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in financial statements. An additional statement of financial position as at January 1, 2013 is presented in these financial statements due to retrospective application of certain accounting policy as discussed in the 'Changes in Accounting Policies and Disclosures' section of this note.

The financial statements of the Parent Company and PNB Savings Bank (PNB SB) reflect the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU).

The functional currency of RBU and FCDU is Philippine pesos (Php) and United States Dollar (USD), respectively. For financial reporting purposes, FCDU accounts and foreign currency-denominated accounts in the RBU are translated into their equivalents in Philippine pesos (see accounting policy on Foreign Currency Translation). The financial statements individually prepared for these units are combined and inter-unit accounts and transactions are eliminated.

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The respective functional currencies of the subsidiaries are presented in Note 12.

Statement of Compliance
The financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

Presentation of Financial Statements
The statements of financial position of the Group and of the Parent Company are presented in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 24.

Financial assets and financial liabilities are offset and the net amount is reported in the statements of financial position only when there is a legal enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or to realize the assets and settle the liabilities simultaneously. Income and expense are not offset in the statements of income unless required or permitted by any accounting standard or interpretation and as specifically disclosed in the accounting policies. This is not generally the case with master netting agreements, where the related assets and liabilities are presented at gross amounts in the statement of financial position.

Basis of Consolidation
The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries (Note 12).

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Control is achieved when the Group is exposed, or has rights, to variable return from its involvement with an investee and has the ability to affect those returns through its power over the investee. The Group controls an investee if and only if, the Group has:

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

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption, and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- Contractual arrangement with the other voting shareholders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

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

Profit or loss and each component of OCI are attributed to the equity holders of the Parent Company and to the non-controlling interests, even if this results in deficit balances of non-controlling interests. The financial statements of the subsidiaries are prepared on the same reporting period as the Parent Company using consistent accounting policies. All significant intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full in the consolidation.

Changes in the Parent Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for within equity. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Parent Company.

When a change in ownership interest in a subsidiary occurs which results in a loss of control over the subsidiary, the Parent Company:

- derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- derecognizes the carrying amount of any non-controlling interest;
- recognizes the fair value of the consideration received;
- recognizes the fair value of any investment retained;
- recognizes any surplus or deficit in profit or loss; and
- reclassifies the parent's share of components previously recognized in OCI to profit or loss or surplus, as appropriate, as would be required if the Group had directly disposed of the related assets and liabilities.

<u>Non-controlling Interests</u>
Non-controlling interests represent the portion of profit or loss and the net assets not held by the Group and are presented separately in the consolidated statement of income, consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from equity attributable to the Parent Company. Subsequent to acquisition (See Accounting Policy on Business Combinations and Goodwill), non-controlling interests consist of the amount attributed to such interest at initial recognition and the non-controlling interests' share of changes in equity since the date of business combination.

Profit or loss and each component of OCI are attributed to the equity holders of the Parent Company and to the non-controlling interests, even if that results in the NCI having a deficit balance.

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances, the carrying amounts of the controlling and NCI are adjusted by the Group to reflect the changes in its relative interests in the subsidiary. Any difference between the amount by which the NCI is adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the equity holders of the Parent Company.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the following new, amendments and improvements to PFRS which became effective as of January 1, 2014. Changes in the accounting policies that did not have any significant impact on the financial position or performance of the Group follow:

New and Revised Standards and Interpretations
- Investment Entities (Amendments to PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities*, and Philippine Accounting Standards (PAS) 27, *Separate Financial Statements*)
- PAS 39, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting* (Amendments)
- Philippine Interpretation IFRIC 21, *Levies*

Annual Improvements to PFRSs (2010-2012 cycle)
- PFRS 13, *Fair Value Measurement*

Annual Improvements to PFRSs (2011-2013 cycle)
- PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards*

Standards that have been adopted and are deemed to have an impact on the financial statements or performance of the Group are described below:

PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* (Amendments)
These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and are applied retrospectively. The amendments have no impact on the Group's financial position or performance. The additional disclosures required by the amendments are presented in Note 36.

PAS 36, *Impairment of Assets - Recoverable Amount Disclosures for Nonfinancial Assets* (Amendments)
These amendments remove the unintended consequences of PFRS 13, *Fair Value Measurement*, on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period. The additional disclosures required by the amendments are presented in Notes 11, 13 and 15 to financial statements.

<u>Restatement</u>
In 2014, the Group was mandated by the BSP to change the method of accounting for land and buildings classified as 'Property and Equipment' from revaluation model to cost model in accordance with BSP Circular No. 520, issued on March 20, 2006, which requires Philippine banks to account for their premises using the cost model under PAS 16, *Property, Plant and Equipment*.

The Group has previously measured land and buildings using the revaluation model as set out in PAS 16, whereby after initial recognition, these assets were re-measured at fair value at the date of revaluation less any subsequent accumulated impairment losses for land and less subsequent accumulated depreciation and any subsequent accumulated impairment losses for buildings.

Under the cost model, land will be measured at cost less any accumulated impairment losses and buildings will be measured at cost less accumulated depreciation and any accumulated impairment losses. Management used the deemed cost approach in determining the initial costs of the land and building. The Parent Company used the 2002 market values as the deemed cost which was the amount approved by the Monetary Board as part of the Parent Company's rehabilitation plan (Note 25).

Additional statement of financial position as at January 1, 2013 is presented in the consolidated financial statements due to retrospective application of the change in accounting policy. The effects of retrospective restatement of items in the financial statements are detailed below:

	Consolidated		
	December 31, 2013		
	As previously reported	Effect of restatement	As restated
Statement of Financial Position			
Property and Equipment	₱22,618,359	(₱2,853,233)	₱19,765,126
Deferred Tax Assets	253,946	1,063,337	1,317,283
Other Liabilities	35,023,383	(224,678)	34,798,705
Surplus	12,432,838	924,504	13,357,342
Revaluation Increment on Land and Buildings	2,489,722	(2,489,722)	–

	Consolidated		
	For the year ended December 31, 2013		
	As previously reported	Effect of restatement	As restated
Statement of Comprehensive Income			
Statement of income			
Depreciation and amortization	₱1,741,986	(₱36,326)	₱1,705,660
Provision for income tax	1,171,140	10,898	1,182,038
Basic/diluted earnings per share*	4.88	(0.06)	4.82
Other comprehensive income			
Net changes in revaluation increment on land and buildings	(467,486)	467,486	–
Income tax effect	140,246	(140,246)	–

* *Effect of restatement include retrospective impact of the bonus element of stock rights issue on the weighted average number of common shares*

	Consolidated		
	January 1, 2013		
	As previously reported	Effect of restatement	As restated
Statement of Financial Position			
Property and Equipment	₱16,503,725	(₱3,076,553)	₱13,427,172
Deferred Tax Assets	1,780,682	1,158,667	2,939,349
Surplus	7,266,067	899,076	8,165,143
Revaluation Increment on Land and Buildings	2,816,962	(2,816,962)	–

	Consolidated		
	For the year ended December 31, 2012		
	As previously reported	Effect of restatement	As restated
Statement of Comprehensive Income			
Statement of income			
Depreciation and amortization	₱868,070	(₱48,524)	₱819,546
Provision for income tax	925,058	14,557	939,615
Basic/diluted earnings per share*	7.11	(0.06)	7.05

* *Effect of restatement include retrospective impact of the bonus element of stock rights issue on the weighted average number of common shares*

	Consolidated		
	January 1, 2012		
	As previously reported	Effect of restatement	As restated
Statement of Financial Position			
Surplus	₱2,567,178	₱865,109	₱3,432,287
Revaluation Increment on Land and Buildings	2,816,962	(2,816,962)	–

	Parent Company		
	December 31, 2013		
	As previously reported	Effect of restatement	As restated
Statement of Financial Position			
Property and Equipment	₱21,742,453	(₱2,853,233)	₱18,889,220
Deferred Tax Assets	–	1,063,337	1,063,337
Other Liabilities	21,122,523	(224,678)	20,897,845
Surplus	10,688,812	924,504	11,613,316
Revaluation Increment on Land and Buildings	2,489,722	(2,489,722)	–

	Parent Company		
	For the year ended December 31, 2013		
	As previously reported	Effect of restatement	As restated
Statement of Comprehensive Income			
Statement of income			
Depreciation and amortization	₱1,610,260	(₱36,326)	₱1,573,934
Provision for income tax	1,023,573	10,898	1,034,471
Other comprehensive income			
Net changes in revaluation increment on land and buildings	(467,486)	467,486	–
Income tax effect	140,246	(140,246)	–

	Parent Company		
	January 1, 2013		
	As previously reported	Effect of restatement	As restated
Statement of Financial Position			
Property and Equipment	₱16,324,014	(₱3,076,553)	₱13,247,461
Deferred Tax Assets	1,673,718	1,158,667	2,832,385
Surplus	5,288,941	899,076	6,188,017
Revaluation Increment on Land and Buildings	2,816,962	(2,816,962)	–

	Parent Company		
	For the year ended December 31, 2012		
	As previously reported	Effect of restatement	As restated
Statement of Comprehensive Income			
Statement of income			
Depreciation and amortization	₱794,196	(₱48,524)	₱745,672
Provision for income tax	871,224	14,557	885,781

	Parent Company		
	January 1, 2012		
	As previously reported	Effect of restatement	As restated
Statement of Financial Position			
Surplus	₱734,043	₱865,109	₱1,599,152
Revaluation Increment on Land and Buildings	2,816,962	(2,816,962)	–

Change in Presentation

The Group reclassified certain accounts in the comparative consolidated financial statements to conform to the 2014 presentation, which takes into account the nature of the transactions, as well as general financial statements preparation. The income and expense accounts directly related to the insurance business of PNB General Insurers, Inc. (PNB Gen) and PNB Life Insurance, Inc. (PNB LII) were reclassified from ‘Miscellaneous income’ and ‘Miscellaneous expense’ to ‘Service fees and commission income’, ‘Service fees and commission expense’, ‘Net insurance premium’ and ‘Net insurance benefits and claims’. The change in presentation did not have any impact on the previously reported amounts in the consolidated statements of financial position and consolidated statements of cash flows.

The effects of change in presentation on the consolidated financial statements are as follows:

	December 31, 2013		
	As previously reported	Adjustments	As restated
Service fees and commission income	₱3,341,136	₱147,929	₱3,489,065
Service fees and commission expense	906,719	173,030	1,079,749
Net insurance premiums	–	1,816,110	1,816,110
Net insurance benefits and claims	–	2,306,086	2,306,086
Miscellaneous income	2,008,855	(517,875)	1,490,980
Miscellaneous expense	6,314,776	(1,032,952)	5,281,824

	December 31, 2012		
	As previously reported	Adjustments	As restated
Service fees and commission income	₱2,130,663	₱93,814	₱2,224,477
Service fees and commission expense	254,447	166,925	421,372
Net insurance premiums	–	526,404	526,404
Net insurance benefits and claims	–	302,656	302,656
Miscellaneous income	852,809	(150,637)	702,172

The total consolidated net income and earnings per share did not change after the reclassification.

Significant Accounting Policies

Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

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

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

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in the consolidated statement of income. Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of PAS 39 is measured at fair value with changes in fair value recognized either in the consolidated statement of income or as a change to OCI. If the contingent consideration is not within the scope of PAS 39, it is measured in accordance with the appropriate PFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity. Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the gain is recognized in the consolidated statement of income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's CGUs that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Where goodwill has been allocated to a CGU and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in this circumstance is measured based on the relative values of the disposed operation and the portion of the CGU retained.

Where there are business combinations in which all the combining entities within the Group are ultimately controlled by the same ultimate parent before and after the business combination and that the control is not transitory ("business combinations under common control"), the Group accounts such business combinations under the purchase method of accounting, if the transaction was deemed to have substance from the perspective of the reporting entity. In determining whether the business combination has substance, factors such as the underlying purpose of the business combination and the involvement of parties other than the combining entities such as the noncontrolling interest, shall be considered.

In cases where the business combination has no substance, the Group shall account for the transaction similar to a pooling of interests. The assets and liabilities of the acquired entities and that of the Group are reflected at their carrying values. The difference in the amount recognized and the fair value of the consideration given, is accounted for as an equity transaction, i.e., as either a contribution or distribution of equity. Further, when a subsidiary is disposed in a common control transaction, the difference in the amount recognized and the fair value consideration received, is also accounted for as an equity transaction.

Foreign Currency Translation

The financial statements are presented in Php, which is also the Parent Company's functional currency. The books of accounts of the RBU are maintained in Php while those of the FCDU are maintained in USD. Each entity in the Group determines its own functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency.

Transactions and balances

Transactions in foreign currencies are initially recorded by the Group's units or entities at their respective functional currency spot rates at the date the transaction qualifies for recognition. Foreign currency-denominated monetary assets and liabilities are translated to the entity's functional currency based on the closing exchange rate prevailing at end of year, and foreign currency-denominated income and expenses at weighted average exchange rate for the period. Foreign exchange differences arising from revaluation of foreign currency-denominated monetary assets and liabilities of the entities are credited to or charged against operations in the period in which foreign exchange rates change.

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

FCDU and overseas subsidiaries

As at the reporting date, the assets and liabilities of the FCDU and overseas subsidiaries are translated into the Parent Company's presentation currency (the Philippine peso) at the closing rate prevailing at the reporting date, and their income and expenses are translated at the average exchange rate for the year. Exchange differences arising on translation are taken directly to OCI under 'Accumulated Translation Adjustment'. On disposal of a foreign entity or upon actual remittance of FCDU profits to RBU, the deferred cumulative amount recognized in OCI relating to the particular foreign operation is recognized in the consolidated statement of income.

Insurance Product Classification

Insurance contracts are those contracts where the Group (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Group determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of price or rates, a credit rating or credit index or other variable. Investment contracts mainly transfer financial risk but can also transfer insignificant insurance risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or has expired. Investment contracts can, however, be reclassified as insurance contracts after inception if the insurance risk becomes significant.

Insurance and investment contracts are further classified as being with or without discretionary participation features (DPF).

DPF is a contractual right to receive, as a supplement to guaranteed contracts, additional benefits that are likely to be a significant portion of the total contractual benefits, whose amount or timing is contractually at the discretion of the issuer, and that are contractually based on the performance of a specified pool of contracts or a specified type of contract, realized and unrealized investment returns on a specified pool of assets held by the issuer, or the profit or loss of the company, fund or other entity that issues the contract.

Cash and Cash Equivalents
For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items (COCI), amounts due from BSP and other banks, interbank loans receivable and securities held under agreements to resell that are convertible to known amounts of cash, with original maturities of three months or less from dates of placements and that are subject to an insignificant risk of changes in fair value. Due from BSP includes statutory reserves required by the BSP, which the Group considers as cash equivalents wherein drawings can be made to meet cash requirements.

Fair Value Measurement
The Group measures financial instruments such as financial assets and liabilities at FVPL and AFS investments at fair value at each reporting date. Also, fair values of financial instruments measured at amortized cost and investment properties are disclosed in Note 5.

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

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

The principal or the most advantageous market must be accessible to the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

If an asset or a liability measured at fair value has a bid price and ask price, the price within the bid-ask spread is the most representative of fair value in the circumstance shall be used to measure fair value regardless of where the input is categorized within the fair value hierarchy. A fair value measurement of a nonfinancial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described in Note 5, based on the lowest level input that is significant to the fair value measurement as a whole.

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

Financial Instruments - Initial Recognition and Subsequent Measurement

Date of recognition

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

Initial recognition of financial instruments

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

Derivatives recorded at FVPL

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

Financial assets or financial liabilities held-for-trading
Financial assets or financial liabilities held for trading (classified as 'Financial Assets at FVPL' or 'Financial Liabilities at FVPL') are recorded in the statement of financial position at fair value. Changes in fair value relating to the held-for-trading (HFT) positions are recognized in 'Trading and investment securities gains - net'. Interest earned or incurred is recorded in 'Interest income' or 'Interest expense', respectively, while dividend income is recorded in 'Miscellaneous income' when the right to receive payment has been established.

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

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

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

Designated financial assets and financial liabilities at FVPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in 'Trading and investment securities gains - net'. Interest earned or incurred is recorded in 'Interest income' or 'Interest expense', respectively, while dividend income is recorded in 'Miscellaneous income' according to the terms of the contract, or when the right of payment has been established.

HTM investments
HTM investments are quoted, non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Group has the positive intention and ability to hold to maturity. Where the Group sells or reclassifies other than an insignificant amount of HTM investments before maturity (other than in certain specific circumstances), the entire category would be tainted and reclassified as AFS investments. Once tainted, the Group is prohibited from classifying investments under HTM for at least the following two financial years.

After initial measurement, these investments are subsequently measured at amortized cost using the effective interest method, less impairment losses, if any. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate (EIR). Gains and losses are recognized in the statement of income when the HTM investments are derecognized and impaired, as well as through the amortization process. Losses arising from impairment of such investments are recognized in the statement of income under 'Provision for impairment, credit and other losses'. The effects of revaluation on foreign currency-denominated HTM investments are recognized in the statement of income.

Loans and receivables
Significant accounts falling under this category are 'Loans and Receivables', 'Due from BSP', 'Due from Other Banks', 'Interbank Loans Receivable' and 'Securities Held Under Agreements to Resell'.

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

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

After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest method, less allowance for credit losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in ‘Interest income’ in the statement of income. Losses arising from impairment are recognized in ‘Provision for impairment, credit and other losses’ in the statement of income.

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

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

When the security is disposed of, the cumulative gain or loss previously recognized in OCI is recognized as ‘Trading and investment securities gains - net’ in the statement of income. Interest earned on holding AFS debt investments are reported as ‘Interest income’ using the effective interest method. Dividends earned on holding AFS equity investments are recognized in the statement of income as ‘Miscellaneous income’ when the right of payment has been established. Losses arising from impairment of such investments are recognized as ‘Provision for impairment, credit and other losses’ in the statement of income.

Other financial liabilities
Issued financial instruments or their components, which are not designated at FVPL, are classified as ‘Deposit Liabilities’, ‘Bills and Acceptances Payable’, ‘Subordinated Debt’ and other appropriate financial liability accounts, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

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

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

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

For reclassifications from AFS, the fair value carrying amount at the date of reclassification becomes the new amortized cost and any previous gain or loss that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the effective interest method.

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

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

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

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

Repurchase and Reverse Repurchase Agreements
Securities sold under agreements to repurchase at a specified future date ('repos') are not derecognized from the statement of financial position. The corresponding cash received, including accrued interest, is recognized in the statement of financial position as a loan to the Group, reflecting the economic substance of such transaction.

Conversely, securities purchased under agreements to resell at a specified future date ('reverse repos') are not recognized in the statement of financial position. The Group is not permitted to sell or repledge the securities in the absence of default by the owner of the collateral. The corresponding cash paid, including accrued interest, is recognized on the statement of financial position as 'Securities Held Under Agreements to Resell', and is considered a loan to the counterparty. The difference between the purchase price and resale price is treated as interest income and is accrued over the life of the agreement using the effective interest method.

Impairment of Financial Assets
The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets at amortized cost
For financial assets carried at amortized costs such as 'Loans and Receivables', 'HTM Investments', 'Due from BSP', 'Due from Other Banks', 'Interbank Loans Receivable' and 'Securities Held under Agreements to Resell', the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

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

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

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

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

The consumer loans and credit card receivables of the Group are assessed for impairment collectively because these receivables are not individually significant. The carrying amount of these receivables is reduced for impairment through the use of an allowance account and the amount of loss is recognized under 'Provision for impairment, credit and other losses' in the statement of income. Consumer loans and credit card receivables, together with the associated allowance accounts, are written off if the accounts are 360 days past due and 180 days past due, respectively. If a write-off is later recovered, any amounts formerly charged to allowance for credit losses are credited to 'Recoveries' under 'Miscellaneous income' in the statement of income. Past due accounts include accounts with no payments or with payments less than the minimum amount due on or before the due dates.

The allowance for credit losses of consumer loans and credit card receivables are determined based on the net flow rate methodology. Net flow tables are derived from account-level monitoring of monthly movements between different stage buckets, from 1-day past due to 180-days past due. The net flow rate methodology relies on the last 60 months for consumer loans and 24 months for credit card receivables of net flow tables to establish a percentage (net flow rate) of receivables that are current or in any state of delinquency (i.e., 30, 60, 90, 120, 150 and 180 days past due) as of the reporting date that will eventually result in write-off. The gross provision is then computed based on the outstanding balances of the receivables as of the reporting date and the net flow rates determined for the current and each delinquency bucket.

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

of the original loan and the present value of the restructured cash flows, discounted at the original EIR, is recognized in 'Provision for impairment, credit and other losses' in the statement of income.

AFS investments
For AFS investments, the Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired.

In the case of equity investments classified as AFS investments, this would include a significant or prolonged decline in the fair value of the investments below its cost. The Group treats 'significant' generally as 20.00% or more and 'prolonged' greater than 12 months. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the statement of income - is removed from equity and recognized in the statement of income. Impairment losses on equity investments are not reversed through the statement of income. Increases in fair value after impairment are recognized directly in OCI.

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

Reinsurance assets
An impairment review is performed at each reporting period date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that the Group may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Group will receive from the reinsurer can be measured reliably. The impairment loss is charged against the consolidated statement of income.

<u>Financial Guarantees</u>
In the ordinary course of business, the Group gives financial guarantees consisting of letters of credit, letters of guarantees, and acceptances. Financial guarantees on trade receivables are initially recognized in the financial statements at fair value under 'Bills and Acceptances Payable' or 'Other Liabilities'. Subsequent to initial recognition, the Group's liabilities under such guarantees are each measured at the higher of the initial fair value less, when appropriate, cumulative amortization calculated to recognize the fee in the statement of income in 'Service fees and commission income', over the term of the guarantee, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the statement of income in 'Miscellaneous expenses'. Any financial guarantee liability remaining is recognized in the statement of income in 'Service fees and commission income', when the guarantee is discharged, cancelled or has expired.

<u>Life Insurance Contract Liabilities</u>

Life insurance liabilities

Life insurance liabilities refer to liabilities of the Group that are recognized due to the obligations arising from policy contracts issued by PNB LII. The reserves for life insurance contracts are calculated based on prudent statutory assumptions in accordance with generally accepted actuarial methods that are compliant with existing regulations.

Insurance contracts with fixed and guaranteed terms

The liability is determined as the expected discounted value of the benefit payments less the expected discounted value of the theoretical premiums that would be required to meet the benefits based on the valuation assumptions used. The liability is based on mortality, morbidity and investment income assumptions that are established at the time the contract is issued.

For unpaid claims and benefits, a provision is made for the estimated cost of all claims and dividends notified but not settled at the reporting date less reinsurance recoveries, using the information available at the time.

Provision is also made for the cost of claims incurred but not reported (IBNR) until after the reporting date based on PNB LII's experience and historical data. Differences between the provision for outstanding claims at the reporting date and subsequent revisions and settlements are included in the statement of income in later years. Policy and contract claims payable forms part of the liability section of the statement of financial position under 'Other Liabilities - Insurance contract liabilities'.

The aggregate reserve for life policies represents the accumulated total liability for policies in force as of the reporting date. Such reserves are established at amounts adequate to meet the estimated future obligations of all life insurance policies in force. The reserves are calculated using actuarial methods and assumptions in accordance with statutory requirements and as approved by the Insurance Commission (IC), subject to the minimum liability adequacy test.

Unit-linked insurance contracts

PNB LII issues unit-linked insurance contracts. Considerations received from unit-linked insurance contracts, in excess of the portion that is placed under a withdrawable segregated account, are recognized as revenue.

PNB LII's revenue from unit-linked contracts consists of charges deducted from the policyholder's separate account, in accordance with the unit-linked policy contract. Since the segregated fund assets belong to the unit-linked policyholders, corresponding segregated fund liabilities are set-up equal to the segregated fund assets less redemptions outside the segregated funds. The segregated fund assets are valued at market price. Changes in the segregated fund assets due to investment earnings or market value fluctuations result in the same corresponding change in the segregated fund liabilities. Such changes in fund value have no effect in the statement of income.

Collections received from unit-linked policies are separated to segregated fund assets from which PNB LII withdraws administrative and cost of insurance charges in accordance with the policy provisions of the unit-linked insurance contracts. After deduction of these charges, the remaining amounts in the segregated fund assets are equal to the surrender value of the unit-linked policyholders, and are withdrawable anytime.

The equity of each unit-linked policyholder in the fund is monitored through the designation of outstanding units for each policy. Hence, the equity of each unit-linked insurance contract in the fund is equal to the total number of outstanding units of the policyholder multiplied by the net asset value per unit (NAVPU). The NAVPU is the market value of the fund divided by the total number of outstanding units.

Nonlife Insurance Contract Liabilities

Provision for unearned premiums

The proportion of written premiums, gross of commissions payable to intermediaries, attributable to subsequent periods or to risks that have not yet expired is deferred as provision for unearned premiums. Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method except for marine cargo where the provision for unearned premiums pertains to the premiums for the last two months of the year. The portion of the premiums written that relate to the unexpired periods of the policies at the end of reporting period are accounted for as provision for unearned premiums and presented as part of 'Insurance contract liabilities' in the 'Other Liabilities' section of the consolidated statement of financial position. The change in the provision for unearned premiums is taken to the consolidated statement of income in the order that revenue is recognized over the period of risk. Further provisions are made to cover claims under unexpired insurance contracts which may exceed the unearned premiums and the premiums due in respect of these contracts.

Claims provision and IBNR losses

Outstanding claims provisions are based on the estimated ultimate cost to all claims incurred but not settled at the reporting date, whether reported or not, together with the related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of which cannot be known with certainty at the reporting date. The liability is not discounted for the time value of money and includes provision for IBNR. No provision for equalization or catastrophic reserves is recognized. The liability is derecognized when the contract is discharged or cancelled or has expired.

Liability Adequacy Test

Liability adequacy tests on life insurance contracts are performed annually to ensure the adequacy of the insurance contract liabilities. In performing these tests, current best estimates of future contractual cash flows, claims handling and policy administration expenses are used. Any deficiency is immediately charged against profit or loss initially by establishing a provision for losses arising from the liability adequacy tests.

For nonlife insurance contracts, liability adequacy tests are performed at the end of each reporting date to ensure the adequacy of insurance contract liabilities, net of related Deferred Acquisition Cost (DAC). The provision for unearned premiums is increased to the extent that the future claims and expenses in respect of current insurance contracts exceed future premiums plus the current provision for unearned premiums.

Investments in Subsidiaries and an Associate

Investments in subsidiaries

Subsidiaries pertain to entities over which the Group has control. The existence and effect of potential voting rights that are currently exercisable or convertible and qualitative criteria are considered when assessing whether the Group controls another entity (see Basis of Consolidation). In the Parent Company's separate financial statements, investments in subsidiaries are carried at cost less impairment loss, if any.

Investment in an associate
An associate pertains to an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20.00% and 50.00% of the voting rights. In the consolidated financial statements, investment in an associate is accounted for under the equity method of accounting while in the Parent Company financial statements, investment in an associate is accounted at cost less impairment loss, if any.

Under the equity method, investment in an associate is carried in the statement of financial position at cost plus post-acquisition changes in the Group's share of the net assets of the associate, less impairment in value, if any. The Group's share of its associate's post-acquisition profits or losses is recognized in the statement of income, and its share of post-acquisition movements in the associate's equity reserves or other adjustments is recognized directly in equity. When the Group's share of losses in associates equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Revenue Recognition
Revenue is recognized to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements except for brokerage transactions. The following specific recognition criteria must also be met before revenue is recognized:

Interest income
For all financial instruments measured at amortized cost and interest-bearing financial instruments classified as FVPL and AFS investments, interest income is recorded using the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses. The adjusted carrying amount is calculated based on the original EIR. The change in carrying amount is recorded as 'Interest income'. Once the recorded value of a financial asset or group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original EIR applied to the new carrying amount.

Service fees and commission income
The Group earns fee and commission income from diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

a) *Fee income earned from services that are provided over a certain period of time*
Fees earned for the provision of services over a period of time are accrued over that period. These fees include investment fund fees, custodian fees, fiduciary fees, credit-related fees, trust fees, portfolio and other management fees, and advisory fees. However, loan commitment fees for loans that are likely to be drawn down are deferred (together with any incremental costs) and recognized as an adjustment to the EIR of the loan.

b) *Fee income from providing transaction services*
Fees arising from negotiating or participating in the negotiation of a transaction for a third party - such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses - are recognized on completion of the underlying transaction.

Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria. These fees include underwriting fees, corporate finance fees, remittance fees, brokerage fees, commissions, deposit-related and other credit-related fees. Loan syndication fees are recognized in the statement of income when the syndication has been completed and the Group retains no part of the loans for itself or retains part at the same EIR as the other participants.

Interchange fee and revenue from rewards redeemed
'Interchange fees' are taken up as income under 'Service fees and commission income' upon receipt from member establishments of charges arising from credit availments by the Group's cardholders. These discounts are computed based on certain agreed rates and are deducted from amounts remitted to the member establishments.

The Group operates a loyalty points program which allows customers to accumulate points when they purchase from member establishments using the issued card of the Group. The points can then be redeemed for free products subject to a minimum number of points being redeemed. Consideration received is allocated between the discounts earned, interchange fee and the points earned, with the consideration allocated to the points equal to its fair value. The fair value is determined by applying statistical analysis. The fair value of the points issued is deferred and recognized as revenue when the points are redeemed. The deferred balance is included under 'Other Liabilities' in the statement of financial position.

Commissions earned on credit cards
Commissions earned are taken up as income upon receipt from member establishments of charges arising from credit availments by credit cardholders. These commissions are computed based on certain agreed rates and are deducted from amounts remittable to member establishments. Purchases by the credit cardholders, collectible on installment basis, are recorded at the cost of the items purchased plus certain percentage of cost. The excess over cost is credited to 'Unearned and other deferred income' and is shown as a deduction from 'Loans and Receivables' in the statement of financial position. The unearned and other deferred income is taken up to income over the installment terms and is computed using the effective interest method.

Commission earned on reinsurance
Reinsurance commissions are recognized as revenue over the period of the contracts. The portion of the commissions that relates to the unexpired periods of the policies at the end of the reporting period is accounted for as 'Other Liabilities' in the statement of financial position.

Dividend income
Dividend income is recognized when the Group's right to receive payment is established.

Trading and investment securities gains - net
'Trading and investment securities gains - net' includes results arising from trading activities, all gains and losses from changes in fair value of financial assets and financial liabilities at FVPL and gains and losses from disposal of AFS investments.

Rental income
Rental income arising on leased properties is accounted for on a straight-line basis over the lease terms of ongoing leases and is recorded in the statement of income under 'Miscellaneous income'.

Income on direct financing leases and receivables financed
Income of the Group on loans and receivables financed is recognized using the effective interest method.

Unearned discounts included under 'Unearned and other deferred income' which are amortized over the term of the note or lease using the effective interest method consist of:

- transaction and finance fees on finance leases and loans and receivables financed with long-term maturities; and
- excess of the aggregate lease rentals plus the estimated residual value of the leased equipment over its cost.

Premiums revenue
Gross insurance written premiums comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the accounting period. Premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior periods. Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method except for marine cargo where the provision for unearned premiums pertains to the premiums for the last two months of the year. The portion of the premiums written that relate to the unexpired periods of the policies at end of reporting period are accounted for as provision for unearned premiums and presented as part of 'Other Liabilities' in the statement of financial position. The related reinsurance premiums ceded that pertain to the unexpired periods at the end of the reporting periods are accounted for as deferred reinsurance premiums shown as part of 'Other Assets' in the statement of financial position. The net changes in these accounts between ends of the reporting periods are credited to or charged against the statement of income for the period.

Other income
Income from sale of services is recognized upon rendition of the service. Income from sale of properties is recognized upon completion of the earning process and when the collectibility of the sales price is reasonably assured.

Expenses
Expenses encompass losses as well as those expenses that arise in the course of the ordinary activities of the Group. Expenses are recognized when incurred.

Taxes and licenses
This includes all other taxes, local and national, including gross receipts taxes (GRT), documentary stamp taxes, real estate taxes, licenses and permit fees that are recognized when incurred.

Policy Loans
Policy loans included under loans and receivables are carried at their unpaid balances plus accrued interest and are fully secured by the policy values on which the loans are made.

Reinsurance
The Group cedes insurance risk in the normal course of business. Reinsurance assets represent balances due from reinsurance companies. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contract.

Ceded reinsurance arrangements do not relieve the Group from its obligations to policyholders.

The Group also assumes reinsurance risk in the normal course of business for insurance contracts. Premiums and claims on assumed reinsurance are recognized as income and expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to ceding companies. Amounts payable are estimated in a manner consistent with the associated reinsurance contract.

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

Reinsurance assets or liabilities are derecognized when the contractual rights are extinguished or expired or when the contract is transferred to another party.

Deferred Acquisition Cost

Commission and other acquisition costs incurred during the financial period that vary with and are related to securing new insurance contracts and/or renewing existing insurance contracts, but which relates to subsequent financial periods, are deferred to the extent that they are recoverable out of future revenue margins. All other acquisition costs are recognized as an expense when incurred.

Subsequent to initial recognition, these costs are amortized using the 24th method except for marine cargo where the DAC pertains to the commissions for the last two months of the year. Amortization is charged to ‘Service fees and commission expense’ in the statement of income. The unamortized acquisition costs are shown as ‘Deferred acquisition costs’ in the assets section of the consolidated statement of financial position.

An impairment review is performed at each end of the reporting period or more frequently when an indication of impairment arises. The carrying value is written down to the recoverable amount and the impairment loss is charged to the consolidated statement of income. The DAC is also considered in the liability adequacy test for each reporting period.

Property and Equipment

Land is stated at cost less any impairment in value and depreciable properties such as buildings, long-term leasehold land, leasehold improvements, and furniture, fixture and equipment are stated at cost less accumulated depreciation and amortization and any impairment in value.

The initial cost of property and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditures incurred after items of property and equipment have been put into operation, such as repairs and maintenance are normally charged against operations in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. Long-term leasehold land is amortized over the term of the lease. Leasehold improvements are amortized over lease term and the shorter of the terms of the covering leases and the estimated useful lives of the improvements.

The estimated useful lives follow:

	Years
Buildings	25 - 50
Furniture, fixtures and equipment	5
Long-term leasehold land	46 - 50
Leasehold improvements	10 or the lease term, whichever is shorter

The useful life and the depreciation and amortization method are reviewed periodically to ensure that the period and the method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income in the period the asset is derecognized.

Investment Properties

Investment properties are measured initially at cost, including transaction costs. An investment property acquired through an exchange transaction is measured at fair value of the asset acquired unless the fair value of such an asset cannot be reliably measured in which case the investment property acquired is measured at the carrying amount of asset given up. Any gain or loss on exchange is recognized in the statement of income under 'Net gain on sale or exchange of assets'. Foreclosed properties are classified under 'Investment Properties' upon:

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

Subsequent to initial recognition, investment properties are carried at cost less accumulated depreciation (for depreciable investment properties) and impairment in value.

Depreciation is calculated on a straight-line basis using the remaining useful lives from the time of acquisition of the depreciable investment properties ranging from 10 to 25 years.

Investment properties are derecognized when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the statement of income under 'Net gain on sale or exchange of assets' in the period of retirement or disposal.

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

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

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

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

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

Intangible Assets
Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangibles, excluding capitalized development costs, are not capitalized and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the respective useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of income as the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the CGU level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of income when the asset is derecognized.

Software costs
Software costs, included in ‘Intangible Assets’, are capitalized on the basis of the cost incurred to acquire and bring to use the specific software. These costs are amortized over five years on a straight-line basis. The estimated useful life and the amortization method are reviewed periodically to ensure that the period and the method of amortization are consistent with the expected pattern of economic benefits from the software.

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

Customer relationship and core deposit intangibles
Customer relationship intangibles (CRI) and core deposit intangibles (CDI) are the intangible assets acquired by the Group through business combination. These intangible assets are initially measured at their fair value at the date of acquisition. The fair value of these intangible assets reflects expectations about the probability that the expected future economic benefits embodied in the asset will flow to the Group.

Following initial recognition, customer relationship and core deposit are measured at cost less accumulated amortization and any accumulated impairment losses. Customer relationship related to the commercial loans business is amortized on a straight-line basis over its useful life of 3 years while core deposit is amortized on a straight-line basis over its useful life of 10 years.

Impairment of Nonfinancial Assets
Property and equipment, investment properties, intangible assets and other properties acquired
At each reporting date, the Group assesses whether there is any indication that its property and equipment, investment properties, intangibles and other properties acquired with finite useful lives may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Group makes a formal estimate of recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the CGU to which it belongs.

Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

Investment in subsidiaries
The Parent Company assesses at each reporting date whether there is any indication that its investment in subsidiaries may be impaired. If any impairment indication exists, the Parent Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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

Impairment is determined for goodwill by assessing the recoverable amount of the CGU (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount of the CGU (or group of CGUs) to which goodwill has been allocated (or to the aggregate carrying amount of a group of CGUs to which the goodwill relates but cannot be allocated), an impairment loss is recognized immediately in the statement of income. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods. The Group performs its annual impairment test of goodwill every fourth quarter, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

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

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

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

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

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

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the statement of income on a straight-line basis over the lease term.

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

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Lease payments received are recognized as an income in the statement of income on a straight line basis over the lease term. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Residual Value of Leased Assets and Deposits on Finance Leases
The residual value of leased assets, which approximates the amount of guaranty deposit paid by the lessee at the inception of the lease, is the estimated proceeds from the sale of the leased asset at the end of the lease term. At the end of the lease term, the residual value of the leased asset is generally applied against the guaranty deposit of the lessee when the lessee decides to buy the leased asset.

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

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

Defined benefit costs comprise the following:

a. service cost;
b. net interest on the net defined benefit liability or asset; and
c. remeasurements of net defined benefit liability or asset.

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

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

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

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

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

Employee leave entitlement
Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled wholly before twelve months after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period. For leave entitlements expected to be settled for more than twelve months after the reporting date, the estimated liability is actuarially determined and reported under 'Accrued Taxes, Interest and Other Expenses' in the statement of financial position.

Provisions
Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of assets embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

When discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Contingent Liabilities and Contingent Assets
Contingent liabilities are not recognized in the financial statements but are disclosed unless the possibility of an outflow of assets embodying economic benefits is remote. Contingent assets are not recognized but are disclosed in the financial statements when an inflow of economic benefits is probable.

Income Taxes
Income tax on profit and loss for the year comprises current and deferred tax. Income tax is determined in accordance with tax laws and is recognized in the statement of income, except to the extent that it relates to items directly recognized in OCI.

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

Deferred tax
Deferred tax is provided, using the balance sheet liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, including asset revaluations. Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from the excess of minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT), and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient taxable income will be available against which the deductible temporary differences and carryforward of unused tax credits from MCIT and unused NOLCO can be utilized. Deferred tax, however, is not recognized on temporary differences that arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income.

Deferred tax liabilities are not provided on non-taxable temporary differences associated with investments in domestic subsidiaries and an associate. With respect to investments in foreign subsidiaries and associates, deferred tax liabilities are recognized except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient future taxable income will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are applicable to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current tax and deferred tax relating to items recognized directly in OCI are also recognized in OCI and not in the statement of income.

In the consolidated financial statements, deferred tax assets and liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and deferred taxes related to the same taxable entity and the same taxation authority.

Parent Company Shares Held by a Subsidiary
Own equity instruments which are acquired by subsidiaries (treasury shares) are deducted from equity and accounted for at weighted average cost. No gain or loss is recognized in the consolidated statement of income on the purchase, sale, issue or cancellation of the Parent Company's own equity instruments.

Earnings per Share
Basic earnings per share (EPS) is computed by dividing net income for the period attributable to common shareholders by the weighted average number of common shares outstanding during the period after giving retroactive effect to stock dividends declared and stock rights exercised during the period, if any.

Diluted EPS is calculated by dividing the aggregate of net income attributable to common shareholders by the weighted average number of common shares outstanding during the period adjusted for the effects of any dilutive shares.

Dividends
Dividends on common shares are recognized as a liability and deducted from equity when approved by the respective BOD of the Parent Company and subsidiaries. Dividends for the period that are approved after the reporting date are dealt with as an event after the reporting date.

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

Borrowing Costs
Borrowing costs are recognized as expense in the year in which these costs are incurred. Borrowing costs consist of interest expense calculated using the effective interest method calculated in accordance with PAS 39 that the Group incurs in connection with borrowing of funds.

Events after the Reporting date
Any post-year-end event that provides additional information about the Group's position at the reporting date (adjusting event) is reflected in the financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

Segment Reporting
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. Refer to Note 6 for the detailed disclosure on segment information.

Fiduciary Activities
Assets and income arising from fiduciary activities together with related undertakings to return such assets to customers are excluded from the financial statements where the Parent Company acts in a fiduciary capacity such as nominee, trustee or agent.

Equity
Capital stock is measured at par value for all shares issued and outstanding. When the shares are sold at a premium, the difference between the proceeds and the par value is credited to 'Capital Paid in Excess of Par Value' account. Direct costs incurred related to equity issuance, such as underwriting, accounting and legal fees, printing costs and taxes are chargeable to 'Capital Paid in Excess of Par Value' account. If the 'Capital Paid in Excess of Par Value' is not sufficient, the excess is charged against the 'Surplus'.

'Surplus' represents accumulated earnings (losses) of the Group less dividends declared.

Equity Reserves
The reserves recorded in equity in the statement of financial position include:

'Remeasurement Losses on Retirement Plan' which pertains to remeasurement comprising actuarial losses on the present value of the retirement obligation, net of return on plan assets.

'Accumulated Translation Adjustment' which is used to record exchange differences arising from the translation of the FCDU accounts and foreign operations (i.e. overseas branches and subsidiaries) to Philippine peso.

'Net Unrealized Gain (Loss) on Available-for-Sale Investments' reserve which comprises changes in fair value of AFS investments.

Future Changes in Accounting Policies

The Group will adopt the Standards and Interpretations enumerated below when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have significant impact on its financial statements.

PFRS 9, *Financial Instruments - Classification and Measurement* (2010 version)
PFRS 9 (2010 version) reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through OCI or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

PFRS 9 (2010 version) is effective for annual periods beginning on or after January 1, 2015. This mandatory adoption date was moved to January 1, 2018 when the final version of PFRS 9 was adopted by the Philippine Financial Reporting Standards Council (FRSC). Such adoption, however, is still for approval by the Board of Accountancy (BOA).

Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*
This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The SEC and the FRSC have deferred the effectivity of this interpretation until the final Revenue standard is issued by the IASB and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

Effective 2015
PAS 19, *Employee Benefits - Defined Benefit Plans: Employee Contributions* (Amendments)
PAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after January 1, 2015.

Annual Improvements to PFRSs (2010-2012 cycle)
The Annual Improvements to PFRSs (2010-2012 cycle) are effective for annual periods beginning on or after January 1, 2015 and are not expected to have a material impact on the Group. They include:

PFRS 2, *Share-based Payment - Definition of Vesting Condition*
This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- a performance condition must contain a service condition
- a performance target must be met while the counterparty is rendering service
- a performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
- a performance condition may be a market or non-market condition
- if the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business Combination*
The amendment is applied prospectively for business combinations for which the acquisition date is on or after July 1, 2014. It clarifies that a contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PAS 39. The Group shall consider this amendment for future business combinations.

PFRS 8, *Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgments made by management in applying the aggregation criteria in the standard, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Depreciation and Amortization*
The amendment is applied retrospectively and clarifies in PAS 16 and PAS 38 that the asset may be revalued by reference to the observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset.

PAS 24, *Related Party Disclosures - Key Management Personnel*
The amendment is applied retrospectively and clarifies that a management entity, which is an entity that provides key management personnel services, is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

Annual Improvements to PFRSs (2011-2013 cycle)
The Annual Improvements to PFRSs (2011-2013 cycle) are effective for annual periods beginning on or after January 1, 2015 and are not expected to have a material impact on the Group. They include:

PFRS 3, *Business Combinations - Scope Exceptions for Joint Arrangements*
The amendment is applied prospectively and clarifies the following regarding the scope exceptions within PFRS 3:

- Joint arrangements, not just joint ventures, are outside the scope of PFRS 3.
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

PFRS 13, *Fair Value Measurement - Portfolio Exception*
The amendment is applied prospectively and clarifies that the portfolio exception in PFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of PAS 39.

PAS 40, *Investment Property*
The amendment is applied prospectively and clarifies that PFRS 3, and not the description of ancillary services in PAS 40, is used to determine if the transaction is the purchase of an asset or business combination. The description of ancillary services in PAS 40 only differentiates between investment property and owner-occupied property (i.e., property, plant and equipment).

Effective 2016
PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortization* (Amendments)
The amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

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

are retrospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group as the Group does not have any bearer plants.

PAS 27, *Separate Financial Statements - Equity Method in Separate Financial Statements* (Amendments)
The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of PFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to PFRS. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. The Parent Company is currently assessing the impact of adopting this standard.

PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
These amendments address an acknowledged inconsistency between the requirements in PFRS 10 and those in PAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. These amendments are effective from annual periods beginning on or after January 1, 2016. This amendment is not expected to have any impact to the Group as the Group does not have any investment in associate or joint venture.

PFRS 11, *Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations* (Amendments)
The amendments to PFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. The Group shall consider these amendments for future acquisitions of joint operations.

PFRS 14, *Regulatory Deferral Accounts*
PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and OCI. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. PFRS 14 is effective for annual periods beginning on or after January 1, 2016. Since the Group is an existing PFRS preparer, this standard would not apply.

Annual Improvements to PFRSs (2012-2014 cycle)
The Annual Improvements to PFRSs (2012-2014 cycle) are effective for annual periods beginning on or after January 1, 2016 and are not expected to have a material impact on the Group. They include:

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

PFRS 7, *Financial Instruments: Disclosures - Servicing Contracts*
PFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments.

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

PAS 19, *Employee Benefits - regional market issue regarding discount rate*
This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

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

Effective 2018
PFRS 9, *Financial Instruments* - Hedge Accounting and amendments to PFRS 9, PFRS 7 and PAS 39 (2013 version)
PFRS 9 (2013 version) already includes the third phase of the project to replace PAS 39 which pertains to hedge accounting. This version of PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items but also for nonfinancial items, provided that the risk component is

separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a derivative instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

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

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

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

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

The following new standard issued by the IASB has not yet been adopted by the FRSC:

International Financial Reporting Standards (IFRS) 15, *Revenue from Contracts with Customers*
IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach in measuring and recognizing revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2017 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date once adopted locally.

3. **Significant Accounting Judgments and Estimates**

The preparation of the financial statements in compliance with PFRS requires the Group to make judgments and estimates that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments

(a) Leases

Operating leases

Group as lessor

The Group has entered into commercial property leases on its investment properties and certain motor vehicles and items of machinery.

The Group has determined, based on an evaluation of the terms and conditions of the lease agreements (i.e., the lease does not transfer ownership of the asset to the lessee by the end of the lease term, the lessee has no option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option is exercisable and the lease term is not for the major part of the asset's economic life), that it retains all the significant risks and rewards of ownership of these properties and so accounts for these leases as operating leases.

Group as lessee

The Group has entered into lease on premises it uses for its operations. The Group has determined, based on the evaluation of the terms and conditions of the lease agreement (i.e., the lease does not transfer ownership of the asset to the lessee by the end of the lease term and lease term is not for the major part of the asset's economic life), that the lessor retains all the significant risks and rewards of ownership of these properties.

Finance leases

Group as lessor

The Group, as lessor, has entered into lease arrangements on real estate, various machineries and other types of equipment. The Group has determined that it transfers all the significant risks and rewards of ownership of these properties and so accounts for these leases as finance lease.

(b) Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques that include the use of mathematical models (Note 5). The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives.

(c) Financial assets not quoted in an active market

The Group classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's length basis.

(d) *Embedded derivatives*
Where a hybrid instrument is not classified as financial assets at FVPL, the Group evaluates whether the embedded derivative should be bifurcated and accounted for separately. This includes assessing whether the embedded derivative has a close economic relationship to the host contract.

(e) *Contingencies*
The Group is currently involved in legal proceedings. The estimate of the probable cost for the resolution of claims has been developed in consultation with the aid of the outside legal counsels handling the Group's defense in these matters and is based upon an analysis of potential results. Management does not believe that the outcome of these matters will affect the results of operations. It is probable, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to the proceedings (Note 35).

(f) *Functional currency*
PAS 21 requires management to use its judgment to determine the entity's functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the entity.

In making this judgment, the Group considers the following:

- the currency that mainly influences prices for financial instruments and services (this will often be the currency in which prices for its financial instruments and services are denominated and settled);
- the currency in which funds from financing activities are generated; and
- the currency in which receipts from operating activities are usually retained.

(g) *Product classification*
The Group classified its unit-linked products as insurance contracts due to the significant insurance risk at issue. All of the Group's unit-linked products are classified and treated as insurance contracts.

(h) *Assessment of control over entities for consolidation*
Where the Parent Company does not have majority of the voting interest over an investee, it considers all relevant facts and circumstances in assessing whether it has control over the investee. This may include a contractual arrangement with the other voting shareholders of the investee or rights arising from other contractual arrangements which give power to the Parent Company over the investee to affect its returns.

The Parent Company determined that it controls OHBVI through its combined voting rights of 70.56% which arises from its direct ownership of 27.78% and voting rights of 42.78% assigned by certain stockholders of OHBVI to the Parent Company through a voting trust agreement.

Estimates
(a) *Credit losses on loans and receivables*
The Group reviews its impaired loans and receivables at each reporting date to assess whether additional provision for credit losses should be recorded in the consolidated statement of income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of required allowance.

Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowance against individually significant loans and receivables, the Group also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance takes into consideration any deterioration in the loan or investment rating from the time the account was granted or amended and such other factors as any deterioration in country risk, industry, and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows and underlying property prices, among others.

Refer to Notes 10 and 15 for the carrying values of loans and receivables and receivable from SPVs, respectively.

(b) *Fair values of structured debt instruments and derivatives*
The fair values of structured debt instruments and derivatives that are not quoted in active markets are determined using valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are reviewed before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices.

To the extent practicable, models use only observable data, however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments. Refer to Notes 5 and 23 for information on the fair values of these instruments.

(c) *Recognition of deferred tax assets*
Deferred tax assets are recognized for all unused tax losses and temporary differences to the extent that it is probable that future taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable income together with future tax planning strategies.

The Group and Parent Company's estimates of future taxable income indicate that certain temporary differences will be realized in the future. The amounts of recognized and unrecognized deferred tax assets are disclosed in Note 31.

(d) *Fair valuation in business combination*
The Group determines the acquisition-date fair values of identifiable assets acquired and liabilities assumed from the acquiree without quoted market price based on the following:

- for assets and liabilities that are short term in nature, carrying values approximate fair values
- for financial assets and liabilities that are long term in nature, fair values are estimated through the discounted cash flow methodology, using the appropriate market rates (e.g., current lending rates)
- for nonfinancial assets such as property and equipment and investment properties, fair values are determined based on appraisal valuation which follows sales comparison approach and depreciated replacement cost approach

- for deferred tax assets and liabilities, fair values are based on the tax benefit arising from future taxable income from the enlarged operations of the Parent Company

Refer to Note 37 for the details of the fair values of the identifiable assets and liabilities assumed from business combination.

(e) *Present value of retirement obligation*
The cost of defined benefit pension plan and other post-employment benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

The present value of retirement obligation and fair value of plan assets are disclosed in Note 29.

(f) *Impairment of nonfinancial assets - property and equipment, investment in subsidiaries and an associate, investment properties, other properties acquired and intangibles*
The Parent Company assesses impairment on its investments in subsidiaries and an associate whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Among others, the factors that the Parent Company considers important which could trigger an impairment review on its investments in subsidiaries and associate include the following:

- deteriorating or poor financial condition;
- recurring net losses; and
- significant changes on the technological, market, economic, or legal environment which had an adverse effect on the subsidiary or associate during the period or in the near future, in which the subsidiary or associate operates.

The Group also assesses impairment on its nonfinancial assets (e.g., investment properties, property and equipment, other acquired properties and intangibles) and considers the following impairment indicators:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. Except for investment properties and land and building where recoverable amount is determined based on fair value less cost to sell, the recoverable amount of all other nonfinancial assets is determined based on the asset's value in use computation which considers the present value of estimated future cash flows expected to be generated from the continued use of the asset or group of assets. The Group is required to make estimates and assumptions that can materially affect the carrying amount of the asset or group of assets being assessed.

The carrying values of the Group's investments in subsidiaries and an associate and other nonfinancial assets are disclosed in Notes 11, 12, 13, 14 and 15.

(g) *Impairment of goodwill*
The Group conducts an annual review for any impairment in the value of goodwill. Goodwill is written down for impairment where the net present value of the forecasted future cash flows from the business is insufficient to support their carrying value. The Group estimates the discount rate used for the computation of the net present value by reference to industry cost of capital. Future cash flows from the business are estimated based on the theoretical annual income of the relevant CGUs. Average growth rate is derived from the long-term Philippine growth rate. The recoverable amount of the CGU is determined based on a value-in-use calculation using cash flow projections from financial budgets approved by senior management covering a three-year period. Key assumptions in value-in-use calculation of CGUs are most sensitive to discount rates and growth rates used to project cash flows.

The carrying values of the Group’s goodwill and key assumptions used in determining value-in-use are disclosed in Notes 14 and 37.

(h) *Aggregate reserves for life insurance*
In determining the aggregate reserves for life policies estimates are made as to the expected number of deaths, illness or injury for each of the years in which PNB LII is exposed to risk. These estimates are based on standard mortality and morbidity tables as required by the Insurance Code (the Code). The estimated number of deaths, illness or injury determines the value of possible future benefits to be paid out, which will be factored into ensuring sufficient cover by reserves, which in return is monitored against current and future premiums. Estimates are also made as to future investment income arising from the assets backing life insurance contracts. These estimates are based on current market returns, as well as expectations about future economic and financial developments.

In accordance with the provision of the Code, estimates for future deaths, illness or injury and investment returns are determined at the inception of the contract and are used to calculate the liability over the term of the contract. The interest rate used to discount future liabilities does not exceed 6.00% as required by the Code. Likewise, no lapse, surrender and expense assumptions are factored in the computation of the liability.

The carrying value of aggregate reserves for life policies is included in the ‘Insurance contract liabilities’ disclosed in Note 22.

(i) *Valuation of insurance contracts*
Estimates have to be made both for the expected ultimate cost of claims reported and for the expected ultimate cost of IBNR at the reporting date. It can take a significant period of time before the ultimate claim costs can be established with certainty.

Nonlife insurance contract liabilities are not discounted for the time value of money.
The main assumption underlying the estimation of the claims provision is that a company’s past claims development experience can be used to project future claims development and hence ultimate claims costs. Historical claims development is mainly analyzed by accident years as well as by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development.

The carrying values of total provisions for claims reported and claims IBNR are included in the ‘Insurance contract liabilities’ disclosed in Note 22.

(j) *Estimated useful lives of property and equipment, investment properties, intangibles and chattel mortgage properties*
The Group estimates the useful lives of its property and equipment, investment properties, intangibles and chattel mortgage properties.

This estimate is reviewed periodically to ensure that the period of depreciation and amortization are consistent with the expected pattern of economic benefits from the items of property and equipment, investment properties, intangibles and chattel mortgage properties.

Refer to Note 2 for the estimated useful lives of property and equipment, investment properties, intangibles and chattel mortgage properties.

Refer to Notes 11, 13, 14 and 15 for the carrying values of property and equipment, investment properties, intangibles and chattel mortgage properties, respectively.

4. Financial Risk Management Objectives and Policies

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

The Group defines material risks (at group level) as those risks from any business activity large enough to threaten the Parent Company's capital position to drop below its desired level; resulting in either a ₱13.5 billion increase in risk weighted assets or a ₱2.0 billion reduction in earnings and/or qualifying capital which translate into a reduction in CAR by 50 bps.

Resulting from the assessments based on the premise identified above, the Parent Company agreed on the following thirteen (13) material risks, which are grouped under Pillar 1 and Pillar 2 risks, and shall be covered in the ICAAP document and required for monitoring.

Pillar 1 Risks:
1. Credit risk (includes counterparty and country risks)
2. Market risk
3. Operational risk

Pillar 2 Risks:
4. Credit concentration risk
5. Interest rate risk in banking book (IRRBB)
6. Liquidity risk
7. Reputational/customer franchise risk
8. Strategic business risk
9. Information technology risk (includes information security risk)
10. New regulations risk
11. Litigations risk
12. Process management risk
13. Natural events risk

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

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

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

<u>Credit Risk</u>
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 Group manages its credit risk at various levels (i.e., strategic level, portfolio level down to individual transaction).

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

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

The Group follows the BOD approved policy on the standard classification of loans based on the type of borrowers and the purpose of the loan.

Credit-related commitments
The exposures represent guarantees, standby letters of credit (LCs) issued by the Parent Company and documentary/commercial LCs which are written undertakings by the Parent Company.

To mitigate this risk the Parent Company 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 statement of financial position.

Unit-linked financial assets
The Group 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 Group 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 Group follows guidelines on the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

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

The disposal of the foreclosed properties is handled by the Asset Management Sector which adheres to the general policy of disposing assets at the highest possible market value. Management regularly monitors the market value of the collateral and requests additional collateral in accordance with the underlying agreement. The existing market value of the collateral is considered during the review of the adequacy of the allowance for credit losses. Generally, collateral is not held over loans and advances to banks except for reverse repurchase agreements. The Group is not permitted to sell or repledge the collateral held over loans and advances to counterparty banks and BSP in the absence of default by the owner of the collateral.

Maximum exposure to credit risk after collateral held or other credit enhancements
An analysis of the maximum exposure to credit risk after taking into account any collateral held or other credit enhancements for the Group and the Parent Company is shown below:

	Consolidated			
	2014			
	Gross Maximum Exposure	**Fair Value of Collateral**	**Net Exposure**	**Financial Effect of Collateral**
Loans and receivables:				
Receivables from customers*:				
Business loans				
Fully Secured	**₱45,941,480**	**₱142,034,872**	**₱–**	**₱45,941,480**
Partially Secured	**29,917,987**	**10,935,359**	**18,982,628**	**10,935,359**
Unsecured	**161,572,827**	**–**	**161,572,827**	**–**
	237,432,294	**152,970,231**	**180,555,455**	**56,876,839**
Consumers				
Fully Secured	**14,226,938**	**38,235,981**	**–**	**14,226,938**
Partially Secured	**5,295,459**	**2,222,707**	**3,072,752**	**2,222,707**
Unsecured	**9,719,100**	**–**	**9,719,100**	**–**
	29,241,497	**40,458,688**	**12,791,852**	**16,449,645**
GOCCs and National Government Agencies (NGAs)				
Fully Secured	**99,817**	**108,119**	**–**	**99,817**
Partially Secured	**3,076,563**	**114,750**	**2,961,813**	**114,750**
Unsecured	**17,074,926**	**–**	**17,074,926**	**–**
	20,251,306	**222,869**	**20,036,739**	**214,567**
LGUs				
Fully Secured	**263,445**	**674,728**	**–**	**263,445**
Partially Secured	**917,823**	**383,781**	**534,042**	**383,781**
Unsecured	**7,152,880**	**–**	**7,152,880**	**–**
	8,334,148	**1,058,509**	**7,686,922**	**647,226**
Fringe benefits				
Fully Secured	**306,374**	**876,681**	**–**	**306,374**
Partially Secured	**65,158**	**45,724**	**19,434**	**45,724**
Unsecured	**178,260**	**–**	**178,260**	**–**
	549,792	**922,405**	**197,694**	**352,098**
Unquoted debt securities:				
Fully Secured	**3,727,599**	**3,727,599**	**–**	**3,727,599**
Unsecured	**697,406**	**–**	**697,406**	**–**
	4,425,005	**3,727,599**	**697,406**	**3,727,599**
Other receivables:				
Fully Secured	**132,027**	**418,752**	**–**	**132,027**
Partially Secured	**4,223,664**	**3,124,673**	**1,098,991**	**3,124,673**
Unsecured	**11,100,256**	**–**	**11,100,256**	**–**
	15,455,947	**3,543,425**	**12,199,247**	**3,256,700**
	₱315,689,989	**₱202,903,726**	**₱234,165,315**	**₱81,524,674**

**Receivables from customers exclude residual value of the leased asset (Note 10).*

	Consolidated			
	2013			
	Gross Maximum Exposure	Fair Value of Collateral	Net Exposure	Financial Effect of Collateral
Loans and receivables:				
Receivables from customers*:				
Business loans				
Fully Secured	₱43,499,547	₱105,514,325	₱–	₱43,499,547
Partially Secured	19,411,725	7,195,963	12,215,762	7,195,963
Unsecured	124,243,974	–	124,243,974	–
	187,155,246	112,710,288	136,459,736	50,695,510
Consumers				
Fully Secured	17,235,038	25,969,907	–	17,235,038
Partially Secured	2,387,834	740,080	1,647,754	740,080
Unsecured	6,294,688	–	6,294,688	–
	25,917,560	26,709,987	7,942,442	17,975,118
GOCCs and NGAs				
Fully Secured	1,139	7,313	–	1,139
Unsecured	25,707,993	–	25,707,993	–
	25,709,132	7,313	25,707,993	1,139
LGUs				
Fully Secured	411,851	781,338	–	411,851
Partially Secured	976,322	427,045	549,277	427,045
Unsecured	7,122,447	–	7,122,447	–
	8,510,620	1,208,383	7,671,724	838,896
Fringe benefits				
Fully Secured	368,830	954,851	–	368,830
Partially Secured	76,459	51,664	24,795	51,664
Unsecured	140,259	–	140,259	–
	585,548	1,006,515	165,054	420,494
Unquoted debt securities:				
Fully Secured	6,800,775	6,800,775	–	6,800,775
Unsecured	494,756	–	494,756	–
	7,295,531	6,800,775	494,756	6,800,775
Other receivables:				
Fully Secured	7,564	11,870	–	7,564
Partially Secured	4,266,072	2,526,491	1,739,581	2,526,491
Unsecured	14,424,039	–	14,424,039	–
	18,697,675	2,538,361	16,163,620	2,534,055
	₱273,871,312	₱150,981,622	₱194,605,325	₱79,265,987

**Receivables from customers exclude residual value of the leased asset (Note 10).*

	Parent Company			
	2014			
	Gross Maximum Exposure	Fair Value of Collateral	Net Exposure	Financial Effect of Collateral
Loans and receivables:				
Receivables from customers:				
Business loans				
Fully Secured	₱33,944,174	₱120,468,607	₱–	₱33,944,174
Partially Secured	29,784,049	10,839,496	18,944,553	10,839,496
Unsecured	162,651,145	–	162,651,145	–
	226,379,368	131,308,103	181,595,698	44,783,670
Consumers				
Fully Secured	12,499,585	33,846,367	–	12,499,585
Partially Secured	780,649	399,484	381,165	399,484
Unsecured	6,707,708	–	6,707,708	–
	19,987,942	34,245,851	7,088,873	12,899,069
GOCCs and NGAs				
Fully Secured	99,817	108,119	–	99,817
Partially Secured	3,076,563	114,750	2,961,813	114,750
Unsecured	17,074,926	–	17,074,926	–
	20,251,306	222,869	20,036,739	214,567
LGUs				
Fully Secured	263,445	674,728	–	263,445
Partially Secured	917,823	383,781	534,042	383,781
Unsecured	7,152,880	–	7,152,880	–
	8,334,148	1,058,509	7,686,922	647,226
Fringe benefits				
Fully Secured	306,374	876,681	–	306,374
Partially Secured	54,479	36,265	18,214	36,265
Unsecured	175,435	–	175,435	–
	536,288	912,946	193,649	342,639
Unquoted debt securities:				
Fully Secured	3,727,599	3,727,599	–	3,727,599
Unsecured	397,406	–	397,406	–
	4,125,005	3,727,599	397,406	3,727,599
Other receivables:				
Partially Secured	4,168,905	3,069,914	1,098,991	3,069,914
Unsecured	5,238,432	–	5,238,432	–
	9,407,337	3,069,914	6,337,423	3,069,914
	₱289,021,394	₱174,545,791	₱223,336,710	₱65,684,684

	Parent Company			
	2013			
	Gross Maximum Exposure	Fair Value of Collateral	Net Exposure	Financial Effect of Collateral
Loans and receivables:				
Receivables from customers:				
Business loans				
Fully Secured	₱34,823,869	₱90,931,701	₱–	₱34,823,869
Partially Secured	18,921,111	6,895,392	12,025,719	6,895,392
Unsecured	123,805,519	–	123,805,519	–
	177,550,499	97,827,093	135,831,238	41,719,261
Consumers				
Fully Secured	15,108,890	21,660,526	–	15,108,890
Partially Secured	2,387,834	740,080	1,647,754	740,080
Unsecured	6,249,552	–	6,249,552	–
	23,746,276	22,400,606	7,897,306	15,848,970
GOCCs and NGAs				
Fully Secured	1,139	7,313	–	1,139
Unsecured	25,707,993	–	25,707,993	–
	25,709,132	7,313	25,707,993	1,139
LGUs				
Fully Secured	411,851	781,338	–	411,851
Partially Secured	976,322	427,045	549,277	427,045
Unsecured	7,122,447	–	7,122,447	–
	8,510,620	1,208,383	7,671,724	838,896
Fringe benefits				
Fully Secured	368,830	954,851	–	368,830
Partially Secured	76,459	51,664	24,795	51,664
Unsecured	126,085	–	126,085	–
	571,374	1,006,515	150,880	420,494
Unquoted debt securities:				
Partially Secured	6,800,775	6,800,775	–	6,800,775
Unsecured	112,134	–	112,134	–
	6,912,909	6,800,775	112,134	6,800,775
Other receivables:				
Fully Secured	–	–	–	–
Partially Secured	4,266,072	2,526,491	1,739,581	2,526,491
Unsecured	8,168,648	–	8,168,648	–
	12,434,720	2,526,491	9,908,229	2,526,491
	₱255,435,530	₱131,777,176	₱187,279,504	₱68,156,026

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

Excessive risk concentration
Credit risk concentrations can arise whenever a significant number of borrowers have similar characteristics. The Parent Company 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 Parent Company 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 Parent Company sets an internal limit for group exposures which is equivalent to 100.00% of the single borrower's limit (SBL) for loan accounts with credit risk rating (CRR) 1 to CRR 5 or 50.00% of SBL if rated below CRR 5.

For trading and investment securities, the Group limits investments to government issues and securities issued by entities with high-quality investment ratings.

b. Geographic Concentration
The table below shows the credit risk exposures, before taking into account any collateral held or other credit enhancements, categorized by geographic location:

	Consolidated			
	2014			
	Loans and receivables*	**Trading and investment securities**	**Other financial assets****	**Total**
Philippines	**₱312,989,391**	**₱94,532,543**	**₱107,535,776**	**₱515,057,710**
Asia (excluding the Philippines)	**1,966,468**	**4,624,097**	**12,848,832**	**19,439,397**
USA and Canada	**668,259**	**1,087,170**	**5,920,686**	**7,676,115**
Other European Union Countries	**–**	**2,619,545**	**1,836,912**	**4,456,457**
United Kingdom	**9,531**	**550,074**	**1,921,417**	**2,481,022**
Middle East	**56,340**	**–**	**17,857**	**74,197**
	₱315,689,989	**₱103,413,429**	**₱130,081,480**	**₱549,184,898**

** Loans and receivables exclude residual value of the leased asset (Note 10).*
*** Other financial assets include the following financial assets: 'Due from BSP', 'Due from other banks', 'Interbank loans receivable', 'Securities held under agreements to resell', 'Security deposits', Return checks and other cash items', 'Revolving fund and petty cash fund', 'Receivable from SPV' and 'Miscellaneous COCI'.*

	Consolidated			
	2013			
	Loans and receivables*	Trading and investment securities	Other financial assets**	Total
Philippines	₱266,286,268	₱83,052,661	₱160,506,228	₱509,845,157
Asia (excluding the Philippines)	7,052,789	3,651,120	10,789,699	21,493,608
USA and Canada	516,758	932,638	2,485,430	3,934,826
Other European Union Countries	–	4,377,078	1,450,518	5,827,596
United Kingdom	15,270	–	1,244,605	1,259,875
Middle East	227	–	247,972	248,199
	₱273,871,312	₱92,013,497	₱176,724,452	₱542,609,261

** Loans and receivables exclude residual value of the leased asset (Note 10).*
*** Other financial assets include the following financial assets: 'Due from BSP', 'Due from other banks', 'Interbank loans receivable', 'Securities held under agreements to resell', 'Security deposits', Return checks and other cash items', 'Revolving fund and petty cash fund', 'Receivable from SPV' and 'Miscellaneous COCI'.*

	Parent Company			
	2014			
	Loans and receivables	**Trading and investment securities**	**Other financial assets***	**Total**
Philippines	**₱288,201,556**	**₱74,794,208**	**₱99,066,079**	**₱462,061,843**
Asia (excluding the Philippines)	**218,189**	**4,623,475**	**3,878,634**	**8,720,298**
USA and Canada	**545,309**	**1,087,170**	**3,953,016**	**5,585,495**
Other European Union Countries	–	**2,619,545**	**1,804,225**	**4,423,770**
United Kingdom	–	**542,771**	**409,227**	**951,998**
Middle East	**56,340**	–	**17,856**	**74,196**
	₱289,021,394	**₱83,667,169**	**₱109,129,037**	**₱481,817,600**

* *Other financial assets include the following financial assets: 'Due from BSP', 'Due from other banks', 'Interbank loans receivable', 'Securities held under agreements to resell', 'Security deposits', Return checks and other cash items', 'Revolving fund and petty cash fund', 'Receivable from SPV' and 'Miscellaneous COCI'.*

	Parent Company			
	2013			
	Loans and receivables	Trading and investment securities	Other financial assets*	Total
Philippines	₱254,949,662	₱68,027,162	₱152,858,259	₱475,835,083
Asia (excluding the Philippines)	135,410	3,517,502	3,810,775	7,463,687
USA and Canada	350,231	620,040	2,399,015	3,369,286
Other European Union Countries	–	4,377,078	1,406,217	5,783,295
United Kingdom	–	–	149,735	149,735
Middle East	227	–	247,972	248,199
	₱255,435,530	₱76,541,782	₱160,871,973	₱492,849,285

* *Other financial assets include the following financial assets: 'Due from BSP', 'Due from other banks', 'Interbank loans receivable', 'Securities held under agreements to resell', 'Security deposits', Return checks and other cash items', 'Revolving fund and petty cash fund', 'Receivable from SPV' and 'Miscellaneous COCI'.*

c. Concentration by Industry
The tables below show the industry sector analysis of the Group's and Parent Company's financial assets at amounts before taking into account the fair value of the loan collateral held or other credit enhancements.

	Consolidated			
	2014			
	Loans and receivables*	**Trading and investment securities**	**Other financial assets*****	**Total**
Primary target industry:				
Financial intermediaries	**₱38,125,004**	**₱6,167,566**	**₱23,262,843**	**₱67,555,413**
Electricity, gas and water	**43,518,849**	**3,147,109**	–	**46,665,958**
Wholesale and retail	**43,900,100**	–	–	**43,900,100**
Manufacturing	**39,526,216**	**197,113**	–	**39,723,329**
Public administration and defense	**23,424,634**	–	–	**23,424,634**
Transport, storage and communication	**19,273,964**	–	–	**19,273,964**
Agriculture, hunting and forestry	**6,061,813**	–	–	**6,061,813**

(Forward)

	Consolidated			
	2014			
	Loans and receivables*	**Trading and investment securities**	**Other financial assets*****	**Total**
Secondary target industry:				
Government	**₱4,904,316**	**₱66,196,124**	**₱105,773,685**	**₱176,874,125**
Real estate, renting and business activities	**39,119,461**	**7,813,496**	**–**	**46,932,957**
Construction	**8,503,212**	**–**	**–**	**8,503,212**
Others**	**49,332,420**	**19,892,021**	**1,044,952**	**70,269,393**
	₱315,689,989	**₱103,413,429**	**₱130,081,480**	**₱549,184,898**

* *Loans and receivables exclude residual value of the leased asset (Note 10).*
** *Others include the following sectors - Other community, social and personal services, private household, hotel and restaurant, education, mining and quarrying, and health and social work.*
*** *Other financial assets include the following financial assets: 'Due from BSP', 'Due from other banks', 'Interbank loans receivable', 'Securities held under agreements to resell', 'Security deposits', Return checks and other cash items', 'Revolving fund and petty cash fund', 'Receivable from SPV' and 'Miscellaneous COCI'.*

	Consolidated			
	2013			
	Loans and receivables*	Trading and investment securities	Other financial assets***	Total
Primary target industry:				
Financial intermediaries	₱21,966,522	₱14,753,869	₱23,286,791	₱60,007,182
Electricity, gas and water	38,863,691	1,542,333	–	40,406,024
Wholesale and retail	42,697,115	–	–	42,697,115
Manufacturing	30,920,301	585,297	–	31,505,598
Public administration and defense	24,309,041	–	–	24,309,041
Transport, storage and communication	17,656,569	–	–	17,656,569
Agriculture, hunting and forestry	3,821,885	–	–	3,821,885
Secondary target industry:				
Government	7,918,042	60,858,662	153,169,330	221,946,034
Real estate, renting and business activities	35,717,259	5,184,884	–	40,902,143
Construction	6,931,473	–	–	6,931,473
Others**	43,069,414	9,088,452	268,331	52,426,197
	₱273,871,312	₱92,013,497	₱176,724,452	₱542,609,261

* *Loans and receivables exclude residual value of the leased asset (Note 10).*
** *Others include the following sectors - Other community, social and personal services, private household, hotel and restaurant, education, mining and quarrying, and health and social work.*
*** *Other financial assets include the following financial assets: 'Due from BSP', 'Due from other banks', 'Interbank loans receivable', 'Securities held under agreements to resell', 'Security deposits', Return checks and other cash items', 'Revolving fund and petty cash fund', 'Receivable from SPV' and 'Miscellaneous COCI'.*

	Parent Company			
	2014			
	Loans and receivables	**Trading and investment securities**	**Other financial assets****	**Total**
Primary target industry:				
Financial intermediaries	**₱39,724,106**	**₱5,168,555**	**₱12,684,794**	**₱57,577,455**
Electricity, gas and water	**43,503,088**	**2,272,092**	**–**	**45,775,180**
Wholesale and retail	**40,653,462**	**–**	**–**	**40,653,462**
Manufacturing	**36,055,675**	**23,573**	**–**	**36,079,248**
Public administration and defense	**23,424,634**	**–**	**–**	**23,424,634**
Transport, storage and communication	**17,592,017**	**–**	**–**	**17,592,017**
Agriculture, hunting and forestry	**5,756,854**	**–**	**–**	**5,756,854**

(Forward)

	Parent Company			
	2014			
	Loans and receivables	**Trading and investment securities**	**Other financial assets****	**Total**
Secondary target industry:				
Government	**₱4,505,316**	**₱62,241,630**	**₱95,415,467**	**₱162,162,413**
Real estate, renting and business activities	**31,604,945**	**7,323,927**	**–**	**38,928,872**
Construction	**7,264,299**	**–**	**–**	**7,264,299**
Others*	**38,936,998**	**6,637,392**	**1,028,776**	**46,603,166**
	₱289,021,394	**₱83,667,169**	**₱109,129,037**	**₱481,817,600**

* *Others include the following sectors - Other community, social and personal services, private household, hotel and restaurant, education, mining and quarrying, and health and social work.*

** *Other financial assets include the following financial assets: 'Due from BSP', 'Due from other banks', 'Interbank loans receivable', 'Securities held under agreements to resell', 'Security deposits', Return checks and other cash items', 'Revolving fund and petty cash fund', 'Receivable from SPV' and 'Miscellaneous COCI'.*

	Parent Company			
	2013			
	Loans and receivables	Trading and investment securities	Other financial assets**	Total
Primary target industry:				
Financial intermediaries	₱21,847,885	₱6,232,655	₱14,551,384	₱42,631,924
Electricity, gas and water	38,816,543	1,030,480	–	39,847,023
Wholesale and retail	40,692,819	–	–	40,692,819
Manufacturing	27,873,373	140,684	–	28,014,057
Public administration and defense	23,953,321	–	–	23,953,321
Transport, storage and communication	16,642,170	–	–	16,642,170
Agriculture, hunting and forestry	3,729,402	–	–	3,729,402
Secondary target industry:				
Government	7,569,042	58,331,613	146,079,249	211,979,904
Real estate, renting and business activities	31,768,214	4,696,535	–	36,464,749
Construction	6,405,132	–	–	6,405,132
Others*	36,137,629	6,109,815	242,340	42,489,784
	₱255,435,530	₱76,541,782	₱160,872,973	₱492,850,285

* *Others include the following sectors - Other community, social and personal services, private household, hotel and restaurant, education, mining and quarrying, and health and social work.*

** *Other financial assets include the following financial assets: 'Due from BSP', 'Due from other banks', 'Interbank loans receivable', 'Securities held under agreements to resell', 'Security deposits', Return checks and other cash items', 'Revolving fund and petty cash fund', 'Receivable from SPV' and 'Miscellaneous COCI'.*

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

Credit quality per class of financial assets

The credit quality of financial assets is assessed and managed using external and internal ratings. For receivables 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.

Loans and Receivables
The CRRs of the Parent Company'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.

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

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

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

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

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

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

CRR 12 - Substandard
These are loans or portions thereof which appear to involve a substantial and unreasonable degree of risk to the Parent Company 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 Parent Company is using the Credit Scoring for evaluating borrowers with assets size below ₱15.0 million. Credit scoring details the financial capability of the borrower to pay for any future obligation.

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

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

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

The table below shows the Group's and Parent Company's receivables from customers, gross of allowance for credit losses and unearned and other deferred income, for each CRR as of December 31, 2014 and 2013, but net of residual values of leased assets.

	Consolidated			
	2014			
	Neither Past Due nor Individually Impaired	**Past Due and not Individually Impaired**	**Individually Impaired**	**Total**
Rated Receivables from Customers				
1 - Excellent	**₱3,657,571**	**₱–**	**₱–**	**₱3,657,571**
2 - Super Prime	**54,762,488**	**–**	**–**	**54,762,488**
3 - Prime	**44,606,966**	**2,888**	**–**	**44,609,854**
4 - Very Good	**12,837,284**	**–**	**–**	**12,837,284**
5 - Good	**28,228,002**	**282,709**	**–**	**28,510,711**
6 - Satisfactory	**42,311,285**	**188,422**	**92,201**	**42,591,908**
7 - Average	**24,743,740**	**182,178**	**128,080**	**25,053,998**
8 - Fair	**22,581,434**	**386,413**	**67,536**	**23,035,383**
9 - Marginal	**5,355,396**	**271,591**	**63,989**	**5,690,976**
10 - Watchlist	**10,361,643**	**98,829**	**9,559**	**10,470,031**
11 - Special Mention	**1,870,378**	**166,999**	**40,044**	**2,077,421**
12 - Substandard	**1,180,265**	**138,332**	**1,984,779**	**3,303,376**
13 - Doubtful	**–**	**216,519**	**1,289,539**	**1,506,058**
14 - Loss	**–**	**353,195**	**2,317,632**	**2,670,827**
	252,496,452	**2,288,075**	**5,993,359**	**260,777,886**
Unrated Receivables from Customers				
Consumers	**18,324,466**	**624,891**	**161,926**	**19,111,283**
Business Loans	**10,193,630**	**621,987**	**1,070,600**	**11,886,217**
LGUs	**8,142,342**	**168,926**	**78,855**	**8,390,123**
GOCCs and NGAs	**352,113**	**1,556**	**1,796,447**	**2,150,116**
Fringe Benefits	**532,407**	**10,832**	**23,917**	**567,156**
	37,544,958	**1,428,192**	**3,131,745**	**42,104,895**
	₱290,041,410	**₱3,716,267**	**₱9,125,104**	**₱302,882,781**

	Consolidated			
	2013			
	Neither Past Due nor Individually Impaired	Past Due and not Individually Impaired	Individually Impaired	Total
Rated Receivables from Customers				
1 - Excellent	₱2,631,979	₱–	₱–	₱2,631,979
2 - Super Prime	57,313,791	–	–	57,313,791
3 - Prime	33,357,538	–	13,737	33,371,275
4 - Very Good	4,364,430	–	38,360	4,402,790
5 - Good	19,464,368	4,927	1,601	19,470,896
6 - Satisfactory	24,369,358	69,158	69,999	24,508,515
7 - Average	29,620,870	78,085	135,311	29,834,266
8 - Fair	8,772,290	3,227	19,776	8,795,293
9 - Marginal	3,830,620	5,588	2,528	3,838,736
10 - Watchlist	12,906,920	15,517	1	12,922,438
11 - Special Mention	2,662,355	287,193	42,948	2,992,496
12 - Substandard	1,398,103	1,017,485	366,370	2,781,958
13 - Doubtful	5,252	42,718	1,416,375	1,464,345
14 - Loss	7	255,123	1,902,221	2,157,351
	200,697,881	1,779,021	4,009,227	206,486,129

(Forward)

	Consolidated			
	2013			
	Neither Past Due nor Individually Impaired	Past Due and not Individually Impaired	Individually Impaired	Total
Unrated Receivables from Customers				
Consumers	₱20,484,872	₱600,867	₱195,408	₱21,281,147
Business Loans	12,396,490	403,756	3,120,331	15,920,577
LGUs	7,925,210	443,884	217,117	8,586,211
GOCCs and NGAs	456,981	–	1,556	458,537
Fringe Benefits	573,125	8,246	17,510	598,881
	41,836,678	1,456,753	3,551,922	46,845,353
	₱242,534,559	₱3,235,774	₱7,561,149	₱253,331,482

	Parent Company			
	2014			
	Neither Past Due nor Individually Impaired	**Past Due and not Individually Impaired**	**Individually Impaired**	**Total**
Rated Receivables from Customers				
1 - Excellent	**₱3,657,571**	**₱–**	**₱–**	**₱3,657,571**
2 - Super Prime	**54,762,488**	**–**	**–**	**54,762,488**
3 - Prime	**44,523,797**	**2,437**	**–**	**44,526,234**
4 - Very Good	**12,827,900**	**–**	**–**	**12,827,900**
5 - Good	**28,170,284**	**279,126**	**–**	**28,449,410**
6 - Satisfactory	**28,099,674**	**150,445**	**11,330**	**28,261,449**
7 - Average	**19,915,688**	**182,178**	**128,080**	**20,225,946**
8 - Fair	**22,548,588**	**386,413**	**67,536**	**23,002,537**
9 - Marginal	**5,350,251**	**271,591**	**63,989**	**5,685,831**
10 - Watchlist	**10,190,059**	**48,419**	**–**	**10,238,478**
11 - Special Mention	**1,817,785**	**5,724**	**–**	**1,823,509**
12 - Substandard	**1,174,276**	**132,955**	**1,693,608**	**3,000,839**
13 - Doubtful	**–**	**177,857**	**1,260,247**	**1,438,104**
14 - Loss	**–**	**254,969**	**2,267,131**	**2,522,100**
	233,038,361	**1,892,114**	**5,491,921**	**240,422,396**
Unrated Receivables from Customers				
Consumers	**18,238,794**	**619,493**	**148,461**	**19,006,748**
Business Loans	**9,640,046**	**621,988**	**1,070,600**	**11,332,634**
LGUs	**8,142,342**	**168,926**	**78,855**	**8,390,123**
GOCCs and NGAs	**352,113**	**1,556**	**1,796,447**	**2,150,116**
Fringe Benefits	**518,899**	**10,832**	**23,917**	**553,648**
	36,892,194	**1,422,795**	**3,118,280**	**41,433,269**
	₱269,930,555	**₱3,314,909**	**₱8,610,201**	**₱281,855,665**

	Parent Company			
	2013			
	Neither Past Due nor Individually Impaired	Past Due and not Individually Impaired	Individually Impaired	Total
Rated Receivables from Customers				
1 - Excellent	₱2,631,979	₱–	₱–	₱2,631,979
2 - Super Prime	57,313,791	–	–	57,313,791
3 - Prime	33,292,385	–	–	33,292,385
4 - Very Good	4,334,693	–	–	4,334,693
5 - Good	19,447,302	4,927	–	19,452,229
6 - Satisfactory	18,093,688	69,158	–	18,162,846
7 - Average	26,244,492	78,085	133,325	26,455,902

(Forward)

	Parent Company			
	2013			
	Neither Past Due nor Individually Impaired	Past Due and not Individually Impaired	Individually Impaired	Total
8 - Fair	₱8,756,456	₱3,227	₱19,775	₱8,779,458
9 - Marginal	3,827,110	5,588	–	3,832,698
10 - Watchlist	12,814,537	15,517	–	12,830,054
11 - Special Mention	2,662,314	287,193	42,726	2,992,233
12 - Substandard	1,397,885	901,642	349,756	2,649,283
13 - Doubtful	5,252	42,718	1,416,375	1,464,345
14 - Loss	7	209,944	1,865,126	2,075,077
	190,821,891	1,617,999	3,827,083	196,266,973
Unrated Receivables from Customers				
Consumers	20,390,741	597,118	179,994	21,167,853
Business Loans	10,443,505	403,756	3,120,331	13,967,592
LGUs	7,925,210	443,884	217,117	8,586,211
GOCCs and NGAs	456,981	–	1,556	458,537
Fringe Benefits	558,948	8,246	17,510	584,704
	39,775,385	1,453,004	3,536,508	44,764,897
	₱230,597,276	₱3,071,003	₱7,363,591	₱241,031,870

Under PFRS 7, a financial asset is past due when a counterparty has failed to make a payment when contractually due. The tables below show the aging analysis of past due but not individually impaired loans receivables per class.

	Consolidated				
	2014				
	Less than 30 days	**31 to 90 days**	**91 to 180 days**	**More than 180 days**	**Total**
Business loans	**₱1,564,077**	**₱158,535**	**₱281,636**	**₱844,243**	**₱2,848,491**
Consumers	**130,273**	**73,320**	**103,572**	**376,181**	**683,346**
LGUs	**61,776**	**–**	**–**	**110,266**	**172,042**
GOCCs and NGAs	**–**	**–**	**–**	**1,556**	**1,556**
Fringe benefits	**122**	**1,176**	**902**	**8,632**	**10,832**
	₱1,756,248	**₱233,031**	**₱386,110**	**₱1,340,878**	**₱3,716,267**

	Consolidated				
	2013				
	Less than 30 days	31 to 90 days	91 to 180 days	More than 180 days	Total
Business loans	₱157,220	₱129,079	₱1,375,119	₱370,334	₱2,031,752
Consumers	148,684	145,970	307,492	149,746	751,892
LGUs	341,257	68,859	–	33,768	443,884
Fringe benefits	751	675	575	6,245	8,246
	₱647,912	₱344,583	₱1,683,186	₱560,093	₱3,235,774

	Parent Company				
	2014				
	Less than 30 days	**31 to 90 days**	**91 to 180 days**	**More than 180 days**	**Total**
Business loans	**₱1,546,858**	**₱59,113**	**₱75,730**	**₱814,934**	**₱2,496,635**
Consumers	**86,158**	**73,320**	**102,400**	**371,966**	**633,844**
LGUs	**61,776**	**–**	**–**	**110,266**	**172,042**
GOCCs and NGAs	**–**	**–**	**–**	**1,556**	**1,556**
Fringe benefits	**122**	**1,176**	**902**	**8,632**	**10,832**
	₱1,694,914	**₱133,609**	**₱179,032**	**₱1,307,354**	**₱3,314,909**

	Parent Company				
	2013				
	Less than 30 days	31 to 90 days	91 to 180 days	More than 180 days	Total
Business loans	₱157,220	₱129,079	₱1,214,097	₱370,334	₱1,870,730
Consumers	145,568	145,970	306,859	149,746	748,143
LGUs	341,257	68,859	–	33,768	443,884
Fringe benefits	751	675	575	6,245	8,246
	₱644,796	₱344,583	₱1,521,531	₱560,093	₱3,071,003

Trading and Investment Securities and Other Financial Assets

In ensuring quality investment portfolio, the Bank uses the credit risk rating based on the external ratings of eligible external credit rating institutions (i.e., Moody's Investors Service) as follows:

Aaa to Aa3 - fixed income are judged to be of high quality and are subject to very low credit risk, but their susceptibility to long-term risks appears somewhat greater.

A1 to A3 - fixed income obligations are considered upper-medium grade and are subject to low credit risk, but have elements present that suggest a susceptibility to impairment over the long term.

Baa1 and below - represents those investments which fall under any of the following grade:

- Baa1, Baa2, Baa3 - fixed income obligations are subject to moderate credit risk. They are considered medium grade and as such protective elements may be lacking or may be characteristically unreliable.
- Ba1, Ba2, Ba3 - obligations are judged to have speculative elements and are subject to substantial credit risk.
- B1, B2, B3 - obligations are considered speculative and are subject to high credit risk.
- Caa1, Caa2, Caa3 - are judged to be of poor standing and are subject to very high credit risk.
- Ca - are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest.
- C - are the lowest rated class of bonds and are typically in default, with little prospect for recovery of principal or interest.

Below are the financial assets of the Group and the Parent Company, net of allowances, excluding receivables from customers, which are monitored using external ratings.

	Consolidated					
	2014					
	Rated					
	Aaa to Aa3	**A1 to A3**	**Baa1 and below**	**Subtotal**	**Unrated[5/]**	**Total**
Due from BSP[1/]	**₱–**	**₱–**	**₱–**	**₱–**	**₱105,773,685**	**₱105,773,685**
Due from other banks	**2,488,321**	**3,970,843**	**4,687,276**	**11,146,440**	**4,444,966**	**15,591,406**
Interbank loans receivables	**3,565,703**	**3,136,915**	**–**	**6,702,618**	**968,819**	**7,671,437**
Financial assets at FVPL:						
Held-for-trading:						
Government securities	**–**	**–**	**5,712,101**	**5,712,101**	**419,177**	**6,131,278**
Private debt securities	**–**	**–**	**–**	**–**	**218,193**	**218,193**
Equity securities	**284**	**–**	**69**	**353**	**210,481**	**210,834**
Derivative assets[2/]	**1,114**	**43,274**	**10,286**	**54,674**	**81,877**	**136,551**
Designated at FVPL:						
Segregated fund assets	**–**	**10,654,770**	**–**	**10,654,770**	**–**	**10,654,770**

(Forward)

	Consolidated					
	2014					
	Rated					
	Aaa to Aa3	**A1 to A3**	**Baa1 and below**	**Subtotal**	**Unrated[5/]**	**Total**
AFS investments:						
Government securities	**₱541,582**	**₱82,920**	**₱34,668,594**	**₱35,293,096**	**₱1,852,354**	**₱37,145,450**
Private debt securities	**691,350**	**1,057,523**	**2,988,178**	**4,737,051**	**18,971,107**	**23,708,158**
Quoted equity securities	**40,090**	**–**	**162,618**	**202,708**	**1,871,492**	**2,074,200**
Unquoted equity securities	**–**	**–**	**481**	**481**	**163,210**	**163,691**
HTM investments:						
Government securities	**–**	**4,472**	**22,826,242**	**22,830,714**	**–**	**22,830,714**
Private debt securities	**–**	**50,000**	**–**	**50,000**	**89,592**	**139,592**
Loans and receivables:						
Unquoted debt securities[3/]	**–**	**–**	**349,224**	**349,224**	**4,075,781**	**4,425,005**
Others[4/]	**3,858**	**1,636**	**200,966**	**206,460**	**15,249,487**	**15,455,947**

1/ 'Due from BSP' is composed of interest-earning short-term placements with the BSP and a demand deposit account to support the regular operations of the Parent Company.
2/ Derivative assets represent the value of credit derivatives embedded in host contracts issued by financial intermediaries and the mark-to-market valuation of freestanding derivatives (Note 23).
3/ Unquoted debt securities represent investments in bonds and notes issued by financial intermediaries, government and private entities that are not quoted in the market (Note 10).
4/ Loans and receivables - Others is composed of Accrued interest receivable, Accounts receivable, Sales contracts receivable and other miscellaneous receivables (Note 10).
5/ As of December 31, 2014 and December 31, 2013, financial assets that are unrated are neither past due nor impaired.

	Consolidated					
	2013					
	Rated					
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal	Unrated[5/]	Total
Due from BSP[1/]	₱–	₱–	₱–	₱–	₱153,169,330	₱153,169,330
Due from other banks	1,580,459	4,131,347	4,835,615	10,547,421	4,334,120	14,881,541
Interbank loans receivables	399,554	4,489,610	3,285,230	8,174,394	230,856	8,405,250
Financial assets at FVPL:						
Held-for-trading:						
Government securities	–	–	2,834,559	2,834,559	236,115	3,070,674
Private debt securities	–	84	8,139	8,223	260,548	268,771
Equity securities	–	–	69	69	249,449	249,518
Derivative assets[2/]	7,215	29,364	20,099	56,678	202,019	258,697
Designated at FVPL:						
Segregated fund assets	–	7,861,688	–	7,861,688	–	7,861,688
AFS investments:						
Government securities	1,509,508	226,800	57,320,622	59,056,930	190,835	59,247,765
Private debt securities	897,771	1,043,574	5,098,095	7,039,440	12,177,304	19,216,744
Quoted equity securities	–	–	172,379	172,379	1,505,628	1,678,007
Unquoted equity securities	–	–	–	–	161,633	161,633
Loans and receivables:						
Unquoted debt securities[3/]	–	–	49,992	49,992	7,245,539	7,295,531
Others[4/]	1,349	–	195,864	197,213	18,500,462	18,697,675

1/ 'Due from BSP' is composed of interest-earning short-term placements with the BSP and a demand deposit account to support the regular operations of the Parent Company.
2/ Derivative assets represent the value of credit derivatives embedded in host contracts issued by financial intermediaries and the mark-to-market valuation of freestanding derivatives (Note 23).
3/ Unquoted debt securities represent investments in bonds and notes issued by financial intermediaries, government and private entities that are not quoted in the market (Note 10).
4/ Loans and receivables - Others is composed of Accrued interest receivable, Accounts receivable, Sales contracts receivable and other miscellaneous receivables (Note 10).
5/ As of December 31, 2014 and December 31, 2013, financial assets that are unrated are neither past due nor impaired.

	Parent Company					
	2014					
	Rated					
	Aaa to Aa3	**A1 to A3**	**Baa1 and below**	**Subtotal**	**Unrated[6/]**	**Total**
Due from BSP[1/]	**₱–**	**₱–**	**₱–**	**₱–**	**₱95,415,467**	**₱95,415,467**
Due from other banks	**1,063,178**	**2,320,424**	**1,253,345**	**4,636,947**	**376,410**	**5,013,357**
Interbank loans receivables	**3,565,703**	**3,136,915**	**–**	**6,702,618**	**968,819**	**7,671,437**

(Forward)

	Parent Company					
	2014					
	Rated					
	Aaa to Aa3	**A1 to A3**	**Baa1 and below**	**Subtotal**	**Unrated[6/]**	**Total**
Financial assets at FVPL:						
Held-for-trading:						
Government securities	**₱–**	**₱–**	**₱5,712,101**	**₱5,712,101**	**₱419,177**	**₱6,131,278**
Private debt securities	**–**	**–**	**–**	**–**	**218,193**	**218,193**
Equity securities	**–**	**–**	**69**	**69**	**210,481**	**210,550**
Derivative assets[2/]	**1,114**	**42,652**	**10,286**	**54,052**	**81,877**	**135,929**
AFS investments:						
Government securities	**53,909**	**–**	**32,527,143**	**32,581,052**	**1,851,975**	**34,433,027**
Private debt securities	**533,148**	**950,699**	**2,983,073**	**4,466,920**	**15,893,523**	**20,360,443**
Quoted equity securities	**–**	**–**	**–**	**–**	**470,608**	**470,608**
Unquoted equity securities	**–**	**–**	**–**	**–**	**147,510**	**147,510**
HTM investments:						
Government securities	**–**	**4,472**	**21,555,159**	**21,559,631**	**–**	**21,559,631**
Loans and receivables:						
Unquoted debt securities[3/]	**–**	**–**	**49,224**	**49,224**	**4,075,782**	**4,125,006**
Others[4/]	**–**	**–**	**–**	**–**	**9,407,337**	**9,407,337**

1/ 'Due from BSP' is composed of interest-earning short-term placements with the BSP and a demand deposit account to support the regular operations of the Parent Company.
2/ Derivative assets represent the value of credit derivatives embedded in host contracts issued by financial intermediaries and the mark-to-market valuation of freestanding derivatives (Note 23).
3/ Unquoted debt securities represent investments in bonds and notes issued by financial intermediaries, government and private entities that are not quoted in the market (Note 10).
4/ Loans and receivables - Others is composed of Accrued interest receivable, Accounts receivable, Sales contracts receivable and other miscellaneous receivables (Note 10).
5/ As of December 31, 2014 and December 31, 2013, financial assets that are unrated are neither past due nor impaired.

	Parent Company					
	2013					
	Rated					
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal	Unrated[5/]	Total
Due from BSP[1/]	₱–	₱–	₱–	₱–	₱146,079,249	₱146,079,249
Due from other banks	826,484	2,656,819	1,094,269	4,577,572	1,568,562	6,146,134
Interbank loans receivables	399,555	4,489,609	3,285,230	8,174,394	230,856	8,405,250
Financial assets at FVPL:						
Held-for-trading:						
Government securities	–	–	2,834,559	2,834,559	236,115	3,070,674
Private debt securities	–	–	8,139	8,139	260,632	268,771
Equity securities	–	–	–	–	247,615	247,615
Derivative assets[2/]	7,215	29,364	20,099	56,678	201,935	258,613
AFS investments:						
Government securities	1,079,214	4,647	53,899,985	54,983,846	190,835	55,174,681
Private debt securities	771,487	829,560	5,027,223	6,628,270	9,997,719	16,625,989
Quoted equity securities	–	–	–	–	757,119	757,119
Unquoted equity securities	–	–	–	–	138,320	138,320
Loans and receivables:						
Unquoted debt securities[3/]	–	–	49,992	49,992	6,862,917	6,912,909
Others[4/]	–	–	–	–	12,438,167	12,438,167

1/ 'Due from BSP' is composed of interest-earning short-term placements with the BSP and a demand deposit account to support the regular operations of the Parent Company.
2/ Derivative assets represent the value of credit derivatives embedded in host contracts issued by financial intermediaries and the mark-to-market valuation of freestanding derivatives (Note 23).
3/ Unquoted debt securities represent investments in bonds and notes issued by financial intermediaries, government and private entities that are not quoted in the market (Note 10).
4/ Loans and receivables - Others is composed of Accrued interest receivable, Accounts receivable, Sales contracts receivable and other miscellaneous receivables (Note 10).
5/ As of December 31, 2014 and December 31, 2013, financial assets that are unrated are neither past due nor impaired.

Impairment assessment

The Group recognizes impairment or credit losses based on the results of specific (individual) and collective assessment of its credit exposures. A possible impairment has taken place when there are presence of known difficulties in the payment of obligation by counterparties, a significant credit rating downgrade takes place, infringement of the original terms of the contract has happened, or when there is an inability to pay principal or interest overdue beyond a certain threshold (e.g., 90 days). These and other factors, either individually or together 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 allowances, if any, are evaluated every quarter or as the need arise 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.

Refer to Note 16 for the detailed information on the allowance for credit losses on loans and receivables and other financial assets.

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

The Parent Company's liquidity management involves maintaining funding capacity to accommodate fluctuations in asset and liability levels due to changes in the Parent Company's business operations or unanticipated events created by customer behavior or capital market conditions. The Parent Company 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 Parent Company on a daily basis through the Treasury Group. Likewise, the RMG monitors the static liquidity via the MCO under normal and stressed scenarios.

The table below shows the financial assets and financial liabilities' liquidity information which includes coupon cash flows categorized based on the expected date on which the asset will be realized and the liability will be settled. For other assets, the analysis into maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date or if earlier, the expected date the assets will be realized.

	Consolidated					
	2014					
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	Total
Financial Assets						
COCI	₱14,628,489	₱–	₱–	₱–	₱–	₱14,628,489
Due from BSP and other banks	116,184,508	4,910,205	1,225,629	152,790	1,420,914	123,894,046
Interbank loans receivable	7,406,871	86,457	179,037	–	–	7,672,365
Financial assets at FVPL:						
HFT:						
Government securities	3,858	26,681	252,547	242,633	7,889,921	8,415,640
Private debt securities	–	846	2,127	5,815	271,404	280,192
Equity securities	210,834	–	–	–	–	210,834
Derivative assets:						
Gross contractual receivable	4,094,309	145,455	61,912	–	566,494	4,868,170
Gross contractual payable	(4,074,679)	(138,707)	(57,565)	–	(460,668)	(4,731,619)
	19,630	6,748	4,347	–	105,826	136,551
Designated at FVPL						
Segregated fund assets	–	–	–	–	10,654,770	10,654,770
AFS investments:						
Government securities	130,676	587,215	1,313,252	1,087,497	44,142,188	47,260,828
Private debt securities	17,038	267,957	132,296	2,304,616	26,317,020	29,038,927
Equity securities	–	–	–	–	2,237,891	2,237,891
HTM investments:						
Government securities	17,407	162,811	221,300	627,002	35,936,853	36,965,373
Private debt securities	–	358	–	–	50,000	50,358
Loans and receivables:						
Receivables from customers	61,247,877	42,705,120	8,992,058	14,040,387	253,798,323	380,783,765
Unquoted debt securities	7,714	3,556,689	11,124	19,865	829,614	4,425,006
Other receivables	2,363,543	567,729	1,491,671	368,895	10,667,245	15,459,083
Other assets	943,966	–	–	–	100,986	1,044,952
Total financial assets	₱203,182,411	₱52,878,816	₱13,825,388	₱18,849,500	₱394,422,955	₱683,159,070
Financial Liabilities						
Deposit liabilities:						
Demand	₱101,561,040	₱–	₱–	₱–	₱–	₱101,561,040
Savings	210,066,893	33,071,856	16,375,209	13,484,009	22,428,474	295,426,441
Time	8,103,062	10,786,521	5,148,521	5,627,990	24,290,161	53,956,255
Financial liabilities at FVPL:						
Designated at FVPL:						
Segregated fund liabilities	–	–	–	–	10,817,122	10,817,122

(Forward)

	Consolidated					
	2014					
	Up to 1 Month	**More than 1 Month to 3 Months**	**More than 3 Months to 6 Months**	**More than 6 Months to 1 Year**	**Beyond 1 year**	**Total**
Derivative liabilities:						
Gross contractual payable	**₱6,828,368**	**₱55,354**	**₱22,594**	**₱290,680**	**₱490,151**	**₱7,687,147**
Gross contractual receivable	**(6,811,552)**	**(54,560)**	**(20,630)**	**(290,155)**	**(465,347)**	**(7,642,244)**
	16,816	**794**	**1,964**	**525**	**24,804**	**44,903**
Bills and acceptances payable	**7,712,722**	**997,205**	**1,334,892**	**31,139**	**8,974,100**	**19,050,058**
Subordinated debt	**–**	**161,094**	**161,094**	**322,188**	**10,497,311**	**11,141,687**
Accrued interest payable and accrued other expenses payable	**822,353**	**133,596**	**1,108**	**509**	**1,555,418**	**2,512,984**
Other liabilities	**17,950,338**	**456,986**	**300,231**	**407,896**	**7,066,423**	**26,181,874**
Total financial liabilities	**₱346,233,224**	**₱45,608,052**	**₱23,323,019**	**₱19,874,256**	**₱85,653,813**	**₱520,692,364**

	Consolidated					
	2013					
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1year	Total
Financial Assets						
COCI	₱11,804,746	₱–	₱–	₱–	₱–	₱11,804,746
Due from BSP and other banks	165,656,262	1,852,619	5,478,417	207,533	215,356	173,410,187
Interbank loans receivable	8,378,025	150,032	–	–	–	8,528,057
Financial assets at FVPL:						
HFT:						
Government securities	36,087	15,743	35,974	78,316	4,418,375	4,584,495
Private debt securities	–	1,964	3,873	6,613	316,366	328,816
Equity securities	249,518	–	–	–	–	249,518
Derivative assets:						
Gross contractual receivable	4,272,963	859,463	1,168,475	221,975	223,329	6,746,205
Gross contractual payable	(4,249,655)	(850,123)	(1,140,540)	(215,850)	(31,340)	(6,487,508)
	23,308	9,340	27,935	6,125	191,989	258,697
Designated at FVPL						
Segregated fund assets	–	–	–	–	7,861,688	7,861,688
AFS investments:						
Government securities	532,219	479,971	734,872	3,216,636	79,175,641	84,139,339
Private debt securities	304,099	258,624	213,906	470,018	22,261,211	23,507,858
Equity securities	–	–	–	–	1,839,640	1,839,640
Loans and receivables:						
Receivables from customers	78,051,502	43,095,934	16,441,547	15,044,301	231,268,667	383,901,951
Unquoted debt securities	90,468	2,822,756	10,960	93,862	4,962,423	7,980,469
Other receivables	2,430,867	3,523,843	2,127,156	481,515	10,457,386	19,020,767
Other assets	182,370	–	–	–	85,961	268,331
Total financial assets	₱267,739,471	₱52,210,826	₱25,074,640	₱19,604,919	₱363,054,703	₱727,684,559
Financial Liabilities						
Deposit liabilities:						
Demand	₱125,359,053	₱–	₱–	₱–	₱–	₱125,359,053
Savings	235,918,210	24,422,519	8,593,139	4,839,247	13,142,436	286,915,551
Time	13,289,930	13,359,646	4,438,640	6,938,847	20,387,352	58,414,415
Financial liabilities at FVPL:						
Designated at FVPL:						
Segregated fund liabilities	–	–	–	–	7,911,794	7,911,794
Derivative liabilities:						
Gross contractual payable	9,770,736	1,994,514	694,249	–	1,404,609	13,864,108
Gross contractual receivable	(9,654,758)	(1,979,037)	(675,876)	–	(1,391,336)	(13,701,007)
	115,978	15,477	18,373	–	13,273	163,101
Bills and acceptances payable	6,230,984	2,359,898	1,076,846	437,980	3,083,291	13,188,999
Subordinated debt	–	146,875	146,875	293,750	13,039,170	13,626,670
Accrued interest payable and accrued other expenses payable	1,024,626	337,233	–	–	1,555,418	2,917,277
Other liabilities	18,617,578	2,032,931	439,401	206,676	6,092,543	27,389,129
Total financial liabilities	₱400,556,359	₱42,674,579	₱14,713,274	₱12,716,500	₱65,225,277	₱535,885,989

	Parent Company 2014					
	Up to 1 Month	**More than 1 Month to 3 Months**	**More than 3 Months to 6 Months**	**More than 6 Months to 1 Year**	**Beyond 1year**	**Total**
Financial Assets						
COCI	**₱13,865,078**	**₱–**	**₱–**	**₱–**	**₱–**	**₱13,865,078**
Due from BSP and other banks	**100,428,824**	**–**	**–**	**–**	**–**	**100,428,824**
Interbank loans receivable	**7,406,871**	**86,457**	**179,037**	**–**	**–**	**7,672,365**
Financial assets at FVPL:						
HFT:						
Government securities	**3,858**	**26,681**	**252,547**	**242,633**	**7,889,921**	**8,415,640**
Private debt securities	**–**	**846**	**2,127**	**5,815**	**271,404**	**280,192**
Equity securities	**210,550**	**–**	**–**	**–**	**–**	**210,550**
Derivative assets:						
Gross contractual receivable	**4,061,014**	**142,857**	**59,913**	**–**	**566,494**	**4,830,278**
Gross contractual payable	**(4,041,937)**	**(136,173)**	**(55,571)**	**–**	**(460,668)**	**(4,694,349)**
	19,077	**6,684**	**4,342**	**–**	**105,826**	**135,929**
AFS investments:						
Government securities	**127,914**	**566,071**	**1,250,462**	**1,067,278**	**41,522,808**	**44,534,533**
Private debt securities	**16,319**	**199,155**	**116,266**	**2,303,897**	**23,051,986**	**25,687,623**
Equity securities	**–**	**–**	**–**	**–**	**618,118**	**618,118**
HTM investments:						
Government securities	**16,625**	**73,928**	**185,895**	**576,167**	**33,985,398**	**34,838,013**
Loans and receivables:						
Receivables from customers	**58,870,339**	**42,138,186**	**8,516,073**	**13,317,620**	**237,005,081**	**359,847,299**
Unquoted debt securities	**7,714**	**3,256,689**	**11,124**	**19,865**	**829,614**	**4,125,006**
Other receivables	**931,896**	**441,818**	**1,186,144**	**59,625**	**6,787,855**	**9,407,338**
Other assets	**943,122**	**–**	**–**	**–**	**85,654**	**1,028,776**
Total financial assets	**₱182,848,187**	**₱46,796,515**	**₱11,704,017**	**₱17,592,900**	**₱352,153,665**	**₱611,095,284**
Financial Liabilities						
Deposit liabilities:						
Demand	**₱100,322,249**	**₱–**	**₱–**	**₱–**	**₱–**	**₱100,322,249**
Savings	**201,702,699**	**33,071,856**	**16,375,209**	**13,484,009**	**22,428,475**	**287,062,248**
Time	**5,403,728**	**7,561,927**	**3,164,797**	**5,211,736**	**27,019,957**	**48,362,145**
Financial liabilities at FVPL:						
Derivative liabilities:						
Gross contractual payable	**6,780,719**	**54,347**	**15,000**	**290,680**	**490,151**	**7,630,897**
Gross contractual receivable	**(6,764,439)**	**(53,561)**	**(13,132)**	**(290,155)**	**(465,346)**	**(7,586,633)**
	16,280	**786**	**1,868**	**525**	**24,805**	**44,264**
Bills and acceptances payable	**7,114,721**	**240,205**	**59,892**	**28,530**	**11,082,695**	**18,526,043**
Subordinated debt	**56,750**	**461,094**	**161,094**	**322,188**	**10,497,311**	**11,498,437**
Accrued interest payable and accrued other expenses payable	**680,446**	**133,596**	**1,108**	**1,944**	**1,641,187**	**2,458,281**
Other liabilities	**12,023,817**	**423,937**	**165,079**	**148,918**	**837,895**	**13,599,646**
Total financial liabilities	**₱327,320,690**	**₱41,893,401**	**₱19,929,047**	**₱19,197,850**	**₱73,532,325**	**₱481,873,313**

	Parent Company 2013					
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1year	Total
Financial Assets						
COCI	₱9,700,005	₱–	₱–	₱–	₱–	₱9,700,005
Due from BSP and other banks	152,251,906	–	–	–	–	152,251,906
Interbank loans receivable	8,378,025	150,032	–	–	–	8,528,057
Financial assets at FVPL:						
HFT:						
Government securities	36,087	15,743	35,974	78,316	4,418,375	4,584,495
Private debt securities	–	1,964	3,873	6,613	316,366	328,816
Equity securities	247,615	–	–	–	–	247,615
Derivative assets:						
Gross contractual receivable	2,975,643	859,463	1,168,475	221,975	223,421	5,448,977
Gross contractual payable	(2,952,511)	(850,123)	(1,140,540)	(215,850)	(31,340)	(5,190,364)
	23,132	9,340	27,935	6,125	192,081	258,613

(Forward)

	Parent Company					
	2013					
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1year	Total
AFS investments:						
Government securities	₱525,030	₱449,533	₱724,154	₱3,168,729	₱74,892,074	₱79,759,520
Private debt securities	111,850	168,701	139,685	454,590	20,105,127	20,979,953
Equity securities	–	–	–	–	895,439	895,439
Loans and receivables:						
Receivables from customers	76,854,434	42,615,512	16,062,309	14,180,284	224,992,792	374,705,331
Unquoted debt securities	2,626	2,822,756	10,960	93,862	4,667,643	7,597,847
Other receivables	2,030,718	3,249,988	1,842,149	273,028	5,318,904	12,714,787
Other assets	182,080	–	–	–	59,260	241,340
Total financial assets	₱250,343,508	₱49,483,569	₱18,847,039	₱18,261,547	₱335,858,061	₱672,793,724
Financial Liabilities						
Deposit liabilities:						
Demand	₱118,010,984	₱–	₱–	₱–	₱–	₱118,010,984
Savings	232,850,354	24,422,519	8,593,139	4,839,247	13,142,436	283,847,695
Time	11,482,834	10,402,453	2,460,548	6,465,242	20,387,352	51,198,429
Financial liabilities at FVPL:						
Derivative liabilities:						
Gross contractual payable	9,770,719	1,994,514	694,249	–	1,404,609	13,864,091
Gross contractual receivable	(9,654,758)	(1,979,037)	(675,876)	–	(1,391,336)	(13,701,007)
	115,961	15,477	18,373	–	13,273	163,084
Bills and acceptances payable	8,825,277	2,089,456	834,788	302	1,750,670	13,500,493
Subordinated debt	–	146,875	146,875	293,603	13,039,170	13,626,523
Accrued interest payable and accrued other expenses payable	917,831	337,233	–	–	1,555,418	2,810,482
Other liabilities	11,628,257	1,862,497	285,709	148,111	692,066	14,616,640
Total financial liabilities	₱383,831,498	₱39,276,510	₱12,339,432	₱11,746,505	₱50,580,385	₱497,774,330

Market Risk

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 Parent Company's trading and structural portfolios.

Trading market risk

Trading market risk exists in the Parent Company as the values of its trading positions are sensitive to changes in market rates such as interest rates, foreign exchange rates and equity prices. The Parent Company 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 risks in the trading portfolio, the Parent Company uses the Value at Risk as a risk measurement tool. It adopts both the Parametric Value-at-Risk (VaR) methodology and Historical Simulation Methodology (with 99% confidence level) to measure the Parent Company's trading market risk. These models were validated by an external independent validator. Volatilities used in the parametric are updated on a daily basis and are based on historical data for a rolling 260-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 Risk Oversight Committee (ROC) on a monthly basis. All risk reports discussed in the ROC meeting are noted by the BOD. The VaR figures are back tested to validate the robustness of the VaR model.

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

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.

Backtesting
The validity of the assumptions underlying the Parent Company's VaR model can only be checked by appropriate back testing procedures. The accuracy of a VaR model must be verified using model validation techniques such as back testing, stress testing, independent review and oversight. Back testing is a formal statistical framework that consists of verifying that actual losses are in line with the projected losses. The Parent Company adopts both the clean back testing and dirty back testing approaches approach In back testing. Clean back testing, 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 back testing, consists of comparing the VaR estimates with the actual P&L values at the end of the time horizon (for example, 1 day for daily VaR). 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 back testing results. For the year 2014, the number of observations which fell outside the VaR is within the allowable number of exceptions (green zone) to conclude that there is no problem with the quality and accuracy of the VaR models at 99% confidence level.

Stress Testing
To complement the VaR approximations, the Parent Company conducts stress testing on a quarterly basis, the results of which are being reported to the 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.

VaR limits
Since VaR is an integral part of the Parent Company'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 Parent Company. VaR is computed on an undiversified basis; hence, the Parent Company does not consider the correlation effects of the three trading portfolios.

The tables below show the trading VaR (in millions):

Trading Portfolio	**Foreign Exchange***	**Interest Rate**	**Equities Price**	**Total VaR****
December 29, 2014	**₱3.77**	**₱230.99**	**₱7.76**	**₱242.52**
Average Daily	**3.28**	**234,50**	**8.73**	**246.51**
Highest	**10.96**	**395.29**	**12.60**	**349.12**
Lowest	**0.07**	**110.74**	**6.43**	**160.66**

* *FX VaR is the bankwide foreign exchange risk*
** *The high and low for the total portfolio may not equal the sum of the individual components as the highs and lows of the individual trading portfolios may have occurred on different trading days*

Trading Portfolio	Foreign Exchange*	Interest Rate	Equities Price	Total VaR**
December 27, 2013	₱4.28	₱159.37	₱12.22	₱175.88
Average Daily	8.81	148.81	9.89	167.51
Highest	24.71	497.11	12.97	413.55
Lowest	0.65	30.24	6.69	70.60

* *FX VaR is the bankwide foreign exchange risk*
** *The high and low for the total portfolio may not equal the sum of the individual components as the highs and lows of the individual trading portfolios may have occurred on different trading days*

The table below shows the interest rate VaR for AFS investments (in millions):

	2014	2013
End of year	**₱812.47**	₱2,283.45
Average Daily	**1,416.60**	1,963.52
Highest	**2,631.36**	2,909.73
Lowest	**812.47**	1,008.20

Structural Market Risk

Non-trading Market Risk

Interest rate risk

The Parent Company 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 Parent Company to interest rate risk. The Parent Company 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 Parent Company 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 loan accounts are assessed based on next repricing date thus as an example if a loan account is scheduled to reprice three years from year-end report date, slotting of the account will be based on the date of interest repricing. Deposits with no specific maturity dates are excluded in the one-year repricing gap except for the portion of volatile regular savings deposits which are assumed to be withdrawn during the one year period and assumed to be replaced by a higher deposit rate.

The Parent Company uses the Earnings at Risk (EaR) methodology to measure the likely interest margin compression in case of adverse change in interest rates given the Parent Company's repricing gap. 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 Parent Company's BOD sets a limit on the level of EaR exposure tolerable to the Parent Company. EaR exposure and compliance to the EaR limit is monitored monthly by the RMG and subject to a quarterly stress test.

The following table sets forth the repricing gap position of the Group and the Parent Company as of December 31, 2014 and 2013:

	Consolidated					
	2014					
	Up to 1 Month	**More than 1 Month to 3 Months**	**More than 3 Months to 6 Months**	**More than 6 Months to 1 Year**	**Beyond 1 year**	**Total**
Financial Assets*						
Due from BSP and other banks	**₱46,647,101**	**₱5,179,498**	**₱1,436,197**	**₱234,477**	**₱452,352**	**₱53,949,625**
Interbank loans receivable	**7,585,005**	**86,432**	**–**	**–**	**–**	**7,671,437**
Receivables from customers and other receivables - gross**	**109,681,648**	**52,668,132**	**10,239,290**	**10,042,060**	**30,295,753**	**212,926,883**
Total financial assets	**₱163,913,754**	**₱57,934,062**	**₱11,675,487**	**₱10,276,537**	**₱30,748,105**	**₱274,547,945**
Financial Liabilities*						
Deposit liabilities:						
Savings	**₱80,239,744**	**₱28,455,206**	**₱16,173,324**	**₱20,476,027**	**₱9,503,458**	**₱154,847,759**
Time	**13,973,220**	**6,782,382**	**5,619,511**	**4,134,468**	**3,374,672**	**33,884,253**
Bills and acceptances payable	**7,574,375**	**682,097**	**422,115**	**668,849**	**13,618,150**	**22,965,586**
Total financial liabilities	**₱101,787,339**	**₱35,919,685**	**₱22,214,950**	**₱25,279,344**	**₱26,496,280**	**₱211,697,598**
Repricing gap	**₱62,126,415**	**₱22,014,377**	**(₱10,539,463)**	**(₱15,002,807)**	**₱4,251,825**	**₱62,850,347**
Cumulative gap	**62,126,415**	**84,140,792**	**73,601,329**	**58,598,522**	**62,850,347**	**–**

* *Financial instruments that are not subject to repricing/rollforward were excluded.*
** *Receivables from customers excludes residual value of leased assets.*

	Consolidated					
	2013					
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	Total
Financial Assets*						
Due from BSP and other banks	₱110,636,185	₱–	₱–	₱–	₱–	₱110,636,185
Interbank loans receivable	6,187,702	148,546	–	–	–	6,336,248
Receivables from customers and other receivables - gross**	83,078,134	41,795,593	8,610,859	9,076,591	42,987,388	185,548,565
Total financial assets	₱199,902,021	₱41,944,139	₱8,610,859	₱9,076,591	₱42,987,388	₱302,520,998

(Forward)

	Consolidated					
	2013					
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	Total
Financial Liabilities*						
Deposit liabilities:						
Savings	₱91,077,817	₱17,726,021	₱10,074,856	₱5,978,991	₱4,182,146	₱129,039,831
Time	14,999,084	8,913,049	4,237,067	2,153,757	5,747,340	36,050,297
Bills and acceptances payable	9,220,248	902,290	242,057	437,678	1,279,040	12,081,313
Total financial liabilities	₱115,297,149	₱27,541,360	₱14,553,980	₱8,570,426	₱11,208,526	₱177,171,441
Repricing gap	₱84,604,872	₱14,402,779	(₱5,943,121)	₱506,165	₱31,778,862	₱125,349,557
Cumulative gap	84,604,872	99,007,651	93,064,530	93,570,695	125,349,557	–

* *Financial instruments that are not subject to repricing/rollforward were excluded.*
** *Receivables from customers excludes residual value of leased assets.*

	Parent Company					
	2014					
	Up to 1 Month	**More than 1 Month to 3 Months**	**More than 3 Months to 6 Months**	**More than 6 Months to 1 Year**	**Beyond 1 year**	**Total**
Financial Assets*						
Due from BSP and other banks	**₱32,989,879**	**₱–**	**₱–**	**₱–**	**₱23,478**	**₱33,013,357**
Interbank loans receivable	**7,585,005**	**86,432**	**–**	**–**	**–**	**7,671,437**
Receivables from customers and other receivables - gross**	**109,681,648**	**52,668,132**	**10,239,290**	**10,042,060**	**30,295,753**	**212,926,883**
Total financial assets	**₱150,256,532**	**₱52,754,564**	**₱10,239,290**	**₱10,042,060**	**₱30,319,231**	**₱253,611,677**
Financial Liabilities*						
Deposit liabilities:						
Savings	**₱72,848,966**	**₱28,455,206**	**₱16,173,324**	**₱20,476,027**	**₱9,503,458**	**₱147,456,981**
Time	**12,324,946**	**5,251,048**	**3,621,637**	**3,717,842**	**3,374,672**	**28,290,145**
Bills and acceptances payable	**6,970,251**	**128,026**	**–**	**–**	**11,423,046**	**18,521,323**
Total financial liabilities	**₱92,144,163**	**₱33,834,280**	**₱19,794,961**	**₱24,193,869**	**₱24,301,176**	**₱194,268,449**
Repricing gap	**₱58,112,369**	**₱18,920,284**	**(₱9,555,671)**	**(₱14,151,809)**	**₱6,018,055**	**₱59,343,228**
Cumulative gap	**58,112,369**	**77,032,653**	**67,476,982**	**53,325,173**	**59,343,228**	**–**

* *Financial instruments that are not subject to repricing/rollforward were excluded.*
** *Receivables from customers excludes residual value of leased assets.*

	Parent Company					
	2013					
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	Total
Financial Assets*						
Due from BSP and other banks	₱89,541,967	₱–	₱–	₱–	₱–	₱89,541,967
Interbank loans receivable	6,187,702	148,546	–	–	–	6,336,248
Receivables from customers and other receivables - gross**	82,843,545	41,312,497	8,495,498	8,894,682	42,264,835	183,811,057
Total financial assets	₱178,573,214	₱41,461,043	₱8,495,498	₱8,894,682	₱42,264,835	₱279,689,272
Financial Liabilities*						
Deposit liabilities:						
Savings	₱91,077,817	₱17,726,021	₱10,074,856	₱5,978,991	₱4,182,146	₱129,039,831
Time	13,270,991	5,892,481	2,253,820	1,677,406	5,747,340	28,842,038
Bills and acceptances payable	8,731,581	570,891	–	–	7,376	9,309,848
Total financial liabilities	₱113,080,389	₱24,189,393	₱12,328,676	₱7,656,397	₱9,936,862	₱167,191,717
Repricing gap	₱65,492,825	₱17,271,650	(₱3,833,178)	₱1,238,285	₱32,327,973	₱112,497,555
Cumulative gap	65,492,825	82,764,475	78,931,297	80,169,582	112,497,555	–

* *Financial instruments that are not subject to repricing/rollforward were excluded.*
** *Receivables from customers excludes residual value of leased assets.*

The following table sets forth, for the year indicated, the impact of changes in interest rates on the Group's and the Parent Company's repricing gap for the years ended December 31, 2014 and 2013:

	Consolidated			
	2014		2013	
	Statement of Income	**Equity**	Statement of Income	Equity
+50bps	**₱248,104**	**₱248,104**	₱442,493	₱442,493
-50bps	**(248,104)**	**(248,104)**	(442,493)	(442,493)
+100bps	**496,208**	**496,208**	884,986	884,986
-100bps	**(496,208)**	**(496,208)**	(884,986)	(884,986)

	Parent Company			
	2014		2013	
	Statement of Income	**Equity**	Statement of Income	Equity
+50bps	**₱233,555**	**₱233,555**	₱370,497	₱370,497
-50bps	**(233,555)**	**(233,555)**	(370,497)	(370,497)
+100bps	**467,111**	**467,111**	740,994	740,994
-100bps	**(467,111)**	**(467,111)**	(740,994)	(740,994)

As one of the long-term goals in the risk management process, the Parent Company has set the adoption of the economic value approach in measuring the interest rate risk in the banking books to complement the earnings approach currently used. 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 Group 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 the Parent Company'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 the Parent Company and foreign currency-denominated borrowings appearing in the regular books of the Parent Company. Foreign currency deposits are generally used to fund the Parent Company'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, the Parent Company has additional foreign currency assets and liabilities in its foreign branch network.

The Group's policy is to maintain foreign currency exposure within acceptable limits and within existing regulatory guidelines. The Group 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 Group is involved.

The table below summarizes the exposure to foreign exchange rate risk. Included in the table are the financial assets and liabilities at carrying amounts, categorized by currency (amounts in Philippine peso equivalent).

	Consolidated		
	2014		
	USD	**Others***	**Total**
Assets			
COCI and due from BSP	**₱236,413**	**₱300,271**	**₱536,684**
Due from other banks	**1,490,604**	**3,300,703**	**4,791,307**
Interbank loans receivable and securities held under agreements to resell	**2,043,978**	**432,160**	**2,476,138**
Loans and receivables	**7,172,786**	**688,378**	**7,861,164**
Financial assets at FVPL	**118,308**	**35,318**	**153,626**
AFS investments	**1,484,101**	**1,934,132**	**3,418,233**
Other assets	**90,953**	**54,013**	**144,966**
Total assets	**12,637,143**	**6,744,975**	**19,382,118**
Liabilities			
Deposit liabilities	**1,961,369**	**2,937,410**	**4,898,779**
Bills and acceptances payable	**2,977,373**	**112,963**	**3,090,336**
Accrued interest payable	**1,569,636**	**24,062**	**1,593,698**
Other liabilities	**2,357,493**	**144,011**	**2,501,504**
Total liabilities	**8,865,871**	**3,218,446**	**12,084,317**
Net Exposure	**₱3,771,272**	**₱3,526,529**	**₱7,297,801**

* *Other currencies include UAE Dirham (AED,) Australia dollar (AUD), Bahrain dollar (BHD), Brunei dollar (BND), Canada dollar (CAD), Swiss franc (CHF), China Yuan (CNY), Denmark kroner (DKK), Euro (EUR), UK pound (GBP), Hong Kong dollar (HKD), Indonesia rupiah (IDR), Japanese yen (JPY), New Zealand dollar (NZD), PHP, Saudi Arabia riyal (SAR), Sweden kroner (SEK), Singapore dollar (SGD), South Korean won (SKW), Thailand baht (THB) and Taiwan dollar (TWD).*

	Consolidated		
	2013		
	USD	Others*	Total
Assets			
COCI and due from BSP	₱1,015,888	₱485,359	₱1,501,247
Due from other banks	9,718,238	3,588,104	13,306,342
Interbank loans receivable and securities held under agreements to resell	1,005,298	999,969	2,005,267
Loans and receivables	10,267,403	5,269,016	15,536,419
AFS investments	4,255,162	2,077,813	6,332,975
Total assets	26,261,989	12,420,261	38,682,250
Liabilities			
Deposit liabilities	7,620,815	5,159,256	12,780,071
Bills and acceptances payable	6,437,969	140,964	6,578,933
Accrued interest payable	1,599,458	201,725	1,801,183
Other liabilities	4,676,906	491,788	5,168,694
Total liabilities	20,335,148	5,993,733	26,328,881
Net Exposure	₱5,926,841	₱6,426,528	₱12,353,369

* *Other currencies include AED, AUD, BHD, BND, CAD, CHF, CNY, DKK, EUR, GBP, HKD, IDR, JPY, NZD, PHP, SAR, SEK, SGD, SKW, THB and TWD.*

	Parent Company		
	2014		
	USD	**Others***	**Total**
Assets			
COCI and due from BSP	**₱236,413**	**₱300,271**	**₱536,684**
Due from other banks	**1,377,664**	**1,908,867**	**3,286,531**
Interbank loans receivable and securities held under agreements to resell	**2,043,978**	**432,160**	**2,476,138**
Loans and receivables	**6,635,805**	**274,499**	**6,910,304**
Financial assets at FVPL	**118,308**	**35,318**	**153,626**
AFS investments	**1,483,620**	**1,926,829**	**3,410,449**
HTM investments	**–**	**–**	**–**
Other assets	**27,376**	**9,696**	**37,072**
Total assets	**11,923,164**	**4,887,640**	**16,810,804**
Liabilities			
Deposit liabilities	**1,961,369**	**2,899,591**	**4,860,960**
Bills and acceptances payable	**2,486,218**	**15,029**	**2,501,247**
Accrued interest payable	**1,568,653**	**13,739**	**1,582,392**
Other liabilities	**2,357,448**	**103,314**	**2,460,762**
Total liabilities	**8,373,688**	**3,031,673**	**11,405,361**
Net Exposure	**₱3,549,476**	**₱1,855,967**	**₱5,405,443**

* *Other currencies include AED, AUD, BHD, BND, CAD, CHF, CNY, DKK, EUR, GBP, HKD, IDR, JPY, NZD, PHP, SAR, SEK, SGD, SKW, THB and TWD.*

	Parent Company		
	2013		
	USD	Others*	Total
Assets			
COCI and due from BSP	₱867,455	₱242,419	₱1,109,874
Due from other banks	1,761,205	2,256,719	4,017,924
Interbank loans receivable and securities held under agreements to resell	1,005,298	999,969	2,005,267
Loans and receivables	7,433,567	228,648	7,662,215
AFS investments	1,979,784	2,077,813	4,057,597
Total assets	13,047,309	5,805,568	18,852,877
Liabilities			
Deposit liabilities	2,132,839	2,951,446	5,084,285
Bills and acceptances payable	6,477,602	99,660	6,577,262
Accrued interest payable	1,564,139	463	1,564,602
Other liabilities	579,803	196,446	776,249
Total liabilities	10,754,383	3,248,015	14,002,398
Net Exposure	₱2,292,926	₱2,557,553	₱4,850,479

* *Other currencies include AED, AUD, BHD, BND, CAD, CHF, CNY, DKK, EUR, GBP, HKD, IDR, JPY, NZD, PHP, SAR, SEK, SGD, SKW, THB and TWD.*

The exchange rates used to convert the Group and the Parent Company's US dollar-denominated assets and liabilities into Philippine peso as of December 31, 2014 and 2013 follow:

	2014	2013
US dollar - Philippine peso exchange rate	**₱44.72 to USD1.00**	₱44.40 to USD1.00

The following tables set forth the impact of the range of reasonably possible changes in the US dollar-Philippine peso exchange rate on the Group and the Parent Company's income before income tax and equity (due to the revaluation of monetary assets and liabilities) for the years ended December 31, 2014 and 2013:

	2014			
	Consolidated		**Parent Company**	
	Statement of Income	**Equity**	**Statement of Income**	**Equity**
+1.00%	**₱22,873**	**₱37,713**	**₱20,659**	**₱35,495**
-1.00%	**(22,873)**	**(37,713)**	**(20,659)**	**(35,495)**

	2013			
	Consolidated		Parent Company	
	Statement of Income	Equity	Statement of Income	Equity
+1.00%	₱16,717	₱59,268	₱3,131	₱22,929
-1.00%	(16,717)	(59,268)	(3,131)	(22,929)

The Group and the Parent Company do not expect the impact of the volatility on other currencies to be material.

Information relating to the Parent Company's currency derivatives is contained in Note 23. The Parent Company has outstanding foreign currency spot transactions (in equivalent peso amounts) of ₱313.0 million (sold) and ₱3.5 billion (bought) as of December 31, 2014 and ₱1.8 billion (sold) and ₱1.9 billion (bought) as of December 31, 2013.

Capital management and management of insurance and financial risks

Governance framework
The Group has established a risk management function with clear terms of reference and with the responsibility for developing policies on market, credit, liquidity, insurance and operational risks. It also supports the effective implementation of policies at the overall company and individual business unit levels. The Chief Financial Officer and Internal Audit Department perform procedures to identify various risks. The results of the procedures are reported to the BOD and necessary actions are taken to mitigate the risks identified.

The policies define the Group's identification of risk and its interpretation, limit structure to ensure the appropriate quality and diversification of assets, alignment of underwriting and reinsurance strategies to the corporate goals and specific reporting requirements.

Regulatory framework
Regulators are interested in protecting the rights of the policyholders and maintain close vigil to ensure that the Group is satisfactorily managing affairs for their benefit. At the same time, the regulators are also interested in ensuring that the Group maintains appropriate solvency position to meet liabilities arising from claims and that the risk levels are at acceptable levels.

The Group has an insurance business which is subject to the regulatory requirements of the IC. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions (e.g., fixed capitalization requirements, risk-based capital requirements).

Capital management
PNB LII's and PNB Gen's capital management framework is aligned with the statutory requirements imposed by the IC. To ensure compliance with these externally imposed capital requirements, it is PNB LII's and PNB Gen's policy to assess its position against set minimum capital requirements.

Under the requirements of the IC and the Insurance Code, PNB LII and PNB Gen should meet the minimum levels set for the following capital requirements: Minimum Statutory Net Worth - ₱250.0 million, ₱550.0 million, ₱900.0 million and ₱1.3 billion with compliance dates of June 30, 2013, December 31, 2016, December 31, 2019 and December 31, 2022, respectively; and Risk-Based Capital (RBC) - 100.00% for both life and nonlife insurance companies.

The required investments in government bonds and securities of at least 25.00% of the Minimum Paid-up Capital, under the Section 203 of the Insurance Code, are free from liens and encumbrances.

The Group manages the capital of its subsidiaries in accordance with the capital requirements of the relevant regulatory agency, such as the IC, SEC and PSE. PNB LII has fully complied with the relevant capital requirements having estimated statutory networth of ₱1.1 billion and ₱782.6 million as of December 31, 2014 and 2013, respectively, and RBC ratio of 145.29% and 151.24% as of December 31, 2014 and 2013, respectively. As of December 31, 2014 and 2013, PNB Gen has estimated statutory networth amounting to ₱1.1 billion and ₱494.9 million, respectively. PNB Gen's RBC ratio as of December 31, 2014 and 2013 is 30.23% and 6.04%, respectively.

Under Section D of IMC No. 7-2006, Mandatory Control Event shall occur if the RBC ratio of the company is less than 35%. Should this event occurs, the Commissioner is required to place the company under regulatory control under Sec. 247 (Title 13, *Suspension or Revocation of Authority*) of the Code. The Mandatory Control Event shall be deemed sufficient grounds for the Commissioner to take action under Sec. 247 of the Insurance Code.

The RBC ratio of PNB Gen improved in 2014 given the following actions taken by the Group:

(a) There was a ₱600.0 million capital infusion from the Parent Company signifying strong support and commitment of the Group to ensure the viability and stability of PNB Gen's operations.
(b) The Parent Company, through its various committees, closely oversees PNB Gen's performance and provides guidance and support to achieve profitability.

PNB Gen expects its financial performance to continue to improve in 2015 through strategy of profitable growth, effective claims management and more efficient collection of both premiums receivable and claims recoverable. These will have positive impact on the RBC ratio, not to mention on the new RBC formula which is presently under consideration.

If fronted accounts of ₱1.8 billion with highly rated counterparties were excluded from the denominator in determining the RBC ratio, the 2014 RBC ratio would be 48.42%.

The final amount of the RBC ratio can be determined only after the accounts of PNB Gen have been examined by the IC. Further, the IC has yet to finalize the new RBC Computation under the New Insurance Code.

5. Fair Value Measurement

The methods and assumptions used by the Group in estimating the fair value of its assets and liabilities follow:

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 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 unquoted equity securities are carried at their original cost less impairment if any, since the fair value could not be reliably determined due to the unpredictable nature of future cash flows and the lack of suitable methods of arriving at a reliable fair value.

Loans and receivables - For loans with fixed interest rates, fair values are estimated by discounted cash flow methodology, using the Group's current market lending rates for similar types of loans. For loans with floating interest rates, with repricing frequencies on a quarterly basis, the Group assumes that the carrying amount approximates fair value. Where the repricing frequency is beyond three months, the fair value of floating rate loans is determined using the discounted cash flow methodology. The discount rate used in estimating the fair value of loans and receivables is 2.5% in 2014 and 3.0% in 2013 for peso-denominated receivables. For foreign currency-denominated receivables, discount rate used is 1.5% and 1.0% in 2014 and 2013, respectively.

Investment properties - The fair values of the Group and the Parent Company's investment properties have been determined by the appraisal method by independent external and in-house appraisers based on highest and best use of property being appraised. Valuations were derived on the basis of recent sales of similar properties in the same areas as the land, building and investment properties and taking into account the economic conditions prevailing at the time the valuations were made and comparability of similar properties sold with the property being valued.

Financial liabilities - Except for time deposit liabilities, bills payable with long-term maturity and subordinated debt, 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, bills payable with long-term maturity and subordinated debt including designated at FVPL - Fair value is determined using the discounted cash flow methodology. The discount rate used in estimating the fair values of the subordinated debt and time deposits ranges from 1.00% to 4.71% and from 1.1% to 4.2% as of December 31, 2014 and 2013, respectively.

Fair value hierarchy
The Group has assets and liabilities that are measured at fair value on a recurring basis in the statement of financial position after initial recognition. Recurring fair value measurements are those that another PFRS requires or permits to be recognized in the statement of financial position at the end of each reporting period. These include financial assets and liabilities at FVPL and AFS investments.

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 - valuation techniques for which the lowest level input that is significant to their fair value measurement is directly or indirectly observable
- Level 3 - valuation techniques for which the lowest level of input that is significant to their fair value measurement is unobservable

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

	Consolidated					
	2014					
	Valuation Date	Carrying Value	Level 1	Level 2	Level 3	Total
Assets measured at fair value						
Financial Assets						
Financial assets at FVPL:						
Held-for-trading:						
Government securities	12/29/2014	₱6,131,278	₱3,802,179	₱2,329,099	₱–	₱6,131,278
Private debt securities	12/29/2014	218,193	218,193	–	–	218,193
Equity securities	12/29/2014	210,834	210,674	160	–	210,834
Derivative assets	12/29/2014	136,551	–	65,391	71,160	136,551
Designated at FVPL:						
Segregated fund assets	12/29/2014	10,654,770	5,386,302	–	5,268,468	10,654,770
AFS investments:						
Government securities	12/29/2014	37,145,450	25,983,779	11,161,671	–	37,145,450
Private debt securities	12/29/2014	23,708,156	21,377,038	2,331,118	–	23,708,156
Equity securities*	12/29/2014	2,074,200	2,074,200	–	–	2,074,200
		₱80,279,432	₱59,052,365	₱15,887,439	₱5,339,628	₱80,279,432
Liabilities measured at fair value						
Financial Liabilities						
Financial liabilities at FVPL:						
Designated at FVPL:						
Segregated fund liabilities**	12/29/2014	₱10,654,770	₱5,386,302	₱–	₱5,268,468	₱10,654,770
Derivative liabilities	12/29/2014	44,903	–	44,903	–	44,903
		₱10,699,673	₱5,386,302	₱44,903	₱5,268,468	₱10,699,673
Assets for which fair values are disclosed						
Financial Assets						
HTM investments	12/29/2014	₱22,970,306	₱20,584,890	₱3,983,878	₱–	₱24,568,768
Loans and receivables:						
Receivables from customers	12/29/2014	296,372,069	–	–	316,486,735	316,486,735
Unquoted debt securities	12/29/2014	4,425,005	–	–	6,013,057	6,013,057
		₱323,767,380	₱20,584,890	₱3,983,878	₱322,499,792	₱347,068,560
Nonfinancial Assets						
Investment property:***						
Land	2014	₱18,217,858	₱–	₱–	₱24,326,385	₱24,326,385
Buildings and improvements	2014	2,030,624	–	–	3,355,569	3,355,569
		₱20,248,482	₱–	₱–	₱27,681,954	₱27,681,954

(Forward)

	Consolidated 2014					
	Valuation Date	**Carrying Value**	**Level 1**	**Level 2**	**Level 3**	**Total**
Liabilities for which fair values are disclosed						
Financial Liabilities						
Financial liabilities at amortized cost:						
Time deposits	**12/29/2014**	**₱52,881,409**	**₱–**	**₱–**	**₱55,296,115**	**₱55,296,115**
Bills payable	**12/29/2014**	**18,683,205**	**–**	**–**	**18,340,370**	**18,340,370**
Subordinated debt	**12/29/2014**	**9,969,498**	**–**	**–**	**10,593,485**	**10,593,485**
		₱81,534,112	**₱–**	**₱–**	**₱84,229,970**	**₱84,229,970**

** Excludes unquoted available-for-sale securities*
*** Excludes cash component*
**** Based on the fair values from appraisal reports which is different from their carrying amounts which are carried at cost*

	Consolidated 2013					
	Valuation Date	Carrying Value	Level 1	Level 2	Level 3	Total
Assets measured at fair value						
Financial Assets						
Financial assets at FVPL:						
Held-for-trading:						
Government securities	12/27/2013	₱3,070,674	₱1,977,066	₱1,093,608	₱–	₱3,070,674
Private debt securities	12/27/2013	268,771	217,808	50,963	–	268,771
Equity securities	12/27/2013	249,518	249,518	–	–	249,518
Derivative assets	12/27/2013	258,697	–	92,834	165,863	258,697
Designated at FVPL:						
Segregated fund assets	12/27/2013	7,861,688	2,481,635	–	5,380,053	7,861,688
AFS investments:						
Government securities	12/27/2013	59,247,765	33,571,430	25,676,335	–	59,247,765
Private debt securities	12/27/2013	19,216,744	19,150,981	65,763	–	19,216,744
Equity securities*	12/27/2013	1,678,007	1,678,007	–	–	1,678,007
		₱91,851,864	₱59,326,445	₱26,979,503	₱5,545,916	₱91,851,864
Liabilities measured at fair value						
Financial Liabilities						
Financial liabilities at FVPL:						
Designated at FVPL:						
Segregated fund liabilities**	12/27/2013	₱7,861,688	₱2,481,635	₱–	₱5,380,053	₱7,861,688
Derivative liabilities	12/27/2013	163,101	–	163,101	–	163,101
		₱8,024,789	₱2,481,635	₱163,101	₱5,380,053	₱8,024,789
Assets for which fair values are disclosed						
Financial Assets						
Loans and receivables:						
Receivables from customers	12/27/2013	₱248,282,877	₱–	₱–	₱256,593,191	₱256,593,191
Unquoted debt securities	12/27/2013	7,295,531	–	–	8,733,369	8,733,369
		₱255,578,408	₱–	₱–	₱265,326,560	₱265,326,560
Nonfinancial Assets						
Investment property:***						
Land	2012 - 2013	₱19,624,274	₱–	₱–	₱24,176,727	₱24,176,727
Buildings and improvements	2012 - 2013	1,828,688	–	–	3,394,550	3,394,550
		₱21,452,962	₱–	₱–	₱27,571,277	₱27,571,277
Liabilities for which fair values are disclosed						
Financial Liabilities						
Financial liabilities at amortized cost:						
Time deposits	12/27/2013	₱51,464,182	₱–	₱–	₱51,350,907	₱51,350,907
Subordinated debt	12/27/2013	9,953,651	–	–	10,584,755	10,584,755
		₱61,417,833	₱–	₱–	₱61,935,662	₱61,935,662

** Excludes unquoted available-for-sale securities*
*** Excludes cash component*
**** Based on the fair values from appraisal reports which is different from their carrying amounts which are carried at cost*

	Parent Company					
	2014					
	Valuation Date	**Carrying Value**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets measured at fair value						
Financial Assets						
Financial assets at FVPL:						
Held-for-trading:						
Government securities	**12/29/2014**	**₱6,131,278**	**₱3,802,179**	**₱2,329,099**	**₱–**	**₱6,131,278**
Private debt securities	**12/29/2014**	**218,193**	**218,193**	**–**	**–**	**218,193**
Equity securities	**12/29/2014**	**210,550**	**210,550**	**–**	**–**	**210,550**
Derivative assets	**12/29/2014**	**135,929**	**–**	**64,769**	**71,160**	**135,929**
AFS investments:						
Government securities	**12/29/2014**	**34,433,027**	**23,271,399**	**11,161,628**	**–**	**34,433,027**
Private debt securities	**12/29/2014**	**20,360,443**	**18,039,535**	**2,320,908**	**–**	**20,360,443**
Equity securities*	**12/29/2014**	**470,608**	**470,608**	**–**	**–**	**470,608**
		₱61,960,028	**₱46,012,464**	**₱15,876,404**	**₱71,160**	**₱61,960,028**
Liabilities measured at fair value						
Financial Liabilities						
Derivative liabilities	**12/29/2014**	**₱44,264**	**₱–**	**₱44,264**	**₱–**	**₱44,264**
Assets for which fair values are disclosed						
Financial Assets						
HTM investments	**12/29/2014**	**₱21,559,631**	**₱19,660,347**	**₱3,443,695**	**₱–**	**₱23,104,042**
Loans and receivables:						
Receivables from customers	**12/29/2014**	**275,489,052**	**–**	**–**	**292,379,151**	**292,379,151**
Unquoted debt securities	**12/29/2014**	**4,125,005**	**–**	**–**	**5,713,057**	**5,713,057**
		₱301,173,688	**₱19,660,347**	**₱3,443,695**	**₱298,092,208**	**₱321,196,250**
Nonfinancial Assets						
Investment property:**						
Land	**2014**	**₱17,915,404**	**₱–**	**₱–**	**₱24,174,768**	**₱24,174,768**
Buildings and improvements	**2014**	**1,837,499**	**–**	**–**	**3,189,415**	**3,189,415**
		₱19,752,903	**₱–**	**₱–**	**₱27,364,183**	**₱27,364,183**
Liabilities for which fair values are disclosed						
Financial Liabilities						
Financial liabilities at amortized cost:						
Time deposits	**12/29/2014**	**₱47,287,301**	**₱–**	**₱–**	**₱46,855,735**	**₱46,855,735**
Bills payable	**12/29/2014**	**18,159,191**	**–**	**–**	**17,816,356**	**17,816,356**
Subordinated debt	**12/29/2014**	**9,969,498**	**–**	**–**	**10,593,485**	**10,593,485**
		₱75,415,990	**₱–**	**₱–**	**₱75,265,576**	**₱75,265,576**

* *Excludes unquoted available-for-sale securities*
** *Based on the fair values from appraisal reports which is different from their carrying amounts which are carried at cost*

	Parent Company					
	2013					
	Valuation Date	Carrying Value	Level 1	Level 2	Level 3	Total
Assets measured at fair value						
Financial Assets						
Financial assets at FVPL:						
Held-for-trading:						
Government securities	12/27/2013	₱3,070,674	₱1,977,066	₱1,093,608	₱–	₱3,070,674
Private debt securities	12/27/2013	268,771	217,808	50,963	–	268,771
Equity securities	12/27/2013	247,615	247,615	–	–	247,615
Derivative assets	12/27/2013	258,613	–	92,750	165,863	258,613
AFS investments:						
Government securities	12/27/2013	55,174,681	29,498,346	25,676,335	–	55,174,681
Private debt securities	12/27/2013	16,625,989	16,560,227	65,762	–	16,625,989
Equity securities*	12/27/2013	757,119	757,119	–	–	757,119
		₱76,403,462	₱49,258,181	₱26,979,418	₱165,863	₱76,403,462
Liabilities measured at fair value						
Financial Liabilities						
Financial liabilities at FVPL:						
Derivative liabilities	12/27/2013	₱163,084	₱–	₱163,084	₱–	₱163,084

(Forward)

	Parent Company					
	2013					
	Valuation Date	Carrying Value	Level 1	Level 2	Level 3	Total
Assets for which fair values are disclosed						
Financial Assets						
Loans and receivables:						
Receivables from customers	12/27/2013	₱236,087,901	₱–	₱–	₱244,268,519	₱244,268,519
Unquoted debt securities	12/27/2013	6,912,909	–	–	8,350,923	8,350,923
		₱243,000,810	₱–	₱–	₱252,619,442	₱252,619,442
Nonfinancial Assets						
Investment property:**						
Land	2012 - 2013	₱19,505,306	₱–	₱–	₱23,798,941	₱23,798,941
Buildings and improvements	2012 - 2013	1,719,628	–	–	3,163,809	3,163,809
		₱21,224,934	₱–	₱–	₱26,962,750	₱26,962,750
Liabilities for which fair values are disclosed						
Financial Liabilities						
Financial liabilities at amortized cost:						
Time deposits	12/27/2013	₱47,698,807	₱–	₱–	₱47,585,532	₱47,585,532
Bills payable	12/27/2013	13,120,183	–	–	13,124,408	13,124,408
Subordinated debt	12/27/2013	9,953,651	–	–	10,584,755	10,584,755
		₱70,772,641	₱–	₱–	₱71,294,695	₱71,294,695

* *Excludes unquoted available-for-sale securities*
** *Based on the fair values from appraisal reports which is different from their carrying amounts which are carried at cost*

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

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

Significant input used in determining fair values of financial instruments under Level 2 comprises of interpolated market rates of benchmark securities.

As of December 31, 2014 and 2013, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

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

	Consolidated		**Parent Company**	
	2014	2013	**2014**	2013
Financial assets				
Balance at beginning of year	**₱5,545,916**	₱59,044	**₱165,863**	₱59,044
Acquisitions arising from:				
Business combination	**–**	2,616,316	**–**	–
Purchases of investments	**–**	2,692,915	**–**	20,738
Fair value changes recognized in profit or loss	**(206,288)**	177,641	**(94,703)**	86,081
Balance at end of year	**₱5,339,628**	₱5,545,916	**₱71,160**	₱165,863

(Forward)

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Financial liabilities				
Balance at beginning of year	**₱5,380,053**	₱6,196,070	**₱–**	₱6,196,070
Acquisitions arising from:				
Business combination	**–**	2,616,316	**–**	–
Purchases of investments	**–**	2,672,177	**–**	–
Fair value changes recognized in profit or loss	**(111,585)**	(104,510)	**–**	(196,070)
Redemption of unsecured subordinated notes	**–**	(6,000,000)	**–**	(6,000,000)
Balance at end of year	**₱5,268,468**	₱5,380,053	**₱–**	₱–

Equity and/or Credit-Linked Notes are shown as 'Segregated fund assets' under 'Financial Assets at FVPL'.

The structured Variable Unit-Linked Notes can be decomposed into bond components and options components. The fair value of structured notes has been computed by counterparties using present value calculations and option pricing models, as applicable. The valuation requires management to make certain assumptions about the model inputs particularly the credit spread of the Issuer. The model also used certain market observable inputs including the counterparty's credit default swap (CDS), PHP interest rate swap (IRS) rates (for the Peso-denominated issuances) and ROP CDS rates (for the USD-denominated issuances).

Description of valuation techniques are as follows:

Structured Notes	Valuation Methods	Significant Unobservable Inputs	Significant Observable Inputs
Peso-denominated	DCF Method / Monte Carlo Simulation	Issuer's Funding rate / Issuer's CDS as proxy	PHP IRS
Dollar-denominated	DCF Method / Monte Carlo Simulation	Issuer's Funding rate / Issuer's CDS as proxy	ROP CDS / USD IRS

The sensitivity analysis of the fair market value of the structured notes as of December 31, 2014 and 2013 is performed for the reasonable possible movement in the significant inputs with all other variables held constant, showing the impact to profit and loss follows:

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

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

* *The sensitivity analysis is performed only on the bond component of the Note.*

2013			
Structured Investments	Significant Unobservable Input	Range of Input	Sensitivity of the Input to Fair Value*
Peso-denominated	Bank CDS Levels	43.80 - 138.89 bps	50 bps increase (decrease) in change inputs would result in a (decrease) increase in the market value of the note by ₱93,593,693
Dollar-denominated	Bank CDS Levels	43.80 - 138.89 bps	50 bps increase (decrease) in change inputs would result in a (decrease) increase in the market value of the note by ₱41,511,299

* *The sensitivity analysis is performed only on the bond component of the Note.*

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

2014			
Structured Investments	**Significant Observable Input**	**Range of Input**	**Sensitivity of the Input to Fair Value***
Peso-denominated	**PHP IRS (3Y)**	**142.00 - 375.00 bps**	**50 bps increase (decrease) in change inputs would result in a (decrease) increase in the market value of the note by ₱90,838,042**
Dollar-denominated	**ROP CDS (5Y)**	**79.31 - 150.94 bps**	**50 bps increase (decrease) in change inputs would result in a (decrease) increase in the market value of the note by ₱41,710,217**

* *The sensitivity analysis is performed only on the bond component of the Note.*

2013			
Structured Investments	Significant Observable Input	Range of Input	Sensitivity of the Input to Fair Value*
Peso-denominated	PHP IRS (3Y)	103.00 - 410.00 bps	50 bps increase (decrease) in change inputs would result in a (decrease) increase in the market value of the note by ₱93,593,693.
Dollar-denominated	ROP CDS (5Y)	80.50 - 157.00 bps	50 bps increase (decrease) in change inputs would result in a (decrease) increase in the market value of the note by ₱41,511,299.

* *The sensitivity analysis is performed only on the bond component of the Note.*

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

Description of the valuation techniques and significant unobservable inputs used in the valuation of the Group and Parent Company's investment properties are as follow:

Valuation Techniques	
Market Data Approach	A process of comparing the subject property being appraised to similar comparable properties recently sold or being offered for sale.
Replacement Cost Approach	It is an estimate of the investment required to duplicate the property in its present condition. It is reached by estimating the value of the building "as if new" and then deducting the depreciated cost. Fundamental to the Cost Approach is the estimate of the improvement's Reproduction Cost New.

Significant Unobservable Inputs	
Price per square meter	Ranges from ₱600 to ₱24,000
Reproduction cost new	The cost to create a virtual replica of the existing structure, employing the same design and similar building materials.
Size	Size of lot in terms of area. Evaluate if the lot size of property or comparable conforms to the average cut of the lots in the area and estimate the impact of lot size differences on land value.
Shape	Particular form or configuration of the lot. A highly irregular shape limits the usable area whereas an ideal lot configuration maximizes the usable area of the lot which is associated in designing an improvement which conforms with the highest and best use of the property.
Location	Location of comparative properties whether on a main road, or secondary road. Road width could also be a consideration if data is available. As a rule, properties located along a main road are superior to properties located along a secondary road.
Time element	"An adjustment for market conditions is made if general property values have appreciated or depreciated since the transaction dates due to inflation or deflation or a change in investors' perceptions of the market over time". In which case, the current data is superior to historic data.
Discount	Generally, asking prices in ads posted for sale are negotiable. Discount is the amount the seller or developer is willing to deduct from the posted selling price if the transaction will be in cash or equivalent.
Corner influence	Bounded by two (2) roads.

6. **Segment Information**

Business Segments
The Group's operating businesses are determined and managed separately according to the nature of services provided and the different markets served with each segment representing a strategic business unit. The Group's business segments follow:

Retail Banking - principally handling individual customer's deposits, and providing consumer type loans, credit card facilities and fund transfer facilities;

Corporate Banking - principally handling loans and other credit facilities and deposit accounts for corporate and institutional customers

Treasury - principally providing money market, trading and treasury services, as well as the management of the Group's funding operations by use of T-bills, government securities and placements and acceptances with other banks, through treasury and wholesale banking; and

Other Segments - include, but not limited to, insurance, leasing, remittances and other support services. Other support services of the Group comprise of the operations and financial control groups.

Transactions between segments are conducted at estimated market rates on an arm's length basis. Interest is credited to or charged against business segments based on pool rate which approximates the marginal cost of funds.

For management purposes, business segment report is done on a quarterly basis. Business segment information provided to the BOD, chief operating decision maker (CODM) is based on the Regulatory Accounting Principles (RAP) submitted to the BSP in compliance with the reportorial requirements under the Financial Reporting Package for banks, which differ from PFRS. Significant differences arose from the manner of provisioning for impairment and credit losses, measurement of investment properties and the fair value measurement of financial instruments. The report submitted to CODM represents only the results of operation for each of the reportable segment.

Segment assets are those operating assets that are employed by a segment in its operating activities and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Segment liabilities are those operating liabilities that result from the operating activities of a segment and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Segment revenues pertain to the net interest margin and other operating income earned by a segment in its operating activities and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

The Group has no significant customer which contributes 10.00% or more of the consolidated revenue.

Business segment information of the Group follows:

	2014					
	Retail Banking	**Corporate Banking**	**Treasury**	**Others**	**Adjustments and Eliminations***	**Total**
Net interest margin						
Third party	**₱1,306,979**	**₱11,521,156**	**₱2,987,955**	**₱622,402**	**₱435,786**	**₱16,874,278**
Inter-segment	**3,928,385**	**(3,431,729)**	**(496,656)**	**–**	**–**	**–**
Net interest margin after inter-segment transactions	**5,235,364**	**8,089,427**	**2,491,299**	**622,402**	**435,786**	**16,874,278**
Other income	**2,026,365**	**4,062,801**	**1,122,246**	**4,663,841**	**(45,858)**	**11,829,395**
Segment revenue	**7,261,729**	**12,152,228**	**3,613,545**	**5,286,243**	**389,928**	**28,703,673**
Other expenses	**(7,131,047)**	**(3,677,796)**	**(217,934)**	**(3,983,837)**	**(628,280)**	**(15,638,894)**
Segment result	**₱130,682**	**₱8,474,432**	**₱3,395,611**	**₱1,302,406**	**(₱238,352)**	**13,064,779**
Unallocated expenses						**(6,159,274)**
Net income before income tax						**6,905,505**
Income tax						**(1,410,460)**
Net income						**5,495,045**
Non-controlling interest						**(136,376)**
Net income for the year attributable to equity holders of the Parent Company						**₱5,358,669**
Other segment information						
Capital expenditures	**₱744,394**	**₱25,454**	**₱1,404**	**₱291,118**	**₱32,553**	**₱1,094,923**
Unallocated capital expenditure						**271,486**
Total capital expenditure						**₱1,366,409**
Depreciation and amortization	**₱140,607**	**₱110,966**	**₱5,562**	**₱734,080**	**₱276,170**	**₱1,267,385**
Unallocated depreciation and amortization						**228,585**
Total depreciation and amortization						**₱1,495,970**
Provision for (reversal of) impairment, credit and other losses	**₱545,281**	**₱859,782**	**(₱11,766)**	**₱355,627**	**₱515,691**	**₱2,264,615**

** The eliminations and adjustments column mainly represent the RAP to PFRS adjustments*

	2013 (As Restated - Note 2)					
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Net interest margin						
Third party	₱648,331	₱9,659,791	₱2,435,438	₱529,670	₱475,309	₱13,748,539
Inter-segment	3,654,832	(2,860,774)	(794,058)	–	–	–
Net interest margin after inter-segment transactions	4,303,163	6,799,017	1,641,380	529,670	475,309	13,748,539
Other income	621,494	2,197,096	7,078,608	3,924,056	(657,048)	13,164,206
Segment revenue	4,924,657	8,996,113	8,719,988	4,453,726	(181,739)	26,912,745
Other expenses	(5,277,205)	(4,575,313)	(443,992)	(5,476,725)	(184,617)	(15,957,852)
Segment result	(₱352,548)	₱4,420,800	₱8,275,996	(₱1,022,999)	(₱366,356)	10,954,893
Unallocated expenses						(4,530,341)
Net income before share in net income of an associate and income tax						6,424,552
Share in net income of an associate						4,975
Net income before income tax						6,429,527
Income tax						(1,182,038)
Net income						5,247,489
Non-controlling interest						(101,174)
Net income for the year attributable to equity holders of the Parent Company						₱5,146,315
Other segment information						
Capital expenditures	₱904,371	₱20,728	₱723	₱313,597	₱–	₱1,239,419
Depreciation and amortization	₱182,520	₱206,627	₱7,352	₱741,997	₱330,812	₱1,469,308
Unallocated depreciation and amortization						236,352
Total depreciation and amortization						₱1,705,660
Provision for impairment, credit and other losses	₱294,772	₱156,417	₱–	₱71,811	₱310,584	₱833,584

** The eliminations and adjustments column mainly represent the RAP to PFRS adjustments*

	2012 (As Restated - Note 2)					
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Net interest margin						
Third party	(₱897,817)	₱5,993,722	₱1,516,222	₱195,159	₱168,420	₱6,975,706
Inter-segment	4,511,306	(2,096,482)	(2,414,824)	–	–	–
Net interest margin after inter-segment transactions	3,613,489	3,897,240	(898,602)	195,159	168,420	6,975,706
Other income	905,734	1,562,453	5,733,577	2,491,804	(352,277)	10,341,291
Segment revenue	4,519,223	5,459,693	4,834,975	2,686,963	(183,857)	17,316,997
Other expenses	(3,086,619)	(3,120,771)	(603,858)	(2,183,679)	281,606	(8,713,321)
Segment result	₱1,432,604	₱2,338,922	₱4,231,117	₱503,284	₱97,749	8,603,676
Unallocated expenses						(2,922,012)
Net income before share in net income of an associate and income tax						5,681,664
Share in net income of an associate						10,309
Net income before income tax						5,691,973
Income tax						(939,615)
Net income						4,752,358
Non-controlling interest						(9,831)
Net income for the year attributable to equity holders of the Parent Company						₱4,742,527
Other segment information						
Capital expenditures	₱506,515	₱6,119	₱3,131	₱170,204	(₱284,710)	₱401,259
Depreciation and amortization	₱160,741	₱170,691	₱6,470	₱77,616	₱167,675	₱583,193
Unallocated depreciation and amortization						236,353
Total depreciation and amortization						₱819,546
Provision for (reversal of) impairment, credit and other losses	₱37,130	₱674,855	₱249,369	(₱149,367)	₱11,714	₱823,701

** The eliminations and adjustments column mainly represent the RAP to PFRS adjustments*

	As of December 31, 2014					
	Retail Banking	**Corporate Banking**	**Treasury**	**Others**	**Adjustments and Eliminations***	**Total**
Segment assets	**₱300,295,603**	**₱233,760,262**	**₱183,055,599**	**₱107,472,631**	**(₱200,620,538)**	**₱623,963,557**
Unallocated assets						**1,482,275**
Total assets						**₱625,445,832**
Segment liabilities	**₱432,785,391**	**₱42,364,978**	**₱39,121,272**	**₱141,501,009**	**(₱255,648,228)**	**₱400,124,422**
Unallocated liabilities						**126,260,528**
Total liabilities						**₱526,384,950**

** The eliminations and adjustments column mainly represent the RAP to PFRS adjustments*

	As of December 31, 2013 (As Restated - Note 2)					
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Segment assets	₱323,066,129	₱210,159,287	₱266,730,411	₱139,624,331	(₱324,690,870)	₱614,889,288
Unallocated assets						1,386,332
Total assets						₱616,275,620
Segment liabilities	₱389,311,223	₱46,909,951	₱54,329,592	₱267,453,559	(₱311,879,591)	₱446,124,734
Unallocated liabilities						87,811,933
Total liabilities						₱533,936,667

** The eliminations and adjustments column mainly represent the RAP to PFRS adjustments*

Geographical Segments

Although the Group's businesses are managed on a worldwide basis, the Group operates in five (5) principal geographical areas of the world. The distribution of assets, liabilities, credit commitments items and revenues by geographic region of the Group follows:

	Non-current Assets		Liabilities		Capital Expenditure	
	2014	2013 (As Restated - Note 2)	**2014**	2013 (As Restated - Note 2)	**2014**	2013
Philippines	**₱338,962,435**	₱280,816,794	**₱506,034,141**	₱515,358,591	**₱1,338,759**	₱1,216,764
USA and Canada	**1,354,970**	1,747,128	**3,639,786**	2,112,914	**1,472**	29
Asia (excluding Philippines)	**1,153,246**	9,559,610	**15,572,732**	16,266,046	**14,897**	16,056
United Kingdom	**198,206**	40,032	**1,138,291**	10,160	**11,281**	6,570
Other European Union Countries	**–**	14,155	**–**	188,956	**–**	–
	₱341,668,857	₱292,177,719	**₱526,384,950**	₱533,936,667	**₱1,366,409**	₱1,239,419

	Credit Commitments		External Revenues		
	2014	2013	**2014**	2013 (As Restated - Note 2)	2012 (As Restated - Note 2)
Philippines	**₱15,661,774**	₱26,392,845	**₱26,783,178**	₱25,038,394	₱15,821,873
USA and Canada	**467**	487	**534,838**	531,803	605,993
Asia (excluding Philippines)	**8,104**	1,754,756	**1,184,773**	1,169,644	771,601
United Kingdom	**–**	–	**200,884**	148,592	117,116
Other European Union Countries	**–**	–	**–**	29,287	10,723
	₱15,670,345	₱28,148,088	**₱28,703,673**	₱26,917,720	₱17,327,306

The Philippines is the home country of the Parent Company, which is also the main operating company. The Group offers a wide range of financial services as discussed in Note 1. Additionally, most of the remittance services are managed and conducted in Asia, Canada, USA and United Kingdom.

The areas of operations include all the primary business segments.

7. Due from Bangko Sentral ng Pilipinas

As of December 31, 2014 and 2013, 35.54% and 53.93% of the Group's Due from BSP are placed under the special deposit account (SDA) with BSP. Those SDAs bear interest at annual interest rates ranging from 2.00% to 2.50%, 2.00% to 3.00% and 3.66% to 4.69% in 2014, 2013 and 2012, respectively.

As of December 31, 2014 and 2013, 29.35% and 56.54% of the Parent Company's Due from BSP are placed under the SDA with the BSP. Those SDAs bear interest at annual interest rates ranging from 2.00% to 2.50%, 2.00% to 3.00% and 3.66% to 4.69% in 2014, 2013 and 2012, respectively.

8. Interbank Loans Receivable

Interbank loans receivable includes peso and foreign currency-denominated placements amounting to ₱1.5 billion and ₱6.2 billion, respectively, as of December 31, 2014 and nil and ₱8.4 billion, respectively, as of December 31, 2013. The Group's peso-denominated interbank loans receivable bears interest ranging from 3.00% to 3.19% in 2014 and nil in 2013 and 2012, and from 0.08% to 0.25%, from 0.04% to 1.15% and from 0.05% to 1.05% for foreign-currency denominated placements in 2014, 2013 and 2012, respectively.

The amount of the Group's and the Parent Company's interbank loans receivable considered as cash and cash equivalents follow:

	2014	2013
Interbank loans receivable	**₱7,671,437**	₱8,405,250
Less: Interbank loans receivable not considered as cash and cash equivalents	**(178,898)**	–
	₱7,492,539	₱8,405,250

9. Trading and Investment Securities

This account consists of:

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Financial assets at FVPL	**₱17,351,626**	₱11,709,348	**₱6,695,950**	₱3,845,673
AFS investments	**63,091,497**	80,304,149	**55,411,588**	72,696,109
HTM investments	**22,970,306**	–	**21,559,631**	–
	₱103,413,429	₱92,013,497	**₱83,667,169**	₱76,541,782

Financial Assets at FVPL

This account consists of:

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Held-for-trading:				
Government securities	**₱6,131,278**	₱3,070,674	**₱6,131,278**	₱3,070,674
Private debt securities	**218,193**	268,771	**218,193**	268,771
Equity securities	**210,834**	249,518	**210,550**	247,615
Derivative assets (Note 23)	**136,551**	258,697	**135,929**	258,613
	6,696,856	3,847,660	**6,695,950**	3,845,673
Designated at FVPL:				
Segregated fund assets (Note 18)	**10,654,770**	7,861,688	**–**	–
	₱17,351,626	₱11,709,348	**₱6,695,950**	₱3,845,673

For the years ended December 31, 2014 and 2013, unrealized loss on government and private debt securities recognized by the Group and the Parent Company amounted to ₱216.2 million and ₱237.1 million, respectively. For the year ended December 31, 2012, the Group and the Parent Company recognized unrealized gain amounting to ₱50.1 million from government and private debt securities.

The carrying amount of equity securities includes unrealized loss of ₱17.2 million, ₱30.5 million and ₱3.8 million as of December 31, 2014, 2013 and 2012, respectively, for the Group and unrealized loss of ₱17.3 million, ₱30.6 million and ₱4.3 million as of December 31, 2014, 2013 and 2012, respectively, for the Parent Company.

In 2014, 2013 and 2012, the nominal interest rates of government securities range from 2.75% to 8.88%, from 3.25% to 8.38% and from 2.63% to 8.00%, respectively.

In 2014, 2013 and 2012, the nominal interest rates of private debt securities range from 4.25% to 7.38%, from 3.88% to 7.38% and from 5.75% to 7.38%, respectively.

Segregated fund assets designated as financial asset at FVPL refer to the considerations received from unit-linked insurance contracts invested by PNB LII in designated funds.

On March 15, 2005 and June 17, 2005, the IC approved PNB LII's license to sell single-pay and regular-pay unit-linked insurance products, respectively.

Segregated fund assets and the corresponding segregated fund liabilities are designated as financial assets and liabilities at FVPL since they are managed and their performances are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy. The equity of each policyholder in the segregated fund assets is determined by assigning a number of units to each policyholder, corresponding to the net amount deposited in relation to the market value at the time of contribution. The value per unit may increase or decrease depending on the market value of the underlying assets of the corresponding segregated funds.

As of December 31, 2014 and 2013, the segregated fund assets consist of peso funds amounting to ₱8.7 billion and ₱6.0 billion, respectively. The dollar funds amount to ₱2.0 billion and ₱1.9 billion as of December 31, 2014 and 2013, respectively. The segregated fund assets include the following equity-linked notes:

Equity-linked notes	Description
Asian Summit	A single-pay variable life insurance product which invests the single premium, net of premium charges, into a five (5)-Year PHP-Linked USD Participation Note which is linked to the performance of a basket of five Asian equity indices.
Summit Select	A single-pay variable life insurance product which invests the single premium, net of premium charges, into a five (5)-Year PHP-Linked USD Participation Note which is linked to the performance of ING Emerging Markets Consumption VT 10.00% Index.
Dollar Income Optimizer	A single-pay variable life insurance product which invests the single premium, net of premium charges, into UBS seven (7)-Year Structured Note which is linked to the performance of a basket of high quality global funds chosen to offer income and potential for capital appreciation.
Variable Unit-Linked Summit Peso and Dollar	A peso and dollar denominated single-pay five (5)-Year linked life insurance plan that provide the opportunity to participate in a risk-managed portfolio of six (6) equally-weighted exchange traded funds of ASEAN member countries via the ING ASEAN Equities VT 10.00% index.

AFS Investments
This account consists of:

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
AFS investments:				
Government securities (Notes 19 and 33)	**₱37,145,450**	₱59,247,765	**₱34,433,027**	₱55,174,681
Private debt securities	**23,708,156**	19,216,744	**20,360,443**	16,625,989
Equity securities - net of allowance for impairment losses (Note 16)				
Quoted	**2,074,200**	1,678,007	**470,608**	757,119
Unquoted	**163,691**	161,633	**147,510**	138,320
	₱63,091,497	₱80,304,149	**₱55,411,588**	₱72,696,109

The Group and Parent Company recognized impairment losses on equity securities amounting to ₱1.4 million in 2014 (Note 16).

The movements in net unrealized gain (loss) on AFS investments of the Group are as follows:

	Consolidated								
	2014			2013			2012		
	Parent Company	**NCI**	**Total**	Parent Company	NCI	Total	Parent Company	NCI	Total
Balance at the beginning of the year	**(₱3,581,865)**	**₱158,990**	**(₱3,422,875)**	₱1,037,252	₱–	1,037,252	₱742,343	₱–	₱742,343
Acquired from business combination	–	–	–	–	(47,538)	(47,538)	–	–	–
Changes in fair values of AFS investments	**2,406,462**	**23,820**	**2,430,282**	(243,270)	206,904	(36,366)	4,558,895	–	4,558,895
Provision for impairment (Note 16)	**1,423**	–	**1,423**	–	–	–	–	–	–
Realized gains	**(1,171,221)**	**(2,932)**	**(1,174,153)**	(4,375,383)	(376)	(4,375,759)	(4,287,934)	–	(4,287,934)
	1,236,664	**20,888**	**1,257,552**	(4,618,653)	206,528	(4,412,125)	270,961	–	270,961
Income tax effect (Note 31)	**9,059**	–	**9,059**	(464)	–	(464)	23,948	–	23,948
Balance at end of year	**(₱2,336,142)**	**₱179,878**	**(₱2,156,264)**	(₱3,581,865)	₱158,990	(₱3,422,875)	₱1,037,252	₱–	₱1,037,252

The changes in the net unrealized gain (loss) on AFS investments of the Parent Company follow:

	Parent Company		
	2014	2013	2012
Balance at the beginning of the year	**(₱3,400,929)**	₱904,686	₱658,256
Changes in fair values of AFS investments	**2,242,418**	(113,065)	4,432,827
Provision for impairment	**1,423**	–	–
Realized gains	**(1,128,511)**	(4,183,617)	(4,205,426)
	1,115,330	(4,296,682)	227,401
Income tax effect (Note 31)	**9,098**	(8,933)	19,029
Balance at end of year	**(₱2,276,501)**	(₱3,400,929)	₱904,686

As of December 31, 2013, the fair value of the AFS investments in the form of Fixed Rate Treasury Notes pledged to fulfill the Parent Company's collateral requirements for the peso rediscounting facility of BSP amounted to ₱2.4 billion (Note 19). BSP has an obligation to return the securities to the Parent Company once the obligations have been settled. In case of default, BSP has the right to hold the securities and sell them as settlement of the rediscounting facility. There are no other significant terms and conditions associated with the pledged investments.

As of December 31, 2014 and 2013, the fair value of the AFS investments in the form of Republic of the Philippines bonds pledged to fulfill its collateral requirements with securities sold under repurchase agreements transactions with the BSP amounted to ₱8.5 billion and ₱2.7 billion, respectively (Note 19). BSP has an obligation to return the securities to the Parent Company once the obligations have been settled. In case of default, BSP has the right to hold the securities and sell them as settlement of the repurchase agreement. There are no other significant terms and conditions associated with the pledged investments.

Included in the Group's AFS investments are pledged securities for the Surety Bond with face value amount of ₱974.4 million issued by PNB Gen (Note 35). As of December 31, 2014 and 2013, the carrying value of these pledged securities amounted to ₱903.9 million and ₱928.3 million, respectively.

HTM Investments

Reclassification of Financial Assets

On October 12, 2011, the Parent Company had identified a clear change of intent to exit or trade in the short term its HTM investments rather than to hold them until maturity, when it disposed of more than an insignificant amount of its HTM investments. This disposal necessitated the reclassification of the remaining HTM investments to AFS securities in accordance with PAS 39.

Beginning 2014, the Group is already allowed to classify investments as HTM as the tainting period, required by PAS 39, has lapsed. On March 3 and March 5, 2014, the Group reclassified certain AFS investment securities with fair values of ₱15.9 billion and ₱6.8 billion, respectively, back to its original classification, as HTM investments, as management has established that it continues to have the positive intention and ability to hold these securities to maturity. The reclassification was approved by the BOD on February 28, 2014. The previous fair valuation gains amounting to ₱2.7 billion that have been recognized in OCI shall be amortized to profit or loss over the remaining life of the HTM investments using effective interest rates ranging from 3.60% to 5.64%.

As of December 31, 2014, HTM investments of the Group comprise of government securities and private debt securities amounting to ₱22.9 billion and ₱50.0 million, respectively. HTM investments of the Parent Company consist of government securities amounting to ₱21.6 billion as of December 31, 2014.

As of December 31, 2014, the fair value of the HTM investments in the form of Republic of the Philippines bonds pledged to fulfill its collateral requirements with securities sold under repurchase agreements transactions with BSP amounted to ₱8.9 billion (Note 19).

Interest income on trading and investment securities

This account consists of:

	Consolidated			Parent Company		
	2014	2013	2012	**2014**	2013	2012
AFS investments	**₱2,350,023**	₱3,102,464	₱2,627,530	**₱1,968,228**	₱2,755,886	₱2,532,161
HTM investments	**794,541**	–	–	**725,613**	–	–
Financial assets at FVPL	**244,886**	648,203	608,224	**244,886**	648,202	608,224
Derivatives	–	5,528	–	–	5,503	–
	₱3,389,450	₱3,756,195	₱3,235,754	**₱2,938,727**	₱3,409,591	₱3,140,385

Effective interest rates range from 2.58% to 5.62%, from 1.62% to 5.79% and from 2.35% to 5.95% in 2014, 2013 and 2012, respectively, for peso-denominated AFS investments.

Effective interest rates range from 2.06% to 5.83%, from 1.28% to 5.90% and from 1.66% to 5.90% in 2014, 2013 and 2012, respectively, for foreign currency-denominated AFS investments.

HTM investments bear effective annual interest rates ranging from 3.60% to 5.64% in 2014.

Trading and investment securities gains - net
This account consists of:

	Consolidated			Parent Company		
	2014	2013	2012	**2014**	2013	2012
Financial assets at FVPL:						
Held-for-trading	**₱197,224**	₱214,322	₱449,744	**₱196,597**	₱214,322	₱440,660
Designated at FVPL	**1,751**	79,955	31,240	**–**	(16,192)	31,240
AFS investments	**1,174,153**	4,375,759	4,287,934	**1,128,511**	4,183,617	4,205,426
Financial liabilities at FVPL:						
Designated at FVPL	**–**	104,510	283,100	**–**	196,070	283,100
Derivative financial instruments (Note 23)	**(90,761)**	(156,313)	312,791	**(90,761)**	(156,313)	312,791
	₱1,282,367	₱4,618,233	₱5,364,809	**₱1,234,347**	₱4,421,504	₱5,273,217

10. Loans and Receivables

This account consists of:

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Receivables from customers:				
Loans and discounts	**₱279,256,983**	₱233,536,374	**₱261,796,590**	₱224,041,113
Customers' liabilities on letters of credit and trust receipts	**11,233,400**	9,618,839	**10,910,584**	9,375,421
Bills purchased (Note 22)	**4,878,682**	3,781,305	**4,292,300**	3,387,627
Credit card receivables	**4,390,966**	3,763,087	**4,390,966**	3,763,087
Lease contracts receivable (Note 30)	**3,324,277**	2,677,235	**103,720**	105,209
Customers' liabilities on acceptances (Note 19)	**361,505**	359,413	**361,505**	359,413
	303,445,813	253,736,253	**281,855,665**	241,031,870
Less unearned and other deferred income	**1,261,386**	1,109,950	**867,933**	830,242
	302,184,427	252,626,303	**280,987,732**	240,201,628
Unquoted debt securities	**8,044,272**	11,254,187	**7,744,272**	10,871,565
Other receivables:				
Accounts receivable	**8,993,706**	10,186,605	**3,127,060**	3,924,203
Accrued interest receivable	**4,756,699**	7,229,913	**4,533,985**	7,040,322
Sales contract receivables	**4,267,338**	4,647,352	**4,184,697**	4,591,220
Miscellaneous	**442,088**	499,314	**389,790**	473,406
	18,459,831	22,563,184	**12,235,532**	16,029,151
	328,688,530	286,443,674	**300,967,536**	267,102,344
Less allowance for credit losses (Note 16)	**12,435,509**	12,167,591	**11,946,142**	11,666,814
	₱316,253,021	₱274,276,083	**₱289,021,394**	₱255,435,530

Below is the reconciliation of loans and receivables as to classes:

	Consolidated							
	2014							
	Receivables from Customers					Unquoted Debt Securities	Others	Total
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits			
Receivables from customers:								
Loans and discounts	₱224,312,212	₱20,089,224	₱8,410,900	₱25,938,669	₱505,978	₱–	₱–	₱279,256,983
Customers' liabilities on letters of credit and trust receipts	11,233,400	–	–	–	–	–	–	11,233,400
Bills purchased (Note 22)	4,527,330	351,352	–	–	–	–	–	4,878,682
Credit card receivables	68,455	–	–	4,261,332	61,179	–	–	4,390,966
Lease contracts receivable (Note 30)	3,323,512	–	–	765	–	–	–	3,324,277
Customers' liabilities on acceptances (Note 19)	361,505	–	–	–	–	–	–	361,505
	243,826,414	20,440,576	8,410,900	30,200,766	567,157	–	–	303,445,813
Less unearned and other deferred income	1,300,208	–	14,290	(53,368)	256	–	–	1,261,386
	242,526,206	20,440,576	8,396,610	30,254,134	566,901	–	–	302,184,427
Unquoted debt securities	–	–	–	–	–	8,044,272	–	8,044,272
Other receivables:								
Accounts receivable	–	–	–	–	–	–	8,993,706	8,993,706
Accrued interest receivable	–	–	–	–	–	–	4,756,699	4,756,699
Sales contract receivables	–	–	–	–	–	–	4,267,338	4,267,338
Miscellaneous	–	–	–	–	–	–	442,088	442,088
	242,526,206	20,440,576	8,396,610	30,254,134	566,901	8,044,272	18,459,831	328,688,530
Less allowance for credit losses (Note 16)	4,530,880	189,270	62,462	1,012,637	17,109	3,619,267	3,003,884	12,435,509
	₱237,995,326	₱20,251,306	₱8,334,148	₱29,241,497	₱549,792	₱4,425,005	₱15,455,947	₱316,253,021

	Consolidated							
	2013							
	Receivables from Customers					Unquoted Debt Securities	Others	Total
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits			
Receivables from customers:								
Loans and discounts	₱176,301,212	₱25,346,986	₱8,612,537	₱22,677,538	₱598,101	₱–	₱–	₱233,536,374
Customers' liabilities on letters of credit and trust receipts	9,617,851	988	–	–	–	–	–	9,618,839
Bills purchased (Note 22)	3,343,718	437,587	–	–	–	–	–	3,781,305
Credit card receivables	42,391	–	–	3,702,336	18,360	–	–	3,763,087
Lease contracts receivable (Note 30)	2,676,136	–	–	1,099	–	–	–	2,677,235
Customers' liabilities on acceptances (Note 19)	359,413	–	–	–	–	–	–	359,413
	192,340,721	25,785,561	8,612,537	26,380,973	616,461	–	–	253,736,253
Less unearned and other deferred income	1,084,841	–	16,909	7,910	290	–	–	1,109,950
	191,255,880	25,785,561	8,595,628	26,373,063	616,171	–	–	252,626,303
Unquoted debt securities	–	–	–	–	–	11,254,187	–	11,254,187
Other receivables:								
Accounts receivable	–	–	–	–	–	–	10,186,605	10,186,605
Accrued interest receivable	–	–	–	–	–	–	7,229,913	7,229,913
Sales contract receivables	–	–	–	–	–	–	4,647,352	4,647,352
Miscellaneous	–	–	–	–	–	–	499,314	499,314
	191,255,880	25,785,561	8,595,628	26,373,063	616,171	11,254,187	22,563,184	286,443,674
Less allowance for credit losses (Note 16)	3,695,863	76,429	85,008	455,503	30,623	3,958,656	3,865,509	12,167,591
	₱187,560,017	₱25,709,132	₱8,510,620	₱25,917,560	₱585,548	₱7,295,531	₱18,697,675	₱274,276,083

	Parent Company							
	2014							
	Receivables from Customers					Unquoted		
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits	Debt Securities	Others	Total
Receivables from customers:								
Loans and discounts	₱216,170,658	₱20,089,224	₱8,410,900	₱16,633,338	₱492,470	₱–	₱–	₱261,796,590
Customers' liabilities on letters of credit and trust receipts	10,910,584	–	–	–	–	–	–	10,910,584
Bills purchased (Note 22)	3,940,948	351,352	–	–	–	–	–	4,292,300
Credit card receivables	68,455	–	–	4,261,332	61,179	–	–	4,390,966
Lease contracts receivable (Note 30)	103,720	–	–	–	–	–	–	103,720
Customers' liabilities on acceptances (Note 19)	361,505	–	–	–	–	–	–	361,505
	231,555,870	20,440,576	8,410,900	20,894,670	553,649	–	–	281,855,665
Less unearned and other deferred income	910,204	–	14,290	(56,817)	256	–	–	867,933
	230,645,666	20,440,576	8,396,610	20,951,487	553,393	–	–	280,987,732
Unquoted debt securities	–	–	–	–	–	7,744,272	–	7,744,272
Other receivables:								
Accounts receivable	–	–	–	–	–	–	3,127,060	3,127,060
Accrued interest receivable	–	–	–	–	–	–	4,533,985	4,533,985
Sales contract receivables	–	–	–	–	–	–	4,184,697	4,184,697
Miscellaneous	–	–	–	–	–	–	389,790	389,790
	230,645,666	20,440,576	8,396,610	20,951,487	553,393	7,744,272	12,235,532	300,967,536
Less allowance for credit losses (Note 16)	4,266,298	189,270	62,462	963,545	17,105	3,619,267	2,828,195	11,946,142
	₱226,379,368	₱20,251,306	₱8,334,148	₱19,987,942	₱536,288	₱4,125,005	₱9,407,337	₱289,021,394

	Parent Company							
	December 31, 2013							
	Receivables from Customers					Unquoted		
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits	Debt Securities	Others	Total
Receivables from customers:								
Loans and discounts	₱169,021,890	₱25,346,986	₱8,612,537	₱20,475,776	₱583,924	₱–	₱–	₱224,041,113
Customers' liabilities on letters of credit and trust receipts	9,374,433	988	–	–	–	–	–	9,375,421
Bills purchased (Note 22)	2,950,040	437,587	–	–	–	–	–	3,387,627
Credit card receivables	42,391	–	–	3,702,336	18,360	–	–	3,763,087
Lease contracts receivable (Note 30)	105,209	–	–	–	–	–	–	105,209
Customers' liabilities on acceptances (Note 19)	359,413	–	–	–	–	–	–	359,413
	181,853,376	25,785,561	8,612,537	24,178,112	602,284	–	–	241,031,870
Less unearned and other deferred income	807,149	–	16,909	5,894	290	–	–	830,242
	181,046,227	25,785,561	8,595,628	24,172,218	601,994	–	–	240,201,628
Unquoted debt securities	–	–	–	–	–	10,871,565	–	10,871,565
Other receivables:								
Accounts receivable	–	–	–	–	–	–	3,924,203	3,924,203
Accrued interest receivable	–	–	–	–	–	–	7,040,322	7,040,322
Sales contract receivables	–	–	–	–	–	–	4,591,220	4,591,220
Miscellaneous	–	–	–	–	–	–	473,406	473,406
	181,046,227	25,785,561	8,595,628	24,172,218	601,994	10,871,565	16,029,151	267,102,344
Less allowance for credit losses (Note 16)	3,495,728	76,429	85,008	425,942	30,620	3,958,656	3,594,431	11,666,814
	₱177,550,499	₱25,709,132	₱8,510,620	₱23,746,276	₱571,374	₱6,912,909	₱12,434,720	₱255,435,530

Loans amounting to ₱219.1 million as of December 31, 2013 have been pledged to the BSP to secure the Parent Company's availments under the BSP rediscounting privileges which are included in Bills payable (Note 19). The pledged loans will be released when the underlying transaction is terminated. In the event of the Parent Company's default, BSP is entitled to apply the collateral in order to settle the rediscounted bills.

On November 27, 1997, Maybank Philippines, Inc. (Maybank) and the Parent Company signed a deed of assignment transferring to the Parent Company certain Maybank assets (included under 'Receivables from customers - Loans and discounts' and 'Accrued interest receivable') and liabilities in connection with the sale of the Parent Company's 60.00% equity in Maybank.

As of December 31, 2014 and 2013, the balance of these receivables amounted to ₱3.6 billion and the transferred liabilities (included under 'Bills payable to BSP and local banks' - Note 19 and 'Accrued interest payable' - Note 20) amounted to ₱3.3 billion. The excess of the transferred receivables over the transferred liabilities is fully covered by an allowance for credit losses amounting to ₱262.5 million as of December 31, 2014 and 2013. The remaining 40% equity ownership of the Parent Company in Maybank was sold in June 2000 (Note 35).

Unquoted debt instruments
Unquoted debt instruments include the zero-coupon notes received by the Parent Company from Special Purpose Vehicle (SPV) Companies on October 15, 2004, at the principal amount of ₱803.5 million (Tranche A Note) payable in five (5) years and at the principal amount of ₱3.4 billion (Tranche B Note) payable in eight (8) years in exchange for the outstanding loans receivable from National Steel Corporation (NSC) of ₱5.3 billion. The notes are secured by a first ranking mortgage and security interest over the NSC Plant Assets. As of December 31, 2014 and 2013, the notes are carried at their recoverable values. Management assessed that these loans are not fully recoverable as a result of the Partial Award granted by the Arbitration Panel to the SPV Companies. The consortium banks, including the Parent Company, have filed a Petition to set aside the Partial Award with the Singapore High Court on July 9, 2012.

The Singapore High Court reversed its decision and granted in its entirety the Petition of the consortium banks to set aside the Partial Award on July 31, 2014. The SPV Companies filed a Notice of Appeal to the Singapore Court of Appeals on September 1, 2014. The first hearing was heard on January 26, 2015.

The Singapore Court of Appeal issued a Decision upholding the Singapore High Court's Decision in part on March 31, 2015. Parties are to file submissions before the Singapore Court of Appeal pertaining to the issue on cost and consequential order (Note 35).

As of December 31, 2013, unquoted debt instruments include bonds issued by Philippine Sugar Corporation (PSC) amounting to ₱2.7 billion with accrued interest included under 'Accrued interest receivable' amounting to ₱2.3 billion. The full repayment of principal and accrued interest is guaranteed by a sinking fund managed by the Parent Company's Trust Banking Group (TBG) (Note 34). As of December 31, 2014 and 2013, the sinking fund amounted to nil and ₱5.3 billion, respectively, earning an average rate of return of 8.82% per annum. The bonds matured on February 15, 2014 and were settled through liquidation of the sinking fund.

Finance lease receivable
An analysis of the Group and the Parent Company's finance lease receivables is presented as follows:

	Consolidated		**Parent Company**	
	2014	2013	**2014**	2013
Minimum lease payments				
Due within one year	**₱1,333,023**	₱1,010,882	**₱14,109**	₱2,809
Due beyond one year but not over five years	**1,369,711**	1,185,732	**31,100**	26,550
Due beyond five years	**58,511**	75,850	**58,511**	75,850
	2,761,245	2,272,464	**103,720**	105,209
Residual value of leased equipment				
Due within one year	**138,019**	135,309	–	–
Due beyond one year but not over five years	**425,013**	229,254	–	–
Due beyond five years	–	40,208	–	–
	563,032	404,771	–	–
Gross investment in finance lease receivables	**₱3,324,277**	₱2,677,235	**₱103,720**	₱105,209

Interest Income
Interest income on loans and receivables consists of:

	Consolidated			Parent Company		
	2014	2013	2012	**2014**	2013	2012
Receivables from customers and sales contract receivables	**₱14,669,616**	₱12,902,015	₱7,372,918	**₱13,491,902**	₱12,358,412	₱7,235,499
Unquoted debt securities	**521,555**	216,449	78,434	**502,891**	200,297	78,434
	₱15,191,171	₱13,118,464	₱7,451,352	**₱13,994,793**	₱12,558,709	₱7,313,933

As of December 31, 2014 and 2013, 75.65% and 83.30%, respectively, of the total receivables from customers of the Group were subject to interest repricing. As of December 31, 2014 and 2013, 75.67% and 83.10%, respectively, of the total receivables from customers of the Parent Company were subject to interest repricing. Remaining receivables carry annual fixed interest rates ranging from 2.51% to 9.00% in 2014, from 4.80% to 9.00% in 2013 and from 2.30% to 13.00% in 2012 for foreign currency-denominated receivables, and from 0.03% to 23.04% in 2014, from 0.30% to 24.40% in 2013 and 0.90% to 18.50% in 2012 for peso-denominated receivables.

Sales contract receivables bear fixed interest rate per annum ranging from 5.1% to 21.0%, from 4.5% to 21.0% and from 1.8% to 15.0% in 2014, 2013 and 2012, respectively.

Interest income accrued on impaired loans and receivable of the Group and Parent Company amounted to ₱274.8 million in 2014, ₱289.1 million in 2013 and ₱302.8 million in 2012 (Note 16).

BSP Reporting
An industry sector analysis of the Group's and Parent Company's receivables from customers before taking into account the unearned and other deferred income and allowance for credit losses is shown below.

	Consolidated				Parent Company			
	2014		2013		**2014**		2013	
	Carrying Amount	**%**	Carrying Amount	%	**Carrying Amount**	**%**	Carrying Amount	%
Primary target industry:								
Wholesale and retail	**₱44,259,825**	**14.59**	₱43,123,882	17.00	**₱40,978,531**	**14.54**	₱41,354,279	17.16
Electricity, gas and water	**43,111,698**	**14.21**	38,522,970	15.18	**43,093,083**	**15.29**	38,472,289	15.96
Manufacturing	**40,789,519**	**13.44**	31,991,543	12.61	**37,209,179**	**13.20**	28,864,617	11.97
Financial intermediaries	**37,940,739**	**12.50**	21,459,900	8.46	**39,537,227**	**14.03**	21,233,784	8.81
Public administration and defense	**23,464,016**	**7.73**	23,867,454	9.41	**23,464,016**	**8.32**	23,867,454	9.90
Transport, storage and communication	**19,342,572**	**6.38**	18,089,058	7.13	**17,615,089**	**6.25**	16,631,343	6.90
Agriculture, hunting and forestry	**4,343,522**	**1.43**	3,660,006	1.44	**4,031,492**	**1.43**	3,563,052	1.48
Secondary target industry:								
Real estate, renting and business activities	**39,672,249**	**13.07**	36,118,989	14.23	**32,141,232**	**11.40**	32,099,141	13.32
Construction	**8,508,366**	**2.80**	6,975,635	2.75	**7,235,094**	**2.57**	6,410,388	2.66
Others	**42,013,307**	**13.85**	29,926,816	11.79	**36,550,722**	**12.97**	28,535,523	11.84
	₱303,445,813	**100.00**	₱253,736,253	100.00	**₱281,855,665**	**100.00**	₱241,031,870	100.00

The information (gross of unearned and other deferred income and allowance for credit losses) relating to receivables from customers as to secured and unsecured and as to collateral follows:

	Consolidated				Parent Company			
	2014		2013		**2014**		2013	
	Carrying Amount	**%**	Carrying Amount	%	**Carrying Amount**	**%**	Carrying Amount	%
Secured:								
Real estate mortgage	**₱68,910,935**	**22.71**	₱59,124,844	23.30	**₱57,372,084**	**20.36**	₱52,102,346	21.62
Chattel mortgage	**10,341,429**	**3.41**	8,678,328	3.42	**9,054,565**	**3.21**	6,730,957	2.79
Bank deposit hold-out	**6,336,908**	**2.09**	3,572,618	1.41	**3,815,052**	**1.35**	3,486,259	1.45
Shares of stocks	**35,776**	**0.01**	–	–	**35,776**	**0.01**	–	–
Others	**39,354,446**	**12.97**	32,094,769	12.65	**36,933,777**	**13.11**	29,540,606	12.25
	124,979,494	**41.19**	103,470,559	40.78	**107,211,254**	**38.04**	91,860,168	38.11
Unsecured	**178,466,319**	**58.81**	150,265,694	59.22	**174,644,411**	**61.96**	149,171,702	61.89
	₱303,445,813	**100.00**	₱253,736,253	100.00	**₱281,855,665**	**100.00**	₱241,031,870	100.00

The table below reflects the balances of loans and receivables as reported to the BSP. For purposes of BSP reporting, the acquired loans and receivables were measured based on their original amortized cost as at acquisition date instead of their corresponding fair values.

Non-performing Loans (NPL) of the Parent Company as to secured and unsecured follows:

	2014	2013
Secured	**₱6,960,228**	₱6,842,118
Unsecured	**2,960,524**	3,844,304
	₱9,920,752	₱10,686,422

Generally, NPLs refer to loans whose principal and/or interest is unpaid for thirty (30) days or more after due date or after they have become past due in accordance with existing BSP rules and regulations. This shall apply to loans payable in lump sum and loans payable in quarterly, semi-annual, or annual installments, in which case, the total outstanding balance thereof shall be considered nonperforming.

In the case of loans that are payable in monthly installments, the total outstanding balance thereof shall be considered nonperforming when three (3) or more installments are in arrears.

In the case of loans that are payable in daily, weekly, or semi-monthly installments, the total outstanding balance thereof shall be considered nonperforming at the same time that they become past due in accordance with existing BSP regulations, i.e., the entire outstanding balance of the receivable shall be considered as past due when the total amount of arrearages reaches ten percent (10.00%) of the total loan balance.

Loans are classified as nonperforming in accordance with BSP regulations, or when, in the opinion of management, collection of interest or principal is doubtful. Loans are not reclassified as performing until interest and principal payments are brought current or the loans are restructured in accordance with existing BSP regulations, and future payments appear assured.

Loans which do not meet the requirements to be treated as performing loans shall also be considered as NPLs. Effective January 1, 2013, the exclusion of NPLs classified as loss but are fully covered by allowance was removed by the BSP through Circular No. 772. Previous banking regulations allow banks that have no unbooked valuation reserves and capital adjustments to exclude from nonperforming classification those loans classified as Loss in the latest examination of the BSP which are fully covered by allowance for credit losses, provided that interest on said receivables shall not be accrued.

As of December 31, 2014 and 2013, based on the revised definition of NPLs under Circular No. 772, NPLs of ₱9.9 billion and ₱10.7 billion, respectively which the Parent Company reported to the BSP are gross of specific allowance amounting to ₱7.3 billion and ₱7.2 billion, respectively. Most of these loans are secured by real estate or chattel mortgages.

As of December 31, 2014 and 2013, gross and net NPL ratios of the Parent Company were 3.4% and 0.9%, and 4.3% and 1.4%, respectively.

Restructured loans of the Group and the Parent Company as of December 31, 2014 amounted to ₱3.2 billion and ₱1.7 billion, respectively. Restructured loans of the Group and the Parent Company as of December 31, 2013 amounted to ₱2.0 billion and ₱1.9 billion, respectively.

11. Property and Equipment

The composition of and movements in property and equipment follow:

	Consolidated						
	2014						
	Land	Building	Furniture, Fixtures and Equipment	Long-term Leasehold Land	Construction In-progress	Leasehold Improvements	Total
Cost							
Balance at beginning of year	₱13,335,606	₱6,471,818	₱3,864,908	₱534,977	₱332,688	₱600,051	₱25,140,048
Additions	977	206,944	455,678	–	210,172	107,687	981,458
Reclassifications (Note 13)	34,488	52,219	–	–	–	–	86,707
Disposals/others	(76,342)	(14,412)	(293,417)	1,104	(304,777)	(5,134)	(692,978)
Balance at end of year	13,294,729	6,716,569	4,027,169	536,081	238,083	702,604	25,515,235
Accumulated Depreciation and Amortization							
Balance at beginning of year	–	2,123,604	2,704,481	4,490	–	297,171	5,129,746
Depreciation and amortization	–	227,215	455,343	4,901	–	121,645	809,104
Reclassifications (Note 13)	–	15,372	–	–	–	–	15,372
Disposals/others	–	(4,017)	(234,539)	65	–	(4,385)	(242,876)
Balance at end of year	–	2,362,174	2,925,285	9,456	–	414,431	5,711,346
Allowance for Impairment Losses (Note 16)	122,305	107,201	–	–	–	–	229,506
Net Book Value at End of Year	₱13,172,424	₱4,247,194	₱1,101,884	₱526,625	₱238,083	₱288,173	₱19,574,383

	Consolidated						
	2013 (As Restated - Note 2)						
	Land	Building	Furniture, Fixtures and Equipment	Long-term Leasehold Land	Construction In-progress	Leasehold Improvements	Total
Cost							
Balance at beginning of year	₱9,919,864	₱4,522,902	₱3,121,098	₱–	₱175,973	₱458,529	₱18,198,366
Additions	17	34,949	577,940	–	173,542	74,864	861,312
Acquired from business combination (Note 37)	3,415,725	1,874,277	467,156	520,864	59,586	119,458	6,457,066
Disposals/others	–	39,690	(301,286)	14,113	(76,413)	(52,800)	(376,696)
Balance at end of year	13,335,606	6,471,818	3,864,908	534,977	332,688	600,051	25,140,048
Accumulated Depreciation and Amortization							
Balance at beginning of year	–	1,890,656	2,410,507	–	–	232,045	4,533,208
Depreciation and amortization	–	296,265	476,149	4,291	–	112,152	888,857
Disposals/others	–	(63,317)	(182,175)	199	–	(47,026)	(292,319)
Balance at end of year	–	2,123,604	2,704,481	4,490	–	297,171	5,129,746
Allowance for Impairment Losses (Note 16)	183,876	61,300	–	–	–	–	245,176
Net Book Value at End of Year	₱13,151,730	₱4,286,914	₱1,160,427	₱530,487	₱332,688	₱302,880	₱19,765,126

	Consolidated					
	2012 (As Restated - Note 2)					
	Land	Building	Furniture, Fixtures and Equipment	Construction In-Progress	Leasehold Improvements	Total
Cost						
Balance at beginning of year	₱9,918,864	₱4,451,206	₱3,042,550	₱226,532	₱354,065	₱17,993,217
Additions	1,000	111,525	269,349	190,543	131,910	704,327
Disposals/others	–	(39,829)	(190,801)	(241,102)	(27,446)	(499,178)
Balance at end of year	9,919,864	4,522,902	3,121,098	175,973	458,529	18,198,366
Accumulated Depreciation and Amortization						
Balance at beginning of year	–	1,785,540	2,330,703	–	199,900	4,316,143
Depreciation and amortization	–	127,118	237,322	–	60,853	425,293
Disposals/others	–	(22,002)	(157,518)	–	(28,708)	(208,228)
Balance at end of year	–	1,890,656	2,410,507	–	232,045	4,533,208
Allowance for Impairment Losses (Note 16)	191,450	46,536	–	–	–	237,986
Net Book Value at End of Year	₱9,728,414	₱2,585,710	₱710,591	₱175,973	₱226,484	₱13,427,172

	Parent Company					
	2014					
	Land	**Building**	**Furniture, Fixtures and Equipment**	**Construction In-progress**	**Leasehold Improvements**	**Total**
Cost						
Balance at beginning of year	**₱13,333,173**	**₱6,404,804**	**₱3,324,856**	**₱332,688**	**₱498,572**	**₱23,894,093**
Additions	**977**	**206,943**	**310,312**	**210,172**	**106,748**	**835,152**
Reclassifications (Note 13)	**34,488**	**56,881**	**–**	**–**	**–**	**91,369**
Disposals/others	**(76,342)**	**(14,765)**	**(257,306)**	**(304,777)**	**(10,146)**	**(663,336)**
Balance at end of year	**13,292,296**	**6,653,863**	**3,377,862**	**238,083**	**595,174**	**24,157,278**
Accumulated Depreciation and Amortization						
Balance at beginning of year	**–**	**2,103,385**	**2,412,816**	**–**	**243,496**	**4,759,697**
Depreciation and amortization	**–**	**225,692**	**347,441**	**–**	**101,832**	**674,965**
Reclassifications (Note 13)	**–**	**17,144**	**–**	**–**	**–**	**17,144**
Disposals/others	**–**	**(4,443)**	**(196,732)**	**–**	**(5,221)**	**(206,396)**
Balance at end of year	**–**	**2,341,778**	**2,563,525**	**–**	**340,107**	**5,245,410**
Allowance for Impairment Losses (Note 16)	**121,253**	**107,200**	**–**	**–**	**–**	**228,453**
Net Book Value at End of Year	**₱13,171,043**	**₱4,204,885**	**₱814,337**	**₱238,083**	**₱255,067**	**₱18,683,415**

	Parent Company					
	2013 (As Restated - Note 2)					
	Land	Building	Furniture, Fixtures and Equipment	Construction In-progress	Leasehold Improvements	Total
Cost						
Balance at beginning of year	₱9,919,864	₱4,522,902	₱2,746,618	₱175,973	₱373,208	₱17,738,565
Additions	–	34,716	478,675	173,542	66,838	753,771
Acquired from business combination (Note 37)	3,413,309	1,819,691	401,590	59,586	83,675	5,777,851
Disposals/others	–	27,495	(302,027)	(76,413)	(25,149)	(376,094)
Balance at end of year	13,333,173	6,404,804	3,324,856	332,688	498,572	23,894,093
Accumulated Depreciation and Amortization						
Balance at beginning of year	–	1,890,657	2,192,580	–	169,881	4,253,118
Depreciation and amortization	–	283,967	394,071	–	90,119	768,157
Disposals/others	–	(71,239)	(173,835)	–	(16,504)	(261,578)
Balance at end of year	–	2,103,385	2,412,816	–	243,496	4,759,697
Allowance for Impairment Losses (Note 16)	183,876	61,300	–	–	–	245,176
Net Book Value at End of Year	₱13,149,297	₱4,240,119	₱912,040	₱332,688	₱255,076	₱18,889,220

	Parent Company					
	2012 (As Restated - Note 2)					
	Land	Building	Furniture, Fixtures and Equipment	Construction In-progress	Leasehold Improvements	Total
Cost						
Balance at beginning of year	₱9,918,864	₱4,451,206	₱2,638,258	₱226,532	₱251,243	₱17,486,103
Additions	1,000	111,525	207,446	190,543	126,137	636,651
Disposals/others	–	(39,829)	(99,086)	(241,102)	(4,172)	(384,189)
Balance at end of year	9,919,864	4,522,902	2,746,618	175,973	373,208	17,738,565

(Forward)

	Parent Company					
	2012 (As Restated - Note 2)					
	Land	Building	Furniture, Fixtures and Equipment	Construction In-progress	Leasehold Improvements	Total
Accumulated Depreciation and Amortization						
Balance at beginning of year	₱–	₱1,785,540	₱2,089,542	₱–	₱123,554	₱3,998,636
Depreciation and amortization	–	127,118	186,206	–	49,209	362,533
Disposals/others	–	(22,001)	(83,168)	–	(2,882)	(108,051)
Balance at end of year	–	1,890,657	2,192,580	–	169,881	4,253,118
Allowance for Impairment Losses	191,450	46,536	–	–	–	237,986
Net Book Value at End of Year	₱9,728,414	₱2,585,709	₱554,038	₱175,973	₱203,327	₱13,247,461

The Group and the Parent Company recovered previously recognized impairment loss on property and equipment of ₱4.3 million and ₱4.9 million, respectively, in 2014 and recognized provision for impairment loss amounting to ₱3.8 million in 2013 and ₱0.4 million in 2012.

The total recoverable value of certain property and equipment of the Group and the Parent Company for which impairment loss has been recognized or reversed amounted to ₱425.3 million and ₱110.9 million, as of December 31, 2014 and 2013, respectively.

Gain on disposal of property and equipment for the year 2014, 2013 and 2012 amounted to ₱12.1 million, ₱1.9 million, and ₱0.3 million, respectively, for the Group and ₱12.4 million, ₱1.3 million and ₱0.3 million, respectively, for the Parent Company (Note 13).

Depreciation and amortization consists of:

	Consolidated			**Parent Company**		
	2014	2013 (As Restated - Note 2)	2012 (As Restated - Note 2)	**2014**	2013 (As Restated - Note 2)	2012 (As Restated - Note 2)
Depreciation						
Property and equipment	**₱809,104**	₱888,857	₱425,293	**₱674,965**	₱768,157	₱362,533
Investment properties (Note 13)	**190,727**	286,923	227,802	**183,382**	279,147	225,768
Chattel mortgage	**23,455**	62,721	12,901	**23,281**	62,721	6,245
Amortization - Intangible assets (Note 14)	**472,684**	467,159	153,550	**460,582**	463,909	151,126
	₱1,495,970	₱1,705,660	₱819,546	**₱1,342,210**	₱1,573,934	₱745,672

Certain property and equipment of the Parent Company with carrying amount of ₱117.8 million, ₱52.2 million and ₱14.2 million are temporarily idle as of December 31, 2014, 2013 and 2012, respectively.

As of December 31, 2014, 2013 and 2012, property and equipment of the Parent Company with gross carrying amounts of ₱1.2 billion, ₱0.9 billion and ₱0.7 billion, respectively, are fully depreciated but are still being used.

12. Investments in Subsidiaries

The consolidated financial statements of the Group include:

				Percentage of Ownership			
		Country of	Functional	2014		2013	
Subsidiaries	Nature of Business	Incorporation	Currency	Direct	Indirect	Direct	Indirect
PNB SB [(a)]	Banking	Philippines	Php	**100.00**	**–**	100.00	–
PNB Capital and Investment Corporation (PNB Capital)	Investment	- do -	Php	**100.00**	**–**	100.00	–
PNB Forex, Inc.	FX trading	- do -	Php	**100.00**	**–**	100.00	–
PNB Holdings Corporation (PNB Holdings)	Investment	- do -	Php	**100.00**	**–**	100.00	–
PNB Gen [(b)]	Insurance	- do -	Php	**65.75**	**34.25**	–	100.00
PNB Securities, Inc. (PNB Securities)	Securities Brokerage	- do -	Php	**100.00**	**–**	100.00	–
PNB Corporation - Guam	Remittance	USA	USD	**100.00**	**–**	100.00	–
PNB International Investments Corporation (PNB IIC)	Investment	- do -	USD	**100.00**	**–**	100.00	–
PNB Remittance Centers, Inc. (PNB RCC) [(c)]	Remittance	- do -	USD	**–**	**100.00**	–	100.00
PNB RCI Holding Co. Ltd. [(c)]	Holding Company	- do -	USD	**–**	**100.00**	–	100.00
Allied Bank Philippines (UK) Plc (ABUK)*	Banking	United Kingdom	GBP	**100.00**	**–**	100.00	–
PNB Europe PLC	Banking	- do -	GBP	**100.00**	**–**	100.00	–
PNB Remittance Co. (Canada) [(d)]	Remittance	Canada	CAD	**–**	**100.00**	–	100.00
PNB Global Remittance & Financial Co. (HK) Ltd. (PNB GRF)	Remittance	Hong Kong	HKD	**100.00**	**–**	100.00	–
PNB Italy SpA (PISpA) [(g)]	Remittance	Italy	EUR	**–**	**–**	100.00	–
Allied Commercial Bank (ACB)*	Banking	People's Republic of China	USD	**90.41**	**–**	90.41	–
Japan-PNB Leasing	Leasing/Financing	Philippines	Php	**90.00**	**–**	90.00	–
Japan-PNB Equipment Rentals Corporation [(e)]	Rental	- do -	Php	**–**	**90.00**	–	90.00
PNB LII *	Insurance	- do -	Php	**80.00**	**–**	80.00	–
ALFC	Rental	- do -	Php	**57.21**	**–**	57.21	–
Allied Banking Corporation (Hong Kong) Limited (ABCHKL) *	Banking	Hong Kong	HKD	**51.00**	**–**	51.00	–
ACR Nominees Limited [(f)] *	Banking	- do -	HKD	**–**	**51.00**	–	51.00
Oceanic Holding (BVI) Ltd. (OHBVI) *	Holding Company	British Virgin Islands	USD	**27.78**	**–**	27.78	–

** Subsidiaries acquired as a result of the merger with Allied Banking Corporation*
[(a)] *Formerly Allied Savings Bank*
[(b)] *In 2014, the Parent Company made a direct capital infusion to PNB Gen, thus, acquiring the 65.75% ownership interest of the latter. Formerly wholly owned by PNB Holdings*
[(c)] *Owned through PNBIIC*
[(d)] *Owned through PNB RCI Holding Co. Ltd.*
[(e)] *Owned through Japan-PNB Leasing*
[(f)] *Owned through ABCHKL*
[(g)] *On November 19, 2014, PISpA was liquidated.*

The details of this account follow:

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Acquisition cost of subsidiaries:				
PNB SB	**₱–**	₱–	**₱10,935,041**	₱935,041
ACB	**–**	–	**5,485,747**	5,485,747
PNB IIC	**–**	–	**2,028,202**	2,028,202
PNB LII	**–**	–	**1,327,083**	1,327,083
PNB Europe PLC	**–**	–	**1,006,537**	1,006,537
ABCHKL	**–**	–	**947,586**	947,586
PNB GRF	**–**	–	**753,061**	753,061
PNB Gen	**–**	–	**600,000**	–

(Forward)

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
PNB Holdings	**₱–**	₱–	**₱377,876**	₱377,876
PNB Capital	**–**	–	**350,000**	350,000
ABUK	**–**	–	**320,858**	320,858
OHBVI	**–**	–	**291,840**	291,840
Japan-PNB Leasing	**–**	–	**218,331**	218,331
ALFC	**–**	–	**148,400**	148,400
PNB Securities	**–**	–	**62,351**	62,351
PNB Forex, Inc.	**–**	–	**50,000**	50,000
PNB Corporation - Guam	**–**	–	**7,672**	7,672
PISpA	**–**	–	**–**	204,377
	–	–	**24,910,585**	14,514,962
Acquisition cost of associate:				
Balance at beginning of year	**–**	2,763,903	**–**	2,763,903
Reclassification of previously held interest in an associate due to step-up acquisition of control over investee	**–**	(2,763,903)	**–**	(2,763,903)
	–	–	**–**	–
Accumulated equity in net earnings:				
Balance at beginning of year	**–**	136,330	**–**	–
Equity in net earnings for the year (Note 28)	**–**	4,975	**–**	–
Reclassification of previously held interest in an associate due to step-up acquisition of control over investee	**–**	(141,305)	**–**	
	–	–	**–**	–
Less allowance for impairment losses (Note 16)	**–**	–	**807,973**	1,012,231
	₱–	₱–	**₱24,102,612**	₱13,502,731

As part of the Group's rehabilitation program in 2002, the SEC approved on November 7, 2002 the application of the accumulated translation adjustment of ₱1.6 billion to eliminate the Parent Company's remaining deficit of ₱1.3 billion as of December 31, 2001, after applying the total reduction in par value amounting to ₱7.6 billion. The SEC approval is subject to the following conditions: (a) remaining translation adjustment of ₱310.7 million as of December 31, 2001 (shown as part of 'Capital Paid in Excess of Par Value' in the statement of financial position) will not be used to wipe out losses that may be incurred in the future without prior approval of SEC; and (b) for purposes of dividend declaration, any future surplus account of the Parent Company shall be restricted to the extent of the deficit wiped out by the translation adjustment.

As of December 31, 2014 and 2013, the acquisition cost of the investments in the Parent Company's separate financial statements includes the balance of ₱2.1 billion consisting of the translation adjustment and accumulated equity in net earnings, net of dividends subsequently received from the quasi-reorganization date, that were closed to deficit on restructuring date and is not available for dividend declaration.

In 2014, 2013 and 2012, the Parent Company's subsidiaries declared cash dividends amounting to ₱67.8 million, ₱77.3 million and ₱25.2 million, respectively. These are included under 'Miscellaneous income - others' (Note 28) in the Parent Company financial statements.

Material non-controlling interests

The financial information as of December 31, 2014 and 2013 of subsidiaries which have material NCI is provided below.

Proportion of equity interest held by non-controlling interests

	Principal Activities	2014	2013
ABCHKL	Banking	**49.00%**	49.00%
PNB LII	Insurance	**20.00%**	20.00%
ACB	Banking	**9.59%**	9.59%

	2014	2013
Accumulated balances of material NCI		
ABCHKL	**₱1,183,905**	₱1,129,967
ACB	**639,045**	640,268
PNB LII	**390,465**	320,629
Profit allocated to material NCI		
ABCHKL	**56,712**	44,152
ACB	**4,465**	4,882
PNB LII	**51,254**	38,749

The following tables present financial information of subsidiaries with material non-controlling interest:

	2014		
	PNB LII	**ABCHKL**	**ACB**
Statement of Financial Position			
Current assets	**₱6,643,684**	**₱5,358,423**	**₱8,408,683**
Non-current assets	**12,911,566**	**4,523,473**	**709,013**
Current liabilities	**6,412,619**	**7,465,764**	**2,454,036**
Non-current liabilities	**11,190,306**	**–**	**–**
Statement of Comprehensive Income			
Revenues	**2,100,673**	**338,240**	**286,478**
Expenses	**1,844,401**	**222,501**	**239,918**
Net income	**256,272**	**115,739**	**46,560**
Total comprehensive income	**1,365,316**	**66,228**	**(12,793)**
Statement of Cash Flows			
Net cash provided by (used in) operating activities	**1,535,951**	**(93,319)**	**1,661,045**
Net cash provided by (used in) investing activities	**(1,395,507)**	**132,299**	**(13,464)**
Net cash used in financing activities	**–**	**(5,920)**	**–**

	2013		
	PNB LII	ABCHKL	ACB
Statement of Financial Position			
Current assets	₱807,472	₱5,063,919	₱8,506,792
Non-current assets	13,842,678	4,477,620	840,814
Current liabilities	1,833,112	6,948,939	2,667,861
Non-current liabilities	11,539,108	159,380	3,333
Statement of Comprehensive Income			
Revenues	2,025,195	275,972	229,861
Expenses	1,785,212	179,787	162,016
Net income	209,540	90,105	50,906
Total comprehensive income	80,964	237,541	609,008

(Forward)

	2013		
	PNB LII	ABCHKL	ACB
Statement of Cash Flows			
Net cash provided by (used in) operating activities	₱101,961	(₱73,518)	₱525,741
Net cash provided by (used in) investing activities	(8,030)	210,160	(61,458)
Net cash used in financing activities	–	(5,925)	–

The non-controlling interest in respect of ALFC, Japan-PNB Leasing and OHBVI is not material to the Group.

Investment in SPVs
On November 12, 2009, the Articles of Incorporation of Omicron Asset Portfolio (SPV-AMC), Inc., Tanzanite Investments (SPV-AMC), Inc. and Tau Portfolio Investments (SPV-AMC), Inc. were amended to shorten the life of these SPVs until December 31, 2009. The application to shorten the life of these SPVs was approved by the SEC in 2013. Upon approval, these SPVs ceased to operate and the final financial statements were submitted to the SEC on April 30, 2013.

Investment in ACB
In August 2009, the Parent Company acquired 39.41% ownership in ACB in Xiamen China for a total consideration of CNY 394.1 million or USD 57.7 million (equivalent to ₱2.8 billion).

With its merger with ABC in 2013 (Note 1), the Parent Company's equity interest in ACB increased from 39.41% to 90.41%. This resulted in change in accounting for such investment from an associate to a subsidiary. In accordance with PFRS 3, *Business Combination*, the step-up acquisition of investment in ACB is accounted for as a disposal of the equity investment in ACB and the line by line consolidation of ACB's assets and liabilities in the Group's financial statements. The fair value of consideration received from the step-up acquisition is equal to the carrying value of the disposed investment in ACB.

On November 22, 2013, the BOD of the Parent Company approved and confirmed the increase in equity investment of the Parent Company in ACB by way of purchase of the remaining equity holdings of natural person investors. The increase in equity investment in ACB is in relation to ACB's application of CNY license with the Chinese Banking Regulatory Commission (CBRC). The CBRC requires foreign banks applying for CNY license to be wholly owned by financial institutions. On June 4, 2014, the BSP approved the Parent Company's increase in equity investment in ACB subject to certain conditions.

PNB Forex
On August 23, 2013, the Parent Company approved the dissolution of PNB Forex by shortening its corporate life to until December 31, 2013. PNB Forex has ceased its business operations on January 1, 2006. As of December 31, 2014, PNB Forex is still in the process of complying with the requirements of regulatory agencies to effect the dissolution.

PNB SB
On November 28, 2014, the Parent Company infused additional capital to PNB SB amounting to ₱10.0 billion which will be used to build and refocus the Group's consumer lending business. The infusion of additional equity to PNB SB was approved by the BSP on February 28, 2014.

PNB Gen
The Parent Company contributed ₱600.0 million to PNB Gen in 2014 to acquire 65.75% interest ownership over the latter. In 2013, the Parent Company has indirect ownership over PNB Gen

through PNB Holdings. The additional capital of PNB Gen is meant to strengthen the financial position of the subsidiary considering that it suffered a net loss in 2013.

PISpA
PISpA was liquidated on November 9, 2014. The Group will shift to an agent-arrangement to continue remittance business in Italy.

Significant restrictions
The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the regulatory supervisory frameworks within which insurance and banking subsidiaries operate.

The BSP and IC regulations require banks and insurance companies to maintain certain levels of regulatory capital. As of December 31, 2014 and 2013, the total assets of banking subsidiaries amounted to ₱41.6 billion and ₱29.9 billion, respectively; and ₱27.7 billion and ₱23.1 billion for insurance subsidiaries, respectively.

13. Investment Properties

The composition of and movements in this account follow:

	Consolidated		
	2014		
	Land	**Buildings and Improvements**	**Total**
Cost			
Beginning balance	**₱22,253,685**	**₱4,527,376**	**₱26,781,061**
Additions	**958,957**	**360,712**	**1,319,669**
Reclassifications (Note 11)	**(34,488)**	**(52,219)**	**(86,707)**
Disposals/others	**(1,766,582)**	**(384,925)**	**(2,151,507)**
Balance at end of year	**21,411,572**	**4,450,944**	**25,862,516**
Accumulated Depreciation			
Balance at beginning of year	**–**	**2,109,108**	**2,109,108**
Depreciation (Note 11)	**–**	**190,727**	**190,727**
Reclassifications (Note 11)	**–**	**(15,372)**	**(15,372)**
Disposals/others	**–**	**(427,649)**	**(427,649)**
Balance at end of year	**–**	**1,856,814**	**1,856,814**
Allowance for Impairment Losses (Note 16)	**3,193,714**	**563,506**	**3,757,220**
Net Book Value at End of Year	**₱18,217,858**	**₱2,030,624**	**₱20,248,482**

	Consolidated		
	2013		
	Land	Buildings and Improvements	Total
Cost			
Beginning balance	₱17,032,456	₱4,025,748	₱21,058,204
Additions	1,238,051	1,133,569	2,371,620
Acquired from business combination (Note 37)	6,031,443	675,651	6,707,094
Disposals/others	(2,048,265)	(1,307,592)	(3,355,857)
Balance at end of year	22,253,685	4,527,376	26,781,061

(Forward)

	Consolidated		
	2013		
	Land	Buildings and Improvements	Total
Accumulated Depreciation			
Balance at beginning of year	₱–	₱2,112,673	₱2,112,673
Depreciation (Note 11)	–	286,923	286,923
Disposals/others	–	(290,488)	(290,488)
Balance at end of year	–	2,109,108	2,109,108
Allowance for Impairment Losses (Note 16)	2,629,411	589,580	3,218,991
Net Book Value at End of Year	₱19,624,274	₱1,828,688	₱21,452,962

	Parent Company		
	2014		
	Land	**Buildings and Improvements**	**Total**
Cost			
Beginning balance	**₱21,976,781**	**₱4,335,703**	**₱26,312,484**
Additions	**922,661**	**322,553**	**1,245,214**
Reclassifications (Note 11)	**(34,488)**	**(56,881)**	**(91,369)**
Disposals/others	**(1,756,859)**	**(382,676)**	**(2,139,535)**
Balance at end of year	**21,108,095**	**4,218,699**	**25,326,794**
Accumulated Depreciation			
Balance at beginning of year	–	**2,074,941**	**2,074,941**
Depreciation (Note 11)	–	**183,382**	**183,382**
Reclassifications (Note 11)	–	**(17,144)**	**(17,144)**
Disposals/others	–	**(427,754)**	**(427,754)**
Balance at end of year	–	**1,813,425**	**1,813,425**
Allowance for Impairment Losses (Note 16)	**3,192,691**	**567,775**	**3,760,466**
Net Book Value at End of Year	**₱17,915,404**	**₱1,837,499**	**₱19,752,903**

	Parent Company		
	2013		
	Land	Buildings and Improvements	Total
Cost			
Beginning balance	₱17,032,457	₱3,924,681	₱20,957,138
Additions	1,103,536	1,051,036	2,154,572
Acquired from business combination (Note 37)	5,766,042	649,032	6,415,074
Disposals/others	(1,925,254)	(1,289,046)	(3,214,300)
Balance at end of year	21,976,781	4,335,703	26,312,484
Accumulated Depreciation			
Balance at beginning of year	–	2,078,756	2,078,756
Depreciation (Note 11)	–	279,147	279,147
Disposals/others	–	(282,962)	(282,962)
Balance at end of year	–	2,074,941	2,074,941
Allowance for Impairment Losses (Note 16)	2,471,475	541,134	3,012,609
Net Book Value at End of Year	₱19,505,306	₱1,719,628	₱21,224,934

Investment properties include real properties foreclosed or acquired in settlement of loans. Foreclosed investment properties of the Parent Company still subject to redemption period by the borrowers amounted to ₱141.5 million and ₱267.0 million, as of December 31, 2014 and 2013, respectively. Valuations were derived on the basis of recent sales of similar properties in the same area as the investment properties and taking into account the economic conditions prevailing at the time the valuations were made. The Group and the Parent Company are exerting continuing efforts to dispose these properties. As discussed in Note 35, investment properties with an aggregate fair value of ₱300.0 million were mortgaged in favor of BSP in 2007. In 2013, these real estate collaterals were released as a result of settlement made by the Parent Company to the BSP.

The total recoverable value of certain investment properties of the Group and the Parent Company that were impaired amounted to ₱8.8 billion and ₱7.1 billion as of December 31, 2014 and 2013, respectively.

In 2014, properties with carrying value of ₱74.0 million were reclassified from investment properties to property and equipment (Note 11) due to management decision to use the properties as branches of the Parent Company. The Group also reclassified ₱2.9 million of property and equipment (Note 11) to investment properties in view of using these properties to earn rentals.

For the Group, direct operating expenses on investment properties that generated rental income during the year (other than depreciation and amortization), included under 'Miscellaneous expenses - Others', amounted to ₱26.4 million, ₱8.0 million and ₱44.5 million in 2014, 2013, and 2012, respectively. While direct operating expenses on investment properties that did not generate rental income included under 'Miscellaneous expenses - Others', amounted to ₱134.3 million, ₱180.8 million and ₱242.5 million in 2014, 2013, and 2012, respectively.

For the Parent Company, direct operating expenses on investment properties that generated rental income during the year (other than depreciation and amortization), included under 'Miscellaneous expenses - Others', amounted to ₱23.3 million, ₱7.0 million and ₱39.2 million in 2014, 2013, and 2012, respectively. While direct operating expenses on investment properties that did not generate rental income included under 'Miscellaneous expenses - Others', amounted to ₱132.6 million, ₱179.1 million and ₱242.5 million in 2014, 2013, and 2012, respectively.

<u>Net gains on sale or exchange of assets</u>
This account consists of:

	Consolidated			**Parent Company**		
	2014	2013	2012	**2014**	2013	2012
Net gains from sale of investment property	**₱1,072,653**	₱226,789	₱474,121	**₱1,058,574**	₱224,281	₱474,121
Net gains (losses) from foreclosure and repossession of investment property	**368,341**	289,915	(114,470)	**364,745**	271,296	(114,470)
Net gains from sale of property and equipment	**12,053**	1,900	264	**12,407**	1,287	264
	₱1,453,047	₱518,604	₱359,915	**₱1,435,726**	₱496,864	₱359,915

14. Goodwill and Intangible Assets

As of December 31, 2014 and December 31, 2013, goodwill and intangible assets consist of:

	Consolidated				
	2014				
	Intangible Assets				
	Core Deposits	**Customer Relationship**	**Software Cost**	**Total**	**Goodwill**
Cost					
Balance at beginning of year	**₱1,897,789**	**₱391,943**	**₱871,184**	**₱3,160,916**	**₱13,375,407**
Additions	–	–	**384,951**	**384,951**	–
Write-offs	–	–	**(8,355)**	**(8,355)**	–
Cumulative translation adjustment	–	–	**6,563**	**6,563**	–
Balance at end of year	**1,897,789**	**391,943**	**1,254,343**	**3,544,075**	**13,375,407**

(Forward)

	Consolidated 2014				
	Intangible Assets				
	Core Deposits	**Customer Relationship**	**Software Cost**	**Total**	**Goodwill**
Accumulated Amortization					
Balance at beginning of year	**₱169,747**	**₱116,857**	**₱496,272**	**₱782,876**	**₱–**
Amortization (Note 11)	**189,778**	**130,648**	**152,258**	**472,684**	**–**
Write-offs	**–**	**–**	**(5,707)**	**(5,707)**	**–**
Cumulative translation adjustment	**–**	**–**	**(602)**	**(602)**	**–**
Balance at end of year	**359,525**	**247,505**	**642,221**	**1,249,251**	**–**
Net Book Value at End of Year	**₱1,538,264**	**₱144,438**	**₱612,122**	**₱2,294,824**	**₱13,375,407**

	Consolidated 2013				
	Intangible Assets				
	Core Deposits	Customer Relationship	Software Cost	Total	Goodwill
Cost					
Balance at beginning of year	₱–	₱–	₱692,739	₱692,739	₱–
Acquired from business combination (Note 37)	1,897,789	391,943	60,209	2,349,941	13,375,407
Additions	–	–	118,236	118,236	–
Balance at end of year	1,897,789	391,943	871,184	3,160,916	13,375,407
Accumulated Amortization					
Balance at beginning of year	–	–	315,717	315,717	–
Amortization (Note 11)	169,747	116,857	180,555	467,159	–
Balance at end of year	169,747	116,857	496,272	782,876	–
Net Book Value at End of Year	₱1,728,042	₱275,086	₱374,912	₱2,378,040	₱13,375,407

	Parent Company 2014				
	Intangible Assets				
	Core Deposits	**Customer Relationship**	**Software Cost**	**Total**	**Goodwill**
Cost					
Balance at beginning of year	**₱1,897,789**	**₱391,943**	**₱763,967**	**₱3,053,699**	**₱13,515,765**
Additions	**–**	**–**	**380,474**	**380,474**	**–**
Write-offs	**–**	**–**	**(3,247)**	**(3,247)**	**–**
Cumulative translation adjustment	**–**	**–**	**1,588**	**1,588**	**–**
Balance at end of year	**1,897,789**	**391,943**	**1,142,782**	**3,432,514**	**13,515,765**
Accumulated Amortization					
Balance at beginning of year	**169,747**	**116,857**	**486,959**	**773,563**	**–**
Amortization (Note 11)	**189,778**	**130,648**	**140,156**	**460,582**	**–**
Write-offs	**–**	**–**	**(2,395)**	**(2,395)**	**–**
Cumulative translation adjustment	**–**	**–**	**662**	**662**	**–**
Balance at end of year	**359,525**	**247,505**	**625,382**	**1,232,412**	**–**
Net Book Value at End of Year	**₱1,538,264**	**₱144,438**	**₱517,400**	**₱2,200,102**	**₱13,515,765**

	Parent Company				
	2013				
	Intangible Assets				
	Core Deposits	Customer Relationship	Software Cost	Total	Goodwill
Cost					
Balance at beginning of year	₱–	₱–	₱681,159	₱681,159	₱–
Acquired from business combination (Note 37)	1,897,789	391,943	–	2,289,732	13,515,765
Additions	–	–	82,808	82,808	–
Balance at end of year	1,897,789	391,943	763,967	3,053,699	13,515,765
Accumulated amortization					
Balance at beginning of year	–	–	309,654	309,654	–
Amortization (Note 11)	169,747	116,857	177,305	463,909	–
Balance at end of year	169,747	116,857	486,959	773,563	–
Net Book Value at End of Year	₱1,728,042	₱275,086	₱277,008	₱2,280,136	₱13,515,765

Core deposits and customer relationship
CDI and CRI are the intangible assets acquired through the merger of the Parent Company with ABC. CDI include the stable level of deposit liabilities of ABC which is considered as favorably priced source of funds by the Parent Company. CRI pertain to ABC's key customer base which the Parent Company expects to bring more revenue through loan availments.

Software cost
Software cost as of December 31, 2014 includes capitalized development costs amounting to ₱289.0 million related to the Parent Company's new core banking system which is expected to be completed and available for use by 2018.

Impairment testing of goodwill and intangible assets
Goodwill acquired through business combinations has been allocated to three CGUs which are also reportable segments, namely, retail banking, corporate banking and treasury. Goodwill allocated to the CGUs amounted to ₱6.2 billion, ₱4.2 billion and ₱3.1 billion, respectively. CDI is allocated to retail banking while CRI is allocated to corporate banking.

Goodwill is reviewed for impairment annually in the fourth quarter of the reporting period, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. CDI and CRI, on the other hand, are assessed for impairment where indicator(s) of objective evidence of impairment has been identified. Impairment testing is done by comparing the recoverable amount of each CGU with its carrying amount. The carrying amount of a CGU is derived based on its net assets plus the amount allocated to the CGU. The recoverable amount is the higher of a CGUs' fair value less costs to sell and its value in use. The goodwill impairment test in 2014 and 2013 did not result in an impairment loss of goodwill of the CGUs as the recoverable amount for these CGUs were higher than their respective carrying amount.

Key assumptions used in value in use calculations
The recoverable amounts of the CGUs have been determined on the basis of value in use calculation using the discounted cash flows (DCF) model. The DCF model uses earnings projections based on financial budgets approved by senior management covering a three-year period and are discounted to their present value. Estimating future earning involves judgment which takes into account past and actual performance and expected developments in the respective markets and in the overall macro-economic environment.

The following rates were applied to the cash flow projections:

	2014			2013		
	Retail Banking	**Corporate Banking**	**Treasury**	Retail Banking	Corporate Banking	Treasury
Pre-tax discount rate	**11.69%**	**14.80%**	**9.76%**	14.98%	17.53%	11.69%
Projected growth rate	**5.00%**	**5.00%**	**5.00%**	3.24%	3.24%	3.24%

The calculation of value in use for retail banking, corporate banking and treasury CGUs is most sensitive to interest margin, discount rates, market share during the budget period, projected growth rates used to extrapolate cash flows beyond the budget period, and current local gross domestic product.

Discount rate
The discount rates applied have been determined based on cost of equity for retail and corporate banking segments and weighted average cost of capital for treasury segment. The cost of equity was derived using the capital asset pricing model which is comprised of a market risk premium, risk-free interest rate and the beta factor. The values for the risk-free interest rate, the market risk premium and the beta factors were obtained from external sources of information.

Sensitivity to changes in assumptions
Management believes that no reasonably possible change in any of the key assumptions used would cause the carrying value of the units to exceed their recoverable amount.

15. Other Assets

This account consists of:

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Financial				
Return checks and other cash items	**₱942,126**	₱180,550	**₱941,597**	₱180,336
Security deposits	**100,986**	85,961	**85,654**	59,260
Revolving fund and petty cash fund	**1,354**	978	**1,039**	902
Receivable from SPV	**500**	500	**500**	500
Miscellaneous COCI	**486**	842	**486**	842
	1,045,452	268,831	**1,029,276**	241,840
Nonfinancial				
Creditable withholding taxes	**2,896,783**	1,960,480	**2,893,567**	1,899,613
Deferred reinsurance premiums	**738,685**	245,157	**–**	–
Prepaid expenses	**290,697**	273,126	**246,640**	242,886
Deferred benefits	**155,476**	–	**155,476**	–
Stationeries and supplies	**84,672**	104,120	**78,962**	98,174
Other investments	**52,760**	25,167	**16,363**	17,128
Chattel mortgage properties-net of depreciation	**53,089**	120,615	**49,549**	119,907
Documentary stamps on hand	**44,884**	151,522	**34,724**	145,744
Retirement benefit asset (Note 29)	**5,709**	5,532	**–**	–
Shortages	**475**	815	**400**	815

(Forward)

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Postage stamps on hand	**₱214**	₱303	**₱214**	₱231
Miscellaneous	**248,581**	1,085,064	**126,108**	847,868
	4,572,025	3,971,901	**3,602,003**	3,372,366
	5,617,477	4,240,732	**4,631,279**	3,614,206
Less allowance for impairment losses (Note 16)	**458,146**	804,377	**452,824**	804,028
	₱5,159,331	₱3,436,355	**₱4,178,455**	₱2,810,178

Deferred reinsurance premiums
The deferred reinsurance premiums of the Group refer to portion of reinsurance premiums ceded that are unexpired as of December 31, 2014 and 2013.

Prepaid expenses
This represents expense prepayments expected to benefit the Group for a future period not exceeding one (1) year, such as insurance premiums, rent and interest on time certificates of deposits paid in advance which shall be amortized monthly.

Deferred benefits
This represents the share of the Group in the cost of transportation equipment acquired under the Group's car plan which shall be amortized monthly.

Chattel mortgage properties
As of December 31, 2014 and December 31, 2013, accumulated depreciation on chattel mortgage properties acquired by the Group and the Parent Company in settlement of loans amounted to ₱80.0 million and ₱77.8 million, respectively.

The total recoverable value of certain chattel mortgage properties of the Group and the Parent Company that were impaired amounted to ₱11.3 million and ₱54.3 million as of December 31, 2014 and 2013, respectively.

Receivable from SPV
The Group has receivable from SPV, OPII, which was deconsolidated upon adoption of PFRS 10 in 2013.

The ₱1.4 billion receivable from SPV, with outstanding balance of ₱0.5 million as of December 31, 2014 and 2013, represents fully provisioned subordinated notes received by the Parent Company from Golden Dragon Star Equities and its assignee, OPII, relative to the sale of the first pool and second pool of its NPAs in December 2006 and March 2007, respectively. The asset sale and purchase agreements (ASPA) between the Parent Company, Golden Dragon Star Equities and OPII for the sale of the NPAs were executed on December 19, 2006. OPII was specifically organized to hold, manage, service and resolve the non-performing assets sold to Golden Dragon Star Equities. OPII has been financed through the issuance of equity securities and subordinated debt securities. No income was recognized from OPII in 2014 and 2013.

The more significant terms of the sale are as follows:

a. Certain NPAs of the Parent Company were sold to the SPV and divided into two pools. The sale of the first pool of NPAs with an outstanding balance of ₱11.7 billion was made on December 29, 2006 for a total consideration of ₱11.7 billion.

b. The agreed purchase price of the first pool of NPAs shall be paid as follows:

   i. An initial amount of ₱1.1 billion, which was received in full and acknowledged by the Parent Company on February 14, 2007; and
   ii. The balance of ₱10.6 billion, through issuance of SPV Notes, shall be paid over five (5) years based on a cash flow waterfall arrangement and at an interest equivalent to the 3-month MART prevailing as of the end of the quarter prior to the payment date.

Under the ASPA, the sale of the second pool of NPAs amounting to ₱7.6 billion with allowance for credit losses of ₱5.5 billion became effective in March 2007. The agreed purchase price of this pool of NPAs was paid as follows:

a. An initial amount of ₱751.1 million, which was received in full and acknowledged by the Parent Company on April 26, 2007; and
b. The balance of ₱6.8 billion through issuance of SPV Notes shall be paid over five (5) years based on a cash flow waterfall arrangement and at an interest equivalent to the 3-month MART prevailing as of the end of the quarter prior to the payment date. In case of insufficiency of funds for payment of the SPV Notes, the buyer of the NPAs, with the consent of the Parent Company, which consent shall not be unreasonably withheld, may write-off the SPV Notes, including all interest, fees and charges outstanding and payable.

Miscellaneous
Miscellaneous assets of the Group include postages, refundable deposits, notes taken for interest and sundry debits.

As of December 31, 2014 and 2013, miscellaneous assets of the Group include a security fund amounting to ₱0.2 million which is maintained by PNB LII in compliance with Sections 365 and 367 of the Insurance Code. The amount of such fund is determined by and deposited with the IC for the payment of benefit claims against insolvent companies.

16. Allowance for Impairment and Credit Losses

Provision for impairment, credit and other losses
This account consists of:

	Consolidated			Parent Company		
	2014	2013	2012	**2014**	2013	2012
Provision for (reversal of) impairment losses	**₱293,384**	₱106,431	(₱561,791)	**₱495,674**	₱304,732	(₱566,471)
Provision for credit losses	**1,912,663**	727,153	551,233	**1,600,957**	649,089	527,318
Provision for other losses (Note 35)	**58,568**	–	834,259	**58,568**	–	834,259
	₱2,264,615	₱833,584	₱823,701	**₱2,155,199**	₱953,821	₱795,106

Changes in the allowance for impairment and credit losses on financial assets follow:

	Consolidated					
	2014			2013		
	AFS Investments	**Loans and Receivables**	**Other Assets***	AFS Investments	Loans and Receivables	Other Assets*
Balance at beginning of year	**₱928,408**	**₱12,167,591**	**₱500**	₱928,408	₱13,232,381	₱258,848
Provisions	**1,423**	**1,911,240**	**–**	–	727,153	–
Accretion (Note 10)	**–**	**(274,801)**	**–**	–	(289,096)	–
Accounts charged-off	**–**	**(1,879,083)**	**–**	–	(1,241,334)	–
Transfers and others	**50**	**510,562**	**–**	–	(261,513)	(258,348)
Balance at end of year	**₱929,881**	**₱12,435,509**	**₱500**	₱928,408	₱12,167,591	₱500

**Pertains to 'Receivable from SPV'*

	Parent Company					
	2014			2013		
	AFS Investments	**Loans and Receivables**	**Other Assets***	AFS Investments	Loans and Receivables	Other Assets*
Balance at beginning of year	**₱928,408**	**₱11,666,814**	**₱500**	₱928,408	₱12,423,138	₱258,848
Provisions	**1,423**	**1,599,534**	**–**	–	649,089	–
Accretion (Note 10)	**–**	**(274,801)**	**–**	–	(289,096)	–
Accounts charged-off	**–**	**(1,780,302)**	**–**	–	(1,235,671)	–
Transfers and others	**50**	**734,897**	**–**	–	119,354	(258,348)
Balance at end of year	**₱929,881**	**₱11,946,142**	**₱500**	₱928,408	₱11,666,814	₱500

**Pertains to 'Receivable from SPV'*

Movements in the allowance for impairment losses on nonfinancial assets follow:

	Consolidated							
	2014				2013			
	Property and Equipment	**Investment in Subsidiaries**	**Investment Properties**	**Other Assets**	Property and Equipment	Investment in Subsidiaries	Investment Properties	Other Assets
Balance at beginning of year	**₱245,176**	**₱–**	**₱3,218,991**	**₱803,877**	₱237,986	₱508,978	₱3,452,505	₱600,740
Provisions (reversals)	**(4,349)**	**–**	**485,186**	**(187,453)**	(3,789)	–	109,564	656
Disposals	**(11,994)**	**–**	**(363,915)**	**–**	(7,574)	–	(139,348)	–
Transfers and others	**673**	**–**	**416,958**	**(158,778)**	18,553	(508,978)	(203,730)	202,481
Balance at end of year	**₱229,506**	**₱–**	**₱3,757,220**	**₱457,646**	₱245,176	₱–	₱3,218,991	₱803,877

	Parent Company							
	2014				2013			
	Property and Equipment	**Investment in Subsidiaries**	**Investment Properties**	**Other Assets**	Property and Equipment	Investment in Subsidiaries	Investment Properties	Other Assets
Balance at beginning of year	**₱245,176**	**₱1,012,231**	**₱3,012,609**	**₱803,528**	₱237,986	₱1,372,532	₱3,452,505	₱595,296
Provisions (reversals)	**(4,949)**	**–**	**688,076**	**(187,453)**	(3,789)	–	108,713	199,808
Disposals	**(11,994)**	**(204,258)**	**(363,873)**	**–**	(7,574)	–	(139,348)	–
Transfers and others	**220**	**–**	**423,654**	**(163,751)**	18,553	(360,301)	(409,261)	8,424
Balance at end of year	**₱228,453**	**₱807,973**	**₱3,760,466**	**₱452,324**	₱245,176	₱1,012,231	₱3,012,609	₱803,528

The movements in allowance for credit losses for loans and receivables by class follow:

	Consolidated							
	2014							
	Receivable from customers					**Unquoted**		
	Business Loans	**GOCCs and NGAs**	**LGUs**	**Consumers**	**Fringe Benefits**	**Debt Securities**	**Others**	**Total**
Balance at beginning of year	**₱3,695,863**	**₱76,429**	**₱85,008**	**₱455,503**	**₱30,623**	**₱3,958,656**	**₱3,865,509**	**₱12,167,591**
Provisions (reversals)	**2,007,544**	**–**	**17,483**	**288,528**	**3,148**	**(336,475)**	**(68,988)**	**1,911,240**
Accretion on impaired loans (Note 10)	**(245,497)**	**(171)**	**(17,261)**	**(11,513)**	**(359)**	**–**	**–**	**(274,801)**
Accounts charged off	**(1,056,457)**	**–**	**(18,211)**	**(218,696)**	**(17,750)**	**–**	**(567,969)**	**(1,879,083)**
Transfers and others	**129,427**	**113,012**	**(4,557)**	**498,815**	**1,447**	**(2,914)**	**(224,668)**	**510,562**
Balance at end of year	**₱4,530,880**	**₱189,270**	**₱62,462**	**₱1,012,637**	**₱17,109**	**₱3,619,267**	**₱3,003,884**	**₱12,435,509**
Individual impairment	**₱3,168,855**	**₱44,720**	**₱20,131**	**₱252,154**	**₱7,364**	**₱3,619,267**	**₱1,722,656**	**₱8,835,147**
Collective impairment	**1,362,025**	**144,550**	**42,331**	**760,483**	**9,745**	**–**	**1,281,228**	**3,600,362**
	₱4,530,880	**₱189,270**	**₱62,462**	**₱1,012,637**	**₱17,109**	**₱3,619,267**	**₱3,003,884**	**₱12,435,509**
Gross amounts of loans and receivables subject to individual impairment	**₱6,973,731**	**₱1,796,447**	**₱78,855**	**₱252,154**	**₱23,917**	**₱8,044,272**	**₱1,900,023**	**₱19,069,399**

	Consolidated							
	2013							
	Receivable from customers					Unquoted		
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits	Debt Securities	Others	Total
Balance at beginning of year	₱4,631,725	₱70,731	₱129,653	₱561,132	₱14,748	₱3,958,931	₱3,865,461	₱13,232,381
Provisions (reversals)	469,486	–	14,400	194,689	(1)	–	48,579	727,153
Accretion on impaired loans (Note 10)	(196,748)	(171)	(16,261)	(74,900)	(1,016)	–	–	(289,096)
Accounts charged off	(436,189)	–	–	(206,356)	(59,224)	–	(539,565)	(1,241,334)
Transfers and others	(772,411)	5,869	(42,784)	(19,062)	76,116	(275)	491,034	(261,513)
Balance at end of year	₱3,695,863	₱76,429	₱85,008	₱455,503	₱30,623	₱3,958,656	₱3,865,509	₱12,167,591
Individual impairment	₱3,472,570	₱44,527	₱80,291	₱76,927	₱13,031	₱3,958,656	₱1,640,434	₱9,286,436
Collective impairment	223,293	31,902	4,717	378,576	17,592	–	2,225,075	₱2,881,155
	₱3,695,863	₱76,429	₱85,008	₱455,503	₱30,623	₱3,958,656	₱3,865,509	₱12,167,591
Gross amounts of loans and receivables subject to individual impairment	₱5,293,118	₱1,784,947	₱217,117	₱248,457	₱17,510	₱11,254,187	₱1,888,522	₱20,703,858

	Parent Company							
	2014							
	Receivable from customers					**Unquoted**		
	Business Loans	**GOCCs and NGAs**	**LGUs**	**Consumers**	**Fringe Benefits**	**Debt Securities**	**Others**	**Total**
Balance at beginning of year	**₱3,495,728**	**₱76,429**	**₱85,008**	**₱425,942**	**₱30,620**	**₱3,958,656**	**₱3,594,431**	**₱11,666,814**
Provisions (reversals)	**1,763,723**	**–**	**17,483**	**290,572**	**3,148**	**(336,475)**	**(138,917)**	**1,599,534**
Accretion on impaired loans (Note 10)	**(245,497)**	**(171)**	**(17,261)**	**(11,513)**	**(359)**	**–**	**–**	**(274,801)**
Accounts charged off	**(957,676)**	**–**	**(18,211)**	**(218,696)**	**(17,750)**	**–**	**(567,969)**	**(1,780,302)**
Transfers and others	**210,020**	**113,012**	**(4,557)**	**477,240**	**1,446**	**(2,914)**	**(59,350)**	**734,897**
Balance at end of year	**₱4,266,298**	**₱189,270**	**₱62,462**	**₱963,545**	**₱17,105**	**₱3,619,267**	**₱2,828,195**	**₱11,946,142**
Individual impairment	**₱3,126,873**	**₱44,720**	**₱20,131**	**₱238,689**	**₱7,364**	**₱3,619,267**	**₱1,722,656**	**₱8,779,700**
Collective impairment	**1,139,425**	**144,550**	**42,331**	**724,856**	**9,741**	**–**	**1,105,539**	**3,166,442**
	₱4,266,298	**₱189,270**	**₱62,462**	**₱964,545**	**₱17,105**	**₱3,619,267**	**₱2,828,195**	**₱11,946,142**
Gross amounts of loans and receivables subject to individual impairment	**₱6,472,294**	**₱1,796,447**	**₱78,855**	**₱238,689**	**₱23,916**	**₱7,744,272**	**₱1,900,023**	**₱18,254,496**

	Parent Company							
	2013							
	Receivable from customers					Unquoted		
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits	Debt Securities	Others	Total
Balance at beginning of year	₱4,512,158	₱70,731	₱129,653	₱545,143	₱14,743	₱3,958,931	₱3,191,779	₱12,423,138
Provisions	404,436	–	14,400	194,567	–	–	35,686	649,089
Accretion on impaired loans (Note 10)	(196,748)	(171)	(16,261)	(74,900)	(1,016)	–	–	(289,096)
Accounts charged off	(436,189)	–	–	(200,693)	(59,224)	–	(539,565)	(1,235,671)
Transfers and others	(787,929)	5,869	(42,784)	(38,175)	76,117	(275)	906,531	119,354
Balance at end of year	₱3,495,728	₱76,429	₱85,008	₱425,942	₱30,620	₱3,958,656	₱3,594,431	₱11,666,814
Individual impairment	₱3,472,570	₱44,527	₱80,291	₱76,927	₱13,031	₱3,958,656	₱1,640,434	₱9,286,436
Collective impairment	23,158	31,902	4,717	349,015	17,589	–	1,953,997	2,380,378
	₱3,495,728	₱76,429	₱85,008	₱425,942	₱30,620	₱3,958,656	₱3,594,431	₱11,666,814
Gross amounts of loans and receivables subject to individual impairment	₱5,110,974	₱1,784,947	₱217,117	₱233,043	₱17,510	₱10,871,565	₱1,888,522	₱20,123,678

17. Deposit Liabilities

As of December 31, 2014 and 2013, noninterest-bearing deposit liabilities amounted to ₱24.8 billion and ₱32.6 billion, respectively, for the Group and ₱24.7 billion and ₱26.1 billion, respectively, for the Parent Company. The remaining deposit liabilities of the Group generally earned annual fixed interest rates ranging from 0.05% to 6.11% in 2014, from 0.00% to 8.40% in 2013, and from 0.29% to 6.02% in 2012 for peso-denominated deposit liabilities, and from 0.02% to 2.26% in 2014, from 0.02% to 3.80% in 2013, and from 0.02% to 2.72% in 2012 for foreign-currency denominated deposit liabilities. The remaining deposit liabilities of the Parent Company generally earned annual fixed interest rates ranging from 0.10% to 6.11% in 2014, from 0.13% to 8.40% in 2013, and from 0.29% to 6.02% in 2012 for peso-denominated deposit liabilities, and from 0.02% to 2.26% in 2014, from 0.02% to 3.80% in 2013, and from 0.02% to 2.72% in 2012 for foreign-currency denominated deposit liabilities.

On March 29, 2012, BSP issued Circular No. 753 which provides for the unification of the statutory and liquidity reserve requirement, non-remuneration of the unified reserve requirement, exclusion of cash in vault and demand deposits as eligible forms of reserve requirement compliance, and reduction in the unified reserve requirement ratios.

BSP issued Circular Nos. 830 and 832 last March 27, 2014 and May 8, 2014, respectively, to approve the 1-point percentage increase in the reserve requirements of universal and commercials banks. Under existing BSP regulations, non-FCDU deposit liabilities of the Parent Company and PNB SB are subject to reserves equivalent to 20.00% and 8.00%, respectively. Available reserves follow:

	Consolidated*		**Parent Company**	
	2014	2013	**2014**	2013
Due from BSP	**₱68,176,685**	₱64,182,790	**₱67,415,467**	₱63,556,710
Unquoted debt securities	–	2,741,000	–	2,741,000
	₱68,176,685	₱66,923,790	**₱67,415,467**	₱66,297,710

** Pertains to Parent Company and PNB SB*

As of December 31, 2014 and 2013, the Parent Company and PNB SB were in compliance with such regulations.

Long-term Negotiable Certificates of Time Deposits

Time deposit includes the following Long-term Negotiable Certificates of Time Deposits (LTNCDs) issued by the Parent Company:

Issue Date	Maturity Date	Face Value	Coupon Rate	Interest Repayment Terms	Carrying Value 2014	2013
December 12, 2014	June 12, 2020	₱7,000,000	4.13%	Quarterly	**₱6,957,175**	₱–
October 21, 2013	April 22, 2019	4,000,000	3.25%	Quarterly	**3,976,133**	3,971,075
August 5, 2013	February 5, 2019	5,000,000	3.00%	Quarterly	**4,973,448**	4,968,004
November 18, 2011	February 17, 2017	3,100,000	5.18%	Quarterly	**3,090,564**	3,086,513
October 22, 2009	October 23, 2014	3,500,000*	7.00%	Quarterly	–	3,582,808
March 25, 2009	March 31, 2014	3,250,000	6.50%	Quarterly	–	3,248,369
		₱25,850,000			**₱18,997,320**	₱18,856,769

** Acquired from business combination*

Other significant terms and conditions of the above LTNCDs follow:

(1) Issue price at 100.00% of the face value of each LTNCD.

(2) The LTNCDs bear interest rate per annum on its principal amount from and including the Issue Date thereof, up to but excluding the Early Redemption Date or Maturity Date (as the case may be).

Interest in respect of the LTNCD will be calculated on an annual basis and will be paid in arrears quarterly on the last day of each successive Interest Period.

(3) Unless earlier redeemed, the LTNCDs shall be redeemed by the Parent Company on maturity date at an amount equal to one hundred percent (100.00%) of the aggregate issue price thereof, plus any accrued and unpaid interest thereon. The LTNCDs may not be redeemed at the option of the holders.

(4) The LTNCDs constitute direct, unconditional, unsecured, and unsubordinated obligations of the Parent Company, enforceable according to these Terms and Conditions, and shall at all times rank pari passu and without any preference or priority among themselves and at least pari passu with all other present and future direct, unconditional, unsecured, and unsubordinated obligations of the Issuer, except for any obligation enjoying a statutory preference or priority established under Philippine laws.

(5) Subject to the "Events of Default" in the Terms and Conditions, the LTNCDs cannot be pre-terminated at the instance of any CD Holder before Maturity Date. In the case of an event of default, none of the CD Holders may accelerate the CDs on behalf of other CD Holders, and a CD Holder may only collect from the Parent Company to the extent of his holdings in the CDs. However, the Parent Company may, subject to the General Banking Law of 2000, Section X233.9 of the Manual of Regulations for Banks, Circular No. 304 Series of 2001 of the BSP and other related circulars and issuances, as may be amended from time to time, redeem all and not only part of the outstanding CDs on any Interest Payment Date prior to Maturity Date, at an Early Redemption Amount equal to the Issue Price plus interest accrued and unpaid up to but excluding the Early Redemption Date.

(6) The LTNCDs are insured by the PDIC up to a maximum amount of ₱500,000 subject to applicable laws, rules and regulations, as the same may be amended from time to time.

(7) Each Holder, by accepting the LTNCDs, irrevocably agrees and acknowledges that: (a) it may not exercise or claim any right of set-off in respect of any amount owed to it by the Parent Company arising under or in connection with the LTNCDs; and (b) it shall, to the fullest extent permitted by applicable law, waive and be deemed to have waived all such rights of set-off.

Interest expense on deposit liabilities consists of:

	Consolidated			Parent Company		
	2014	2013	2012	**2014**	2013	2012
Savings	**₱1,680,386**	₱2,596,914	₱2,556,648	**₱1,677,129**	₱2,563,616	₱2,556,682
LTNCDs	**637,957**	592,205	380,515	**637,957**	592,205	380,515
Time	**354,016**	337,243	90,991	**196,795**	296,579	102,662
Demand	**116,041**	129,019	71,628	**103,075**	116,634	72,657
	₱2,788,400	₱3,655,381	₱3,099,782	**₱2,614,956**	₱3,569,034	₱3,112,516

In 2014, 2013 and 2012, interest expense on LTNCDs for both the Group and the Parent Company includes amortization of transaction costs amounting to ₱22.8 million, ₱19.4 million and ₱9.5 million, respectively. Unamortized transaction costs of the LTNCDs amounted to ₱102.7 million and ₱81.8 million as of December 31, 2014 and 2013, respectively.

18. **Financial Liabilities at Fair Value Through Profit or Loss**

This account consists of:

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Designated at FVPL:				
Segregated fund liabilities	**₱10,817,122**	₱7,911,794	**₱–**	₱–
Derivative liabilities (Note 23)	**44,903**	163,101	**44,264**	163,084
	₱10,862,025	₱8,074,895	**₱44,264**	₱163,084

As of December 31, 2014 and 2013, the balance of segregated fund liabilities consists of:

	2014	2013
Segregated funds (Note 9)	**₱10,654,770**	₱7,861,688
Additional subscriptions	**162,352**	50,106
Segregated fund liabilities	**₱10,817,122**	₱7,911,794

On June 19, 2008, the Parent Company issued a subordinated note due in 2018 amounting to ₱6.0 billion. The subordinated note is part of a group of financial instruments that together are managed on a fair value basis, in accordance with the Parent Company's documented risk management and investment strategy.

Among the significant terms and conditions of the issuance of such 2008 Notes are:

(1) Issue price at 100.00% of the principal amount;

(2) The 2008 Notes bear interest at the rate of 8.50% per annum from and including June 19, 2008 to but excluding June 19, 2013. Interest will be payable quarterly in arrears on the 19th of March, June, September and December of each year, commencing on September 19, 2008. Unless the 2008 Notes are previously redeemed, interest from and including June 19, 2013 to

but excluding June 19, 2018 will be reset at the equivalent of the higher of (i) five-year PDST-F Fixed Rate Treasury Notes (FXTN) as of reset date multiplied by 80.00%, plus a step-up spread of 2.01% per annum or (ii) difference of interest rate and five-year PDST-F FXTN as of issue date multiplied by 150.00% plus five-year PDST-F FXTN as of reset date, and such step-up interest rate shall be payable quarterly in arrears on 19th of March, June, September and December of each year, commencing on September 19, 2013. The 2008 Notes will mature on June 19, 2018, if not redeemed earlier;

(3) The 2008 Notes constitute direct, unconditional, unsecured and subordinated obligations of the Parent Company and at all times rank pari passu without preference among themselves and at least equally with all other present and future unsecured and subordinated obligations of the Parent Company;

(4) The Parent Company may redeem the 2008 Notes in whole but not in part at a redemption price equal to 100.00% of the principal amount together with accrued and unpaid interest on the day following the last day of the twentieth (20th) interest period from issue date, subject to the prior consent of the BSP and the compliance by the Parent Company with the prevailing requirements for the granting by the BSP of its consent thereof. The 2008 Notes may not be redeemed at the option of the noteholders; and

(5) Each noteholder, by accepting the 2008 Notes, irrevocably agrees and acknowledges that: (i) it may not exercise or claim any right of set-off in respect of any amount owed by the Parent Company arising under or in connection with the 2008 Notes; and (ii) it shall, to the fullest extent permitted by applicable law, waive and be deemed to have waived all such rights of set-off.

On June 18, 2013, the Parent Company exercised its option to redeem the 2008 Notes at its face value.

19. Bills and Acceptances Payable

This account consists of:

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Bills payable to:				
BSP and local banks (Note 34)	**₱16,393,373**	₱8,696,511	**₱15,965,715**	₱7,954,485
Foreign banks	**1,027,442**	1,598,370	**492,733**	1,992,874
Others	**1,262,390**	2,512,823	**1,700,743**	3,172,824
	18,683,205	12,807,704	**18,159,191**	13,120,183
Acceptances outstanding (Note 10)	**366,853**	364,293	**366,853**	364,293
	₱19,050,058	₱13,171,997	**₱18,526,044**	₱13,484,476

Foreign currency-denominated borrowings of the Group and the Parent Company bear annual interest ranging from 0.03% to 2.50%, from 0.12% to 0.99% and from 0.06% to 1.77% in 2014, 2013 and 2012, respectively.

Peso-denominated borrowings of the Group and the Parent Company bear annual interest ranging from 0.63% to 2.00%, from 1.09% to 3.50% and from 0.03% to 4.50% in 2014, 2013 and 2012, respectively.

The Parent Company's bills payable to BSP includes the transferred liabilities from Maybank amounting to ₱1.7 billion as of December 31, 2014 and 2013 (Note 10).

Bills payable includes funding from the Social Security System under which the Parent Company acts as a conduit for certain financing programs of these institutions. Lending to such programs is shown under 'Loans and Receivables'.

As of December 31, 2013, bills payable under the BSP rediscounting facility with a carrying value of ₱112.6 million is secured by a pledge of certain AFS investments and loans with fair values of ₱2.4 billion and ₱219.1 million, respectively (Notes 9 and 10).

As of December 31, 2014, bills payable with a carrying value of ₱14.1 billion is secured by a pledge of certain AFS and HTM investments with fair value of ₱8.5 billion and ₱8.9 billion, respectively (Note 9). As of December 31, 2013, bills payable with a carrying value of ₱2.2 billion is secured by a pledge of certain AFS investments with fair value of ₱2.7 billion (Note 9).

Following are the significant terms and conditions of the repurchase agreements with entered into by the Parent Company:

(1) each party represents and warrants to the other that it is duly authorized to execute and deliver the Agreement, and to perform its obligations and has taken all the necessary action to authorize such execution, delivery and performance;
(2) the term or life of this borrowing is up to three years;
(3) some borrowings bear a fixed interest rate while others have floating interest rate;
(4) the Parent Company has pledged its AFS and HTM investments, in the form of ROP Global bonds, in order to fulfill its collateral requirement;
(5) haircut from market value ranges from 15.00% to 25.00% depending on the tenor of the bond;
(6) certain borrowings are subject to margin call of up to USD 1.4 million; and
(7) substitution of pledged securities is allowed if one party requested and the other one so agrees.

Interest expense on bills payable and other borrowings consists of:

	Consolidated			Parent Company		
	2014	2013	2012	**2014**	2013	2012
Subordinated debt* (Notes 18 and 21)	**₱757,000**	₱923,229	₱1,091,512	**₱139,741**	₱923,229	₱1,091,512
Bills payable	**94,741**	135,167	188,603	**660,222**	91,805	132,306
Others	**5,186**	17,717	5,005	**1,151**	12,090	3,872
	₱856,927	₱1,076,113	₱1,285,120	**₱801,114**	₱1,027,124	₱1,227,690

** Consist of interest on subordinated debt at amortized cost and designated at FVPL*

20. Accrued Taxes, Interest and Other Expenses

This account consists of:

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Accrued taxes and other expenses	**₱3,425,438**	₱3,476,677	**₱3,038,773**	₱2,989,915
Accrued interest	**2,015,911**	2,046,846	**1,996,383**	2,019,248
	₱5,441,349	₱5,523,523	**₱5,035,156**	₱5,009,163

Accrued taxes and other expenses consist of:

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Financial liabilities:				
Information technology-related expenses	**₱186,621**	₱239,308	**₱185,638**	₱235,238
Promotional expenses	**136,963**	185,457	**131,963**	166,934
Management, directors and other professional fees	**92,743**	265,978	**85,769**	217,392
Rent and utilities payable	**67,910**	162,889	**68,154**	154,871
Repairs and maintenance	**12,836**	16,799	**12,836**	16,799
	497,073	870,431	**484,360**	791,234
Nonfinancial liabilities:				
Other benefits - monetary value of leave credits	**1,471,970**	975,814	**1,453,455**	948,605
PDIC insurance premiums	**436,320**	446,717	**426,144**	437,717
Taxes and licenses	**285,487**	205,506	**146,541**	118,008
Employee benefits	**241,426**	342,320	**239,057**	290,996
Reinstatement premium	**133,580**	152,734	**–**	–
Other expenses	**359,582**	483,155	**289,216**	403,355
	2,928,365	2,606,246	**2,554,413**	2,198,681
	₱3,425,438	₱3,476,677	**₱3,038,773**	₱2,989,915

'Other expenses' include janitorial, representation and entertainment, communication and other operating expenses.

21. **Subordinated Debt**

This account consists of:

Issue Date	Maturity Date	Face Value	Coupon Rate	Interest Repayment Terms	Carrying Value 2014	Carrying Value 2013
May 9, 2012	May 9, 2022	₱3,500,000	5.875%	Quarterly	**₱3,486,741**	₱3,481,691
June 15, 2011	June 15, 2021	6,500,000	6.750%	Quarterly	**6,482,757**	6,471,960
					₱9,969,498	₱9,953,651

<u>5.875% ₱3.5 Billion Subordinated Notes</u>

On May 9, 2012, the Parent Company's BOD approved the issuance of unsecured subordinated notes of ₱3.5 billion that qualify as Lower Tier 2 capital. EIR on this note is 6.04%.

Significant terms and conditions of the subordinated notes follow:

(1) The 2012 Notes bear interest at the rate of 5.88% per annum from and including May 9, 2012 to but excluding May 9, 2022. Interest will be payable quarterly in arrears on the 9th of August, November, February and June of each year, commencing on May 9, 2012, unless the 2012 Notes are redeemed at a redemption price equal to 100.00% of the principal amount on May 10, 2017, call option date.

(2) Each noteholder, by accepting the 2012 Notes, irrevocably agrees and acknowledges that it may not exercise or claim any right of set-off in respect of any amount owed by the Parent Company arising under or in connection with the 2012 Notes.

6.75% ₱6.5 Billion Subordinated Notes

On May 15, 2011, the Parent Company's BOD approved the issuance of unsecured subordinated notes of ₱6.5 billion that qualify as Lower Tier 2 capital. EIR on this note is 6.94%.

Significant terms and conditions of the subordinated notes follow:

(1) The 2011 Notes bear interest at the rate of 6.75% per annum from and including June 15, 2011 to but excluding June 15, 2021. Interest will be payable quarterly in arrears on the 15th of September, December, March and June of each year, commencing on June 15, 2011, unless the 2011 Notes are redeemed at a redemption price equal to 100.00% of the principal amount on June 16, 2016, call option date.

(2) Each noteholder, by accepting the 2011 Notes, irrevocably agrees and acknowledges that it may not exercise or claim any right of set-off in respect of any amount owed by the Parent Company arising under or in connection with the 2011 Notes.

7.125% ₱4.5 Billion Subordinated Notes

On March 6, 2013, call option date, the Parent Company opted to redeem the 2018 Notes issued by ABC on March 6, 2008.

As of December 31, 2014 and 2013, the unamortized transaction cost of subordinated debt amounted to ₱30.5 million and ₱46.3 million, respectively.

In 2014, 2013 and 2012, amortization of transaction costs amounting to ₱15.8 million, ₱14.8 million and ₱12.2 million, respectively, were charged to 'Interest expense - bills payable and other borrowings' in the statements of income.

22. **Other Liabilities**

This account consists of:

	Consolidated		Parent Company	
	2014	2013 (As Restated - Note 2)	**2014**	2013 (As Restated - Note 2)
Financial				
Insurance contract liabilities	**₱11,180,597**	₱11,546,043	**₱–**	₱–
Accounts payable	**6,703,874**	8,665,432	**6,057,924**	8,127,279
Bills purchased - contra (Note 10)	**4,230,348**	3,417,082	**4,222,235**	3,403,791
Manager's checks and demand drafts outstanding	**1,030,298**	1,028,301	**1,018,139**	1,021,982
Deposits on lease contracts	**685,745**	536,088	**34,374**	33,795
Dormant credits	**559,585**	437,715	**546,888**	436,555
Accounts payable - electronic money	**459,121**	450,585	**459,121**	450,585
Due to Treasurer of the Philippines	**366,841**	311,387	**366,841**	311,363
Payment order payable	**296,102**	194,628	**295,971**	194,628

(Forward)

	Consolidated		Parent Company	
	2014	2013 (As Restated - Note 2)	2014	2013 (As Restated - Note 2)
Due to other banks	**₱222,227**	₱58,288	**₱408,925**	₱157,825
Commission payable	**118,844**	128,984	**–**	–
Due to BSP	**101,172**	117,821	**101,172**	117,820
Margin deposits and cash letters of credit	**86,143**	393,006	**73,972**	347,253
Transmission liability	**76,893**	90,005	**–**	–
Deposit for keys on safety deposit boxes	**14,084**	13,764	**14,084**	13,764
	26,131,874	27,389,129	**13,599,646**	14,616,640
Nonfinancial				
Retirement benefit liabilities (Note 29)	**2,867,287**	3,388,863	**2,796,997**	3,323,955
Provisions (Note 35)	**1,640,648**	1,582,080	**1,640,648**	1,582,080
Reserve for unearned premiums	**1,539,590**	576,889	**–**	–
Withholding tax payable	**224,045**	211,529	**204,697**	198,928
Deferred tax liabilities (Note 31)	**139,699**	124,793	**–**	–
Unapplied advances	**97,392**	37,419	**97,392**	37,419
Advanced rentals on building, bank premises and equipment	**40,850**	41,187	**40,851**	41,187
SSS, Philhealth, Employer's Compensation Premiums and Pag-IBIG Contributions Payable	**29,330**	30,014	**23,695**	24,647
Miscellaneous	**622,043**	1,416,802	**225,247**	1,072,989
	7,200,884	7,409,576	**5,029,527**	6,281,205
	₱33,332,758	₱34,798,705	**₱18,629,173**	₱20,897,845

Miscellaneous liabilities of the Group and the Parent Company include interoffice floats, remittance - related payables, overages and sundry credits.

23. Derivative Financial Instruments

The table below shows the fair values of derivative financial instruments entered into by the Group, recorded as derivative assets or derivative liabilities, together with the notional amounts. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding as of December 31, 2014 and 2013 and are not indicative of either market risk or credit risk (amounts in thousands, except average forward rate).

	Consolidated			
	2014			
	Assets	**Liabilities**	**Average Forward Rate***	**Notional Amount***
Freestanding derivatives:				
Currency forwards and spots:				
BUY:				
USD	**₱5,620**	**₱2,246**	**44.81**	**77,300**
EUR	**1,686**	**535**	**1.25**	**2,507**

(Forward)

	Consolidated			
	2014			
	Assets	Liabilities	Average Forward Rate*	Notional Amount*
HKD	**₱539**	**₱532**	**7.75**	**82,156**
AUD	**81**	**–**	**0.82**	**200**
JPY	**13**	**567**	**0.37**	**312,776**
GBP	**6**	**–**	**1.56**	**150**
CAD	**–**	**47**	**1.16**	**1,614**
SELL:				
USD	**6,809**	**15,717**	**44.78**	**208,510**
EUR	**4,378**	**–**	**1.30**	**1,797**
GBP	**2,152**	**–**	**1.56**	**4,250**
JPY	**634**	**17**	**0.37**	**713,228**
AUD	**531**	**–**	**0.82**	**800**
SGD	**449**	**275**	**1.32**	**6,611**
HKD	**83**	**96**	**7.76**	**14,100**
CAD	**3**	**66**	**1.16**	**2,195**
Interest rate swaps	**42,407**	**24,805**		
Warrants	**71,160**	**–**		
	₱136,551	**₱44,903**		

** The notional amounts and average forward rates pertain to original currencies.*

	Consolidated			
	2013			
	Assets	Liabilities	Average Forward Rate*	Notional Amount*
Freestanding derivatives:				
Currency forwards and spots:				
BUY:				
USD	₱61,867	₱1,198	43.36	126,462
EUR	76	673	1.36	989
JPY	98	113	0.01	15,000
GBP	–	26	1.64	102
CAD	–	4	1.07	1,065
SGD	23	–	35.02	1,200
SELL:				
USD	1,293	136,372	43.74	264,471
EUR	79	1,240	1.36	5,447
GBP	97	1,257	1.64	5,100
JPY	329	321	0.43	477,776
AUD	54	–	0.89	250
SGD	–	885	0.79	6,200
HKD	25	–	7.75	158,946
CAD	67	–	1.00	2,365
CHF	23	–	1.12	400
Interest rate swaps	28,803	21,012		
Warrants	165,863	–		
	₱258,697	₱163,101		

** The notional amounts and average forward rates pertain to original currencies.*

	Parent Company			
	2014			
	Assets	**Liabilities**	**Average Forward Rate***	**Notional Amount***
Freestanding derivatives:				
Currency forwards and spots:				
BUY:				
USD	**₱5,620**	**₱2,246**	**44.81**	**77,300**
EUR	**1,686**	**–**	**1.26**	**1,797**
HKD	**–**	**524**	**7.75**	**50,356**
AUD	**81**	**–**	**0.82**	**200**
JPY	**13**	**567**	**0.37**	**312,776**
GBP	**6**	**–**	**1.56**	**150**
CAD	**–**	**47**	**1.16**	**1,614**
SELL:				
USD	**6,809**	**15,717**	**44.78**	**208,510**
EUR	**4,378**	**–**	**1.28**	**1,797**
GBP	**2,152**	**–**	**1.56**	**4,250**
JPY	**634**	**17**	**0.37**	**713,228**
AUD	**531**	**–**	**0.82**	**800**
SGD	**449**	**275**	**1.32**	**6,611**
CAD	**3**	**66**	**1.16**	**2,195**
Interest rate swaps	**42,407**	**24,805**		
Warrants	**71,160**	**–**		
	₱135,929	**₱44,264**		

** The notional amounts and average forward rates pertain to original currencies.*

	Parent Company			
	2013			
	Assets	Liabilities	Average Forward Rate*	Notional Amount*
Freestanding derivatives:				
Currency forwards and spots:				
BUY:				
USD	₱61,867	₱1,198	43.36	126,462
EUR	76	673	1.36	989
JPY	73	113	0.01	15,000
GBP	–	26	1.64	102
CAD	–	4	1.07	1,065
SGD	23	–	35.02	1,200
SELL:				
USD	1,259	136,372	43.74	264,468
EUR	79	1,223	1.36	5,447
GBP	97	1,257	1.64	5,100
JPY	329	321	0.43	477,776
AUD	54	–	0.89	250
SGD	–	885	0.79	1,200
CAD	67	–	1.00	2,365
CHF	23	–	1.12	400
Interest rate swaps	28,803	21,012		
Warrants	165,863	–		
	₱258,613	₱163,084		

** The notional amounts and average forward rates pertain to original currencies.*

As of December 31, 2014 and 2013, the Parent Company holds 306,405 shares of ROP Warrants Series B1 at their fair value of USD1.6 million and USD3.0 million, respectively.

The table below shows the rollforward analysis of net derivatives assets (liabilities) as of December 31, 2014 and 2013:

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Balance at the beginning of the year:				
Derivative assets	**₱258,697**	₱454,501	**₱258,613**	₱454,501
Derivative liabilities	**163,101**	283,751	**163,084**	283,751
	95,596	170,750	**95,529**	170,750
Changes in fair value				
Currency forwards and spots*	**196,005**	(372,846)	**195,848**	(374,155)
Interest rate swaps and warrants**	**(90,761)**	(156,313)	**(90,761)**	(156,313)
	105,244	(529,159)	**105,087**	(530,468)
Availments (Settlements)	**(109,192)**	454,005	**(108,951)**	455,247
Balance at end of year:				
Derivative assets	**136,551**	258,697	**135,929**	258,613
Derivative liabilities	**44,903**	163,101	**44,264**	163,084
	₱91,648	₱95,596	**₱91,665**	₱95,529

* *Presented as part of 'Foreign exchange gains - net'.*

** *Recorded under 'Trading and investment securities gains - net'.*

24. Maturity Analysis of Assets and Liabilities

The following table shows an analysis of assets and liabilities of the Group and Parent Company analyzed according to whether they are expected to be recovered or settled within one year and beyond one year from reporting date:

	Consolidated					
	2014			2013 (As Restated - Note 2)		
	Less than Twelve Months	**Over Twelve Months**	**Total**	Less than Twelve Months	Over Twelve Months	Total
Financial Assets						
COCI	**₱14,628,489**	**₱–**	**₱14,628,489**	₱11,804,746	₱–	₱11,804,746
Due from BSP	**105,773,685**	**–**	**105,773,685**	153,169,330	–	153,169,330
Due from other banks	**15,591,406**	**–**	**15,591,406**	14,881,541	–	14,881,541
Interbank loans receivable	**7,671,437**	**–**	**7,671,437**	8,405,250	–	8,405,250
Financial assets at FVPL	**6,696,856**	**10,654,770**	**17,351,626**	3,847,660	7,861,688	11,709,348
AFS investments - gross (Note 9)	**4,383,175**	**59,638,203**	**64,021,378**	4,905,109	76,327,448	81,232,557
HTM investments	**61,374**	**22,908,932**	**22,970,306**	–	–	–
Loans and receivables - gross (Note 10)	**126,762,738**	**202,624,146**	**329,386,884**	124,292,165	162,856,688	287,148,853
Other assets - gross (Note 15)	**943,966**	**101,486**	**1,045,452**	182,370	86,461	268,831
	282,513,126	**295,927,537**	**578,440,663**	321,488,171	247,132,285	568,620,456
Nonfinancial Assets						
Property and equipment - gross (Note 11)	**–**	**25,515,235**	**25,515,235**	–	25,140,048	25,140,048
Investment properties - gross (Note 13)	**–**	**25,862,516**	**25,862,516**	–	26,781,061	26,781,061
Deferred tax assets	**–**	**1,461,938**	**1,461,938**	–	1,317,283	1,317,283
Goodwill (Note 14)	**–**	**13,375,407**	**13,375,407**	–	13,375,407	13,375,407
Intangible assets - gross (Note 14)	**–**	**3,544,075**	**3,544,075**	–	3,160,916	3,160,916
Residual value of leased assets (Note 10)	**–**	**563,032**	**563,032**	–	404,771	404,771
Other assets - gross (Note 15)	**1,263,849**	**3,308,176**	**4,572,025**	2,609,730	1,362,171	3,971,901
	1,263,849	**73,630,379**	**74,894,228**	2,609,730	71,541,657	74,151,387

(Forward)

	Consolidated					
	2014			2013 (As Restated - Note 2)		
	Less than Twelve Months	**Over Twelve Months**	**Total**	Less than Twelve Months	Over Twelve Months	Total
Less: Allowance for impairment and credit losses (Note 16)			**₱17,810,262**			₱17,364,543
Unearned and other deferred income (Note 10)			**1,261,386**			1,109,950
Accumulated amortization and depreciation (Notes 11, 13 and 14)			**8,817,411**			8,021,730
			₱625,445,832			₱616,275,620
Financial Liabilities						
Deposit liabilities	**₱403,844,601**	**₱43,799,156**	**₱447,643,757**	₱451,006,590	₱11,358,858	₱462,365,448
Financial liabilities at FVPL	**20,099**	**10,841,926**	**10,862,025**	149,828	7,925,067	8,074,895
Bills and acceptances payable	**10,075,958**	**8,974,100**	**19,050,058**	11,423,153	1,748,844	13,171,997
Subordinated debt	**–**	**9,969,498**	**9,969,498**	–	9,953,651	9,953,651
Accrued interest payable (Note 20)	**460,493**	**1,555,418**	**2,015,911**	491,428	1,555,418	2,046,846
Accrued other expenses payable (Note 20)	**497,073**	**–**	**497,073**	870,431	–	870,431
Other liabilities (Note 22):						
Insurance contract liabilities	**5,564,978**	**5,615,619**	**11,180,597**	6,587,131	4,958,912	11,546,043
Accounts payable	**6,703,874**	**–**	**6,703,874**	8,665,432	–	8,665,432
Bills purchased - contra	**4,230,348**	**–**	**4,230,348**	3,417,082	–	3,417,082
Managers' checks and demand drafts outstanding	**1,030,298**	**–**	**1,030,298**	1,028,301	–	1,028,301
Deposit on lease contracts	**46,761**	**638,984**	**685,745**	61,913	474,175	536,088
Dormant credits	**114,606**	**444,979**	**559,585**	89,646	348,069	437,715
Accounts payable - electronic money	**459,121**	**–**	**459,121**	450,585	–	450,585
Due to TOP	**–**	**366,841**	**366,841**	–	311,387	311,387
Payment order payable	**296,102**	**–**	**296,102**	194,628	–	194,628
Due to other banks	**222,227**	**–**	**222,227**	58,288	–	58,288
Commission payable	**118,844**	**–**	**118,844**	128,984	–	128,984
Due to BSP	**101,172**	**–**	**101,172**	117,821	–	117,821
Margin deposits and cash letters of credit	**86,143**	**–**	**86,143**	393,006	–	393,006
Transmission liability	**76,893**	**–**	**76,893**	90,005	–	90,005
Deposit for keys on safety deposit boxes	**14,084**	**–**	**14,084**	13,764	–	13,764
	433,963,675	**82,206,521**	**516,170,196**	485,238,016	38,634,381	523,872,397
Nonfinancial Liabilities						
Accrued taxes and other expenses (Note 20)	**963,233**	**1,965,132**	**2,928,365**	994,543	1,611,703	2,606,246
Income tax payable	**85,505**	**–**	**85,505**	48,448	–	48,448
Other liabilities (Note 22)	**3,528,602**	**3,672,282**	**7,200,884**	1,057,406	6,352,170	7,409,576
	4,577,340	**5,637,414**	**10,214,754**	2,100,397	7,963,873	10,064,270
	₱438,541,015	**₱87,843,935**	**₱526,384,950**	₱487,338,413	₱46,598,254	₱533,936,667

	Parent Company					
	2014			2013 (As Restated - Note 2)		
	Less than Twelve Months	**Over Twelve Months**	**Total**	Less than Twelve Months	Over Twelve Months	Total
Financial Assets						
COCI	**₱13,865,078**	**₱–**	**₱13,865,078**	₱9,700,005	₱–	₱9,700,005
Due from BSP	**95,415,467**	**–**	**95,415,467**	146,079,249	–	146,079,249
Due from other banks	**5,013,357**	**–**	**5,013,357**	6,146,134	–	6,146,134
Interbank loans receivable	**7,671,437**	**–**	**7,671,437**	8,405,250	–	8,405,250
Financial assets at FVPL	**353,835**	**6,342,115**	**6,695,950**	3,845,673	–	3,845,673
AFS investments - gross (Note 9)	**3,699,094**	**52,642,375**	**56,341,469**	3,517,647	70,106,870	73,624,517
HTM investments	**–**	**21,559,631**	**21,559,631**	–	–	–
Loans and receivables - gross (Note 10)	**118,062,018**	**183,773,451**	**301,835,469**	110,678,875	157,253,711	267,932,586
Other assets - gross (Note 15)	**943,122**	**86,154**	**1,029,276**	182,080	59,760	241,840
	245,023,408	**264,403,726**	**509,427,134**	288,554,913	227,420,341	515,975,254
Nonfinancial Assets						
Property and equipment - gross (Note 11)	**–**	**24,157,278**	**24,157,278**	–	23,894,093	23,894,093
Investment properties - gross (Note 13)	**–**	**25,326,794**	**25,326,794**	–	26,312,484	26,312,484
Deferred tax assets	**–**	**1,029,423**	**1,029,423**	–	1,063,337	1,063,337
Investment in Subsidiaries and an Associate - gross (Note 12)	**–**	**24,910,585**	**24,910,585**	–	14,514,962	14,514,962
Goodwill (Note 14)	**–**	**13,515,765**	**13,515,765**	–	13,515,765	13,515,765
Intangible assets - gross (Note 14)	**–**	**3,432,514**	**3,432,514**	–	3,053,699	3,053,699
Residual value of leased assets (Note 10)	**–**	**–**	**–**	–	–	–
Other assets - gross (Note 15)	**1,203,083**	**2,398,920**	**3,602,003**	2,506,902	865,464	3,372,366
	1,203,083	**94,771,279**	**95,974,362**	2,506,902	83,219,804	85,726,706

(Forward)

	Parent Company					
	2014			2013 (As Restated - Note 2)		
	Less than Twelve Months	**Over Twelve Months**	**Total**	Less than Twelve Months	Over Twelve Months	Total
Less: Allowance for impairment and credit losses (Note 16)			**₱18,125,739**			₱17,669,266
Unearned and other deferred income (Note 10)			**867,933**			830,242
Accumulated amortization and depreciation (Notes 11, 13 and 14)			**8,291,247**			7,608,201
			₱578,116,577			₱575,594,251
Financial Liabilities						
Deposit liabilities	**₱385,631,811**	**₱46,814,852**	**₱432,446,663**	₱436,727,134	₱11,705,381	₱448,432,515
Financial liabilities at FVPL	**19,460**	**24,804**	**44,264**	149,811	13,273	163,084
Bills and acceptances payable	**7,443,348**	**11,082,696**	**18,526,044**	11,735,632	1,748,844	13,484,476
Subordinated debt	**–**	**9,969,498**	**9,969,498**	–	9,953,651	9,953,651
Accrued interest payable (Note 20)	**440,965**	**1,555,418**	**1,996,383**	463,830	1,555,418	2,019,248
Accrued other expenses payable (Note 20)	**484,360**	**–**	**484,360**	791,234	–	791,234
Other liabilities (Note 22):						
Accounts payable	**6,057,924**	**–**	**6,057,924**	8,127,279	–	8,127,279
Bills purchased - contra	**4,222,235**	**–**	**4,222,235**	3,403,791	–	3,403,791
Managers' checks and demand drafts outstanding	**1,018,139**	**–**	**1,018,139**	1,021,982	–	1,021,982
Dormant credits	**110,208**	**436,680**	**546,888**	89,647	346,908	436,555
Accounts payable - electronic money	**459,121**	**–**	**459,121**	450,585	–	450,585
Due to other banks	**408,925**	**–**	**408,925**	157,825	–	157,825
Due to TOP	**–**	**366,841**	**366,841**	–	311,363	311,363
Payment order payable	**295,971**	**–**	**295,971**	194,628	–	194,628
Due to BSP	**101,172**	**–**	**101,172**	117,820		117,820
Margin deposits and cash letters of credit	**73,972**	**–**	**73,972**	347,253	–	347,253
Deposit on lease contracts	**–**	**34,374**	**34,374**	–	33,795	33,795
Deposit for keys on safety deposit boxes	**14,084**	**–**	**14,084**	13,764	–	13,764
	406,781,695	**70,285,163**	**477,066,858**	463,792,215	25,668,633	489,460,848
Nonfinancial Liabilities						
Accrued taxes and other expenses (Note 20)	**811,742**	**1,742,671**	**2,554,413**	846,721	1,351,960	2,198,681
Income tax payable	**70,001**	**–**	**70,001**	6,186	–	6,186
Other liabilities (Note 22)	**1,911,194**	**3,118,333**	**5,029,527**	462,490	5,818,715	6,281,205
	2,792,937	**4,861,004**	**7,653,941**	1,315,397	7,170,675	8,486,072
	₱409,574,632	**₱75,146,167**	**₱484,720,799**	₱465,107,612	₱32,839,308	₱497,946,920

25. Equity

Capital stock consists of (amounts in thousands, except for par value and number of shares):

	Shares		Amount	
	2014	2013	**2014**	2013
Common - ₱40 par value				
Authorized	**1,750,000,001**	1,250,000,001	**₱70,000,000**	₱50,000,000
Issued and outstanding				
Balance at the beginning of the year	**1,086,208,416**	662,045,804	**43,448,337**	26,401,832
Issued during the year	**162,931,262**	423,962,500	**6,517,250**	16,958,500
Reissuance of Parent Company shares held by a subsidiary	**–**	200,112	**–**	8,005*
	1,249,139,678	1,086,208,416	**₱49,965,587**	₱43,368,337

** Cost of treasury shares previously held by a subsidiary amounted to ₱4.7 million.*

The Parent Company's shares are listed in the PSE. As of December 31, 2014 and 2013, the Parent Company had 30,167 and 30,469 stockholders, respectively. As of December 31, 2014 and 2013, the Group has no treasury shares.

Pursuant to the 1986 Revised Charter of the Parent Company, the Parent Company's authorized capital stock was ₱10.0 billion divided into 100,000,000 common shares with a par value of ₱100.0 per share. Its principal stockholder was the National Government (NG) which owned 25,000,000 common shares. On the other hand, private stockholders owned 8,977 common shares.

To foster a financial intermediation system that is both competitive and efficient, the partial privatization of the Parent Company was carried out through the following public offerings:

Date of Offering	Type of Offering	No. of Shares Offered	Par Value	Offer Price	Authorized Number of Shares	Issued and Outstanding Shares
June 1989	Initial Public Offering	10,800,000 common shares	₱100.0	₱100.0	250,000,000 common shares	36,011,569 common shares
April 1992	Second Public Offering	8,033,140 common shares	₱100.0	₱265.0	250,000,000 common shares	80,333,350 common shares
December 1995	Third Public Offering	7,200,000 common shares and 2,400,000 covered warrants	₱100.0	₱260.0	250,000,000 common shares	99,985,579 common shares

After the three (3) public offerings, the NG sold a total of 54.41% of its shareholdings to both the Philippine public and international investors.

On May 27, 1996, the privatization of the Parent Company was completed when the Parent Company's new Articles of Incorporation and By-Laws were approved by the SEC under SEC Registration No. ASO96-005555. As of May 27, 1996, the NG owned 45.59% of the outstanding shares of the Parent Company. The Parent Company's authorized capital stock was increased to ₱25.0 billion pesos divided into 250,000,000 common shares with a par value of ₱100.00 per share.

As part of the Parent Company's capital build-up program, the Parent Company also completed the following rights offerings:

Date of Offering	Type of Offering	No. of Shares Offered	Basis of Subscription	Par Value	Offer Price	Authorized Number of Shares	Issued and Outstanding Shares
September 1999	Stock Rights Offering	68,740,086 common shares	One (1) Right Share for every two common shares	₱100.0	₱137.8	250,000,000 common shares	206,220,257 common shares
September 2000	Pre-emptive Rights Offering	71,850,215 common shares with 170,850,215 warrants	Five (5) Right Shares for every Six (6) common shares	₱100.0	₱60.0	833,333,334 common shares	206,220,257 common shares
February 2014	Stock Rights Offering	162,931,262 common shares	Fifteen (15) Right Shares for every 100 common shares	₱40.0	₱71.0	1,750,000,001 common shares	1,249,139,678 common shares

On August 18, 2000, the SEC approved the decrease of the capital stock of the Parent Company from ₱25.0 billion divided into 250,000,000 common shares with a par value of ₱100.0 per share to ₱15.0 billion divided into 250,000,000 common shares with a par value of ₱60.0 per share. Subsequently on November 7, 2000, the SEC approved the increase of the capital stock of the Parent Company from ₱15.0 Billion divided into 250,000,000 common shares with a par value of ₱60.0 per share to ₱50,000,000,040 divided into 833,333,334 shares with a par value of ₱60.0 per share.

On July 23, 2002, the SEC approved the decrease of the capital stock of the Parent Company from ₱50,000,000,040.0 divided into 833,333,334 shares with a par value of ₱60.0 per share to ₱33,333,333,360.0 divided into 833,333,334 shares with a par value of ₱40.0 per share. On the same day, the SEC also approved the increase of the capital stock of the Parent Company from ₱33,333,333,360.0 divided into 833,333,334 shares with a par value of ₱40.0 per share to

₱50,000,000,040.0 divided into 1,054,824,557 common shares and 195,175,444 preferred shares both with a par value of ₱40.0 each.

In July 2007, the Parent Company made a primary and secondary offering of up to 160,811,091 common shares. The Offer consisted of: (i) primary offer by the Parent Company of up to 89,000,000 new shares from the Parent Company's authorized but unissued common share capital, and (ii) secondary offer of up to an aggregate of 71,811,091 existing shares, comprising (a) 17,453,340 shares offered by the NG, and (b) 54,357,751 shares which were owned by the PDIC in the form of convertible preferred shares. The Primary Offer Shares and Secondary Offer Shares were offered at the Offer Price of ₱59.0 per share.

On January 17, 2013, the SEC approved the conversion of the Parent Company's 195,175,444 authorized preferred shares into common shares, thereby increasing its authorized common shares to 1,250,000,001. The increase in authorized common shares is intended to accommodate the issuance of the Parent Company of common shares to ABC shareholders relative to the business combination.

Prior to conversion to common shares, the preferred shares had the following features:

a. Non-voting, non-cumulative, fully participating on dividends with the common shares;
b. Convertible, at any time at the option of the holder who is qualified to own and hold common shares on a one (1) preferred share for one (1) common share basis;
c. With mandatory and automatic conversion into common shares upon the sale of such preferred shares to any person other than the NG or any other government agency or GOCC's; and
d. With rights to subscribe to additional new preferred shares with all of the features described above, in the event that the Parent Company shall offer new common shares for subscription, in such number corresponding to the number of shares being offered.

Last February 2014, the Parent Company successfully completed its Stock Rights Offering (Offer) of 162,931,262 common shares (Rights Shares) with a par value of ₱40.0 per share at a price of ₱71.0 each. The Rights Shares were offered to all eligible shareholders of the Parent Company at the proportion of fifteen (15) Rights Shares for every one hundred (100) common shares as of the record date of January 16, 2014. The offer period was from January 27, 2014 to February 3, 2014. A total of 33,218,348 Rights Shares were sourced from the existing authorized but unissued capital stock of the Parent Company. The remaining 129,712,914 Rights Shares were sourced from an increase in the authorized capital stock of the Parent Company. The Offer was oversubscribed and raised gross proceeds of ₱11.6 billion. It also strengthened the Parent Company's capital position under the Basel III standards, which took effect on January 1, 2014.

Surplus amounting to ₱7.7 billion and Capital Paid in Excess of Par Value of the Parent Company amounting to ₱2.2 billion as of December 31, 2014 and 2013 which represent the balances of accumulated translation adjustment (₱1.6 billion), accumulated equity in net earnings (₱0.6 billion) and revaluation increment from land (₱7.7 billion) that have been applied to eliminate the Parent Company's deficit through a quasi-reorganization in 2002 and 2000, are not available for dividend declaration without prior approval from the Philippine SEC and the BSP.

Accumulated Translation Adjustment
As part of the Group's rehabilitation program in 2002, the SEC approved on November 7, 2002 the application of the accumulated translation adjustment of ₱1.6 billion to eliminate the Parent Company's remaining deficit of ₱1.3 billion as of December 31, 2001, after applying the total reduction in par value amounting to ₱7.6 billion. The SEC approval is subject to the following conditions: (a) remaining translation adjustment of ₱310.7 million as of December 31, 2001

(shown as part of 'Capital Paid in Excess of Par Value' in the statement of financial position) will not be used to wipe out losses that may be incurred in the future without prior approval of SEC; and (b) for purposes of dividend declaration, any future surplus account of the Parent Company shall be restricted to the extent of the deficit wiped out by the translation adjustment.

Surplus Reserves

The surplus reserves consist of:

	2014	2013
Reserve for trust business (Note 33)	**₱457,620**	₱444,003
Reserve for self-insurance	**80,000**	80,000
	₱537,620	₱524,003

Reserve for self-insurance, contingencies and other account represents the amount set aside to cover losses due to fire, defalcation by and other unlawful acts of the Parent Company's personnel or third parties. In 2013, the Parent Company reversed ₱191.6 million worth of reserves for contingencies since the cases for which these reserves were set up for were already favorably resolved.

Capital Management

The primary objectives of the Parent Company's capital management are to ensure that it complies with externally imposed capital requirements and it maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Parent Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Parent Company may adjust the amount of dividend payment to shareholders, return capital structure, or issue capital securities. No changes were made in the objectives, policies and processes from the previous periods.

Regulatory Qualifying Capital

Under existing BSP regulations, the determination of the Parent Company's compliance with regulatory requirements and ratios is based on the amount of the Parent Company's "unimpaired capital" (regulatory net worth) reported to the BSP, which is determined on the basis of regulatory policies, which differ from PFRS in some respects.

In addition, the risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10.00% for both solo basis (head office and branches) and consolidated basis (parent bank and subsidiaries engaged in financial allied undertakings but excluding insurance companies). Qualifying capital and risk-weighted assets are computed based on BSP regulations. Risk-weighted assets consist of total assets less cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits and other non-risk items determined by the MB of the BSP.

The BSP approved the booking of additional appraisal increment of ₱431.8 million in 2002 on properties and recognition of the same in determining the capital adequacy ratio, and booking of translation adjustment of ₱1.6 billion in 2002 representing the increase in peso value of the investment in foreign subsidiaries for purposes of the quasi-reorganization and rehabilitation of the Parent Company, provided that the same shall be excluded for dividend purposes.

The details of CAR, as reported to the BSP, as of December 31, 2014 and 2013 based on Basel III and Basel II, respectively, follow (amounts in millions):

	2014		2013	
Consolidated	**Actual**	**Required**	Actual	Required
Tier 1 capital	**₱71,507.5**		₱62,211.8	
Tier 2 capital	**13,040.3**		12,856.9	
Gross qualifying capital	**84,547.8**		75,068.7	
Less required deductions	**–**		623.1	
Total qualifying capital	**₱84,547.8**	**₱41,033.6**	₱74,445.6	₱37,819.6
Risk weighted assets	**₱410,336.1**		₱378,195.7	
Tier 1 capital ratio	**17.43%**		16.45%	
Total capital ratio	**20.60%**		19.68%	

	2014		2013	
Parent Company	**Actual**	**Required**	Actual	Required
Tier 1 capital	**₱44,851.1**		₱59,715.4	
Tier 2 capital	**12,833.1**		12,746.1	
Gross qualifying capital	**57,684.2**		72,461.5	
Less required deductions	**–**		14,735.8	
Total qualifying capital	**₱57,684.2**	**₱37,502.6**	₱57,725.7	₱34,049.6
Risk weighted assets	**₱375,026.3**		₱340,496.0	
Tier 1 capital ratio	**11.96%**		17.54%	
Total capital ratio	**15.38%**		16.95%	

The Group and its individually regulated subsidiaries/operations have complied with all externally imposed capital requirement throughout the year.

On January 15, 2013, the BSP issued Circular No. 781, Basel III Implementing Guidelines on Minimum Capital Requirements, which provides the implementing guidelines on the revised risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards. The circular is effective on January 1, 2014.

The Circular sets out a minimum Common Equity Tier 1 (CET1) ratio of 6.00% and Tier 1 capital ratio of 7.50%. It also introduces a capital conservation buffer of 2.50% comprised of CET1 capital. The BSP's existing requirement for Total CAR remains unchanged at 10.00% and these ratios shall be maintained at all times.

Further, existing capital instruments as of December 31, 2010 which do not meet the eligibility criteria for capital instruments under the revised capital framework shall no longer be recognized as capital upon the effectivity of Basel III. Capital instruments issued under BSP Circular Nos. 709 and 716 (the circulars amending the definition of qualifying capital particularly on Hybrid Tier 1 and Lower Tier 2 capitals), starting January 1, 2011 and before the effectivity of BSP Circular No. 781, shall be recognized as qualifying capital until December 31, 2015. In addition to changes in minimum capital requirements, this Circular also requires various regulatory adjustments in the calculation of qualifying capital.

On June 27, 2014, the BSP issued Circular No. 839, *Real Estate Stress Test (REST) Limit for Real Estate Exposure*, which set a prudential limit for real estate exposures and other real estate properties of universal, commercial and thrift banks. REST will be undertaken for real estate exposure at an assumed write-off of 25.00%. The prudential REST limit which shall be complied at all times are 6.00% of CET1 ratio and 10.00% of CAR. The Circular is effective July 19, 2014.

The Parent Company has taken into consideration the impact of the foregoing requirements to ensure that the appropriate level and quality of capital are maintained on an ongoing basis.

Surplus
The computation of surplus available for dividend declaration in accordance with SEC Memorandum Circular No. 11 issued in December 2008 differs to a certain extent from the computation following BSP guidelines. Surplus and Capital Paid in Excess of Par Value of the Parent Company amounting to ₱9.9 billion as of December 31, 2014 and 2013 which represents the balances of accumulated translation adjustment, accumulated equity in net earnings and revaluation increment from land that have been applied to eliminate the Parent Company's deficit through a quasi-reorganization in 2002 and 2000, are not available for dividend declaration without prior approval from the Philippine SEC and the BSP. Also, unrealized foreign exchange gains, except those attributable to cash and cash equivalents, unrealized actuarial gains, fair value adjustment or the gains arising from mark-to-market valuation, deferred tax asset recognized that reduced the income tax expense and increased the net income and retained earnings, adjustment due to deviation from PFRS/GAAP and other unrealized gains or adjustments, are excluded from the Parent Company's surplus available for dividend declaration.

In the consolidated financial statements, a portion of the Group's surplus corresponding to the net earnings of the subsidiaries amounting to ₱2.7 billion, ₱1.7 billion and ₱2.0 billion as of December 31, 2014, 2013 and 2012, respectively, is not available for dividend declaration. The accumulated equity in net earnings becomes available for dividends upon receipt of cash dividends from the investees.

Merger Incentives
In connection with the merger of the Parent Company with ABC, the BSP gave certain incentives and the more relevant incentives are:

(a) Recognition of the fair value adjustments under GAAP and RAP books;
(b) Full recognition of appraisal increment from the revaluation of premises, improvements and equipment in the computation of CAR.

The Parent Company and its individually regulated subsidiaries/operations have complied with all externally imposed capital requirement throughout the period.

Internal Capital Adequacy Assessment Process (ICAAP) Implementation
In compliance with BSP Circular 639, the Parent Company has adopted its live ICAAP Document for 2011 to 2013. However, the BOD and the Management recognized that ICAAP is beyond compliance, i.e., it is about how to effectively run the Parent Company's operations by ensuring that the Parent Company maintains at all times an appropriate level and quality of capital to meet its business objective and commensurate to its risk profile. In line with its ICAAP principles, the Parent Company shall maintain a capital level that will not only meet the BSP CAR requirement, but will also cover all material risks that it may encounter in the course of its business. The ICAAP process highlights close integration of capital planning/strategic management with risk management. The Parent Company has in place a risk management framework that involves a collaborative process for assessing and managing identified Pillar 1 and Pillar 2 risks. The Parent Company complies with the required annual submission of updated ICAAP.

Financial Performance
The following basic ratios measure the financial performance of the Group and the Parent Company:

	Consolidated			Parent Company		
	2014	2013 (As Restated - Note 2)	2012 (As Restated - Note 2)	**2014**	2013 (As Restated - Note 2)	2012 (As Restated - Note 2)
Return on average equity (a/b)	**6.06%**	8.83%	13.89%	**5.17%**	9.52%	13.93%
a) Net income	**₱5,495,045**	₱5,247,489	₱4,752,358	**₱4,419,349**	₱5,379,415	₱4,598,536
b) Average total equity	**90,699,918**	59,456,656	34,214,726	**85,521,555**	56,500,721	33,016,153
Return on average assets (c/d)	**0.89%**	1.11%	1.49%	**0.77%**	1.20%	1.46%
c) Net income	**₱5,495,045**	₱5,247,489	₱4,752,358	**₱4,419,349**	₱5,379,415	₱4,598,536
d) Average total assets	**620,860,726**	472,274,243	318,936,216	**576,855,414**	449,380,024	314,327,110
Net interest margin on average earning assets (e/f)	**3.22%**	3.46%	2.64%	**3.21%**	3.42%	2.62%
e) Net interest income	**₱16,901,278**	₱13,748,539	₱6,975,706	**₱15,180,084**	₱12,752,068	₱6,762,029
f) Average interest earning assets	**525,417,739**	397,360,801	264,092,981	**472,679,584**	372,448,575	258,436,737

Note: Average balances were the sum of beginning and ending balances of the respective statement of financial position accounts as of the end of the year divided by two (2)

26. Service Fees and Commission Income

This account consists of:

	Consolidated			Parent Company		
	2014	2013 (As Restated - Note 2)	2012 (As Restated - Note 2)	**2014**	2013	2012
Deposit-related	**₱1,252,798**	₱993,632	₱860,606	**₱1,228,456**	₱968,127	₱860,606
Commissions	**701,907**	830,285	602,059	**599,837**	669,469	499,995
Remittance	**406,472**	406,465	330,164	**15,097**	131,340	7,774
Credit-related	**387,535**	133,691	82,414	**374,698**	122,803	82,413
Trust fees (Note 33)	**230,111**	189,874	134,690	**230,111**	189,874	134,690
Interchange fees	**203,501**	246,188	–	**203,501**	246,188	–
Underwriting fees	**136,265**	307,348	101,389	–	–	–
Awards revenue	**84,899**	32,435	–	**84,899**	32,435	–
Miscellaneous	**141,875**	349,147	113,155	**135,563**	251,046	20,758
	₱3,545,363	₱3,489,065	₱2,224,477	**₱2,872,162**	₱2,611,282	₱1,606,236

Commissions include those income earned for services rendered on opening of letters of credit, handling of collection items, domestic/export/import bills and telegraphic transfers and sale of demand drafts, traveler's checks and government securities.

Interchange fees and awards revenue were generated from the credit card business acquired by the Parent Company through merger with ABC (Note 37).

27. Net Insurance Premium and Benefits and Claims

Net insurance premium
This account consists of:

	2014	2013	2012
Gross earned premiums	**₱3,296,925**	₱2,977,320	₱1,358,141
Reinsurers' share of gross earned premiums	**(1,284,152)**	(1,161,210)	(831,737)
	₱2,012,773	₱1,816,110	₱526,404

Net insurance benefits and claims
This account consists of:

	2014	2013	2012
Gross insurance contract benefits and claims paid	**₱1,886,445**	₱1,371,887	₱412,605
Reinsurers' share of gross insurance contract benefits and claims paid	**(1,112,415)**	(417,518)	(182,595)
Gross change in insurance contract liabilities	**(254,152)**	4,111,508	982,128
Reinsurers' share of change in insurance contract liabilities	**767,619**	(2,759,791)	(909,482)
	₱1,287,497	₱2,306,086	₱302,656

28. Miscellaneous Income and Expenses

Miscellaneous income
This account consists of:

	Consolidated			Parent Company		
	2014	2013 (As Restated - Note 2)	2012 (As Restated - Note 2)	**2014**	2013	2012
Rental income (Note 30)	**₱634,397**	₱442,993	₱335,079	**₱363,956**	₱273,132	₱180,126
Gain on sale/redemption of notes (Note 34)	**622,983**	28,373	–	**622,983**	28,373	–
Recoveries (Note 35)	**209,419**	374,812	111,469	**206,751**	345,329	111,469
Referral fees	**97,715**	55,124	–	–	–	–
Sales deposit forfeiture	**12,250**	12,254	1,398	**12,250**	12,254	1,398
Customs fees	**11,702**	13,774	14,595	**11,702**	13,774	14,595
Gain from step up acquisition	–	63,605	–	–	–	–
Share in net income of an associate (Note 12)	–	4,975	10,309	–	–	–
Others	**654,060**	495,070	229,322	**201,948**	312,001	88,571
	₱2,242,526	₱1,490,980	₱702,172	**₱1,419,590**	₱984,863	₱396,159

In 2014, 'Recoveries' include collections on 'Receivable from SPV' amounting to ₱27.0 million.

The gain on step-up acquisition of ₱63.6 million in 2013 arose from the step-up acquisition of investment in PNB LII which was accounted for as disposal of the Group's equity investment in PNB LII, previously recognized as AFS investment, in exchange for the equity interest in PNB LII's assets and liabilities.

Miscellaneous expenses
This account consists of:

	Consolidated			Parent Company		
	2014	2013 (As restated - Note 2)	2012 (As restated - Note 2)	**2014**	2013	2012
Secretarial, janitorial and messengerial	**₱1,035,803**	₱931,281	₱516,836	**₱997,624**	₱898,765	₱504,642
Insurance	**952,240**	897,130	592,239	**913,679**	869,000	579,664
Marketing expenses	**558,712**	752,459	397,119	**523,658**	701,248	361,744
Information technology	**407,074**	355,751	191,982	**375,945**	331,400	147,398
Management and other professional fees	**340,559**	330,036	217,111	**266,756**	264,109	159,090
Travelling	**230,560**	237,472	191,799	**201,922**	218,589	171,110
Litigation expenses	**229,886**	267,614	309,760	**216,741**	264,768	309,589
Postage, telephone and cable	**188,800**	195,113	116,611	**135,873**	141,187	78,214
Entertainment and representation	**151,419**	214,900	142,481	**126,698**	174,091	118,058
Repairs and maintenance	**79,664**	94,710	110,954	**79,664**	71,902	77,271
Fuel and lubricants	**54,721**	117,637	21,140	**54,027**	109,600	20,431
Freight	**46,723**	63,660	31,206	**35,043**	53,015	31,206
Others	**537,467**	824,061	580,198	**23,252**	729,878	531,901
	₱4,813,628	₱5,281,824	₱3,419,436	**₱3,950,882**	₱4,827,552	₱3,090,318

29. Retirement Plan

The Parent Company and certain subsidiaries of the Group, have separate funded, noncontributory defined benefit retirement plans covering substantially all its officers and regular employees. Under these retirement plans, all covered officers and employees are entitled to cash benefits after satisfying certain age and service requirements.

The amounts of net defined benefit liability in the statements of financial position follow:

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Retirement liabilities (included in 'Other Liabilities')	**₱2,867,287**	₱3,388,863	**₱2,796,997**	₱3,323,955
Net plan assets (included in 'Other Assets')	**(5,709)**	(5,532)	**–**	–
	₱2,861,578	₱3,383,331	**2,796,997**	₱3,323,955

The Group's annual contribution to the retirement plan consists of a payment covering the current service cost, unfunded actuarial accrued liability and interest on such unfunded actuarial liability. The retirement plan provides each eligible employer with a defined amount of retirement benefit dependent on one or more factors such as age, years of service and salary.

As of December 31, 2014, the Parent Company has two separate retirement plans for the employees of PNB and ABC.

The changes in the present value obligation and fair value of plan assets are as follows:

	Consolidated											
	2014											
		Net benefit costs*					Remeasurements in other comprehensive income					
	January 1, 2014	Current service cost	Past service cost	Net interest	Subtotal	Benefits paid	Return on plan asset excluding amount included in net interest	Actuarial changes arising from experience adjustments	Actuarial changes arising from changes in financial assumptions	Subtotal	Contributions by employer	December 31, 2014
Present value of pension obligation	₱5,364,975	₱393,876	₱45,767	₱242,375	₱682,018	(₱543,913)	₱–	₱920,585	₱113,397	₱1,033,982	₱–	₱6,537,062
Fair value of plan assets	1,981,644	–	–	89,936	89,936	(543,913)	9,915	–	–	9,915	2,137,902	3,675,484
Retirement liability	₱3,383,331	₱393,876	₱45,767	₱152,439	₱592,082	₱–	(₱9,915)	₱920,585	₱113,397	₱1,024,067	(₱2,137,902)	₱2,861,578

** Net benefit costs is included in 'Compensation and fringe benefits' in the statements of income.*

	Consolidated												
	2013												
			Net benefit costs					Remeasurements in other comprehensive income					
	January 1, 2013	Assumed from business combination (Note 37)	Current service cost	Past service cost	Net interest	Subtotal	Benefits paid	Return on plan asset excluding amount included in net interest	Actuarial changes arising from experience adjustments	Actuarial changes arising from changes in financial assumptions	Subtotal	Contributions by employer	December 31, 2013
Present value of pension obligation	₱3,242,671	₱1,589,861	₱401,578	₱1,700	₱256,974	₱660,252	(₱471,475)	₱–	₱1,014,870	(₱671,204)	₱343,666	₱–	₱5,364,975
Fair value of plan assets	1,389,396	839,976	–	–	113,758	113,758	(471,475)	(160,055)	–	–	(160,055)	270,044	1,981,644
Retirement liability	₱1,853,275	₱749,885	₱401,578	₱1,700	₱143,216	₱546,494	₱–	₱160,055	₱1,014,870	(₱671,204)	₱503,721	(₱270,044)	₱3,383,331

** Net benefit costs is included in 'Compensation and fringe benefits' in the statements of income.*

Parent Company

2014

	January 1, 2014	Net benefit costs: Current service cost	Net benefit costs: Past service cost	Net benefit costs: Net interest	Net benefit costs: Subtotal	Benefits paid	Remeasurements in other comprehensive income: Return on plan asset excluding amount included in net interest	Remeasurements in other comprehensive income: Actuarial changes arising from experience adjustments	Remeasurements in other comprehensive income: Actuarial changes arising from changes in financial assumptions	Remeasurements in other comprehensive income: Subtotal	Contributions by employer	December 31, 2014
Present value of pension obligation	₱5,219,927	₱411,097	₱45,767	₱236,463	₱693,327	(₱539,947)	₱–	₱895,421	₱101,747	₱997,168	₱–	₱6,370,475
Fair value of plan assets	1,895,972	–	–	85,888	85,888	(539,947)	10,237	–	–	10,237	2,121,328	3,573,478
Retirement liability	₱3,323,955	₱411,097	₱45,767	₱150,575	₱607,439	₱–	(₱10,237)	₱895,421	₱101,747	₱986,931	(₱2,121,328)	₱2,796,997

** Net benefit costs is included in 'Compensation and fringe benefits' in the statements of income.*

Parent Company

2013

	January 1, 2013	Assumed from business combination (Note 37)	Net benefit costs: Current service cost	Net benefit costs: Past service cost	Net benefit costs: Net interest	Net benefit costs: Subtotal	Benefits paid	Remeasurements in other comprehensive income: Return on plan asset excluding amount included in net interest	Remeasurements in other comprehensive income: Actuarial changes arising from experience adjustments	Remeasurements in other comprehensive income: Actuarial changes arising from changes in financial assumptions	Remeasurements in other comprehensive income: Subtotal	Contributions by employer	December 31, 2013
Present value of pension obligation	₱3,141,154	₱1,589,861	₱374,409	₱–	₱251,983	₱626,392	(₱467,949)	₱–	₱1,005,443	(₱674,974)	₱330,469	₱–	₱5,219,927
Fair value of plan assets	1,317,810	839,976	–	–	109,766	109,766	(467,949)	(158,593)	–	–	(158,593)	254,962	1,895,972
Retirement liability	₱1,823,344	₱749,885	₱374,409	₱–	₱142,217	₱516,626	₱–	₱158,593	₱1,005,443	(₱674,974)	₱489,062	(₱254,962)	₱3,323,955

** Net benefit costs is included in 'Compensation and fringe benefits' in the statements of income.*

The Group expects to contribute ₱698.0 million to its defined benefit plan in 2015.

The average duration of the retirement liability at December 31, 2014 is 15.0 years.

The latest actuarial valuations for these retirement plans were made on December 31, 2014. The following table shows the actuarial assumptions as of December 31, 2014 and 2013 used in determining the retirement benefit obligation of the Group:

	Consolidated		Parent Company			
			ABC		PNB	
	2014	2013	**2014**	2013	**2014**	2013
Discount rate	**4.10% - 5.27%**	4.90% - 5.98%	**4.53%**	4.90%	**4.53%**	5.67%
Salary rate increase	**5.00% - 8.00%**	5.00% - 10.00%	**5.00%**	5.00%	**5.00%**	5.00%
Estimated working lives	**4.15 - 12.03**	4.39 - 12.00	**10.56**	9.73	**12.03**	12.00

Shown below is the maturity analysis of the undiscounted benefit payments:

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Less than one year	**₱473,409**	₱337,180	**₱454,659**	₱331,096
More than one year to five years	**1,663,591**	345,114	**1,620,445**	310,723
More than five years to 10 years	**2,984,475**	1,319,837	**2,891,956**	1,259,757
More than 10 years to 15 years	**4,299,687**	816,579	**4,102,677**	666,924
More than 15 years	**3,850,317**	1,624,257	**3,614,751**	1,282,757

The fair values of plan assets by each class as at the end of the reporting periods are as follow:

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Cash and cash equivalents	**₱1,351,299**	₱404,082	**₱1,318,530**	₱373,216
Equity investments:				
Financial institutions	**723,663**	682,552	**720,709**	681,086
Others	**35,319**	42,338	**17,410**	36,935
Debt investments:				
Private debt securities	**1,074,737**	252,643	**1,056,841**	237,783
Government securities	**308,021**	459,218	**292,613**	445,768
Unit investment trust funds	**156,004**	98,056	**156,004**	98,056
Loans and receivables	**19,765**	39,210	**3,465**	19,737
Interest and other receivables	**9,413**	4,765	**9,144**	4,116
	3,678,221	1,982,864	**3,574,716**	1,896,697
Accrued expenses	**(2,737)**	(1,220)	**(1,238)**	(725)
	₱3,675,484	₱1,981,644	**₱3,573,478**	₱1,895,972

All equity and debt investments held have quoted prices in an active market. The remaining plan assets do not have quoted market prices in an active market, thus, their fair value is determined using the discounted cash flow methodology, using the Parent Company's current incremental lending rates for similar types of loans and receivables.

The fair value of the plan assets as of December 31, 2014 and 2013 includes investments in the Parent Company shares of stock with fair value amounting to ₱720.7 million and ₱672.9 million, respectively (Note 34).

The plan assets have diverse investments and do not have any concentration risk.

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of the end of the reporting period, assuming if all other assumptions were held constant:

	2014			
	Consolidated		**Parent Company**	
	Possible fluctuations	**Increase**	**Possible fluctuations**	**Increase**
Discount rate	**-1.00%**	**₱765,225**	**-1.00%**	**₱744,541**
Salary increase rate	**+1.00%**	**748,047**	**+1.00%**	**728,821**
Employee turnover rate	**+10.00%**	**25,083**	**+10.00%**	**18,939**

	2013			
	Consolidated		Parent Company	
	Possible fluctuations	Increase	Possible fluctuations	Increase
Discount rate	-1.00%	₱637,118	-1.00%	₱578,273
Salary increase rate	+1.00%	580,737	+1.00%	569,095
Employee turnover rate	+10.00%	26,994	+10.00%	24,241

Full actuarial valuations were performed to test the sensitivity of the defined benefit obligation to a 1.00% increment in salary increase rate, 1.00% decrement in the discount rate and a 10.00% improvement in the employee turnover rate. The results also provide a good estimate of the sensitivity of the defined benefit obligation to a 1.00% decrement in salary increase rate, 1.00% increment in the discount rate and a 10.00% increase in the employee turnover rate but with reverse impact.

The Group and the Parent Company employs asset-liability matching strategies to maximize investment returns at the least risk to reduce contribution requirements while maintaining a stable retirement plan. Retirement plans are invested to ensure that liquid funds are available when benefits become due, to minimize losses due to investment pre-terminations and maximize opportunities for higher potential returns at the least risk.

The current plan asset of the Group and the Parent Company is allocated to cover benefit payments in the order of their proximity to the present time. Expected benefit payments are projected and classified into short-term or long-term liabilities. Investment instruments that would match the liabilities are identified. This strategy minimizes the possibility of the asset-liability match being distorted due to the Group's and the Parent Company's failure to contribute in accordance with its general funding strategy.

30. **Leases**

Operating Leases

Parent Company as Lessee

The Parent Company leases the premises occupied by majority of its branches (about 41.59% of the branch sites are Parent Company-owned). Some of its subsidiaries also lease the premises occupied by their Head Offices and most of their branches. The lease contracts are for periods ranging from 1 to 25 years and are renewable at the Group's option under certain terms and conditions. Various lease contracts include escalation clauses, most of which bear an annual rent increase of 10.00%.

Rent expense charged against current operations (included in 'Occupancy and equipment-related costs' in the statements of income) amounted to ₱1.1 billion, ₱820.3 million and ₱387.2 million in 2014, 2013 and 2012, respectively, for the Group, of which ₱705.3 million in 2014, ₱672.3 million in 2013 and ₱268.6 million in 2012 pertain to the Parent Company.

Future minimum rentals payable under non-cancelable operating leases follow:

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Within one year	**₱546,418**	₱562,255	**₱418,022**	₱428,693
Beyond one year but not more than five years	**1,156,258**	936,730	**767,527**	755,109
More than five years	**111,790**	34,368	**34,350**	30,860
	₱1,814,466	₱1,533,353	**₱1,219,899**	₱1,214,662

Parent Company as Lessor

The Parent Company has entered into commercial property leases on its investment properties. These non-cancelable leases have lease terms of one to five years. Some leases include escalation clauses (such as 5.00% per year). In 2014, 2013 and 2012, total rent income (included under 'Miscellaneous income') amounted to ₱634.4 million, ₱443.0 million and ₱335.1 million, respectively, for the Group and ₱364.0 million, ₱273.1 million and ₱180.1 million, respectively, for the Parent Company (Note 28).

Future minimum rentals receivable under non-cancelable operating leases follow:

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Within one year	**₱120,394**	₱164,704	**₱28,059**	₱69,003
Beyond one year but not more than five years	**123,850**	121,707	**30,994**	56,979
More than five years	**11,709**	13,557	**11,709**	13,557
	₱255,953	₱299,968	**₱70,762**	₱139,539

Finance Lease

Group as Lessor

Leases where the Group substantially transfers to the lessee all risks and benefits incidental to ownership of the leased asset are classified as finance leases and are presented as receivable at an amount equal to the Group's net investment in the lease. Finance income is recognized based on the pattern reflecting a constant periodic rate of return on the bank's net investment outstanding in respect of the finance lease (EIR method). Lease payments relating to the period are applied against the gross investment in the lease to reduce both the principal and the unearned finance income.

Future minimum lease receivables under finance leases are as follows:

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Within one year	**₱1,470,290**	₱1,146,191	**₱14,120**	₱2,809
Beyond one year but not more than five years	**1,795,487**	1,414,986	**31,100**	26,550
More than five years	**58,500**	116,058	**58,500**	75,850
Gross investment in finance lease contracts receivable (Note 10)	**3,324,277**	2,677,235	**103,720**	105,209
Less amounts representing finance charges	**390,019**	311,421	**58,504**	67,000
Present value of minimum lease payments	**₱2,934,258**	₱2,365,814	**₱45,216**	₱38,209

31. Income and Other Taxes

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

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

Effective November 1, 2005, Republic Act (RA) No. 9337, an act amending the National Internal Revenue Code (NIRC of 1997), provides that the RCIT rate shall be 30.00% and interest allowed as a deductible expenses shall be reduced by 33.00% of interest income subjected to final tax.

MCIT of 2.00% on modified gross income is computed and compared with the RCIT. Any excess of MCIT over the RCIT is deferred and can be used as a tax credit against future income tax liability for the next three years. In addition, the Parent Company and certain subsidiaries are allowed to deduct NOLCO from taxable income for the next three years from the period of incurrence.
FCDU offshore income (income from non-residents) is tax-exempt while gross onshore income (income from residents) is generally subject to 10.00% 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 income tax consists of:

	Consolidated			Parent Company		
	2014	2013 (As Restated - Note 2)	2012 (As Restated - Note 2)	**2014**	2013 (As Restated - Note 2)	2012 (As Restated - Note 2)
Current						
Regular	**₱777,253**	₱699,535	₱269,678	**₱652,067**	₱604,240	₱205,490
Final	**741,989**	490,487	637,167	**674,058**	430,879	621,892
	1,519,242	1,190,022	906,845	**1,326,125**	1,035,119	827,382
Deferred	**(108,782)**	(7,984)	32,770	**43,082**	(648)	58,399
	₱1,410,460	₱1,182,038	₱939,615	**₱1,369,207**	₱1,034,471	₱885,781

The components of net deferred tax assets reported in the statements of financial position follow:

	Consolidated			Parent Company		
	2014	2013 (As Restated - Note 2)	2012 (As Restated - Note 2	**2014**	2013 (As Restated - Note 2)	2012 (As Restated - Note 2
Deferred tax asset on:						
Allowance for impairment, credit and other losses	**₱4,851,051**	₱4,989,951	₱4,298,106	**₱4,669,376**	₱4,836,632	₱4,279,273
Accumulated depreciation on investment properties	**551,609**	635,280	623,627	**549,171**	632,108	623,627
NOLCO	**252,461**	97,466	63,483	**–**	–	–
Provision for IBNR	**18,000**	4,500	4,500	**–**	–	–
Net retirement liability	**16,333**	7,245	2,360	**–**	–	–
Accrued expenses	**10,094**	8,066	12,882	**–**	–	–
Excess of net provision for unearned premiums per PFRS over tax basis	**8,248**	13,055	4,162	**–**	–	–
Deferred reinsurance commission	**3,850**	10,035	6,616	**–**	–	–
MCIT	**1,265**	1,266	1,265	**–**	–	–
Unrealized foreign exchange losses	**44**	38,943	81	**–**	38,210	–
Others	**10,442**	301,109	290,583	**10,442**	301,109	280,184
	5,723,397	6,106,916	5,307,665	**5,228,989**	5,808,059	5,183,084
Deferred tax liability on:						
Fair value adjustment on investment properties	**2,061,668**	2,494,206	1,988,219	**2,052,971**	2,486,946	1,988,219
Fair value adjustments due to business combination	**1,223,767**	1,351,766	–	**1,223,767**	1,351,766	–
Revaluation increment on land and buildings	**736,436**	736,436	–	**736,436**	736,436	–
Unrealized foreign exchange gains	**75,456**	–	–	**75,456**	–	–
Unrealized trading gains on financial assets at FVPL	**38,549**	77,584	141,835	**38,549**	77,584	141,835
Lease income differential between finance and operating lease method	**36,546**	18,655	–	**–**	–	–
Deferred acquisition cost	**16,654**	19,393	16,762	**–**	–	–
Unrealized gains on AFS investments	**2,025**	10,730	1,833	**2,029**	11,127	1,833
Others	**70,358**	80,863	219,667	**70,358**	80,863	218,812
	4,261,459	4,789,633	2,368,316	**4,199,566**	4,744,722	2,350,699
	₱1,461,938	₱1,317,283	₱2,939,349	**₱1,029,423**	₱1,063,337	₱2,832,385

The components of the Group's net deferred tax liabilities included in 'Other Liabilities' (Note 22) follow:

	2014	2013 (As restated - Note 2)	2012 (As restated - Note 2)
Deferred tax liability on:			
Fair value adjustments due to business combination	**₱148,338**	₱148,338	₱–
Accelerated depreciation on property and equipment	**6,237**	5,743	–
Rent receivables	**66**	80	83
Unrealized gains on AFS investments	**32**	386	8,856
Lease income differential between finance and operating lease method	**–**	1,999	18,655
Fair value adjustment on investment properties	**–**	1,513	97
Net retirement asset	**–**	1,269	–
Others	**–**	–	13,166
	154,673	159,328	40,857
Deferred tax asset on:			
NOLCO	**13,173**	30,277	30,143
Allowance for impairment, credit and other losses	**1,801**	4,257	–
Unrealized foreign exchange losses	**–**	1	–
Net retirement liability	**–**	–	6,163
Accumulated depreciation on investment properties	**–**	–	678
	14,974	34,535	36,984
	₱139,699	₱124,793	₱3,873

Provision for deferred tax charged directly to OCI during the year follows:

	Consolidated			Parent Company		
	2014	2013	2012	**2014**	2013	2012
Net unrealized losses (gains) on AFS investments	**₱9,059**	(₱464)	₱23,948	**₱9,098**	(₱8,933)	₱19,029
Remeasurement losses on retirement plan	**9,334**	3,253	1,938	**–**	–	–

The movements in the net deferred tax assets of the Group include impact of CTA amounting to ₱2.6 million and ₱9.9 million in 2014 and 2013, respectively. The movements in the net deferred tax asset of the Parent Company include impact of CTA amounting to ₱0.1 million and ₱2.6 million in 2014 and 2013, respectively.

Based on the three-year financial forecast prepared by management and duly approved by the Executive Committee of the BOD, the Parent Company's net deferred tax assets of ₱5.2 billion and ₱5.8 billion as of December 31, 2014 and 2013, respectively is expected to be realized from its taxable profits within the next three years.

Unrecognized Deferred Tax Assets
The Parent Company and certain subsidiaries did not recognize deferred tax assets on the following unused tax credit and losses and temporary differences since they believe that the related tax benefits will not be realized in the future:

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Allowance for impairment and credit losses	**₱1,640,999**	₱847,463	**₱1,601,551**	₱794,874
Retirement liability	**839,099**	997,186	**839,099**	997,187
Accrued expenses	**436,037**	277,271	**436,037**	276,835
NOLCO	**211,606**	206,860	**–**	–
Derivative liabilities	**13,279**	48,925	**13,279**	48,925
MCIT	**–**	7,110	**–**	–
Others	**187,172**	173,114	**118,901**	38,690
	₱3,328,192	₱2,557,929	**₱3,008,867**	₱2,156,511

Details of the NOLCO of the Parent Company and its domestic subsidiaries follow:

Year Incurred	Amount	Used/Expired	Balance	Expiry Year
2010	₱256	₱256	₱–	2013
2011	85,165	85,165	–	2014
2012	115,521	–	115,521	2015
2013	948,078	–	948,078	2016
2014	185,999	–	185,999	2017
	₱1,335,019*	₱85,421	₱1,249,598	

**Balance includes NOLCO amounting to ₱277,952 acquired from business combination*

Unrecognized Deferred Tax Liabilities
As of December 31, 2014, there was a deferred tax liability of ₱569.6 million (₱561.2 million in 2013) for temporary differences of ₱1.9 billion (₱1.9 billion in 2013) related to investment in certain subsidiaries. However, this liability was not recognized because the Parent Company controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.

Details of the applied MCIT of the Parent Company and its domestic subsidiaries follow:

Year Incurred	Amount	Used	Balance	Expiry Year
2010	₱75,036	₱75,036	₱–	2013
2011	125,782	125,782	–	2014
2012	137,872	134,175	3,697	2015
2013	3,621	–	3,621	2016
2014	5,630	–	5,630	2017
	₱347,941	₱334,993	₱12,948	

In 2013, the Parent Company applied all of the excess MCIT over RCIT above including those acquired through the merger with ABC amounting to ₱134.29 million to defray its 2013 income tax liability.

The reconciliation between the statutory income tax rate to effective income tax rate follows:

	Consolidated			**Parent Company**		
	2014	2013 (As Restated - Note 2)	2012 (As Restated - Note 2)	**2014**	2013 (As Restated - Note 2)	2012 (As Restated - Note 2)
Statutory income tax rate	**30.00%**	30.00%	30.00%	**30.00%**	30.00%	30.00%
Tax effects of:						
FCDU income before tax	**(6.05)**	(5.16)	(14.21)	**(7.20)**	(5.17)	(14.74)
Net non-deductible expenses	**16.34**	7.43	6.64	**23.14**	7.15	5.39
Optional standard deduction	**0.02**	(0.27)	(0.09)	**–**	–	–
Tax-exempt income	**(7.09)**	(19.14)	(7.57)	**(8.14)**	(18.83)	(6.34)
Tax-paid income	**(4.14)**	(0.14)	(0.24)	**(3.54)**	0.24	(0.59)
Net unrecognized deferred tax assets	**(8.65)**	5.66	1.98	**(10.61)**	2.74	2.43
Effective income tax rate	**20.43%**	18.38%	16.51%	**23.65%**	16.13%	16.15%

Current tax regulations define expenses to be classified as entertainment, amusement and recreation and set a limit for the amount that is deductible for tax purposes. Entertainment, amusement and recreation expenses are limited to 1.00% of net revenues for sellers of services. EAR charged against current operations (included in 'Miscellaneous expense' in the statements of income) amounted to ₱151.4 million in 2014, ₱214.9 million in 2013, and ₱142.5 million in 2012 for the Group, and ₱126.7 million in 2014, ₱174.1 million in 2013, and ₱118.1 million in 2012 for the Parent Company (Note 28).

32. **Earnings Per Share**

The earnings per share of the Group, attributable to equity holders of the Parent Company, are calculated as follows:

	2014	2013 (As Restated - Note 2)	2012 (As Restated - Note 2)
a) Net income attributable to equity holders of the Parent Company	**₱5,358,669**	₱5,146,315	₱4,742,527
b) Weighted average number of common shares for basic earnings per share (Note 25)	**1,163,938**	1,067,822	672,785
c) Basic earnings per share (a/b)	**₱4.60**	₱4.82	₱7.05

33. **Trust Operations**

Securities and other properties held by the Parent Company in fiduciary or agency capacities for its customers are not included in the accompanying statements of financial position since these are not assets of the Parent Company. Such assets held in trust were carried at a value of ₱65.8 billion and ₱56.3 billion as of December 31, 2014 and 2013, respectively (Note 35). In connection with the trust functions of the Parent Company, government securities amounting to ₱711.8 million and ₱1.3 billion (included under 'AFS Investments') as of December 31, 2014 and 2013, respectively, are deposited with the BSP in compliance with trust regulations.

Trust fee income in 2014, 2013 and 2012 amounting to ₱230.1 million, ₱189.9 million and ₱134.7 million, respectively, is included under 'Service fees and commission income' (Note 26).

In compliance with existing banking regulations, the Parent Company transferred from surplus to surplus reserves the amounts of ₱13.6 million, ₱9.5 million and ₱9.7 million in 2014, 2013 and 2012, respectively, which correspond to 10.00% of the net income realized in the preceding years from its trust, investment management and other fiduciary business until such related surplus reserve constitutes 20.00% of its regulatory capital. In 2013, an additional ₱136.3 million was transferred by the Parent Company from surplus to surplus reserve which corresponds to reserves allotted to the trust business acquired from ABC.

34. **Related Party Transactions**

Regulatory Reporting

In the ordinary course of business, the Parent Company has loans and other transactions with its subsidiaries and affiliates, and with certain Directors, Officers, Stockholders and Related Interests (DOSRI). Under the Parent Company's policy, these loans and other transactions are made substantially on the same terms as with other individuals and businesses of comparable risks. The amount of direct credit accommodations to each of the Parent Company's DOSRI, 70.00% of which must be secured, should not exceed the amount of their respective deposits and book value of their respective investments in the Parent Company.

In the aggregate, DOSRI loans generally should not exceed the Parent Company's equity or 15.00% of the Parent Company's total loan portfolio, whichever is lower. As of December 31, 2014 and 2013, the Group and Parent Company were in compliance with such regulations.

The information relating to the DOSRI loans of the Group and Parent Company follows:

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Total Outstanding DOSRI Accounts*	**₱12,749,637**	₱3,557,857	**₱12,749,637**	₱3,557,857
Percent of DOSRI accounts granted prior to effectivity of BSP Circular No. 423 to total loans	**4.20%**	1.40%	**4.48%**	1.45%
Percent of DOSRI accounts granted after effectivity of BSP Circular No. 423 to total loans	**4.20%**	1.40%	**4.48%**	1.45%
Percent of DOSRI accounts to total loans	**4.20%**	1.40%	**4.48%**	1.45%
Percent of unsecured DOSRI accounts to total DOSRI accounts	**0.01%**	1.52%	**0.01%**	1.52%

(Forward)

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Percent of past due DOSRI accounts to total DOSRI accounts	**0.00%**	0.00%	**0.00%**	0.00%
Percent of nonaccruing DOSRI accounts to total DOSRI accounts	**0.00%**	0.00%	**0.00%**	0.00%

**Includes outstanding unused credit accommodations of ₱198.7 million as of December 31, 2014 and ₱178.6 million as of December 31, 2013.*

In accordance with existing BSP regulations, the reported DOSRI performing loans exclude loans extended to certain borrowers before these borrowers became DOSRI.

On January 31, 2007, BSP Circular No. 560 was issued providing the rules and regulations that govern loans, other credit accommodations and guarantees granted to subsidiaries and affiliates of banks and quasi-banks. Under the said Circular, total outstanding exposures to each of the bank's subsidiaries and affiliates shall not exceed 10.00% of a bank's net worth, the unsecured portion of which shall not exceed 5.00% of such net worth. Further, the total outstanding exposures to subsidiaries and affiliates shall not exceed 20.00% of the net worth of the lending bank. BSP Circular No. 560 is effective on February 15, 2007.

Related Parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. The Group's related parties include:

- key management personnel, close family members of key management personnel and entities which are controlled, significantly influenced by or for which significant voting power is held by key management personnel or their close family members;
- significant investors;
- subsidiaries, joint ventures and associates and their respective subsidiaries; and
- post-employment benefit plans for the benefit of the Group's employees.

Details on significant related party transactions of the Group and the Parent Company follow (transactions with subsidiaries have been eliminated in the consolidated financial statements). Transactions reported under subsidiaries represent companies where the Parent Company has control. Transactions reported under other related parties represent companies which are under common control.

	2014		
Category	**Amount/ Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
LTG			
Deposit liabilities		**₱4,973,846**	Peso-denominated savings deposits with annual rates ranging from 1.56% to 1.75% and maturity terms ranging from 3 to 6 months
Interest expense	**₱90,717**		Interest expense on deposit liabilities
Trading gains	**735,385**		Sale of 161,978,996 common shares in VMC at current market price of ₱4.5 per share
Gain on sale of convertible notes	**608,433**		Gain on sale of VMC convertible notes at the minimum bid price of ₱3.5 per share

(Forward)

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
	2014		
Subsidiaries			
Receivables from customers		**₱1,575,000**	Revolving credit line with interest rates ranging from 3.10% to 3.35% and maturity terms of less than 90 days; Term loan maturing in 2017 with 3.85% nominal rate; Unsecured
Loan commitments		**745,618**	Loan commitments
Due from other banks		**708,388**	With annual rates ranging from 0.01% to 4.55% including time deposits with maturity terms of up to 90 days
Accounts receivable		**107,630**	Advances to finance deficit in pension liability, remittance cover and additional working capital; Non-interest bearing, unsecured, payable on demand
Accrued interest receivable		**4,181**	Interest accrual on receivables from customers
Deposit liabilities		**3,921,455**	With annual rates ranging from 0.02% to 3.00% and maturity terms ranging from 30 days to 1 year
Bills payable		**1,725,696**	Foreign currency-denominated bills payable with interest rates ranging from 0.25% to 2.50% and maturity terms ranging from 30 to 729 days
Due to banks		**183,430**	Clearing accounts funding and settlement of remittances
Accrued interest payable		**28,511**	Accrued interest on deposit liabilities and bills payable
Interest income	**₱30,261**		Interest income on receivables from customers
Interest expense	**108,511**		Interest expense on deposit liabilities and bills payable
Rental income	**30,041**		Rental income from 3-year lease agreement, with escalation rate of 10.00% per annum
Securities transactions:			
Purchases	**2,022,150**		Outright purchase of securities
Sales	**535,877**		Outright sale of securities
Trading gains	**14,754**		Gain from sale of investment securities
Loan releases	**2,448,000**		Loan drawdowns
Loan collections	**1,473,000**		Settlement of loans and interest
Net withdrawals	**754,538**		Net withdrawals during the period
Affiliates			
Receivables from customers		**12,292,943**	Secured by hold-out on deposits, government securities, real estate and mortgage trust indenture; Unimpaired; With interest rates ranging from 2.75% to 10.00% with maturities terms ranging from 1 year to 15 years and payment terms ranging from monthly payments to quarterly payments
Loan commitments		**997,894**	Loan commitments
Due from other banks		**385,879**	With annual fixed interest rates ranging from 0.01% to 4.50% including time deposits with maturity terms of up to 90 days
Accrued interest receivable		**56,546**	Interest accrual on receivables from customers
Operating lease		**203**	Advance rental deposits received for 2 years and 3 months
Deposit liabilities		**6,089,810**	With annual rates ranging from 0.02% to 1.73% and maturity terms ranging from 30 days to 1 year
Other liabilities		**36,978**	Charitable donations and liabilities for lease payments
Interest income	**448,141**		Interest income on receivables from customers and due from other banks, including income earned from partial redemption of VMC convertible notes
Interest expense	**23,759**		Interest expense on deposit liabilities
Rental income	**30,942**		Monthly rental income

(Forward)

	2014		
Category	**Amount/ Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Rental expense	**₱9,653**		Monthly rental payments with terms ranging from 24 to 240 months
Fees and commission expense	**9**		Expense on professional fees on service agreement
Other income	**170**		Premiums collected
Other expense	**4,024**		Claims expense, service and referral fees
Securities transactions:			
Purchases	**91,501**		Outright purchase of securities
Sales	**1,216**		Outright sale of securities
Trading gains	**2**		Gain from sale of investment securities
Loan releases	**14,772,677**		Loan drawdowns
Loan collections	**7,107,688**		Settlement of loans and interest
Net deposits	**1,163,388**		Net deposits during the period
Key Management Personnel			
Loans to officers		**₱16,073**	Housing loans to senior officers; Secured and unimpaired
Loan releases	**3,140**		Loan drawdowns
Loan collections	**5,621**		Settlement of loans and interest
Officers			
Receivable from customers		**285,967**	Loans with interest rates ranging from 0.50% to 8.00% and maturity terms ranging from 1 month to 25 years; Includes lease option on car plan agreements; Collateral includes bank deposit hold-out, real estate and chattel mortgages
Net loan collections	**86,470**		Net loan collections for the period

	2013		
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
LTG			
Deposit liabilities		₱6,136,100	Peso-denominated demand deposits with rates ranging from 0.65% to 2.28%; due on demand
Interest expense	₱792		Interest expense on deposit liabilities
Subsidiaries			
Receivables from customers		600,000	Revolving credit lines with fixed annual interest rate of 4.25% and maturity of less than 90 days Unsecured and unimpaired.
Accounts receivable		56,236	Advances to finance deficit in pension liability, remittance cover and additional working capital; Non-interest bearing, unsecured, payable on demand
Deposit liabilities		4,675,993	With annual rates ranging from 0.10% to 3.00% and maturity ranging from 30 days to 1 year
Bills payable		2,340,539	Foreign currency-denominated bills payable with fixed annual interest rate of 1.03% and maturity term of 180 days; unsecured
Accrued interest payable		11,421	Interest on deposit liabilities and bills payable
Due to banks		178,614	Clearing accounts for funding and settlement of remittances
Due from other banks		435,055	With annual fixed rates ranging from 0.01% to 4.50% including time deposits with maturities of up to 90 days
Interest income	21,695		Interest income on receivables from customers
Interest expense	32,715		Interest expense on deposit liabilities and bills payable
Other income	19,485		Rental income from 3-year lease agreement, with escalation rate of 10.00% per annum
Other expense	2,188		Utilities expense
Securities transactions:			
Purchases	2,676,109		Outright purchase of securities
Sales	2,664,615		Outright sale of securities
Trading gains	169,021		Gain from sale of investment securities

(Forward)

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
	2013		
Loan releases	₱4,038,000		Loan drawdowns
Loan collections	4,002,000		Settlement of loans and interests
Net deposits	4,123,696		Net deposits during the period
Affiliates			
Receivables from customers		₱4,627,954	USD Term Loan with repricing interest rates ranging from 3.75% to 4.79% and maturity terms from 3 to 7 years; Secured - ₱3.3 billion and unsecured - ₱1.3 billion with no impairment; Collaterals include bank deposits hold-out, government securities, real estates and chattel mortgages
Sales contract receivables		105,750	Receivables arising from sale of investment property; Non-interest bearing loan, payable within one year; Secured and unimpaired
Accrued interest receivables		10,193	Interest accrual on receivables from customers
Bills payable		40,034	Foreign currency-denominated bills payable with fixed annual interest rate of 1.77% and maturity term of 181 days, no collateral
Deposit liabilities		4,926,422	With annual rates ranging from 0.38% to 1.73% and maturity terms ranging from 30 days to 1 year
Accrued interest payable		1,417	Interest on deposit liabilities and bills payable
Due from other banks		148,864	With annual fixed interest rates ranging from 0.01 % to 4.50 % including time deposits with maturities of up to 90 days and savings with interest rate of 13.00%
Interest income	186,041		Interest income on receivables from customers
Interest expense	27,153		Interest expense on deposit liabilities
Rental income	25,380		Rental income from 10-year agreement, with annual escalation rate of 5.00% starting on sixth year of the lease term
Rental expense	7,111		Monthly rental payments to related parties with term ranging from 24 to 240 months
Other income	33,104		Gain from sale of investment property
Other expense	2,784		Expense on professional fees on service agreement
Securities transactions:			
Purchases	11,959,458		Outright purchase of securities
Sales	1,748,599		Outright sale of securities
Trading gains	77,800		Gain from sale of investment securities
Loan releases	3,425,380		Loan drawdowns
Loan collections	7,273,098		Settlement of loans and interest
Net deposits	3,653,446		Net deposits during the period
Key Management Personnel			
Loans to officers		18,554	Housing loans to senior officers; Secured and unimpaired
Loan releases	4,880		Loan drawdowns
Loan collections	4,009		Settlement of loans and interest
Officers			
Receivables from customers		372,437	Loans with interest rates ranging from 0.50% to 16.50% and maturity terms ranging from 1 month to 25 years; Collateral includes bank deposit hold-out, real estate and chattel mortgages
Net loan collections	34,153		Net loan collections for the period

**Amount includes ₱2.51 billion receivables from customers booked in PNB-Makati (formerly, ABC). Loan amount before any loan releases and collections during the year amounts to ₱5.78 billion.*

Transactions of subsidiaries with other related parties

			2014
Category	**Amount/ Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Receivable from customers		**₱268,114**	Loans and advances of PNB GRF to PAL
Other liabilities		**386**	Insurance premium payable of PNB GRF to PNB Gen
Interest income	**₱23**		Interest earned by PNB GRF from the time deposits placed with PNB Hong Kong Branch.
Management fee expense	**8,958**		Bank service fee charged by PNB - HK Branch
Remittance IT expenses	**12,095**		IT equipment rental expenses and IT related fees charged by PNB Head Office based on remittance type and transaction volume.

			2013
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Receivable from customers		₱355,480	Short-term loans to PAL with interest rate of 5.25%; secured with chattel mortgage on PAL's airplane's spare parts, loan value of 50%
Other liabilities		86	Insurance premium payable of PNB GRF to PNB Gen
Interest income	₱11		Interest earned by PNB GRF from the time deposits placed with PNB Hong Kong Branch.
Management fee expense	8,461		Bank service fee charged by PNB - HK Branch
Remittance IT expenses	12,611		IT equipment rental expenses and IT related fees charged by PNB Head Office based on remittance type and transaction volume.
Guarantee fees	11		Fee income received from the fellow subsidiary for a guarantee issued by PNB GRF
Dividends	17,529		Interim dividends declared was settled by offsetting against the inter-company receivable from PNB resulting from the transfers of Pangarap Loans

The 'Pangarap Loans', which are all-purpose credit facilities fully secured by customer's deposits pledged with either PNB Hong Kong Branch or other PNB overseas branches, mainly comprise the consumer lending activity of PNB GRF. On March 19, 2004, the Parent Company and PNB GRF entered into an agreement where the Parent Company agreed to undertake all impaired Pangarap Loans of PNB GRF. PNB GRF transfers the impaired loans at their carrying values on a quarterly basis or when aggregate carrying value of the impaired loans amounts to HK$2.0 million, whichever comes earlier. Subject to BOD approval, PNB GRF regularly declares special dividends (recognized as a liability). These special dividends are being offset against the intercompany receivables from the Parent Company.

In June 2013, the Parent Company and PNB GRF agreed to amend the settlement procedure on defaulted Pangarap Loans. Under the new settlement procedure, the Parent Company, in which the pledged deposits of the defaulted Pangarap Loans are placed with, remit the corresponding defaulted amounts (including accrued interests, surcharges and other related charges) from the pledged deposits of the defaulted customers to PNB GRF. The remitted amounts are being offset against the intercompany receivables from the Parent Company.

As of December 31, 2014 and 2013, the Parent Company's financial assets at FVPL include equity securities traded through PNB Securities with a fair value of ₱210.5 million and ₱247.5 million, respectively. The Parent Company recognized trading gains amounting to ₱19.5 million in 2014, ₱35.1 million in 2013 and ₱194.5 million in 2012 from the trading transactions facilitated by PNB Securities.

The related party transactions shall be settled in cash. There are no provisions for credit losses in 2014, 2013 and 2012 in relation to amounts due from related parties.

The Group accounts for its investments in OHBVI as a subsidiary although the Group holds less than 50.00% of OHBVI's issued share capital on the basis of the voting rights of 42.78% assigned by certain stockholders to the Parent Company under a voting trust agreement. There are no other transactions with OHBVI during the year.

Outsourcing Agreement between the Parent Company and PNB SB

Sale of ₱6.0 Billion Consumer Loans to PNB SB

On January 8, 2014, the Bank entered into a "Deed of Assignment" with PNB SB, for the sale, on a without recourse basis, housing (including contract-to-sell loans) and motor vehicle loans with a total value of ₱6.0 billion. The agreement includes the assignment of the promissory notes and other relevant credit documents as well as collateral/s and other accessory contract thereto.

The total consideration for the assigned loans amounted to ₱6.0 billion, which was paid by PNB SB in 2014. As of December 31, 2014, the outstanding balance of the assigned loans amounted to ₱5.1 billion.

Relative to the Deed of Assignment, the Parent Company and PNB SB executed a memorandum of agreement for the services agreed to be outsourced by the Parent Company, pertaining to the assigned loan portfolio to ensure the servicing and maintenance of the assigned loans will continue with the least inconvenience to the clients/borrowers.

PNB SB accrued service liabilities amounting to ₱5.7 million in connection with the services rendered by the Parent Company on the assigned loans. The balance remains to be unpaid as of December 31, 2014.

VMC Convertible Notes and Common Shares

As of December 31, 2013, the Parent Company holds convertible notes with face amount of ₱353.4 million, recorded under 'Unquoted debt securities' and 161,978,996 common shares, recorded under 'AFS investments', issued by VMC, an affiliate of the Group. Each of the investment has a carrying value of ₱1.0 (one peso). In March 2014, VMC redeemed a portion of the convertible notes for a total price of ₱330.3 million, the same amount of gain was recorded under 'Interest income' in the statement of income of the Parent Company. In April 2014, the Parent Company sold the remaining convertible notes to LTG at ₱3.50 for every ₱1.0 convertible note. The Parent Company recognized a gain on sale of convertible notes amounting to ₱608. 4 million, booked under 'Miscellaneous income' in the statement of income of the Parent Company (Note 28). Also in April 2014, the Parent Company sold its investment in common shares of VMC to LTG, at current market price of ₱4.54 per share resulting in a gain of ₱735.4 million recorded under 'Trading and investment securities gains - net' in the statement of income of the Parent Company. The sale of VMC shares to LTG was facilitated by PNB Securities.

Compensation of Key Management Personnel
The compensation of the key management personnel follows:

	Consolidated			Parent Company		
	2014	2013	2012	**2014**	2013	2012
Short-term employee benefits (Note 20)	**₱524,193**	₱366,873	₱135,347	**₱459,759**	₱316,922	₱118,187
Post-employment benefits	**47,844**	47,381	19,642	**47,844**	47,381	19,138
	₱572,037	₱414,254	₱154,989	**₱507,603**	₱364,303	₱137,325

Members of the BOD are entitled to a per diem of ₱0.05 million for attendance at each meeting of the Board and of any committees, and other non-cash benefit in the form of healthcare plans and insurance. In 2014 and 2013, total per diem given to the BOD amounted to ₱44.3 million and ₱17.8 million, respectively, recorded in 'Miscellaneous expenses' in the statements of income. Directors' remuneration covers all PNB Board activities and membership of committees and subsidiary companies.

Joint Ventures
The Parent Company and EPPI signed two Joint Venture Agreement (JVA) for the development of two real estate properties of the Parent Company included under 'Investment properties' and with carrying values of ₱1.2 billion. EPPI and the Group are under common control. These two projects are among the Parent Company's strategies in reducing its non-performing assets.

The Parent Company contributed the aforementioned properties into the Joint Venture (JV) as approved by BSP. EPPI, on the other hand, contributed its resources and technical expertise for the completion of the said JV. The Parent Company is prohibited to contribute funds for the development of the JV. Hence, there are no receivables from each party with respect to the JV. Income from the sale of the properties under the JV will be shared by the Parent Company and EPPI in accordance with the terms of the JVAs. These JVAs do not qualify as a joint venture arrangement under PFRS 11.

Transactions with Retirement Plans
Management of the retirement funds of the Group and the Parent Company is handled by the PNB Trust Banking Group (TBG). The fair values and carrying values of the funds of the Parent Company amounted to ₱3.6 billion and ₱1.9 billion as of December 31, 2014 and 2013, respectively.

Relevant information on assets/liabilities and income/expense of the retirement plan assets as of and for the year ended December 31, 2014 and 2013 follows:

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Investment in PNB Shares	**₱720,709**	₱672,923	**₱720,709**	₱672,923
Deposits with PNB	**40,291**	24,217	**37,935**	24,158
Investment in UITF	**156,004**	98,056	**156,004**	98,056
Total Fund Assets	**₱917,004**	₱795,196	**₱914,648**	₱795,137
Unrealized loss on HFT (PNB shares)	**(₱30,945)**	(₱37,211)	**(₱30,945)**	(₱37,211)
Interest income	**991**	1,655	**989**	1,591
	(29,954)	(35,556)	**(29,956)**	(35,620)
Trust fees	**(3,870)**	(3,521)	**(4,714)**	(3,141)
Fund Loss	**(₱33,824)**	(₱39,077)	**(₱34,670)**	(₱38,761)

As of December 31, 2014 and 2013, the retirement fund of the Group and the Parent Company include 9,008,864 PNB shares and 7,833,795 PNB shares classified under HFT. There are no limitations and restrictions over the PNB shares while the corresponding voting rights are exercised by a trust officer or any of its designated alternate officer of TBG.

In addition to the regular retirement funds, TBG also manages the funds of the Parent Company's employee investment plans.

Other fund managed by TBG
The TBG manages the sinking fund established by PSC to secure its borrowings with the Parent Company. As of December 31, 2013, the sinking fund amounted to ₱5.3 billion. The PSC bonds being guaranteed by the sinking fund matured on February 15, 2014.

Trust fee income earned by TBG amounted to ₱0.2 million, ₱0.6 million and ₱0.2 million in 2014, 2013 and 2012, respectively.

35. Provisions, Contingent Liabilities and Other Commitments

In the normal course of business, the Group makes various commitments and incurs certain contingent liabilities that are not presented in the financial statements including several suits and claims which remain unsettled. No specific disclosures on such unsettled assets and claims are made because any such specific disclosures would prejudice the Group's position with the other parties with whom it is in dispute. Such exemption from disclosures is allowed under PAS 37, *Provisions, Contingent Liabilities and Contingent Assets.* The Group and its legal counsel believe that any losses arising from these contingencies which are not specifically provided for will not have a material adverse effect on the financial statements.

Asset Pool 1
In November 1994, the BSP, Maybank and the Parent Company executed a Memorandum of Agreement (MA) providing for the settlement of Maybank's ₱3.0 billion liabilities to the BSP. Under this MA, the Parent Company is jointly and severally liable with Maybank for the full compliance and satisfaction of the terms and conditions therein. The MA provides for the creation of an escrow fund to be administered by the BSP where all collections from conveyed assets and certain annual guaranteed payments required under the MA are to be deposited.

Relative to the sale of the Parent Company's 60.00% interest in Maybank, the Parent Company has requested the BSP to consider the revision of the terms of the MA to, among others, (a) delete the provision on the annual guaranteed payments in consideration of an immediate payment by the Parent Company of an agreed amount, and (b) exclude Maybank as a party to the MA. On May 7, 1997, the BSP approved the Parent Company's request to amend the terms of the MA, subject to the following conditions among others:

a) The Parent Company shall remit ₱150.0 million to the escrow account out of the proceeds from sale;
b) The Parent Company shall remit to the escrow account an amount equivalent to 50.00% of any profit that may be realized by the Parent Company on account of the sale; and
c) If the amount in the escrow account has not reached the total of ₱3.0 billion by June 30, 2013, the difference shall be paid by the Parent Company by way of a debit to its regular account with the BSP.

On November 28, 1997, the Parent Company remitted ₱150.0 million in compliance with item (a).

The Parent Company's remaining investment in Maybank was sold on June 29, 2000. The sale was approved by the BSP on August 16, 2000.

On August 17, 2007, the Parent Company and the BSP amended certain provisions of the MA as follows:

1. The Parent Company will no longer act as the collecting agent for the BSP on the conveyed assets (Asset Pool 1);
2. The Parent Company will no longer remit the amount collected from the Asset Pool 1 to the escrow account;
3. BSP will revert to the Parent Company all the Asset Pool 1 accounts categorized as sugar and sugar-related accounts; and
4. The Parent Company will submit to BSP acceptable collaterals with an appraised value of at least ₱300.0 million as substitute for the sugar-related loans under Asset Pool 1.

On the same date, the Parent Company executed a real estate mortgage over certain investment properties with an aggregate fair value of ₱300.0 million in favor of the BSP (Note 13).

As of December 31, 2012, the total trust assets of the escrow account maintained with the BSP amounted to ₱2.7 billion with an average yield of 5.49%.

On February 7, 2013, the BSP accepted the Parent Company's proposal to make an early payment to settle Maybank's ₱3.0 billion obligation to the BSP in exchange of the assets under the escrow fund. The real estate collaterals pledged to BSP were also released as a result of settlement of the obligation to BSP. Further, recoveries collected from Asset Pool 1 amounting to ₱43.5 million and ₱306.1 million were recognized by the Parent Company as income in 2014 and 2013, respectively, under 'Miscellaneous income' in the statements of income.

<u>NSC Loan</u>
As discussed in Note 10, in 2004, the Parent Company sold the outstanding loans receivable of ₱5.3 billion from National Steel Corporation (NSC) to SPV companies under the provisions of RA No. 9182. On October 10, 2008, simultaneous to the denial of their application in the Philippine courts for injunctive relief, the SPV companies filed a Notice of Arbitration with the Singapore International Arbitration Centre ("SIAC"). Mainly, the SPV companies claimed damages and a suspension of payments on the ground that the consortium of banks (the banks) and the Liquidator breached a duty to settle pre-closing real estate taxes (taxes due as of October 14, 2004) due on the NSC Plant Assets and to deliver to them titles to NSC's Plant Assets free from all liens and encumbrances. However, the banks and the Liquidator dispute the assertions that pre-closing taxes were in arrears, invoking under an installment agreement executed between the Liquidator and the City of Iligan. As part of the agreement to sell the plant assets to the SPV companies, the Liquidator assumed responsibility of settling and paying the Plant Assets' pre-closing real estate taxes, while the SPV companies assumed the responsibility of updating the post-closing taxes (taxes due after October 14, 2004). Consequently, all pre-closing real estate taxes due on the plant assets have been paid in accelerated basis on December 18, 2008.

On October 13, 2008, after the commencement of the arbitration but before the arbitral panel was constituted, the SPV companies filed, as a preservatory measure, a petition for injunctive relief against the NSC Liquidator, NSC Secured Creditors, and NSC Stockholders so that the arbitration proceedings under SIAC will not be rendered moot. On October 14, 2008, the Singapore High Court granted the petition and restrained the NSC Liquidator, the NSC Secured Creditors and the NSC Shareholders, jointly and severally, substantially from declaring the SPV companies in default and declaring all installments due until the arbitration proceeding at the SIAC is settled.

Thereafter, upon application by the Parent Company for a variation of the injunction and an order of the Singapore High Court, the SPV companies remitted ₱750.0 million cash in place of the Standby Letter of Credit which they undertook to provide under the Asset Purchase Agreement, subject to the condition that the amount shall not be subject to any set-off pending an award from the arbitration proceedings.

On January 26, 2009, the Parent Company applied for an Order to compel the SPV companies to issue another Standby Letter of Credit of ₱1.0 billion which they likewise undertook to provide under the Asset Purchase Agreement, but this application was denied on March 5, 2009 by the Singapore High Court. The denial of the second variation (the ₱1.0 billion Standby Letter of Credit) was elevated to the Court of Appeals of Singapore but the same was also denied on September 11, 2009, without prejudice, however, to resort to the same reliefs before the Arbitration Panel.

In April 2010, the Arbitral Panel was constituted. The Parent Company filed therein an application to discharge or vary the injunction. On July 7, 2010, the Arbitration Panel issued a ruling denying the Parent Company's application for a discharge of the injunction issued by the Singapore High Court, while no ruling was made on the application to vary the injunction order.

Consequently, the main issues for alleged breach of the Asset Purchase Agreement, damages and suspension of payments were heard before the Arbitration Panel. On May 9, 2012, the Arbitration Panel issued a Partial Award in favor of the SPV companies, including such reliefs as payment of a certain sum of money and transfer of clean titles on the plant assets under the name of NSC by the bank consortium and the NSC Liquidator in favor of the SPV companies. The Parent Company, one of the members of the consortium, holds a forty-one percent (41.00%) interest in the claim, and has already set aside the appropriate reserve provision for the same.

Meanwhile, on July 9, 2012, the bank consortium filed with the Singapore High Court a Petition to Set Aside the Partial Award rendered by the Arbitration Panel.

On July 31, 2014, the Singapore High Court issued a Judgment in favor of the bank consortium setting aside the Arbitral Award in its entirety. On September 01, 2014, the SPV companies filed before the Singapore Court of Appeal a Notice of Appeal. On January 26, 2015, the case was heard.

On March 31, 2015, Singapore Court of Appeal issued a Decision upholding the Singapore High Court's Decision in part, i.e., setting aside the monetary portions of the Arbitral Award that rendered the bank consortium not liable for certain sums of money. Parties to file submissions before the Singapore Court of Appeal pertaining to the issue on cost and consequential order.

Movements of provisions for legal claims both for the Group and the Parent Company are as follows:

	2014	2013	2012
Balance at beginning of the year	**₱1,582,080**	₱1,575,270	₱874,950
Acquired from business combination	**–**	195,971	–
Provisions (Note 16)	**58,568**	–	834,259
Reclassification and settlements	**–**	(189,161)	(133,939)
	₱1,640,648	₱1,582,080	₱1,575,270

Tax Assessment

In the ordinary course of the Group's operations, certain entities within the Group have pending tax assessments/claims which are in various stages of protest/appeal with the tax authorities, the amounts of which cannot be reasonably estimated. Management believes that the bases of said protest/appeal are legally valid such that the ultimate resolution of these assessments/claims would not have material effects on the consolidated financial position and results of operations.

BSP Reporting

The following is a summary of various commitments, contingent assets and contingent liabilities at their equivalent peso contractual amounts:

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Trust department accounts (Note 33)	**₱65,817,031**	₱56,334,549	**₱65,817,031**	₱56,334,549
Standby letters of credit	**11,281,048**	13,165,263	**11,117,621**	13,097,044
Deficiency claims receivable	**21,292,747**	11,722,138	**21,276,212**	11,712,687
Credit card lines	**13,996,427**	11,239,863	**13,996,427**	11,239,863
Shipping guarantees issued	**32,732**	1,481,927	**32,732**	939,494
Other credit commitments	**974,377**	974,377	**974,377**	974,377
Inward bills for collection	**676,610**	660,197	**675,050**	657,007
Other contingent accounts	**326,693**	504,525	**298,329**	416,802
Outward bills for collection	**430,230**	477,220	**91,333**	195,893
Confirmed export letters of credit	**490,015**	82,513	**490,015**	82,513
Unused commercial letters of credit	**44,280**	66,664	**44,280**	66,664
Items held as collateral	**51**	64	**37**	50

36. Offsetting of Financial Assets and Liabilities

The amendments to PFRS 7, which is effective January 1, 2013, require the Group to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreements or similar arrangements. The effects of these arrangements are disclosed in the succeeding tables.

Financial assets

			2014			
Financial assets recognized at end of reporting period by type	**Gross carrying amounts (before offsetting)**	**Gross amounts offset in accordance with the offsetting criteria**	**Net amount presented in statements of financial position [a-b]**	**Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria**		**Net exposure [c-d]**
				Financial instruments	**Fair value of financial collateral**	
	[a]	**[b]**	**[c]**	**[d]**		**[e]**
Derivative assets (Notes 9 and 23)	**₱1,083,714**	**₱–**	**₱1,083,714**	**₱50,360**	**₱–**	**₱1,033,354**

Financial assets recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria: Financial instruments	Fair value of financial collateral	Net exposure [c-d]
2013						
	[a]	[b]	[c]	[d]		[e]
Derivative assets (Notes 9 and 23)	₱7,853,279	₱7,760,445	₱92,834	₱678	₱–	₱92,156

Financial liabilities

Financial liabilities recognized at end of reporting period by type	**Gross carrying amounts (before offsetting)**	**Gross amounts offset in accordance with the offsetting criteria**	**Net amount presented in statements of financial position [a-b]**	**Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria: Financial instruments**	**Fair value of financial collateral**	**Net exposure [c-d]**
2014						
	[a]	**[b]**	**[c]**	**[d]**		**[e]**
Derivative liabilities (Note 18)	**₱663**	**₱–**	**₱663**	**₱625**	**₱–**	**₱38**
Securities sold under agreements to repurchase (Notes 9 and 19)*	**14,085,961**	**–**	**14,085,961**	**–**	**17,352,674**	**–**
Total	**₱14,086,624**	**₱–**	**₱14,086,624**	**₱–**	**₱17,352,674**	**₱38**

** Included in bills and acceptances payable in the statements of financial position*

Financial liabilities recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria: Financial instruments	Fair value of financial collateral	Net exposure [c-d]
2013						
	[a]	[b]	[c]	[d]		[e]
Derivative liabilities (Note 18)	₱14,070,601	₱13,907,534	₱163,067	₱678	₱–	₱162,389
Securities sold under agreements to repurchase (Notes 9 and 19)*	2,246,319	–	2,246,319	–	2,739,206	–
Bills payable (Notes 9, 10 and 19)	112,646	–	112,646	–	2,585,532	–
Total	₱16,429,566	₱13,907,534	₱2,522,032	₱678	₱5,324,738	₱162,389

** Included in bills and acceptances payable in the statements of financial position*

The amounts disclosed in column (d) include those rights to set-off amounts that are only enforceable and exercisable in the event of default, insolvency or bankruptcy. This includes amounts related to financial collateral both received and pledged, whether cash or non-cash collateral, excluding the extent of over-collateralization.

37. Business Combination

As discussed in Note 1, on February 9, 2013, the Parent Company acquired 100.00% of voting common stock of ABC, a listed universal bank (Note 1). The acquisition of ABC was made to strengthen the Parent Company's financial position and enlarge its operations.

The Parent Company accounted for the business combination with ABC under the acquisition method of PFRS 3. The Group has elected to measure the non-controlling interest in the acquiree at proportionate share of identifiable assets and liabilities.

Assets acquired and liabilities assumed
In accordance with PFRS 3, the Parent Company determined the assets acquired and liabilities assumed from the business combination and made an assessment of their fair values. The Parent Company used external and in-house appraisers to value ABC's real properties while a professional service organization was hired to value the intangible asset and equity values of the acquired subsidiaries.

The final fair values of the identifiable assets and liabilities of ABC and its subsidiaries as at the date of acquisition follow:

	Fair value of the net assets recognized on acquisition date	
	Consolidated	Parent Company
Assets		
Cash and other cash items	₱3,138,220	₱2,855,899
Due from BSP	44,481,495	44,064,998
Due from other banks	12,514,442	3,417,949
Interbank loans receivable	4,310,711	2,865,627
Financial assets at FVPL	6,502,108	2,664,734
AFS investments	18,691,568	12,546,639
Loans and receivables	92,267,493	82,716,610
Investment in subsidiaries	–	7,041,988
Property and equipment (Note 11)	6,457,066	5,777,851
Investment properties (Note 13)	6,707,094	6,415,074
Deferred tax assets	104,819	–
Intangible assets (Note 14)	2,349,941	2,289,732
Other assets	731,583	655,859
Total assets	₱198,256,540	₱173,312,960
Liabilities		
Deposit liabilities		
Demand	₱52,098,658	₱50,621,429
Savings	61,989,407	59,568,536
Time	27,090,192	20,443,446
	141,178,257	130,633,411
Financial liabilities at FVPL	3,877,768	38,358
Bills and acceptances payable	3,480,045	3,420,045
Accrued taxes, interest and other expenses	1,679,656	1,474,622
Subordinated debt*	4,498,919	4,498,919
Deferred tax liabilities	1,835,101	1,684,989
Other liabilities	8,336,264	3,572,454
Total liabilities	164,886,010	145,322,798
Fair values of net identifiable assets and liabilities assumed	₱33,370,530	₱27,990,162

**On March 6, 2013 the Parent Company exercised the option to redeem the subordinated debt issued by ABC prior to its maturity on March 6, 2018. The subordinated debt was redeemed at its face value of ₱4.5 billion.*

The business combination resulted in recognition of goodwill which is determined as follows:

Purchase consideration transferred	₱41,505,927
Add: Proportionate share of the non-controlling interest in the net assets of ABC	2,768,380
Acquisition-date fair value of previously held interest in subsidiaries	2,471,630
Less: Fair values of net identifiable assets and liabilities assumed	33,370,530
Goodwill	₱13,375,407

The goodwill arising from acquisition consists largely of the synergies and economies of scale expected from combining the operations of PNB and ABC. None of the goodwill recognized is expected to be deductible for income tax purposes.

The proportionate share and measurement of the non-controlling interests and previously held interest in PNB LII, ACB, ALFC, ABCHK and OHBVI have been determined based on the equity values of these subsidiaries.

For tax reporting purposes, the total gross contractual amount of receivables acquired by the Group as of February 9, 2013 was ₱97.5 billion, while the corresponding allowance for credit losses and unearned interest discount amounted to ₱5.1 billion and ₱0.2 billion, respectively. For financial reporting purposes, the acquired loans and receivables were initially carried at fair value. Deferred tax liability on fair value adjustments amounted to ₱1.4 billion, of which, ₱0.2 billion was offset against the deferred tax asset carried by the Parent Company.

The fair value of the 423,962,500 common shares issued as consideration for the net assets of ABC and its subsidiaries was determined on the basis of the closing market price of PNB common shares as of February 9, 2013 (Note 1).

From the date of acquisition up to December 31, 2013, ABC and its subsidiaries have contributed ₱7.5 billion to the Group's revenue and a loss of ₱1.2 billion to the Group's income before income tax. If the combination had taken place at the beginning of the year, contribution to the Group revenue and the income before income tax would have been ₱10.2 billion and ₱40.5 million, respectively.

An analysis of cash flows arising from the business combination follows:

Net cash acquired arising from the business combination (under investing activities)	₱64,444,868
Less transaction costs attributable to issuance of shares (under financing activities)	84,792
Net cash inflow from the business combination	₱64,360,076

On April 26, 2013, the Group filed a request for a ruling from the BIR seeking confirmation that the statutory merger of PNB and ABC is a tax-free merger under Section 40(C)(2) of the National Internal Revenue Code of 1997 as amended (Tax Code). As of December 31, 2014, the ruling request is still pending with the Law Division of the BIR. The Group believes that the BIR will issue such confirmation on the basis of BIR Preliminary Ruling No. 01-2008 (dated September 28, 2008) whereby the BIR held that the statutory merger of PNB and ABC complies with Revenue Memorandum Ruling (RMR) No. 1-2001, subject to the submission of the merger documents and documents pertaining to the assets and liabilities transferred. RMR No. 1-2001 provides the fact pattern that should be present in order to secure BIR confirmation for a tax-free Section 40(C)(2) transaction.

As of December 31, 2014, the Group had submitted the required merger documents and other documents pertaining to the assets and liabilities transferred to the BIR.

38. Events After Reporting Date

Issuance of syndicated term loan
The Parent Company is looking to raise term funding as part of its liability management initiatives and in preparation for Basel III requirements on liquidity coverage and net stable funding ratios. The proceeds of the loan will also finance long-term asset growth in line with its three-year strategic plan. The Parent Company has appointed a Bank to arrange a US$150.0 million three-year syndicated term loan in this regard. It may increase the deal size in case of an oversubscription.

Sale of partial interest ownership in Japan-PNB Leasing
On January 2015, the Parent Company entered into a share sale purchase agreement with IBJ Leasing Co. Ltd. (IBJ) to sell its 15.00% interest ownership for a total consideration of ₱102.6 million. Such agreement is subject to warranties and closing conditions, as agreed by the parties, which may warrant the adjustment on the consideration. The Parent Company recognized gain from sale amounting to ₱66.2 million from the transaction. Management assessed that the partial disposal of interest ownership in Japan-PNB Leasing did not result in loss of control.

39. Approval of the Release of the Financial Statements

The accompanying financial statements of the Group and of the Parent Company were authorized for issue by the Parent Company's BOD on March 27, 2015.

40. Notes to Statements of Cash Flows

The Group applied creditable withholding taxes against its income tax payable amounting to ₱582.6 million, ₱132.7 million and ₱195.3 million in 2014, 2013 and 2012, respectively. In 2013, the Group applied MCIT against its income tax payable amounting to ₱468.5 million.

In 2014, the Group and the Parent Company reclassified some of its AFS investment securities, which were previously classified as HTM investments, back to its original classification amounting to ₱22.7 billion and ₱21.3 billion, respectively (Note 9).

In 2014, properties with carrying value of ₱3.0 million were reclassified by the Parent Company from property and equipment to investment property while ₱74.0 million were reclassified by the Group from investment property to property and equipment (Notes 11 and 13).

For the Group, investment properties acquired through foreclosure and rescission amounted to ₱1.3 billion, ₱2.4 billion and ₱806.3 million in 2014, 2013 and 2012, respectively. For the Parent Company, investment properties acquired through foreclosure and rescission amounted to ₱1.2 billion, ₱2.2 billion and ₱806.3 million in 2014, 2013 and 2012, respectively.

The interest income received by the Group for year ended December 31, 2013 includes collection of accrued interest receivable, amounting to ₱1.1 billion, acquired from business combination.

The interest expense paid by the Group for the year ended December 31, 2013 includes settlement of accrued interest payable, amounting to ₱220.5 million, assumed from business combination.

In 2013, the merger of the Parent Company and ABC resulted in the acquisition of net assets amounting to ₱33.4 billion and ₱28.0 billion by the Group and the Parent Company, respectively (Note 37).

Depreciation and amortization expenses include fair value amortization of property and equipment, investment properties and intangible assets amounting to ₱648.9 million and ₱417.3 million for the years ended December 31, 2014 and 2013, respectively.

41. Report on the Supplementary Information Required Under Revenue Regulations (RR) No. 15-2010

On November 25, 2010, the Bureau of Internal Revenue issued Revenue Regulations (RR) 15-2010 to amend certain provisions of RR 21-2002. The Regulations provide that starting 2010 the notes to financial statements shall include information on taxes, duties and license fees paid or accrued during the taxable year.

The Parent Company paid or accrued the following types of taxes for the tax period January to December 2014 (in absolute amounts).

1. Taxes and licenses

	Amount
Gross receipts tax	₱925,240,787
Documentary stamp taxes	561,529,564
Real estate tax	123,292,935
Local taxes	39,183,068
Others	44,660,590
	₱1,693,906,944

2. Withholdings taxes

	Amount
Expanded withholding taxes	₱171,164,416
Final income taxes withheld on interest on deposits and yield on deposit substitutes	295,455,095
Withholding taxes on compensation and benefits	1,026,318,087
VAT withholding taxes	1,041,132
Other final taxes	26,809,047
	₱1,520,787,777

Tax Cases and Assessments

As of December 31, 2014, the Parent Company has no final tax assessment but has outstanding cases filed in courts for various claims for tax refund. Management is of the opinion that the ultimate outcome of these cases will not have a material impact on the financial statements of the Parent Company.

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
December 28, 2012, valid until December 31, 2015
SEC Accreditation No. 0012-FR-3 (Group A),
November 15, 2012, valid until November 16, 2015

INDEPENDENT AUDITORS' REPORT
TO ACCOMPANY INCOME TAX RETURN

The Stockholders and the Board of Directors
Philippine National Bank
PNB Financial Center
President Diosdado Macapagal Boulevard
Pasay City

We have audited the financial statements of Philippine National Bank (the Bank) as at and for the year ended December 31, 2014, on which we have rendered the attached report dated March 27, 2015.

In compliance with Revenue Regulations V-20, we are stating that no partner of our Firm is related by consanguinity or affinity to the president, manager or principal stockholders of the Bank.

SYCIP GORRES VELAYO & CO.

Vicky Lee Salas

Vicky Lee Salas
Partner
CPA Certificate No. 86838
SEC Accreditation No. 0115-AR-3 (Group A),
February 14, 2013, valid until February 13, 2016
Tax Identification No. 129-434-735
BIR Accreditation No. 08-001998-53-2015,
March 17, 2015, valid until March 16, 2018
PTR No. 4751290, January 5, 2015, Makati City

March 27, 2015

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
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**INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTAL SCHEDULES**

The Stockholders and the Board of Directors
Philippine National Bank
PNB Financial Center
President Diosdado Macapagal Boulevard
Pasay City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Philippine National Bank (the Bank) and its subsidiaries as at December 31, 2014 and 2013 and for each of the three years in the period ended December 31, 2014 and have issued our report thereon dated March 27, 2015. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Bank's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011), and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Vicky Lee Salas

Vicky Lee Salas
Partner
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March 27, 2015

SGV
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SyCip Gorres Velayo & Co.
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1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

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**INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTAL SCHEDULES**

The Stockholders and the Board of Directors
Philippine National Bank
PNB Financial Center
President Diosdado Macapagal Boulevard
Pasay City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Philippine National Bank (the Bank) and its subsidiaries as at December 31, 2014 and 2013 and for each of the three years in the period ended December 31, 2014, included in this Form 17-A and have issued our report thereon dated March 27, 2015. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. Exhibits IV-VII as enumerated in Part V of the Form 17-A are the responsibility of the Bank's management. These exhibits are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011), and are not part of the basic financial statements. These exhibits have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Vicky Lee Salas

Vicky Lee Salas
Partner
CPA Certificate No. 86838
SEC Accreditation No. 0115-AR-3 (Group A),
February 14, 2013, valid until February 13, 2016
Tax Identification No. 129-434-735
BIR Accreditation No. 08-001998-53-2015,
March 17, 2015, valid until March 16, 2018
PTR No. 4751290, January 5, 2015, Makati City

March 27, 2015

SGV
Building a better working world

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
December 28, 2012, valid until December 31, 2015
SEC Accreditation No. 0012-FR-3 (Group A),
November 15, 2012, valid until November 16, 2015

INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTAL SCHEDULES

The Stockholders and the Board of Directors
Philippine National Bank
PNB Financial Center
President Diosdado Macapagal Boulevard
Pasay City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Philippine National Bank (the Bank) and its subsidiaries as at December 31, 2014 and 2013 and for each of the three years in the period ended December 31, 2014 and have issued our report thereon dated March 27, 2015. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Bank's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011), and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

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March 27, 2015

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
INDEX TO THE FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES
DECEMBER 31, 2014

PHILIPPINE NATIONAL BANK (PARENT COMPANY)
SCHEDULE I
RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION
DECEMBER 31, 2014
(In thousands)

Retained Earnings, January 1, 2013 as unadjusted		**₱10,688,812**
Adjustments (*see adjustments in previous year's reconciliation*):		
Appraisal increment closed to capital on quasi-reorganization	(7,691,808)	
Fair value adjustment on foreclosed properties - net gain	(7,585,611)	
Translation adjustment applied to deficit on quasi-reorganization	(1,315,685)	
Fair value adjustment (MTM gains)	(2,191,259)	
Deferred tax assets	(1,717,560)	
Accretion on impaired loans	(1,262,568)	
Accumulated depreciation on revaluation increment (after tax)	569,716	
Equity in net income of an associate	(4,975)	
	(21,199,750)	
		(21,199,750)
Retained Earnings, as adjusted, beginning		**(10,510,938)**
Effects of Restatement due to Change in Accounting Policy		**924,504**
Add: Net income per audited financial statements	**4,419,349**	
Less: Non-actual/unrealized income net of tax		
Accretion on impaired loans	(274,801)	
Unrealized foreign exchange gain- net (except those attributable to cash and cash equivalents)	(273,606)	
Accretion on off-market transactions - sales contract receivables	(69,851)	
Sub-total	**(618,258)**	
Add: Non-actual losses		
Unrealized loss on marked-to-market on trading and investment securities	324,199	
Fair value adjustment resulting - ROPA	1,636,822	
Sub-total	**1,961,021**	
Net income actually earned/ realized during the period		**5,762,112**
Less: Appropriations		**(13,617)**
Deficit, December 31, 2014		**(₱3,837,939)**

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
SCHEDULE II
EFFECTIVE STANDARDS AND INTERPRETATIONS
UNDER PFRS IN COMPLIANCE WITH SRC RULE 68, AS AMENDED
DECEMBER 31, 2014

List of Philippine Financial Reporting Standards (PFRS), Philippine Accounting Standards (PAS) and Philippine Interpretations effective as of December 31, 2014:

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2014		Adopted	Not Adopted	Not Applicable	Not Early Adopted
Framework for the Preparation and Presentation of Financial Statement					
Conceptual Framework Phase A: Objectives and qualitative characteristics		✓			
PFRSs Practice Statement Management Commentary		✓			
Philippine Financial Reporting Standards					
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards			✓	
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	✓			
	Amendments to PFRS 1: Additional Exemption for First-time Adopters			✓	
	Amendments to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓	
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓	
	Amendments to PFRS 1: Government Loans			✓	
	Amendment to PFRS 1: Meaning of Effective PFRSs			✓	
PFRS 2	Share-based Payment			✓	
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓	
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓	
	Amendment to PFRS 2: Definition of Vesting Condition				✓
PFRS 3 (Revised)	Business Combinations	✓			
	Amendment to PFRS 3: Accounting for Contingent Consideration in a Business Combination				✓
	Amendment to PFRS 3: Scope Exceptions for Joint Arrangements				✓
PFRS 4	Insurance Contracts	✓			
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓			
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓	
	Amendment to PFRS 5: Changes in methods of disposal				✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓	

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2014		Adopted	Not Adopted	Not Applicable	Not Early Adopted
PFRS 7	Financial Instruments: Disclosures	✓			
	Amendments to PFRS 7: Transition	✓			
	Amendments to PAS 39 and PFRS Reclassification of Financial Assets	✓			
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓			
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓			
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓			
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	✓			
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures				✓
	Amendments to PFRS 7: Additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in PFRS 9				✓
	Amendments to PFRS 7: Servicing Contracts and Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements				✓
PFRS 8	Operating Segments	✓			
	Amendments to PFRS 8: Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets				✓
PFRS 9	Financial Instruments: Classification and Measurement of Financial Assets				✓
	Financial Instruments: Classification and Measurement of Financial Liabilities				✓
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures				✓
	PFRS 9, Financial Instruments (Hedge Accounting and amendments to PFRS 9, PFRS 7 and PAS 39)				✓
	PFRS 9, Financial Instruments (2014)				✓
PFRS 10	Consolidated Financial Statements	✓			
	Amendments to PFRS 10: Transition Guidance	✓			
	Amendments to PFRS 10: Investment Entities			✓	
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture				✓
PFRS 11	Joint Arrangements			✓	
	Amendments to PFRS 11: Transition Guidance			✓	
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations				✓
PFRS 12	Disclosures of Interests in Other Entities	✓			
	Amendments to PFRS 12: Transition Guidance	✓			

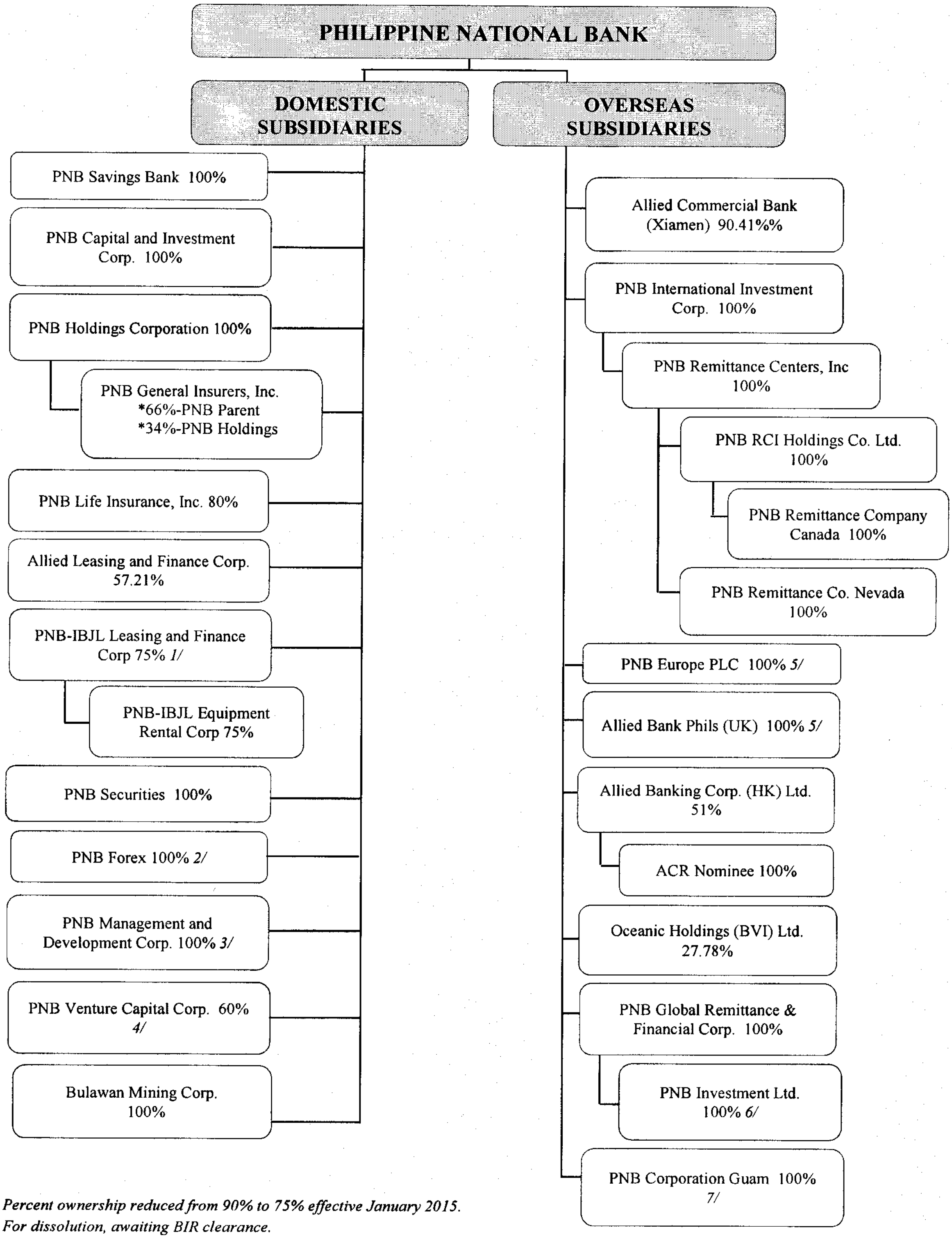
PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2014		Adopted	Not Adopted	Not Applicable	Not Early Adopted
	Amendments to PFRS 12: Investment Entities			✓	
PFRS 13	Fair Value Measurement	✓			
	Amendment to PFRS 13: Short-term Receivables and Payables	✓			
	Amendment to PFRS 13: Portfolio Exception				✓
PFRS 14	Regulatory Deferral Accounts				✓
PFRS 15	Revenue from Contracts with Customer				✓
Philippine Accounting Standards					
PAS 1 (Revised)	Presentation of Financial Statements	✓			
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓	
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓			
PAS 2	Inventories			✓	
PAS 7	Statement of Cash Flows	✓			
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓			
PAS 10	Events after the Reporting Period	✓			
PAS 11	Construction Contracts			✓	
PAS 12	Income Taxes	✓			
	Amendments to PAS 12- Deferred Tax: Recovery of Underlying Assets	✓			
PAS 16	Property, Plant and Equipment	✓			
	Amendment to PAS 16: Revaluation Method – Proportionate Restatement of Accumulated Depreciation on Revaluation			✓	
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization				✓
	Amendments to PAS 16 and PAS 41, Agriculture: Bearer Plants			✓	
PAS 17	Leases	✓			
PAS 18	Revenue	✓			
PAS 19 (Revised)	Employee Benefits	✓			
	Amendments to PAS 19: Defined Benefit Plans: Employee Contribution	✓			
	Amendments to PAS 19: Discount Rate: Regional Market Issue			✓	
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓	
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓			
	Amendment: Net Investment in a Foreign Operation	✓			
PAS 23	Borrowing Costs			✓	
PAS 24 (Revised)	Related Party Disclosures	✓			
	Amendments to PAS 24: Key Management Personnel	✓			
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓	
PAS 27 (Amended)	Separate Financial Statements	✓			
	Amendments for investment entities			✓	
	Amendments to PAS 27: Equity Method in Separate Financial Statements				✓
PAS 28 (Amended)	Investments in Associates and Joint Ventures	✓			

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2014		Adopted	Not Adopted	Not Applicable	Not Early Adopted
PAS 29	Financial Reporting in Hyperinflationary Economies			✓	
PAS 32	Financial Instruments: Disclosure and Presentation	✓			
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓			
	Amendments to PAS 32: Classification of Rights Issues	✓			
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓			
PAS 33	Earnings per Share	✓			
PAS 34	Interim Financial Reporting			✓	
	Amendment to PAS 34: Disclosure of information 'Elsewhere in the Interim financial report'			✓	
PAS 36	Impairment of Assets			✓	
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓			
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓			
PAS 38	Intangible Assets	✓			
	Amendments to PAS 38 : Revaluation Method – Proportionate Restatement Of Accumulated Amortization	✓			
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization			✓	
PAS 39	Financial Instruments: Recognition and Measurement	✓			
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓			
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓	
	Amendments to PAS 39: The Fair Value Option	✓			
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓			
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓			
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓			
	Amendment to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives	✓			
	Amendment to PAS 39: Eligible Hedged Items			✓	
	Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting			✓	
PAS 40	Investment Property	✓			
PAS 40 (Amended)	Amendments to PAS 40: Investment Property	✓			
PAS 41	Agriculture			✓	

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2014		Adopted	Not Adopted	Not Applicable	Not Early Adopted
Philippine Interpretations					
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓	
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓	
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓			
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓	
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓	
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓	
IFRIC 8	Scope of PFRS 2			✓	
IFRIC 9	Reassessment of Embedded Derivatives	✓			
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives	✓			
IFRIC 10	*Interim Financial Reporting and Impairment*	✓			
IFRIC 12	Service Concession Arrangements			✓	
IFRIC 13	Customer Loyalty Programmes	✓			
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓	
	Amendments to Philippine Interpretations IFRIC - 14, Prepayments of a Minimum Funding Requirement			✓	
IFRIC 16	Hedges of a net Investment in a Foreign Operation			✓	
IFRIC 17	Distributions of Non-cash Assets to Owners			✓	
IFRIC 18	Transfers of Assets from Customers			✓	
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓	
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓	
IFRIC 21	Levies			✓	
SIC-7	Introduction of the Euro			✓	
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓	
SIC-12	Consolidation - Special Purpose Entities	✓			
	Amendment to SIC - 12: Scope of SIC 12	✓			
SIC-13	Jointly Controlled Entities - Non Monetary Contributions by Venturers			✓	
SIC-15	Operating Leases - Incentives	✓			
SIC-25	Income Taxes- Changes in the Tax Status of an Entity or its Shareholders		✓		
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓			
SIC-29	Service Concession Arrangements: Disclosures		✓		
SIC-31	Revenue - Barter Transactions Involving Advertising Services		✓		
SIC-32	Intangible Assets - Web Site Costs		✓		

Standards and Interpretations applicable to annual periods beginning on or after January 1, 2014 (where early application is allowed) will be adopted by the Group as they become effective.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
MAP OF RELATIONSHIPS OF THE COMPANIES WITHIN THE GROUP
AS OF DECEMBER 31, 2014



1/ Percent ownership reduced from 90% to 75% effective January 2015.
2/ For dissolution, awaiting BIR clearance.
3/ Mining rights under deed of assignment with Macroasia.
4/ Under trust agreement with PNB Trust Banking Group.
5/ Merged on April 2, 2014, with PNBE as surviving unit.
6/For de-registration/liquidation. Awaiting for tax clearance, a SEC requirement for de-registration.
7/Ceased operations on June 30, 2012 but business license/books are active/open due to pending legal cases.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
SCHEDULE A – FINANCIAL ASSETS
DECEMBER 31, 2014

Financial Assets at Fair Value through Profit or Loss (FVPL)
(In thousands, except number of shares)

Name of Issuing Entity and Association of Each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet	Income received and accrued
Government securities				
Republic of the Philippines (ROP) Bonds	–	₱1,269,455	₱1,392,252	₱69,504
Fixed Rate Treasury Notes	–	3,831,553	4,161,052	128,510
Retail Treasury Bonds	–	473,514	500,923	23,718
Treasury Bills	–	65,793	64,663	-
Development Bank of the Philippines	–	1,118	1,216	23
US Treasury Notes	–	–	–	55
Power Sector Assets and Liabilities Management Corporation	–	8,944	11,172	667
	–	**5,650,377**	**6,131,278**	**222,477**
Private debt securities				
Filinvest Development Corporation	–	89,440	86,024	3,762
International Container Terminal Services, Inc.	–	53,664	60,793	2,430
SM Investments Corporation	–	44,720	46,978	4,013
Energy Development Corporation	–	–	–	1,383
Banco de Oro Unibank	–	–	–	50
Globe Telecom, Inc.	–	–	–	11
Ayala Land, Inc.	–	25,000	24,315	1,429
Filinvest Land, Inc.	–	80	83	5
	–	**212,904**	**218,193**	**13,083**
Equity securities				
Ayala Corporation	15,010	–	10,417	–
Aboitiz Equity Ventures, Inc.	85,000	–	4,480	–
Alliance Global Group Inc	1,060,000	–	23,903	–
Ayala Land Inc	100,000	–	3,370	–
Banco de Oro Unibank	10,000	–	1,098	–
Belle Corporation	600,000	–	2,934	–
Bloomberry Resorts Corp	230,000	–	2,852	–
Bank of the Philippine Islands	34,750	–	3,267	–
Cebu Air Inc	20,000	–	1,717	–
DMCI Holdings Inc.	70,000	–	1,099	–
D & L Industries Inc	330,000	–	5,498	–
Energy Development Corporation	750,000	–	6,150	–
Filinvest Land, Inc.	2,403,000	–	3,677	–
International Container Terminal Services, Inc.	18,880	–	2,171	–
Jollibee Foods Corp	25,000	–	5,375	–
Metropolitan Bank and Trust Company	125,000	–	10,375	–
Mega World Corp	250,000	–	1,170	–
Manila Electric Co	89,460	–	22,902	–
Metro Pacific Inv Corp	4,804,000	–	22,098	–
Petron Corp	2,218,100	–	23,512	–
San Miguel Purefoods Corp	38,670	–	8,043	–
Puregold Price Club Inc	139,100	–	5,362	–
Pepsi Cola Products Phils	982,000	–	4,036	–
Rizal Commercial Banking Corp	73,160	–	3,512	–
Resorts World Manila	440,000	–	3,608	–
Security Bank Corp	5,000	–	760	–
SM Investments Corporation	2,900	–	2,364	–
SM Prime Holdings, Inc.	260,000	–	4,430	–
Philippine Long Distance Telephone Company	5,300	–	15,402	–

Name of Issuing Entity and Association of Each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet	Income received and accrued
Universal Robina Corp	25,000	–	4,900	–
Universal Rightfield Properties, Inc.	2,883,000	–	69	–
Forest Hills Golf and Country Club	1	–	160	–
Petro Energy Resources Corp	6,289	–	39	–
Southeast Asia Cement Holdings Inc	31,127	–	84	–
	18,129,747	–	**210,834**	–
Derivatives				
Atlas Fertilizer Corporation	–	188,739	110	–
AWAS	–	7,546	270	–
Banco de Oro Universal Bank	–	95,574	368	–
Bank of East Asia, Limited	–	189,656	7,117	–
BNP Paribas, Paris	–	178,944	220	–
Chinatrust Philippines Commercial Bank Corporation	–	89,524	84	–
Citibank, N.A., London	–	450,591	893	–
Citibank, N.A., Manila Branch	–	18,574	12	–
Deutsche NY	–	84,399	921	–
East West Banking Corporation	–	10,443	8	–
Gets Bros. (Philippines) Inc.	–	93,702	120	–
Getz Pharma Philippines, Inc. 0 FXBT	–	108,036	45	–
The Hongkong and Shanghai Banking Corporation, Manila	–	32,814	15	–
The Hongkong and Shanghai Banking Corporation, Hong Kong	–	31,309	539	–
Metropolitan Bank and Trust Company	–	3,944	297	–
Philippine Business Bank	–	44,752	32	–
Philippine Long Distance Telephone Company	–	201,942	509	–
PNB Singapore Branch	–	89,484	44	–
Rizal Commercial Banking Corporation	–	13,416	3	–
ROP Warrants	–	368,069	56,533	–
Security Bank Corporation	–	42,988	500	–
Standard Chartered, London	–	26,784	634	–
The Hongkong and Shanghai Banking Corporation	–	2,394,178	67,031	–
Union Bank of the Philippines	–	39,683	17	–
United Overseas Bank Singapore	–	7,431	81	–
Wells Fargo, San Francisco	–	55,743	148	–
		4,868,265	**136,551**	–
Designated at FVPL				
Segregated Fund Assets				
Dollar Income Optimizer Fund	–	–	868,539	–
Summit Select Fund	–	–	1,238,953	–
VIP Summit Dollar Fund	–	–	433,257	–
Asian Summit Fund	–	–	624,930	–
Dollar Bond Fund	–	–	729,311	–
Peso Balanced Growth Fund	–	–	1,038,305	–
Peso Bond Fund	–	–	1,494,083	–
Peso Equity Fund	–	–	1,227,817	–
Peso Optimized Dividend Equity Fund	–	–	914,711	–
VIP Summit Peso Fund	–	–	2,084,864	–
	–	–	**10,654,770**	–
Total Financial Assets at FVPL	**18,129,747**	**₱10,731,546**	**₱17,351,626**	**₱235,560**

Available-for-Sale (AFS) securities
(In thousands, except number of shares)

Name of Issuing Entity and Association of Each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet	Income received and accrued
Government Securities:				
Republic of the Philippines (ROP) Bonds	–	₱11,763,444	₱13,122,708	₱568,389
Fixed Rate Treasury Notes	–	10,830,600	11,827,675	434,007
Retail Treasury Bonds	–	4,473,202	4,944,147	204,809
Bangko Sentral ng Pilipinas	–	30,719	32,003	2,853
NDC	–	–	–	21,096
Power Sector Assets and Liabilities Management Corporation	–	1,980,989	2,383,788	79,761
Development Bank of the Philippines	–	2,194,664	2,379,965	78,853
Republic of Korea	–	44,720	53,744	1,132
Republic of Indonesia	–	1,292,408	1,462,811	36,918
Treasury Bills	–	729,267	738,696	585
Treasury Gilts	–	6,950	7,281	246
Small Business Loan asset backed securities	–	67,073	71,356	74
USTW	–	121,862	121,276	12
	–	**33,535,898**	**37,145,450**	**1,428,735**
Private Debt Securities				
Aboitiz Power	–	500,000	502,887	8,024
Ayala Corporation	–	100,675	113,290	3,249
Ayala Land, Incorporated	–	331,000	322,333	13,019
Banco de Oro Unibank	–	1,537,570	1,580,021	53,816
Beacon 10-Yr Notes	–	120,250	134,236	9,714
BNP Paribas Paris	–	413,930	430,937	2,917
Energy Development Corporation	–	1,365,698	1,486,037	58,693
European Investment Bank	–	18,572	19,361	46
Export - Import Bank of Korea	–	357,760	402,508	13,424
Filinvest Development Corporation	–	2,239,551	2,171,991	97,542
Filinvest Land, Incorporated	–	208,390	207,015	4,786
First Pacific Company, Limited	–	1,519,609	1,677,350	51,206
FPC Treasury Limited (FPC)	–	446,037	432,878	20,193
FPT Finance Limited (FPT)	–	196,768	215,794	16,626
GT Capital Holdings	–	250,000	251,673	6,688
HSBC Finance Corporation	–	381,251	394,244	3,674
HSBC Holdings, PLC	–	108,929	114,238	987
International Container Terminal Services, Inc.	–	4,789,059	5,231,676	233,091
JG Summit Holdings Inc	–	357,760	351,687	15,591
Korea Development Bank	–	–	–	6,160
Meralco 12-Yr bonds	–	50,000	47,360	1,950
Metropolitan Bank and Trust Company	–	580,122	598,881	24,124
Manila North Tollways Corporation	–	150,000	149,221	5,201
Petron Corporation	–	117,323	129,689	8,551
Philippine Long Distance Telephone Company	–	306,561	337,251	21,386
Phoenix Petrolem Phils	–	790,000	767,879	6,301
Philippine Savings Bank	–	90,000	91,406	2,854
Rizal Commercial Banking Corporation	–	946,876	987,059	37,489
San Miguel Brewery	–	698,440	701,597	5,358
SM Development Corporation 10-Year Notes	–	149,850	147,662	8,814
SM Investments Corporation	–	2,053,592	2,119,490	98,001
SM Prime Holdings	–	198,000	207,234	7,592
Smart Communications	–	98,000	105,943	6,149
Standard Chartered Bank, London	–	506,520	525,039	2,859
Tanduay Distillers, Inc.	–	50,000	50,656	1,652
BPI AMTG - PHP Fixed Income_UL Seed Capital	1,055,887	–	2,331	–
BPI AMTG - PHP Equity_ Ul Seed Capital	1,027,847	–	3,073	–
BPI AMTG - PHP Balanced_UL Seed Capital	1,072,234	–	2,662	–
PNB_PODEF_UL Seed Capital	50,000,000	–	52,007	–

Name of Issuing Entity and Association of Each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet	Income received and accrued
PNB_Money Market_UL Seed Capital	1,050,000	–	1,058	–
ING Bank, NV. - Asian Summit_UL Seed Capital	47,136,584	–	54,091	–
ING Bank, N.V. - Summit Select_UL Seed Capital	16,992,527	–	17,082	–
ING Bank, N.V. - VIP Summit_UL Seed Capital	22,593,981	–	19,379	–
BPI AMTG - USD Fixed Income_UL Seed Capital	20,243	–	39	–
UBS - DIO_UL Seed Capital	284,501		281	–
ING Bank, N.V.-VIP Summit USD_UL Seed Capital	83,170	–	78	–
PNB_UITF	494,123,299	–	549,552	–
	635,440,273	**22,028,093**	**23,708,156**	**857,727**
Equity Securities				
Aboitiz Equity Ventures	372,460	–	18,257	265
Aboitiz Power	381,200	–	15,210	146
Ayala Corporation	40,580	–	26,195	67
AGI	-	–	-	100
ALI	541,900	–	16,986	180
Allied Banker Insu.	200,000	–	18,602	–
Apo Golf	2	–	2	–
APTRUDEV	-	–	1,395	–
Asean Finance	-	–	3,352	–
Baconan Steel Industries	3,345,000	–	–	–
Baguio City Country Club	1	–	1,535	–
Bancnet, Inc.	49,999	–	4,651	–
Banco de Oro Unibank	384,710	–	39,289	198
Bank of the Philippine Islands	384,199	–	33,591	194
BAP Credit Guaranty	29,800	–	1,058	–
Camp John Hay	3	–	223	–
Chibakokusai Club	1	–	4	–
Club Filipino	2	–	348	–
Cruz Tel. Co.	30	–	3	–
DMCI Holdings	1,313,850	–	19,185	171
Eagle Ridge Golf and Country Club	30	–	2,511	–
Energy Development Corporation	–	–	–	56
Ever Gotesco Resources and Holdings	146,000,000	–	27,567	–
Evercrest Golf Club	4	–	930	–
First Gen Corp. - Gen (Preferred)	–	150,000	160,444	12,000
First Philippine Holdings (Preferred)	–	150,000	139,517	5,625
Globe Telecom	35,830	–	57,654	98
Globe Telecoms (Preferred)	–	150,000	139,517	5,625
GT Capital	–	–	–	13
Heavenly Garden	5,000	–	465	–
International Container Terminal Services, Inc.	–	–	–	53
Iligan Golf and Country Club	1	–	1	–
Jollibee Foods Corporation	33,860	–	6,771	38
Lepanto Consolidated Mining Co."B"	6,749	–	–	–
LGU Guarantee Corp	100,000	–	9,301	–
LTG	–	–	–	27
Makati Sports Club-A	1	–	279	–
Manila Golf and Country Club	102	–	90,521	–
Manila Polo Club	1	–	10,696	–
Manila Southwoods Golf and Country Club	2	–	680	–
Manila Water Co - MWC (Common)	462,100	–	12,346	–
Metrobank	414,570	–	32,004	83
Megaworld	807,000	–	3,513	25
Megawide (Preferred)	–	142,500	136,517	2,774
Meralco	215,261	–	51,280	–
Mimosa Golf and Country Club	2	–	791	–
Mount Malarayat Golf and Country Club	17	–	–	–
MPI	–	–	–	34

Name of Issuing Entity and Association of Each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet	Income received and accrued
Northern Telephone Company	40	–	17	–
NRCP Common stock	1,000	–	1	–
Orchard Golf and Country Club	2	–	186	–
PCDI Preferred Shares	175	–	31	–
Petron Corp.	–	–	–	5
Petron Corp (Preferred)	–	33,750	32,490	4,767
Philippine Clearing House Corporation	42,000	–	3,906	–
Phil. Dealing House	–	–	6,790	–
Phil. Depository & Trust Corp.-BAP as trustee	68,380	–	2,225	–
Philippine Electric Corp. Shares	202,440	–	88	–
Philippine Columbian Association	2	–	7	–
Philippine National Bank - PNB (Common)	120,000	–	8,929	–
Philippine Racing Club	30,331,103	–	266,315	–
Philodril	695,625	–	12	–
PICOP Resources	19,008,000	–	–	–
PLDT Communication and Energy Venture	670	–	8	–
PLDT Preferred Shares	109,975	–	1,023	–
Philippine Long Distance Telephone Company	52,855	–	140,309	1,223
SWIFT Shareholders	17	–	–	–
PNB General Insurers	–	178,143	165,693	–
PNB Madecor	–	1,933	1,798	–
PNB Ventures Capital	3,600,000	–	4,708	–
Proton Chemical Industries	44,419	–	–	–
PSE shares	257,480	–	227	–
PT&T	5,000,000	–	–	–
Pueblo de Oro Golf and Country Club	2	–	744	–
Puregold Price Club, Inc. - PGOLD (Common)	320,000	–	11,474	–
Quezon City Sports Club	1	–	372	–
Retelco	20	–	5	–
Riviera Golf Shares "C"	5	–	10,228	–
San Miguel Corporation	–	330,000	314,750	14,400
Sta. Elena Golf and Country Club	5	–	10,175	–
Sierra Grande Country	100	–	30	–
SM	26,220	–	19,876	221
Small Business Guarantee	400,000	–	37,204	–
SMPH	579,000	–	9,176	83
Southern Iloilo Telephone Company	20	–	2	–
Tagaytay Midlands	1	–	381	–
Ternate Dev't Corporation	–	–	158	–
Trans Asia Oil - TA (Common)	959,000	–	1,990	–
Universal Robina Corporation	177,750	–	32,404	157
Valley Golf and Country Club	4	–	558	–
Wack Wack Golf and Country Club	5	–	70,409	–
	217,120,583	**1,136,326**	**2,237,891**	**48,628**
Total AFS securities	**852,560,856**	**₱56,700,317**	**₱63,091,497**	**₱2,335,090**

Held-to-Maturity Securities
(Amounts in thousands, except for number of shares)

Name of Issuing Entity and Association of Each Issue	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet	Value based on market quotation at end of the reporting period	Income received and accrued
Government securities				
Republic of the Philippines (ROP) Bonds	₱12,843,197	₱15,384,606	₱16,463,643	₱486,764
Fixed Rate Treasury Notes	3,217,740	4,122,186	4,333,975	173,776
Retail Treasury Bonds	2,885,515	3,086,441	3,383,370	121,411
Republic of Indonesia	223,600	233,009	243,610	8,504
US Treasury Bills	26,832	26,441	26,785	39
Fannie Mae Bonds	69,316	67,623	67,204	345
Total Government securities	19,266,200	22,920,306	24,518,587	790,839
Private Debt securities				
Tanduay Distillers, Inc.	50,000	50,000	50,181	958
Total Private debt securities	50,000	50,000	50,181	958
Total HTM securities	**₱19,316,200**	**₱22,970,306**	**₱24,568,768**	**₱791,797**

Loans and Receivables
(In thousands)

Name of Issuing Entity and Association of each Issue	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet	Valued based on Market Quotation at end of Reporting Period	Income Received and Accrued
Government Securities				
Landbank of the Phils	₱–	₱49,224	₱49,224	₱2,562
National Food Authority	256,880	256,864	223,634	32,593
Municipality of Alfonso Lista (Alfonso Lista Water Supply & Distribution)	–	–	–	1,926
Province of Aklan (Caticlan Super Marina)	158,889	158,889	128,229	5,857
Home Development Mutual Fund (Pag-ibig)	3,555,026	3,555,512	3,518,913	159,688
Home Guaranty Corp	7,110	7,110	5,872	99
	3,977,905	**4,027,599**	**3,925,872**	**202,725**
Private Securities				
Opal Portfolio Investment (SPV-AMC) Inc.	–	–	–	27,000
Steel Asia Manufacturing Corp	11,202	–	–	–
Pilipinas Hino Incorporated	6,988	–	–	–
Golden Dragon Star Equities Inc.	*–	–	*–	–
Global Steel (NSC)	3,927,466	336,475	2,036,670	–
High Street (SPV-AMC) Inc. (Bacnotan Steel)	190,724	60,931	50,515	–
Phil. Sugar Commision	–	–	–	299,619
	4,136,380	**397,406**	**2,087,185**	**326,619**
Total Unquoted Debt Securities	**₱8,114,285**	**₱4,425,005**	**₱6,013,057**	**₱529,344**

**amount less than 1,000 pesos*

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
SCHEDULE B – AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)
DECEMBER 31, 2014

(In thousands)
The related party transactions indicated above are within the ordinary course of business of the Bank and shall be settled in cash. There are no provisions for credit losses in 2014.

Name and Designation of Debtor	Balance at Beginning of Period (12/31/13)	Releases	(Collections)/ Movements	Amounts Written Off	Status	Balance at Ending of Period (12/31/14)	Due Dates	Interest Rates	Terms of Payment	Collateral
Subsidiary										
PNB Japan Leasing	₱600,000	₱2,448,000	₱1,473,000	₱–	Current	1,575,000	01/21/2015 to 05/20/2017	3.10% to 3.85%	Payable within 3 years	Clean
Affiliates										
Philippine Airlines Inc.	2,157,529	369,410	731,850	–	Current	1,795,089	1/3/2014 to 8/29/2016	3.75% to 4.79%	Payable within one to seven years	Bank deposits hold-out, government securities, real estates and chattel mortgages
Victorias Milling	56,289	5,286,415	5,265,260	–	Current	77,444	–	–	–	–
Maranaw Hotel & Resort Corporation	38,100	–	3,100	–	Current	35,000	8/8/2016	6.0%	Quarterly payment of P2.1M plus interest, balloon payment at maturity	Hold out deposit
Maranaw Hotel & Resort Corporation	76,200	–	6,200	–	Current	70,000	8/29/2016	6.0%		
Horizon Global Investment	–	6,708,000	–	–	Current	6,708,000	09/12/2017	2.98%	–	–
Horizon Global Investment	–	3,130,400	–	–	Current	3,130,400	09/12/2017	3.23%	–	–
Eton Properties Philippines Inc.	105,750	–	105,750	–	–	–	4/6/2014	–	Payable within a year	Investment property sold
Paramount Holdings	1,177,161	–	1,177,161	–	Current	–	–	–	–	–
Lufthansa Teknik	1,110,763	–	636,731	–	Current	474,032	8/26/16 to 02/22/17	2.73%	Quarterly payment	Unsecured
Interbev Philippines Inc.	11,912	–	8,934	–	Current	2,978	–	–	–	–
Key Management Personnel	18,554	3,140	5,621	–	Current	16,073	Various	Various	Payable on demand	Various
Officers	372,437	–	86,470	–	Current	285,967	09/30/2014 to 09/30/2036	0.255% to 16.5%	Payable within 1 month to 25 years	Bank deposit hold-out, real estate and chattel mortgages
	₱5,124,695	₱15,497,365	₱8,027,077	₱–		₱812,594,983				

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
SCHEDULE C – AMOUNTS RECEIVABLE FROM RELATED PARTIES
WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS
DECEMBER 31, 2014

(In thousands)

Name and Designation of Debtor	Balance at Beginning of Period (12/31/13)	Releases	(Collections)/ Movements	Amounts Written Off	Status	Balance at Ending of Period (12/31/13)	Due Dates	Interest Rates	Terms of Payment	Collateral
Japan PNB Leasing Corporation	₱600,000	₱ 2,448,000	₱1,473,000	₱–	Current	₱1,575,000	01/21/2015 to 05/20/2017	3.10% to 3.85%	Payable within 3 years	Clean

The related party transactions indicated above are within the ordinary course of business of the Bank and shall be settled in cash. There are no provisions for credit losses in 2013

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
SCHEDULE D – INTANGIBLE ASSETS – OTHER ASSETS
DECEMBER 31, 2014

(In thousands)

Description	Beginning Balance 12/31/2013	Additions	Charged to Costs and Expenses (Amortization)	Charged to Other Accounts	Other Changes	Ending Balance 12/31/2014
Core deposits*	₱ 1,728,042	₱–	₱189,778	₱–	₱–	₱1,538,264
Customer relationship*	275,086	–	130,648	–	–	144,438
Other Intangibles	374,912	384,951	152,258	–	4,517	612,122
	₱2,378,040	₱384,951	₱472,684	₱–	₱4,517	₱2,294,824

**Acquired from business combination*

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
SCHEDULE E – LONG TERM DEBT
DECEMBER 31, 2014

(In thousands)

Type of Issue and Type of Obligation	Amount Authorized by Indenture	Amount shown under caption "Current Portion of Long-Term Debt" in related balance sheet	Amount shown under caption "Long-Term Debt" in related balance sheet	Interest Rates	Amounts or Numbers of Periodic Installments	Maturity Dates
Long Term Negotiable Certificates of Deposits	₱7,000,000	₱–	₱6,957,011	4.13%	Interest shall be payable quarterly	6/12/2020
Long Term Negotiable Certificates of Deposits	4,000,000	–	3,976,133	3.25%	Interest shall be payable quarterly	4/22/2019
Long Term Negotiable Certificates of Deposits	5,000,000	–	4,973,448	3.00%	Interest shall be payable quarterly	2/5/2019
Long Term Negotiable Certificates of Deposits	3,100,000	–	3,090,564	5.18%	Interest shall be payable quarterly	2/17/2017
Unsecured Subordinated Notes	6,500,000	–	6,482,757	6.75%	Interest shall be payable quarterly	6/15/2021
Unsecured Subordinated Notes	3,500,000	–	3,486,741	5.88%	Interest shall be payable quarterly	5/9/2022
Bills Payable	18,159,191	7,098,039	8,974,100	0.03 to 2.50%	Various	01/08/2015 to 08/14/2017

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
SCHEDULE F – INDEBTEDNESS TO RELATED PARTIES
DECEMBER 31, 2014

(In thousands)

Name of Related Parties [i]	Balance at beginning of period	Balance at end of period [ii]	Nature, Terms and Conditions

None to Report

[i] The related parties named shall be grouped as in Schedule D. The information called shall be stated for any persons whose investments shown separately in such related schedule.

[ii] For each affiliate named in the first column, explain in a note hereto the nature and purpose of any material increase during the period that is in excess of 10 percent of the related balance at either the beginning or end of the period.

**Acquired from business combination*

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
SCHEDULE G - GUARANTEES OF SECURITIES OF OTHER ISSUERS
DECEMBER 31, 2014

Name of issuing entity of securities guaranteed by the company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount of guaranteed and outstanding [i]	Amount owned by person of which statement is filed	Nature of guarantee [ii]

None to Report

(i) Indicate in a note any significant changes since the date of the last balance sheet file. If this schedule is filed in support of consolidated financial statements, there shall be set forth guarantees by any person included in the consolidation except such guarantees of securities which are included in the consolidated balance sheet.
(ii) There must be a brief statement of the nature of the guarantee, such as "Guarantee of principal and interest", "Guarantee of Interest", or "Guarantee of Dividends". If the guarantee is of interest, dividends, or both, state the annual aggregate amount of interest or dividends so guaranteed.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
SCHEDULE H - CAPITAL STOCK
DECEMBER 31, 2014

(Absolute number of shares)

Title of Issue [i]	Number of shares authorized	Number of shares issued and outstanding as shown under the related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties [ii]	Directors, officers and employees	Others [iii]
Common Shares	**1,750,000,001**	**1,249,139,678**	–	–	**14,961,777**	–

Required information is contained in Note 25: Equity to the Audited Financial Statements of the Bank and Subsidiaries.

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[i] Include in this column each type of issue authorized
[ii] Related parties referred to include persons for which separate financial statements are filed and those included in the consolidated financial statements, other than the issuer of the particular security.
[iii] Indicate in a note any significant changes since the date of the last balance sheet filed.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
SCHEDULE OF FINANCIAL RATIOS
DECEMBER 31, 2014 AND 2013

RATIOS	FORMULA	CONSOLIDATED		PARENT	
		2014	2013	2014	2013
(i) Liquidity Ratios					
a. Current Ratio	Current Assets/Current Liabilities	64.71%	66.50%	60.12%	62.58%
b. Liquid assets to total assets-gross	Liquid Assets-gross/Total Assets-gross	32.79%	42.49%	30.54%	41.14%
c. Liquid assets to total assets-net	Liquid Assets-net/Total Assets-net	34.11%	44.16%	31.82%	42.85%
d. Liquid assets ratio-gross	Liquid Assets-gross/Liquid Liabilities	33.56%	43.59%	31.85%	42.84%
e. Liquid assets-net	Liquid Assets-net/Liquid Liabilities	45.32%	56.24%	41.59%	53.33%
f. Liquid assets-gross to total deposits	Liquid Assets-gross/Total Deposits	47.86%	59.06%	42.75%	55.20%
g. Liquid assets-net to total deposits	Liquid Assets-net/Total Deposits	47.65%	58.86%	42.53%	54.99%
h. Net loans to total deposits	Net Loans/Total Deposits	66.21%	53.70%	63.70%	52.65%
(ii) Solvency Ratios					
a. Debt to equity ratio	Total Liabilities/Total Shareholders' Equity	5.31	6.48	5.19	6.41
b. Debt ratio					
1. ROA w/ revaluation increment	Total Liabilities/Total Assets	84.16%	86.64%	83.84%	86.51%
2. ROA w/o revaluation increment	Total Liabilities/Total Assets less increment	84.16%	86.64%	83.84%	86.51%
c. Equity ratio					
1. ROA w/ revaluation increment	Total SHE/Total Assets	15.84%	13.36%	16.16%	13.49%
2. ROA w/o revaluation increment	Total SHE/Total Assets less increment	15.84%	13.36%	16.16%	13.49%
(iii) Asset-to-Equity Ratios					
a. Asset to Equity ratio	Total Assets/Total SHE	6.31	7.48	6.19	7.41
b. Fixed assets to equity ratio	Total Fixed Assets/Total SHE	40.20%	50.06%	41.15%	51.66%
c. Fixed assets to total assets ratio	Total Fixed Assets/Total Assets	6.37%	6.69%	6.65%	6.97%
(iv) Interest Rate Coverage Ratios					
a. Times interest earned ratio	EBIT/Interest Expense	2.89	2.36	2.69	2.40
(v) Profitability Ratios					
a. Return on Assets					
1. Using Net Income					
1. ROA w/ revaluation increment	Net Income/Average Assets	0.89%	1.11%	0.77%	1.20%

2. ROA w/o revaluation increment	Net Income/Average Assets less increment	0.89%	1.11%	0.77%	1.20%
2. Using Net Income attributable to parent					
1. ROA w/ revaluation increment	NIATP/Average Assets	0.86%	1.09%	0.77%	1.20%
2. ROA w/o revaluation increment	NIATP/Average Assets less increment	0.86%	1.09%	0.77%	1.20%
a. Return on Equity					
1. Using Net Income					
1. ROE w/ revaluation increment	Net Income/Average Capital	6.06%	8.83%	5.17%	9.52%
2. ROE w/o revaluation increment	Net Income/Average Capital less increment	6.06%	8.83%	5.17%	9.52%
2. Using Net Income attributable to parent					
1. ROE w/ revaluation increment	NIATP/Average Capital	5.91%	8.66%	5.17%	9.52%
2. ROE w/o revaluation increment	NIATP/Average Capital less increment	5.91%	8.66%	5.17%	9.52%
(iv) Capital Adequacy Ratios					
a. Tier I capital ratio	Tier 1/Total RWA	17.43%	16.45%	11.96%	17.54%
b. Capital risk asset ratio	Qualifying Capital/Total RWA	20.60%	19.68%	15.38%	16.95%
(iv) Other Ratios					
a. Non-performing loans ratio	Non-performing loans/Adjusted Loans	3.41%	4.36%	3.44%	4.30%
b. Net interest margin	Net Interest Income/Average Earnings Assets	3.22%	3.46%	3.21%	3.42%
c. Efficiency ratio	Total Operating Expenses/Total Operating Income	41.90%	43.63%	41.99%	41.98%
d. Allowance for probable loan losses* to total loans ratio	Allowance for probable loan losses*/Total Loans*	1.92%	1.71%	1.95%	1.71%
e. Allowance for probable loan losses* to NPL ratio	Allowance for probable loan losses*/NPL	54.94%	38.15%	55.43%	38.49%

**Total loans pertain to receivables from customers*