SECURITIES AND EXCHANGE COMMISSION
SEC FORM 12-1, *AS AMENDED*

SECURITIES AND EXCHANGE COMMISSION
AUG 04 2015
MARKET REGULATION DEPT.
BY: TIME: 10.55

AMENDED
REGISTRATION STATEMENT UNDER THE SECURITIES REGULATION CODE

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

2. **PHILIPPINE NATIONAL BANK**
Exact name of registrant as specified in its charter

3. **METRO MANILA, PHILIPPINES**
Province, country or other jurisdiction of incorporation or organization

4. **000-188-209-000**
BIR Tax Identification Number

5. **UNIVERSAL BANK**
General character of business of registrant.

6. Industry Classification Code: ☐ (SEC Use Only)

7. **PNB Financial Center, President Diosdado Macapagal Boulevard, Pasay City, Metro Manila, 1300**
Telephone No. 8916040 to 70, 5263131 Telefax: (632) 834-0780
Address, including postal code, telephone number, FAX number including area code, of registrant's principal offices

8. **N/A**
If registrant is not resident in the Philippines, or its principal business is outside the Philippines, state name and address including postal code, telephone number and FAX number, including area code, and email address of resident agent in the Philippines.

9. Fiscal Year Ending Date (Month and Day): **DECEMBER 31**

Computation of Registration Fee

Title of each class of securities to be registered	Amount to be registered	Proposed Maximum offering price per unit	Proposed maximum aggregate offering price	Amount of registration fee
Common Shares	423,962,500	₱70.00	₱29,677,375,000.00	₱8,061,662.19

PHILIPPINE NATIONAL BANK

Primary Offer of 423,962,500 Common Shares at an Issue Price of ₱70.00 per share to be issued in favor of all of the shareholders of Allied Banking Corporation pursuant to the Plan of Merger of Philippine National Bank and Allied Banking Corporation as approved by the Securities and Exchange Commission on January 17, 2013 and to be listed and traded on the Philippine Stock Exchange, Inc.

This Final Prospectus is dated 31 July 2015.

THE SECURITIES AND EXCHANGE COMMISSION HAS NOT APPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS ACCURATE OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE AND SHOULD BE REPORTED IMMEDIATELY TO THE SECURITIES AND EXCHANGE COMMISSION.

"ALL REGISTRATION REQUIREMENTS HAVE BEEN MET AND ALL INFORMATION CONTAINED HEREIN ARE TRUE AND CORRECT."

REYNALDO A. MACLANG
President

REPUBLIC OF THE PHILIPPINES)
PASAY CITY) S.S.

SUBSCRIBED AND SWORN to before me this 31 JUL 2015 in Pasay City, affiant exhibited to me his Passport No. EC0299319 issued on Feb. 14, 2014 at the DFA, Manila.

Doc. No. 23;
Page No. 6;
Book No. XXVI;
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

NOTICE TO THE PUBLIC

This Prospectus is being displayed on the website to make the Prospectus accessible to more investors. The Philippine Stock Exchange assumes no responsibility for the correctness of any of the statements made or opinions or reports expressed in the Prospectus. Furthermore, the Philippine Stock Exchange makes no representation as to the completeness of the Prospectus and disclaims any liability whatsoever for any loss arising from or in reliance in whole or in part on the contents of the Prospectus.

PHILIPPINE NATIONAL BANK
9th Floor PNB Financial Center
President Diosdado Macapagal Boulevard
Pasay City, Metro Manila
Telephone Number- (632) 8916040 to 70/ 5263131
Facsimile Number (632) 8340780

This Prospectus relates to the offer and sale of 423,962,500 common shares (the "Shares") with a par value ₱40.00 per share of Philippine National Bank ("PNB" or the "Merged Bank"), a corporation organized under Philippine law. The Shares comprise of 423,962,500 new shares to be issued by PNB by way of a primary offer (the "Primary Offer") to the shareholders of Allied Banking Corporation ("Allied Bank"), whose Merger with PNB was approved by the Securities and Exchange Commission (the "SEC") on January 17, 2013, using the Exchange Ratio of 130 PNB common shares for each Allied Bank common share and 22.763 PNB common shares for each Allied Bank preferred share. The Shares will be listed and traded on The Philippine Stock Exchange, Inc.

Upon the approval of the Merger by the SEC, the Shares were deemed issued at a price of ₱70.00 per Share (the "Issue Price") in accordance with the Plan of Merger of the banks. The determination of the Issue Price is further discussed on page 37 of this Prospectus and is based on the share-swap ratio proposed by ING Bank, NV. As a result of the Merger, PNB will have a combined outstanding capital stock of 1,086,208,416 common shares, of which 423,962,500 new common shares are issued to the Allied Bank stockholders with an issue value of ₱29,677,375,000.00.

The Merger is intended to strengthen and consolidate PNB's and Allied Bank's long-term strategic business plans with PNB as the surviving bank. The Merger marks a special milestone for both PNB and Allied Bank. The synergies arising from the broadened network, diversified deposit base and improved scale will provide a compelling value proposition for their various stakeholders. In creating the country's fourth largest privately-owned bank, the Merged Bank will be in a prime position to improve customer experience and lead industry innovation. Moreover, it will yield substantial benefits for its customers and provide more opportunities for its employees.

As a result of the merger, PNB 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.

While there are no cash proceeds from the Merger, it is expected to result in revenue enhancements and cost savings. Cost savings will potentially come from branch re-engineering, economies of scale, consolidation of overlapping systems and corporate indirect overheads, realignment of front offices and the optimization of back office processing and support functions. The Merger is further expected to support asset growth and enable the Bank to comply with the higher capital ratio requirements of Basel III beginning 2014, particularly on the prescribed capital conservation buffer of 2.5% for Common Equity T1 (CET1).

The accounting treatment for the Merger was made in accordance with PFRS 3. The Merger was accounted for under the Purchase Method, adopting the following main principles:

- Assets and liabilities, including unrecorded intangible assets and contingent liabilities of the "acquiree" will be taken up at fair value as of the date of the Merger in the books of the "acquirer"
- Prior years' financial statements will not be restated and the income statement will only incorporate the results of the "acquiree" from the date of merger
- Equity of the "acquirer" is increased by the amount of the acquisition cost, equivalent to the number of new shares of the "acquirer" to be issued multiplied by the issue price
- The difference between the acquisition cost and fair value of the net assets of the "acquiree" as of the date of the Merger will be recorded as goodwill.

There are no underwriters, brokers/dealers engaged for this transaction and no party will receive a transaction fee from PNB from the issuance of the Shares.

Each holder of Shares will be entitled to such dividends as may be declared by PNB's Board of Directors (the "Board"), provided that any stock dividend declaration requires the approval of shareholders holding at least two-thirds of PNB's total outstanding capital stock; provided further that the Bangko Sentral ng Pilipinas (the "BSP") approves the declaration of dividends. Dividends may be declared only from PNB's unrestricted retained earnings. Please see a more detailed discussion of PNB's dividend policy under "Dividends Policy" on page 44 of this Prospectus.

The listing of the Shares is subject to the approval of the Philippine Stock Exchange, Inc. (the "PSE"). An application to list the Shares had been submitted to the PSE on November 29, 2013. Such an approval for listing is permissive only and does not constitute a recommendation or endorsement by the PSE or the SEC of the Shares.

Before making an investment decision, prospective investors should carefully consider the risks associated with an investment in the Shares. These risks include:

- risks related to PNB;
- risks relating to the Philippines;
- risks associated with the Shares; and
- risks relating to certain statistical information in this Prospectus

See the section entitled "Risks Factors" beginning on page 27 of this Prospectus, which, while not intended to be an exhaustive enumeration of all risk, must be considered in connection with a purchase of the Shares.

An application is being made to the SEC to register the Shares under the provisions of the Securities Regulation Code of the Philippines (Republic Act No. 8799) (the "SRC").

A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION BUT HAS NOT YET BEEN DECLARED EFFECTIVE. NO OFFER TO BUY THE SECURITIES CAN BE ACCEPTED AND NO PART OF THE PURCHASE PRICE CAN BE ACCEPTED OR RECEIVED UNTIL THE REGISTRATION STATEMENT HAS BECOME EFFECTIVE, AND ANY SUCH OFFER MAY BE WITHDRAWN OR REVOKED, WITHOUT OBLIGATION OR COMMITMENT OF ANY

KIND, AT ANY TIME PRIOR TO NOTICE OF ITS ACCEPTANCE GIVEN AFTER THE EFFECTIVE DATE. AN INDICATION OF INTEREST IN RESPONSE HERETO INVOLVES NO OBLIGATION OR COMMITMENT OF ANY KIND. THIS PROSPECTUS SHALL NOT CONSTITUTE AND OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY.

No representation is made by PNB regarding the legality of an investment in the Shares under any legal, investment or similar laws or regulations. The contents of this Prospectus are not investment, legal or tax advice. Prospective investors should consult their own counsel, accountant and other advisors as to legal, tax, business, financial and related aspects of a purchase of the Shares. In making any investment decision regarding the Shares, prospective investors must rely on their own examinations of PNB and the terms of the share swap, including the merits and risks involved.

No person has been authorized to give any information or to make any representation other than those contained in this Prospectus and, if given or made, such information or representation must not be relied upon as having been authorized by PNB. This Prospectus does not constitute an offer to sell or the solicitation of an offer to purchase any securities other than the Shares or an offer to sell or the solicitation of an offer to purchase such securities by any person in any circumstances in which such offer or solicitation is unlawful. Neither the delivery of this Prospectus nor any sale of the Shares offered hereby shall, under any circumstances, create any implication that there has been no change in the affairs of PNB since the date hereof or that the information contained herein is correct as of any time subsequent to the date hereof.

Presentation of Financial Information

PNB's financial statements are reported in Pesos and are prepared based on its accounting policies, which are in accordance with the Philippine Financial Reporting Standards ("PFRS") issued by the Financial Reporting Standards Council of the Philippines.

The financial information for the year ended December 31, 2012, included in this Prospectus, represents the consolidated accounts of PNB and its subsidiaries. The financial information of PNB as of and for the period ended December 31 2014 and 2013 represent the accounts of PNB as the Merged Bank. Unless otherwise stated, all financial information relating to PNB contained herein is stated in accordance with PFRS.

Figures in this Prospectus have been subject to rounding adjustments. Accordingly, figures shown in the same item of information may vary, and figures which are totals may not be an arithmetic aggregate of their components.

PNB's fiscal year begins on January 1 and ends on December 31 of each year. SGV & Co. has audited and rendered an unqualified report on PNB's financial statements as of and for the years ended December 31, 2014, 2013 and 2012.

Forward-Looking Statements

This Prospectus contains forward-looking statements that are by their nature subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- known and unknown risks;
- uncertainties and other factors that may cause PNB's actual results, performance or achievements to be materially different from any future results; and
- performance or achievements expressed or implied by forward-looking statements.

Such forward-looking statements are based on numerous assumptions regarding PNB's present and future business strategies and the environment in which PNB will operate in the future. Important factors that could cause some or all of the assumptions not to occur or cause actual results, performance or achievements to differ materially from those in the forward-looking statements include, among other things:

- PNB's ability to successfully implement its strategies;

- PNB's ability to anticipate and respond to market trends;

- PNB's ability to successfully manage its growth;

- the condition of and changes in, the Philippine, Asian or global economies;

- any future political instability in the Philippines;

- PNB's ability to secure additional financing;

- Changes in interest rates, inflation rates and the value of the Peso against the U.S. dollar and other currencies;

- Changes in laws, rules and regulations, including tax laws and regulations and licensing requirements, in the Philippines; and

- Competition in the Philippine banking industry.

Additional factors that could cause PNB's actual results, performance or achievements to differ materially from forward-looking statements include, but are not limited to, those disclosed under "Risk Factors" and elsewhere in this Prospectus. These forward-looking statements speak only as of the date of this Prospectus.

This Prospectus includes statements regarding PNB's expectations and projections for future operating performance and business prospects. The words "believe", "plan", "expect", "anticipate", "estimate", "project", "intend" and similar words identify forward-looking statements. In addition, all statements other than statements of historical facts included in this Prospectus are forward-looking statements. Statements in the Prospectus as to the opinions, beliefs and intentions of PNB accurately reflect in all material respects the opinions, beliefs and intentions of its management as to such matters as of the date of this Prospectus, although PNB gives no assurance that such opinions or beliefs will prove to be correct or that such intentions will not change. This Prospectus discloses, under the section "Risk Factors" and elsewhere, important factors that could cause actual results to differ materially from PNB's expectations. All subsequent written and oral forwarding-looking statements attributable to PNB or persons acting on PNB's behalf are expressly qualified in their entirety by the above cautionary statements.

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GLOSSARY

In this Prospectus, unless the context otherwise requires, the following terms shall have the meanings set forth below.

ABC/ALLIED BANK	Allied Banking Corporation
AFS	Audited Financial Statements
AMLC	Anti-Money Laundering Council
BAP	Bankers Association of the Philippines
BASEL III	"Basel III" is a comprehensive set of reform measures, developed by the Basel Committee on Banking Supervision, to strengthen the regulation, supervision and risk management of the banking sector. These measures aim to improve the banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source improve risk management and governance and strengthen banks' transparency and disclosures.
BIR	Bureau of Internal Revenue
Board	Board of Directors of PNB
BSP	Bangko Sentral ng Pilipinas
Corporation Code	The Corporation Code of the Philippines, Batas Pambansa Blg. 68
DOSRI	Directors, Officers, Stockholders and their related interests
FCDU	Foreign Currency Deposit Unit
FVPL	Fair value through profit or loss
General Banking Law	The Philippine General Banking Law of 2000, RA 8791
Government	The Government of the Republic of the Philippines
ING	ING Bank, N.V.
Issue Price	₱70.00 /share is the price at which the Shares are issued pursuant to the Plan of Merger
LTNCD	Long Term Negotiable Certificates of Deposit

LTG	LT Group, Inc.
Manual	BSP Manual of Regulations for Banks
MCO	Maximum Cumulative Outflow
Metro Manila	the metropolitan area compromising the cities of Caloocan, Las Piñas, Makati, Malabon, Mandaluyong, Manila, Marikina, Muntinlupa, Navotas, Parañaque, Pasay, Pasig, Pateros, Quezon, Valenzuela, Taguig, and San Juan, which comprise the National Capital Region and are commonly referred to as Metro Manila
New Central Bank Act	The New Central Bank Act, RA 7653
NPAs	Non-Performing Assets
NPLs	Non-Performing Loans
OBUs	Offshore Banking Units
Offer	the offer for sale of the Shares to the shareholders of Allied Bank
Other operating expenses	Total operating expenses excluding provision for impairment and credit losses
PAS	Philippine Accounting Standards
PCD	Philippine Central Depository
PCD Nominee	PCD Nominee Corporation, a corporation wholly-owned by the PDTC
PDEx	Philippine Dealing and Exchange Commission
PDS	the Philippine Dealing System
PDTC	the Philippine Depository and Trust Corporation, the central securities depository of, among others, securities listed and traded on the PSE
Pesos or P or ₱	the lawful currency of the Philippines
PFRS	Philippine Financial Reporting Standards
Philippines	Republic of the Philippines

PNB or the "Bank" or "Merged Bank"	Philippine National Bank, and except when the context otherwise requires, all its subsidiaries
PSE	Philippine Stock Exchange, Inc.
R.A.	Republic Act
SEC	Securities and Exchange Commission
UBS	UBS Investments Philippines, Inc.

EXECUTIVE SUMMARY

The following summary is qualified in its entirety by, and its subject to, the more detailed information presented in this Prospectus, including PNB's financial statements and related notes included elsewhere in this Prospectus. Capitalized terms not defined in this summary are defined in the Glossary of Terms, Risk Factors, Business or elsewhere in this Prospectus.

Overview

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 ₱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 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 ₱11.6 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 Long Term Negotiable Certificate of Deposits (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 redirected to 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) to give credence to PNB's expansion and status as a major player in the consumer finance industry as well as to align the image of the savings bank with its mother bank and to capitalize on the brand equity of PNB 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, continues to expand its branch network and improve delivery of services. PNBSB secured 28 approved licenses in 2014 and was able to open a branch in Batangas last November 10, 2014.

PNB remains 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 continues to originate and deliver structured solutions to large corporates as the Bank participated in five big ticket deals to raise an aggregate ₱102 billion in funds. 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 through convenience stores and other similar retail outlets. It 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, a channel that enables customers to conduct online remittance transactions anywhere and anytime. The Bank continues 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 hiked its outlook on PNB from "stable" to "positive" last March 2014, citing the gradual improvement in its asset quality following the merger with ABC. The positive outlook on PNB also reflects expectations that the Bank's asset quality could can 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 ABC in 2013.

Merger Developments

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 by the affirmative vote of ABC and the Bank's respective shareholders on June 24, 2008, representing at least two-thirds of the outstanding capital stock of both banks.

On March 26, 2012, the Bank submitted to the BSP and Philippine Deposit Insurance Corporation (PDIC) applications for consent to the merger. On April 12, 2012, the application for the merger was filed with the Securities and Exchange Commission (SEC). On July 25, 2012, the Bank received notice that the PDIC had given its consent to the merger. Likewise, on August 2, 2012, the Monetary Board of the BSP issued a resolution giving its consent to the merger.

Finally, on January 17, 2013, the SEC granted its approval to the merger. In addition, with respect to ABC's overseas subsidiaries, the Bank has also filed notices in relation to the merger with various relevant foreign regulatory agencies; and as of January 17, 2013 had received all necessary approvals to effectuate the merger.

As of December 31, 2014, the merged Bank has a combined distribution network of 657 branches and offices and 878 ATMs nationwide. Based on December 31, 2014 figures, the merged entity was 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.

Business Description

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

Competition

In the Philippines, the Bank faces stiff competition in all its principal areas of business, from both Philippine (private and government-owned) and foreign banks, as well as finance companies, mutual funds and investment banks. The competition that the Bank faces from both domestic and foreign banks was in part a result of the liberalization of the banking industry 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 LT Group, Inc. 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.

New Products and Services

The Bank has launched the following products and services in 2014 and first quarter of 2015:

- **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 Bureau of Internal Revenue (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) 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 every time a client accesses his account online.

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

- **BancNet eGov**

  BancNet eGov is a web-based electronic filing and payment facility for the processing of payments between employers, government agencies and depository banks. This facility provides banks and corporate clients the convenience to pay for their employees' monthly contributions and loans to SSS, Pag-Ibig and Philhealth via Bancnet Online.

- **Mag Padala, Mag Palipad Raffle Promo**

  Under this promotion, over 100 round trip tickets will be given away. Remittance from abroad through any PNB overseas branch or any of PNB's authorized agents excluding PNB Guam authorized agents entitles customers to a raffle entry for a chance to win one (1) free Philippine Airlines round trip ticket to the Philippines and two (2) Philippine Airlines domestic roundtrip tickets. One successful remittance is entitled to one raffle entry. Promotion runs from April 15, 2015 to August 15, 2015.

Key Business Activities

PNB provides a 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 (FX) dealings, bills discounting, fund transfers/remittance servicing, asset management, treasury operations, comprehensive trust services, retail banking and other related financial services.

PNB's banking activities are undertaken through the following groups, 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 and 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 deposits and other accounts) and services. While the focal point is the generation of lower cost 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 (CFG) 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 ("GFBG") 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 other banks and financial institutions worldwide.

Treasury Group

The Treasury Group ("TG") is principally responsible for managing the Bank's funding and liquidity requirements as well as its investment and trading portfolio. It 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 hedging requirements of some of the Bank's 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 products and services. 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 (CMG) is primarily responsible for 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 (RMG) is primarily responsible for managing problem accounts and reducing the non-performing loans of the Bank. It determines and formulates the appropriate settlement plan for each work-out account for its immediate resolution.

Special Assets Management Group

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

COMPETITIVE STRENGTHS

PNB considers the following to be its principal competitive strengths relative to the banking sector:

Well-positioned franchises in the robust Philippine banking sector

The Bank's scale, reach, business mix, product offerings and brand recognition has made it among the leading financial institutions in the Philippines. PNB is the Philippines' fourth largest private commercial bank in terms of total assets, deposits, net loans and receivables.

Extensive and strategically located distribution network

The Bank has one of the most extensive branch networks among its competitors in the Philippines. As of December 31, 2014, the Bank had 657 domestic branches and offices and 878 ATMs. The Bank's branches and ATMs are strategically located to maximize market potential and cover areas where competitors are less present, making financial services accessible to untapped customers and investment opportunities. The Bank's extensive distribution network allows for a strong deposit gathering capability and the ability to sell and distribute fee-generating product lines such as bancassurance, trust, fixed-income securities and credit cards. According to BSP data, the 657 domestic branches and offices of the Bank comprised approximately 11% of the total number of branches of all private commercial and universal banks in the Philippines. The 878 ATMs of the Bank represent about 7% of the total number of ATMs of commercial and universal banks.

Industry-leading OFW remittance business

As of December 31, 2014, the Bank's OFW remittance business accounted for approximately 19.0% market share by remittance volume, based on data from the BSP, making it one of the largest in the Philippines. The Bank's large-scale remittance business is supported by the Bank's extensive overseas network of 77 branches, representative offices and remittance centers across 16 countries in North America, Europe, the Middle East and Asia. As of December 31, 2014, the Bank also maintained correspondent relationships with 1,012 banks and financial institutions worldwide.

Diversified customer base

The Bank provides a full range of banking and other financial services to diversified customer bases including government entities, large corporate, middle-market, small and medium enterprise (SME) and retail customers, with the Bank having the distinction of being one of only five authorized government depository banks in the Philippines. The Bank believes that with the merger, additional customers contributed by ABC will strengthen the Bank's ability to withstand periods of volatile economic markets as compared to many of its peers.

Solid capitalization, improving asset quality and stable financial performance

The Bank's capital position is strong, with a consolidated Tier 1 ratio of 17.4% and consolidated CAR of 20.6% as of December 31, 2014 as reported to the BSP. The Bank's strong capital position gives it the flexibility to expand its business, invest in new products and services, information technology and other infrastructure required for the execution of its growth strategy. Moreover, the Bank has been committed to prudent credit approval and risk management processes, which have resulted in improving asset quality. As of December 31, 2014, the Bank recorded an NPL ratio of 0.9%, a net NPA ratio of 3.6% and an NPL coverage ratio of 99.2%.

Synergies from its strong shareholder group

As a member of the Lucio Tan Group, PNB continues to benefit from being part of one of the largest and most diverse conglomerates in the Philippines, with interests ranging from beverages, airlines, tobacco, property development, education and others. PNB has been able to achieve significant synergies with the Tan Companies, such as partnering with Philippine Airlines to introduce one of the most popular mileage rewards credit cards in the Philippine market, providing collection facilities through its nationwide branches for sellers of PMFTC's products and for other Lucio Tan companies, streamlining loan applications for end-buyers of Eton, and facilitating guarantees for ticketing agents of Philippine Airlines.

BUSINESS STRATEGIES

PNB aims to fortify its position as one of the leading banks in the Philippines, delivering strong profitability supported by a solid balance sheet. To achieve this corporate goal, the Bank will undertake the following strategic initiatives for 2014:

1. <u>Improve revenue mix</u>
   As part of the strategy to improve its profitability and at the same time minimize dependence on any specific revenue source, the Bank will take steps to modify its revenue mix towards a more stable stream of income. Along this line, The Bank will continue to determine the proper allocation of the use of funds between loans and investments to ensure a more stable level of accrued interest income and higher yields from loans versus the volatile movements in trading gains/losses from investment securities held for trading. Likewise, the Bank intends to further leverage on its strong franchise and increase fee-based income by intensifying its cross-selling efforts to its existing customers, including its OFWs customers. The Bank will also review its fee structure and align bank fees and service charges with market rates to remain competitive. With its bancassurance license from the BSP, the Bank plans to intensify its efforts in the marketing of bancassurance products.

2. <u>Shift loan portfolio mix in favor of SME and consumer segments</u>
   The Bank's lending strategy will entail a shift in marketing focus from large institutional accounts to SMEs and individuals. This shift in lending strategy by increasing the number of smaller accounts is intended to help the Bank in achieving higher lending margins as smaller accounts are less sensitive to changes in interest rates. The Bank intends to leverage on its extensive customer base of OFWs to expand its consumer lending business. The Bank's subsidiary, PNB Savings Bank will play a pivotal role in strengthening the bank's foothold on the retail and consumer segment.

3. <u>Strengthen leadership in the global Filipino Market</u>
   The Bank intends to further increase its share in the global Filipino market by going beyond merely providing them with remittance services to offering them a more diverse menu of financial services. The Bank will continue to enhance its products aimed at delivering optimum services, particularly by introducing electronic-remittance channels. In addition to its large global distribution network, the Bank will keep on partnering with companies that are considered leaders in their home markets to reinforce its overseas presence. The sustained focus on service quality, continued product innovation and marketing initiatives are expected to result in increased remittance volume and/or increased foreign currency business.

4. <u>Rationalize cost of funds</u>

The Bank will leverage on the strength of its nationwide branch network to generate low-cost deposits from its existing and growing customer base. In support of the expansion in total assets, the Bank will also keep an acceptable level of high-cost deposits to complement the low-cost deposit base.

5. Maximize synergies from the merger

   The merger brings together a combined complementary client base ranging from large corporations, local government units, government-owned and controlled corporations, overseas Filipino workers and the Chinese-Filipino community to the provincial market. The merged bank will also be able to leverage and harness on the wide network of its major shareholder, the LT Group, Inc., one of the largest conglomerates in the Philippines. As the merged bank, PNB will have a better platform to offer a wide range of personal and corporate banking services and products, and become a leading player in its chosen markets.

   The merger is expected to create substantial revenue and cost synergies. Revenues should be enhanced as a result of new customers, increased business from existing customers, low funding cost from improved risk profile and greater opportunities for cross-selling bancassurance, trust, credit card and other products to a larger customer base via a wider distribution network. In addition, the merger will result in cost efficiency improvements through branch re-engineering, economies of scale, systems integration, realignment of front offices and optimization of back office processing and support functions.

6. Accelerate ROPA disposition

   Through its Special Asset Management Group (SAMG), the Bank will aggressively dispose of foreclosed assets as well as maximize recoveries from asset sales and income potential of acquired assets. Under the Bank's three-year business plan, SAMG will focus its efforts on the following: a) pursue implementation of development plans for selected ROPAS e.g., portfolio sale, joint-venture with developers, sale of small and medium ROPAs; b) collection of CARP accounts; c) strong marketing initiatives; d) efficient account management of SCR accounts; and e) more effective and efficient lease management practices.

Risks of Investing

Before making an investment decision, investors should carefully consider the risks associated with an investment in the Shares. These risks include:

- Risks Relating to PNB's Business;
- Risks Relating to the Philippines;
- Risks Relating to the Shares; and
- Risks Relating to the Presentation of Information in this Prospectus.

The Bank is subject to a number of risks, the realization of which could have a material adverse effect on the Bank's business, financial condition and results of operations and cause the market price of the Shares to decline. For example, the merger between PNB and Allied Bank may not result in the expected synergies contemplated by PNB, PNB and Allied Bank may be subject to tax liabilities in relation to their merger, the Bank has faced and may continue to face significant levels of non-performing loans. The Bank is also subject to risks related to, among other things, the size, quality and concentration of its loan and investment portfolios, its provisioning policies, its ability to recover collateral, its exposure to the real estate industry, its reliance on gains from treasury operations and its ability to successfully monitor and manage certain decentralized business and risk management functions across its banking network. In addition, the Bank operates in a competitive and highly regulated industry and thus may be limited in its ability to expand and grow its customer base. As a Philippine bank, the Bank's results of operations and financial condition may also be adversely affected by political and economic developments in the Philippines. Investors may also face risks regarding liquidity of the Shares and fluctuations in the market price of the Shares.

Corporate Information

PNB is a Philippine corporation with registered office and principal executive offices located at PNB Financial Center, President Diosdado Macapagal Boulevard, Pasay City, Metro Manila. PNB's telephone number is (632) 8916040 to 71 or 5263131 while its fax number is (632) 8340780. Its corporate website is www.pnb.com.ph. The information on PNB's website is not incorporated by reference into and does not constitute part of this Prospectus.

SUMMARY OF THE OFFER

Issuer……………………………………	Philippine National Bank, a corporation organized under the Philippine law. The trading symbol is PNB.
The Offer……………………………….	Primary Offer of 423,962,500 Common Shares to be issued by PNB to all shareholders of Allied Banking Corporation at the Issue Price of ₱70.00 per share using the Exchange Ratio of 130 PNB common shares for each Allied Bank common share and 22.763 PNB common shares for each Allied Bank preferred share pursuant to the Plan of Merger.
Issue Price…………………………….	₱70.00 per Share
Use of Proceeds………………………..	There are no cash proceeds from the offering. As previously approved by the respective Board of Directors and shareholders of PNB and Allied Bank, the accounting treatment for the Merger will be in accordance with PFRS 3. The Merger will be accounted for under the Purchase Method. See "Use of Proceeds" on Page 30 for details of how the total net proceeds are expected to be applied.
Listing and Trading……………………	The Shares are expected to be listed on the PSE under the Symbol and company alias PNB at least fifteen days after the submission of the Listing Application with the PSE. Trading of the shares is expected to commence upon receipt of the notice of approval from the PSE.
Dividends………………………………	PNB is authorized to declare dividends. A cash dividend declaration requires approval from the Board. A stock dividend declaration requires the further approval of shareholders representing not less than two-thirds of PNB's outstanding capital stock. Dividends may be declared only from unrestricted retained earnings and is subject to the approval of the BSP. PNB cannot provide assurance that it will pay any dividends in the future. See "Dividends Policy".
Taxation …………………….	Documentary Stamp Tax for the primary issue of the Shares at the rate of ₱1.00 for every ₱200.00 of the par value shall be for the account of the Bank.
Expected Timetable………………….	The Timetable of the Offer is expected to be as follows: Filing of Final Prospectus and Registration Statement – August 3, 2015

	Filing of Listing Application with the PSE - November 29, 2013 Listing Date and Commencement of trading on the PSE – at least 15 days from submission of the Listing Application with the PSE and receipt of the formal notice from the PSE The dates included above are subject to the approval of the PSE and the SEC, market and other conditions, and may be changed.
Risks of Investing……………………	Before making an investment decision, prospective investors should carefully consider the risks associated with an investment in the Shares. Some of these risks are discussed in the section entitled "Risk factors" and include risks relating to PNB, risks relating to the Philippines, risks associated with the Shares and risks relating to certain statistical information in this Prospectus.

SUMMARY OF FINANCIAL AND OPERATING INFORMATION

The following tables set forth the selected financial information for PNB and should be read in conjunction with PNB's financial statements as audited by SGV & Co. for the years ending December 31, 2012 to 2014, including the notes thereto, and the section entitled Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this Prospectus. The following data is qualified in its entirety by reference to all of that information.

INTERIM CONSOLIDATED STATEMENTS OF INCOME
(In Thousands, Except Earnings Per Share)

	For the Three Months Ended March 31	
	2015 (Unaudited)	2014 (Unaudited)
INTEREST INCOME ON		
Loans and receivables	**₱ 4,009,199**	**₱ 3,761,890**
Trading and investment securities	**903,896**	**813,105**
Deposits with banks and others	**297,753**	**782,073**
Interbank loans receivable	**7,414**	**3,424**
	5,218,262	**5,360,492**
INTEREST EXPENSE ON		
Deposit liabilities	**699,177**	**716,919**
Bills payable and other borrowings	**267,297**	**197,075**
	966,474	**913,994**
NET INTEREST INCOME	**4,251,788**	**4,446,498**
Service fees and commission income	**869,452**	**821,887**
Service fees and commission expense	**232,572**	**183,912**
NET SERVICE FEES AND COMMISSION INCOME	**636,880**	**637,975**
Net insurance premiums	**924,622**	**619,038**
Net insurance benefits and claims	**732,930**	**533,380**
NET INSURANCE PREMIUMS (BENEFITS AND CLAIMS)	**191,692**	**85,658**
OTHER INCOME		
Trading and investment securities gains - net	**207,921**	**237,346**
Foreign exchange gains – net	**292,438**	**343,754**
Net gain on sale or exchange of assets	**300,200**	**134,583**
Miscellaneous	**326,637**	**352,711**
TOTAL OPERATING INCOME	**6,207,556**	**6,238,525**
OPERATING EXPENSES		
Compensation and fringe benefits	**2,236,575**	**1,691,822**
Taxes and licenses	**532,638**	**475,119**
Occupancy and equipment-related costs	**317,411**	**349,976**
Depreciation and amortization	**375,717**	**412,439**
Provision for impairment, credit and other losses	**159,202**	**291,125**
Miscellaneous	**919,583**	**1,240,408**
TOTAL OPERATING EXPENSES	**4,541,126**	**4,460,889**
INCOME BEFORE INCOME TAX	**1,666,430**	**1,777,636**
PROVISION FOR INCOME TAX	**424,726**	**434,810**
NET INCOME	**1,241,704**	**1,342,826**
ATTRIBUTABLE TO:		
Equity Holders of the Parent Company	**1,201,227**	**1,339,675**
Non-controlling Interests	**40,477**	**3,151**
	₱1,241,704	**₱1,342,826**
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company	**₱ 0.96**	**₱ 1.21**

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			

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As of March 31, 2015
(With Comparative Audited Figures as of December 31, 2014)
(In Thousands)

	March 31, 2015 (Unaudited)	December 31, 2014 (Audited)
ASSETS		
Cash and Other Cash Items	**₱ 11,073,415**	₱14,628,489
Due from Bangko Sentral ng Pilipinas	**108,238,361**	105,773,685
Due from Other Banks	**12,538,753**	15,591,406
Interbank Loans Receivable	**8,585,190**	7,671,437
Securities Held Under Agreements to Resell	**–**	–
Financial Assets at Fair Value Through Profit or Loss	**16,311,271**	17,351,626
Available-for-Sale Investments	**67,307,316**	63,091,497
Held to Maturity Investments	**23,758,344**	22,970,306
Loans and Receivables	**310,873,972**	316,253,021
Property and Equipment	**19,633,483**	19,574,383
Investment Properties	**19,861,408**	20,248,482
Deferred Tax Assets	**1,396,371**	1,461,938
Intangible Assets	**2,209,629**	2,294,824
Goodwill	**13,375,407**	13,375,407
Other Assets	**5,445,939**	5,159,331
TOTAL ASSETS	**₱ 620,608,859**	₱625,445,832

LIABILITIES AND EQUITY		
LIABILITIES		
Deposit Liabilities		
Demand	**₱ 98,515,235**	₱101,561,040
Savings	**288,792,213**	293,201,308
Time	**53,727,870**	52,881,409
	441,035,318	447,643,757
Financial Liabilities at Fair Value Through Profit or Loss	**10,932,113**	10,862,025
Bills and Acceptances Payable	**19,446,667**	19,050,058
Accrued Taxes, Interest and Other Expenses	**5,688,078**	5,441,349
Subordinated Debt	**9,973,596**	9,969,498
Income Tax Payable	**314,496**	85,505
Other Liabilities	**32,290,511**	33,332,758
TOTAL LIABILITIES	**519,680,779**	526,384,950

	March 31, 2015 (Unaudited)	December 31, 2014 (Audited)
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY		
Capital Stock	**₱ 49,965,587**	₱49,965,587
Capital Paid in Excess of Par Value	**31,331,251**	31,331,251
Surplus Reserves	**529,941**	537,620
Surplus	**19,903,621**	18,702,394
Remeasurement Losses on Retirement Plan	**(2,296,236)**	(2,292,833
Accumulated Translation Adjustment	**(80,270)**	(59,854)
Net Unrealized Gain (Loss) on Available-for-Sale Investments	**(1,701,648)**	(2,336,142)
Parent Company Shares Held by a Subsidiary	**–**	–
	97,652,246	95,848,023
NON-CONTROLLING INTERESTS	**3,275,834**	3,212,859
TOTAL EQUITY	**100,928,080**	99,060,882
TOTAL LIABILITIES AND EQUITY	**₱620,608,859**	₱625,445,832

See accompanying Notes to Consolidated Financial Statements.

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

USE OF PROCEEDS

There are no cash proceeds from the offering. As previously approved by the respective Board of Directors and shareholders of PNB and ABC, the accounting treatment for the merger will be in accordance with PFRS 3. The merger will be accounted for under the Purchase Method, under which the following main principles will be followed:

- assets and liabilities, including unrecorded intangible assets and contingent liabilities of the “acquiree” will be taken up at fair value as of the date of the Merger in the books of the “acquiror”
- prior years’ financial statements will not be restated and the income statement will only incorporate the results of the “acquiree” from the date of merger
- equity of the “acquiror” is increased by the amount of the acquisition cost, equivalent to the number of new shares of the “acquiror” to be issued multiplied by the issue price
- difference between the acquisition cost and fair value of the net assets of the “acquiree” as of the date of the merger will be recorded as goodwill.

There are no expenses which will be deducted or paid out of the proceeds of the offering.

The merger of PNB and ABC has, however, elevated PNB as the fourth largest private commercial bank in terms of assets based on the Bank’s published Statement of Condition as of December 31, 2014. The infusion of ABC’s assets into PNB has improved its financial standing.

RISK FACTORS

Prior to making an investment decision, the prospective investors should carefully consider the risks described below, which are hereby presented in no order of importance, in addition to the other information set forth in this Prospectus including the Bank's financial statements and notes relating thereto included herein.

The price of securities can and does fluctuate, and any individual security may experience upward or downward movements, and may even become valueless. There is an inherent risk that losses may be incurred rather than profit made as a result of buying and selling securities. Past performance is not a guide for future performance.

This risk disclosure does not purport to disclose all the risks and other significant aspects on investing in these securities. Any investor should undertake his or her own research and study on the trading of securities before commencing any trading activity. He may request information on the securities and the issuer thereof from the SEC which are available to the public.

RISKS RELATING TO PNB

PNB operates in a highly competitive environment, which could limit its ability to maintain or increase its market share and maintain or increase its profitability.

PNB competes against both local banks and branches of foreign banks that offer similar financial products and services. These include competitors which, in some instances, have greater financial and other capital resources, a greater market share, or greater name recognition in certain areas than PNB.

In the future, competition in the industry may further intensify. Continued expansion of Philippine banks can saturate markets that PNB intends to serves. Continued consolidation in the banking sector, alliance between domestic banks and foreign banks will create stronger institutions which are better positioned to compete against PNB. Entry of new players in the industry can also increase competition as they seek to gain market share.

There can be no assurance that PNB will be able to compete effectively in the face of such increased competition. Increased competition may make it difficult for PNB to increase the size of its loan portfolio and deposit base, sustain or increase its margins, and could have a material adverse effect on results of operations and financial condition.

PNB's business is closely monitored and regulated by the Government through policies that may significantly impact its operations and profitability.

PNB is regulated principally by the BSP through the regular and special examination and review of reports that all Philippines banks are required to submit. PNB is also subject to banking, corporate and other laws in effect in the Philippines. The regulatory and legal framework governing PNB differs in certain material respects from that in effect in other jurisdictions and may continue to change as the Philippine economy and commercial and financial markets evolve.

For example, the Government has imposed an agrarian reform and agriculture lending policy that requires Philippine banks to grant loans to agricultural sectors of the country and agrarian beneficiaries. Banks that fail to comply by falling below the specified level of loans granted to these sectors may be fined by the Government. There is no absolute guarantee that these fines will not be significantly changed by the Government, which may have a negative impact on the Bank's financial performance in the event of non-compliance with the regulation. Another example is the BSP's policy of prohibiting banks from having a financial exposure to any individual, entity or group of connected persons in excess of 25 per cent of its net worth, except when the transactions involve Government related entities or guaranteed by the Government, among others.

In recent years, existing rules and regulations have been modified, new rules and regulations have been enacted and reforms have been implemented which are intended to provide tighter control and more transparency in the Philippine banking sector. These rules include new guidelines on the monitoring and reporting of suspected money laundering activities as well as regulations governing the capital adequacy of banks in the Philippines. PNB has embarked on initiatives in order to meet the requirements under Basel III. It is anticipated that the adoption of Basel III may result in the decline of capital ratios of banks in the Philippines, including PNB's. PNB may also have to comply with stricter regulations and guidelines issued by other regulatory authorities in the Philippines, such as the Bureau of Internal Revenue (BIR), the Anti-Money Laundering Council (the AMLC) and international bodies, such as the Financial Action Task Force. If additional rules or regulations are introduced, PNB may incur substantial compliance and monitoring costs, and if PNB is unable to comply with existing and new rules and regulations applicable to it, it could incur penalties, face disruptions to its operations and face reputational damage, which could materially and adversely affect PNB's business, financial condition and results of operations.

PNB is exposed to credit, market, interest rate, foreign exchange, liquidity, operating, and other risks which may have an impact on its future financial performance and operations.

The inability of PNB to manage these various risks could have an adverse impact on its business, operations and financial performance. PNB's interest income and earnings depend on its ability to accurately gauge the credit worthiness of its borrowers, provide adequate allowance for credit losses and manage migrations in credit quality and risk concentration of its portfolio. PNB's existing and prospective lending policies, processes and controls may not adequately mitigate the risk of loan loss provisions and write-offs. The success of the Bank's treasury and trading strategies and operations depends upon its capacity to correctly identify and execute mark-to- market changes in the value of financial instruments caused by fluctuations in market value, interest rates and foreign exchange rates, among other factors. In the event that PNB's estimates differ significantly from actual results and critical assumptions prove inaccurate, it could incur losses that are higher than expected. Such losses may result in liquidity concerns which hamper the Bank's ability to settle obligations as they fall due, resulting in increased costs, loss of reputation, and other detrimental effects that can affect the Bank's performance and standing. Lastly, the Bank's operating controls, policies and processes may not be adequate to prevent losses from transaction failures, human error, fraud, breakdown of its IT systems, and other such events that have a negative impact on its operations and financial results.

Lending carries the risk of default by borrowers and PNB may face increasing levels of NPLs and provisions for impairment and credit losses on loans.

Any lending activity is exposed to credit risk arising from the risk of default by borrowers. PNB's results of operations may be negatively affected by the level of its NPLs. A number of factors affect PNB's ability to control and reduce its NPLs, such as volatile economic conditions in the Philippines, which may adversely affect many of PNB's customers, and may cause uncertainty regarding their ability to fulfill their loan obligations, and in effect increase PNB's exposure to credit risk. In addition, PNB is seeking to grow its business, particularly its earnings asset base, which would likely entail extending more loans to customers. While PNB has more than adequate loan provisions, these and other factors could result in an increased number of NPLs in the future and may require PNB to book additional provisions for impairment and credit losses on loans. While PNB regularly monitors its NPL levels and has strict credit processes in place, there can be no assurance that PNB will be successful in reducing its NPL levels or that the percentage of NPLs that PNB will be able to recover will be similar to PNB's historical recovery rates or that the overall quality of its loan portfolio will not deteriorate in the future. If PNB is not able to control and reduce its NPLs or recover expected amounts from NPLs, if the quality of collateral is lower than estimated or if there is a significant increase in its provisions for loan losses, PNB's operating costs, business, financial condition, results of operations and capital adequacy could be adversely affected.

PNB may experience significant losses if it is unable to fully recover the assessed value of collateral when its borrowers default on their obligations.

Most of PNB's secured loans receivable are collateralized by real estate properties. These collaterals plus PNB's holdings in real estate and other properties acquired (ROPA) give the Bank a considerable amount of exposure in the Philippine property market. The liquidation value of the collateral, the maximum amount that PNB will most likely get in the event of a sale of the property less the expenses incurred in such a sale held by PNB, may be below the value recorded at the time of the release of the loan. PNB liquidates part of its ROPA and other collateral through public auctions and negotiated transactions at ongoing market prices, which are heavily influenced by buyers. Property prices in the Philippines have generally been volatile and the property market has been highly cyclical. There is no certainty that PNB's loans can be sufficiently covered by the realized value of the attached collateral. The market value of real estate held as collateral can be significantly affected by events such as economic downturns. In some instances, the recorded value of the collateral may be out of date and not accurately mirror their current market value. There are also some circumstances wherein there are no buyers for a particular type of asset held as collateral and it may be difficult to liquidate such collateral at acceptable prices. Any possible decrease in the value of the collateral on PNB's loans, including future collateral received by PNB, would translate to insufficient provisions for credit losses that consequently forces PNB to increase such provisions. In the event that loans become non-performing, there is no certainty that the collateral securing any kind of loan will fully shield PNB from incurring partial or total losses. Any additional amount in PNB's provisions for credit losses would significantly impact its operational and financial performance as well as its capital adequacy ratio.

In addition, PNB may encounter problems and delays in the process of recovering value and liquidating collateral or collecting on any guarantee due to the inefficient enforcement of obligations by the Philippine legal system. Banks in the Philippines are required to undergo a mandated process and follow the steps identified by Philippine law when foreclosing on collateral or enforcing guarantees. This process is governed by administrative and bankruptcy law requirements that may make it more difficult to deal with compared to other regions and jurisdictions. The time delay caused by the bureaucratic process may last several years during which both the market value and physical condition of the collateral may significantly deteriorate, particularly inventory of goods or accounts receivables. In addition, collateral of this nature may not be insured. Taken together, these factors expose PNB to certain legal liabilities while the collateral is in PNB's possession. These factors may also substantially lower PNB's ability to unlock the value of its collateral and therefore reduce the comfort in taking security in exchange for granting loans. In some instances, PNB will need to spend on the maintenance of properties held as collateral in order to prevent or slow down their deterioration. The process of liquidating assets and properties held as collateral may also require PNB to pay legal fees and taxes.

PNB's trading activities are subject to volatility.

PNB engages in trading activities, primarily maintaining proprietary trading positions in Philippine and foreign government securities and some corporate debt securities. In recent years, PNB's gains from treasury operations have contributed significantly to PNB's operating income. PNB's trading gains are inherently volatile as trading securities and currencies are subject to economic, political and other conditions that may fluctuate from time to time. There can be no assurance that, in the future, PNB will be able to realize an amount of trading gains that is similar to the gains it realized historically, that it will not incur a loss from such trading or that it will not hold on to its trading and investment securities to realize interest income, any or all of which could have a material adverse effect on PNB's future net income. Risks arising both from its trading and investment strategy and general market volatility which are beyond its control could expose PNB to potential losses and may materially and adversely affect its business, financial condition and results of operations.

PNB is subject to interest rate risk and foreign exchange risk.

PNB realizes income from the margin between interest-earning assets and interest paid on interest-bearing liabilities. The business of PNB is subject to fluctuations in market interest rates as a result of mismatches in the re-pricing of assets and liabilities. These interest rate fluctuations are neither predictable nor controllable and may have a material adverse impact on the operations and financial condition of PNB. In a rising interest rate environment, if PNB is not able to pass along higher interest costs to its customers, it may negatively affect PNB's profitability. If such increased costs are passed along to customers, such increased rates may make loans less attractive to potential customers and result in a reduction in customer volume and hence operating revenues. In a decreasing interest rate environment, potential competitors may find it easier to enter the markets in which PNB operates and to benefit from wider spreads. As a result, fluctuations in interest rates could have an adverse effect on PNB's margins and volumes and in turn adversely affect PNB's business, financial condition and results of operations.

As a financial organization, PNB is exposed to foreign exchange risk. Movements in foreign exchange rates could adversely affect PNB's business, financial condition and results of operations. The foreign exchange transactions of Philippine banks are subject to stringent BSP regulation. Under BSP guidelines, PNB is required to provide 100.0% foreign asset cover for all foreign currency liabilities in its Foreign Currency Deposit Unit ("FCDU") books. The decline in the value of the peso against foreign currencies, in particular, the U.S. dollar may affect the ability of PNB's customers or the Government to service debt obligations denominated in foreign currencies and, consequently, increase NPLs. Conversely, increases in the value of the peso can depress the export market which can negatively affect the ability of certain PNB customers to repay their debt obligations or may reduce credit quality or demand. There can be no assurance that the peso will not fluctuate further against other currencies and that such fluctuations will not ultimately have an adverse effect on PNB.

PNB is exposed to the risk that fraud and other misconduct could be committed by employees or outsiders.

Banks have large amounts of cash flowing through their systems hence, reputation and client trust is integral to a bank's business. Incidents of fraud and other misconduct done by bank employees or third parties may damage a bank's reputation and could have severe repercussions to its business, profitability, financial standing and prospects. Moreover, these incidents could lead to administrative or regulatory sanctions by the BSP or other Government agencies in the form of suspensions or limitations to PNB's banking and business activities. Despite the fact that PNB has internal control procedures to prevent fraudulent activities, there can be no guarantee that PNB will be able to avoid and prevent incidents of fraud.

PNB's ability to retain and develop its employees and attract capable personnel has an effect on its current business, expansion plans, and future business performance.

The success of PNB, like any other company, rests on its management and employees. In the event that Bank is unable to retain its existing key officers or develop capable replacements for these individuals, the Bank's operations and business performance will suffer. The demand for competent and experienced bank personnel is increasing, not only from other financial institutions in the country but also from institutions outside the Philippines. The Bank's expansion plans will require it to attract and recruit new managers and employees and given the increasing competition, there is no assurance that the Bank will be able to employ such individuals or employ these at salary and compensation arrangements that are favorable to the Bank.

PNB's risk assessment and monitoring methods varies from those of its more developed and established counterparts.

PNB's risk assessment and monitoring methodologies may be different from other banks and financial institutions.

PNB's pertinent risk data such as the credit history and loan exposure of proposed borrowers may be incomplete or obsolete. Consequently, the effectiveness of PNB's risk management may not be at par with other banks. If PNB is unable to attain the necessary expertise and systems similar to its peers, PNB's ability to manage the risks inherent in its business, to expand its base of operations, to fortify its financial position and to enhance its profitability may be adversely affected.

PNB may fail to upgrade or effectively operate its information technology systems.

PNB's businesses are heavily dependent on the ability to timely and accurately collect and process a large amount of financial and other information across numerous and diverse markets and products at its various branches, at a time when transaction processes have become increasingly complex with increasing volume. The proper functioning of PNB's financial control, risk management, accounting or other data collection and processing systems, together with the communication networks connecting PNB's various branches and offices is critical to its business and its ability to compete effectively. PNB has centralized the database in respect of its domestic business through the adoption of a core banking system that provides the capability of online real-time transaction processing and accessible in various electronic channels, including ATMs, internet banking, and mobile banking. Any failure in PNB's systems or to implement new systems, particularly for retail products and banking transactions could have a negative effect on its business, financial condition and results of operations.

PNB's failure to manage risks associated with its information and technology systems could adversely affect its business.

PNB is subject to risks relating to its information and technology systems and processes. The hardware and software used by PNB in its information technology are vulnerable to damage or interruption by human error, misconduct, malfunction, natural disasters, power loss, sabotage, computer viruses or the interruption or loss of support services from third parties such as internet service providers, ATM operators and telephone companies. Any disruption, outage, delay or other difficulties experienced by any of these information and technology systems could result in delays, disruptions, losses or errors that may result in loss of income and decreased consumer confidence in PNB. These may, in turn, adversely affect PNB's business, financial condition and results of operations.

PNB also seeks to protect its computer systems and network infrastructure from physical break-ins as well as security breaches and other disruptive problems caused by PNB's increased use of the internet. Computer break-ins and security breaches would affect the security of information stored in and transmitted through these computer systems and network infrastructure. PNB employs security systems and maintains operational procedures to prevent break-ins, damage and failures. The potential for fraud and securities problems is likely to persist and there can be no assurance that these security measures will be adequate or successful. The costs of maintaining such security measures may also increase substantially. Failure in security measures could have a material adverse effect on PNB's business, financial condition and results of operations.

PNB relies principally on short-term deposits for its funding needs.

PNB's funding needs are principally satisfied from demand, savings and time deposits, and to a smaller extent, borrowings from other banks. Although PNB's deposits have historically been a stable source of funding for PNB, no assurance can be given that this will continue to be the case in the future. In the event a substantial number of PNB's depositors withdraw, or do not roll over their deposits, or if other banks do not lend short term funds to PNB as they have in the past, PNB's liquidity position could be adversely affected, which could result in its inability to fund its loan portfolio and may require PNB to seek alternative sources of funding. PNB can provide no assurance as to the availability or terms of such funding. To the extent PNB is unable to obtain sufficient funding on acceptable terms or at all, PNB's liquidity and financial condition and results of operations will be adversely affected.

PNB could be materially and negatively affected by sudden and unfavorable changes in the Philippine banking industry.

PNB's financial condition and performance, like other local banks, is directly affected by trends and movements in the Philippine banking industry. Disruptions in the financial sector or in the general economic conditions of the Philippines may cause the Philippine banking industry, along with PNB, to encounter similar problems faced during the Asian economic crisis such as substantial increases in NPLs, liquidity issues, capital adequacy problems, and other challenges.

The current global economic climate could negatively impact PNB's business.

The global markets have been highly volatile in recent times due to the economic instability occurring in different areas of the world, particularly in Europe, that may continue to persist in the near future. Capital markets around the world, including in Asia, have reacted to these turbulent global economic conditions negatively and further volatility may adversely impact the Bank's business and performance. In addition, some economists have forecasted that the United States, China, and Europe will experience a slower pace of growth. All of these developments may significantly impact trade volumes with potentially untoward effects on the Philippines and eventually on the Bank's business.

There is no assurance that the volatility and uncertainty prevailing in global markets will not spill over and adversely affect credit markets in Asia, including in the Philippines. Any deterioration in the economic conditions in the Philippines as a result of the foregoing factors could materially and adversely affect the Bank's borrowers, clients and counter-parties. This, in turn, could materially and adversely affect the Bank's financial condition and results of operations, as well as the Bank's ability to implement its business strategy. There can also be no assurance that PNB and its operations will be protected against adverse developments arising from the global environment.

PNB is controlled by the LT Group, Inc. whose interests may significantly differ from other shareholders in the bank

As of December 31, 2014, the LT Group, Inc. (LTG) held indirect ownership of PNB shares amounting to about 59.83%. Shareholders related to or who issue proxies/special powers of attorney in favor of Mr. Lucio C. Tan from time to time held a total of about 17.95% of the bank's shares, while the latter held direct ownership over 1.19% of the bank's shares. The remaining 21.03% are owned by other stockholders.

The interests of Mr. Lucio C. Tan and LT Group, Inc. may differ significantly from the interests of the Bank and/or the other shareholders and there can be no assurance that Mr. Lucio C. Tan and LT Group, Inc. will exercise their influence over PNB in a manner that is in the best interests of all shareholders of PNB.

RISKS RELATING TO THE PHILIPPINES

PNB is exposed to risks associated with the Philippines because substantially all of the Bank's assets and business activities are based in the Philippines.

Historically, PNB has derived substantially all of its operating income from the Philippines. Hence, PNB's business is highly dependent on the state of the Philippine economy. Factors that may adversely affect the Philippine economy include:
▪ uncontrollable inflation and increasing interest rates;
▪ high unemployment, dwindling consumer confidence and low income;
▪ exchange rate fluctuations;
▪ slowdown in business, industrial, manufacturing and financial activities;
▪ credit scarcity resulting in lower consumer spending;
▪ changes in Government fiscal policy;
▪ re-emergence of epidemic diseases such as SARS and avian influenza;
▪ natural catastrophes;
▪ political instability, mutinies, acts of terrorism and military conflict.

There is no assurance that the country will attain strong economic fundamentals in the future. Any abrupt changes in the conditions in the country may adversely affect PNB's business, financial position and profitability.

Political instability in the Philippines may negatively impact PNB's business, financial standing and profitability.

In recent years, the Philippines has seen several unsuccessful military uprisings and, every so often, public protests are held. A turbulent political atmosphere diminishes investor confidence and may adversely affect PNB's business. Despite the high approval ratings of President Benigno S. Aquino III, there can be no assurance that the country will avoid political turmoil.

Terrorist acts and high-profile violent crimes threaten the country's stability and may have an adverse effect on PNB's business, financial standing and profitability.

In recent history, the country has been victim to numerous acts of terrorism. There have been several prominent kidnappings and slayings of foreigners. A number of bombings have occurred. And, most recently, the instability in certain parts of Mindanao and the growing threat of criminal groups like BIFF and terrorist groups like ISIS and their links to local rebel groups like MILF have adverse effects on investor confidence, and consequently, the Philippine economy.

Natural catastrophes may negatively affect PNB's business, financial standing and profitability.

The Philippines is plagued by typhoons and is hit by floods, earthquakes and volcanic eruptions from time to time. The occurrence of natural disasters may affect the capacity of PNB's clients to fulfill their obligations to PNB.

Also, despite the implementation of business continuity management measures, there can be no assurance that PNB will be fully capable to deal with these kinds of situations and that insurance will fully compensate PNB for the damage and economic losses brought about by these catastrophes.

Any future changes in PFRS may affect the financial reporting of PNB's business.

PFRS continues to evolve as standards and interpretations promulgated subsequent to December 31, 2011 come into effect. In 2011, the BSP approved the guidelines on the early adoption by banks and other BSP-supervised financial institutions of PFRS 9 Financial Instruments under Circular No. 708 s. 2011. In 2012, the provision of Circular No. 708 was amended by Circular No. 761. PFRS 9 is the local adoption of International Financial Reporting Standards (IFRS) 9 Financial Instruments, which is the first phase of the three-phase improvement project by the International Accounting Standards Board to ultimately replace International Accounting Standards (IAS) 39 Financial Instruments: Recognition and Measurement. Phases 2 and 3 of the project deal with accounting for the impairment of financial assets and hedge accounting, respectively. Phase 1 of IFRS 9, which deals with the classification and measurement of financial assets and financial liabilities, was adopted in the Philippines by the Financial Reporting Standards Council as PFRS 9. Mandatory application of IFRS 9 has been moved to January 1, 2015. Early application is permitted. PFRS 9 aims to improve and simplify the classification and measurement of financial instruments. It requires entities to classify and subsequently measure financial assets at either amortized cost or fair value on the basis of both (a) the entities' business model for managing the financial assets and (b) the contractual cash flow characteristics of the financial assets. Among others, PFRS 9 eliminates "Available-for-Sale" (AFS) and "Held-to-Maturity" (HTM) categories, together with the "tainting rule", which requires entities to reclassify HTM securities to AFS securities in the event that any more than an insignificant amount of an instrument booked under the HTM category is sold or reclassified. PFRS 9 also eliminates the requirement to bifurcate embedded derivatives from financial assets host contracts. It also requires enhanced disclosures to help the users of financial statements better understand the risks and the likely cash flows from the financial assets.

In addition to the required compliance with the provisions of PFRS 9 by banks and other BSP-supervised entities, the newly approved guidelines also provide for certain prudential requirements, such as approval by the entities' board of directors or equivalent governing body of the early adoption and submission by early adopters of the prescribed additional reportorial requirements. Phase 2 deals with measurements of financial assets classified as amortized cost. This requires recognition of credit loss expectations which is significantly different from current accounting requirements under IAS 39. On the other hand, Phase 3 covers revision of hedge accounting requirements in IAS 39. There can be no assurance as to the implementation of new accounting standards in the Philippines and the significance of the impact it may have on the future financial statements of PNB's businesses.

Corporate governance and disclosure standards in the Philippines may be less stringent than those in other countries.

There may be less publicly available information about Philippine public companies than is regularly made available by public companies in certain other countries. Philippine SEC and PSE requirements with respect to corporate governance standards may also be less stringent than those applicable in certain other jurisdictions. For example, the SRC requires publicly listed companies to have at least two independent directors or such number of independent directors as is equal to 20.0% of its board of directors, whichever is lower, but in no case less than two. Many other countries require significantly more independent directors. Further, rules against self-dealing and those protecting minority shareholders may be less stringent or developed in the Philippines. Such potentially lower standards in certain areas of disclosure and corporate governance may materially and adversely affect the interests of PNB's shareholders, particularly those of minority shareholders.

The sovereign credit ratings of the Philippines may adversely affect PNB's business.

Historically, the Philippines' sovereign debt has been rated relatively low by international credit rating agencies. Recently, however, the Philippines' long-term foreign currency-denominated debt have been upgraded by Fitch and Standard & Poor's to the investment-grade rating of BBB Stable and Moody's upgraded its rating of the Philippines' sovereign debt to investment grade Baa2-Stable. These sovereign debt ratings may directly and adversely affect companies resident in the Philippines, as international credit rating agencies issue credit ratings by reference to that of the sovereign. No assurance, however, can be given that Moody's, Standard & Poor's or any other international credit rating agency will not downgrade the credit ratings of the Government in the future and, therefore, of Philippine companies, including PNB. Any of such downgrades could have an adverse impact on the liquidity in the Philippine financial markets, the ability of the Government and Philippine companies, including PNB, to raise additional financing and the interest rates and other commercial terms at which such additional financing is available.

RISKS ASSOCIATED WITH THE SHARES

The PNB shares are subject to market price fluctuations and liquidity risks.

The market price of securities fluctuates and no one can predict with certainty the behavior of the price of PNB shares. There is an inherent risk of loss attached to the PNB shares as downward price movement, even the total loss of its value, is a possibility. The Philippine securities markets are substantially smaller, less active, more volatile and less regulated than other more developed markets. Hence, an investor may not be able to sell his/her shares as quickly as he/she would desire at his/her desired price.

Despite the fact that the issue price has been determined after rigorous study, the PNB shares may trade at a significantly different price from the issue price subsequent to the completion of the issuance. PNB will apply for the listing of the issued shares on the PSE after registration. However, there can be no assurance that there will be an active trading market for the PNB shares or it will be sustained after the issuance and listing.

Future issuance of new PNB shares in the public market could adversely affect the prevailing market price of the shares and unfavorably impact the ownership of existing shareholders.

In the interest of business expansion, the Board may resort to raising capital through the issuance of new equity or equity-linked securities. This may cause existing shareholders to experience dilution and/or may result in their shares becoming subordinate to the newly issued securities. Furthermore, the market price of the shares may decline. The foregoing may affect PNB's ability to raise capital at a time and at a price it deems appropriate.

PNB may be unable to pay dividends on the shares.

There is no assurance that PNB can or will declare dividends on the shares in the future. Dividends, if any, are determined by the Board and will depend on PNB's performance, financial standing, capital requirements, loan obligations, legal, regulatory and contractual restrictions, and other factors the Board may deem pertinent.

DETERMINATION OF ISSUE PRICE

ING Bank, N.V., Financial Advisor to the majority shareholders of PNB and Allied Bank, proposed a share swap ratio between PNB and Allied Bank for approval by their respective Boards. The majority shareholders of PNB and Allied Bank considered several investment banks and selected ING on the basis of its qualifications and advisory track record in Philippine bank mergers and acquisitions.

ING is a Financial Advisor with a long track record in advising on merger and acquisition transactions in the Philippines. ING has advised in at least 20 M&A and advisory transactions involving banks and other financial institutions in the Philippines, including landmark deals such as the privatization of Philippine National Bank in 2005 and the merger between Banco de Oro and Equitable PCI Bank in 2008. ING acted as the Financial Advisor for the majority shareholders of PNB and Allied Bank in relation to the proposed merger from 2007 until its completion in 2013. ING is also accredited by the PSE to issue fairness opinions and valuation reports for listed companies and prospective listing applicants.

ING's recommendation was based solely on publicly available information and other information on Allied Bank and PNB provided to ING by the management teams of Allied Bank and PNB, Roxas de Los Reyes Laurel Rosario & Leagogo Law Offices and SGV & Co. (collectively known as "Management and Advisers"). In formulating the recommendation, ING relied on Management and Advisers to ensure that the information and facts supplied by them are true, accurate and complete in all material respects as of the date hereof and that all information which is or may be relevant, has been provided to ING. ING also relied on the discussions with members of the management of Allied Bank and PNB regarding their respective financial projections and other information provided to ING. ING did not independently verify such information nor conducted any independent in-depth investigation into the business, and the affairs, of Allied Bank, PNB, or the merged entity.

To determine the swap ratio, ING used contribution analysis to examine the relative contribution of PNB and Allied Bank to a hypothetical combined entity and thereby determine the ownership levels between both banks' shareholders in the enlarged entity.

Various methodologies were used, including (a) Relative "Fair Values" (e.g., Dividend Discount Model, Adjusted Net Asset Value, Comparables Analysis), (b) Relative Size (e.g., Total Assets, Interest-Earning Assets, Deposits, Stockholders' Equity), and (c) Relative Operating Performance (e.g., Interest Income, Net Interest Income, Net Interest Income + Non-Interest Income, Underlying Profit).

Each methodology yielded a certain relative contribution ratio between PNB and Allied Bank. Based on the relative contribution ratio and current outstanding capital stock of PNB, the required number of PNB common shares to be issued to Allied Bank shareholders, commensurate to Allied Bank's contribution to the enlarged entity, was computed. Such number of PNB common shares was, in turn, divided by the current outstanding capital stock of Allied Bank to arrive at an implied share swap ratio. After discussions with PNB and Allied Bank management and majority shareholders, ING proposed a specific share swap ratio within the range of implied share swap ratios for the various methodologies and presented such to PNB's and Allied Bank's Board of Directors for approval.

On April 30, 2008 and June 24, 2008, the Board of Directors and stockholders of PNB and Allied Bank, at separate meetings, approved the merger of both banks with PNB as the surviving entity. At that time, the stockholders of both banks approved the Exchange Ratio of 140 PNB common shares for one Allied Bank common share and 30.73 PNB common shares for one Allied Bank preferred share at the issue price of ₱55.00 per share. Thereafter, PNB sought for the approval of the merger with the BSP, the Philippine Deposit Insurance Corporation (PDIC) and the SEC, as well as foreign regulators for its operations abroad. Due to certain regulatory requirements, however, the merger was delayed. PNB has since complied with the same regulatory requirements.

Due to the passage of time since the Boards' and shareholders' approvals in 2008, both banks decided to review the exchange ratio for their respective shares. Upon the recommendation of ING, the following exchange ratio was proposed:

1. 130 PNB common shares for each Allied Bank common share
2. 22.763 PNB common shares for each Allied Bank preferred share.

The Issue Price was also recommended to be increased to ₱70.00 per share from ₱55.00 per share.

On December 16, 2011 and March 6, 2012, each of the Board of Directors and shareholders of PNB and Allied Bank, at separate meetings, approved the proposed a share swap ratio of 130 PNB common shares for each Allied Bank common share and 22.763 PNB common shares for each Allied Bank preferred share at an Issue Price of ₱70.00 per share.

On July 25, 2012, the PDIC granted its consent to the proposed merger of PNB and Allied Bank, with PNB as the surviving entity, pursuant to Sec. 21 (c) of R.A. 3591, as amended (the PDIC Charter), subject to certain conditions. This was followed by the BSP's approval of the Plan and Articles of Merger on August 13, 2012, subject also to certain conditions.

On January 17, 2013, the SEC approved the Plan and Articles of Merger.

Applying the Exchange Ratio, the stockholders of Allied Bank are entitled to the corresponding shares of PNB in the following amounts:

Name of Allied Bank Stockholder	Type of ABC Shares	Number of ABC Shares	Converted PNB Shares
1. Key Landmark Investments, Ltd.	Common	729,872	94,883,360
2. True Success Profits Ltd.	Common	449,152	58,389,760
3. Caravan Holdings Corporation	Common	449,152	58,389,760
4. Solar Holdings Corporation	Common	449,152	58,389,760
5. Prima Equities & Investments Corporation	Common	393,008	51,091,040
6. Infinity Equities, Inc.	Common	336,864	43,792,320
7. Virgo Holdings & Development Corporation	Common	52,617	6,840,210
8. Virgo Holdings & Development Corporation	Preferred	25,000	569,075
9. Jewel Holdings, Inc.	Common	77,005	10,010,650
10. Iris Holdings & Development Corporation	Common	46,937	6,101,810
11. Iris Holdings & Development Corporation	Preferred	25,000	569,075
12. Lucio C. Tan	Common	99,285	12,907,050
13. Ignacio B. Gimenez	Common	44,089	5,731,570
14. Willy S. Co	Common	38,768	5,039,840
15. Kings Investment & Development Corporation	Common	29,571	3,844,230
16. Mariano Tanenglian	Common	17,635	2,292,550
17. Ramon Lee	Common	17,635	2,292,550
18. Luz L. Siy	Common	8,759	1,138,670
19. Nelly S. Sy	Common	8,716	1,133,080
20. Domingo T. Chua	Common	3,511	456,430

21. Mariano Khoo	Common	440	57,200
22. Ramon L. Siy	Common	150	19,500
23. Mariano G. Ordonez	Common	142	18,460
24. James Ang Yiok Teck	Common	10	1,300
25. Manuel T. Gonzales	Common	10	1,300
26. P.O. Domingo	Common	10	1,300
27. Michael G. Tan	Common	1	130
28. Reynaldo A. Maclang	Common	1	130
29. Harry C. Tan	Common	1	130
30. Patrick L. Go	Common	1	130
31. Anthony Q. Chua	Common	1	130
TOTAL		**3,302,495**	**423,962,500**

DILUTION

The merger with Allied Bank was undertaken via a share-for-share swap transaction, where all the issued and outstanding common shares of Allied Bank were be converted to fully-paid and non-assessable common shares of PNB at a ratio of 130 PNB common shares for each issued Allied Bank common share and all the outstanding preferred stock of Allied Bank were converted to fully paid and non-assessable PNB common shares at a ratio of 22.763 PNB common shares for each Allied Bank preferred share, all at an issue price of ₱70.00 per PNB common share.

The book value attributable to PNB's common shareholders, based on PNB's audited financial statements as of December 31, 2012, was ₱36.5 billion, while the book value per share was at ₱55.16. The book value represents total equity attributable to equity holders of PNB. PNB's book value per share is computed by dividing the book value by the number of common shares outstanding less shares held by a subsidiary.

Dilution in book value per share to Allied Bank shareholders represents the difference between the issue price and the book value per share (excluding goodwill) as of December 31, 2014. The book value per share (excluding goodwill) represents total equity attributable to equity holders of PNB less goodwill, divided by the number of common shares outstanding post-merger less shares held by a subsidiary. This assumes that the Allied Bank shareholders fully participated in the stock rights offering completed in February 2014.

The following table illustrates dilution on a per share basis based on the issue price:

Issue price per share	₱ 70.00
PNB book value per share as of December 31, 2012	₱ 55.16
Difference in issue price per share and PNB book value per share as of December 31, 2012	₱ 14.84
Book value per share (excluding goodwill) as of December 31, 2014	₱ 66.02
Dilution in pro forma book value per share to Allied Bank shareholders	₱ 3.98

The following table sets forth the shareholdings and percentage of common shares outstanding of existing PNB shareholders and Allied Bank shareholders immediately after completion of the issuance, assuming full participation in the stock rights offering completed in February 2014:

	Common shares			
	Pre-stock rights offering	**Shares issued in stock rights offering**	**Total**	**%**
Existing PNB shareholders	662,245,916	99,336,887	761,582,803	61%
Allied Bank shareholders	423,962,500	63,594,375	487,556,875	39%
Total	1,086,208,416	162,931,262	1,249,139,678	100%

PLAN OF DISTRIBUTION

As the issuance of shares is limited to the shareholders of Allied Bank and only occurs by operation of law upon the SEC's approval of the Merger between Allied Bank and PNB, there is no underwriter or marketer engaged by PNB with respect to this offering, as such, there is no compensation to be paid to selling agents, underwriters or marketers with respect to this offering. There is likewise no compensation to be paid to selling agents or underwriters by PNB with respect to this offering. Further, there are no brokers/dealers or finders engaged for purposes of this offering.

Designated Shares and Allocations

The shares to be issued under this offering are issued on a limited basis to the shareholders of Allied Bank as part of the Merger which was undertaken via a share-for-share swap transaction. As contained in the Plan of Merger, all the issued and outstanding Common Stock of Allied Bank will be converted into fully-paid and non-assessable Common Stock of PNB at a ratio of 130 PNB Common Shares for each issued Allied Bank Common Share while all the issued and outstanding Preferred Stock of Allied Bank will also be converted into fully-paid and non-assessable PNB Common Shares at a ratio of 22.763 PNB Common Shares for each issued Allied Bank Preferred Share.

On January 17, 2013, the SEC approved the Merger of PNB and Allied Bank and simultaneously approved the amendment of the Articles of Incorporation of PNB reclassifying PNB's 195,175,444 Authorized Preferred Shares into Authorized Common Shares thereby increasing its Authorized Common Shares to 1,250,000,001 corresponding to its Authorized Capital Stock of ₱50,000,000,040.00. As a consequence of the approval of the Plan and Articles of Merger and by operation of law, PNB is then required to issue new PNB Common Shares out of its authorized and unissued capital stock at an Issue Price of ₱70.00 per share to swap for the outstanding Allied Bank Common Shares and Preferred Shares in accordance with the Plan of Merger.

Said new PNB Common Shares will be listed on the Philippine Stock Exchange (PSE).

In case of any resulting fractional shares from the above Exchange Ratio, each holder of Allied Bank Common Shares and Allied Bank Preferred Shares who would otherwise be entitled to such fractional share shall be entitled to an amount in cash, without interest, rounded to the nearest centavo equal to the product of (a) the amount of the fractional share interest in a PNB Common Share to which such holder is entitled and (b) the average of the closing sale prices for PNB Common Shares on the PSE for each of the thirty (30) consecutive trading days ending on the date of execution by the parties to the Amended Plan of Merger.

Applying the Exchange Ratio, all of the shareholders of Allied Bank are entitled to a corresponding number of PNB shares, as follows:

ALLIED BANK SHAREHOLDERS AND THEIR CORRESPONDING PNB SHARES:

Name of Allied Bank Stockholders	Type of ABC Shares	Number of ABC Shares	Converted PNB Shares
1. Key Landmark Investments, Ltd.	Common	729,872	94,883,360
2. True Success Profits Ltd.	Common	449,152	58,389,760
3. Caravan Holdings Corporation	Common	449,152	58,389,760
4. Solar Holdings Corporation	Common	449,152	58,389,760
5. Prima Equities & Investments Corporation	Common	393,008	51,091,040
6. Infinity Equities, Inc.	Common	336,864	43,792,320
7. Virgo Holdings & Development Corporation	Common	52,617	6,840,210
8. Virgo Holdings & Development Corporation	Preferred	25,000	569,075
9. Jewel Holdings, Inc.	Common	77,005	10,010,650
10. Iris Holdings & Development Corporation	Common	46,937	6,101,810
11. Iris Holdings & Development Corporation	Preferred	25,000	569,075
12. Lucio C. Tan	Common	99,285	12,907,050
13. Ignacio B. Gimenez	Common	44,089	5,731,570
14. Willy S. Co	Common	38,768	5,039,840
15. Kings Investment & Development Corporation	Common	29,571	3,844,230
16. Mariano Tanenglian	Common	17,635	2,292,550
17. Ramon Lee	Common	17,635	2,292,550
18. Luz L. Siy	Common	8,759	1,138,670
19. Nelly S. Sy	Common	8,716	1,133,080
20. Domingo T. Chua	Common	3,511	456,430
21. Mariano Khoo	Common	440	57,200
22. Ramon L. Siy	Common	150	19,500
23. Mariano G. Ordonez	Common	142	18,460
24. James Ang Yiok Teck	Common	10	1,300
25. Manuel T. Gonzales	Common	10	1,300
26. P.O. Domingo	Common	10	1,300
27. Michael G. Tan	Common	1	130
28. Reynaldo A. Maclang	Common	1	130
29. Harry C. Tan	Common	1	130
30. Patrick L. Go	Common	1	130
31. Anthony Q. Chua	Common	1	130
TOTAL		**3,302,495**	**423,962,500**

DESCRIPTION OF SECURITIES TO BE REGISTERED

Prior to the approval of the Merger, PNB's authorized capital stock amounted to ₱50,000,000,040.00 divided into 1,054,824,557 common shares at a par value of ₱40.00 per share and 195,175,444 preferred shares at a par value of ₱40.00 per share. In accordance with the Plan of Merger, the Bank re-classified all its preferred shares to common shares to accommodate the issuance of 423,962,500 shares to the shareholders of Allied Bank. On January 17, 2013, the Securities and Exchange Commission (SEC) approved the Plan of Merger and the Amended Articles of Incorporation including the re-classification of 195,175,444 preferred shares to common shares, thereby increasing the number of common shares to 1,250,000,001 common shares with a par value of ₱40.00 per share, of which 423,962,500 are issued to Allied Bank shareholders.

On July 18, 2014, the SEC approved the increase in the authorized capital of the Bank from 1,250,000,001 common shares to 1,750,000,001 common shares with par value of ₱40.00 per share.

As of March 15, 2015, the total number of shares issued and outstanding was 1,249,139,678 common shares, of which 1,143,230,002 (or 91.52139%) were held by Filipino-Private Stockholders while the remaining 105,909,676 common shares (or 8.47861%) were held by Foreign-Private Stockholders. The Bank has a total of ₱49,965,587,120.00 subscribed capital.

At each meeting of stockholders, every stockholder entitled to vote on a particular question involved is entitled to one (1) vote for each share of stock standing in his name in the books of the Bank at the time of the closing of the Stock and Transfer Book 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.*"

The Articles of Incorporation of PNB provides that the shareholders have no pre-emptive right on any new issuance of shares.

DIVIDEND POLICY

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 unrestricted 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 such financial regulatory requirements as may be applicable to the Bank at the time of such declaration.

As of the date of this Prospectus, PNB has not adopted a specific dividend policy which prescribes a minimum percentage of net earnings to be distributed to its shareholders. PNB, however, has adopted the following general policy on the declaration of dividends:

> "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.

INTEREST OF NAMED EXPERTS AND INDEPENDENT COUNSEL

There are no experts or independent counsel who will receive a direct or indirect interest in the Issuer or who was a promoter, underwriter, voting trustee, director, officer, or employee of the registrant.

Apart from normal professional fees payable to the following entities which assisted PNB and ABC with respect to the Merger and this Offer, no arrangement exists whereby any of the following will receive any fees, benefits, securities or any direct or indirect interest from PNB in connection with this Offer:

SGV & Co. audited the financial statements of the Registrant for the years ended December 31, 2012, 2013, and 2014 included in this prospectus. SGV & Co. does not have shareholdings in PNB nor any right to nominate persons or subscribe to PNB shares.

ING Bank, N.V., Financial Advisor to the majority shareholders of PNB and Allied Bank, proposed the share swap ratio between PNB and Allied Bank for approval by their respective Boards and for submission to the shareholders. ING has no direct or indirect interest in PNB.

Roxas de Los Reyes Laurel Rosario & Leagogo Law Offices was engaged as Transaction Counsel for the Merger. Roxas De Los Reyes Laurel Rosario & Leagogo Law Offices does not have any direct or indirect interest in PNB.

UBS Investments Philippines, Inc. (“UBS”) rendered a “Fairness Opinion” as to the valuation of the PNB Shares and the Exchange Ratio. UBS does not have any direct or indirect interest in PNB.

Atty. Joel C. Gammad rendered the Tax and Legal Opinion in support of the Registration Statement. Atty. Gammad does not have any direct or indirect interest in PNB.

INFORMATION WITH RESPECT TO THE REGISTRANT

DESCRIPTION OF BUSINESS OF PNB

A. Business Development

PNB, 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 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 ₱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 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 ₱11.6 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 Long Term Negotiable Certificate of Deposits (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 redirected to 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) to give credence to PNB's expansion and status as a major player in the consumer finance industry as well as to align the image of the savings bank with its mother bank and to capitalize on the brand equity of PNB 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, continues to expand its branch network and improve delivery of services. PNBSB secured 28 approved licenses in 2014 and was able to open a branch in Batangas last November 10, 2014.

PNB remains 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 continues to originate and deliver structured solutions to large corporates as the Bank participated in five big ticket deals to raise an aggregate ₱102 billion in funds. 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 through convenience stores and other similar retail outlets. It 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, a channel that enables customers to conduct online remittance transactions anywhere and anytime. The Bank continues 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 hiked its outlook on PNB from "stable" to "positive" last March 2014, citing the gradual improvement in its asset quality following the merger with ABC. The positive outlook on PNB also reflects expectations that the Bank's asset quality can 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 ABC in 2013.

Merger Developments

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 by the affirmative vote of ABC and the Bank's respective shareholders on June 24, 2008, representing at least two-thirds of the outstanding capital stock of both banks.

On March 26, 2012, the Bank submitted to the Bangko Sentral ng Pilipinas (BSP) and Philippine Deposit Insurance Corporation (PDIC) applications for consent to the merger. On April 12, 2012, the application for the merger was filed with the Securities and Exchange Commission (SEC). On July 25, 2012, the Bank received notice that the PDIC had given its consent to the merger. Likewise, on August 2, 2012, the Monetary Board of the BSP issued a resolution giving its consent to the merger.

Finally, on January 17, 2013, the SEC granted its approval to the merger. In addition, with respect to ABC's overseas subsidiaries, the Bank has also filed notices in relation to the merger with various relevant foreign regulatory agencies; and as of January 17, 2013 had received all necessary approvals to effectuate the merger.

On February 9, 2013, the Bank concluded its planned merger with ABC as approved and confirmed by the Board of Directors of the Bank and of ABC on January 22 and January 23, 2013, respectively.

As of December 31, 2014, the merged Bank has a combined distribution network of 657 branches and offices and 878 ATMs nationwide. Based on December 31, 2014 figures, the merged entity was 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.

Recent Developments

In the Annual Stockholders' Meeting of PNB held on May 28, 2013, the stockholders of PNB approved the increase in authorized capital stock of the bank from ₱50,000,000,040.00 divided into 1,250,000,001 common shares with a par value of Forty Pesos (₱40.00) per share to ₱70,000,000,040.00 divided into 1,750,000,001 common shares with a par value of Forty Pesos (₱40.00) per share. The same was approved by the Securities and Exchange Commission (SEC) on July 18, 2014.

On February 3, 2014, PNB has successfully completed its stock rights offering of 162,931,262 common shares (Rights Shares) to eligible shareholders at a proportion of fifteen Rights Share for every one hundred existing common shares held as of the record date of January 16, 2014 at the offer price of ₱71.00 per Right Share. 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 increased in the authorized capital stock of the Bank. The Offer was oversubscribed and raised gross proceeds of ₱11.6 billion. The offer strengthens the Group's capital position under the Basel III standards, which took effect on January 1, 2014.

B. Business Description

1. Products and Services

PNB, as a Merged Bank, through its Head Office and 657 domestic branches and offices and 77 overseas branches and representative offices, 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 (FX) 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 and 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 deposits and other accounts) and services. While the focal point is the generation of lower cost 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 (CFG) 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 (GFBG) 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 other banks and financial institutions worldwide.

Treasury Group
The Treasury Group (TG) is principally responsible for managing the Bank's funding and liquidity requirements as well as its investment and trading portfolio. It 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 hedging requirements of some of the Bank's 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 products and services. 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 (CMG) is primarily responsible for 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 (RMG) is primarily responsible for managing problem accounts and reducing the non-performing loans of the Bank. It determines and formulates the appropriate settlement plan for each work-out account for its immediate resolution.

Special Assets Management Group

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

2. Competition

In the Philippines, the Bank faces stiff competition in all its principal areas of business, from both Philippine (private and government-owned) and foreign banks, as well as finance companies, mutual funds and investment banks. The competition that the Bank faces from both domestic and foreign banks was in part a result of the liberalization of the banking industry 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 in the Philippines, of which 17 are private domestic banks, 3 are government banks and 16 are branches or subsidiaries of foreign banks. In some instances, some competitor banks have greater financial resources, wider networks and greater market share. Said banks may also offer a wider range of commercial banking services and products, have larger lending limits and stronger balance sheets than the Bank. To maintain its market position in the industry, the Bank offers diverse products and services, invests in technology, leverages on the synergies within the LT Group, Inc. 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 combined 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 offer a wide range of financial services in the Philippines. The percentage contributions of the Bank's offices in Asia, the Canada and USA, United Kingdom and other European Union Countries to the Bank's revenue, for the years 2014, 2013, 2012 are as follows:

	2014	2013	2012
Asia (excluding the Philippines)/ Middle East	4%	3%	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 and during the 1st Quarter of 2015:

- **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 Bureau of Internal Revenue (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 PNB Internet Banking System.

- **Enhanced Internet Banking System**
  The PNB Internet Banking System (IBS) 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 every time the client accesses his account.

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

- **BancNet eGov**

  BancNet eGov is a web-based electronic filing and payment facility for the processing of payments between employers, government agencies and depository banks. This facility provides banks and corporate clients the convenience to pay for their employees' monthly contributions and loans to SSS, Pag-Ibig and Philhealth via Bancnet Online.

- **Mag Padala, Mag Palipad Raffle Promo**

  Under this promotion, over 100 round trip tickets will be given away. Remittance from abroad through any PNB overseas branch or any of PNB's authorized agents excluding PNB Guam authorized agents entitles customers to a raffle entry for a chance to win one (1) free Philippine Airlines round trip ticket to the Philippines and two (2) Philippine Airlines domestic roundtrip tickets. One successful remittance is entitled to one raffle entry. Promotion runs from April 15, 2015 to August 15, 2015.

5. Related Party Transactions

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 those of other individuals and businesses of comparable risk. The amount of direct credit accommodations to each of the Bank's DOSRI, 70% must be secured and 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 net worth or 15% of the Bank's total loan portfolio, whichever is lower. As of December 31, 2014 and December 31, 2013, PNB is in compliance with the BSP 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.

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, *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 December 31, 2014 are 8,585 wherein 3,692 are classified as Bank officers and 4,893 as rank and file employees, broken down as follows:

Officers:	Total
Vice President and up	148
Senior Assistant Vice President to Assistant Manager	3,544
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: PNB Employees Union (PNBEU) 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 unions 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 were 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:

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

Pillar 2 Risks:
- Compliance Risk (includes Regulatory Risk)
- Credit Concentration Risk
- Human Resource Risk
- Information Technology Risk (includes Information Security Risk)
- Interest Rate Risk in Banking Book (IRRBB)
- Liquidity Risk
- Legal Risk
- Customer Franchise/ Reputational Risk
- Strategic Business Risk
- Post-Merger Integration Risk
- 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:

Credit Risk

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 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 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. Credit Policies and Procedures
   All credit risk policies issued by the regulatory bodies (i.e., BSP, SEC, PDIC, Bureau of Internal Revenue (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. Credit Risk Functional Organization
   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. Credit Limit Structure
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. Stringent Credit Evaluation
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 with 99% confidence level and 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 bookings. 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 Threats to Business
- Call Tree Test
- Table Top Test
- Alternate Site Test

6. Information Technology (IT)/Information Security (IS) 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
<u>Specific Risk</u>

Specific Risk from the held for trading (HFT) portfolio is ₱38.8M. 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 ₱159.3M. In terms of weighted position, the Bank's capital charge is highest under the Over 5 years to 7 years bucket at ₱44.7M (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 ₱ 23.4M (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 ₽82.9M. In terms of weighted position, the Bank’s capital charge is concentrated under the Over 5 to 7 years at ₽20.5M (net) and Over 10 to 15 years buckets at ₽24.5M, 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 ₽16.0M representing 23% of the total risk weighted position.

Currency: USD								
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	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 ₱43.6M or Risk weighted equity exposures of ₱435.6M. (as of December 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 ₱47.8M or Risk-Weighted FX exposure of ₱597.1M 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 Japanese yen (JPY), Swiss franc (CHF), Great Britain pound (GBP), European Monetary Union euro (EUR), Canadian dollar (CAD), Australian dollar (AUD), Singapore dollar (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

C. 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:

<u>Domestic Subsidiaries</u>:

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 ABC bought in 1986 to reinforce its presence in the countryside. In January 17, 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 further establish its association with ABC. With the merger of PNB and ABC in 2013, Allied Savings Bank became a wholly-owned subsidiary of PNB. In November 2014, the 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 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, PNB Gen's paid-up capital is ₱912.6 million, one of the highest in the industry. As of December 31, 2014, the total assets and total capital of PNBGen were at ₱8.10 billion and ₱1.1 billion, respectively.

For the period ended December 31, 2014, PNBGen posted a net income of P5.3 million, a complete turnaround 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 to New York Life Insurance Philippines, Inc. (NYLIP), the Philippine subsidiary of US-based New York Life International, LLC. NYLIP commenced operations in the Philippines in August 2001. In February 20013, Allied Banking Corporation (ABC) 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 ABC.

In May 2008, NYLIP changed its corporate name to PNB Life to reflect the change in ownership and in anticipation of the merger of ABC and PNB. This change in branding demonstrates the new owners' 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 Life to the PNB branches nationwide.

In April 2013, the merger of ABC 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 client needs for complete financial solutions.

PNB Life opened Regional Business Centers (RBCs) in San Fernando City, La Union to cover Northern Luzon; San Fernando City, Pampanga to serve Central Luzon; Naga City to serve Southern Luzon; Zamboanga City to serve Northern Mindanao; Iloilo City to serve Western Visayas; Cebu City to serve East Visayas and Davao City to serve 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 Life is a leading provider of variable life products, complemented by its 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 aims to be the dominant provider of financial security to Filipinos worldwide.

PNB Life today is a 100% Filipino owned and managed company with Dr. Lucio Tan as Chairman and Esther Tan as President and Vice-Chairman.

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

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

As of December 31, 2014, PNB Capital had an authorized capital of ₱350.00 million consisting of 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, 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 the company include the Bangko Sentral ng Pilipinas (BSP), Securities and Exchange Commission (SEC) and Bureau of Internal Revenue (BIR), as well as several affiliates, support units and regulatory commissions of such 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 securities 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 of 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 offered services;
- 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 company's 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 ₱1.0 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 ABC in February 2013. It was incorporated on December 29, 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 June 25, 1980. On October 16, 1996, the authorized capital was increased to ₱500 million divided into 5 million shares with ₱100.00 par value per share. As of December 31, 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 May 20, 1920 as Philippine Exchange Co., Inc. The SEC approved the extension of the corporate life of PNB Holdings for another fifty (50) years effective May 20, 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 December 31, 2014, PHC had an authorized capital of ₱500.0 million or 5,000,000 shares at ₱100 par value per share. As of December 31, 2014, the total paid-up capital of PHC was ₱255.1 million and 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 January 18, 1991, is engaged in buying and selling of all kinds of securities for its own account and in behalf of others.

As of December 31, 2014, its 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 December 31, 2014, total assets and total capital were ₱238.3 million and ₱170.8 million, respectively. Net loss for the year ended December 31, 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, PNBSec 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 October 13, 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 ceased its operations in foreign currency trading as of January 1, 2006. It derives 100% of its revenues from interest income earned from the cash/funds held by the corporation. On December 16, 2013, PFI's Board of Directors approved the dissolution of the company. Last March 17, 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 capital of PFI were ₱91.4 million and ₱91.2 million, respectively. For the year ended December 31, 2014, net income was ₱1.1 million.

Bulawan Mining Corporation, a wholly-owned subsidiary of the Bank, was incorporated in the Philippines on March 12, 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 February 6, 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 or 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 ABC in February 2013.

ACB 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 in the province of Sichuan.

The commercial banking license granted to ACB allows it to offer full banking services in foreign currency to resident and non-resident foreign enterprises, 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 bank subsidiary of PNB by virtue of the merger between PNB and ABC in February 2013. ABCHKL, a private limited company incorporated in Hong Kong in 1978, is licensed as a restricted license bank under the Hong Kong Banking Ordinance. ABCHKL was ABC's first majority-owned overseas subsidiary. Due to the merger, PNB 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 Investments 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 December 21, 1979. It changed its name to PNB International Investment Corporation on December 1, 1999.

PNB IIC owns **PNB Remittance Centers, Inc. (PNB RCI)** which was incorporated in California on October 19, 1990. PNB RCI is a company engaged in the business of transmitting money to the Philippines. As of December 31, 2014, PNB RCI had 20 branches in 6 states. PNB RCI owns **PNB RCI Holding Company, Ltd**. which was incorporated in California on August 18, 1999 and **PNB Remittance Company, Nevada (PNB RCN)** which was incorporated in Nevada on June 12, 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 April 26, 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, including local U.S. banks and Philippine bank affiliates doing business in North America, as well as other money transfer companies such as 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 a 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 member states of the European Economic Area (EEA). In 2007, PNBE opened its branch in Paris, France, where it is engaged in remittance services. PNB (Europe) Plc 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 of 2014, PNBE was merged with Allied Bank Phils. (UK) Plc.

PNB Global Remittance & Financial Co. (HK) Limited (PNB Global), a wholly-owned subsidiary of the Bank, is registered with the Registrar of Companies in Hong Kong. On July 1, 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 December 31, 2013, PNB Global maintains six (6) offices in Hong Kong. Its remittance business is regulated by the Customs and Excise Department.

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

DESCRIPTION OF PROPERTY

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.

Please Refer to Exhibit I for the list of Bank-owned properties as of 31 December 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.

Please refer to Exhibit II for the list of the Bank's branches that are under lease as of 31 December 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.

LEGAL PROCEEDINGS

The Bank and some of its subsidiaries or affiliates are parties to various legal proceedings which arose in the ordinary course of 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 affiliates or their financial condition.

MARKET PRICE AND DIVIDENDS ON COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market Information

Except for the shares subject of this Registration Statement, all the issued PNB common shares are listed and traded on the Philippine Stock Exchange, Inc. The high and low sales prices of PNB shares for each quarter for the last two (2) fiscal years and first quarter of 2015 are:

	2013		2014		2015	
	High	Low	High	Low	High	Low
Jan – Mar	107.60	87.40	87.20	75.57	87.50	76.70
Apr – Jun	117.00	75.95	94.95	81.50	79.00	62.00
Jul – 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 July 6, 2015 was ₱65.00.

There have been no adjustments on the par value of the PNB common shares during the foregoing periods.

Holders

There were 30,790 and 30,809 shareholders of common stock as of January 31, 2013 and February 9, 2013, respectively. The top twenty (20) holders of common shares, the number of shares held, and the percentage to total shares outstanding held by each as of January 31, 2013 are as follows:

BEFORE THE MERGER (As of 31 January 2013)			
No.	Stockholders	Number of Common Shares	Percentage
1	PCD Nominee Corporation (Filipino)	101,288,487	15.2946940937
2	PCD Nominee Corporation (Non-Filipino)	70,312,124	10.6172227418
3	Leadway Holdings, Inc.	46,495,880	7.0209387294
4	Pioneer Holdings Equities, Inc.	24,386,295	3.6823624594
5	Multiple Star Holdings, Corporation	21,925,853	3.3108324975
6	Donfar Management Ltd.	21,890,077	3.3054302746
7	Uttermost Success, Ltd.	21,523,715	3.2501091332
8	Mavelstone Int'l Ltd.	21,055,186	3.1793606410
9	Kenrock Holdings Corporation	18,522,961	2.7969913521
10	Fil-Care Holdings, Inc.	18,119,076	2.7360041885
11	Fairlink Holdings Corporation	17,945,960	2.7098634460
12	Purple Crystal Holdings, Inc.	17,374,238	2.6235326757
13	Kentron Holdings & Equities Corporation	17,343,270	2.6188564672
14	Fragile Touch Investment, Ltd.	16,157,859	2.4398578549
15	Pan Asia Securities Corporation	15,622,881	2.3590754767
16	Ivory Holdings, Inc.	14,780,714	2.2319071576
17	Allmark Holdings Corporation	14,754,256	2.2279119650

18	Profound Holdings, Inc.	12,987,043	1.9610604892
19	Fast Return Enterprises, Ltd.	12,926,481	1.9519155479
20	Merit Holdings & Equities Corporation	12,377,119	1.8689611670

Applying the Exchange Ratio, the number of common shareholders increased to 30,809 as of February 9, 2013, the effective date of merger. As of December 31, 2014, there were 30,167 common shareholders. 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:

AFTER THE MERGER (As of 31 December 2014)			
No.	Stockholders	Number of Common Shares	Percentage
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.	True Success Profits Ltd.	67,148,224	5.3755576884
5.	Caravan Holdings Corporation	67,148,224	5.3755576884
6.	Solar Holdings Corporation	67,148,224	5.3755576884
7.	Prima Equities & Investments Corp.	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	1.4875467754

Generally, there was a reduction on the ownership percentage of the stockholders of the Bank as a result of the issuance of the additional PNB common shares after the approval of the increase in the authorized capital of the Bank by the Securities and Exchange Commission on July 28, 2014.

(i) Before the issuance of additional shares, the bank had 3 stockholders owning more than 5% of the bank's capital stock, two of whom were the PCD Nominee Corporation. After the issuance, the stockholders who owned more than 5% of the bank's capital stock increased to six (6).

(ii) The directors own only minimal shares of stock in the bank. The percentage of ownership of Director Lucio Tan, however, has increased from 10 common shares to 12,907,060 (or 1.1882673537%) due to his Allied Bank common shares which were converted to PNB common shares. As of December 31, 2014, his stockholdings of PNB shares was 14,843,119 or 1.1882673540 as a result of his subscription to the stock rights offering of the Bank.

(iii) All directors and officers as a group also own minimal shares of stock in the bank. From 0.0254221273% as of January 31, 2013, the group (including the additional directors and Allied

Bank Senior Officers as a result of the merger of PNB and Allied Bank) owned 1.2096864475% of the total capital stock of the bank as of February 28, 2013. As of December 31, 2014, the Directors and Executive Officers owned 14,961,777 or 1.1977665319%.

(iv) As a result of the issuance of additional shares, the percentage owned by foreign stockholders had increased by almost 5% from 24.77805% in January 31, 2013 to 29.88311% as of February 28, 2013. The public ownership, on the other hand, has decreased from 31.15% in January 31, 2013 to 18.99% in February 28, 2013. As of 31 December 2014, the percentage owned by foreign stockholders stands at 8.47861% while the public ownership stands at 21.03%.

Dividends

The Bank has not declared any cash dividends on its common shares for the fiscal years 2012, 2013 and 2014.

The Bank's ability to pay dividends is contingent on its ability to set aside unrestricted retained earnings for dividend distribution. In addition, any declaration of dividends, including computation of unrestricted 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.

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 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 while the remaining 129,712,914 Rights Shares were sourced from an increase in the authorized capital stock of the Bank, which were approved by the Securities and Exchange Commission on July 18, 2014. All the Rights Shares were listed in the Philippine Stock Exchange February 11, 2014 and July 25, 2014, respectively.

The Offer was oversubscribed and raised gross proceeds of ₱11.6 billion. The Offer strengthens the Bank's capital position under the Basel III standards, which took effect on January 1, 2014.

Computation of Public Ownership

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

Applying the Exchange Ratio, the public ownership level as of December 31, 2014, was at 21.03%, still above the minimum public ownership requirement of the PSE.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Financial Condition

March 31, 2015 vs. December 31, 2014

- The Group's consolidated assets reached ₱620.6 billion as of March 31, 2015, slightly lower by ₱4.8 billion compared to ₱625.4 billion total assets reported by the Bank as of December 31, 2014. Changes (more than 5%) in assets were registered in the following accounts:

  - Interbank Loans Receivable was at ₱8.6 billion as of March 31, 2015, an increase of ₱0.9 billion from ₱7.7 billion as of December 31, 2014 due mainly to interbank borrowings to various banks.

  - Available for Sale Investments went up to ₱67.3 billion as of March 31, 2015, ₱4.2 billion or 6.7% higher than the ₱63.1 billion level as of December 31, 2014 due to acquisition of various securities.

  - Financial Assets at Fair Value Through Profit or Loss at ₱16.3 billion went down by 6.3% or ₱1.1 billion from ₱17.4 billion attributed mainly to sale of various investment securities.

  - Loans and Receivables stood at ₱310.9 billion or ₱5.4 billion lower than the ₱316.3 billion December 2014 level mainly due to ₱3.3 billion HDMF bonds booked under Time Loan – Unquoted which matured in February.

  - Cash and Other Cash Items decreased by ₱3.5 billion from ₱14.6 billion to ₱11.1 billion. Due from Other Banks went down by ₱3.1 billion from ₱15.6 billion to ₱12.5 billion.

  - Other assets were higher by ₱0.2 billion from ₱5.2 billion to ₱5.4 billion.

- Consolidated liabilities decreased by ₱6.7 billion from ₱526.4 billion as of December 31, 2014 to ₱519.7 billion as of March 31, 2015. Major changes in liability accounts were as follows:

  - Deposit liabilities totalled ₱441.0 billion, ₱6.6 billion lower compared to its year-end 2014 level of ₱447.6 billion. Time deposits increased by ₱0.8 billion from ₱52.9 billion to ₱53.7 billion, while demand and savings deposits are lower by ₱3.0 billion and ₱4.4 billion, respectively, compared to the December 2014 levels.

  - Bills Payable showed slight increase at ₱19.4 billion compared to the ₱19.1 billion level in December

  - Income Tax Payable increased by ₱229 million from ₱85 million to ₱314 million coming from income tax provisions in the current year.

- Total equity accounts now stood at ₱100.9 billion from ₱99.1 billion as of December 31, 2014, or an improvement of ₱1.8 billion mainly attributed to the first quarter income of ₱1.2 billion and from the ₱0.6 billion decline in net unrealized loss on AFS adjustments.

2014 vs. 2013

- The Bank'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 due to purchases of various investment securities and increase in segregated fund assets.

  - Interbank Loans Receivables 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 decrease 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 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 Banking Corporation (ABC) merger, the Bank'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 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 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 Bank.

  - Interbank Loans Receivable is 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 with 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 (FVPL) 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 at ₱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 ₱2.4 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 ₱5.0 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 Bank 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 Bank.

- 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 Bank increased by ₱242.2 billion, from ₱291.7 billion as of December 31, 2012 to ₱533.9 billion as of December 31, 2013. Major changes in liability accounts were as follows:

- Deposit Liabilities, representing 87% of total liabilities of the Bank stood at ₱462.4 billion, growing 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 ₱7.3 billion segregated fund liabilities from ABC subsidiary, PNB Life, partly offset by the redemption of the ₱6.0 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 Bank's documented risk management and investment strategy.

- Accrued Expenses Payable and Other Liabilities also increased from ₱3.9 billion and ₱17.3 billion to ₱5.5 billion and ₱34.8 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 stood at ₱82.3 billion as of December 31, 2013, an increase 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.

2012 vs. 2011

- The Bank'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 increased 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 deposits 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 General Insurers Co., Inc., 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 accounted for mainly 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.

Results of Operations

March 31, 2015 vs. March 31, 2014

• Consolidated net income reached ₱1.2 billion for the first three months of 2015, slightly lower compared to the ₱1.3 billion net income reported for the same period last year.

• Net interest income totalled ₱4.3 billion, or slightly lower by ₱0.2 billion compared to the net interest income for the same period last year as a result of non-recurring interest income from the redemption of non-performing assets in the first quarter of 2014.

• Fee-based and other income increased by ₱0.1 billion to ₱1.1 billion from ₱1.0 billion for the same period last year. The increase mainly came from net gains on sale or exchange of assets.

• Net service fees and commission income was unchanged at ₱0.6 billion while net insurance premiums doubled to ₱0.2 billion for the three months ended March 31, 2015.

• Administrative and other operating expenses totalled ₱4.5 billion for the three months ended March 31, 2015, ₱0.1 billion higher compared to the same period last year. Increases were registered in Compensation and Fringe Benefits by ₱0.5 billion. Taxes and Licenses also increased by ₱0.1 billion. These were however, partly offset by decreases in Provision for impairment and credit losses by ₱0.1 billion, miscellaneous expenses by ₱0.3 billion and depreciation and amortization by ₱0.1 billion.

• Total Comprehensive Income for the three months period ended December 31, 2014 amounted to ₱1.9 billion, ₱0.3 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 ₱1.2 billion and net unrealized gain on available-for-sale securities by ₱0.6 billion.

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 versus ₱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 ₱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. 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 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 of PNB 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.

- 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 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 ₱0.5 billion, Depreciation and Amortization by ₱0.8 billion and Other Miscellaneous Expenses by ₱1.9 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. The 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 P0.2 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 maintained at ₱0.9 billion and ₱0.8 billion for the years ended December 31, 2012 and 2011, respectively**.**

<u>Key Performance Indicators</u>

- Capital Adequacy

  The Group's consolidated risk-based capital adequacy ratio (CAR) and Tier 1 ratio computed based on BSP guidelines were 21.32 % and 18.09% respectively, as of March 31, 2015 and 20.61% and 17.43% respectively, as of December 31, 2014, consistently exceeding the regulatory 10% CAR.

- Asset Quality

  The Group's non-performing loans (gross of allowance) decreased to ₱9.3 billion as of March 31, 2015 compared to ₱9.9 billion as of December 31, 2014. NPL ratios based on BSP guidelines are now 0.64% (net of valuation reserves) and 3.24% (at gross), from 0.92% and 3.42%, respectively in December 2014.

- Profitability

	Three Months Ended	
	3/31/2015	3/31/2014
Return on equity (ROE) [1/]	**5.0%**	**6.3%**
Return on assets(ROA) [2/]	**0.8%**	**0.9%**
Net interest margin(NIM)[3/]	**3.2%**	**3.5%**

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

- Liquidity

  The ratio of liquid assets to total assets as of March 31, 2015 was 34.4% compared to 34.1% as of December 31, 2014. Ratio of current assets to current liabilities was at 46.4% as of March 31, 2015 compared to 45.3% as of December 31, 2014.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 70.6% for the three months ended March 31, 2015 compared to

66.8% for the same period last year.

- Other financial soundness indicators is shown in Annex A

- Capital Adequacy/Capital Management

  The Bank'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 Banks compliance with regulatory requirements and ratios is based on the amount of the Bank'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 Bank'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 Bank'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 Bank's non-performing loans (NPL) (gross of allowance) decreased to ₱9.9 billion as of December 31, 2014 compared to ₱10.7 billion as of December 31, 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 for the period indicated.*

  ROE for the period ending December 31, 2014 is at 6.1% or 31.4% lower compared to the 8.8% ratio 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 December 31, 2014 was 35.8% compared to 45.5% as of December 31, 2013. Ratio of current assets to current liabilities was at 64.9% as of December 31, 2014 compared to 67.0% as of December 31, 2013.The Bank 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 obligations

In the normal course of business, the Bank 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 Bank'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 Bank and its legal counsel believe that any losses arising from these contingencies which are not specifically provided for will not have a material adverse effect on the financial statements.

Material off-balance sheet transactions, arrangements or obligations

The summary of various commitments and contingent accounts as of March 31, 2015 and December 31, 2014 at their equivalent peso contractual amounts is presented in Note 18 of the Selected Notes to Consolidated Financial Statements of the SEC 17-Q Report.

The following is a summary of various commitments and contingent liabilities of the Bank as of December 31, 2014 and December 31, 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 commitment	**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 the consolidated net income of the Bank for the three months ended March 31, 2015 and 2014 came from its continuing operations.

Significant elements of the consolidated net income of the Bank for the years ended 31 December 2014 and 2013 came from its continuing operations.

Issuances, Repurchased and Prepayment of Debts and Equity Securities

Long-term Negotiable Certificates of Time Deposits

Time deposit includes the following Long-term Negotiable Certificates of Time Deposits (LTNCDs) issued by the Bank:

Issue Date	Maturity Date	Face Value	Coupon Rate	Interest Repayment Terms	Carrying Value 2014	Carrying Value 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 Bank 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 Bank 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 Bank 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.

Seasonal Aspects

There are no seasonal aspects that have material effect on the Bank's financial condition or results of operations.

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 Bank:

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.

<u>CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE</u>

The Bank and its subsidiaries have had no disagreement with the Bank’s 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 of 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 of the Bank for the year 2014.

<u>EXTERNAL AUDIT FEES</u>

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.:

<u>2014</u>

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.

<u>2013</u>

Audit

- ₱5.992 million engagement fee for the audit of the Bank’s Financial Statement 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.

Tax Fees

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.

MANAGEMENT AND CERTAIN SECURITY HOLDERS

PROFILE OF DIRECTORS TOGETHER WITH THEIR BUSINESS EXPERIENCE COVERING AT LEAST THE PAST FIVE (5) YEARS

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 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 PNB-IBJL Leasing and Finance Corporation (formerly Japan-PNB 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.

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 PNB-IBJL Leasing and Finance Corporation and PNB-IBJL Equipment Rentals Corporation (formerly Japan-PNB Equipment Rentals Corporation). 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".

CHRISTOPHER J. NELSON, 55, British, was elected as Director of the Bank on May 26, 2015. He was previously 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 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.

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.

MAILA KATRINA Y. ILARDE, 32, Filipino, was appointed as Corporate Secretary of the Bank on June 26, 2015. She obtained her degree in Bachelor of Science in Legal Management in 2003 from De La Salle University and earned her Juris Doctor in 2007 from the Ateneo de Manila University School of Law. Prior to her appointment as Corporate Secretary, she was a Senior Associate in Roxas de los Reyes Laurel Rosario & Leagogo Law Offices and the Assistant Corporate Secretary of Ionics, Inc., a publicly-listed company.

BOARD OF ADVISORS:

JOSEPH T. CHUA, 58, was appointed as Board Advisor of the Bank on May 26, 2015. He was previously 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.

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 Master 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, President of Jas Lordan, Inc. He also worked with Equitable Banking Corporation for 28 years, rising from the ranks to become Vice President of the Foreign Department.

PROFILE OF SENIOR OFFICERS TOGETHER WITH THEIR BUSINESS EXPERIENCE COVERING AT LEAST THE PAST FIVE (5) YEARS:

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 and 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 was President of ABC from 2001 up to 2009. Previous to that, he was connected with other commercial banks and practiced law.

CENON C. AUDENCIAL, JR., 56, Filipino, Executive Vice President, is 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 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 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 (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, 62, Filipino, Executive Vice President, is 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 the Bank, 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 Head of the Bank's Commercial Banking Group. She was previously the First Senior Vice President and Head of 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 a 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 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 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 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.

MIGUEL ANGEL G. GONZALEZ, 56, Filipino, First Senior Vice President, is the Chief Credit Officer and Head of the Credit Management Group. He joined 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 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 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 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 PNB-IBJL Leasing and Finance Corporation and its subsidiary, PNB-IBJL 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 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 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 Com7merce, 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 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 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 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 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, Senior 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, First Vice President, is 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 Head of the Information Technology Group. He was hired by 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.

Significant Employees

While all employees of the Bank are valued for their contribution to the business, no person who is not an executive officer is expected to make a significant contribution to the business.

Family Relationships

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.

Involvement in Certain Legal 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 with 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 out of 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 Securities and Exchange 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.

Executive Compensation

(1) General

Annual compensation of executive officers consists of a 16-month guaranteed cash emolument. Directors, on the other hand, are entitled to a reasonable per diem for each Board or board committee meeting attended. The total per diem given to the Board of Directors of the Bank for the years 2013 and 2014 amounted to ₱17.815 million and ₱44.325 million, respectively, due to the expanded roles and responsibilities as a result of the merger.

Other than the above-stated, there are no other arrangements concerning compensation for services rendered by Directors or executive officers to the Bank and its subsidiaries.

(2) Summary 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*

(3) 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.

(4) 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.

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 June 30, 2015)

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. - Makati City - 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 Corp. - Quezon City – 25,214,730 shares Shareholder		Filipino		
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. - Makati City - 67,148,224 shares Shareholder		Filipino		
Uttermost Success, Ltd. - Makati City - 24,752,272 shares Shareholder		Filipino		

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.[1] 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 Equities, 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		

[1] *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.

Jewel Holdings, Inc. - Marikina City - 11,512,247 Shareholder		Filipino		
Kentron Holdings and Equities Corp. - Pasig City - 19,944,760 shares Shareholder		Filipino		
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 June 30, 2015*)

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	10,215 shares ₱408,600.00 (R)	Filipino	0.0008177628
Florido P. Casuela Director	133 shares ₱5,3200.00 (R)	Filipino	0.0000106473
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
Christopher J. Nelson Director	100 shares P4,000.00 (R)	British	0.0000080055
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	14,901,905shares ₱596,076,200.00 (R)		1.1929734731
All Directors & Executive Officers as a Group	14,960,669 shares ₱598,426,760.00 (R)		1.1976778309

(3) Voting Trust Holders of 5% or More

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

(4) Changes in Control

There has been no change in control of the Bank for the fiscal year 2014.

(d) Certain Relationships and Related Transactions.

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 Parent Company's equity or 15.00% of the Bank's total loan portfolio, whichever is lower. As of March 31, 2015 and December 31, 2014, the Bank was in compliance with such regulations.

The information relating to the DOSRI loans of the Group follows:

	March 31, 2015 (Unaudited)	December 31, 2014 (Audited)
Total Outstanding DOSRI Accounts*	**₱12,645,339**	₱12,749,637
Percent of DOSRI accounts granted prior to effectivity of BSP Circular No. 423 to total loans	**4.14%**	4.20%
Percent of DOSRI accounts granted after effectivity of BSP Circular No. 423 to total loans	**4.14%**	4.20%
Percent of DOSRI accounts to total loans	**4.14%**	4.20%
Percent of unsecured DOSRI accounts to total DOSRI accounts	**0.02%**	0.01%
Percent of past due DOSRI accounts to total DOSRI accounts	**0.00%**	0.00%
Percent of non-accruing DOSRI accounts to total DOSRI accounts	**0.00%**	0.00%

**Includes outstanding unused credit accommodations of ₱192.5 million as of March 31, 2015 and ₱198.7 million as of December 31, 2014.*

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.

Details on significant related party transactions of the Group 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 of LTG.

	March 31, 2015		
Category	**Amount/ Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
LTG			
Deposit liabilities		**₱ 1,084,202**	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	**₱ 12,121**		Interest expense on deposit liabilities

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
	March 31, 2015		
Subsidiaries:			
Receivables from customers		**₱ 1,760,000**	Revolving credit line with interest rates ranging from 3.10% to 3.35% and maturity terms of less than 90 days; Term loans maturing in 2017 with 3.85% nominal rate; Unsecured
Interbank loans receivable		**180,198**	Money Market Line
Due from other banks		**732,353**	With annual rates ranging from 0.01% to 4.55% including time deposits with maturity terms of up to 90 days
Accounts receivable		**61,198**	Advances to finance deficit in pension liability, remittance cover and additional working capital; Non-interest bearing, unsecured, payable on demand
Accrued interest receivable		**4,301**	Interest accrual on receivables from customers
Deposit liabilities		**4,810,896**	With annual rates ranging from 0.02% to 3.00% and maturity terms ranging from 30 days to 1 year
Bills payable		**4,010,018**	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		**153,861**	Clearing accounts funding and settlement of remittances
Accrued interest payable		**41,441**	Accrued interest on deposit liabilities and bills payable
Other liabilities		**56**	Mortgage Redemption Insurance
Interest income	**₱ 13,693**		Interest income on receivables from customers
Interest expense	**18,481**		Interest expense on deposit liabilities and bills payable
Rental income	**9,322**		Rental income from 3-year lease agreement, with escalation rate of 10.00% per annum
Securities transactions:			
Purchases	**673,769**		Outright purchase of securities
Sales	**50,406**		Outright sale of securities
Trading gains	**4,136**		Gain from sale of investment securities
Loan releases	**1,000,000**		Loan drawdowns
Loan collections	**815,000**		Settlement of loans and interest
Net deposits	**889,441**		Net deposits during the period
Affiliates			
Receivables from customers		**11,976,462**	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
Due from other banks		**5,551,989**	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		**15,292**	Interest accrual on receivables from customers
Operating lease		**203**	Advance rental deposits received for 2 years and 3 months
Deposit liabilities		**5,354,038**	With annual rates ranging from 0.02% to 1.73% and maturity terms ranging from 30 days to 1 year
Other liabilities		**745**	Charitable donations and liabilities for lease payments
Interest income	**27,920**		Interest income on receivables from customers and due from other banks, including income earned from partial redemption of VMC convertible notes
Interest expense	**4,408**		Interest expense on deposit liabilities
Rental income	**4,424**		Monthly rental income

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
			March 31, 2015
Rental expense	**₱ 7,388**		Monthly rental payments with terms ranging from 24 to 240 months
Fees and commission expense	**26,015**		Expense on professional fees on service agreement
Other income	**106,576**		Premiums collected
Other expense	**4,663**		Claims expense, service and referral fees
Securities transactions:			
Purchases	**39,035**		Purchase of Investment Securities
Loan releases	**342,738**		Loan drawdowns
Loan collections	**659,219**		Settlement of loans and interest
Net withdrawals	**735,772**		Net withdrawals during the period
Key Management Personnel			
Loans to officers		**₱ 15,513**	Housing loans to senior officers; Secured and unimpaired
Loan releases	**170**		Loan drawdowns
Loan collections	**730**		Settlement of loans and interest
Officers			
Receivable from customers		**269,763**	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	**16,204**		Net loan collections for the period

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
			March 31, 2015
Receivable from customers		**₱ 268,585**	Loans and advances of PNB GRF to PAL
Interest income	**₱23**		Interest earned by PNB GRF from the time deposits placed with PNB Hong Kong Branch.

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
			December 31, 2014
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
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

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
			December 31, 2014
			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

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
	December 31, 2014		
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

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
	December 31, 2014		
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.

The related party transactions shall be settled in cash. There are no provisions for credit losses for the three-months ended March 31, 2015 and December 31, 2014 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 Bank under a voting trust agreement. There are no other transactions with OHBVI during the year.

The compensation of the key management personnel follows:

	Three Months Ended (In Thousand Pesos)	
	March 31, 2015 (Unaudited)	March 31, 2014 (Unaudited)

Short-term employee benefits	**₱125,198**	₱84,916
Post-employment benefits	**11,961**	**11,845**
	₱137,159	**₱96,761**

Members of the BOD are entitled to a per diem of ₱50,000 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.

The Bank and Eton Properties Philippines, Inc. (EPPI) signed two Joint Venture Agreements (JVA) for the development of two properties under 'Real estate under joint venture (JV) agreement' by the Bank with a total book value of ₱1.2 billion (presented under 'Investment properties' in the statements of financial position). These two projects are among the Bank's strategies in reducing its non-performing assets.

The Bank contributed the aforementioned properties into the JV as approved by BSP. EPPI, on the other hand, contributed its resources and technical expertise for the completion of the said JV. The Bank 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 Bank and EPPI in accordance with the terms of the JVA. This JVA does not fall as joint venture arrangement under PFRS 11.

Transactions with Retirement Plans

Management of the retirement funds of the Group and the Bank is handled by the PNB Trust Banking Group (TBG). The fair values and carrying values of the funds of the Parent Company amounted to ₱3.8 billion and ₱3.6 billion as of March 31, 2015 and December 31, 2014, respectively.

Relevant information on assets/liabilities and income/expense of the retirement plan assets as of and for the three months ended March 31, 2015 and for the year ended December 31, 2014 follows:

	Consolidated (in millions)	
	March 31, 2015	**December 31, 2014**
Investment securities:		
Held for trading	**₱720,933**	**₱738,969**
Available-for-sale	**1,569,353**	**1,511,403**
Held-to-maturity	**–**	**–**
Deposits with other banks	**358,314**	**37,929**
Due from BSP	**1,115,570**	**1,283,981**
Deposits with PNB	**–**	**35**
Loans and other receivables	**10,206**	**12,653**
Total Fund Assets	**₱ 3,774,376**	**₱3,584,969**
Due to BIR	**91**	**119**
Accrued expense	**1,617**	**1,119**
Total Fund Liabilities	**1,708**	**1,238**

	March 31, 2015 (Unaudited) (Three Months)	**March 31, 2014 (Unaudited) (Three Months)**
Interest income	**₱24,029**	₱16,640
Trading gains	**–**	**–**

Dividend income	**360**	70
Unrealized loss on HFT	**(22,022)**	(17,900)
Other Income	**2,188**	**620**
Fund Income	**₱ 4,554**	₱990
Trust fees	**₱ 1,206**	₱660
Other expenses	**822**	240
Fund Expense	**₱2,028**	₱910

As of March 31, 2015 and December 31, 2014, the retirement fund of the Group and the Bank 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 Bank's employee investment plans.

Other fund managed by TBG

The TBG manages the sinking fund established by PSC to secure its borrowings with the Bank. 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 ₱1.2 million and ₱0.7 million for three months ended March 31, 2015 and 2014, respectively.

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% must be secured and 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 15.00% 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.

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 two (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.

Information related to transactions with related parties and with certain directors, officers, stockholders and related interests (DOSRI) is shown under Note 34 of the Audited Financial Statements of the Bank and Subsidiaries and Exhibit IV of the Supplementary Schedules Required by SRC Rule 68 Annex E.

Related Party Transactions

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 15.00% 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.

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%
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 Bank follow (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.

	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
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

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
	2014		
Subsidiaries			
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
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
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
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

	2014		
Category	**Amount/ Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
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
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

	2013		
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
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

	2013		
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
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 Bank and PNB GRF entered into an agreement where the Bank 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 Bank.

In June 2013, the Bank and PNB GRF agreed to amend the settlement procedure on defaulted *Pangarap* Loans. Under the new settlement procedure, the Bank, 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 Bank'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 Bank 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.

<u>Outsourcing Agreement between the Parent Company and PNB SB</u>

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 Bank, 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 Bank 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 Bank 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 Bank. In April 2014, the Bank sold the remaining convertible notes to LTG at ₱3.50 for every ₱ 1.0 convertible note. The Bank 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 Bank 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 Bank. 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
rt-term employee benefits (Not 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 Bank 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 Bank's strategies in reducing its non-performing assets.

The Bank 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 Bank 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 Bank 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 Bank is handled by the PNB Trust Banking Group (TBG). The fair values and carrying values of the funds of the Bank 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 Bank 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 Bank's employee investment plans.

Other fund managed by TBG
The TBG manages the sinking fund established by PSC to secure its borrowings with the Bank. 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.

CORPORATE GOVERNANCE

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 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 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 operations are managed through an established organizational structure with adequate policies and procedures embodied in its manuals approved by management, board committees and the Board itself. These manuals are subjected to periodic review and updated accordingly to be consistent with the new laws and regulations and generally conform with international standards and best practices. The Bank has adopted the Revised Corporate Governance Manual aligned with recently issued regulatory guidelines and new reportorial disclosures for entities within the group structure and significant transactions among related parties with particular focus on the Related Party Transaction (RPT) Policy.

The Bank was a recipient of the Silver Award for good corporate governance from the Institute of Corporate Directors (ICD) for two consecutive years (2011-2012), in recognition of the institution's existing organization composed of dedicated corporate directors and senior management committed to the professional practice of corporate directorship in line with global principles of modern corporate governance.

Board of Directors

PNB is led by its Board of Directors composed of fifteen members, including five (5) independent directors which include the Chairman. They are elected annually by the stockholders and primarily responsible for approving and overseeing the implementation of the Bank's strategic objectives, risk management strategy, corporate governance and corporate values.

The Board represents a combination of highly qualified business professionals, former bank presidents, and former senior officials affiliated with regulatory bodies and international organizations such as the IMF and the World Bank; individuals with distinct finance, audit and legal competencies. They collectively hold a broad range of expertise and related banking experience that provide value to the strengthening and upholding of good corporate governance practices in the Bank.

The Board of Directors and the key officers of the Bank and its subsidiaries undergo continuing training in corporate governance. The most recent seminar was conducted by the ICD in November 2014. There are two Directors inducted "fellow" by the Philippine Institute of Corporate Directors and one Director certified as a "fellow" by the Institute of Corporate Directors of Australia in recognition of their distinguished reputation and commitment to the highest standards of corporate governance principles, ethics and social responsibility.

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, Deogracias N. Vistan, Cecilio K. Pedro and Federico C. Pascual was approved and confirmed by the appropriate regulatory bodies.

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

Chairman of the Board

The Chairman of the Board is Florencia G. Tarriela who has been serving in this role since 2005. Ms. Florencia G. Tarriela has an extensive background and experience in the banking industry and is an active member of numerous banking and non-profit institutions. Currently, she is a Life Sustaining Member of BAIPHIL, and a Trustee of Finex and TSPI Development Corporation. Her prior positions include Undersecretary of Finance; alternate board member of the Monetary Board of Bangko Sentral ng Pilipinas, Land Bank of the Philippines and Philippine Deposit Insurance Corporation; and Deputy Country Head, Managing Partner and the first Filipina Vice President of Citibank N.A., Philippines. As an Independent Director, Ms. Tarriela sits as member of six (6) board committees.

The Chairman of the Board and the President and Chief Executive Officer are complimentary. This relationship provides appropriate balance of power, increased accountability, independent decision-making by the Board and the management responsibility to execute strategic plans of the Bank.

Board Committees

The ten (10) board committees have been instrumental in setting the tone for the corporate governance practices of the Bank, its subsidiaries and affiliates. They are the Board Credit and Policy Committee, Board Credit Committee, Board Audit and Compliance Committee, Risk Oversight Committee, Board ICAAP Steering Committee, Trust Committee, Corporate Governance/Nomination/Remuneration Committee, Board Oversight Committee – Domestic and Foreign Offices/Subsidiaries, Board IT Governance Committee and Board Oversight RPT Committee.

The frequency of the board committee meetings is stated in their respective charters. Except for the Board Credit Committee (Board CreditCom) and Board Credit and Policy Committee (Board CPC) which meet weekly, meetings are generally held on a monthly basis and special board committee meetings are called as often as necessary. The board committee secretariats are responsible for ensuring that the regular agenda of the meetings are communicated prior to meetings and that the attendance of members and resource persons and the discussions are properly recorded and endorsed to the Board for approval.

In 2014, the board committees focused more on the strengthening and enhancement of the following:

The adopted BSP guidelines in assessing the quality of the framework of the Corporate Governance such as Governance Landscape, Risk Governance, Fitness and Propriety of Board and Management, and Controls and Independent Oversight.

- The Board Overseas Offices Oversight Committee which was expanded to include and cover domestic subsidiaries and renamed as "Board Oversight Committee – Domestic and Foreign Offices/Subsidiaries" (BOC) to provide oversight function to both domestic and foreign offices/subsidiaries to ensure their profitable operations and long-term viability consistent with the Bank's strategic goals.
- The Bank's Corebanking System Project for which PNB hired a seasoned banker as Project Director with extensive banking experience in bank operations and technology with foreign banks and management of migration systems with other local banks. The Corebanking Project Director has instituted enhancements to the Project Plan to ensure seamless execution per the project timeline in the areas of expanding the Project Table of Organization. A series of focused discussions on project timeliness and priorities are ongoing for full production live date of the new Corebanking System by February 2017.
- Strengthened and embedded RPT policies and procedures in the Operations Manuals of the respective business units of the Bank for guidance, ensuring transparency to eliminate potential conflicts of interest of management, the Board and shareholders.

Board Oversight RPT Committee (BORC)

The Board Oversight RPT Committee (BORC) was created in 2013 to assist the Board in performing its oversight functions in monitoring and managing potential conflicts of interest of management, board members and shareholders. The BORC's authority is to oversee the evaluation of related party transactions (RPT) that present the risk of potential abuse, ensure that processes and approvals are conducted at arm's length basis, exercise sound and objective judgment for the best interest of the bank, and review/endorse RPT to the Board for approval.

The BORC is composed of five (5) members of which three (3) are independent directors, including the Chairman and two (2) non-voting members (the Chief Audit Executive Officer and the Chief Compliance Officer).

The RPT policy has been formulated and adopted in accordance with the provisions of the SEC Code of Corporate Governance and BSP Circular No. 749, as amended, including the Code of Conduct and Business Ethics from which the Bank consistently adopts the policies and procedures of the following:

- Code of Conduct – It prescribes the moral code for the Bank employees which instills discipline among them and yield higher productivity at the workplace, and enhances and safeguards the corporate image of the Bank. Its overall intent is more of prevention of infractions rather than the administration of disciplinary measures. It also defines and provides the standards of conduct expected of all employees and enumerates the actions or omissions prejudicial to the interest of the Bank.

- Whistleblower Policy – This policy encourages the Bank employees to report internally any suspected or actual commission of theft/fraud, violation of ethical standard, law, rule or regulation and/or any misconduct by its directors, officers or staff in accordance with the Whistleblower Policy. It protects the employee/whistleblower against retaliation, discrimination, harassment or adverse personnel action, for reporting in good faith a suspected or actual violation.

- Policy on Soliciting and/or Receiving Gifts - All employees are expected to observe discretion and prudence in receiving gifts or donations whether in cash or in kind and other form of hospitality. Soliciting gifts/donations/sponsorship from clients, suppliers, and other business-related parties is strictly prohibited. However, employees may be allowed to receive gifts/donations/sponsorship/ financial assistance from clients, suppliers, and other business-related parties, provided that gifts/donations/sponsorships worth ₱2,000.00 and above must be reported to the Human Resource Group (HRG), declaring the value, the giver and action taken, e.g., kept for personal use or donated to charity.

On the other hand, gifts with estimated value of more than ₱5,000.00 shall be reported and turned over to HRG for donation to any legitimate charitable institution preferred by the concerned employee.

- Personal Investment Policy – Sets forth prudent standards of behavior for all employees when conducting their personal investment transactions. It provides minimum standards and specifies investment practices which are either prohibited or subject to special constraints. The employees may make investments for their personal accounts as long as these transactions are consistent with laws and regulations, and the personal investment policy of the Bank. These investments should not appear to involve a conflict of interest with the activities of the Bank or its customers. Employee investment decisions must be based solely on publicly available information, and should be oriented toward long-term investment rather than short-term speculation. As a general policy, all employees are prohibited from purchasing or selling any PNB securities if they possess material non-public information about PNB that, if known by the public, might influence the price of PNB securities. Employees may not purchase or sell PNB options or execute a short sale of PNB securities unless the transaction is effected as a bona-fide hedge.

The Corporate Governance and RPT frameworks are integral in the Bank's Compliance Awareness Training Program conducted regularly by the Global Compliance Group to sustain awareness of all bank personnel on good corporate governance and RPT compliance.

Operations Management

The responsibility of managing the day-to-day operations of the Bank and implementing the major business plans rests with the President and Chief Executive Officer. Critical issues, policies and guidelines are deliberated in the pertinent management committees: Senior Management Committee, Operations Committee, Asset and Liability Committee, Senior Management Credit Committee, IT Evaluation Committee, Acquired Assets Disposal Committee, Non-Performing Assets Committee, Promotions Committee, Product Committee, Bids and Awards Committee, Senior Management ICAAP Steering Committee, AML Review Committee , Administrative Investigation Committee, Branch Site Selection Committee, Selection Committee for Expatriate Personnel, Accreditation of Overseas Remittance Agent, and Committee on Decorum and Investigation. Committee meetings are conducted in a manner that ensures open communication, meaningful participation and timely resolution of issues.

The business plans, significant issues and their resolutions are escalated to the level of the Board as part of a strong culture of accountability and transparency embedded in the entire organization. Most of the management committees have the President as the Chairman, with the members composed of senior management of the Bank and key officers of the various business segments, including the Risk Management Group, Office of the Chief Legal Counsel, Internal Audit Group and Global Compliance Group. The composition and appointment of senior officers in the different management committees are assessed periodically and reorganized as necessary, in line with the business priorities.

Compliance System

The Bank actively promotes the safety and soundness of its operations through a compliance system that fully adheres to banking laws, rules and regulations and to maintain an environment that is governed by high standards and best practices of good corporate governance. This is achieved primarily through the formulation of policies and procedures, an organizational structure and an effective compliance program that will support the Bank's compliance system.

The Chief Compliance Officer (CCO) and Head of the Global Compliance Group reports directly to the Board Audit and Compliance Committee. The CCO has direct responsibility for the effective implementation and management of the enterprise compliance system covering the Bank, its subsidiaries and affiliates. The CCO is also primarily responsible for promoting compliance with the laws and regulations of the different jurisdictions, corporate policies and procedures and international standards and best practices. The Board of Directors appointed the Chief Compliance Officer as the Corporate Governance Executive tasked to assist the Board and the Corporate Governance/Nomination/ Remuneration Committee in the discharge of their corporate governance oversight functions.

Global Compliance Group continues to evolve the Bank's compliance system with a complement of five (5) major divisions, namely, Global AML Compliance Division, Regulatory Compliance Division, Business Vehicle Management Compliance Division, Compliance Testing Review Division and Corporate Governance Monitoring Division that provides support to the Corporate Governance/Nomination/ Remuneration Committee and the Board Oversight Related Party Transaction Committee.

The Bank's existing Compliance Program defines the seven (7) key elements of an effective compliance framework, with proactive Board and executive level oversight, effective compliance organizational structure, standardized policies and procedures across all businesses, periodic monitoring and assessment, robust MIS and compliance reporting, comprehensive compliance and AML awareness training and independent compliance testing reviews. The Compliance Program incorporates these new policies, laws and regulations and enhancements to the corporate standards of which PNB and its local and foreign subsidiaries and affiliates are required to be fully aware. The Compliance Program has been implemented consistently in the Bank.

The Bank's AML/CFT Policy Guidelines and Money Laundering and Terrorist Financing Prevention Manuals with FATCA compliance guidelines are two major manuals approved by the Board. The Bank is fully committed to adhering to existing and new AML/CFT and FATCA laws, rules, regulations, and implementing guidelines issued by both Philippine and foreign regulators.

The Bank has updated its policies and procedures embracing the compliance framework, the corporate governance guidelines and the AML Risk Rating System issued by the BSP and foreign regulators on AML/CFT as well as FATCA laws and regulations.

With the creation of the BORC, the Bank is committed to align with the principles of ASEAN Corporate Governance Scorecard (ACGS) and Basel III guidelines in terms of good corporate governance in dealing fairly with its clients, investors and shareholders, with the philosophy of integrity, accountability and transparency.

With a comprehensive compliance system effectively implemented enterprise-wide, there has been no material deviation noted by the Chief Compliance Officer.

FINANCIAL STATEMENTS

The Audited Financial Statements of the Bank for the Years ended 31 December 2012, 2013 and 2014 and SEC-17Q Report (Interim Financial Statements) for the 1st Quarter of 2015 are included as exhibits.

EXPENSES OF ISSUANCE AND DISTRIBUTION

All expenses relative to the issuance and listing of the Shares shall be for the account of PNB, estimated as follows:

Nature	:	Amount
SEC Registration Fees		P 8,061,662.18
Documentary Stamp Taxes		84,792,500.00
Cost of Printing		50,000.00
Listing Fees		33,248,660.00

There are no premiums to be paid by PNB on any policy to insure or indemnify director or officers against any liabilities they may incur in the registration, offering or sale of these securities.

SIGNATURES

Pursuant to the requirements of the Code, this registration statement is signed on behalf of the registrant by the undersigned, thereunto duly authorized, in the City of Pasay on 31 JUL 2015

By:

REYNALDO A. MACLANG
President

MAILA KATRINA Y. ILARDE
Corporate Secretary

NELSON C. REYES
Chief Financial Officer

SUBSCRIBED AND SWORN to before me this 31 JUL 2015 affiants exhibiting to me their Competent Evidences of Identity, as follows:

Names	Competent Evidence of Identity/Date/Place of Issue
REYNALDO A. MACLANG	Phil. Passport No. EC0299319/Feb. 14, 2014/ DFA, Manila
NELSON C. REYES	Phil. Passport No. EC3050873/Dec. 20, 2014/DFA, NCR South
MAILA KATRINA Y. ILARDE	Phil. Passport No. EB8739835/July 22, 2013 /DFA, Manila

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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

EXHIBITS

No.	Exhibit Description
1	Publication of Notice/Affidavit of Publication
2	Plan and Articles of Merger as approved by the SEC
3	Amended Articles of Incorporation and By-laws
4	Notarized Curriculum Vitae and Recent Photographs of Officers and Directors
5	Authorization to the Commission to access Registrant's Bank Account
6	Secretary's Certificate of Board Resolution approving: a. Officers to sign the Registration Statement b. Access to bank accounts c. Adoption of undertaking to allow SEC to resolve conflicting issue regarding independent directors d. Signatories to sign the Registration Statement e. Appointment of authorized representative to present a summary of the offering to the SEC f. The securities offering and authorizing the Filing of the RS g. Approving the disclosures contained in the RS and assuming liability for the information contained therein
7	Secretary's Certificate on the adoption of resolutions with respect to Manual of Corporate Governance
8	Secretary's Certificate on the adoption of resolutions with respect to the Fit and Proper Rule
9	Material Contracts
10	Annual Report
11	2012, 2013, 2014 Audited Financial Statements, SEC 17-Q (Interim Financial Statements) for the 1st Quarter of 2015 and Supplements
12	Legal and Tax Opinion
13	List of Subsidiaries of the Registrant
14	Consent of Experts and Independent Counsel
15	Fairness Opinion rendered by UBS Investments Philippines, Inc.
16	Valuation Report rendered by ING Bank as to valuation of the PNB shares and the exchange ratio
17	PNB Certification on its compliance with the required Financial Ratios of the BSP

Philippine National Bank and Subsidiaries

Financial Statements
December 31, 2014, 2013 and 2012

and

Independent Auditors' Report

COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

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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.

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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

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& QUALITY ASSURANCE DIVISION
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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.

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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

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LT-DOCUMENT PROCESSING
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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.

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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

	Capital Stock (Note 25)	Capital Paid in Excess of Par Value (Note 25)	Surplus Reserves (Notes 25 and 33)	Surplus (Note 25)	Parent Company 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.

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).

<u>Merger with Allied Banking Corporation</u>
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.

1. 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 Groupôs 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 Companyôs 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 parentôs 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.

Non-controlling Interests

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 interestsô 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 Groupôs 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 ócurrently has a legally enforceable right to set-offô 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 Groupøs 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 óProperty and Equipmentô 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 Companyôs 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)	ï

	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	ï
Income tax effect	140,246	(140,246)	ï

* *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)	ï

	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)	ï

	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	ï	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)	ï

	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	ï
Income tax effect	140,246	(140,246)	ï

	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)	ï

	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)	ï

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 óMiscellaneous incomeô and óMiscellaneous expenseô to óService fees and commission incomeö, óService fees and commission expenseö, óNet insurance premiumô and óNet insurance benefits and claimsö. 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	ï	1,816,110	1,816,110
Net insurance benefits and claims	ï	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	ï	526,404	526,404
Net insurance benefits and claims	ï	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 acquireeòs 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 Groupòs 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 (ñbusiness combinations under common controlò), 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.

<u>Foreign Currency Translation</u>
The financial statements are presented in Php, which is also the Parent Companyôs 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 Groupôs 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 entityôs 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 Companyôs 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 óAccumulated Translation Adjustmentô. 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.

<u>Insurance Product Classification</u>
Insurance contracts are those contracts where the Group (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a

general guideline, the Group determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of price or rates, a credit rating or credit index or other variable. Investment contracts mainly transfer financial risk but can also transfer insignificant insurance risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or 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.

<u>Financial Instruments - Initial Recognition and Subsequent Measurement</u>
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 óTrading and investment securities gains - netô except for currency forwards and currency swaps, where fair value changes are included under óForeign exchange gains - netô. 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 ôFinancial Assets at FVPLö or ôFinancial Liabilities at FVPLö) 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 ôTrading and investment securities gains - netö. Interest earned or incurred is recorded in ôInterest incomeö or ôInterest expenseö, respectively, while dividend income is recorded in ôMiscellaneous incomeö 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 ôTrading and investment securities gains - netö. Interest earned or incurred is recorded in ôInterest incomeö or ôInterest expenseö, respectively, while dividend income is recorded in ôMiscellaneous incomeö 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 ôProvision for impairment, credit and other lossesö. 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 ôLoans and Receivablesö, ôDue from BSPö, ôDue from Other Banksö, ôInterbank Loans Receivableö and ôSecurities Held Under Agreements to Resellö.

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.

óLoans and Receivablesô also include receivables arising from transactions on credit cards issued directly by the Parent Company. Furthermore, óLoans and Receivablesô 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 óLoans and Receivablesô (included in óUnearned and other deferred incomeö).

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 óInterest incomeô in the statement of income. Losses arising from impairment are recognized in óProvision for impairment, credit and other lossesô in the statement of income.

AFS investments
AFS investments are those which are designated as such or do not qualify to be classified as óFinancial Assets at FVPLö, óHTM Investmentsô or óLoans and Receivablesö. 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 óNet change in unrealized gain (loss) on AFS investmentsô in the statement of comprehensive income.

When the security is disposed of, the cumulative gain or loss previously recognized in OCI is recognized as óTrading and investment securities gains - netô in the statement of income. Interest earned on holding AFS debt investments are reported as óInterest incomeô using the effective interest method. Dividends earned on holding AFS equity investments are recognized in the statement of income as óMiscellaneous incomeô when the right of payment has been established. Losses arising from impairment of such investments are recognized as óProvision for impairment, credit and other lossesô in the statement of income.

Other financial liabilities
Issued financial instruments or their components, which are not designated at FVPL, are classified as óDeposit Liabilitiesö, óBills and Acceptances Payableö, óSubordinated Debtô 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.

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

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a ópass-throughô 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 Groupôs 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 (óreposö) 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 (óreverse reposö) 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 óSecurities Held Under Agreements to Resellö, 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 óloss eventö) 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 óLoans and Receivablesö, óHTM Investmentsö, óDue from BSPö, óDue from Other Banksö, óInterbank Loans Receivableô and óSecurities Held under Agreements to Resellö, 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 assetôs 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 assetôs 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 debtorsô 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 óRecoveriesô under óMiscellaneous incomeô 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 óProvision for impairment, credit and other lossesô 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 óRecoveriesô under óMiscellaneous incomeô 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 loanôs 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 ôProvision for impairment, credit and other lossesö 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 ôsignificantö generally as 20.00% or more and ôprolongedö 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 ôInterest incomeö 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.

Financial Guarantees
In the ordinary course of business, the Group gives financial guarantees consisting of letters of credit, letters of guarantees, and acceptances. Financial guarantees on trade receivables are initially recognized in the financial statements at fair value under ôBills and Acceptances Payableö or ôOther Liabilitiesö. Subsequent to initial recognition, the Groupös 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 ôService fees and commission incomeö, 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 ôMiscellaneous expensesö. Any financial guarantee liability remaining is recognized in the statement of income in ôService fees and commission incomeö, 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 LIIøs 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 óOther Liabilities - Insurance contract liabilitiesô.

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 LIIøs revenue from unit-linked contracts consists of charges deducted from the policyholderøs 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 óInsurance contract liabilitiesô in the óOther Liabilitiesô 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 Companyôs 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.

<u>Revenue Recognition</u>
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 óUnearned and other deferred incomeô 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 óOther Liabilitiesô 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 óOther Assetsô 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.

<u>Deferred Acquisition Cost</u>
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 óService fees and commission expenseô in the statement of income. The unamortized acquisition costs are shown as óDeferred acquisition costsô 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.

<u>Property and Equipment</u>
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.

<u>Investment Properties</u>
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 ôNet gain on sale or exchange of assetsö. Foreclosed properties are classified under ôInvestment Propertiesö upon:

a. entry of judgment in case of judicial foreclosure;
b. execution of the Sheriffös 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 ôNet gain on sale or exchange of assetsö 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 ôIntangible Assetsö, 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.

<u>Impairment of Nonfinancial Assets</u>
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 assetøs 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 assetøs 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 assetøs 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 assetøs recoverable amount. An assetøs recoverable amount is the higher of an assetøs or CGUøs 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.

<u>Leases</u>
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 óProperty and Equipmentô account with the corresponding liability to the lessor included in óOther Liabilitiesô 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 óInterest expenseô.

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 óLoans and Receivablesô 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 óInterest incomeô 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 Companyǿs 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 Groupøs 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 Groupøs 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 ôCapital Paid in Excess of Par Valueö account. Direct costs incurred related to equity issuance, such as underwriting, accounting and legal fees, printing costs and taxes are chargeable to ôCapital Paid in Excess of Par Valueö account. If the ôCapital Paid in Excess of Par Valueö is not sufficient, the excess is charged against the ôSurplusö.

ôSurplusö represents accumulated earnings (losses) of the Group less dividends declared.

Equity Reserves
The reserves recorded in equity in the statement of financial position include:

óRemeasurement Losses on Retirement Planô which pertains to remeasurement comprising actuarial losses on the present value of the retirement obligation, net of return on plan assets.

óAccumulated Translation Adjustmentô 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.

óNet Unrealized Gain (Loss) on Available-for-Sale Investmentsô 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 liabilityøs 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 Groupøs 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 ósimilarö.
- 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 entityÕs 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 Groupôs financial assets but will have no impact on the classification and measurement of the Groupôs 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 Groupôs financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Groupôs financial liabilities. The adoption will also have an effect on the Groupôs 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.

2. 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 assetõs 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 assetõs 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 armõs 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 Groupôs 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 entityôs 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 Groupôs 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 Companyȏs 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 assetôs 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 Groupôs 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 Groupøs 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 õInsurance contract liabilitiesö 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 companyøs 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 õInsurance contract liabilitiesö 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.

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3. Financial Risk Management Objectives and Policies

Introduction
The Groupφs 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 Groupφs continuing profitability.

The Group defines material risks (at group level) as those risks from any business activity large enough to threaten the Parent Companyφs 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 Companyȣs ERM framework is critical to its continuing profitability. The Risk Oversight Committee (ROC) of the Parent Companyȣs 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.

Credit Risk

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 Companyǿs 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	₱ï	₱43,499,547
Partially Secured	19,411,725	7,195,963	12,215,762	7,195,963
Unsecured	124,243,974	ï	124,243,974	ï
	187,155,246	112,710,288	136,459,736	50,695,510
Consumers				
Fully Secured	17,235,038	25,969,907	ï	17,235,038
Partially Secured	2,387,834	740,080	1,647,754	740,080
Unsecured	6,294,688	ï	6,294,688	ï
	25,917,560	26,709,987	7,942,442	17,975,118
GOCCs and NGAs				
Fully Secured	1,139	7,313	ï	1,139
Unsecured	25,707,993	ï	25,707,993	ï
	25,709,132	7,313	25,707,993	1,139
LGUs				
Fully Secured	411,851	781,338	ï	411,851
Partially Secured	976,322	427,045	549,277	427,045
Unsecured	7,122,447	ï	7,122,447	ï
	8,510,620	1,208,383	7,671,724	838,896
Fringe benefits				
Fully Secured	368,830	954,851	ï	368,830
Partially Secured	76,459	51,664	24,795	51,664
Unsecured	140,259	ï	140,259	ï
	585,548	1,006,515	165,054	420,494
Unquoted debt securities:				
Fully Secured	6,800,775	6,800,775	ï	6,800,775
Unsecured	494,756	ï	494,756	ï
	7,295,531	6,800,775	494,756	6,800,775
Other receivables:				
Fully Secured	7,564	11,870	ï	7,564
Partially Secured	4,266,072	2,526,491	1,739,581	2,526,491
Unsecured	14,424,039	ï	14,424,039	ï
	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	₱ï	₱34,823,869
Partially Secured	18,921,111	6,895,392	12,025,719	6,895,392
Unsecured	123,805,519	ï	123,805,519	ï
	177,550,499	97,827,093	135,831,238	41,719,261
Consumers				
Fully Secured	15,108,890	21,660,526	ï	15,108,890
Partially Secured	2,387,834	740,080	1,647,754	740,080
Unsecured	6,249,552	ï	6,249,552	ï
	23,746,276	22,400,606	7,897,306	15,848,970
GOCCs and NGAs				
Fully Secured	1,139	7,313	ï	1,139
Unsecured	25,707,993	ï	25,707,993	ï
	25,709,132	7,313	25,707,993	1,139
LGUs				
Fully Secured	411,851	781,338	ï	411,851
Partially Secured	976,322	427,045	549,277	427,045
Unsecured	7,122,447	ï	7,122,447	ï
	8,510,620	1,208,383	7,671,724	838,896
Fringe benefits				
Fully Secured	368,830	954,851	ï	368,830
Partially Secured	76,459	51,664	24,795	51,664
Unsecured	126,085	ï	126,085	ï
	571,374	1,006,515	150,880	420,494
Unquoted debt securities:				
Partially Secured	6,800,775	6,800,775	ï	6,800,775
Unsecured	112,134	ï	112,134	ï
	6,912,909	6,800,775	112,134	6,800,775
Other receivables:				
Fully Secured	ï	ï	ï	ï
Partially Secured	4,266,072	2,526,491	1,739,581	2,526,491
Unsecured	8,168,648	ï	8,168,648	ï
	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 borrowerôs 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	ï	4,377,078	1,450,518	5,827,596
United Kingdom	15,270	ï	1,244,605	1,259,875
Middle East	227	ï	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	ï	4,377,078	1,406,217	5,783,295
United Kingdom	ï	ï	149,735	149,735
Middle East	227	ï	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 Groupôs and Parent Companyôs 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	ï	40,406,024
Wholesale and retail	42,697,115	ï	ï	42,697,115
Manufacturing	30,920,301	585,297	ï	31,505,598
Public administration and defense	24,309,041	ï	ï	24,309,041
Transport, storage and communication	17,656,569	ï	ï	17,656,569
Agriculture, hunting and forestry	3,821,885	ï	ï	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	ï	40,902,143
Construction	6,931,473	ï	ï	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	ï	39,847,023
Wholesale and retail	40,692,819	ï	ï	40,692,819
Manufacturing	27,873,373	140,684	ï	28,014,057
Public administration and defense	23,953,321	ï	ï	23,953,321
Transport, storage and communication	16,642,170	ï	ï	16,642,170
Agriculture, hunting and forestry	3,729,402	ï	ï	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	ï	36,464,749
Construction	6,405,132	ï	ï	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 borrowerôs 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 Companyôs 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 managementøs 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 ñmeans and purposeò test whereby borrowers have to pass the two major parameters, namely:

- ñMeansò test - the borrower must have resources or revenues of its own sufficient to service its debt obligations.
- ñPurposeò test - the loan must be obtained for a purpose consistent with the borrowerøs 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 Groupôs and Parent Companyôs 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	₱ï	₱ï	₱2,631,979
2 - Super Prime	57,313,791	ï	ï	57,313,791
3 - Prime	33,357,538	ï	13,737	33,371,275
4 - Very Good	4,364,430	ï	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	ï	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	₱ï	₱ï	₱2,631,979
2 - Super Prime	57,313,791	ï	ï	57,313,791
3 - Prime	33,292,385	ï	ï	33,292,385
4 - Very Good	4,334,693	ï	ï	4,334,693
5 - Good	19,447,302	4,927	ï	19,452,229
6 - Satisfactory	18,093,688	69,158	ï	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	ï	3,832,698
10 - Watchlist	12,814,537	15,517	ï	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	ï	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	ï	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	ï	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., Moodyÿs 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/ ôDue from BSPô 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/]	₱ï	₱ï	₱ï	₱ï	₱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	ï	ï	2,834,559	2,834,559	236,115	3,070,674
Private debt securities	ï	84	8,139	8,223	260,548	268,771
Equity securities	ï	ï	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	ï	7,861,688	ï	7,861,688	ï	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	ï	ï	172,379	172,379	1,505,628	1,678,007
Unquoted equity securities	ï	ï	ï	ï	161,633	161,633
Loans and receivables:						
Unquoted debt securities[3/]	ï	ï	49,992	49,992	7,245,539	7,295,531
Others[4/]	1,349	ï	195,864	197,213	18,500,462	18,697,675

1/ ôDue from BSPô 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/ ôDue from BSPô 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/]	₱ï	₱ï	₱ï	₱ī	₱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	ï	ï	2,834,559	2,834,559	236,115	3,070,674
Private debt securities	ï	ï	8,139	8,139	260,632	268,771
Equity securities	ï	ï	ï	ī	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	ï	ï	ï	ī	757,119	757,119
Unquoted equity securities	ï	ï	ï	ī	138,320	138,320
Loans and receivables:						
Unquoted debt securities[3/]	ï	ï	49,992	49,992	6,862,917	6,912,909
Others[4/]	ï	ï	ï	ī	12,438,167	12,438,167

1/ ôDue from BSPô 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 borrowerǿs 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.

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

The Parent Companyǿs liquidity management involves maintaining funding capacity to accommodate fluctuations in asset and liability levels due to changes in the Parent Companyǿs 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 liabilitiesôliquidity 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	₱ï	₱ï	₱ï	₱ï	₱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	ï	ï	ï	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	ï	1,964	3,873	6,613	316,366	328,816
Equity securities	249,518	ï	ï	ï	ï	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	ï	ï	ï	ï	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	ï	ï	ï	ï	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	ï	ï	ï	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	₱ï	₱ï	₱ï	₱ï	₱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	ï	ï	ï	ï	7,911,794	7,911,794
Derivative liabilities:						
Gross contractual payable	9,770,736	1,994,514	694,249	ï	1,404,609	13,864,108
Gross contractual receivable	(9,654,758)	(1,979,037)	(675,876)	ï	(1,391,336)	(13,701,007)
	115,978	15,477	18,373	ï	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	ï	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	ï	ï	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	₱ï	₱ï	₱ï	₱ï	₱9,700,005
Due from BSP and other banks	152,251,906	ï	ï	ï	ï	152,251,906
Interbank loans receivable	8,378,025	150,032	ï	ï	ï	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	ï	1,964	3,873	6,613	316,366	328,816
Equity securities	247,615	ï	ï	ï	ï	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	ï	ï	ï	ï	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	ï	ï	ï	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	₱ï	₱ï	₱ï	₱ï	₱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	ï	1,404,609	13,864,091
Gross contractual receivable	(9,654,758)	(1,979,037)	(675,876)	ï	(1,391,336)	(13,701,007)
	115,961	15,477	18,373	ï	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	ï	146,875	146,875	293,603	13,039,170	13,626,523
Accrued interest payable and accrued other expenses payable	917,831	337,233	ï	ï	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 institutionsô 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 Companyôs 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 Companyôs 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 Companyǿs 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 Companyǿs 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

<u>Non-trading Market Risk</u>
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 ñrepricing gapò 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 ñrepricing gapò 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 companyôs 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 Companyôs 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 Companyôs 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	₱ï	₱ï	₱ï	₱ï	₱110,636,185
Interbank loans receivable	6,187,702	148,546	ï	ï	ï	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	ï

** 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	₱ï	₱ï	₱ï	₱ï	₱89,541,967
Interbank loans receivable	6,187,702	148,546	ï	ï	ï	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	ï	ï	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	ï

** 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 Groupôs and the Parent Companyôs 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 Companyôs 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 Companyôs 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 Companyȏs 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 LIIôs and PNB Genôs 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 LIIôs and PNB Genôs 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 Genôs 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 Genôs operations.
(b) The Parent Company, through its various committees, closely oversees PNB Genôs 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.

4. **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 Groupĝs 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 Companyĝs 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	₱ï	₱3,070,674
Private debt securities	12/27/2013	268,771	217,808	50,963	ï	268,771
Equity securities	12/27/2013	249,518	249,518	ï	ï	249,518
Derivative assets	12/27/2013	258,697	ï	92,834	165,863	258,697
Designated at FVPL:						
Segregated fund assets	12/27/2013	7,861,688	2,481,635	ï	5,380,053	7,861,688
AFS investments:						
Government securities	12/27/2013	59,247,765	33,571,430	25,676,335	ï	59,247,765
Private debt securities	12/27/2013	19,216,744	19,150,981	65,763	ï	19,216,744
Equity securities*	12/27/2013	1,678,007	1,678,007	ï	ï	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	₱ï	₱5,380,053	₱7,861,688
Derivative liabilities	12/27/2013	163,101	ï	163,101	ï	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	₱ï	₱ï	₱256,593,191	₱256,593,191
Unquoted debt securities	12/27/2013	7,295,531	ï	ï	8,733,369	8,733,369
		₱255,578,408	₱ï	₱ï	₱265,326,560	₱265,326,560
Nonfinancial Assets						
Investment property:***						
Land	2012 - 2013	₱19,624,274	₱ï	₱ï	₱24,176,727	₱24,176,727
Buildings and improvements	2012 - 2013	1,828,688	ï	ï	3,394,550	3,394,550
		₱21,452,962	₱ï	₱ï	₱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	₱ï	₱ï	₱51,350,907	₱51,350,907
Subordinated debt	12/27/2013	9,953,651	ï	ï	10,584,755	10,584,755
		₱61,417,833	₱ï	₱ï	₱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	₱ï	₱3,070,674
Private debt securities	12/27/2013	268,771	217,808	50,963	ï	268,771
Equity securities	12/27/2013	247,615	247,615	ï	ï	247,615
Derivative assets	12/27/2013	258,613	ï	92,750	165,863	258,613
AFS investments:						
Government securities	12/27/2013	55,174,681	29,498,346	25,676,335	ï	55,174,681
Private debt securities	12/27/2013	16,625,989	16,560,227	65,762	ï	16,625,989
Equity securities*	12/27/2013	757,119	757,119	ï	ï	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	₱ï	₱163,084	₱ï	₱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	₱ï	₱ï	₱244,268,519	₱244,268,519
Unquoted debt securities	12/27/2013	6,912,909	ï	ï	8,350,923	8,350,923
		₱243,000,810	₱ï	₱ï	₱252,619,442	₱252,619,442
Nonfinancial Assets						
Investment property:**						
Land	2012 - 2013	₱19,505,306	₱ï	₱ï	₱23,798,941	₱23,798,941
Buildings and improvements	2012 - 2013	1,719,628	ï	ï	3,163,809	3,163,809
		₱21,224,934	₱ï	₱ï	₱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	₱ï	₱ï	₱47,585,532	₱47,585,532
Bills payable	12/27/2013	13,120,183	ï	ï	13,124,408	13,124,408
Subordinated debt	12/27/2013	9,953,651	ï	ï	10,584,755	10,584,755
		₱70,772,641	₱ï	₱ï	₱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	–	ï
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	**₱–**	₱ï

Equity and/or Credit-Linked Notes are shown as óSegregated fund assetsô under óFinancial Assets at FVPLô.

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 counterpartyôs 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	Issuerôs Funding rate / Issuerôs CDS as proxy	PHP IRS
Dollar-denominated	DCF Method / Monte Carlo Simulation	Issuerôs Funding rate / Issuerôs 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 Companyøs investment properties are as follow:

<u>Valuation Techniques</u>	
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 ñas if newò and then deducting the depreciated cost. Fundamental to the Cost Approach is the estimate of the improvementøs Reproduction Cost New.
<u>Significant Unobservable Inputs</u>	
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	ñAn 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 investorsô perceptions of the market over timeò. 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.

5. **Segment Information**

Business Segments
The Groupøs 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 Groupøs business segments follow:

Retail Banking - principally handling individual customerøs 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 Groupøs 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 armøs 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)	ï	ï	ï
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	₱ï	₱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	₱ï	₱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)	ï	ï	ï
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 Groupôs 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	–	ï
	₱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	–	ï	**200,884**	148,592	117,116
Other European Union Countries	–	ï	–	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.

6. Due from Bangko Sentral ng Pilipinas

As of December 31, 2014 and 2013, 35.54% and 53.93% of the Groupôs 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 Companyôs 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.

7. 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 Groupôs 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 Groupôs and the Parent Companyôs 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)**	ï
	₱7,492,539	₱8,405,250

8. 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**	ï	**21,559,631**	ï
	₱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	**–**	ï
	₱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 LIIô 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	₱ï	1,037,252	₱742,343	₱ï	₱742,343
Acquired from business combination	–	–	–	ï	(47,538)	(47,538)	ï	ï	ï
Changes in fair values of AFS investments	**2,406,462**	**23,820**	**2,430,282**	(243,270)	206,904	(36,366)	4,558,895	ï	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)	ï	(4,287,934)
	1,236,664	**20,888**	**1,257,552**	(4,618,653)	206,528	(4,412,125)	270,961	ï	270,961
Income tax effect (Note 31)	**9,059**	–	**9,059**	(464)	ï	(464)	23,948	ï	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	₱ï	₱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**	ï	ï
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 Companyôs 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 Groupôs 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**	ï	ï	**725,613**	ï	–
Financial assets at FVPL	**244,886**	648,203	608,224	**244,886**	648,202	608,224
Derivatives	–	5,528	ï	–	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

9. 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
Customersô 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
Customersô 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		
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits		Others	Total
Receivables from customers:								
Loans and discounts	₱224,312,212	₱20,089,224	₱8,410,900	₱25,938,669	₱505,978	₱–	₱–	₱279,256,983
Customersô 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
Customersô 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		
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits		Others	Total
Receivables from customers:								
Loans and discounts	₱176,301,212	₱25,346,986	₱8,612,537	₱22,677,538	₱598,101	₱ï	₱ï	₱233,536,374
Customersô liabilities on letters of credit and trust receipts	9,617,851	988	ï	ï	ï	ï	ï	9,618,839
Bills purchased (Note 22)	3,343,718	437,587	ï	ï	ï	ï	ï	3,781,305
Credit card receivables	42,391	ï	ï	3,702,336	18,360	ï	ï	3,763,087
Lease contracts receivable (Note 30)	2,676,136	ï	ï	1,099	ï	ï	ï	2,677,235
Customersô liabilities on acceptances (Note 19)	359,413	ï	ï	ï	ï	ï	ï	359,413
	192,340,721	25,785,561	8,612,537	26,380,973	616,461	ï	ï	253,736,253
Less unearned and other deferred income	1,084,841	ï	16,909	7,910	290	ï	ï	1,109,950
	191,255,880	25,785,561	8,595,628	26,373,063	616,171	ï	ï	252,626,303
Unquoted debt securities	ï	ï	ï	ï	ï	11,254,187	ï	11,254,187
Other receivables:								
Accounts receivable	ï	ï	ï	ï	ï	ï	10,186,605	10,186,605
Accrued interest receivable	ï	ï	ï	ï	ï	ï	7,229,913	7,229,913
Sales contract receivables	ï	ï	ï	ï	ï	ï	4,647,352	4,647,352
Miscellaneous	ï	ï	ï	ï	ï	ï	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 Debt Securities		
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits		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
Customersô 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
Customersô 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 Debt Securities		
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits		Others	Total
Receivables from customers:								
Loans and discounts	₱169,021,890	₱25,346,986	₱8,612,537	₱20,475,776	₱583,924	₱ï	₱ï	₱224,041,113
Customersô liabilities on letters of credit and trust receipts	9,374,433	988	ï	ï	ï	ï	ï	9,375,421
Bills purchased (Note 22)	2,950,040	437,587	ï	ï	ï	ï	ï	3,387,627
Credit card receivables	42,391	ï	ï	3,702,336	18,360	ï	ï	3,763,087
Lease contracts receivable (Note 30)	105,209	ï	ï	ï	ï	ï	ï	105,209
Customersô liabilities on acceptances (Note 19)	359,413	ï	ï	ï	ï	ï	ï	359,413
	181,853,376	25,785,561	8,612,537	24,178,112	602,284	ï	ï	241,031,870
Less unearned and other deferred income	807,149	ï	16,909	5,894	290	ï	ï	830,242
	181,046,227	25,785,561	8,595,628	24,172,218	601,994	ï	ï	240,201,628
Unquoted debt securities	ï	ï	ï	ï	ï	10,871,565	ï	10,871,565
Other receivables:								
Accounts receivable	ï	ï	ï	ï	ï	ï	3,924,203	3,924,203
Accrued interest receivable	ï	ï	ï	ï	ï	ï	7,040,322	7,040,322
Sales contract receivables	ï	ï	ï	ï	ï	ï	4,591,220	4,591,220
Miscellaneous	ï	ï	ï	ï	ï	ï	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 Companyçs 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 Companyçs 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 óReceivables from customers - Loans and discountsô and óAccrued interest receivableô) and liabilities in connection with the sale of the Parent Companyçs 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 óBills payable to BSP and local banksô - Note 19 and óAccrued interest payableô - 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 Courtøs 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 óAccrued interest receivableô amounting to ₱2.3 billion. The full repayment of principal and accrued interest is guaranteed by a sinking fund managed by the Parent Companyøs 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 Companyøs 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	**–**	ï
Due beyond one year but not over five years	**425,013**	229,254	**–**	ï
Due beyond five years	**–**	40,208	**–**	ï
	563,032	404,771	**–**	ï
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 Groupǿs and Parent Companyǿs 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**	ï	ï	**35,776**	**0.01**	ï	ï
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.

10. 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	₱ï	₱175,973	₱458,529	₱18,198,366
Additions	17	34,949	577,940	ï	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	ï	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	ï	1,890,656	2,410,507	ï	ï	232,045	4,533,208
Depreciation and amortization	ï	296,265	476,149	4,291	ï	112,152	888,857
Disposals/others	ï	(63,317)	(182,175)	199	ï	(47,026)	(292,319)
Balance at end of year	ï	2,123,604	2,704,481	4,490	ï	297,171	5,129,746
Allowance for Impairment Losses (Note 16)	183,876	61,300	ï	ï	ï	ï	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	ï	(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	ï	1,785,540	2,330,703	ï	199,900	4,316,143
Depreciation and amortization	ï	127,118	237,322	ï	60,853	425,293
Disposals/others	ï	(22,002)	(157,518)	ï	(28,708)	(208,228)
Balance at end of year	ï	1,890,656	2,410,507	ï	232,045	4,533,208
Allowance for Impairment Losses (Note 16)	191,450	46,536	ï	ï	ï	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	ï	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	ï	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	ï	1,890,657	2,192,580	ï	169,881	4,253,118
Depreciation and amortization	ï	283,967	394,071	ï	90,119	768,157
Disposals/others	ï	(71,239)	(173,835)	ï	(16,504)	(261,578)
Balance at end of year	ï	2,103,385	2,412,816	ï	243,496	4,759,697
Allowance for Impairment Losses (Note 16)	183,876	61,300	ï	ï	ï	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	ï	(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	₱ï	₱1,785,540	₱2,089,542	₱ï	₱123,554	₱3,998,636
Depreciation and amortization	ï	127,118	186,206	ï	49,209	362,533
Disposals/others	ï	(22,001)	(83,168)	ï	(2,882)	(108,051)
Balance at end of year	ï	1,890,657	2,192,580	ï	169,881	4,253,118
Allowance for Impairment Losses	191,450	46,536	ï	ï	ï	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.

11. Investments in Subsidiaries

The consolidated financial statements of the Group include:

Subsidiaries	Nature of Business	Country of Incorporation	Functional Currency	Percentage of Ownership 2014 Direct	2014 Indirect	2013 Direct	2013 Indirect
PNB SB [(a)]	Banking	Philippines	Php	**100.00**	–	100.00	ï
PNB Capital and Investment Corporation (PNB Capital)	Investment	- do -	Php	**100.00**	–	100.00	ï
PNB Forex, Inc.	FX trading	- do -	Php	**100.00**	–	100.00	ï
PNB Holdings Corporation (PNB Holdings)	Investment	- do -	Php	**100.00**	–	100.00	ï
PNB Gen [(b)]	Insurance	- do -	Php	**65.75**	**34.25**	ï	100.00
PNB Securities, Inc. (PNB Securities)	Securities Brokerage	- do -	Php	**100.00**	–	100.00	ï
PNB Corporation - Guam	Remittance	USA	USD	**100.00**	–	100.00	ï
PNB International Investments Corporation (PNB IIC)	Investment	- do -	USD	**100.00**	–	100.00	ï
PNB Remittance Centers, Inc. (PNB RCC) [(c)]	Remittance	- do -	USD	–	**100.00**	ï	100.00
PNB RCI Holding Co. Ltd. [(c)]	Holding Company	- do -	USD	–	**100.00**	ï	100.00
Allied Bank Philippines (UK) Plc (ABUK)*	Banking	United Kingdom	GBP	**100.00**	–	100.00	ï
PNB Europe PLC	Banking	- do -	GBP	**100.00**	–	100.00	ï
PNB Remittance Co. (Canada) [(d)]	Remittance	Canada	CAD	–	**100.00**	ï	100.00
PNB Global Remittance & Financial Co. (HK) Ltd. (PNB GRF)	Remittance	Hong Kong	HKD	**100.00**	–	100.00	ï
PNB Italy SpA (PISpA) [(g)]	Remittance	Italy	EUR	–	–	100.00	ï
Allied Commercial Bank (ACB)*	Banking	Peopleôs Republic of China	USD	**90.41**	–	90.41	ï
Japan-PNB Leasing	Leasing/Financing	Philippines	Php	**90.00**	–	90.00	ï
Japan-PNB Equipment Rentals Corporation [(e)]	Rental	- do -	Php	–	**90.00**	ï	90.00
PNB LII *	Insurance	- do -	Php	**80.00**	–	80.00	ï
ALFC	Rental	- do -	Php	**57.21**	–	57.21	ï
Allied Banking Corporation (Hong Kong) Limited (ABCHKL) *	Banking	Hong Kong	HKD	**51.00**	–	51.00	ï
ACR Nominees Limited [(f)] *	Banking	- do -	HKD	–	**51.00**	ï	51.00
Oceanic Holding (BVI) Ltd. (OHBVI) *	Holding Company	British Virgin Islands	USD	**27.78**	–	27.78	ï

** 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 2014	Consolidated 2013	Parent Company 2014	Parent Company 2013
Acquisition cost of subsidiaries:				
PNB SB	**₱–**	₱ï	**₱10,935,041**	₱935,041
ACB	**–**	ï	**5,485,747**	5,485,747
PNB IIC	**–**	ï	**2,028,202**	2,028,202
PNB LII	**–**	ï	**1,327,083**	1,327,083
PNB Europe PLC	**–**	ï	**1,006,537**	1,006,537
ABCHKL	**–**	ï	**947,586**	947,586
PNB GRF	**–**	ï	**753,061**	753,061
PNB Gen	**–**	ï	**600,000**	ï

(Forward)

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
PNB Holdings	**₱–**	₱ï	**₱377,876**	₱377,876
PNB Capital	**–**	ï	**350,000**	350,000
ABUK	**–**	ï	**320,858**	320,858
OHBVI	**–**	ï	**291,840**	291,840
Japan-PNB Leasing	**–**	ï	**218,331**	218,331
ALFC	**–**	ï	**148,400**	148,400
PNB Securities	**–**	ï	**62,351**	62,351
PNB Forex, Inc.	**–**	ï	**50,000**	50,000
PNB Corporation - Guam	**–**	ï	**7,672**	7,672
PISpA	**–**	ï	**–**	204,377
	–	ï	**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)
	–	ï	**–**	ï
Accumulated equity in net earnings:				
Balance at beginning of year	**–**	136,330	**–**	ï
Equity in net earnings for the year (Note 28)	**–**	4,975	**–**	ï
Reclassification of previously held interest in an associate due to step-up acquisition of control over investee	**–**	(141,305)	**–**	
	–	ï	**–**	ï
Less allowance for impairment losses (Note 16)	**–**	ï	**807,973**	1,012,231
	₱–	₱ï	**₱24,102,612**	₱13,502,731

As part of the Groupôs 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 Companyôs 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 óCapital Paid in Excess of Par Valueô 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 Companyôs 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 Companyôs subsidiaries declared cash dividends amounting to ₱67.8 million, ₱77.3 million and ₱25.2 million, respectively. These are included under óMiscellaneous income - othersô (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	ï	(5,925)	ï

The non-controlling interest in respect of ALFC, Japan-PNB Leasing and OHBVI is not material to the Group.

<u>Investment in SPVs</u>
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.

<u>Investment in ACB</u>
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 Companyôs 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 ACBôs assets and liabilities in the Groupôs 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 ACBôs 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 Companyôs increase in equity investment in ACB subject to certain conditions.

<u>PNB Forex</u>
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.

<u>PNB SB</u>
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 Groupôs consumer lending business. The infusion of additional equity to PNB SB was approved by the BSP on February 28, 2014.

<u>PNB Gen</u>
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.

12. 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	₱ï	₱2,112,673	₱2,112,673
Depreciation (Note 11)	ï	286,923	286,923
Disposals/others	ï	(290,488)	(290,488)
Balance at end of year	ï	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	ï	2,078,756	2,078,756
Depreciation (Note 11)	ï	279,147	279,147
Disposals/others	ï	(282,962)	(282,962)
Balance at end of year	ï	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 ôMiscellaneous expenses - Othersö, 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 ôMiscellaneous expenses - Othersö, 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 ôMiscellaneous expenses - Othersö, 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 ôMiscellaneous expenses - Othersö, 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

13. 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	₱ī	₱ī	₱692,739	₱692,739	₱ī
Acquired from business combination (Note 37)	1,897,789	391,943	60,209	2,349,941	13,375,407
Additions	ī	ī	118,236	118,236	ī
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	ī	ī	315,717	315,717	ī
Amortization (Note 11)	169,747	116,857	180,555	467,159	ī
Balance at end of year	169,747	116,857	496,272	782,876	ī
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	₱ï	₱ï	₱681,159	₱681,159	₱ï
Acquired from business combination (Note 37)	1,897,789	391,943	ï	2,289,732	13,515,765
Additions	ï	ï	82,808	82,808	ï
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	ï	ï	309,654	309,654	ï
Amortization (Note 11)	169,747	116,857	177,305	463,909	ï
Balance at end of year	169,747	116,857	486,959	773,563	ï
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 ABCôs 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 Companyôs 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 CGUsô 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.

14. 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	**–**	ï
Prepaid expenses	**290,697**	273,126	**246,640**	242,886
Deferred benefits	**155,476**	ï	**155,476**	ï
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	**–**	ï
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 Groupọs 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.

15. 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**	ï	834,259	**58,568**	ï	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**	–	ï	727,153	ï
Accretion (Note 10)	–	**(274,801)**	–	ï	(289,096)	ï
Accounts charged-off	–	**(1,879,083)**	–	ï	(1,241,334)	ï
Transfers and others	**50**	**510,562**	–	ï	(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**	–	ï	649,089	ï
Accretion (Note 10)	–	**(274,801)**	–	ï	(289,096)	ï
Accounts charged-off	–	**(1,780,302)**	–	ï	(1,235,671)	ï
Transfers and others	**50**	**734,897**	–	ï	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**	**₱ï**	**₱3,218,991**	**₱803,877**	₱237,986	₱508,978	₱3,452,505	₱600,740
Provisions (reversals)	**(4,349)**	ï	**485,186**	**(187,453)**	(3,789)	ï	109,564	656
Disposals	**(11,994)**	ï	**(363,915)**	–	(7,574)	ï	(139,348)	ï
Transfers and others	**673**	ï	**416,958**	**(158,778)**	18,553	(508,978)	(203,730)	202,481
Balance at end of year	**₱229,506**	**₱ï**	**₱3,757,220**	**₱457,646**	₱245,176	₱ï	₱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)	ï	108,713	199,808
Disposals	**(11,994)**	**(204,258)**	**(363,873)**	–	(7,574)	ï	(139,348)	ï
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	ï	14,400	194,689	(1)	ï	48,579	727,153
Accretion on impaired loans (Note 10)	(196,748)	(171)	(16,261)	(74,900)	(1,016)	ï	ï	(289,096)
Accounts charged off	(436,189)	ï	ï	(206,356)	(59,224)	ï	(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	ï	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 Debt Securities	Others	Total
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits			
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	ï	14,400	194,567	ï	ï	35,686	649,089
Accretion on impaired loans (Note 10)	(196,748)	(171)	(16,261)	(74,900)	(1,016)	ï	ï	(289,096)
Accounts charged off	(436,189)	ï	ï	(200,693)	(59,224)	ï	(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	ï	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

16. 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	ï	2,741,000	ï	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:

				Interest	Carrying Value	
Issue Date	Maturity Date	Face Value	Coupon Rate	Repayment Terms	**2014**	2013
December 12, 2014	June 12, 2020	₱7,000,000	4.13%	Quarterly	**₱6,957,175**	₱ï
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 ñEvents of Defaultò 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.

17. 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	**₱ï**	₱ï
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 Companyôs 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.

18. 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 Companyös 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 ôLoans and Receivablesö.

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*

19. 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	**–**	ï
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

6Other expensesô include janitorial, representation and entertainment, communication and other operating expenses.

20. 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

5.875% ₱3.5 Billion Subordinated Notes

On May 9, 2012, the Parent Companyøs 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.

<u>6.75% ₱6.5 Billion Subordinated Notes</u>
On May 15, 2011, the Parent Companyôs 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.

<u>7.125% ₱4.5 Billion Subordinated Notes</u>
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 ðInterest expense - bills payable and other borrowingsö in the statements of income.

21. **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	**₱–**	₱ï
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
Managerôs 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	**–**	ï
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	**–**	ï
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	**–**	ï
Withholding tax payable	**224,045**	211,529	**204,697**	198,928
Deferred tax liabilities (Note 31)	**139,699**	124,793	**–**	ï
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, Employerøs 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.

22. 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 derivativeøs 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	ï	26	1.64	102
CAD	ï	4	1.07	1,065
SGD	23	ï	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	ï	0.89	250
SGD	ï	885	0.79	6,200
HKD	25	ï	7.75	158,946
CAD	67	ï	1.00	2,365
CHF	23	ï	1.12	400
Interest rate swaps	28,803	21,012		
Warrants	165,863	ï		
	₱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	ï	26	1.64	102
CAD	ï	4	1.07	1,065
SGD	23	ï	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	ï	0.89	250
SGD	ï	885	0.79	1,200
CAD	67	ï	1.00	2,365
CHF	23	ï	1.12	400
Interest rate swaps	28,803	21,012		
Warrants	165,863	ï		
	₱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'.*

23. 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	₱ï	₱11,804,746
Due from BSP	**105,773,685**	**–**	**105,773,685**	153,169,330	ï	153,169,330
Due from other banks	**15,591,406**	**–**	**15,591,406**	14,881,541	ï	14,881,541
Interbank loans receivable	**7,671,437**	**–**	**7,671,437**	8,405,250	ï	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**	ï	ï	ï
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**	ï	25,140,048	25,140,048
Investment properties - gross (Note 13)	**–**	**25,862,516**	**25,862,516**	ï	26,781,061	26,781,061
Deferred tax assets	**–**	**1,461,938**	**1,461,938**	ï	1,317,283	1,317,283
Goodwill (Note 14)	**–**	**13,375,407**	**13,375,407**	ï	13,375,407	13,375,407
Intangible assets - gross (Note 14)	**–**	**3,544,075**	**3,544,075**	ï	3,160,916	3,160,916
Residual value of leased assets (Note 10)	**–**	**563,032**	**563,032**	ï	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**	ï	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	ï	8,665,432
Bills purchased - contra	**4,230,348**	**–**	**4,230,348**	3,417,082	ï	3,417,082
Managers' checks and demand drafts outstanding	**1,030,298**	**–**	**1,030,298**	1,028,301	ï	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**	ï	311,387	311,387
Payment order payable	**296,102**	**–**	**296,102**	194,628	ï	194,628
Due to other banks	**222,227**	**–**	**222,227**	58,288	ï	58,288
Commission payable	**118,844**	**–**	**118,844**	128,984	ï	128,984
Due to BSP	**101,172**	**–**	**101,172**	117,821	ï	117,821
Margin deposits and cash letters of credit	**86,143**	**–**	**86,143**	393,006	ï	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	ï	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	₱ï	₱9,700,005
Due from BSP	**95,415,467**	**–**	**95,415,467**	146,079,249	ï	146,079,249
Due from other banks	**5,013,357**	**–**	**5,013,357**	6,146,134	ï	6,146,134
Interbank loans receivable	**7,671,437**	**–**	**7,671,437**	8,405,250	ï	8,405,250
Financial assets at FVPL	**353,835**	**6,342,115**	**6,695,950**	3,845,673	ï	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**	ï	23,894,093	23,894,093
Investment properties - gross (Note 13)	**–**	**25,326,794**	**25,326,794**	ï	26,312,484	26,312,484
Deferred tax assets	**–**	**1,029,423**	**1,029,423**	ï	1,063,337	1,063,337
Investment in Subsidiaries and an Associate - gross (Note 12)	**–**	**24,910,585**	**24,910,585**	ï	14,514,962	14,514,962
Goodwill (Note 14)	**–**	**13,515,765**	**13,515,765**	ï	13,515,765	13,515,765
Intangible assets - gross (Note 14)	**–**	**3,432,514**	**3,432,514**	ï	3,053,699	3,053,699
Residual value of leased assets (Note 10)	**–**	**–**	**–**	ï	ï	ï
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**	ï	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	ï	791,234
Other liabilities (Note 22):						
Accounts payable	**6,057,924**	**–**	**6,057,924**	8,127,279	ï	8,127,279
Bills purchased - contra	**4,222,235**	**–**	**4,222,235**	3,403,791	ï	3,403,791
Managers' checks and demand drafts outstanding	**1,018,139**	**–**	**1,018,139**	1,021,982	ï	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	ï	157,825
Due to TOP	**–**	**366,841**	**366,841**	ï	311,363	311,363
Payment order payable	**295,971**	**–**	**295,971**	194,628	ï	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	ï	347,253
Deposit on lease contracts	**–**	**34,374**	**34,374**	ï	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	ï	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

24. 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 Companyôs 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 Companyôs 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 Companyҫs 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 Companyҫs 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 Companyҫs 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.

<u>Accumulated Translation Adjustment</u>
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 óCapital Paid in Excess of Par Valueô 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 Companyõs 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 Companyõs 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 shareholdersô 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 Companyõs compliance with regulatory requirements and ratios is based on the amount of the Parent Companyõs ñunimpaired capitalò (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 BSPôs 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)

25. 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	ï	**203,501**	246,188	ï
Underwriting fees	**136,265**	307,348	101,389	**–**	ï	ï
Awards revenue	**84,899**	32,435	ï	**84,899**	32,435	ï
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).

26. 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
Reinsurersô share of gross earned premiums	**(1,284,152)**	(1,161,210)	(831,737)
	₱2,012,773	₱1,816,110	₱526,404

<u>Net insurance benefits and claims</u>
This account consists of:

	2014	2013	2012
Gross insurance contract benefits and claims paid	**₱1,886,445**	₱1,371,887	₱412,605
Reinsurersô 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
Reinsurersô share of change in insurance contract liabilities	**767,619**	(2,759,791)	(909,482)
	₱1,287,497	₱2,306,086	₱302,656

27. Miscellaneous Income and Expenses

<u>Miscellaneous income</u>
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	ï	**622,983**	28,373	ï
Recoveries (Note 35)	**209,419**	374,812	111,469	**206,751**	345,329	111,469
Referral fees	**97,715**	55,124	ï	–	ï	ï
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	ï	–	ï	ï
Share in net income of an associate (Note 12)	–	4,975	10,309	–	ï	ï
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, óRecoveriesô include collections on óReceivable from SPVô 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 Groupôs equity investment in PNB LII, previously recognized as AFS investment, in exchange for the equity interest in PNB LIIôs 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

28. 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 óOther Liabilitiesô)	**₱2,867,287**	₱3,388,863	**₱2,796,997**	₱3,323,955
Net plan assets (included in óOther Assetsô)	**(5,709)**	(5,532)	**–**	ï
	₱2,861,578	₱3,383,331	**2,796,997**	₱3,323,955

The Groupôs 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

	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	**₱5,364,975**	**₱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

	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	₱3,242,671	₱1,589,861	₱401,578	₱1,700	₱256,974	₱660,252	(₱471,475)	₱ï	₱1,014,870	(₱671,204)	₱343,666	₱ï	₱5,364,975
Fair value of plan assets	1,389,396	839,976	–	ï	113,758	113,758	(471,475)	(160,055)	ï	ï	(160,055)	270,044	1,981,644
Retirement liability	₱1,853,275	₱749,885	₱401,578	₱1,700	₱143,216	₱546,494	₱ï	₱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	Past service cost	Net interest	Subtotal	Benefits paid	Remeasurements in other comprehensive income: 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	**₱5,219,927**	**₱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	Past service cost	Net interest	Subtotal	Benefits paid	Remeasurements in other comprehensive income: 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	₱3,141,154	₱1,589,861	₱374,409	₱ï	₱251,983	₱626,392	(₱467,949)	₱ï	₱1,005,443	(₱674,974)	₱330,469	₱ï	₱5,219,927
Fair value of plan assets	1,317,810	839,976	ï	ï	109,766	109,766	(467,949)	(158,593)	ï	ï	(158,593)	254,962	1,895,972
Retirement liability	₱1,823,344	₱749,885	₱374,409	₱ï	₱142,217	₱516,626	₱ï	₱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 Companyës 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 Groupës and the Parent Companyës failure to contribute in accordance with its general funding strategy.

29. **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 Groupøs 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 óOccupancy and equipment-related costsô 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 óMiscellaneous incomeô) 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 Groupøs 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

30. 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 óProvision for income taxô 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	–	ï	ï
Provision for IBNR	**18,000**	4,500	4,500	–	ï	ï
Net retirement liability	**16,333**	7,245	2,360	–	ï	ï
Accrued expenses	**10,094**	8,066	12,882	–	ï	ï
Excess of net provision for unearned premiums per PFRS over tax basis	**8,248**	13,055	4,162	–	ï	ï
Deferred reinsurance commission	**3,850**	10,035	6,616	–	ï	ï
MCIT	**1,265**	1,266	1,265	–	ï	ï
Unrealized foreign exchange losses	**44**	38,943	81	–	38,210	ï
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	ï	**1,223,767**	1,351,766	ï
Revaluation increment on land and buildings	**736,436**	736,436	ï	**736,436**	736,436	ï
Unrealized foreign exchange gains	**75,456**	ï	ï	**75,456**	ï	ï
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	ï	–	ï	ï
Deferred acquisition cost	**16,654**	19,393	16,762	–	ï	ï
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 Groupôs net deferred tax liabilities included in óOther Liabilitiesô (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	₱ï
Accelerated depreciation on property and equipment	**6,237**	5,743	ï
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	ï
Others	–	ï	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	ï
Unrealized foreign exchange losses	–	1	ï
Net retirement liability	–	ï	6,163
Accumulated depreciation on investment properties	–	ï	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	–	ï	ï

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 Companyôs 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	–	ï
Derivative liabilities	**13,279**	48,925	**13,279**	48,925
MCIT	–	7,110	–	ï
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	₱ï	2013
2011	85,165	85,165	ï	2014
2012	115,521	ï	115,521	2015
2013	948,078	ï	948,078	2016
2014	185,999	ï	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	₱ï	2013
2011	125,782	125,782	ï	2014
2012	137,872	134,175	3,697	2015
2013	3,621	ï	3,621	2016
2014	5,630	ï	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)	**–**	ï	ï
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 ôMiscellaneous expenseö 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).

31. 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

32. 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.

33. 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 bankôs subsidiaries and affiliates shall not exceed 10.00% of a bankôs 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 Groupôs 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 Groupôs 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 (2013)	Outstanding Balance (2013)	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 OHBVIôs 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 ñDeed of Assignmentò 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 óUnquoted debt securitiesô and 161,978,996 common shares, recorded under óAFS investmentsô, 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 óInterest incomeô 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 óMiscellaneous incomeô 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 óTrading and investment securities gains - netô 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 ôMiscellaneous expensesô in the statements of income. Directorsô 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 ôInvestment propertiesô and with carrying values of ₱1.2 billion. EPPI and the Group are under common control. These two projects are among the Parent Companyôs 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 Companyôs 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.

34. 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 Groupôs 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 Maybankôs ₱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 Companyôs 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 Companyôs 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 Companyôs 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 Courtôs 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**	ï	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 Groupôs 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

35. 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						
				Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		
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]**	**Financial instruments**	**Fair value of financial collateral**	**Net exposure [c-d]**
	[a]	**[b]**	**[c]**	**[d]**		**[e]**
Derivative assets (Notes 9 and 23)	**₱1,083,714**	**₱–**	**₱1,083,714**	**₱50,360**	**₱–**	**₱1,033,354**

2013						
				Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		
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]	Financial instruments	Fair value of financial collateral	Net exposure [c-d]
	[a]	[b]	[c]	[d]		[e]
Derivative assets (Notes 9 and 23)	₱7,853,279	₱7,760,445	₱92,834	₱678	₱ï	₱92,156

Financial liabilities

2014						
				Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		
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]**	**Financial instruments**	**Fair value of financial collateral**	**Net exposure [c-d]**
	[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*

2013						
				Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		
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]	Financial instruments	Fair value of financial collateral	Net exposure [c-d]
	[a]	[b]	[c]	[d]		[e]
Derivative liabilities (Note 18)	₱14,070,601	₱13,907,534	₱163,067	₱678	₱ï	₱162,389
Securities sold under agreements to repurchase (Notes 9 and 19)*	2,246,319	ï	2,246,319	ï	2,739,206	ï
Bills payable (Notes 9, 10 and 19)	112,646	ï	112,646	ï	2,585,532	ï
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.

36. 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 Companyôs 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 ABCôs 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	ī	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	ī
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 Groupôs revenue and a loss of ₱1.2 billion to the Groupôs 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.

37. 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.

38. 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 Companyõs BOD on March 27, 2015.

39. 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.

40. 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.

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

14 APR 2015

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

Doc.No. 430
Page No. 87
Book No. XII
Series of 2015.

Notary Public
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. 4203776/01-05-15/Pasay City
IBP No. 982957/01-06-15/Manila II

COVER SHEET

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

S.E.C. Registration Number

P H I L I P P I N E   N A T I O N A L   B A N K

Company's Full Name)

9 t h   F l o o r   P N B   F i n a n c i a l   C e n t e r

M a c a p a g a l   B L v d . ,   P a s a y   C i t y

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

MARLYN M. PABRUA	891-60-40
Contact Person	Company Telephone Number

3	3 1	17 - Q	
Month	*Day*	FORM TYPE	*Month* *Day*
Fiscal Year			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)

PNB Financial Center,
Pres. Diosdado P. Macapagal Boulevard, Pasay City

(Company's Address)

(632) 891-6040 to 70

(Telephone Number)

(Calendar Year Ended)

SEC FORM 17-Q REPORT

Form Type

(Amendment Designation (if applicable)

MARCH 31, 2015

Period Ended Date

LISTED

(Secondary License Type and File Number)

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THESECURITIES REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

1. For the quarter ended March 31, 2015

2. Commission Identification No. ASO96-005555

3. BIR Tax Identification No. 000-188-209-000

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 1300
Address of principal office Postal Code

8. (632)/891-60-40 up to 70 /(632)526-3131 to 70
Issuer's telephone number, including area code

9. not applicable .
Former name, former address, and former fiscal year, if changed since last report

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

Title of Each Class	Number of Shares of Common Stock Outstandingand Amount of Debt Outstanding
Common Shares	1,249,139,678[1/]

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 Stocks

12. Indicate by check mark whether the registrant:
(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 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 reports):
Yes [√] No [ ]
(b) has been subject to such filing requirements for the past ninety (90) days.
Yes [√] No [ ]

[1] A total of 423,962,500 common shares were issued to the stockholders of Allied Banking Corporation (ABC) relative to the merger of PNB with ABC effective February 9, 2013. Said shares are for registration with the Securities and Exchange Commission (SEC) and to be listed to the Philippine Stock Exchange, Inc. (PSE).

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Philippine National Bank (PNB) and its Subsidiaries (the PNB Group) which comprise the consolidated statements of financial position as of March 31, 2015 and December 31, 2014 and the consolidated statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the three months ended March31, 2015 and March 31, 2014have been prepared in compliance with Philippine Financial Reporting Standards (PFRS) and in accordance with Philippine Accounting Standards (PAS) 34, Interim Financial Reporting.

The same accounting policies and methods have been followed in the preparation of the accompanying financial statements, consistent with the 2014 Audited Financial Statements except for the new, amendments and improvements to PFRS which became effective as of January 1, 2015.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

A. Financial Condition

The Group's consolidated assets reached ₱620.6 billion as of March 31, 2015, slightly lower by ₱4.8 billion compared to ₱625.4 billion total assets reported by the Bank as of December 31, 2014. Changes (more than 5%) in assets were registered in the following accounts:

- Interbank Loans Receivable was at ₱8.6 billion as of March 31, 2015, an increase of ₱0.9 billion from ₱7.7 billion as of December 31, 2014 due mainly to interbank borrowings to various banks.

- Available for Sale Investments went up to ₱67.3 billion as of March 31, 2015, ₱4.2 billion or 6.7% higher than the ₱63.1 billion level as of December 31, 2014 due to acquisition of various securities.

- Financial Assets at Fair Value Through Profit or Loss at ₱16.3 billion went down by 6.3% or ₱1.1 billion from ₱17.4 billion attributed mainly to sale of various investment securities.

- Loans and Receivables stood at ₱310.9 billion or ₱5.4 billion lower than the ₱316.3 billion December 2014 level mainly due to P3.3 billion HDMF bonds booked under Time Loan – Unquoted which matured in February.

- Cash and Other Cash Items decreased by ₱3.5 billion from ₱14.6 billion to ₱11.1 billion. Due from Other Banks went down by ₱3.1 billion from ₱15.6 billion to ₱12.5 billion.

- Other assets were higher by ₱0.2 billion from ₱5.2 billion to ₱5.4 billion.

Consolidated liabilities decreased by ₱6.7 billion from ₱526.4 billion as of December 31, 2014 to ₱519.7 billion as of March 31, 2015. Major changes in liability accounts were as follows:

- Deposit liabilities totalled ₱441.0 billion, ₱6.6 billion lower compared to its year-end 2014 level of ₱447.6 billion. Time deposits increased by ₱0.8 billion from ₱52.9 billion to

₱53.7billion, while demand and savings deposits are lower by ₱3.0 billion and ₱4.4 billion, respectively, compared to the December 2014 levels.

- Bills Payable showed slight increase at ₱19.4 billion compared to the ₱19.1 billion level in December

- Income Tax Payable increased by ₱229 million from ₱85 million to ₱314 million coming from income tax provisions in the current year.

Total equity accounts now stood at ₱100.9 billion from ₱99.1 billion as of December 31, 2014, or an improvement of ₱1.8 billion mainly attributed to the first quarter income of ₱1.2 billion and from the ₱0.6 billion decline in net unrealized loss on AFS adjustments.

B. Results of Operations

- Consolidated net income reached ₱1.2 billion for the first three months of 2015, slightly lower compared to the ₱1.3 billion net income reported for the same period last year.

- Net interest income totalled ₱4.3 billion, or slightly lower by ₱0.2 billion compared to the net interest income for the same period last year as a result of non-recurring interest income from the redemption of non-performing assets in the first quarter of 2014.

- Fee-based and other income increased by ₱0.1 billion to ₱1.1 billion from ₱1.0 billion for the same period last year. The increase mainly came from net gains on sale or exchange of assets.

- Net service fees and commission income was unchanged at ₱0.6 billion while net insurance premiums doubled to ₱0.2 billion for the three months ended March 31, 2015.

- Administrative and other operating expenses totalled ₱4.5 billion for the three months ended March 31, 2015, ₱0.1 billion higher compared to the same period last year. Increases were registered in Compensation and Fringe Benefits by ₱0.5 billion. Taxes and Licenses also increased by ₱0.1 billion. These were however, partly offset by decreases in Provision for impairment and credit losses by ₱0.1 billion, miscellaneous expenses by ₱0.3 billion and depreciation and amortization by ₱0.1 billion.

- Total Comprehensive Income for the three months period ended December 31, 2014 amounted to ₱1.9 billion, ₱0.3 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 ₱1.2 billion and net unrealized gain on available-for-sale securities by ₱0.6 billion.

C. Key Performance Indicators

- Capital Adequacy

  The Group's consolidated risk-based capital adequacy ratio (CAR) and Tier 1 ratio computed based on BSP guidelines were 21.32 % and 18.09% respectively, as of March 31, 2015 and 20.61% and 17.43% respectively, as of December 31, 2014, consistently exceeding the regulatory 10% CAR.

- Asset Quality

The Group's non-performing loans (gross of allowance) decreased to ₱9.3 billion as of March 31, 2015 compared to ₱9.9billion as of December 31, 2014. NPL ratios based on BSP guidelines are now 0.64% (net of valuation reserves) and 3.24% (at gross), from 0.92% and 3.42%, respectively in December 2014.

- Profitability

	Three Months Ended	
	3/31/2015	3/31/2014
Return on equity (ROE)[1/]	**5.0%**	**6.3%**
Return on assets(ROA)[2/]	**0.8%**	**0.9%**
Net interest margin(NIM)[3/]	**3.2%**	**3.5%**

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

- Liquidity

The ratio of liquid assets to total assets as of March 31, 2015 was 34.4% compared to 34.1% as of December 31, 2014. Ratio of current assets to current liabilities was at 46.4% as of March 31, 2015 compared to 45.3% as of December 31, 2014.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 70.6% for the three months ended March 31, 2015 compared to 66.8% for the same period last year.

- Other financial soundness indicators is shown in Annex A

D. Known trends, demands, commitments, events or uncertainties

There are no known demands, commitments, events or uncertainties that will have a material impact on the Bank's liquidity and continuing operations within the next twelve (12) months.

E. 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 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 material adverse effect on the financial statements.

F. Material off-balance sheet transactions, arrangements or obligations

The summary of various commitments and contingent accounts as of March 31, 2015 and December 31, 2014 at their equivalent peso contractual amounts is presented in Note 18 of the Selected Notesto Consolidated Financial Statements on page 53 of this report.

G. 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.

H. Significant Elements of Income or Loss

Significant elements of the consolidated net income of the Group for the three months endedMarch31, 2015and 2014came from its continuing operations.

I. Issuances, Repurchased and Prepayment of Debts and Equity Securities

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	Carrying Value 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.

J. Seasonal Aspects

There are no seasonal aspects that had a material effect on the PNB Group's financial condition and results of operations.

K. Other Bank's Activities

A. Products and Services launched by the Bank during the 1st quarter of 2015:

- BancNet eGov

BancNet eGov is a web-based electronic filing and payment facility for the processing of payments between employers, government agencies and depository banks. This facility provides banks and corporate clients the convenience to pay for their employees' monthly contributions and loans to SSS, Pag-Ibig and Philhealth via Bancnet Online.

- Mag Padala, Mag Palipad Raffle Promo

Under this promotion, over 100 roundtrip tickets will be given away. Remittance from abroad through any PNB overseas branch or any of PNB's authorized agents excluding PNB Guam authorized agents entitles customers to a raffle entry for a chance to win one (1) free Philippine Airlines roundtrip ticket to the Philippines and two (2) Philippine Airlines domestic roundtrip tickets. One successful remittance is entitled to one raffle entry. Promotion runs from April 15, 2015 to August 15, 2015.

B. Other relevant activities of the Bank during the 1st quarter of 2015

- PNB Signs Loan Term Agreement with MORESCO 1 - PNB and Misamis Oriental 1 Rural Electric Service Cooperative, Inc. (MORESCO I) entered into a Loan Agreement of up to ₱1.2 Billion 10-Year Term Loan Facility which will be used to finance the construction of transmission lines, rehabilitation and upgrading of existing distribution lines and system loss reduction projects. The proposed capital expenditure projects were approved by the Energy Regulatory Commission (ERC) in December 2014 which aims to ensure distribution system reliability and efficiency. MORESCO I is registered with National Electrification Administration (NEA). It is rated AAA EC and categorized as Mega Large by NEA. MORESCO I was the first electric cooperative to be founded and organized in the Philippines on May 21, 1968. MORESCO I currently services the electricity needs of the southern part of Misamis Oriental consisting of 10 Municipalities, namely, Alubijid, El Salvador City, Gitagum, Initao, Laguindingan, Libertad, Lugait, Manticao, Naawan and Opol. It has more than 72,000 connected households as of December 2014.

- PNB iTax - PNB brings PNB iTax, the country's first online tax payment service for individuals that provides a convenient way for customers to pay taxes without going to a BIR authorized agent bank. The PNB iTax is in line with the Bureau of Internal Revenue's (BIR) eBIRForms project which aims to provide more convenient and accessible filing channels for taxpayers who are enrolled in the BIR Interactive Filing System (BIR-IAFS).

L. Other Matters

1. Adoption of PFRS 9 (Financial Instruments Recognition and Measurement) PFRS 9, Financial Instruments

In compliance with SEC Memorandum Circular No. 3 Series 2012, the Bank discloses the following information:

1. The Bank is still evaluating the effect of the early adoption of PFRS 9 and the impact on its financials; hence the interim financial statements do not reflect the impact of the said standard.

2. In case of early adoption of PFRS 9, the following accounts may be affected:

a. Loans and Receivables
b. Investment Securities
c. Financial Liabilities Designated at FVPL
d. Retained Earnings
e. Undivided Profits

2. National Steel Corporation

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.The Decision of the Singapore Court of Appeal will have a positive impact on the books of the Parent Company.

3. 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.

Other Disclosures

The PNB Group has nothing to disclose on the following:
- Change in estimates reported in prior interim periods and in prior financial years
- Dividends paid
- Material subsequent events subsequent to the end of the interim period
- Changes in the composition of the enterprise during the interim period, including business combinations, acquisitions and disposal of subsidiaries and long-term investments, restructuring and discontinuing operations.

PART II – OTHER INFORMATION

ITEM 1. List of submitted SEC FORM 17-C Reports duringthe First Quarterof 2015

DATE	PARTICULARS
01-30-15	Retirement of Mr. Zacarias E. Gallardo, Jr., First Senior Vice President, on December 31, 2014 and his engagement as a consultant effective on January 1, 2015; Resignation of Ms. Doris S. Te, Corporate Secretary, effective at the close of business hours of June 1, 2015.

02-27-15 Holding of Annual Stockholders' Meeting of the Bank on May 26, 2015 at the Century Park Hotel; Record date will be on April 27, 2015.

03-27-15 Notation of the end of management contract of Mr. Ramon L. Lim, First Senior Vice President of the Bank, effective as of the close of business hours of March 31, 2015.

03-31-15 Nominees for the Board of Directors of the Philippine National Bank for the year 2015-2016; Re-election of independent directors.

ITEM 2. Aging of Loans Receivables

The schedule of aging of loans receivables as required by Philippine Stock Exchange (PSE) in its Circular letter No. 2164-99 dated August 23, 2001 is shown on page 48 of this report.

PART III - INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As of March 31, 2015
(With Comparative Audited Figures as of December 31, 2014)
(In Thousands)

	March 31, 2015 (Unaudited)	December 31, 2014 (Audited)
ASSETS		
Cash and Other Cash Items	**₱11,073,415**	₱14,628,489
Due from Bangko Sentral ng Pilipinas	**108,238,361**	105,773,685
Due from Other Banks	**12,538,753**	15,591,406
Interbank Loans Receivable	**8,585,190**	7,671,437
Securities Held Under Agreements to Resell	**–**	–
Financial Assets at Fair Value Through Profit or Loss	**16,311,271**	17,351,626
Available-for-Sale Investments	**67,307,316**	63,091,497
Held to Maturity Investments	**23,758,344**	22,970,306
Loans and Receivables	**310,873,972**	316,253,021
Property and Equipment	**19,633,483**	19,574,383
Investment Properties	**19,861,408**	20,248,482
Deferred Tax Assets	**1,396,371**	1,461,938
Intangible Assets	**2,209,629**	2,294,824
Goodwill	**13,375,407**	13,375,407
Other Assets	**5,445,939**	5,159,331
TOTAL ASSETS	**₱620,608,859**	₱625,445,832

LIABILITIES AND EQUITY

	March 31, 2015 (Unaudited)	December 31, 2014 (Audited)
LIABILITIES		
Deposit Liabilities		
Demand	**₱98,515,235**	₱101,561,040
Savings	**288,792,213**	293,201,308
Time	**53,727,870**	52,881,409
	441,035,318	447,643,757
Financial Liabilities at Fair Value Through Profit or Loss	**10,932,113**	10,862,025
Bills and Acceptances Payable	**19,446,667**	19,050,058
Accrued Taxes, Interest and Other Expenses	**5,688,078**	5,441,349
Subordinated Debt	**9,973,596**	9,969,498
Income Tax Payable	**314,496**	85,505
Other Liabilities	**32,290,511**	33,332,758
TOTAL LIABILITIES	**519,680,779**	526,384,950

(Forward)

	March 31, 2015 (Unaudited)	December 31, 2014 (Audited)
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY		
Capital Stock	**₱49,965,587**	₱49,965,587
Capital Paid in Excess of Par Value	**31,331,251**	31,331,251
Surplus Reserves	**529,941**	537,620
Surplus	**19,903,621**	18,702,394
Remeasurement Losses on Retirement Plan	**(2,296,236)**	(2,292,833)
Accumulated Translation Adjustment	**(80,270)**	(59,854)
Net Unrealized Gain (Loss) on Available-for-Sale Investments	**(1,701,648)**	(2,336,142)
Parent Company Shares Held by a Subsidiary	**–**	–
	97,652,246	95,848,023
NON-CONTROLLING INTERESTS	**3,275,834**	3,212,859
TOTAL EQUITY	**100,928,080**	99,060,882
TOTAL LIABILITIES AND EQUITY	**₱620,608,859**	₱625,445,832

See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF INCOME

(In Thousands, Except Earnings Per Share)

	For the Three Months Ended March 31	
	2015 (Unaudited)	2014 (Unaudited)
INTEREST INCOME ON		
Loans and receivables	**₱ 4,009,199**	**₱ 3,761,890**
Trading and investment securities	**903,896**	**813,105**
Deposits with banks and others	**297,753**	**782,073**
Interbank loans receivable	**7,414**	**3,424**
	5,218,262	**5,360,492**
INTEREST EXPENSE ON		
Deposit liabilities	**699,177**	**716,919**
Bills payable and other borrowings	**267,297**	**197,075**
	966,474	**913,994**
NET INTEREST INCOME	**4,251,788**	**4,446,498**
Service fees and commission income	**869,452**	**821,887**
Service fees and commission expense	**232,572**	**183,912**
NET SERVICE FEES AND COMMISSION INCOME	**636,880**	**637,975**
Net insurance premiums	**924,622**	**619,038**
Net insurance benefits and claims	**732,930**	**533,380**
NET INSURANCE PREMIUMS (BENEFITS AND CLAIMS)	**191,692**	**85,658**
OTHER INCOME		
Trading and investment securities gains - net	**207,921**	**237,346**
Foreign exchange gains – net	**292,438**	**343,754**
Net gain on sale or exchange of assets	**300,200**	**134,583**
Miscellaneous	**326,637**	**352,711**
TOTAL OPERATING INCOME	**6,207,556**	**6,238,525**
OPERATING EXPENSES		
Compensation and fringe benefits	**2,236,575**	**1,691,822**
Taxes and licenses	**532,638**	**475,119**
Occupancy and equipment-related costs	**317,411**	**349,976**
Depreciation and amortization	**375,717**	**412,439**
Provision for impairment, credit and other losses	**159,202**	**291,125**
Miscellaneous	**919,583**	**1,240,408**
TOTAL OPERATING EXPENSES	**4,541,126**	**4,460,889**
INCOME BEFORE INCOME TAX	**1,666,430**	**1,777,636**
PROVISION FOR INCOME TAX	**424,726**	**434,810**
NET INCOME	**1,241,704**	**1,342,826**
ATTRIBUTABLE TO:		
Equity Holders of the Parent Company	**1,201,227**	**1,339,675**
Non-controlling Interests	**40,477**	**3,151**
	₱1,241,704	**₱1,342,826**
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company	**₱0.96**	**₱ 1.21**

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In Thousands)

	For the ThreeMonths Ended March 31	
	2015 (Unaudited)	2014 (Unaudited)
NET INCOME	**₱1,241,704**	₱1,342,826
OTHER COMPREHENSIVE INCOME (LOSS)		
Items that recycle to profit or loss in subsequent periods:		
Net unrealized loss on available-for-sale investments	**634,494**	401,052
Accumulated translation adjustment	**(20,416)**	(155,064)
Items that do not recycle to profit or loss in subsequent periods:		
Remeasurement gains (losses) on retirement plan	**(3,403)**	–
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX	**610,675**	245,988
TOTAL COMPREHENSIVE INCOME FOR PERIOD	**₱1,852,379**	₱ 1,588,814
ATTRIBUTABLE TO:		
Equity Holders of the Parent Company	**₱1,789,404**	₱1,469,758
Non-controlling Interests	**62,975**	119,056
	₱1,852,379	₱1,588,814

See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(In Thousands)

	Attributable to Equity Holders of the Parent Company												
	Capital Stock (Note 14)	**Capital Paid in Excess of Par Value**	**Surplus Reserves**	**Surplus** (Note 2)	**Revaluation Increment on Land and Buildings**	**Accumulated Translation Adjustment**	**Net Unrealized Gain (Loss) on Available-for-Sale Investments**	**Equity in Net Unrealized Gain on AFS Investment of an Associate** (Note 10)	**Parent Company Shares Held by a Subsidiary** (Note 14)	**Remeasurement Losses on Retirement Plan** (Note 2)	**Total**	**Non-controlling Interests** (Note 2)	**Total Equity**
Balance at January 1, 2015, as previously reported	**₱49,965,587**	**₱31,331,251**	**₱537,620**	**₱18,702,394**	**₱–**	**(₱59,854)**	**₱ (2,336,142)**	**₱–**	**₱**	**₱ (2,292,833)**	**₱95,848,023**	**₱3,212,859**	**₱99,060,882**
Total comprehensive income (loss) for the period	–	–	–	**1,201,227**	–	**(20,416)**	**634,494**	–	–	**(3,403)**	**1,811,902**	**62,975**	**1,874,877**
Issuance of capital stock	–	–	–	–	–	–	–	–	–	–	–	–	–
Non-controlling interest arising on a business combination	–	–	–	–	–	–	–	–	–	–	–	–	–
Transfer to surplus reserves	–	–	**(7,679)**	–	–	–	–	–	–	–	**(7,679)**	–	**(7,679)**
Disposal of Parent Company shares held by a subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	–
Balance at March 31, 2015`	**₱ 49,965,587**	**₱ 31,331,251**	**₱ 529,941**	**₱19,903,621**	**₱–**	**₱(80,270)**	**(₱1,701,648)**	**₱–**	**₱–**	**(₱2,296,236)**	**₱97,652,246**	**₱3,275,834**	**₱100,928,080**
Balance at January 1, 2014, as previously reported	₱43,448,337	₱26,499,909	₱524,003	₱12,432,838	₱2,489,722	₱291,371	₱(3,581,865)	₱-	₱-	(₱1,278,372)	₱80,825,943	₱3,071,685	₱83,897,628
Effect of restatement				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	–	291,371	(3,581,865)	–	–	(1,278,372)	79,260,725	3,071,685	82,332,410
Total comprehensive income (loss) for the period	–	–	–	1,339,675	–	(155,064)	401,052	–	–	–	1,585,663	119,056	1,704,719
Issuance of capital stocks	**1,328,734**	**922,247**									**2,250,981**	–	**2,250,981**
Transfer from surplus reserves	–	–	–	–	–	–	–	–	–	–	–	–	–
Balance at March 31, 2014	₱44,777,071	₱27,422,156	₱524,003	₱ 14,697,017	₱–	₱136,307	(₱3,180,813)	₱–	₱-	(₱1,278,372)	₱83,097,369	₱ 3,190,741	₱86,288,110

See accompanying Notes to Consolidated Financial Statements

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

	ThreeMonths Ended March 31	
	2015	2014
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱1,666,429**	₱1,777,636
Adjustments for:		
Realized trading gain on available-for-sale (AFS) investments	**(265,293)**	(151,928)
Depreciation and amortization	**375,717**	303,000
Amortization of premium on AFS investments	**57,860**	139,151
Provision for impairment, credit and other losses	**159,202**	291,125
Net gain/(loss) on sale or exchange of assets	**13,080**	(24,864)
Mark-to-market loss (gain) on derivatives		(63,754)
Amortization of intangibles	**85,195**	110,000
Loss (gain) on mark-to-market of financial liability designated at fair value through profit or loss (FVPL)	**-**	(857)
Amortization of capitalized transaction costs	**4,098**	2,754
Changes in operating assets and liabilities:		
Decrease (increase) in amounts of:		
Financial assets at FVPL	**1,305,648**	(1,810,590)
Loans and receivables	**5,114,452**	3,036,610
Other assets	**(347,600)**	(2,265,009)
Increase (decrease) in amounts of:		
Financial assets at FVPL	**70,088**	278,922
Deposit liabilities	**(6,608,439)**	(9,494,916)
Accrued taxes, interest and other expenses	**246,729**	(99,128)
Other liabilities	**(1,053,330)**	5,333,689
Net cash generated from (used in) operations	**823,836**	(2,638,159)
Income taxes paid	**(195,735)**	143,183
Net cash provided by (used in) operating activities	**628,101**	(2,494,976)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of:		
AFS investments	**11,078,570**	**12,965,581**
Investment properties	**430,321**	**382,922**
Property and equipment	**30,941**	**97,873**

(Forward)

	Three Months Period Ended March 31	
	2015 (Unaudited)	**2014 (Unaudited)**
Acquisitions of:		
AFS investments	**(₱14,679,470)**	(₱17,157,266)
Held to Maturity Investments	**(826,323)**	-
Property and equipment	**(288,048)**	(94,849)
Software cost		(118,236)
Net cash provided by (used in) investing activities	**(4,254,009)**	(3,923,976)
CASH FLOWS FROM FINANCING ACTIVITIES		
Settlement of bills and acceptances payable	**18,224,268**	(13,924,630)
Proceeds from bills and acceptances payable	**(17,827,658)**	7,235,457
Transaction cost attributable to issuance of shares	**-**	2,250,981
Net cash provided by (used in) financing activities	**396,610**	(4,438,192)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(3,229,298)**	(10,857,143)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		
Cash and other cash items	**14,628,489**	11,804,746
Due from BSP	**105,773,685**	153,169,330
Due from other banks	**15,591,406**	14,881,541
Interbank loans receivable	**7,671,437**	8,405,250
Securities held under agreements to resell		–
	143,665,017	**188,260,867**
CASH AND CASH EQUIVALENTS AT END OF PERIOD		
Cash and other cash items	**11,073,415**	9,801,433
Due from BSP	**108,238,361**	132,017,882
Due from other banks	**12,538,753**	27,373,260
Interbank loans receivable	**8,585,190**	3,080,149
Securities held under agreements to resell	**-**	5,131,000
	₱140,435,719	**₱177,403,724**
OPERATIONAL CASH FLOWS FROM INTEREST ANDDIVIDENDS		
Interest received	**₱5,472,379**	₱7,794,353
Interest paid	**953,617**	930,327
Dividends received	**-**	4,115

See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

NOTES TO INTERIM CONDENSED CONSOLIDATED 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.

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 660 domestic branches as of March 31, 2015. The Parent Company has the largest overseas network among Philippine banks with 74 branches, representative offices, remittance centers and subsidiaries as of March 31, 2015, in 15 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 non-life insurance, merchant banking, leasing, stock brokerage, foreign exchange trading and/or related services.

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, representing 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. The fair value of the shares was the published price of the shares of the Parent Company as of February 9, 2013. There were no contingent considerations arrangements as part of the merger. Following the Parent Company's stock rights offering in the first quarter of 2014, the LT Group Inc. (LTG) increased its indirect ownership in the Parent Company to 59.83% as of March 31, 2015 through its various holding companies. Director Lucio C. Tan directly owns 1.19% of the Parent Company's shares while the shareholders related to or who issue proxies/special powers of attorney in favor of Director Lucio C. Tan from time to time held a total of 17.95% of the Parent Company's shares. The remaining 21.03% of the Parent Company's shares are held by other stockholders.

2. Basis of Preparation and Changes to the Group's Accounting Policies

Basis of Preparation
The accompanying interim condensed consolidated financial statements of the Parent Company and its subsidiaries (the Group) as of March 31, 2015 and for the three months ended March 31, 2015 and 2014 have been prepared in accordance with Philippine Accounting Standards (PAS) 34, *Interim Financial Reporting*. The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as of and for the year ended December 31, 2014.

Amounts in the interim condensed consolidated financial statements are presented to the nearest thousand pesos (₱000) unless otherwise stated.

Seasonality or Cyclicality of Interim Operations
Seasonality or cyclicality of interim operations is not applicable to the Group's type of business.

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, 2014, except for the adoption of the following new, amendments and improvements to Philippine Financial Reporting Standards (PFRS) which became effective as of January 1, 2015.

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.

3. **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, AFS investments and land and buildings measured at revalued amount.

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

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

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The Group held the following assets and liabilities measured at fair value and at cost but for which fair values are disclosed and their corresponding level in fair value hierarchy:

	March 31, 2015 (Unaudited)			
	Level 1	Level 2	Level 3	Total Fair Value
Assets measured at fair value:				
Financial Assets				
Financial assets at FVPL:				
Financial assets at FVPL:				
Held-for-trading:				
Government securities	**₱4,238,721**	**₱822,227**	**₱–**	**₱5,060,948**
Derivative assets	**–**	**108,737**	**58,832**	**167,569**
Private debt securities	**209,848**	**7,766**	**–**	**217,614**
Equity securities	**210,369**	**–**	**–**	**210,369**
Designated at FVPL:				
Segregated fund assets	**6,310,050**	**–**	**5,329,542**	**11,639,592**
	₱10,968,988	**₱938,730**	**₱5,388,374**	**₱ 17,296,092**
AFS investments:				
Government securities	**₱ 29,663,596**	**₱7,496,997**	**₱–**	**₱ 37,160,593**
Other debt securities	**24,309,197**	**2,557,932**	**113,909**	**26,981,038**
Equity securities*	**2,018,302**	**52,486**	**–**	**2,070,788**
	₱66,960,083	**₱ 11,046,145**	**₱5,502,283**	**₱83,508,511**

	March 31, 2015 (Unaudited)			
	Level 1	**Level 2**	**Level 3**	**Total Fair Value**
Financial Liabilities				
Financial Liabilities at FVPL:				
Designated at FVPL:				
Segregated fund liabilities**	**₱6,600,718**	**₱–**	**₱ 5,329,542**	**₱11,930,260**
Derivative liabilities	**–**	**114,991**	**–**	**114,991**
	₱6,600,718	**₱114,991**	**₱ 5,329,542**	**₱12,045,251**
Assets for which fair values are disclosed:				
Financial Assets				
Held to Maturity Investments:				
Government securities	**₱22,320,687**	**₱61,559**		**₱22,382,246**
Loans and Receivables				
Receivables from customers	**₱–**	**₱–**	**₱306,123,644**	**₱306,123,644**
Unquoted debt securities	**₱–**	**₱–**	**6,300,968**	**6,300,968**
	₱22,320,687	**₱61,559**	**₱312,424,612**	**₱312,424,612**
Non-financial Assets				
Investment property***				
Land	**₱–**	**₱–**	**₱28,392,588**	**₱28,392,588**
Buildings and improvements	**–**	**–**	**5,251,948**	**5,251,948**
	₱–	**₱–**	**₱33,644,535**	**₱33,644,535**
Liabilities for which fair values are disclosed:				
Financial Liabilities				
Financial liabilities at amortized cost				
Time deposits	**₱–**	**₱–**	**₱ 53,888,434**	**₱ 53,888,434**
Bills payable			**19,446,667**	**19,446,667**
Subordinated debt	**–**	**–**	**10,505,476**	**10,505,476**
	₱–	**₱–**	**₱83,840,577**	**₱83,840,577**

* *Excludes unquoted available-for-sale securities*
** *Excludes cash component*
*** *Based on the fair values from appraisal reports which are different from their carrying amounts which are carried at cost.*

		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**

		Consolidated				
		2014				
	Valuation Date	**Carrying Value**	**Level 1**	**Level 2**	**Level 3**	**Total**
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**
Non-financial 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**
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*

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

When fair values of listed equity and debt securities, as well as publicly traded derivatives at the reporting date are based on quoted market prices or binding dealer price quotations, without any deduction for transaction costs, the instruments are included within Level 1 of the hierarchy.

For all other financial instruments, fair value is determined using valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist and other revaluation models.

Significant input used in determining fair values of financial instruments under Level 2 comprises of interpolated market rates of benchmark securities.

As of March 31, 2015 and December 31, 2014, 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	
	March 31, 2015 (Unaudited)	December 31, 2014 (Audited)
Financial assets		
Balance at beginning of year	**₱5,339,628**	₱5,545,916
Fair value changes recognized in profit or loss	**162,655**	(206,268)
Balanc at end of year	**₱5,502,283**	₱5,339,628
Balance at beginning of year	**₱5,268,468**	₱6,380,053
Fair value changes recognized in profit or loss	**61,074**	(111,585)
Balance at end of year	**₱5,329,542**	₱5,268,468

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.*

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.*

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 ₱800 to ₱100,000
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.

Significant Unobservable Inputs

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.

4. **Financial Risk Management**

The bank's Capital Adequacy Ratio as of end of March 2015 stands at 21.318% on a consolidated basis while the bank's Risk Weighted Assets (RWA) as of end March 2015 amounted to ₱ 405,285 million composed of ₱ 362,078 million (Credit Risk Weighted Assets), ₱ 3,665 million (Market Risk Weighted Assets) and), ₱ 39,542 million (Operational Risk Weighted Assets).

The table below shows the comparative Bank's Capital Adequacy Ratio and Risk Weighted Assets:

Consolidated	March 31,2014	June 30, 2014	September 30, 2014	December 31, 2014	March 31,2015
Capital Adequacy Ratio	19.49%	18.827%	21.131%	20.605%	21.318%
In millions					
Credit Risk Weighted Assets	₱ 333,038	₱348,339	₱349,821	₱367,569	₱ 362,078
Market Risk Weighted Assets)	4,000	4,954	4,746	4,532	3,665
Operational Risk Weighted Assets	38,235	38,235	38,235	38,235	39,542
Total Risk Weighted Assets	₱375,273	₱ 391,528	₱392,803	₱ 410,336	₱ 405,285

The Board and its Risk Oversight Committee operate as the highest level of PNB's risk governance. At management level, risk governance is undertaken by a structured hierarchy of committees each with specified accountabilities. The continues flow of information between the board and board-level committees and the corresponding management committees; allow for consistent evaluation of the risks inherent in the business, raise the alarms, if any, and manage the business effectively with strong adherence to process management guidelines and controls.

While the first line of defense in risk management lies primarily on the bank's risk taking units as well as the bank's support units, the Risk Management Group is primarily responsible for the monitoring of risk management functions to ensure that a robust risk-oriented organization is maintained. The Risk Management Group is independent from the business lines and is organized in 6 divisions: Credit Risk & BASEL Implementation Division, Market & ALM Division, Operational Risk Management Division, Information Security and Technology Risk Division, Trust Risk Division and Business Intelligence & Data Warehouse Division.

Each division monitors the implementation of the processes and procedures that support the policies for risk management applicable to the organization. These policies clearly define the kinds of risks to be managed, set forth the organizational structure and provide appropriate training necessary. The policies also provide for the validation and audits to measure the effectiveness and suitability of the risk management structure. RMG also functions as the Secretariat to the Risk Oversight Committee which meets monthly to discuss the immediate previous month's total risk profile according to the material risks defined by the bank in its ICAAP document. Further, each risk division engages with all levels of the organization among its business and support groups. This ensures that the risk management and monitoring is embedded at the moment of origination.

At PNB, members of the senior management team play a pivotal role in the day-to-day running of the bank. Senior members of the executive officers are assigned to various management committees that provide the leadership and execution of the vision and policies approved by the bank's board of directors. The bank's business objectives are driven for most part by the day-to-day directions decided in these committees.

Risk Categories and Definitions

Amongst the emerging risks, that the bank faces - are those involving information security:

1. Cyber threats involving use of social engineering which may involve psychological manipulation of clients and personnel into performing actions and /or divulging confidential information. This can result to negative financial impact to both client and the bank. PNB has institutionalize various risk mitigating tools and activities to minimize, if not, eliminate the said cyber threats – installation of firewalls, IPS/IDS, enterprise security solution (anti-virus for endpoint, email and internet). The Bank has also implemented segmentation to control access within a given segment. Policy on regular change of password is implemented to prevent password guessing or unauthorized access. Policy on password tries is limited to prevent brute-force attack. Education / InfoSec Awareness is also conducted.
2. ATM Skimming where the bank's clients are exposed to threats of financial losses due to compromise of ATM machines. PNB and other banks' machines are installed with devices to cloning of ATM card which illegally copies account details. Fraudsters use the details to create a fake or 'cloned' card and proceed to withdraw money from ATM Machines. PNB has institutionalized alert mechanism to immediately inform the clients of probable compromise and block the accounts for immediate client protection. The clients are then requested to confirm with their PNB branch of account to re-issue "cleaned" cards. Further, the bank has implemented the ATM SAFE product which provides insurance protection to clients for cases like these, among others.
3. Credit Card Skimming where bank credit card holders are exposed to threats of financial losses due to theft of credit card details to create fake and "cloned" credit cards. Fraudsters then use these fake cards to purchase items which will be charged to the legitimate credit card holder. Skimming occurs most frequently at retail outlets that process credit card payments -- particularly bars, restaurants and gas stations. PNB's Credit Card Division continues to provide awareness memoranda, via various media channels to increase client awareness to protect their identity for credit cards. The bank has institutionalized an SMS alert to clients to inform them of their use of said cards and enjoining clients to immediately report untoward activities. Further the bank has embarked on the EMV project where identity chips will replace the outdated magnetic strips. This is expected to go-live by late 2016.

We broadly classify and define risks into the following categories, and manage the risks according to their characteristics. These are monitored accordingly under the enterprise ICAAP 2014 program:

Risk Category	Risk Definition	Risk Management Tools
Market Risk	Market risk is the risk to earnings or capital arising from adverse movements in factors that affect the market value of financial instruments, products and transactions in an institution's overall portfolio, both on or off balance sheet and contingent financial contracts. Market risk arises from market-making, dealing and position taking in interest rate, foreign exchange, equity, and commodities market.	▪ VAR Limits ▪ Stop Loss Limits ▪ Potential Loss Alerts ▪ ROP Exposure Limit ▪ Limit to Structured Products ▪ 30-day AFS Holding Period ▪ Traders' Limit ▪ Exception Report on Rate Tolerance
Liquidity Risk	Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from an FI's inability to meet its obligations when they come due.	▪ MCO Limits ▪ Liquid Assets Monitoring ▪ Stress testing ▪ Large Fund Provider Analysis ▪ Contingency Planning
Interest Rate Risk in the Banking Books (IRBB)	Interest rate risk is the current and prospective risk to earnings or capital arising from movements in interest rates. The amount at risk is a function of the magnitude and direction of interest rate changes and the size and maturity structure of the mismatch position. (BSP Circ 510, dated 03 Feb 2006)	▪ EAR Limits ▪ Stress Testing ▪ Balance Sheet Profiling ▪ Repricing Gap Analysis
Credit Risk (including Credit Concentration Risks and Counterparty Risks)	Credit risk is the risk to earnings or capital that arises from an obligor/s, customer/s or counterparty's failure to perform and meet the terms of its contract.	▪ Trend Analysis (Portfolio / Past Due and NPL Levels ▪ Regulatory and Internal Limits ▪ Stress Testing ▪ Rapid Portfolio Review ▪ CRR Migration ▪ Movement of Portfolio ▪ Concentrations and Demographics Review ▪ Large Exposure Report ▪ Counterparty Limits Monitoring ▪ Adequacy of Loan Loss Reserves Review
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.	▪ Country Risk Limits against benchmarks ▪ Limits to Exposures to ROPs ▪ Limits to exposures on CLNs and Structured Products
Operational Risk	Operational risk is the current and prospective risk to earnings or capital arising from fraud, error, and the inability to deliver products or services, maintain a competitive position, and manage	▪ Internal Control ▪ Board Approved Operating Policies and Procedures Manuals ▪ Board Approved Product

	information. It encompasses: product development and delivery, operational processing, systems development, computing systems, complexity of products and services, and the internal control environment.	Manuals ▪ Loss Events Report (LER) ▪ Risk and Control Self-Assessment (RCSA) ▪ Key Risk Indicators (KRI) ▪ Business Continuity Management (BCM) ▪ Statistical Analysis
Technology (including Information Security Risks)	Information Technology Risk is a business risk associated with the use, ownership, operation, involvement, influence and adoption of IT within the Bank (ISACA Risk IT Framework). IT Risk results to Information Security Risk since the risk would somehow result to non-preservation of any or all of the domains of information security; that is, confidentiality, integrity and availability of information asset (NIST IR 7298 Revision 2).	▪ Risk Asset Register ▪ Incident Reporting Management ▪ Information Security Policy Formulation
Strategic Risks	Strategic business risk is the current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes.	▪ Management Profitability Reports ▪ Benchmarking vis-a-vis Industry, Peers ▪ Economic Forecasting
Legal Risk	Legal risk is the current and prospective impact on earnings or capital arising from legal sanctions against the Bank. It includes the risk of exposure to litigation, arbitration, mediation and other non-litigious courses of action.	▪ Status of Legal Cases >Ph50MM at risk ▪ Review of pending tax assessment/s ▪ Adequate provisioning for probable losses ▪ Issuance of circulars, tax guidelines and procedures
Customer Franchise (including Reputational Risks)	Reputational risk is the current and prospective impact on earnings or capital arising from negative public opinion. Customer franchise risk is defined as the failure to find, attract, and win new clients, nurture and retain those the Bank already has, and entice former clients back into the fold as well as the failure to meet client's expectation in delivering the Bank's products and services.	▪ Account Closures Report ▪ Service Desk Customer Issues Report ▪ Evaluation/ Risk Mitigation of negative media coverage ▪ Review of Stock Price performance
Human Resources Risk	Human resource risk covers the Bank's risk of financial loss due to risks in human capital acquisition, losses due to inadequate training, inexperience or illegal activities of risk-taking and other personnel.	▪ Attrition Analysis ▪ Internal Fraud Analysis ▪ Training Needs Programs ▪ Recruitment Turnaround and Fit Analysis

Merger Risk	Merger risk is the current and prospective negative impact on quantifiable and non-quantifiable benefits expected from the integration of the 2 banks – Allied Bank and PNB. These are: 1. Delays in the implementation of integration activities as planned which can be caused by foreseen and unforeseen events 2. Non-achievement in the planned / targeted cost synergies 3. Delays in the integration of products, processes, technology and non-technology systems 4. Attrition of key personnel which may result in delays or targets not achieved 5. Overruns in the planned integration costs	▪ Integration Progress Reporting ▪ Approvals for major policy changes ▪ Risk Assessment for new/upgrade of information / automated systems ▪ Harmonization Timeline Tracking
Trust / Fiduciary Risks	Fiduciary risk is the measure of uncertainty that fiduciary requirements are actually met. PNB TBG has to contend with a variety of risks as it engages in investment management, rust and other fiduciary activities.	▪ Investment Studies ▪ Target Market ▪ Product Programs ▪ Setting of risk limits ▪ VaR & Stop Loss Limits ▪ Loss Alert Volume Limits ▪ Liquidity Limits ▪ Exposure Limits ▪ Exceptions / Breaches to Limits Reporting to ROC ▪ Stress testing
Compliance Risk	Compliance risk is the current and prospective risk to earnings or capital arising from violations of, or non-conformance with, laws, rules, regulations, prescribed practices, internal policies and procedures, or ethical standards.	▪ Circularization of new laws, regulatory agencies' circulars ▪ Compliance Training for employees, BOD & officers ▪ Compliance testing ▪ Enhanced quarterly certification ▪ Monitoring of Corrective Actions on Excepted items
Acquired Assets Disposal Risk	Acquired Assets Disposal Risk is the current and prospective negative impact to the bank because of the inability or delay in the disposal of the Bank's acquired assets.	▪ utilizes the following marketing outlets to promote and advertise (publications, auctions, mailers, social media, etc. ▪ Performance Management Reports ▪ ROPA & SCR Risk Dashboard (monthly)

5. **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; and

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.

Other Segments - include but not limited to insurance, leasing, remittances and other support services. Other operations 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 a 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 (FRP) 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 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.

The Group has no significant customer which contributes 10.00% or more of the consolidated revenue.

Business segment information of the Group follows:

	Three Months Ended March 31, 2015					
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Interest income	₱ 1,103,800	₱2,911,219	₱1,032,688	₱148,485	₱ 28,683	₱ 5,224,872
Interest expense	618,804	102,577	273,899	3,064	(25,259)	973,084
Net interest margin	484,996	2,808,642	758,789	145,421	53,942	4,251,788
Other income	686,977	585,015	336,641	1,327,175	(207,175)	2,728,634
Other expenses	1,766,371	212,979	50,060	911,512	59,974	3,000,895
Segment result	(594,398)	3,180,678	1,045,370	561,084	(213,207)	3,979,527
Inter-segment						
Imputed income	₱ 943,443	₱–	₱–	₱–	₱–	₱ 943,443
Imputed cost	–	(824,699)	(118,744)	–	–	(943,443)
Segment result to third party	₱349,045	₱2,355,979	₱ 926,625	₱561,084	₱(213,207)	3,979,527
Unallocated expenses						2,313,097

	Three Months Ended March 31, 2015					
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Net income before share in net income of an associate and income tax						
Share in net income of an associate						
Net income before income tax						1,666,430
Income tax						424,726
Net income						1,241,704
Non-controlling interest						40,477
Net income for the year attributable to equity holders of the Parent Company						₱1,201,227
Other Segment Information						
Capital expenditures	₱ 219,715	₱ 3,080	₱ 1,332	₱ 63,921	₱-	₱ 288,048
Depreciation and amortization	₱ 95,887	₱38,851	₱ 1,894	₱176,576	₱ 38,523	₱351,731
Unallocated depreciation and amortization						23,986
Total depreciation and amortization						₱ 375,717
Provision for impairment, credit and other losses	₱ 17,673	₱ (343,791)	₱-	₱ 1,271	₱484,048	₱159,201

** The eliminations and adjustments column mainly represent the RAP to PFRS adjustments*

	As of March 31, 2015					
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Segment assets	₱307,974,484	₱229,001,977	₱140,059,989	₱238,949,132	₱(297,400,394)	₱ 618,585,187
Unallocated assets						2,023,672
Total assets						₱ 620,608,859
Segment liabilities	₱491,277,997	₱39,648,816	₱43,866,916	₱170,790,627	₱(275,187,305)	₱ 470,397,049
Unallocated liabilities						49,283,730
Total liabilities						₱ 519,680,778

** The eliminations and adjustments column mainly represent the RAP to PFRS adjustments*

	Three Months Ended March 31, 2014					
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Inter-segment						
Imputed income	₱ 945,292	₱–	₱–	₱–	₱–	₱ 945,292
Imputed cost	–	(723,322)	(221,971)	–	–	(945,292)
Segment result to third party	₱ 118,005	₱ 1,376,232	₱ 215,453	₱ 510,855	₱691,389	2,911,935
Unallocated expenses						1,134,299
Net income before share in net income of an associate and income tax						1,777,636
Share in net income of an associate						–
Net income before income tax						1,777,636
Income tax						434,810
Net income						1,342,826
Non-controlling interest						3,151
Net income for the period attributable to equity holders of the Parent Company						₱1,339,675
Other segment information						
Capital expenditures	₱ 291,028	₱ 22,751	₱ 39	₱ 89,212	₱–	₱ 403,030
Depreciation and amortization	₱ 43,162	₱ 34,156	₱ 1,875	₱ 181,594	₱ 89,325–	₱350,112
Unallocated depreciation and amortization						62,327
Total depreciation and amortization						₱412,438
Provision for (reversal of) impairment, credit and other losses	₱ 13,547	₱ (29,727)	₱–	₱1,656	₱ 305,649	₱ 291,125

**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*

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 and credit commitments items as of March 31, 2015 and December 31, 2014 and capitalized expenditures and revenues for the three-month periods ended March 31, 2015 and December 31, 2014 by geographic region of the Group follows:

	Assets		**Liabilities**		**Credit Commitments**	
	March 31, 2015	December 31, 2014	**March 31, 2015**	December 31, 2014	**March 31, 2015**	December 31, 2014
Philippines	**₱ 588,972,982**	₱ 592,574,950	**₱ 502,419,467**	**₱ 506,034,141**	**₱ 15,154,522**	**₱15,661,774**
Asia (excluding Philippines)	**23,690,385**	24,101,673	**13,446,922**	**15,572,732**	**276,701**	**467**
USA and Canada	**6,707,930**	7,050,528	**3,329,134**	**3,639,786**	**43**	**8,104**
United Kingdom	**1,577,222**	364,619	**824,917**	**1,138,291**	–	–
Other European Union Countries	**-**	1,354,062	**-**	**-**	–	–
	₱ 620,948,520	₱ 625,445,832	**₱ 520,020,440**	**₱ 526,384,950**	**₱ 15,431,266**	**₱15,670,345**

	Capital Expenditures		**Revenues**	
	March 31, 2015	March 31, 2014	**March 31, 2015**	March 31, 2014
Philippines	**₱285,103**	₱ 337,167	**₱ 6,681,743**	₱ 7,460,407
Asia (excluding Philippines)	**2,939**	15,331	302,572	2,283
USA and Canada	**6**	87	**139,585**	147,414
United Kingdom	**–**	50,445	**39,107**	46,649
Other European Union Countries	**–**	–	**–**	19
	₱ 288,048	₱ 403,030	**₱ 7,163,007**	₱ 7,656,772

The Philippinesis 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 business segments.

6. Due from BSP

As of March 31, 2015 and December 31, 2014, 33.35% and 29.35% of the Parent Company's Due from BSP are placed under the SDA with the BSP. Those SDAs bear interest at annual interest rates of 2.5% as of March 31, 2015 and annual interest ranging from 2.00% to 3.00% as of December 31, 2014.

7. Trading and Investment Securities

The Group has the following trading and investment securities:

	March 31, 2015 (Unaudited)	December 31, 2014 (Audited)
Financial assets at FVPL	**16,311,271**	₱17,351,626
AFS investments	**67,307,316**	63,091,497
HTM investments	**23,758,344**	22,970,306
	107,376,931	₱103,413,429

Financial Assets at FVPL
This account consists of:

	March 31, 2015 (Unaudited)	December 31, 2014 (Audited)
Held-for-Trading:		
Government securities	**₱5,061,017**	₱6,131,278
Private debt securities	**217,614**	218,193
Derivative assets	**167,570**	136,551
Equity securities	**210,300**	210,834
	5,656,501	6,696,856
Designated at FVPL:		
Segregated fund assets	**10,654,770**	10,654,770
Private debt securities		–
	₱16,311,271	₱17,351,626

AFS Investments
This account consists of:

	March 31, 2015 (Unaudited)	December 31, 2014 (Audited)
Government securities	**₱42,466,754**	₱37,145,450
Other debt securities	**23,548,165**	23,708,156
Equity securities - net of allowance for impairment losses of₱0.9 billion	**1,292,397**	2,237,891
	₱67,307,316	₱63,091,497

Trading and investment securities gains - net
This account consists of:

	Three Months Ended	
	March 31, 2015 (Unaudited)	March 31, 2014 (Unaudited)
Financial assets at FVPL:		
Held-for-trading	₱(19,695)	₱ 22,521
Derivatives	(22,670)	63,754
Designated at FVPL	-	-

	Three Months Ended	
	March 31, 2015 (Unaudited)	March 31, 2014 (Unaudited)
AFS investments		
Government securities	136,023	72,315
Other debt securities	129,270	61,499
Equity securities	-	-
Financial liabilities at FVPL:		
Derivative liabilities	-	-
Designated at FVPL	-	-
	₱222,928	₱ 220,089

8. Loans and Receivables

This account consists of:

	March31, 2015 (Unaudited)	December 31, 2014 (Audited)
Receivable from customers:		
Loans and discounts	**₱284,905,658**	₱279,256,983
Customers' liabilities on acceptances, letters of credit and trust receipts	**9,362,467**	11,594,905
Bills purchased	**3,677,467**	4,878,682
Credit card receivables	**4,186,655**	4,390,966
Lease contracts receivable	**213,901**	3,324,277
	302,346,147	303,445,813
Less unearned and other deferred income	**1,267,974**	1,261,386
	301,078,173	302,184,427
Unquoted debt securities	**4,269,064**	8,044,272
Other receivables:		
Accounts receivable	**8,314,118**	8,993,706
Accrued interest receivable	**4,502,583**	4,756,699
Sales contract receivables	**4,628,656**	4,267,338
Miscellaneous	**446,317**	442,088
	17,891,674	18,459,831
	323,238,912	328,688,530
Less allowance for credit losses	**12,364,940**	12,435,509
	₱310,873,972	₱316,253,021

The table below shows the industry sector analysis of the Group's receivable from customers before taking into account the allowance for credit losses (amounts in millions):

	Consolidated			
	March 31, 2015		December 31, 2014	
	Carrying Amount	**%**	Carrying Amount	%
Primary target industry:				
Wholesale and retail	**₱45,496,866**	**15.05**	₱44,259,825	14.59
Electricity, gas and water	**39,034,219**	**12.91**	43,111,698	14.21
Manufacturing	**38,271,320**	**12.66**	40,789,519	13.44
Financial intermediaries	**22,052,846**	**7.29**	37,940,739	12.50
Public administration and defense	**35,229,499**	**11.65**	23,464,016	7.73
Transport, storage and communication	**20,767,676**	**6.87**	19,342,572	6.38
Agriculture, hunting and forestry	**4,833,759**	**1.60**	4,343,522	1.43
Secondary target industry:				
Real estate, renting and business activities	**35,194,150**	**11.64**	39,672,249	13.07
Construction	**8,386,450**	**2.77**	8,508,366	2.80
Others	**53,079,362**	**17.56**	42,013,307	13.85
	₱302,346,147	**100.00**	₱303,445,813	100.00

The information (gross of unearned and other deferred income) relating to receivable from customers as to secured and unsecured and as to collateral follows:

	March 31, 2015 (Unaudited)		December 31, 2014 (Audited)	
	Carrying Amount	**%**	Carrying Amount	%
Secured:				
Real estate mortgage	**₱70,679,662**	**23.38**	₱68,910,935	22.71
Chattel mortgage	**12,194,853**	**4.03**	10,341,429	3.41
Bank deposit hold-out	**3,638,469**	**1.20**	6,336,908	2.09
Shares of stocks	**35,760**	**0.01**	35,776	0.01
Others	**38,528,417**	**12.74**	39,354,446	12.97
	73,188,781	**41.37**	124,979,494	41.19
Unsecured	**177,268,986**	**58.63**	178,466,319	58.81
	₱ 302,346,147	**100.00**	₱ 303,445,813	100.00

Non-performing Loans (NPLs) classified as secured and unsecured as reported to BSP follows:

	March 31, 2015 (Unaudited)	December 31, 2014 (Audited)
Secured	**₱6,298,936**	₱6,960,289
Unsecured	**3,002,126**	2,960,524
	₱9,301,062	₱9,920,813

9. **Property and Equipment**

For the threemonths ended March 31, 2015, the Group purchased assets with a cost of ₱288.0 million and disposed assets with net book value of ₱50.5 million.

As of December 31, 2014, the Group purchased assets with a cost of ₱981.5 million and disposed assets with net book value of ₱697.0 million.

10. **Investment Properties**

For the three months ended March 31, 2015, the Group received foreclosed assets with a fair value of₱ 96.7 million as settlement of the NPLs. Also, assets with net book value of ₱508.8 million were disposed of by the Group during the three months ended March 31, 2015.

As of December 31, 2014, the Group received foreclosed assets with a fair value of ₱1.3billion and disposed assets with net book value of ₱2.2 billion.

As of March 31, 2015 and December 31, 2014, the balance of accumulated impairment losses on investment properties amounted to ₱3.7 billion.

The aggregate fair value of the Group's investment properties as of March 31, 2015 and December 31, 2014 amounted to ₱27.9 billion and ₱27.7 billion, respectively. The fair values of the Group's investment properties have been determined by the appraisal method on the basis of recent sales of similar properties in the same areas as the investment properties and taking into account the economic conditions prevailing at the time the valuations were made.

11. **Financial Liabilities**

Bills and Acceptances Payable
Foreign currency-denominated borrowings of the Group and the Parent Company bear annual interest ranging from 0.03% to 2.50% and from 0.03% to 2.50% as of March 31, 2015 and December 31, 2014, respectively.

Peso-denominated borrowings of the Group and the Parent Company bear annual interest ranging from 0.63% to 2.00%, from 0.63% to 2.00% as of March 31, 2015 and December 31, 2014, respectively.

The Parent Company's bills payable to BSP includes the transferred liabilities from Maybank amounting to ₱1.7 billion as of March 31, 2015 and December 31, 2014.

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.

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.

Subordinated Debt

5.875% ₱3.5 Billion Subordinated Notes
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.

12. Equity

Capital stock consists of (amounts in thousands, except for par value and number of shares):

	Shares		Amount	
	March 31, 2015 (Unaudited) (Three Months)	December 31, 2014 (Audited) (One Year)	**March 31, 2015 (Unaudited) (Three Months)**	December 31, 2014 (Audited) (One Year)
Common - ₱40 par value				
Authorized	**1,750,000,001**	**1,750,000,001**	70,000,000,040	**70,000,000,040**
Issued and Outstanding				
Balance at the beginning of the period	**1,249,139,678**	**1,086,208,416**	**49,965,587,120**	**43,448,336,640**
Issued during the period	**-**	**162,931,272**	**-**	**6,517,250,480**
	1,249,139,678	**1,249,139,678**	**49,965,587,120**	**49,965,587,120**

Stock Rights Offering
The Parent Company has successfully completed its stock rights offering of common shares following the closure of the offer period on February 3, 2014. A total of 162,931,262 Rights Shares were issued to Eligible Shareholders at a proportion of fifteen Rights Share for every one hundred existing Common Shares held as of the record date of January 16, 2014 at the Offer price of ₱71.00 per Right Share.

33,218,348 common shares were listed on February 11, 2014 while the remaining shares were listed on July 25, 2014.

The Offer was oversubscribed and raised gross proceeds of ₱11.6 billion. The Offer strengthens the Group's capital position under the Basel III standards, which took effect on January 1, 2014.

Regulatory Qualifying Capital

On January 15, 2013, the BSP issued Circular No. 781, *Basel III Implementing Guidelines on Minimum Capital Requirements*, which provides the implementing guidelines on the revised risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards. The circular is effective on January 1, 2014.

The Circular sets out a minimum Common Equity Tier 1 (CET1) ratio of 6.0% and Tier 1 capital ratio of 7.5%. It also introduces a capital conservation buffer of 2.5% comprised of CET1 capital. The BSP's existing requirement for Total CAR remains unchanged at 10% and these ratios shall be maintained at all times.

Further, existing capital instruments as of December 31, 2010 which do not meet the eligibility criteria for capital instruments under the revised capital framework shall no longer be recognized as capital upon the effectivity of Basel III. Capital instruments issued under BSP Circular Nos. 709 and 716 (the circulars amending the definition of qualifying capital particularly on Hybrid Tier 1 and Lower Tier 2 capitals), starting January 1, 2011 and before the effectivity of BSP Circular No. 781, shall be recognized as qualifying capital until December 31, 2015. In addition to changes in minimum capital requirements, this Circular also requires various regulatory adjustments in the calculation of qualifying capital.

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%. The prudential REST limit which shall be complied at all times are 6% of CET1 ratio and 10% 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.

The Group and its individually regulated subsidiaries/operations have complied with all externally imposed capital requirement throughout the reporting period.

Restrictions to Amounts for Dividend Declaration

Surplus and Capital Paid in Excess of Par Value of the Parent Company amounting to ₱9.0 billion which represents the balances of accumulated translation adjustment 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 BSP.

Financial Performance

The following basic ratios measure the financial performance of the Group for the periods ended March 31, 2015 and March 31, 2014 (amounts in millions):

	March 31, 2015 (Unaudited) (Three Months)	March31, 2014 (Unaudited) (Three Months)
Return on average equity (a/b)	5.0%	6.3%
a.) Net income	₱1,242	₱1,343
b.) Average total equity 1/	99,995	85,876
Return on average assets (c/d)	0.8%	0.9%
c.) Net income	₱1,242	₱1,343
d.) Average total assets 1/	623,028	614,990
Net interest margin on average earning assets (e/f)	3.2%	3.5%
e.) Net interest income	₱4,252	₱4,446
f.) ADB of interest earning assets	544,180	510,568

1/ Average balances were the sum of beginning and ending balances of the respective statement of financial position accounts as of the end of the period divided by two.

13. **Miscellaneous Income and Expense**

Miscellaneous income consists of:

	Three Months Ended	
	March 31, 2015 (Unaudited)	March 31, 2014 (Unaudited)
Rental and leasing income	**₱68,249**	₱172,751
Recoveries	**68,090**	12,959
Sales deposit forfeiture	**2,788**	1,111
Referral and trust fees	**27,233**	21,445
Others	**160,277**	144,445
	326,637	₱ 352,711

Miscellaneous income includes penalty charges, dividend income and other miscellaneous income.

Miscellaneous expenses consist of:

	ThreeMonths Ended	
	March 31, 2015 (Unaudited)	March 31, 2014 (Unaudited)
Insurance	**₱264,782**	₱238,662
Security, clerical, messengerial	**165,944**	136,758
Information technology	**112,503**	105,787
Management and professional fees	**38,913**	86,649
Transportation and travel	**40,564**	72,060
Stationery and supplies used	**25,177**	61,359
Litigation	**53,633**	11,986
Repairs and maintenance	**29,992**	22,733
Postage, telephone and telegram	**34,178**	31,681
Amortization of software costs	**-**	50,757
Marketing expenses	**67,538**	124,547
Others	**86,360**	297,429
	919,584	₱1,240,408

Miscellaneous - others include loss on property destroyed, periodicals and magazines, fines, penalties and other charges.

14. **Income Taxes**

Provision for income tax consists of:

	Three Months Ended	
	March 31, 2015 (Unaudited)	March 31, 2014 (Unaudited)
Current		
Regular	**₱ 295,854**	₱286,665
Final	**127,001**	164,058
	422,854	450,723
Deferred	**1,872**	(15,913)
	₱ 424,726	₱434,810

15. **Earnings Per Share**

The earnings per share of the Group, attributable to equity holders of the Parent Company, are calculated as follows:

	Three Months Ended	
	March 31, 2015 (Unaudited)	March 31, 2014 (Unaudited)
a) Net income attributable to equity holders of the Parent Company	**₱1,201,227**	₱1,339,675
b) Weighted average number of common shares for basic earnings per share	**1,249.140**	1,108.354
c) Basic and diluted earnings per share (a/b)	**₱0.96**	₱1.21

There are no potential common shares that would dilute the earnings per share.

16. **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 15.00% of the Parent Company's total loan portfolio, whichever is lower. As of March 31, 2015 and December 31, 2014, the Parent Company was in compliance with such regulations.

The information relating to the DOSRI loans of the Group follows:

	March 31, 2015 (Unaudited)	December 31, 2014 (Audited)
Total Outstanding DOSRI Accounts*	**₱12,645,339**	₱12,749,637
Percent of DOSRI accounts granted prior to effectivity of BSP Circular No. 423 to total loans	**4.14%**	4.20%
Percent of DOSRI accounts granted after effectivity of BSP Circular No. 423 to total loans	**4.14%**	4.20%
Percent of DOSRI accounts to total loans	**4.14%**	4.20%
Percent of unsecured DOSRI accounts to total DOSRI accounts	**0.02%**	0.01%
Percent of past due DOSRI accounts to total DOSRI accounts	**0.00%**	0.00%
Percent of non-accruing DOSRI accounts to total DOSRI accounts	**0.00%**	0.00%

**Includes outstanding unused credit accommodations of ₱192.5 million as of March31, 2015 and ₱198.7 million as of December 31, 2014.*

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.

Details on significant related party transactions of the Group 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 of LTG.

	March 31, 2015		
Category	**Amount/ Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
LTG			
Deposit liabilities		**₱ 1,084,202**	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	**₱ 12,121**		Interest expense on deposit liabilities
Subsidiaries:			
Receivables from customers		**₱ 1,760,000**	Revolving credit line with interest rates ranging from 3.10% to 3.35% and maturity terms of less than 90 days; Term loans maturing in 2017 with 3.85% nominal rate; Unsecured
Interbank loans receivable		**180,198**	Money Market Line
Due from other banks		**732,353**	With annual rates ranging from 0.01% to 4.55% including time deposits with maturity terms of up to 90 days
Accounts receivable		**61,198**	Advances to finance deficit in pension liability, remittance cover and additional working capital; Non-interest bearing, unsecured, payable on demand
Accrued interest receivable		**4,301**	Interest accrual on receivables from customers
Deposit liabilities		**4,810,896**	With annual rates ranging from 0.02% to 3.00% and maturity terms ranging from 30 days to 1 year
Bills payable		**4,010,018**	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		**153,861**	Clearing accounts funding and settlement of remittances
Accrued interest payable		**41,441**	Accrued interest on deposit liabilities and bills payable
Other liabilities		**56**	Mortgage Redemption Insurance
Interest income	**₱ 13,693**		Interest income on receivables from customers
Interest expense	**18,481**		Interest expense on deposit liabilities and bills payable
Rental income	**9,322**		Rental income from 3-year lease agreement, with escalation rate of 10.00% per annum
Securities transactions:			
Purchases	**673,769**		Outright purchase of securities
Sales	**50,406**		Outright sale of securities
Trading gains	**4,136**		Gain from sale of investment securities
Loan releases	**1,000,000**		Loan drawdowns
Loan collections	**815,000**		Settlement of loans and interest
Net deposits	**889,441**		Net deposits during the period
Affiliates			
Receivables from customers		**11,976,462**	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
Due from other banks		**5,551,989**	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		**15,292**	Interest accrual on receivables from customers
Operating lease		**203**	Advance rental deposits received for 2 years and 3 months
Deposit liabilities		**5,354,038**	With annual rates ranging from 0.02% to 1.73% and maturity terms ranging from 30 days to 1 year
Other liabilities		**745**	Charitable donations and liabilities for lease payments
Interest income	**27,920**		Interest income on receivables from customers and due from other banks, including income earned from partial redemption of VMC convertible notes
Interest expense	**4,408**		Interest expense on deposit liabilities

	March 31, 2015		
Category	**Amount/ Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Rental income	**4,424**		Monthly rental income
Rental expense	**₱ 7,388**		Monthly rental payments with terms ranging from 24 to 240 months
Fees and commission expense	**26,015**		Expense on professional fees on service agreement
Other income	**106,576**		Premiums collected
Other expense	**4,663**		Claims expense, service and referral fees
Securities transactions:			
Purchases	**39,035**		Purchase of Investment Securities
Loan releases	**342,738**		Loan drawdowns
Loan collections	**659,219**		Settlement of loans and interest
Net withdrawals	**735,772**		Net withdrawals during the period
Key Management Personnel			
Loans to officers		**₱ 15,513**	Housing loans to senior officers; Secured and unimpaired
Loan releases	**170**		Loan drawdowns
Loan collections	**730**		Settlement of loans and interest
Officers			
Receivable from customers		**269,763**	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	**16,204**		Net loan collections for the period

	March 31, 2015		
Category	**Amount/ Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Receivable from customers		**₱ 268,585**	Loans and advances of PNB GRF to PAL
Interest income	**₱23**		Interest earned by PNB GRF from the time deposits placed with PNB Hong Kong Branch.

	December 31, 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
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

Category	December 31, 2014 Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
			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

	December 31, 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

	December 31, 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.

The related party transactions shall be settled in cash. There are no provisions for credit losses for the three-months ended March 31, 2015 and December 31, 2014 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.

The compensation of the key management personnel follows:

	Three Months Ended (In Thousand Pesos)	
	March 31, 2015 (Unaudited)	March31, 2014 (Unaudited)
Short-term employee benefits	**₱125,198**	₱84,916
Post-employment benefits	**11,961**	**11,845**
	₱137,159	₱9**6,761**

Members of the BOD are entitled to a per diem of ₱50,000 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.

The Parent Company and Eton Properties Philippines, Inc. (EPPI) signed two Joint Venture Agreements (JVA) for the development of two properties under 'Real estate under joint venture (JV) agreement' by the Parent Company with a total book value of ₱1.2 billion (presented under 'Investment properties' in the statements of financial position). 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 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 JVA. This JVA does not fall as 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 ₱3.8 billion and ₱3.6 billion as of March 31, 2015 and December 31, 2014, respectively.

Relevant information on assets/liabilities and income/expense of the retirement plan assets as of and for the three months ended March 31, 2015 and for the year ended December 31, 2014 follows:

	Consolidated (in millions)	
	March 31, 2015	**December 31, 2014**
Investment securities:		
Held for trading	**₱720,933**	**₱738,969**
Available-for-sale	**1,569,353**	**1,511,403**
Held-to-maturity	**–**	**–**
Deposits with other banks	**358,314**	**37,929**
Due from BSP	**1,115,570**	**1,283,981**
Deposits with PNB	**–**	**35**
Loans and other receivables	**10,206**	**12,653**
Total Fund Assets	**₱ 3,774,376**	**₱3,584,969**
Due to BIR	**91**	**119**
Accrued expense	**1,617**	**1,119**
Total Fund Liabilities	**1,708**	**1,238**

	March 31, 2015 (Unaudited) (Three Months)	**March 31, 2014 (Unaudited) (Three Months)**
Interest income	**₱24,029**	₱16,640
Trading gains	**–**	–
Dividend income	**360**	70
Unrealized loss on HFT	**(22,022)**	(17,900)
Other Income	**2,188**	**620**
Fund Income	**₱ 4,554**	₱990
Trust fees	**₱ 1,206**	₱660
Other expenses	**822**	240
Fund Expense	**₱2,028**	₱910

As of March 31, 2015 and December 31, 2014, 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 ₱1.2 million and ₱0.7 million for three months ended March 31, 2015 and 2014, respectively.

17. Contingent Liabilities and Other Commitments

The following is a summary of various commitments, contingent assets and contingent liabilities at their equivalent peso contractual amounts:

	Consolidated	
	March 31, 2015	December 31, 2014
Trust department accounts	**₱ 69,191,73**	₱65,817,031
Standby letters of credit	**10,913,726**	11,281,048
Deficiency claims receivable	**21,498,088**	21,292,747
Credit card lines	**14,405,978**	13,996,427
Shipping guarantees issued	**9,751**	32,732
Other credit commitments	**974,377**	974,377
Inward bills for collection	**676,610**	676,610
Other contingent accounts	**298,957**	326,693
Outward bills for collection	**303,553**	430,230
Confirmed export letters of credit	**87,513**	490,015
Unused commercial letters of credit	**206,541**	44,280
Items held as collateral	**47**	51

18. Events After Reporting Date

The Bank successfully closed and signed a USD150 million 3 year syndicated term loan facility with a large group of international and regional banks on April 24, 2015. Standard Chartered Bank acted as the sole Co-ordinating Bank,Mandated Lead Arranger and Bookrunner and fully underwrote the USD150 million Facility.

The Facility was launched at USD150 million and attracted total commitments of USD220 million at close of syndication, representing an oversubscription of 1.5 times with lending commitments received from 10 regional and international banks. CTBC Bank Co., Ltd. Singapore, ING Bank N.V., Manila Branch, KDB Asia Limited / The Korea Development Bank and United Overseas Bank Limited joined Standard Chartered Bank as sub-underwriters (together, the Mandated Lead Arrangers and Bookrunners) and The Hongkong and Shanghai Banking Corporation Limited further joined the Facility as a Mandated Lead Arranger at close of senior syndication.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

SCHEDULE OF AGING OF LOANS RECEIVABLES*
(PSE Requirement per Circular No. 2164-99)
As of March 31, 2015
(In Thousand Pesos)

Current accounts (by maturity)	
Up to 12 months	**107,006,485**
over 1 year to 3 years	**33,247,570**
over 3 years to 5 years	**34,660,829**
over 5 years	**113,506,206**
Past due and items in litigations	**13,925,057**
Loans Receivables (gross)	**302,346,147**
Less:	
Unearned and Other deferred income	**(1,267,974)**
Allowance for credit losses	**(5,666,536)**
Loans Receivables (net)	**295,411,638**

* includes loans and discounts, bills purchased, customers' liability under acceptances, letters of credits and trust receipts, lease contract receivable and credit card accounts.

SIGNATURES

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

PHILIPPINE NATIONAL BANK
Issuer

REYNALDO A. MACLANG
President

NELSON C. REYES
Executive Vice President & Chief Financial Officer

Date: April 30, 2015

Annex A

Selected Financial Ratios
For the Periods Indicated

	03/31/2015		12/31/2014
Current Ratio	63.3%		64.7%
Liquid assets to total assets-net	34.4%		34.1%
Liquid assets to Liquid Liabilities	46.4%		45.3%
Debt to Equity	514.9%		531.0%
Assets to Equity	614.9%		631.0%
Book value per share	78.18	2/	74.77

	03/31/2015		03/31/2014
Interest Coverage	272.6%		294.5%
Profitability			
Return on average equity	5.0%	1/	6.3%
Return on average assets	0.8%		0.9%
Net interest margin	3.2%		3.5%
Cost efficiency ratio	70.6%		66.8%
Basic Earnings per share	0.96		1.21

[1/] ROE without goodwill - 0.8%

[2/] Book value per share without goodwill - ₱ 67.47

SGV
Building a better working world

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1226 Makati City
Philippines

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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.

SYCIP GORRES VELAYO & CO.

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
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	✓			

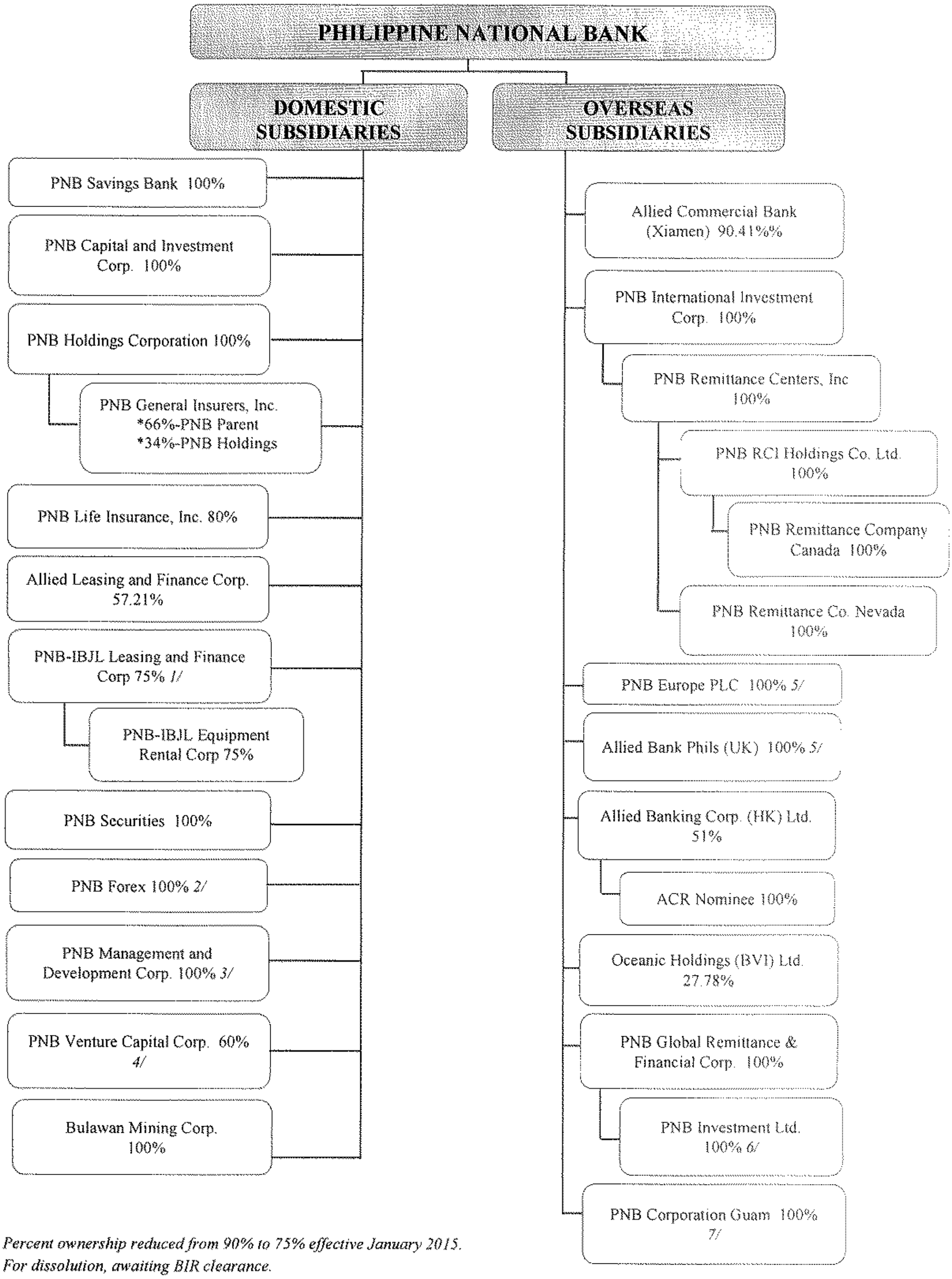
PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2014		Adopted	Not Adopted	Not Applicable	Not Early Adopted
	Amendments to PFRS 12: Investment Entities			✓	
PFRS 13	Fair Value Measurement	✓			
	Amendment to PFRS 13: Short-term Receivables and Payables	✓			
	Amendment 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.

[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*